

Managing Compensation in Volatile Economies - March 2, 2016 Webinar Submitted Questions and Answers

1. Is it illegal to pay in hard currency in Costa Rica?
You would need to consult legal counsel to confirm that information.
2. In Venezuela in addition of economics situation we have the politics situation. We have a lot of people in migration process to others countries. How are some strategies to retain people?
This is a very challenging situation. As you stated, it is primarily a political situation on top off an economic crisis. A focus on career development, such training and other development activities would be one strategy. Perhaps overseas assignments or education leave could also be considered.
3. What do you do if devaluation trips the trigger and you institute special allowances but then the cost of labor never catches up - do you continue to maintain special allowances or is this scenario never the case?
Never say never, but such a situation would be rare. The allowance is by design a very conservative amount (25% of the inflation or devaluation) so it is highly unlikely that the market won't catch up. However, it is possible that it could take some time, usually no more than two years.
4. For high technical and scarce Jobs like the World Bank Group, our Staff always mentioned that the 'market offer and demand' do not work for the professional level. I believe this is not necessarily true, not sure if you have any comment on this.
I agree with you, that there might be a few jobs for which a scare skills premium might be needed, it is indeed rare. You probably have some managers advocating for their staff to make their lives a bit easier. Undoubtedly the jobs you are talking about will not be identified specifically in surveys in most of the emerging markets and therefore you will probably have to aim to maintain their differentials against other, more regular, jobs or their position in your existing salary matrix. Other employers with similar problems are the oil sector, banking and telecoms.
5. Should any special measures also take into consideration parallel fx rates, especially when there are fixed fx rates?
It is a bit dicey to consider parallel rates (such as the case in Venezuela), because unless there is a legal basis for the parallel rate, you take a risk by participating in the parallel market.
6. Do you have specific surveys for Venezuela and Argentina where the inflation and devaluation has a great impact?
We do have surveys in these two countries. We will send you some information with more details.
7. Good Morning- This is a question tying back to providing temporary allowances to offset inflation and/or devaluation situation. You mentioned the potential to discontinue the allowance after a certain time period and adjust the base salary. What is the recommended time period to wait before considering rebasing the base salary? We are considering this option in Ukraine.
We would suggest monitoring the market on an ongoing basis, and when your pay including the allowance is exceed by the market data, then it would be time to recharacterize the allowance to salary.
8. What are the disadvantages of having a policy in place?
Some believe that policies are restrictive, which could be the case. But in general, having a policy, especially one which activates automatically without the need for many levels of approval, will give your organization a competitive edge during a crisis. Even if you decide not to have a policy per se it would be useful do a what if.... exercise from time to time either at a country or regional level. A regional or hub overview might be best, as you are likely to have operations across a range of countries that may encounter volatility.
9. In South Sudan, inflation is exchange rate driven and this is because the country depends entirely on commodities from other N. countries. Practically you see that a shift in an exchange rate, it directly affect staff earning as all the prices increase overnight. Now how do you relate this to the idea presented in the slide that there is no correlation between salary, inflation and devaluation
South Sudan is a country where it may be necessary to increase salaries more frequently than once or twice a year. Some employers have switched to hard currency, but we do not recommend that approach. It is suspected that recent security problems may also have interrupted the normal supply of basic goods and you may consider the option of doing direct imports.
10. What type of policy can we put in place to not put the business in jeopardy with too much expenses and make sure that the employees stay motivated? Some are even asking to change their pay in dollars just to

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make sure that they are not too affected by the devaluation of the local currency?

Our recommended Special Measures approach will achieve the objective you have stated. We can assist you in developing such a policy, if you require some guidance.

11. What about paying in hard currency on a temporary basis instead? let's say just 30% of the salary in hard currency and 70% in local currency (considering is legal and to be paid thru another country) is this something you have seen in the market? Considering as a benefit as well that the employee could "benefit" from the exchange rate applied on the black market. let's say for few months... and monitor market movement / practice as you suggest
It's a creative idea.. But in our experience, once you introduce hard currency, even small amounts, it is hard to ever switch back. Instead, pay more local currency. It may also be tempting to link the amount to devaluation, but be warned, you have no control if you do that. Better to make periodic, modest adjustments in a managed way aligned to your budget. This starts to get cumbersome and more open to error.
12. How should the issue of inflation and devaluation should be addressed in a union environment?
First, go back to study the union agreement and especially any clauses relating to a review process. How far are you into the agreement which might have been set for about two years? At least there will be process for negotiation and if the alternative to an interim solution is potential redundancy if costs rise too much it will concentrate the mind. Both sides will want stability in volatile times. Remember sometimes, as in Ghana, unionized agreements can include staff up to management levels.
13. Please include those sources when sharing this presentation. Much appreciated!
Some sources for inflation and devaluation data include OECD, UN, World Bank, and Eurostat (all in the public domain). Other sources, which may or may not have fees associated, include ECA International, World Trade Resource, and Trading Economics. Whilst the COL data from likes of AIRINC, ECA and Mercer is primarily aimed at expatriate compensation their raw data can measure time to time changes as well as place to place relativities and usually based on the consumption patterns of supervisor levels and above rather than manual workers.
14. What is the market norm on inflation/salary raise ratio in volatile markets?
It's impossible to know this for sure, as each company reacts differently. We do see trends in many countries that market movement generally trails inflation, which makes sense considering the impact it has on the ability to do business, especially if price freezes and other similar measures are introduced.
15. Where does the 25% come from in your example
It is based on our long experience (25+ years) working in these markets.
16. Can you speak to alternative delivery methods for devaluation response? I know one-off lump sums are one alternative to avoid acquired rights issues but have you seen anything else?
Not really. The two most common approaches are a lump-sum and a temporary allowance.
17. Good morning, what do you recommend on pay for performance strategies on highly inflationary contexts, specifically in the scenario of large COLA movements that consumes a lot of your budget?
Many organizations that move to multiple pay adjustments reserve one date each year which includes a performance component. This is a workable approach, but clear communications are key. There is always pressure on performance payments in times of inflation and also at times of recession when there are very few funds to share around. Relative to COLA movements the % for performance pay becomes small.
18. How many organisations are using formal policies?
Unfortunately the poll question that did not work would have answered that question. I know of four organizations specifically that have Special Measures Policies, but I would imagine there are others.
19. If we can't trust the country's government published statistics, where can we find reliable data, if any?
See answer to question #13.