

# Compensation & Benefits Review

<http://cbr.sagepub.com/>

---

## **Global Pay Systems: Compensation in Support of a Multinational Strategy**

Bobby W. Watson, Jr. and Gangaram Singh  
*Compensation & Benefits Review* 2005 37: 33  
DOI: 10.1177/0886368704273100

The online version of this article can be found at:  
<http://cbr.sagepub.com/content/37/1/33>

---

Published by:



<http://www.sagepublications.com>

**Additional services and information for *Compensation & Benefits Review* can be found at:**

**Email Alerts:** <http://cbr.sagepub.com/cgi/alerts>

**Subscriptions:** <http://cbr.sagepub.com/subscriptions>

**Reprints:** <http://www.sagepub.com/journalsReprints.nav>

**Permissions:** <http://www.sagepub.com/journalsPermissions.nav>

>> [Version of Record](#) - Jan 18, 2005

[What is This?](#)

# Global Pay Systems: Compensation in Support of a Multinational Strategy

Bobby W. Watson Jr.  
Manager, Safety  
National Steel and  
Shipbuilding Company

Gangaram Singh  
Professor and Chair of Management  
San Diego State University

*Global systems allow organizations to maintain flexibility and ease of transfer.*

For many companies, maintaining a domestic compensation program that supports the strategic goals of the organization and meets the needs of employees is a difficult challenge. This challenge is intensified when a similar program must be designed to operate in multiple countries with different cultures. For organizations competing in a global marketplace, managing compensation requires a thorough understanding of the taxation of compensation and benefits, differing state social systems, differences

in living standards, and employee values and expectations.<sup>1</sup>

Some of the most challenging questions are the following:

- How does a company pay expatriates from different home countries brought together to work on a project?

- What about compensation packages for same country nationals sent to different regions of the world?

Traditional compensation systems for expatriates, such as the balance-sheet approach and going-rate approach, may not be adequate for the company or expatriate in facilitating an ease of transfer. Global enterprises require global compensation systems that allow the organization to maintain the flexibility and ease of transfer between countries and regions while providing employees a just wage. A compensation system must be designed to work regardless of where the expatriate is sent on assignment. To some degree, this requires rethinking the traditional focus on location and national culture in determining expatriate compensation.

## Traditional Systems

Of the traditional global compensation schemes, the balance-sheet method is most commonly used. More than 85% of North American companies use some variation of this method to

**Keywords:** *international compensation; global pay; international human resource management; human resource management*

DOI: 10.1177/0886368704273100

compensate their expatriates.<sup>2</sup> The objective of the balance-sheet method is to keep the expatriate “economically whole” or to ensure that the expatriate doesn’t financially suffer or come out ahead as a result of the international assignment. It is intended to maintain the employee’s home standard of living during the international assignment.

The base salary for parent-country nationals and third-country nationals is linked to the salary structure of the relevant home country.<sup>3</sup> Additional salary is often given to cover tax differences, housing costs, and the other basic living expenses. Perquisites may also be offered such as foreign service premiums, hardship allowance, relocation assistance, and home leave allowances to help make the assignment more attractive.<sup>4</sup> There are several versions of the balance-sheet approach, such as the headquarters-based system. They each essentially are applied in the same manner with the primary difference being that the base salary is equated with a different location.

An advantage of the balance-sheet method and perhaps the reason why it is one of the most widely used international compensation scheme is that it eases the repatriation process because it generally maintains comparable compensation with home-country colleagues.<sup>5</sup> It further provides equity between assignments and is relatively easy for employees to understand. Multinationals using the balance-sheet approach must frequently review compensation packages to ensure that it is keeping up with any rise in cost of living.<sup>6</sup>

Opposite to the balance sheet method is the host-country-based or going-rate approach. This approach uses comparable salary in the host country as the base in setting compensation. It perhaps best integrates the expatriate into the host country and host business unit more quickly because salary survey comparisons are closely linked with host country nationals. As an alternative, compensation may be benchmarked against expatriates of the same nationality or of all nationalities within the local market. Advantages afforded by this approach include better identification with the host country living standards and host company compensation levels. This may be particularly important in diffusing any resentment that may develop among local national employees regarding inequities in expatriate compensation.

These traditional methods of international compensation are based on the premise that eventually the expatriate will return to his or her home country. However, as globalization requires a constant mobile workforce, these traditional compensation packages are becoming less and less adequate. Challenges develop as the need to transfer employees among international business units increases. It becomes an expensive proposition for companies to continue paying salaries, allowances, and perquisites based on a home country location when there are no immediate plans to repatriate the employee.

*The longer the foreign assignment lasts, the challenge to maintain a lifestyle the expatriate may have been accustomed to at home becomes greater.*

### **Challenges for the Traditional System**

Although the balance-sheet approach provides the benefits of equity for the expatriate between assignments and better facilitates repatriation, it generally comes at a high cost to the company. The longer the foreign assignment lasts, the challenge to maintain a lifestyle the expatriate may have been accustomed to at home becomes greater. The balance-sheet approach infers that the expatriate should never have to make any adjustments to his or her host country and company. This can result in great compensation disparities between the expatriate and host company employees as well as third-country expatriates.<sup>7</sup> Problems arise when employees are paid different amounts for performing essentially the same job, leaving a perception of unfairness among the lower paid employees.

Another challenge with the balance-sheet approach is the complexity in administering the program as more expatriates from different home countries are sent abroad. Multiple home coun-

tries complicate the administration of the base pay and allowances required to keep the expatriates economically whole.

The going-rate approach also has its disadvantages as a global compensation program. Assignments to multiple locations likely result in variation of pay. This is particularly evident when an employee is transferred from an economically advanced location to perhaps a Second or Third World country. Expatriates facing a possible loss of compensation may be reluctant to take the pending assignment. Furthermore, expatriates from the same home country performing equivalent work in different locations can have a notable difference in pay depending on the host country compensation level. Again, this can result in expatriates being reluctant to take the lower compensating assignments and lead to rivalry among coworkers for the higher paying assignments.<sup>8</sup>

### Toward a Global System

A global economy has emerged as companies all over the world are joining forces through alliances, mergers, joint ventures, acquisitions, and the like. The mobility of the workforce is increasing as companies recruit employees worldwide. Multinational corporations are looking to foster collaboration among their foreign business units. The availability of television, the Internet, e-mail, cell phones, and other means of instant communication have allowed employees to easily obtain and exchange information about pay and other working conditions. To be competitive in this global economy, companies must identify those skills and competencies that they require globally and pay accordingly.<sup>9</sup>

Much has been written on compensating the expatriate from a home country perspective. The assumption is that the international assignment is temporary and therefore an inducement should be paid to entice the expatriate to take the assignment. However, as true globalization of businesses becomes more common, the trend is drifting away from the temporary expatriate with a home base country toward true international employees who are expected to remain abroad throughout their careers. It is becoming more important to establish a strategic compensation system that provides the flexibility to easily relocate employees to meet company needs, equabil-ity among similar jobs worldwide, cost savings,

and ease of manageability of the compensation program.

To create a global culture where employees located in different parts of the world can feel a sense of equality within the organization, companies must implement a core compensation program that is essentially similar everywhere.<sup>10</sup> A case in point is Seagram Spirits and Wine Group, a multinational company with roughly 10,000 employees in more than 60 countries. To support its globalization efforts, Seagram needed to have the flexibility to relocate managers frequently between countries. The company revamped its existing compensation policy and developed a pay approach aimed at providing worldwide equity in overall compensation.

*A global economy has emerged as companies all over the world are joining forces through alliances, mergers, joint ventures, acquisitions, and the like.*

The new international compensation package started with a job evaluation system that matched comparable jobs with comparable pay. Managers covered under the new global pay policy are paid at the top quartile of local compensation. Benefits are set at the median of each local market, with employees having some flexibility in their choice of benefits.<sup>11</sup>

Although some adjustments to the pay and benefits package may have to be made to address local tax, social, and other issues, the overall compensation scheme adheres to Seagram's global pay principles. Although Seagram does not necessarily have the perfect formula for a global compensation system, it has taken measures to better align its compensation strategy in support of its multinational strategy.

### Concluding Comments

Multinational corporations that commonly require the transfer of technology, technical skills, or corporate vision must develop compensation

systems that simplify the relocation of employees.<sup>12</sup> Furthermore, the compensation systems must be perceived as equitable among similar jobs worldwide, provide cost savings, and be efficient and easy to manage.

A job-based compensation system similar to Seagram's approach that establishes a base salary for comparable jobs worldwide can be an effective start in developing a global compensation system. From this, flexibility can be built into the system to address social, economic, and political issues in local and national regions. The compensation system should reflect the company culture and be designed to attract qualified employees that have the necessary knowledge, skills, and abilities that support the organization's strategic goals and objectives.<sup>13</sup>

As companies expand their operations globally, compensation systems must evolve to mirror the global strategies and objectives of the companies. The workforce is becoming less inhibited by borders and increasingly willing to remain internationally based employees. Companies are recruiting international candidates with the intent of being able to relocate them throughout their entire career. This change in international business practice warrants a change in traditional expatriate compensation, focused on corporate culture and business strategy rather than national culture and local conditions. With an effective compensation system designed to support the global strategy, multinational organizations can

enhance their competitiveness through attracting, retaining, and motivating their workforce.

Notes

1. Knight, K. L. (1993). Total compensation in a global marketplace. *Compensation & Benefits Review*, 25, 70-72.
2. Overman, S. (2000). In sync. *HR Magazine*, 45(3), 86-92.
3. Dowling, P. J., Welch, D. E., & Schuler, R. S. (1999). *International human resource management: Managing people in a multinational context*. Cincinnati, OH: South-Western.
4. Cullen, J. B. (2002). *Multinational management: A strategic approach* (2nd ed.). Cincinnati, OH: South-Western.
5. Frazee, V. (1998). Is the balance sheet right for your expats? *Workforce*, 3(5), 19-22.
6. Dowling et al. (1999).
7. Dowling et al. (1999).
8. Dowling et al. (1999).
9. Gross, S. E., & Wingerup, P. L. (1999). Global pay? Maybe not yet! *Compensation & Benefits Review*, 31, 25-34.
10. Gross and Wingerup (1999).
11. Cullen (2002).
12. Frazee (1998).
13. Bloom, M., & Milkovich, G. (1997). *Rethinking international compensation: From expatriate and national cultures to strategic flexibility*. Retrieved February 5, 2004, from <http://www.ilr.cornell.edu/cahrs>

*Bobby W. Watson Jr. is a graduate student in human resource management at San Diego State University where he also received his B.S. in business management. He is employed as the safety and industrial hygiene manager at NASSCO, a General Dynamics Company.*

*Gangaram Singh is professor and chair of management at San Diego State University. He received his Ph.D. from the University of Toronto. His research interests include international and comparative employment relations, issues of an aging workforce, and innovations in collective bargaining and human resource management. His research has been published in top journals such as Industrial and Labor Relations Review.*

