

Where's the Benefit?

In previous issues of 'Perspectives' we have looked at how salary levels across international consulting markets converge with seniority ([A World of Difference](#)) and the apparent parity in Partner/VP compensation, seemingly irrespective of geography ([Partner Pay](#)). In this article we review non-cash elements of the compensation package, and contrast the extent to which benefits packages vary with geography....

Benefits – Complementary or Substitutional?

Several years ago, a VenCon Research client sought assistance with an apparently minor but persistent issue in respect to its European staff. The firm, one of the leading international strategy players, was based out of the US but had substantial international operations, including significant representation across Western Europe.

The firm was deliberately positioning itself as an upper quartile payer in all its markets, and regularly validated this through the VenCon Salary Surveys, yet increasingly was hearing of concerns from within its European operations that their compensation package wasn't competitive. More specifically, the benefits package was being held as less generous than that of other firms.

The client's opinion was that, as one of the highest paying strategy firms, their consultants had greater freedom for discretionary expenditure on pensions, health-care insurance or cars, without the constraint of a company imposed and potentially inappropriate benefits package. Furthermore, recognising that the provision of social benefits by the state was far higher in Western Europe than in the US, they felt that the demands for supplementary benefits should be mitigated, not enhanced, in Europe. In practice, however, it seemed that those countries with the heaviest tax and social security burden were also those feeling most deprived of additional benefits.

We were able to demonstrate that, irrespective of the underlying logic of the client's case, the facts show a high correlation between social security costs and the cost of additional company benefits provision.

As an example, in Germany, at the level of the average national wage, tax and social security deductions already sum to over 50% of gross salary. Yet here the data show that a typical strategy consulting firm was providing additional benefits worth over 20% of base salary. This is a 'double whammy' for high paying employers such as consulting firms, as they will already be paying the maximum €11,500 (nearly \$15,000) per employee in social security costs on top of the gross salary.

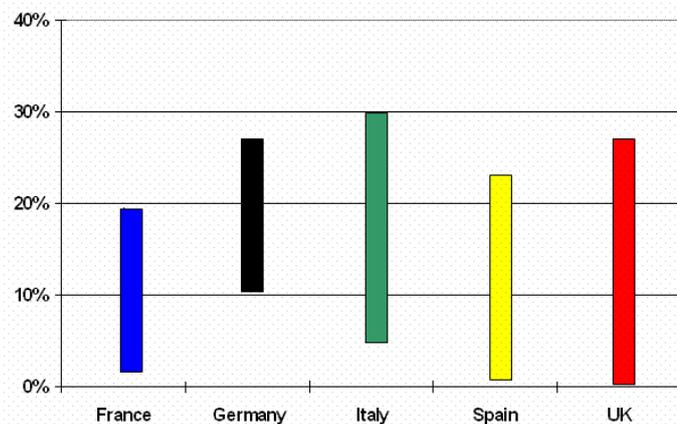


Figure 1 – Range of Benefits Value as % of Base Salary in Europe
Source: VenCon Research International

The net result for our client was that although they prided themselves on being amongst the highest paying firms in the sector in pure cash terms, they found that in total compensation terms they were actually amongst the lowest.



However, the goal of any firm's benefits package isn't simply about maximising the total compensation of an employee. The scope and scale of any benefits provision needs to be dynamic, such that it both complements the legislated provision, and is optimised within the tax regime of the country.

'Hard' and 'Soft' Benefits

A look at the total 'take' of the state in terms of income tax and employer and employee social security costs across some leading consulting economies helps to illustrate why US firms are sometimes taken aback at the need for and the level of additional benefits provision. The following is taken directly from most recent OECD data, at the level of the average wage per country, and ranked in ascending order of tax/social security burden:

| COUNTRY | TAX & SOCIAL SECURITY, AS % OF AVERAGE WAGE | MULTIPLE OF AVERAGE WAGE AT WHICH TOP TAX RATE APPLIES |
|-------------|---------------------------------------------|--------------------------------------------------------|
| South Korea | 17.3% | 4.0 x |
| USA | 29.1% | 9.3 x |
| UK | 33.5% | 2.7 x |
| France | 50.1% | 3.4 x |
| Germany | 51.8% | 1.6 x |
| Belgium | 55.4% | 1.2 x |

Figure 2 – Tax and Social Security Costs at the Average Wage Level per Country, Expressed as a Percentage of the Average Wage

Source: OECD

It is also useful in this context to add China to the comparison – though as a non-OECD member, and with income tax rates, social security deductions and average wage data varying with location, precise comparison is difficult. However, the following data gives an idea of tax and social security levels calculated on the basis of an employee on average earnings in a city location such as Shanghai or Beijing.

| | | |
|----------|-------|-----|
| PR China | 75.0% | 3 x |
|----------|-------|-----|

Note that we are aggregating tax and social security payments, whilst the provision of state benefits is normally designated purely as a social security cost. Unfortunately not all states are as strict in their hypothecation as others, with the boundary between tax and social security becoming more of a semi-permeable membrane.

Empirically, one might reasonably conclude that France, Germany and Belgium – and certainly China – should have sufficiently buoyant public services to negate the need for any additional benefits. How then, does this work in practice?

Those already familiar with the VenCon Research Benefits Studies will recognise the differentiation between what we categorise as the 'hard' and 'soft' benefits provided by a firm. That is, between those such as pension, healthcare insurance and cars that are both tangible and can be valued in cash terms ('hard' benefits) and those more related to the work environment or personal growth; hygiene factors such as ongoing education, extra vacation and subsidised meals ('soft' benefits).

A summary of the various categories within each of these broad headings is set out in figure 3, below.

| | Benefit Category | Definition of Benefits Surveyed |
|---------------|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Hard Benefits | Category A: | Health and Welfare Benefits. |
| | Category B: | Long / Short-Term Sickness Insurance. |
| | Category C: | Life, accident and other insurance plans (e.g. travel insurance) related to work. |
| | Category D: | Retirement / Pension / Savings plans designed to produce income following retirement. |
| | Category E: | Additional Investment Programmes designed to supplement short-term (income related) or long-term (equity related) income. |
| | Category F: | Further Hard Benefits: including car allowances, computers, cell-phones, moving expenses, etc. |
| Soft Benefits | Category G: | Increase in Intellectual Competence: sponsorship of an additional higher degree (usually MBA). |
| | Category H: | Increase of Social Competence: voluntary benefits including language tuition, international exchange programmes, etc. |
| | Category I: | Lifestyle Related Benefits: social events, cafeterias, health club membership, additional vacation, maternity, paternity & bereavement leave, sabbaticals, etc. |

Figure 3 – Benefit Categories Evaluated in VenCon Research Benefits Studies

To put the findings into a meaningful context, the reports include a summary of the legal or statutory requirements for employee benefits in that country. A reasonable indication of the relative complexity of some European legislative frameworks can be gained by noting that whilst the overview of statutory requirements for the USA comprises just 7 pages, that for France runs to 22 pages.

Within these statutory minima it is also interesting to note – particularly for readers in the US - that the legislated vacation and public holiday entitlement in the US is less than a third of that in France or Germany.

Hard Data – the Country Comparisons

Having established the proscribed and legislated norms, the reports then examine the minutiae of each firm's specific benefit practices per country. However, for the purposes of this simple comparison, we are indebted to the graphic inventiveness of Harvey Poppel. As a means of assessing the general level of additional benefits, as well as the key benefits topics per country, Harvey-Ball charts prove invaluable.

From the summary chart for **Germany** (figure 4a) we see that the first 3 factors considered (Health & Welfare Benefits, Sickness Insurance and Accident Insurance) are offered by only a few firms. The generous state provision is already sufficient for almost every eventuality.

However by the time we get to the category 'Other', which includes Company Cars, we see a solid line of 'Benefit Provided in Full'.

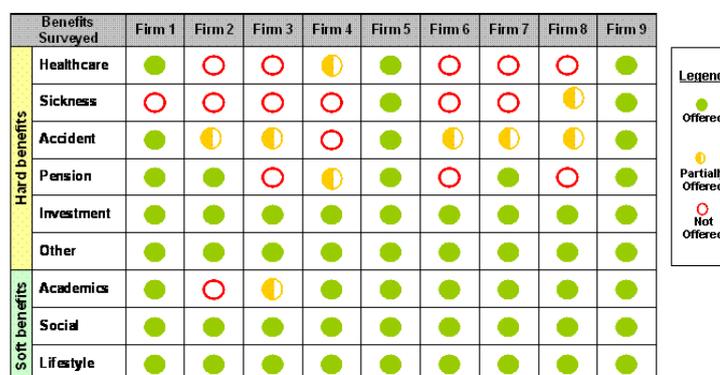


Figure 4a – Provision of Benefits: GERMANY

Source: VenCon Research International

The widespread provision of cars in Germany is indeed justified by the disparate nature of client locations throughout the major cities, but equally the tax treatment of cars makes it an efficient means of additional compensation. The high levels of tax and social security on cash payment creates a threshold above which substantive benefits – of which the car is the ultimate example – become preferable to cash.

Contrast this with **France** (figure 4b), where supplementary Healthcare and Sickness insurances are almost universal. The much-admired French healthcare system proscribes that whilst up to 80% of the cost of healthcare is met by the state, a small percentage must always be paid by the individual. Hence although supplementary health insurance is required by all, it can be provided as an additional benefit at a comparatively low cost to the employer.

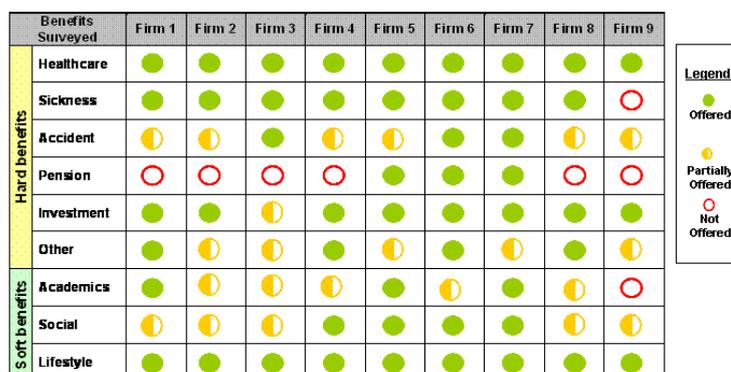


Figure 4b – Provision of Benefits: FRANCE
Source: VenCon Research International

Note, however, how few French firms offer additional Pension schemes. The state scheme in France is backed by a raft of compulsory supplementary schemes, and in addition offers retirement at 60. Clearly, there is no pressure to enhance this even further.

The picture for the **USA** (figure 4c) shows comprehensive provision in all benefit categories across 90% of the firms surveyed. With a tax and social security burden barely half that of France or Germany, welfare, health and pension provision are all supplemented by the employing firm.

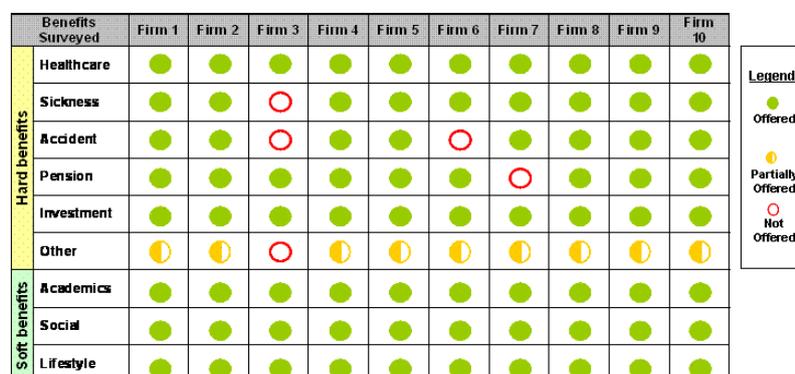


Figure 4c – Provision of Benefits: USA
Source: VenCon Research International

In general we find wide-spread provision of low cost benefits that can be presented as a comprehensive package. Big ticket items, such as the provision of cars, tend not to be a feature in the US schemes, although MBA sponsorship and generous contribution to retirement and 401 K plans were commonplace.

At this point a pattern is emerging: the higher the state's share of the payroll, the fewer and more targeted the benefits employers need or choose to offer.

It therefore comes as no surprise that in **China** (figure 4d), where even an entry level Business Analyst surpasses the threshold for the top tax rate, provision of additional benefits is quite sparse. Social benefits related to Healthcare, Sickness and Pension are all comprehensively provided by the state; laptop computers are almost the only additional benefit consistently provided by employers.

| Benefits Surveyed | Firm 1 | Firm 2 | Firm 3 | Firm 4 | Firm 5 | Firm 6 | Firm 7 | Firm 8 | Firm 9 | Firm 10 |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| Hard benefits | | | | | | | | | | |
| Healthcare | ● | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Sickness | ● | ● | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Accident | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Pension | ● | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Investment | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Other | ● | ● | ● | ● | ○ | ○ | ○ | ○ | ○ | ○ |
| Soft benefits | | | | | | | | | | |
| Academics | ● | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Social | ● | ● | ● | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Lifestyle | ● | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |

Figure 4d – Provision of Benefits: CHINA
Source: VenCon Research International

As the Chinese consulting market matures however, this situation is likely to change. Although the state benefit provisions are very comprehensive in their scope, the level of benefit for sickness, unemployment and pension are all based on a flat rate, average income. The prospect of retiring on a pension linked to earnings levels around 10% of one's actual earnings is bound to create pressure for supplementary pension schemes, and drive up total employment costs.

Realising the Benefit

Returning then to our original scenario, what options does a firm have in creating an attractive and dynamic benefits package, without simply 'throwing money at the problem'?

Clearly the package needs to be competitive, to address any shortfalls in statutory benefits provision, and to be optimised within the local tax structure. Since other firms will already have been through that analysis, a competitor study is certainly a good place to start. But it is too easy to spend excessive amounts on benefits that are not always seen or valued by the recipient.

We use the model shown below in Figure 5 to define the nature and purpose of the different types of benefit.

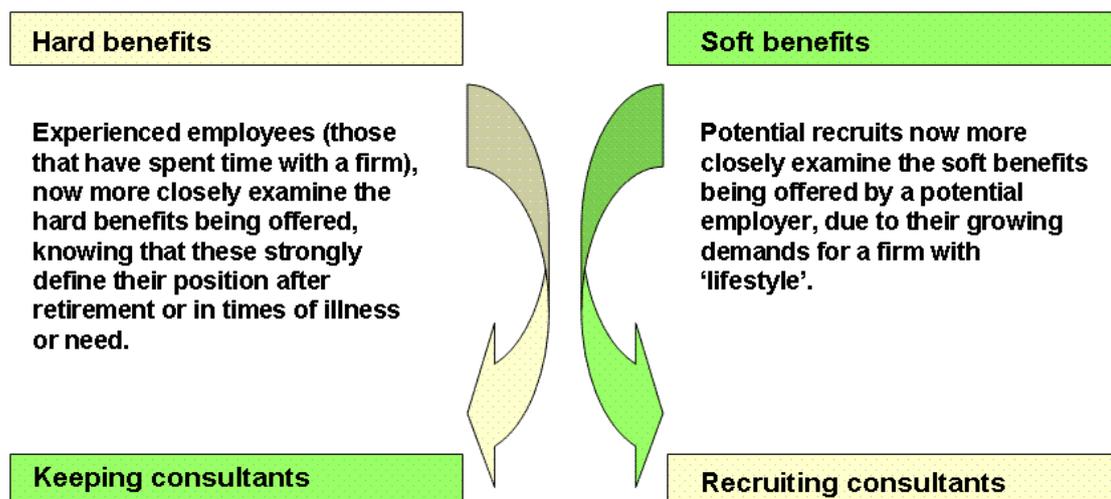


Figure 5 – The Role of Hard and Soft Benefits
Source: VenCon Research International



Actively marketing the hard benefits already being offered effectively increases the value of the compensation package offered, and can thus increase a firm's competitiveness without any additional cost. This means making clear the financial value of the benefits being offered – for example, a 10% pension plan is often initially worth €5,000 p.a. and may sum to €50,000 in as little as 6 years. One leading strategy firm uses this technique very effectively, presenting a total compensation package in a way that gives it the appearance of being the industry benchmark.

Furthermore, actively marketing these benefits allows the firm to enhance the pay-back from their being offered. Since all benefits have a cost to the firm, in the form of time (organisation, administration, etc.) and / or money, why offer more of a benefit that is not being valued? Instead, reduce the expenditure on, or quality of those benefits which are less valued and use the money saved to invest in a more valued benefit.

The details of the various soft benefits offered should be readily available and described such that all employees know what they are being offered in detail, including the cash value of the benefit. Because soft benefits strongly influence a firm's culture and image, they need to be actively managed.

As so often with hygiene factors, the absence of a competitive benefits structure will frequently be a source of dissatisfaction, whereas an excess will be viewed as waste. Calibrating the package against national and industry norms is an essential first step.

Should you wish to discuss any of the issues raised by this article, or are interested in a detailed benchmarking analysis of the benefits being offered by the major consulting firms by market, including comparison against the benefits offered by your firm please contact [David Warren](#) or [Erwin Harbauer](#) at VenCon Research International.

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