

2021 conclusions from the Global ExecuNet (GEN) survey

Drivers of executive compensation worldwide

For the tenth year in a row, hkp/// group has examined Top Executive compensation in a global context. This article provides insights in a 2021 special analysis on drivers of executive compensation in selected countries worldwide.

During the previous decade, hkp/// group has analyzed compensation levels and structures of executives in a variety of countries around the globe, revealing highly relevant international compensation trends: Over the last years, compensation levels of top and middle managers (hkp/// Executive Levels 8 to 10) in BRIC or developing countries have been catching up compared with compensation levels in Europe. For example, looking at target direct compensation¹, Top Executives in China already see considerably higher compensation amounts than their colleagues in Europe. They are even starting to close the gap to Top Executives in the USA, who remain at the top of the international compensation ranking (see Figure 1).

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Fresh insights from the hkp/// group GEN survey reveal fascinating similarities in executive compensation across the globe – like a relatively small impact of company size – but also intriguing country-specific singularities, such as the particular effect of age and seniority in executive compensation e.g. in Germany and France.

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Petra Knab-Hägele, Senior Partner hkp/// group



This trend also holds for Brazil, although not to the same degree: Top Executives here still fall somewhat behind their international colleagues but have seen a significant increase in executive compensation levels during the last years. Meanwhile, companies in other parts of the world, like in Saudi Arabia, pay their executives comparable compensation levels as companies in Europe.

While monitoring compensation developments is always helpful, investigating the drivers of compensation reveals a differentiated view on country specifics:

- Which factors drive executive compensation locally and to which degree?
- How big is the influence of job features (job grade/family), personal characteristics (age, gender) and company specifics (company size, business sector, other company specifics) on compensation levels?

This flyer sheds light on these questions and shares the latest hkp/// group compensation insights. Using them, companies cannot only better understand what influences compensation, but also start to do similar analyses within their organization and benchmark results with international market data provided by hkp/// group.

Compensation drivers Germany

Core of the hkp/// group approach are state-of-the-art econometric analyses, more specifically: multivariate regression analyses. These statistical analyses allow to quantify with great precision to what degree drivers like job grades, age or industry sector explain why some executives earn more than others. The results of this analysis are shown in Figure 2 for selected countries worldwide.

In Germany, probably not surprisingly, the job grade is the most important determining factor of executive compensation, accounting for 57% of the compensation differences between German executives. Interestingly, the importance of the job grade has increased during the last five years, suggesting that job evaluation systems are used more systematically today than several years ago.

The **Global ExecuNet (GEN) survey** has been carried out annually by hkp/// RemuNet since 2011. The survey mainly focuses on European-headquartered multinational corporations whose executives are located in a variety of countries. Since 2015, GEN survey results have also been made available to participants of German hkp/// group Top Executive surveys as part of the International Module. The survey covers compensation data from more than 105,000 Top Executives in 60 countries worldwide.

¹ Target direct compensation = Base salary + target annual variable compensation + fair value of multi-year variable compensation.

Drivers of executive compensation worldwide

Compensation in Top and Middle Management 2020						
	Germany	Brazil	China	France	Saudi Arabia	USA
hkp/// Executive Level 8	382	302	505	386	386	575
hkp/// Executive Level 9	261	241	359	272	303	413
hkp/// Executive Level 10	195	153	223	179	220	275

Fig. 1: Average target direct compensation per hkp/// Executive Level in top and middle management for selected countries worldwide (in k EUR)

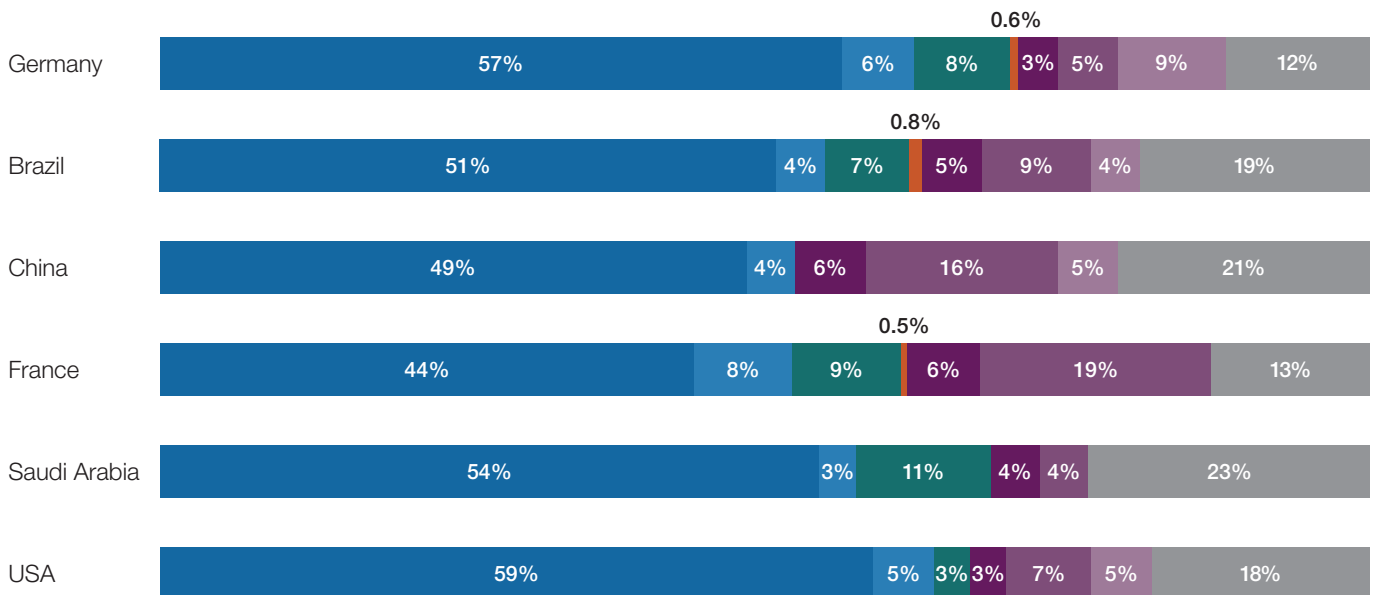
Different job families (e.g. Finance, HR) are also paid somewhat differently, although their impact is much smaller (6%). A further 9% of compensation differences can be attributed to job holders' personal characteristics (8% to age and <1% to gender).

Concerning the gender pay gap, the results show once again: When other factors are considered, the remaining isolated impact of gender on compensation is rather small – albeit not zero.

In terms of company-specific influences, the company size also explains only a relatively small amount of compensation differences (3%). This result corroborates previous analyses based on the hkp/// group All Industry Germany Survey, stating that compensation levels on the same job grade are highly comparable between large and mid-sized companies.

Similarly, the industry sector in which a company operates also is among the smaller drivers, accounting for 5% of compensation differences. Under a third company factor, we subsumed other specifics in which companies differ from each other, e.g. compensation philosophy & strategy, company culture, location. This factor accounts for another 9% of compensation differences, roughly equaling the combined impact of company size and sector.

The final portion of differences represents differences in executive compensation that the other compensation drivers could not explain: They could either be attributable to further influence factors that were not available for our analyses or be simply due to random differences in compensation.



Drivers of executive compensation

Job features	Personal characteristics	Company specifics	Others
■ Job grade	■ Age	■ Company size	■ Unexplained differences in executive compensation
■ Job family	■ Gender	■ Sector	■ Other company-specific factors (e.g. compensation philosophy, culture)

Fig. 2: Compensation drivers and the degree to which they explain differences in executive compensation in selected countries worldwide

Compensation drivers in selected countries worldwide

Broadening the perspective to other countries worldwide, important similarities become apparent. Most notably, job features – and job grades in particular – are the single most potent category of compensation drivers in all selected countries. Other similarities concern the relatively small effect of company size, which explains only up to 6% across all regions.

Beyond these global similarities, there are considerable country-specific differences as well. Brazil, for instance, showcases the highest impact by executives' gender – albeit the overall gender effect remains small. This result corroborates the hkp/// group 2020 gender pay gap analyses, where Brazil's pay gap was among the larger ones globally.

In China, however, individual characteristics like age and gender do not drive compensation at all. That indicates a compensation deliberately blind towards the person. This finding could be explained by political (e.g. Chinese laws against gender-discriminating pay or the one-child-policy leading to more emphasis on education/careers of girls) or historical/cultural factors (e.g. Maoism promoting the image of the working woman or the communist culture stressing the group rather than the individual). At the same time, the sector plays a comparatively large role in China, suggesting that different Chinese industries enjoy considerably different reputations – and compensate accordingly.

France is the country that shows the smallest portion of non-explained compensation differences, suggesting that compensation levels in this country are highly accountable by objective and quantifiable (rather than random or discretionary) factors. Similarly, France and Saudi Arabia are also the only selected countries where company specifics beyond company size and sector have no influence on compensation.

Perhaps counterintuitively, gender has no effect on compensation in Saudi Arabia either. But this result merits explanation: Saudi Arabia demonstrated by far the highest gender disparity in the number of female vs. male executives (i.e. <1% of female executives in our Saudi Arabian data sample). So even if female executives in Saudi Arabia are not paid less than their male counterparts, in a country where only 16% of the total labor force is female², women might still face much higher barriers to get into executive positions in the first place.

Finally, the USA show the highest effect of job grades of all countries, suggesting that job grades in this country work best at what they are designed to do: to quantify the com-

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Best in class data and state-of-the-art econometric analyses allow to research and quantify the impact of different compensation drivers, which provides the basis for sophisticated benchmarking in executive compensation.

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Jennifer S. Schulz, Senior Manager hkp/// group



plexity and management impact of an executive position, thereby determining its appropriate level of compensation. In contrast, gender is noninfluential in the USA as well, a potential result of more than 50 years of political efforts against gender-discriminating pay in that country.

Special focus: Age as compensation driver

Previous hkp/// group analyses have focused specifically on gender (see last year's issue on the gender pay gap in selected countries worldwide). This year, we take a closer look at age and its particular role in explaining executive compensation. Age may not be as controversially discussed as gender, but it is certainly more than just a number: It quantifies an executive's work and life experience, seniority and, ultimately, expertise. Those are all attributes that companies value highly, and for which they are prepared to pay. But do companies worldwide compensate for age in similar ways?

Figure 3 shows the isolated effect of Top Executives' age on compensation. More precisely, the charts show the increase in compensation levels with increasing age, when all other compensation drivers described before are statistically controlled for. As such, the increases only reflect higher seniority on the same job grade, but not, for instance, promotions. They are solely the effect of an additional year of age and the associated gain in the executive's experience and seniority.

Starting again with Germany, results show that throughout a typical executive career, each additional year of age is associated with an increase in compensation.

² The World Bank, Percent of females of total labor force in Saudi Arabia; retrieved February 12, 2021. (<https://data.worldbank.org/indicator/SL.TLF.TOTL.FE.ZS?locations=SA&view=chart>)

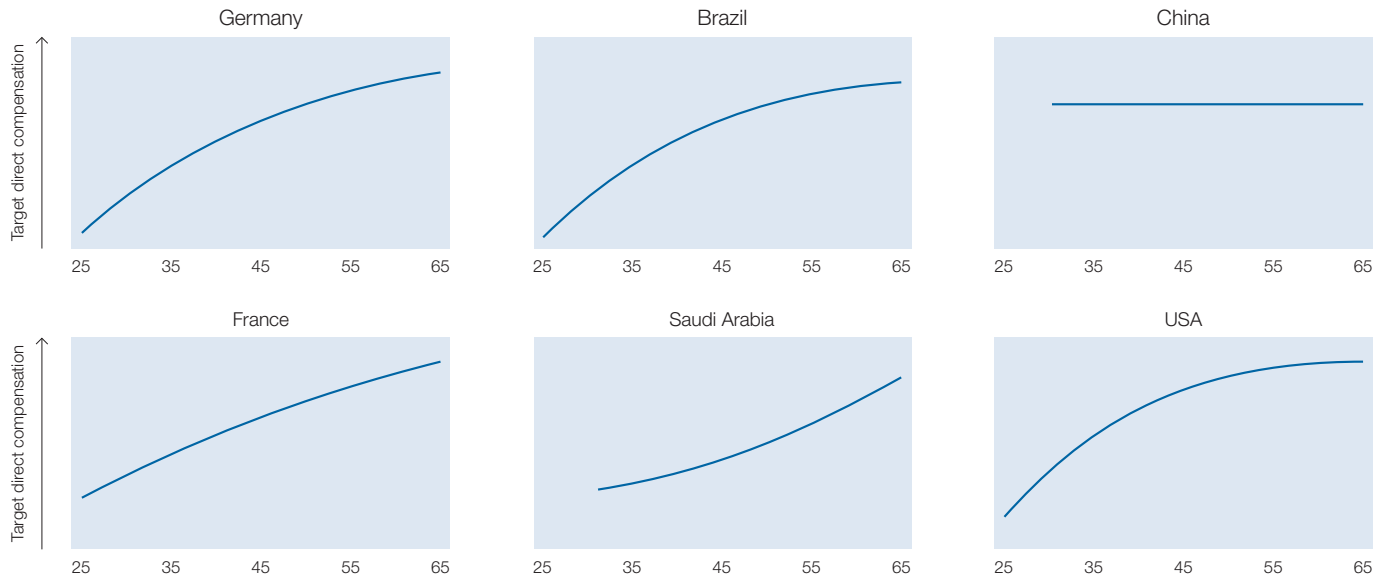


Fig. 3: Isolated effect of age on executive compensation in selected countries worldwide

This effect is particularly strong at the beginning of the career: At age 30, one more year of experience results in an average target direct compensation increase of 1.6%. The effect then dwindles at later stages of the career: At age 50, the increase drops to less than 0.6%.

This pattern suggests two underlying causes: An increase in experience is rewarded particularly highly in young age, when there is still a lot to learn and the learning curve is steep; at the same time, among German executives, seniority is valued at all ages until retirement.

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Results from the hkp/// group GEN survey reveal that features of the job – and job grades in particular – are by far the most important driver of executive compensation worldwide, typically followed by company specifics.

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Verena Vandervelt, Manager hkp/// group



A similar pattern emerges in Brazil and, even more pronounced, in the USA: There, the increases in compensation at young age are even steeper, while the effect levels off towards the end of the career. France shows a more uniform trend: Each additional year of experience is valued and rewarded at approximately the same degree, irrespective of the particular phase of the executive career.

Two countries diverge more drastically from the observed pattern. In Saudi Arabia, increases in compensation are smaller at young career stages, but grow larger towards higher age. This pattern illustrates an interesting cultural difference and suggests a particular appreciation of more senior colleagues in Saudi Arabian business, perhaps combined with the transfer of particularly high responsibilities to more experienced members of teams and divisions. Finally, in China, the age-related compensation trend is absent altogether (see also Figure 2): In this country, our results show that executives are valued for which job they do and in which company they do it, but not for their personal seniority per se.

Conclusion

hkp/// group analyses on drivers of compensation and the role of age on executive compensation reveal striking global similarities as well as intriguing cultural differences in the forces underlying executive compensation. They highlight the unique possibilities that come with the hkp/// group approach of collecting and analyzing executive compensation data worldwide: To understand global trends as well as regional specifics in what actually drives Top Executive compensation around the globe.

Background Information on GEN

The International Module

Globally competitive compensation is a key factor in attracting, motivating and retaining essential employees in companies present across the globe. Therefore, multinational corporations always strive to gain an insight into the compensation packages offered by their competitors. As part of the International Module, hkp/// group is pursuing an approach that, at relatively low data submission costs for participants, provides crucial evaluations for top and middle management positions in a variety of countries.

Chapter	Countries		
Americas Chapter	Argentina	Chile	USA
	Brazil	Columbia	Venezuela
	Canada	Mexico	
Asia Chapter	Australia	Korea	Singapore
	China	Malaysia	Taiwan
	Hong Kong	Myanmar	Thailand
	India	New Zealand	Vietnam
	Indonesia	Pakistan	
	Japan	Philippines	
European Chapter	Austria	Great Britain	Romania
	Belgium	Hungary	Russia
	Croatia	Ireland	Spain
	Czech Republic	Italy	Sweden
	Denmark	Luxembourg	Switzerland
	Finland	Netherlands	Turkey
	France	Norway	Ukraine
	Germany	Poland	
	Greece	Portugal	
MEA Chapter	Angola	Morocco	Saudi Arabia
	Egypt	Nigeria	South Africa
	Kazakhstan	Oman	UAE
	Kenya	Qatar	

Fig. 4: Overview of countries per Chapter

The data for the GEN survey is currently collected in 60 countries worldwide. New countries are included when sufficient data becomes available. The results are divided into four chapters, the Americas Chapter (North & South America), the Asian Chapter (Asia Pacific), the European Chapter (Europe) and the MEA Chapter (Middle East & Africa). The survey participants receive a comprehensive report for each chapter for which they have provided compensation data.

Job Families & hkp/// Executive Levels

The International Module covers top and middle management positions of multinational companies. This corresponds to a job value of hkp/// Executive Level 5 to 11. The final re-

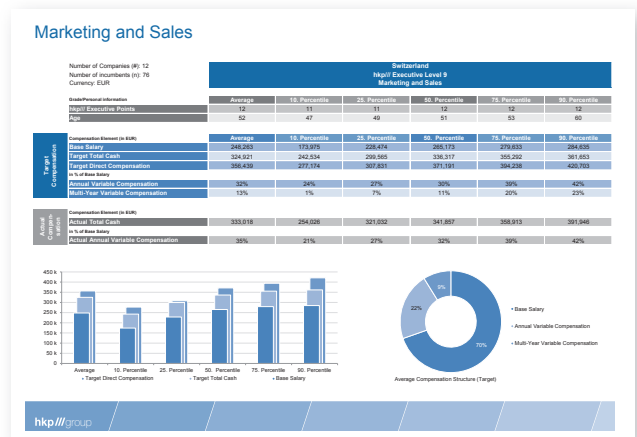
General Management	Research	Customer Support & Distribution
Procurement	Finance	Production & Manufacturing
Marketing & Sales	Human Resources	Other
Information Technology	Legal & Intellectual Property	

Fig. 5: Overview job families

port contains evaluations for all hkp/// Executive Levels and countries. A total of 11 different job families are analyzed. In addition to the market statistics per hkp/// Executive Level and country, the final report contains evaluations differentiated by job families.

Survey Report

In order to enable a sound analysis of the compensation levels and structures, market data for base salary as well as annual and multi-year variable compensation per hkp/// Executive Level, job family and country are evaluated. Benefits and pensions are not reported due to a lack of comparability across countries and regions. The variable compensation components are reported not only as absolute values but also as a percentage of base salary.



Evaluation levels	Data elements
Country	hkp/// Executive Points
hkp/// Executive Level	Age
Job family	Base salary
	Target Cash Compensation
	Actual Cash Compensation
	Target Direct Compensation
	STI (Target) in % of base salary
	LTI in % of base salary
	STI (actual) in % of base salary

Fig. 6: Example of the final report and the data elements

Background Information on GEN

For additional information regarding the interpretation of the compensation data, market statistics for the position-related data elements “age” and “job value” are displayed in the final report. The preparation of the compensation data within concise graphics enables a simple and efficient market analysis. The final report is available to survey participants with compensation data in both EUR and local currency and is written in English.

In addition to the survey report, a line-by-line “turnaround” excel table with individual market data for each submitted position worldwide as well as access to the hkp/// group online tool “CompLive” are available to survey participants.

Global ExecuNet Chapter Meetings

All participants in the International Module are invited to participate in selected Global ExecuNet Chapter meetings free of charge. These survey sessions, moderated by experienced hkp/// group experts, are attended exclusively by survey participants. In addition to the discussion of the survey results, the networks offer a distinct focus on current compensation trends in the respective region and serve to develop and expand your regional contact network. For instance, at the AsiaNet Meetings, specific issues related to pay in China or Southeast Asia are discussed.

Your benefits at a glance

- High-quality compensation data for 60 countries at an attractive participation fee.
- The final reports of the four regional chapters offer differentiated analyses as a basis for the regular review of the global competitiveness of executive remuneration in top and middle management.
- The composition of the database from both local and foreign-headquartered companies provides a highly relevant peer group for multinational companies based in Europe.
- The long-established hkp/// group methodology for collecting and evaluating national and international compensation data offers a direct link to the survey results of all German hkp/// Top Executive surveys.
- The additional data collection effort for companies is marginal, as the international data can easily be submitted as part of all German hkp/// Top Executive surveys.
- Free participation in selected Global ExecuNet Chapter Meetings encourages dialogue on current compensation issues in each region and promotes the creation of a regional network.
- With servers based in the European Union and a secure online data exchange platform, hkp/// group meets the highest confidentiality and data security standards.

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About hkp/// group

hkp/// group is a partner-led, international consulting firm. We are experienced in transformation and recognized innovation leader in HR, helping internationally active companies – from startups to large corporations – develop tailored, practical solutions.

The hkp/// group partners have many years of international experience in both consulting and industry. They are recognized experts for executive compensation, board services, performance & talent management, HR strategy & transformation, and HR & compensation benchmarking. They are also trusted advisors to our clients, which include supervisory and management boards, top managers as well as HR managers and experts.

Our ambition is to secure sustainable success for our clients in an increasingly dynamic world. We combine a profound understanding of corporate strategy, HR and financial know-how with outstanding industry expertise, especially for banks and insurance companies, automotive manufacturers and suppliers, the chemical and pharmaceutical industries, companies in transportation and logistics, oil and gas, real estate, IT and telecommunications as well as retail and wholesale businesses.

With more than 700,000 pieces of compensation data from more than 60 countries and all different industries at our disposal, hkp/// group is a leading supplier of compensation comparisons. In the area of board compensation alone, we offer access to remuneration data of 20,000 individuals in over 3,000 European companies (boardpay.com). We apply rigorous security standards, transmitting and analyzing data exclusively in Germany and the Netherlands.

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