SHRM Compensation and Benefits

Module 12: International Compensation Issues



Module 12: International Compensation Issues



Time:  2 minutes

Running time: 2 minutes

**Objective**: Introduce the topic of International Compensation Issues.

**Description**:  Introduction to the topic and why it is important to compensation and benefits

**Instructional Method**: Lecture/ice breaker

**Script:**

For our final module we will look into issues relating specifically to international compensation issues. This includes expatriate compensation and benefits, as well as other issues relating specifically to compensation outside of the U.S. Keep in mind, for the purposes of this conversation, we are considering international compensation issues from the point of view of U.S. employers who employ workers in other countries.

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Time:  2 minutes

Running time: 4 minutes

**Objective**: Introduce the learning objectives.

**Description**: Show the objectives.  Answer any questions.

**Instructional Method**: Lecture

**Script**:

Here are the objectives for this module:

* Define terms related to international compensation issues.
* Explain how expatriates are typically compensated.
* Identify specific challenges for compensating international employees.
* Compare and contrast international pay systems.
* Analyze international employee compensation laws and specific challenges.

**Facilitator Notes:**

Use the objectives topics to create evaluation for the review.

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Time:  5 minutes

Running time: 9 minutes

**Objective**: Define key terms related to pay equity

**Description**: Match Key terms to the correct definition.

**Instructional Method**: Game

**Script**:

Let’s play a game to define some key terms used in the compensation and benefits profession.

**Exercise**:  Key terms

1. The instructor will state the definition of each term.
2. Have students choose which term fits the definition.
3. Click to “light up” the correct answer.

*Virtual*

1. Use chat or annotate/stamp.
2. Read the definition and have students choose the term.

**Define Terms:**

1. **Expatriates-** Employees living and working for the parent company in overseas locations.
2. **Local country nationals-** The employees hired from the local population where the parent company is operating.
3. **Third country nationals-** employees who are working for the parent company but are neither citizens of the country where the parent company is based, nor of the country where the foreign country where they are living in order to work for the parent company.
4. **Host Country-** The international location where the parent company operates locally.

A picture containing graphical user interface

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Time:  10 minutes

Running time: 19 minutes

**Objective**: Explain how expatriates are typically compensated.

**Description**: Explore how expatriates are typically compensated in different countries.

**Instructional Method**: Lecture - Exercise

**Script**:

Those employees who are recruited to work overseas are known as expatriates and they have some very specific compensation issues that warrant discussion.

**Exercise**:

1. Pair students
2. Have each pair choose a country besides the US
3. Have each group determine base salary, Incentives, allowances and taxes for an HR Manager.
4. Share the answers with the large group.

**Facilitator Notes:**

[**Expatriate Compensation**](https://www.shrm.org/resourcesandtools/tools-and-samples/toolkits/pages/designingglobalcompensation.aspx)

1. **Base salary**- The concept of base salary is the same as it was in Module Five. This is the base compensation that an employee will receive. This may be highly influenced by base compensation rates in the host country. For example, a CEO in Rome might have a higher base salary than the same CEO in Mexico City, due to the differences in cost of living. If an employee is moving to a country that has higher base compensation rate than the U.S., then the parent company will need to consider this information in planning the base salary.
2. **Incentives**- Financial incentives are another way to incentivize employees to become expatriates. Frequently, this is offered in terms of stock options or a performance-based bonus plan. Base compensation isn’t typically enough to incentivize employees to move overseas.
3. **Allowances**- There are any number of allowances that can sweeten the opportunity to work overseas. Housing, childcare, transportation, employment for spouses, language training, and even security guards can be used as incentives to entice employees to work overseas. One very important allowance can be memberships to clubs, sports organizations, etc., especially those that allow expatriates and their families to interact with other expatriates.
4. **Taxes**- Taxes are normally tricky for a lot of people. Compound that with requirements of foreign countries, and you have a recipe for confusion. Parent companies need to offer not only financial support to deal with host-country taxes, but education on the tax impacts of overseas work on U.S. taxes should be provided as well.

Table

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Time:  10 minutes

Running time: 29 minutes

**Objective**: Compare and contrast international pay systems.

**Description**: Discuss what is similar and different for each country

**Instructional Method**: Lecture and Discussion

**Script**:

Since countries each have their own unique pay systems, it is beneficial to look at typical compensation systems from several companies so that we can easily identify similarities and difference.

This graphic shows how differently compensation systems are approached in leading countries. They all have pros and cons, but the understanding of the different approaches to compensation is invaluable when designing an international compensation plan.

**Discussion**

1. Group students and have them use the graph to compare and contrast pay systems for these 3 countries. (10 minutes)
2. Discuss what is similar and what is different for each country in the large group. (10 minutes)

**Facilitator Notes:**

* Milkovich (2019, p. 591), provided an excellent example in his Compensation textbook.

Graphical user interface

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Time:  10 minutes

Running time: 39 minutes

**Objective**: Identify specific challenges for compensating international employees.

**Description**: Have students list specific challenges for compensating international employees.

**Instructional Method**: Exercise - Discussion

**Script**:   Any employer who expands to overseas locations must consider the potential impacts concerning compensation.

**Exercise**:

1. Put students into groups of 4 – 6.
2. Have each group list specific challenges for compensating international employees. (5 minutes)
3. Call on each group one at a time to add more to your list (keep a list)
4. CLICK and compare the answers to the most common challenges for employers
5. Discuss if any students have been in different countries.

**Facilitator Notes:**

Most common challenges for employers:

1. **Host-Country Employment laws-** Every country in the world has its very own set of employment-related laws. For example, some countries restrict the hours of the work week, the maximum hours worked, how employees are hired and terminated, and basic employee rights. When a U. S. company operates internationally, they must follow the laws of the host country.
2. **Taxation**- There can also be issues to address concerning taxes for oversees employees. These issues must be fully addressed in the compensation plan.
3. **Culture**- The expectations of the host-country culture may be one of the biggest challenges for employers. Customary paid holidays and celebrations, as well as religious issues could significantly impact an international pay systems, and organizations need to understand the culture they are moving into.
4. **Unionization**- Unions are prolific in some parts of the world and bargaining with them is an integral part of international compensation.
5. **Cost of living and family support expenses**- Every time an organization sends an employee overseas, they have to also consider the living conditions, cost of living, education, housing, and other support your employee and their family may require. These vary highly from region to region which can leave the impression that overseas opportunities are not equal. This can become an equal pay issue if an organization is not careful.
6. **Turnover-** Perhaps the largest risk and expense for employers who send workers overseas is the issue of turnover. This risk is substantial as it can lead not only to unhappy expatriates returning home after a negative experience (only to share that experience with everyone in the organization), but also the customary losses associated with turnover, as well as lost housing and education deposits, and finally the impact of the turnover on the local and international locations.

Diagram

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Time:  20 minutes

Running time: 59 minutes

**Objective**: Analyze international employee compensation laws and specific challenges.  
**Description**: Match Key terms to the correct definition.

**Instructional Method**: Lecture - Discussion

**Script**:

If you think operating globally is always easier and cheaper, you may want to consider these laws and other challenges.  
**Note**: Describe each challenge or law.

**ASK**: What are examples of each of these in different countries?

**Facilitator Notes:**

International Employee Compensation Laws and Challenges

This information is a brief summary of the issues relating to international compensation. Every international organization is different, and every expatriate assignment has variables that make it difficult to apply an over-arching policy of any kind to international employees. A good rule of thumb, however, is to observe whichever law benefits the employee most. This tends to work very well, regardless of where an employee is located.

1. **Equal pay laws-** The idea of equal pay is something that most developed countries are grappling with. There is obvious room for improvement around the world, but parent companies need to ensure they are in compliance with local laws but are also in compliance with U.S. laws. Organizations do not want to be known for sending work overseas and then paying one group of people less than others, just because it is legal to do so in that country.
2. **Mandatory benefits-** Every country has its own set of mandatory benefits. Some countries don’t allow limitations on medical insurance to only full-time employees. Others don’t allow expatriates to make more money than local employees. Still others have strict compensation equity laws. Medical coverage is a given in European countries, but not in South American countries. The point is that the parent company must take each of these issues into consideration when designing the compensation plan.
3. **Minimum wage laws-** The [International Labour Organization](https://www.ilo.org/global/topics/wages/minimum-wages/lang--en/index.htm) offers guidance on international minimum wages. Most people are aware that many countries have little or no minimum wage laws, and some of those who do have them cannot enforce them. Even the U.S. struggles to enforce minimum wage laws in some industries like agriculture and domestic service. The same is true of other countries. However, for an international organization to be successful, the minimum wage laws of that locality must be observed.
4. **Discrimination laws-** The United Nations has issued the following statements on [Equality and Non-discrimination](https://www.un.org/ruleoflaw/thematic-areas/human-rights/equality-and-non-discrimination/):

The principles of equality and non-discrimination are part of the foundations of the rule of law. As Member States noted in the Declaration of the High-Level Meeting on the Rule of Law, “all persons, institutions and entities, public and private, including the State itself, are accountable to just, fair and equitable laws and are entitled without any discrimination to equal protection of the law”(para. 2). They also dedicated themselves to respect the equal rights of all without distinction as to race, sex, language or religion (para. 3).

The international human rights legal framework contains international instruments to combat specific forms of discrimination, including [**discrimination against indigenous peoples**](http://ohchr.org/EN/Issues/IPeoples/Pages/Declaration.aspx), [**migrants**](http://www.ohchr.org/EN/Issues/Migration/SRMigrants/Pages/InternationalStandards.aspx), [**minorities**](http://www.ohchr.org/Documents/Issues/Minorities/Booklet_Minorities_English.pdf), [**people with disabilities**](http://ohchr.org/EN/HRBodies/CRPD/Pages/ConventionRightsPersonsWithDisabilities.aspx), [**discrimination against women**](http://ohchr.org/EN/ProfessionalInterest/Pages/CEDAW.aspx),  [**racial**](http://ohchr.org/EN/ProfessionalInterest/Pages/CERD.aspx) and [**religious discrimination**](http://ohchr.org/EN/Issues/FreedomReligion/Pages/Standards.aspx), or [**discrimination based on sexual orientation and gender identity**](http://ohchr.org/EN/Issues/Discrimination/Pages/LGBTUNResolutions.aspx).

1. **Overtime exemptions-** Every country has its own standards for overtime as well. For example, in the U.S., there is no limit on the number of hours an employee can work during any given work week, but they must be compensated at 1.5x their hourly rate for hours worked above 40 in a work week. However, in the U.K. employees cannot be forced to work more than 48 hours in a work week without prior agreement. Spain makes overtime at night illegal with only a few exceptions (<https://timeanalyticssoftware.com/overtime-regulation/>).
2. **Labor Unions-** International labor unions absolutely influence every part of international employment and compensation. Parent companies should be prepared to work within the bounds of these industry-related labor unions.
3. **Language laws-** Some countries require that all business communications use the host country language. Chile, Belgium, France, Quebec, Poland, Portugal, Turkey, and others require that most all employee communications take place in the local language (Dowling, 2014).

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Time: 15 minutes

Running time: 79 minutes

**Objective**: Review the material by doing the exercise on the slide.

**Description**: Students will review the material by answering the question on the slide.

**Instructional Method**: Pair and share discussions, exercises, homework

**Script:** Let’s put all of our knowledge into action. Here is a challenge for you to solve. Take about 15 minutes and write what you would do in this scenario.

**Facilitator Notes:**

* Read and analyze the article [Best U.S. Companies to Work for Abroad](https://www.gooverseas.com/blog/best-us-companies-work-abroad), by Rebecca Alwine (2020).  Choose two or more companies to research. Why would you want to work for them as an expatriate? Why not?

**Discussion Prompts:**

1. Why do expatriates experience high levels of turnover and what systems/policies can employers adopt to help reduce this risk?
2. What would it take to get you to perform your current job (or a job you’d like to have someday) in a different country in terms of compensation, benefits, allowances, and incentives?

**HR Skills Exercises:** You’ve just been asked to develop a compensation package for an expatriate employee. Your organization is opening its very first overseas office and this employee will operate as the CEO of that division. The office is located in Rome, and your industry is hospitality. Your company is a boutique hotel and spa that currently has locations in New York, L.A., Chicago, Dallas, Orlando, and Denver. The plan is to use the Rome offices to expand across Europe. Consider the local needs of the employee and develop a total compensation package to offer the new CEO of your Rome offices.