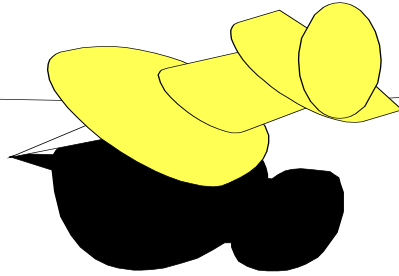
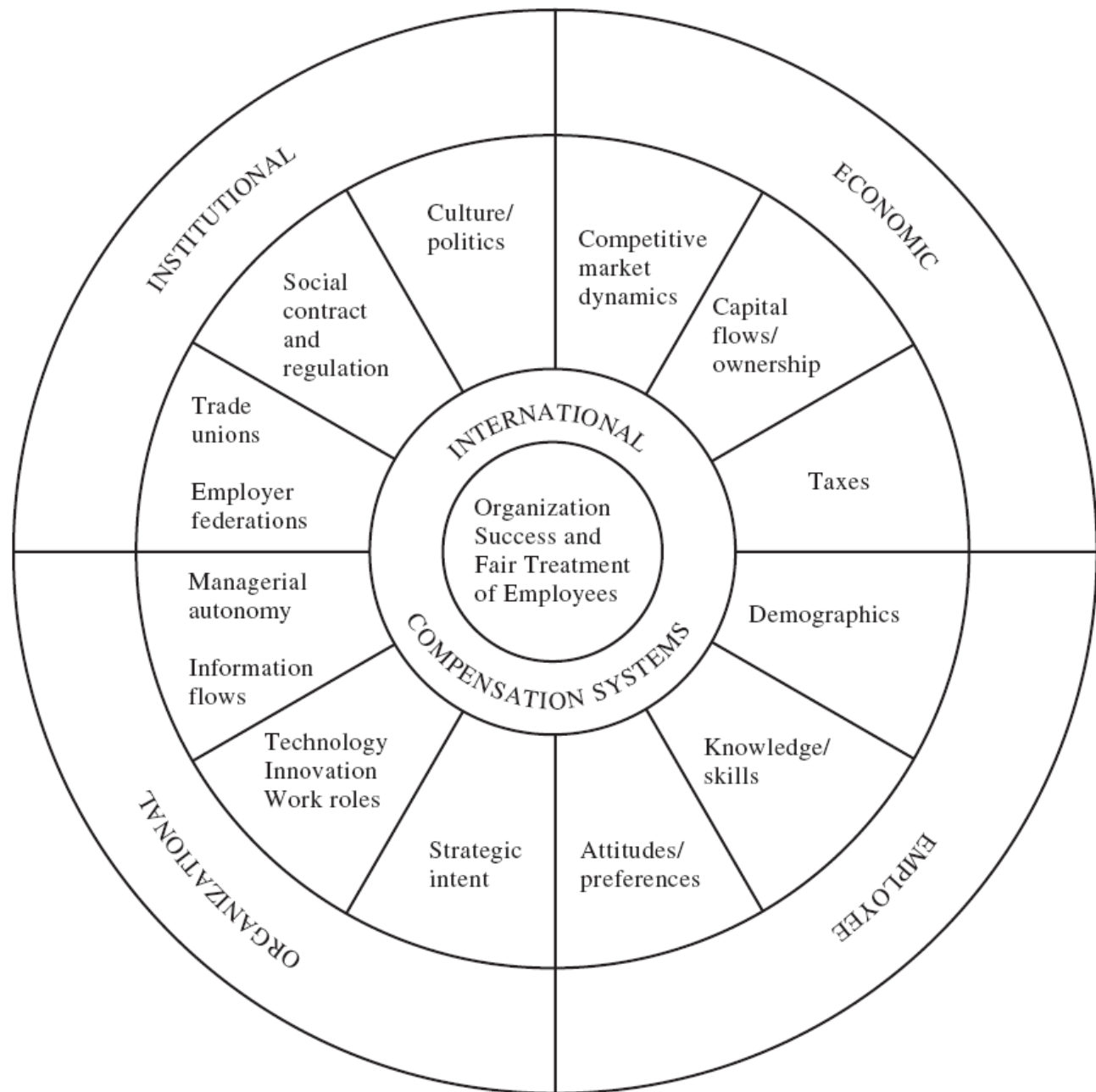


International Compensation



“Understanding international compensation begins with recognizing differences and similarities and figuring out how best to manage them.”

Guide to International Compensation



Examples

Test your knowledge of global geography:

[Click here](#)

Variation in International Pay Practices

- Social contracts
- Cultures
- Trade unions and employee involvement
- Ownership and financial markets
- Managers' autonomy

The Social Contract

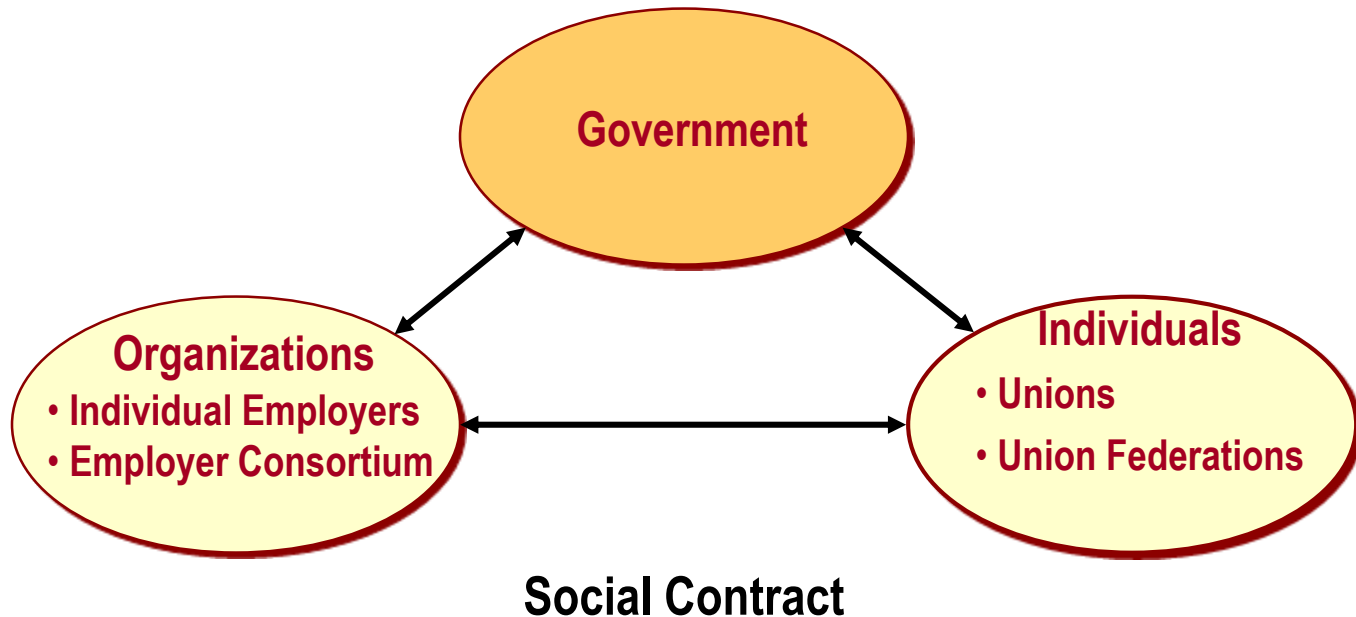
- Employment relationship, viewed as part of the social contract, is more than an exchange between an individual and an employer
 - It includes
 - ✓ The government
 - ✓ All enterprise owners
 - ✓ All employees
- Relationships and expectations of these parties form the social contract

The Social Contract

- Includes
 - Centralized vs. Decentralized Pay Setting
 - Flexibility of Wage Determination
 - Degree of Regulation
 - Combined Employer-Employee Tax Rate
 - Unemployment Benefits as Percent of GDP

(See charts on pages 555 – 560)

The Social Contract



(Milkovich & Newman, 2008)

Exhibit 16.2: The Social Contracts and Primary Bargaining Level in Selected European Union Countries and the United States



(Newman, Gerhart, & Milkovich, 2017, p. 555)

Culture

- Shared mental programming rooted in values, beliefs, and assumptions shared in common by a group of people
- Influences how information is processed

Culture Matters, but So Does Cultural Diversity

How useful is the notion of a national culture when managing international pay?

- Only a starting point
- Can be thought of as the “average”
- Provides some information about what kinds of pay attitudes and beliefs you are likely to find in an area
- Over reliance on the “average” can seriously mislead

Unions (Trade or Industrial) and Employee Involvement

Country	Unionization Rate
Sweden	71
United Kingdom	28
Italy	33
Japan	18
France	<10
South Korea	10

(Milkovich, Newman, &
Gerhart, 2011)

Ownership and Financial Markets

- Ownership and financing of companies differ widely around the world
 - These differences are important to international pay
 - Examples include China, Eastern Europe
 - State-owned, privately-owned, joint ventures with foreign companies, wholly-owned foreign enterprises

Managerial Autonomy

- It is the degree of discretion managers have to make total compensation a strategic tool
 - It is inversely related to the degree of centralization and regulatory intensity
 - Example works councils in Europe
 - Corporate policies also play role

Comparing Costs

Factors affecting wage comparisons

- Labor costs and working time required
- Cost of living and purchasing power
- Example, see Exhibits 16.9 – 16.12, pp. 567-571

National Systems: Comparative Mind-set

- Assumes that most employers in a country adopt similar pay practices

BUT...

- Overlooks variations among organizations within each nation

Employment Practices Differ Among Nations: The Cost of an Employee

	The hourly cost of a production worker in manufacturing is made up from the salary paid directly to the worker before deductions and what an employer pays in social insurance and labor taxes.	What those extra costs are as a percentage of salary.
France	\$17.97	\$12.36	\$5.61	45.4%
Germany	\$28.28	\$20.94	\$7.34	35.1%
United States	\$18.24	\$14.34	\$3.90	27.2%
Japan	\$19.37	\$16.52	\$2.85	17.3%
Britain	\$15.47	\$13.47	\$2.00	14.8%

(Milkovich & Newman, 2008)

Japanese Traditional National System

Traditionally, Japan's employment relationships were supported by “three pillars”:

1. Lifetime security within the company
2. Seniority-based pay and promotion systems
3. Enterprise unions

<http://www.justlanded.com/english/Japan/Japan-Guide/Jobs>

Japanese Traditional National System

- Japanese pay systems tend to emphasize:
 - The person rather than the job
 - Seniority and skills possessed rather than job or work performed
 - Promotions based on a combination of supervisory evaluation of trainability, skill/ability levels, and performance
 - “Internal alignment” over “market rates”
 - Employment security

Japanese Traditional National System (cont.)

- Japanese pay systems can be described in terms of three basic components:
 - Base pay – it depends on
 - ✓ Career
 - ✓ Years of service
 - ✓ Skills and performance
 - Bonuses
 - Allowances/benefits
 - ✓ Legally mandated benefits

German Traditional National System

- Traditional German pay systems are embedded in a social partnership between:
 - Business
 - Labor
 - Government
- This partnership creates a generous *vater staat*, or “nanny state” [actually “father” state]
- Pay decisions are highly regulated (> 90 pay-related laws)

German Traditional National System (cont.)

- Different tariff agreements are negotiated for each industrial sector by the major employers and unions
- Methods for job evaluation and career progression are included in the tariff agreements
 - These agreements do not apply to managerial jobs

German Traditional National System (cont.)

- The three components of German traditional national system are:
 - Base pay
 - Bonuses
 - Allowances and benefits

Exhibit 16.15: Strategic Similarities and Differences: An Illustrated Comparison

	Japan	United States	Germany
Objectives	Long-term focus High commitment Egalitarian—internal fairness Flexible work force Control cash flow with bonuses	Short/intermediate focus High commitment Performance—market—meritocratic Flexible work force Cost control; varies with performance	Long-term focus High commitment Egalitarian—fairness Highly trained Cost control through tariff negotiations
Internal alignment	Person based: age, ability, performance determines base pay Many levels Small pay differences	Work based: jobs, skills, accountabilities Fewer levels Larger pay differences	Work based: jobs and experience Many levels Small pay differences
External competitiveness	Monitor age-pay charts Consistent with competitors	Market determined Compete on variable and performance-based pay	Tariff based Same as competitors

Exhibit 16.15: Strategic Similarities and Differences: An Illustrated Comparison (cont.)

	Japan	United States	Germany
Employee contribution	<p>Bonuses vary with performance only at higher levels in organization</p> <p>Performance appraisal influences promotions and small portion of pay increases</p>	<p>Bonuses an increasing percentage of total pay</p> <p>Increases based on individual, unit, and corporate performance</p>	<p>Tariff negotiated bonuses</p> <p>Smaller performance bonuses for managers</p>
Advantages	<p>Supports commitment and security</p> <p>Greater predictability for companies and employees</p> <p>Flexibility—person based</p>	<p>Supports performance—competitor focus</p> <p>Costs vary with performance</p> <p>Focus on short-term payoffs (speed to market)</p>	<p>Supports commitment and security</p> <p>Greater predictability for companies and employees</p> <p>Companies do not compete with pay</p>
Disadvantages	<p>High cost of aging work-force</p> <p>Discourages unique contributors</p> <p>Discourages women and younger employees</p>	<p>Skeptical workers, less security</p> <p>Fosters “What’s in it for me?”</p> <p>No reward for investing in long-term projects</p>	<p>Inflexible; bureaucratic</p> <p>High social and benefit costs</p> <p>Not a strategic tool</p>

(Milkovich, Newman, & Gerhart, 2014, p. 561)

Strategic Market Mind-Set

Localizer: “Think Global, Act Local”

Designs pay systems to be consistent with local conditions

Business strategy is to seek competitive advantage by providing products and services tailored to local customers

Operate independently of corporate headquarters

Strategic Market Mind-Set

Exporter: “Headquarters Knows Best”

- Basic total pay system designed at headquarters and is “exported” world-wide for implementation at all locations
- Exporting a basic system makes it easier to move managers and professionals among locations
- One plan from headquarters gives all managers around the world a common vocabulary and a clear message about the leadership values

Strategic Market Mind-Set

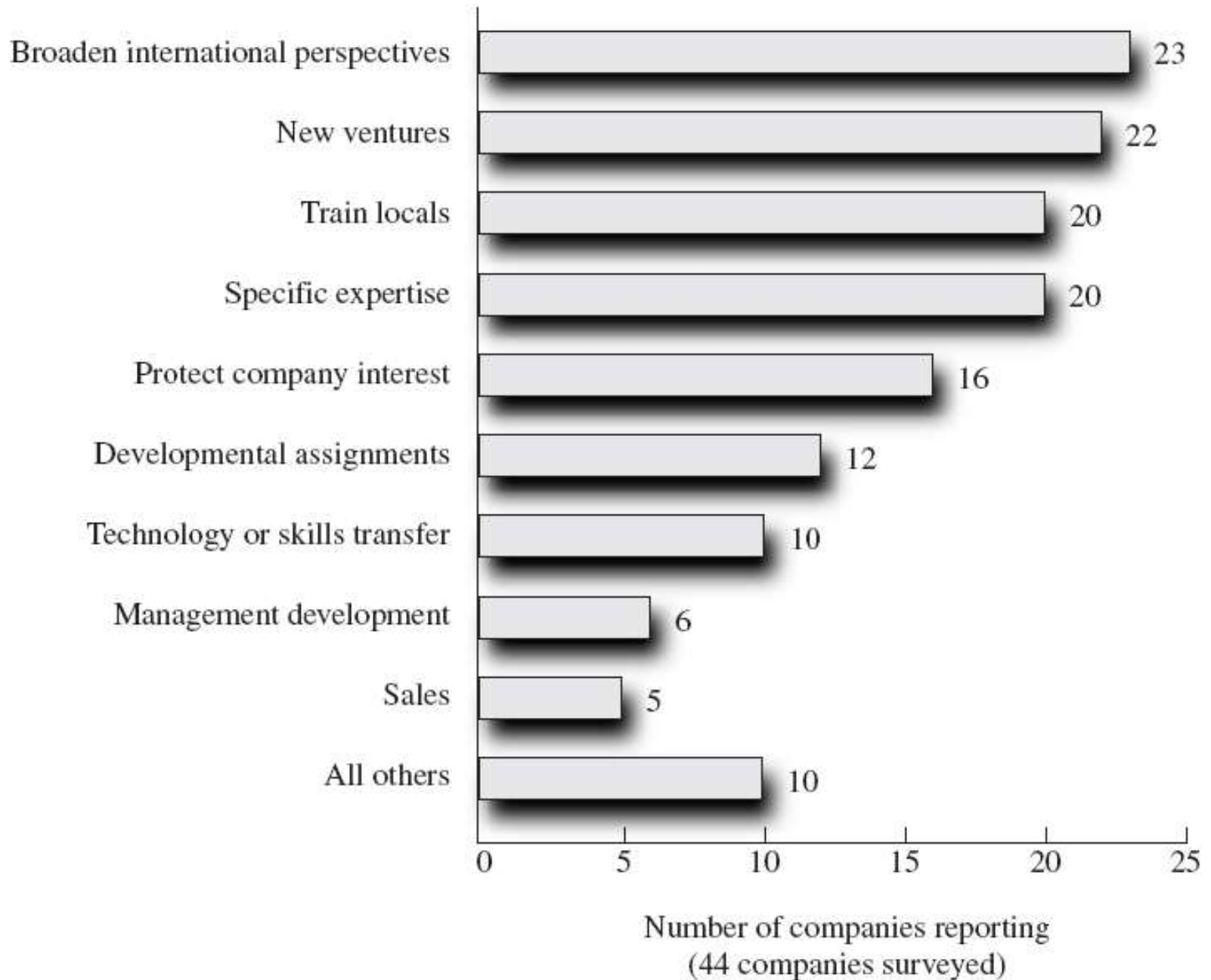
Globalizer: “Think and Act Globally and Locally”

- Seek a common system to be used as part of “glue” to support consistency across all global locations
- Headquarters and operating units are heavily networked to share ideas and knowledge
- Performance is measured where it makes sense for the business
- Pay structures are designed to support business

Compensation & Benefit Objectives for Expatriates

- Attract and retain employees who are qualified for foreign assignments
- Provide an incentive to leave the home country for a foreign assignment
- Maintain a given standard of living
- Take into consideration expatriates' career and family needs
- Facilitate reentry into the home country at the end of a foreign assignment

Exhibit 16.18: Why Expatriates Are Selected



(Milkovich, Newman, & Gerhart, 2014, p. 566)

Elements of Expatriate Compensation

Salary

Taxes

Housing

Allowances & Premiums

Common Allowances in Expatriate Pay Packages

Financial Allowances

- Reimbursement for tax return preparation
- Tax equalization
- Housing differential
- Children's education allowance
- Temporary living allowance
- Goods and services differential
- Transportation differential
- Foreign service premium
- Household furnishing allowance
- Currency protection
- Hardship premium
- Completion bonus

Family Support

- Language training
- Assistance locating schools for children
- Training for local culture's customs (family)
- Child care providers
- Assistance locating spousal employment

Social Adjustment Assistance

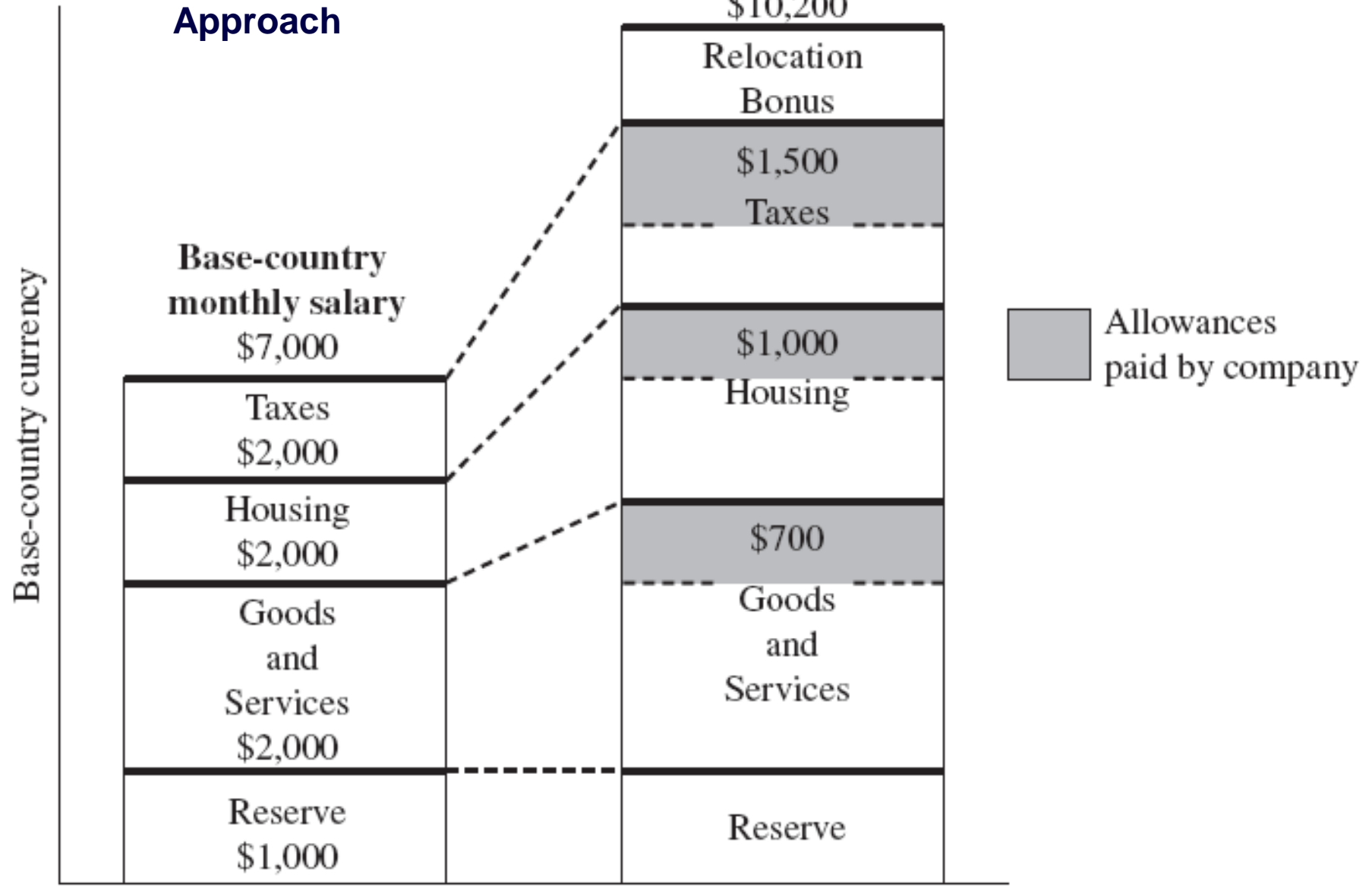
- Emergency leave
- Home leave
- Company car/driver
- Assistance with locating new home
- Access to western health care
- Club membership
- General personal services (e.g., translation)
- Personal security (manager and family)
- General culture-transition training (manager)
- Social events
- Career development and repatriation planning
- Training for local-culture customs (manager)
- Orientation to community (manager and family)
- Counseling services
- Rest and relaxation leave
- Domestic staff (excluding child care)
- Use of company-owned vacation facilities

Balance Sheet Approach

- **Premise** – Employees on overseas assignments should have same spending power as they would in home country
- **Home country** is standard for all payments
- **Objectives**
 - Ensure cost effective mobility of people to global assignments
 - Ensure expatriates neither gain nor lose financially
 - Minimize adjustments required of expatriates

**Exhibit 16.20:
Balance Sheet
Approach**

**Equivalent monthly salary and allowances,
host country
\$10,200**



(Milkovich, Newman, & Gerhart, 2014, p. 569)