

Functional Area 05

Total Rewards

GLOBAL PROFESSIONAL IN HUMAN RESOURCES (GPHR)

2021 EDITION

Global Professional in Human Resources (GPHR) Workbook

Module Five: Total Rewards

2021 Edition

Table of Content

Introduction	iii
Table of Content	iv
<i>Part One: Global Compensation Design</i>	7
1. Global Total Reward Components	7
1.1. Compensation	7
1.2. Benefits	9
1.3. Work-Life Effectiveness (Well-Being)	11
1.4. Performance & Recognition	12
1.5. Development & Career Opportunities	12
1.6. External Influences	13
1.7. Internal Influences	14
1.8. Employee Experiences	15
1.9. Organizational Performance	17
2. Global Compensation Form	18
2.1. Core 19	
2.2. Crafted	19
2.3. Choice	20
2.4. Strategic Flexibility	20
3. Factors affecting Global Compensation	21
3.1. Culture	21
3.2. Economic	21
3.3. Taxation	22
3.4. Competitive labor market	22
3.5. Laws and Regulations	23
3.6. Standardization versus localization	23
3.7. Collective bargaining, employee representation and government mandates ..	24
3.8. Global Orientation	24
4. Global Compensation Planning	26
4.1. Phase One: Philosophy	27
4.2. Phase Two: Design	27
4.3. Phase Three: implementation	28
5. Global Compensation Approaches	28
5.1. Headquarters (HQ) scale	29
5.2. Salary scale based on location	29
5.3. Global base per position	29
5.4. Pay-mix for Executive	30

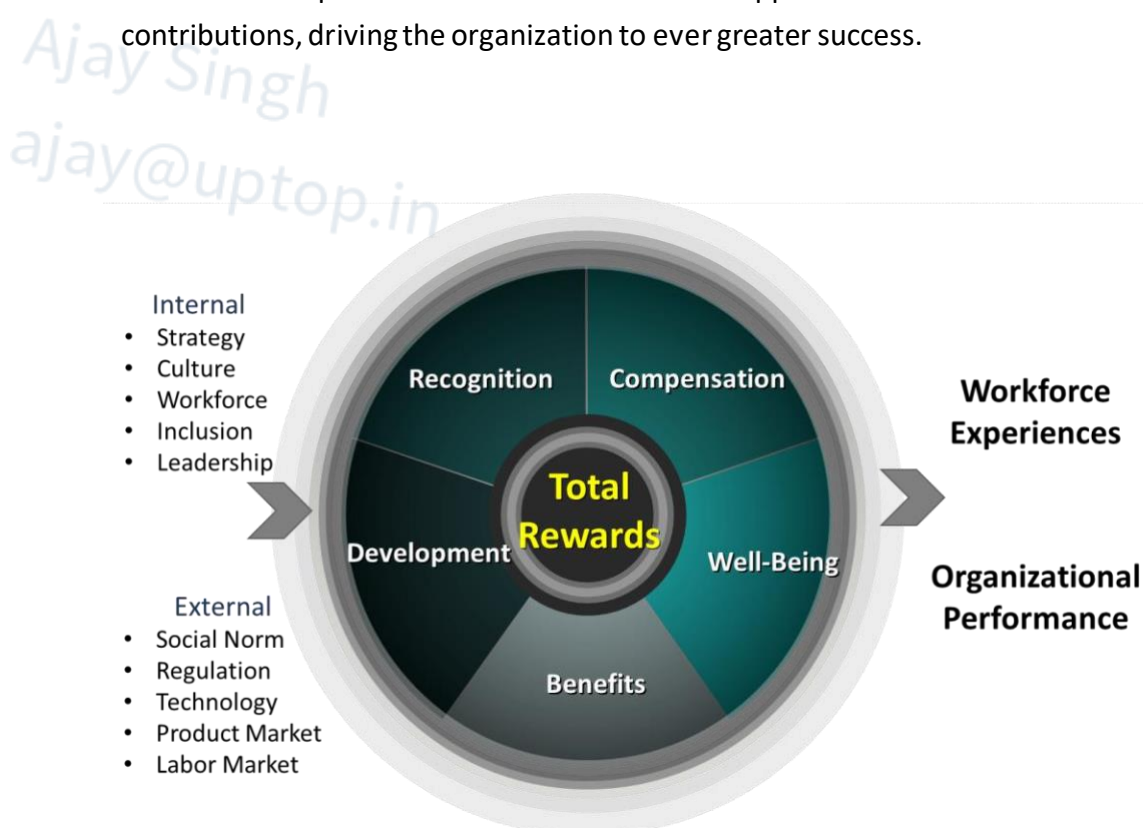
5.5. Qualitative Parity and Quantitative Parity	30
6. Global Grading System	32
6.1. Job leveling.....	32
6.2. Job architecture.....	33
6.3. Career Ladders within job leveling	34
7. Remuneration Surveys.....	35
7.1. Purposes of Remuneration Surveys	35
7.2. Market Select.....	35
7.3. Data Collect	36
7.4. Data Analysis	38
8. Global Pay Structure	40
8.1. Terms and Definitions	40
8.2. Global Salary Grades.....	42
8.3. Global Pay Structure	43
<i>Part Two: International Assignment Package.....</i>	<i>47</i>
1. Objectives of Expat Compensation	47
2. Approaches of Expat Compensation.....	48
2.1. Host-Country Approach	49
2.2. Global Approach	49
2.3. Home-Country Approach.....	49
3. Balance Sheet Approach	50
3.1. Base Salary	52
3.2. Foreign Service Premium.....	52
3.3. Allowances.....	52
3.4. Taxation.....	52
3.5. Benefits	53
4. Localization and Local-Plus	53
4.1. Localization	53
4.2. Local-Plus	54
4.3. Net-to-net Approach.....	57
5. Expatriate Allowance and Premium	57
5.1. Cost of Living Allowance (COLA)	58
5.2. Hardship Premium (Allowance).....	60
5.3. Mobility Premium (Allowance)	60
5.4. Foreign Exchange Rate Protection	61
5.5. Relocation Allowance.....	62
5.6. Housing Allowance	62
5.7. Education Allowance.....	62

5.8. Paid Leave and Airfare	63
5.9. Others.....	63
6. Tax Reimbursement	65
6.1. Principles of Tax Treatment	65
6.2. Tax Liability.....	65
6.3. Approaches of Tax Treatment.....	66
6.4. Protection vs. Equalization vs. Localization	69
7. Tax Equalization (TEQ) Process	72
7.1. Hypo Tax.....	72
7.2. Pre-Assignment Planning	73
7.3. During Assignment.....	75
7.4. Post-Assignment.....	77
8. Totalization Agreement and Tax Treaty	77
8.1. Totalization Agreements	77
8.2. Tax Treaty	78
9. Global Employment Company (GEC)	78
10. Global Payroll Management.....	79
10.1. Establish appropriate data validation and controls	80
10.2. Communicate assignee tax and social security positions	80
10.3. Carry out post-payroll analysis.....	81
10.4. Seek continuous improvement through reporting and analytics	81
<i>Part Three: International Retirement Plans.....</i>	<i>82</i>
1. Primary Retirement Plans	82
1.1. Defined Benefit Retirement Plans.....	82
1.2. Defined Contribution Plans	83
2. International Retirement Plans (IRPs)	84
2.1. Expats and Retirement.....	84
2.2. Target Groups	85
2.3. Design	85
2.4. Setting Up.....	86
2.5. Fees and Charges.....	87
2.6. Exclusion of US Tax Residents.....	88
2.7. Other Considerations	88
3. Global Equity Program	88
3.1. Stock Option.....	90
3.2. Restricted Stock.....	91
3.3. Implementation of Global Equity Compensation.....	91
Reference.....	94

Part One: Global Compensation Design

1. Global Total Reward Components

According to WorldatWork - the Total Rewards association who serves, educates and inspires those who reward and engage the workforce, Total Rewards encompasses the elements – compensation, well-being, benefits, recognition and development – that, in concert, lead to optimal organizational performance. When designed strategically and executed in alignment with business goals, Total Rewards programs fuel motivated and productive workforces that feel appreciated and rewarded for their contributions, driving the organization to ever greater success.



Global Total Reward Elements

Source: www.worldatwork.org/total-rewards-model/

1.1. Compensation

Pay provided by an employer to an employee for services rendered (i.e., time, effort,

skill). This includes both fixed and variable pay tied to performance levels.

1.1.1. Fixed Pay

Fixed pay, also known as base pay, is nondiscretionary compensation that does not vary according to performance or results achieved. It's usually determined by the organization's philosophy and pay structure.

Base Pay: Fixed or base pay is the compensation paid to an employee for performing specific job. The definition of base pay can vary by country. Base pay levels need to take into account variations in equivalent monthly salaries vary by country. The bottom line to fixed pay practices need to be based on a competitive strategy for each country. Types of Base pay include

- Salary: paid on a weekly, biweekly or monthly basis rather than by the hour, generally to higher level positions.
- Nonexempt/hourly rates: paid by the hour for a job being performed. An individual's annual pay is dependent on the number of hours worked during the course of the year.
- Piece rate: payment is based on an individual's rates production. A payment is received for each piece or unit work produced.

1.1.2. Variable Pay

Incentive or Variable pay, also known as pay at risk, is compensation that is contingent on discretion, performance or results achieved. Much of the innovation in compensation is occurring in the variable pay element. Companies are making greater use of variable pay programs by expanding them to a significantly broader portion of the workforce that they have in the past. These schemes are adopted by many corporations in order to improve the employee morale and increase the motivation to work for the employees. Based on performance measures and metrics defined by the human resources of the specific organization incentive plans are devised and the specific mode of incentive is decided.

Bonus or Incentives

Bonuses or Incentives are delivered through plans that predetermine a performance and reward schedule. The incentive can be paid in an accounting period (month, quarter, year, multi-year) or upon an event (reaching an objective, completing a project, etc.). Organizations that seek to create a closer link between employee

compensation and the risks of doing business have increased the prevalence of group/team incentives.

Commissions

Commission is a sum of money that is paid to an employee upon completion of a task, usually selling a certain amount of goods or services. Commission may be paid as percentage of the sale or as a flat dollar amount based on sales volume.

Employers often use sales commissions as incentives to increase worker productivity. A commission may be paid in addition to a salary or instead of a salary. Commissions are cash payments, based on predetermined performance and reward schedule.

They are typically based on sales or profit margin on those sales. Commissions are usually for sales employees. Sales incentive plans matched to type of responsibilities: Customer identification, customer service or customer persuasion.

Profit-Sharing Plans

Profit-Sharing is a form of variable pay provided to all employees based on the profits of the company. Companies usually have predetermined goals and formulas for determining the amount that will be allocated to employees. Profit-Sharing is typically implemented to achieve employee participation and identification with the organization's success.

Performance-Sharing Plans

A variable pay plan bases rewards on the performance of a combination of quantitative and/or qualitative measures. The objective increase employee identification with the organization's success and increase employee understanding of what is important to the organization and communicate the basis upon which success is measure.

12. Benefits

Programs an employer uses to supplement the cash compensation that employees receive. These health, income protection, savings and retirement programs provide security for employees and their families

1.2.1. Healthcare

Healthcare systems are influenced by the beliefs, values, culture and perceptions in different regions regarding the role of government in providing health care to its

citizens. The employers commonly supplement the government health programs with health care plans influenced by corporate objectives, competitive practices and the limitations of government programs. Limitations government-sponsored programs may include restricted access, limits on services/facilities, payments, reimbursement and gaps in coverage.

1.2.2. Welfare

The factors that influence health and retirement benefits may also affect other benefits such as life insurance, disability and time off. Depending on the type of benefit, statutory requirements, coordination with government programs, collective bargaining agreements and other influences may shape or define the final program, limiting employer flexibility in plan design. In addition, offer wellness programs to employees are very useful to increase the satisfaction and healthy life.

1.2.3. Retirement and Investment Plans

Qualified retirement plans include both the traditional defined benefit pension plans and defined contribution plans:

Defined benefit plan is based on a formula that considers pay and service (i.e. one percent of compensation for each year of continuing service). Provide better benefits to employees with long service.

Defined contribution plan is characterized by employee and employer contributions made to individual participant accounts.

Hybrid plans; combine elements of defined benefits and defined contribution plans.

1.2.4. Other benefits

- Housing Allowance
- Transportation Allowance
- Meal Allowance
- Phone Allowance
- Training Allowance

1.2.5. Flexible benefits

Flexible benefits are the approach to benefits in an increasing number of American organizations. In essence, employees are typically given choices, up to a certain dollar limit, among a series of options for their benefits, including such things as pension contributions, health insurance options, dental insurance, life insurance, etc. MNEs are beginning to examine flex benefits for their global operations.

Issues such as tax treatment of benefits, private versus state health care, employee expectations and culture, non-standardized social benefits from country to country, and varying company structures will need to be addressed in order to design flexible benefit packages that might be used throughout an MNE. Nevertheless, such an approach may help simplify worldwide complete compensation systems for multinational firms.

13. Work-Life Effectiveness (Well-Being)

A specific set of organizational practices, policies and programs, plus a philosophy that actively supports efforts to help employees achieve success at both work and home. Work-Life Balance (WLB) is an umbrella term used to describe a variety of benefit-related initiatives to help employees effectively manage work, family, and personal life without extreme stress or negative impact. Many organizations report that balancing work and family has overtaken other benefit and compensation items as a key factor in employee satisfaction surveys. WLB is composed of offerings in the Total rewards package that address the unique individual needs of the employee. These offerings are important to the employee but may be less tangible than compensation and benefits. Categories which support work – life could be:

- 1.3.1. Caring for depends
- 1.3.2. Supporting health and wellness
- 1.3.3. Creating a workplace flexibility
- 1.3.4. Flexible Work Hours
- 1.3.5. Financial support programs

The intent of work/life programs and services is to support the well-being of employees and help them achieve a balance between their jobs, families, and personal lives. Some organizations couch work/life programs in terms of diversity and corporate social responsibility (CSR) initiatives. Others feature WLB as part of the

organization's brand. There are many compelling reasons for WLB. However, as with the success of other organizational and global HR strategies, commitment and communication can make or break success. Having work/life programs means little if employees are unaware of them or the culture does not support the initiatives.

14. Performance & Recognition

Acknowledges or gives special attention to employee actions, efforts, behavior or performance and support business strategy by reinforcing certain behaviors (e.g., extraordinary accomplishments) that contribute to organizational success. These programs can be either formal or informal. A Total Rewards program recognizes the full value of your employees' time—both through performance management that recognizes their in-office contributions and through policies that respect their time away from the office.

1.4.1. Performance

The alignment and assessment of organizational, team and individual efforts towards the achievement of business goals. A good performance management is the alignment of organizational, team and individual efforts toward the achievement of business goals and organizational success. It includes establishing expectations, skill demonstration, assessment, feedback and continuous improvement.

1.4.2. Recognition

Acknowledges or gives special attention to employee efforts or positive performance. It meets an intrinsic psychological need for appreciation and can support business strategy by reinforcing certain behaviors that contribute to organizational success. Awards can be cash or non-cash (e.g., verbal recognition, trophies, certificates, plaques, dinners, tickets, etc.).

15. Development & Career Opportunities

1.5.1. Development

A set of learning experiences designed to enhance employees' applied skills and competencies; development engages employees to perform better and leaders to advance their organizations' people strategies. Talent development provides the opportunity and tools for employees to advance their skills and competencies in both their short and long-term careers.

1.5.2. Career Opportunities

A plan for an employee to advance their own career goals and may include advancement into a more responsible position in an organization. The organization supports career opportunities internally so that talented employees are deployed in positions that enable them to deliver their greatest value to their organization. Organizations support career opportunities to effectively deploy talented employees, enabling them to deliver their greatest value to the organization.

Development and career opportunities can be in the form of learning opportunities, coaching/mentoring opportunities, and advancement opportunities.

The elements represent the "toolkit" from which an organization chooses to offer and align a value for both the organization and the employee. The elements are not mutually exclusive. Total rewards strategy involves the art of combining the five key elements into tailored packages designed to achieve optimal engagement. An effective total rewards strategy results in satisfied, engaged and productive employees, who create desired business performance and results.

16. External Influences

Successful organizations understand that total rewards must be designed and administered in the context of not only an organization's internal environment (for which organizations have direct control), but also influences external to the organization (for which there is little or no control). This requires a seemingly diametric skill set of simultaneous zoom-lens focus and wide-angle view.

1.6.1. Economics

The global economic landscape has a profound effect on organizations in general, and on total rewards in particular. Total reward costs are among the highest expenses incurred by the business. Consequently, these costs need to be monitored and, if necessary, adjusted to ensure continued financial viability. Rapidly rising or falling economic conditions, which can occur anywhere from a global to industry level, require timely and measured responses from HR professionals in adjusting programs to meet changing conditions. Total rewards is the near—universal form of exchange worldwide between an employee's talent, effort and skills and the employer's ability to attract and retain the needed skills to accomplish its mission. Thus, total rewards becomes the crucial intersection between the supply and demand for labor. HR professionals must understand labor market trends and movements to reach the

sweet spot of attracting the necessary talent at a cost that is affordable and sustainable.

1.6.2. Cultural norms

Cultural norms and social mores are another critical component related to external influences. Rewards that are valued and appreciated in one culture may be less valuable (even offensive) in another. HR professionals must have a firm grasp of the customs and drivers of the diverse makeup and expectations of the workforce to effectively tailor programs for maximum efficacy.

1.6.3. Regulatory

Finally, in the realm of external influences, regulatory issues pertaining to total rewards vary widely by country and region. These laws affect the design and implementation of pay, benefits and work rules. Organization-wide programs should be assessed to ensure they can be legally applied at the local level. This may require adaptation or even alternative programs to ensure compliance. Also, legal and regulatory violations can result in sanctions, damaging publicity and potential restrictions that may negatively affect an organization's ability to conduct business.

17. Internal Influences

1.7.1. Business Strategy

HR professionals agree that human resources and employee rewards strategies should be based on the organization's business strategy. A business strategy may place its emphasis in one of the following key areas:

Operational excellence: a combination of price, quality, dependability and ease of purchase that competitors cannot match. The corporate culture typically strives to minimize waste and reward efficiency.

Product/service leadership: innovation, product development and market exploitation. The corporate culture encourages imagination and a mindset driven by the prospect of creating the future.

Customer intimacy: creates results for carefully selected customers. The corporate culture encourages deep and lasting relationships with customers.

1.7.2. Organizational Culture

At the same time, every business has a unique organizational culture that is shaped not only by the external influences in the world, but also by senior leadership, geography, employee demographics and even the business strategy itself.

1.7.3. HR Strategy

While business strategy and organizational culture are driven by external influences, these are the components that drive the design and execution of the all—inclusive approach an organization takes related to every facet of its human capital, or the HR strategy. In turn, the HR strategy drives the development and administration of total rewards strategy.

18. Employee Experiences

Employee experience (which is often shortened to just “EX”) is an emerging business function focused on tracing how employees think and feel during every single touchpoint of their journey through the company. Many factors go into the employee experience. Elements include the type of work, company culture, commute time, co-workers, leadership, compensation and **rewards**.

1.8.1. Compensation Transparency and Understanding

Many employees expect to have a full understanding of how reward plans are structured and how comp decisions are made at their company. A clearly stated and easily understood plan goes a long way in creating a trusting relationship with employees. This boosts the employee experience. However, getting that information is not always easy for an employee.

HR professionals address the desire for transparency and fairness about how people are paid by communicating directly with employees and managers. Many HR professionals have a prepared document or presentation summarizing how the company views compensation—goals, plan structure and other details that are shared with employees.

It may be worth investing time to review that document or presentation to make sure it is current and hits all the right notes. HR managers can use the new version as a catalyst to emphasize the main points with colleagues.

One-on-one conversations between leader and team member can help employees understand how compensation and rewards are determined. In addition,

conversations can address the potential pay in their current role and how to earn more with the company. HR professionals can help managers be sharp and well prepared for those conversations.

HR managers at top-performing organizations use their experience to support managers on how to communicate with associates about the composition of plans and how employees are rewarded. This includes the company's policies and culture.

1.8.2. Total Rewards Communication

Total rewards are key elements of the employee experience. At best-in-class employers, comp professionals develop and communicate total rewards information that attracts and retains talented associates. They also make sure the communication is relevant to employees and supports the company's overall goals.

Awareness and understanding of total rewards by employees present an opportunity to enhance the employee experience. It's a chance to:

- Relate compensation and rewards to the company's operating model.
- Show how associates advance the company's principles and values.
- Clearly communicate how employees help the organization achieve and sustain dominance.

Modern total rewards communication is more than a printed list showing the value of compensation and benefits. Instead, it is used to promote the company's culture and purpose. It shares fresh information that matters to employees. It is delivered how employees want to receive their communication, which often means on their smartphone or iPad — anytime, anywhere.

Technology today easily allows HR professionals to up their game in total rewards communication. Putting that next level of communication in place can help drive improved business results by strengthening the employee experience.

1.8.3. Using Compensation to Accomplish More

Comp professionals can improve business results by making sure aspects of the organization's compensation plans support and enhance the employee experience. Senior leaders have always expected a great deal from comp professionals. The next question posed to comp professionals at top companies: How can we use

compensation to accomplish more? Now might be the time to try something new.

19. Organizational Performance

Research shows that total reward design can directly influence individual performance, and therefore influence the organizational performance. In a study of reward practices of Fortune 1000 firms, the most widely used rewards for performance were non-monetary recognition awards, followed by employee stock ownership plans (ESOPs) and profit sharing.

An ESOP provides employees a reward based on the overall success of the firm and thus effectively links employee's activities to overall firm performance. Individuals are motivated to help the firm perform well because they will ultimately benefit by sharing in the profits.

Individual based rewards support an employee's activities and actions toward things they can directly control. Assuming managers insure that individual goals are in line with organizational goals, the entire organization will benefit from improved performance as the result of cumulative efforts of individuals motivated to achieve their individual goals.

Regular expressions of appreciation by managers and leaders to employees lends credence to the notion that frequent and visible communication about performance is important for employee motivation. One of the basic tenets of effective behavior modification is the application of rewards as close in time as possible to the action taken by the employee. Regular expressions of appreciation are readily available to managers and can be used immediately and frequently. While the individual rewards and the ESOP rewards may have a significant time lag, regular expressions of appreciation can provide immediate feedback to employees and thus have a profound impact on employee behavior.

Finally linking customer satisfaction monitoring with employee rewards helps to link an external reward component to the reward system and complements the other three internally based measures. If an organization loses sight of the customer's perceptions of satisfaction organizational performance will eventually suffer. Including the voice of the customer in the reward system helps to ensure that all employees and ultimately the organization as a whole does not lose sight of their customer.

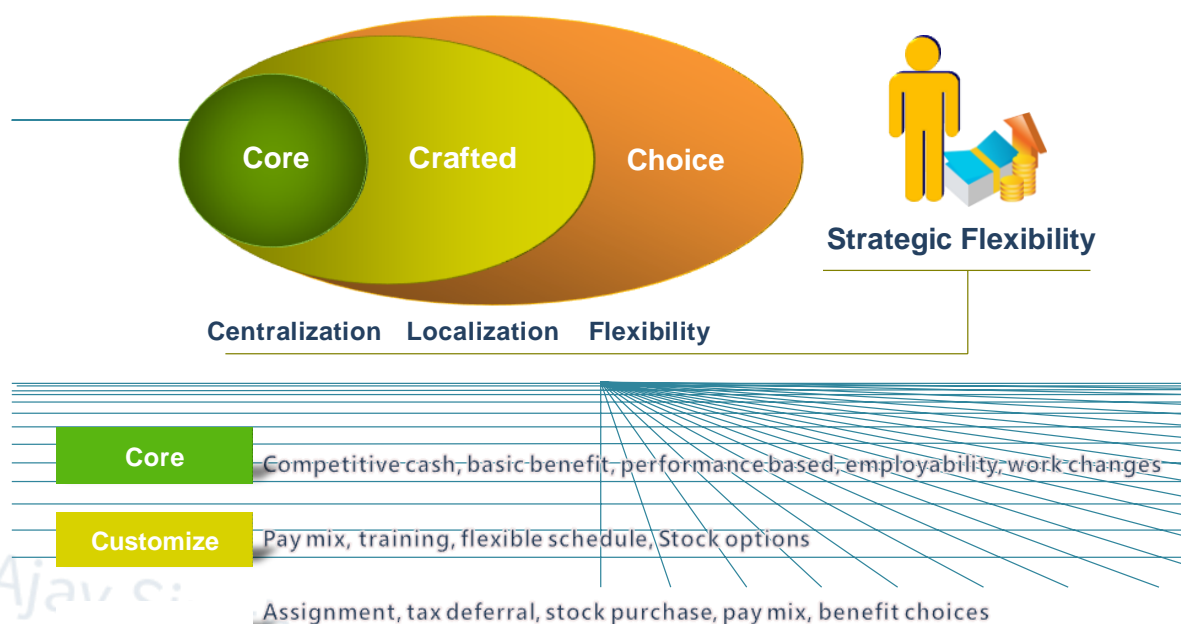
2. Global Compensation Form

From a global perspective, there are substantial differences in the ways people get paid. Consider, for example, that the pay packages offered by the same multinational operating in both Shanghai and Bratislava are very different. In Shanghai, the package may emphasize housing allowances and bonuses intended to retain scarce critical skills, while in Bratislava the package will place greater emphasis on productivity-based gainsharing and base pay. The reality is that local conditions dominate the compensation strategy.

For organizations competing in worldwide markets, managing compensation and reward systems has always depended on understanding the economic, social, and political changes occurring in the countries in which they operate. What is emerging is that some companies are adopting global compensation and reward strategies that are aligned with and signal their global mind-sets. Rather than only reacting to and matching local conditions, the global perspective shifts to finding how they can best use compensation and rewards to compete on a worldwide basis.

Given sufficient variation in values among the people in the labor pools of a nation, firms can structure compensation policies that are consistent with the firm's culture and simultaneously attract individuals from the applicant pool who have similar values. When considered from a strategic perspective, organizations could customize compensation systems to help create a culture and attract a workforce that possesses the values, knowledge, skills, and abilities that support the organization's strategic goals and objectives.

To be sure, national laws, particularly tax and welfare regulations, are important forces. Yet logic argues that understanding differences variability within as well as between nations reinforces strategic concerns. Different forms of total compensation into three sets: core, crafted, and choice. It includes any return an organization can offer that employees see as a reward or a return for the contributions they make on the organization's behalf.



Global Compensation Forms

Source: Milkovich, G.T. & Bloom, M. (1998). Rethinking international compensation. *Compensation and Benefits Review*, 30(1), 15-23.

21. Core

The core section of the model includes compensation and reward forms that signal the corporate global mind-set (e.g., creating a performance/customer service culture or a culture of ownership, insuring a basic level of services and benefits). Specific practices may vary according to market and local conditions but must be consistent with the core policies.

22. Crafted

The crafted set of compensation elements assumes that business unit or regional leaders have discretion to choose among a menu of total compensation forms that may be important to gain and sustain advantage in the markets in which they operate. For example, some form of housing assistance (loans, allowances, dormitories) may make sense in Shanghai, whereas in London or Tokyo, transportation assistance may make more sense. A single company with operating units in San Jose and Kuala Lumpur may find that specific elements (e.g., risk sharing, bonuses, language training, and flexible schedules) may be more important in California than in Kuala Lumpur.

The critical focus of the crafted alternatives is to offer operating units the ability to

further customize their total compensation package to achieve their business objectives. This crafted portion is created within the framework of core returns so that it supports and reinforces corporate priorities and culture as well. Thus, managers of R&D units can craft returns to support their goals and satisfy the preferences of scientists, while the sales unit can craft a different set of returns consistent with sales goals and preferences of sales personnel.

23. Choice

Finally, the alternatives in the choice set offer flexibility for employees to select among various forms of total compensation. Analogous to flexible benefits, the choice set shifts the focus of customizing compensation from managers to employees.

Examples here might include opportunities to take educational leaves to become eligible for regional or global assignments.

The choice set recognizes the difficulties in identifying national cultures by taking the notion of customizing to the individual level. Within a total cost framework, employees would be given the opportunity to select from a set of returns those that are of most value to their particular situation.

24. Strategic Flexibility

Strategic flexibility offers managers the opportunity to tailor the total compensation system to fit the context in which they compete within a framework of corporate principles. Additionally, the approach offers some opportunity for employees to select forms of returns that meet their individual needs as well.

Strategic flexibility means that companies achieve advantage by customizing multiple compensation and reward systems. This is already the state of practice in companies operating in multiple markets or employing contingent and core workforces. The art is to avoid the chaos created when multiple systems go off in multiple directions. This results in numerous compensation systems, one for each country in which the company operates. To overcome the chaos, the company must ensure that the multiple deals signal the organization's global mindset and support its strategic priorities.

In global organizations, the business units or regions often have discretion to customize their compensation system within corporate guidelines. For some companies, the strategic flexibility simply draws existing practices under one umbrella. For example, it treats expatriates as simply another group, much like sales

disciplines.

3. Factors affecting Global Compensation

While developing the global compensation and benefit composition, HR must deal with many factors that are not present in a domestic environment. Developing suitable compensation policies to meet organizational strategies, while efficiently accommodating different types of employment terms and conditions, poses many distinctive challenges for global HR practitioners. In order to effectively strike a balance among all the above mentioned influences, the HR professional must be aware of the following:

3.1. Culture

In some areas of the world, job and income security needs command paramount interest over pay-at-risk, so in the pay mix the base salary dominates the variable portion. For example, while China has a very aggressive sales compensation environment, in India there is more interest in base salary and their CTC (cost-to-company) package than variable pay-at-risk compensation.

Cultural differences necessitate understanding that the value of compensation and benefits programs is in “the eye of the beholder”. A benefit highly valued in one country may be comparatively worthless in another. Differences are often rooted in subconscious beliefs, attitudes and values. We recommend that:

3.1.1. Engross local contacts to understand usual and traditional compensation and benefits practices.

3.1.2. Circumvent headquarter biases or imitation of headquarters (HQ) country policies and procedures (for example, paying sales commissions in risk-averse cultures or reward and recognition programs that reward individual contributions in cultures that places greater prominence on team or group contributions or prefer private gratitude).

3.2. Economic

When you're dealing with country-specific inflation rates that range from flat to 20%+, do you really want to offer the same percentage salary increases? What if one country is in the grip of recession (US), while another remains relatively unscathed (Australia)?

Many differences subsist from country to country, in terms of the Influence of politics and power, Distribution of wealth across country's citizenry and Unpredictability of events (i.e., sometimes rapid changes in rates of inflation, currency). We recommend that:

3.2.1. Conduct a risk analysis of economic factors and their consequences.

3.2.2. Recognize that unofficial sources of authority in a community or region and official governmental personnel may have large impact on what is considered acceptable.

3.2.3. Make allowances for local inflation/deflation or currency fluctuations.

3.2.4. Create contingency plans to mitigate the risks associated with probable changes in economic factors.

3.2.5. Contribute to the local area to support educational facilities, internal training, and child care or other local services.

3.3. Taxation

Tax regulations vary extensively from country to country. Some countries have no income tax, while others have income tax in excess of 50%. Some benefits that are taxable in one country are not taxable in the geographically adjacent country or vice-versa. We recommend that:

3.3.1. Comprehend the taxation of cash and non-cash compensation, benefits and perquisites – what is taxed, at what rates and at what levels.

3.3.2. Engage experts in local compensation and benefits laws and practices.

3.3.3. Distinguish that a benefit may be undesirable, depending on how it is taxed.

3.4. Competitive labor market

Companies react to the cost of labor vs. the cost of living. If the market they are in rewards in a certain fashion (pay mix, commission vs. bonus, quarterly vs. annual rewards, etc.), companies who provide a different approach risk lower employee engagement as well as a talent drain.

At a broader level, the compensation and benefits required to magnetize and sustain

talent are determined by the aggressive demand for that talent. However, the nature of the competition for talent may differ across countries and regions, depending on factors such as: Type of talent sought, Geographic scope of the talent market, Industries in which the talent may be found and Mix of remuneration components. We recommend that:

3.4.1. Employ people with similar skills when industry-specific expertise is in short supply or competition is high; retrain or coach the hires on the job.

3.4.2. Lead, lag or match the rates of pay in the relative marketplace based on the skills needed, the demand for required talent and the best way to compensate those types of workers.

3.4.3. Recommend suitable blend of pay and benefits that will appeal to current or potential employees.

35. Laws and Regulations

Laws and regulations impact the remuneration of employees in many areas, such as: Work hours and compulsory time-off (paid and unpaid), Minimum wage, Overtime, Compulsory bonuses, Employment at will and Acquired rights. There are remarkable country-to-country variances as well as some regional differences. We recommend that:

3.5.1. Identify benefits that are government-provided, mandated by the government or chosen by the employee.

3.5.2. Recognize the differences and similarities in each market.

3.5.3. Involve experts in local compensation and benefits laws and regulations.

36. Standardization versus localization

Characteristically, strategies are standardized in keeping with the organizations' overall compensation and benefits philosophy. Definite practices tend to be localized to fit the context of country, regional or local conditions. We recommend that:

Have a long-term program to sustain the organizational compensation philosophy but also mull over local restrictions, tax regimes and culture.

3.7. Collective bargaining, employee representation and government mandates

National unions often dictate pay actions that could reverberate up the hierarchy as companies strive to maintain equitable treatment with their other employees. Works Councils will have their impact as well.

Employees in most parts of the world are protected from actions that impact their wages and employment conditions. Unions play a very strong role in many countries and sometimes include provisions for management as well as employees. Work councils also offer worker protection. We recommend that:

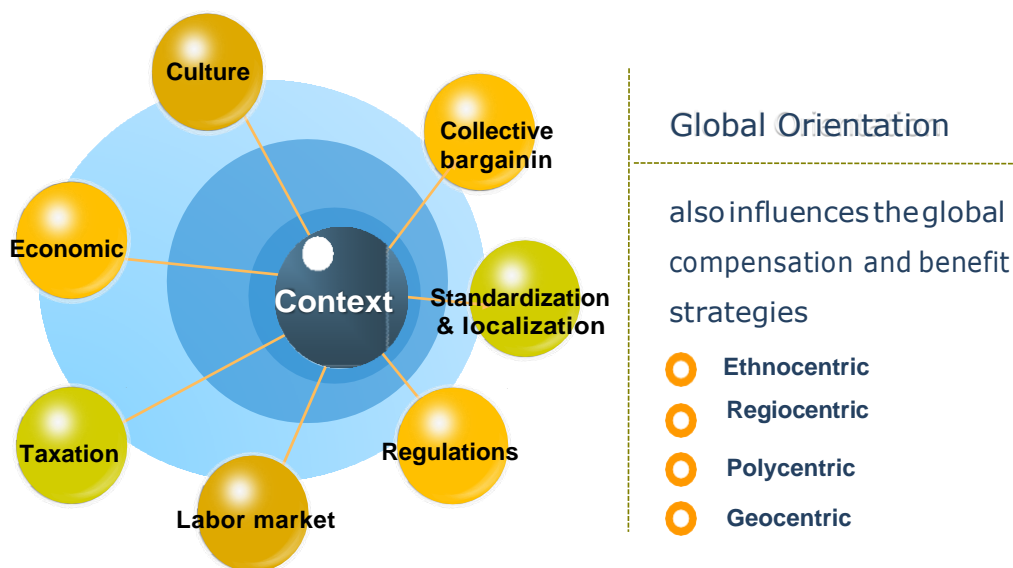
3.7.1. Appreciate the inferences for minimum wages, severance packages and pensions.

3.7.2. Meet requirements of a third-party representation.

3.7.3. Distinguish related government regulations and mandates and industry-wide collective agreements.

3.8. Global Orientation

In addition to above listed factors, the organizational approach to global staffing also influences the compensation and benefit strategies. Relation between global orientation of the organization and its impact on global compensation and strategies is discussed here.



Factors affecting Global C&B and Global Orientation

Source: Gomez-Mejia, L. & Werner, S. (2008). *Global Compensation: Foundations and Perspectives (Global HRM)*. New York: Routledge.

3.8.1. Ethnocentric

Tight control of international operations; little autonomy; key positions held by headquarters (HQ) personnel. This may lead to transfer of headquarters total compensation policies with insufficient contemplation of local legal cultural differences. Dictates to local country management may result in superficial conformity but actual rejection of headquarters practices.

3.8.2. Regiocentric

Operations managed regionally; communication and coordination high within the region and less between regions. There is greater potential for uniformity of remuneration approaches within regions. The proximity of countries may lead to the perception that remuneration practices are more similar than they really are. Also, regional headquarters may suffer blind spots with respect to country differences, leading to ethnocentrism at the regional level.

3.8.3. Polycentric

Subsidiary treated as own entity; local personnel manage operations; few promotions to headquarters. Local cultural and legal compensation norms are more likely to be understood and implemented. Remuneration policies are likely to be steady and incorporated within each subsidiary. Incentives may tend to maximize achievement of local rather than global objectives.

3.8.4. Geocentric

Organization seen as single international enterprise; management talent comes from any location; strategic plan global in orientation. Local compensation strategies are more likely to be consistent with global policies. A desire for too much global consistency can lead to the imposition of inappropriate policies at the local country level. The development of consistent and equitable remuneration policies among global managers may be challenging as top-level managers move from one country to another.

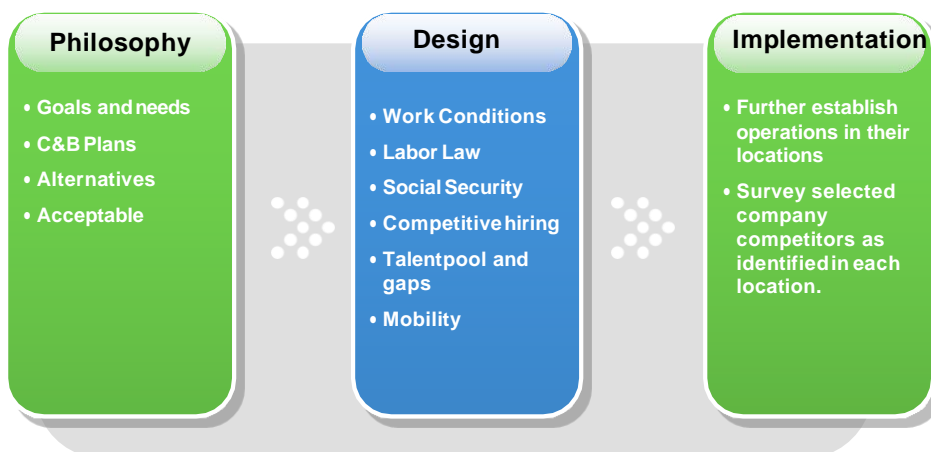
Compensation, including the overall system of rewards – formal and informal –

provides the driving force for effectively attracting, retaining, and encouraging human talent at home and abroad. Important and fundamental practices for managing compensation on a global scale include managing global compensation strategically, considering performance-based pay where appropriate, anticipating the influence of local culture, using a total reward system perspective, and addressing the duality challenge of global integration and localization.

To varying your practices according to country-specific conditions could cause a degree of consternation with the back office staff and their computerized systems. If you force international operating units to convert their practices to an uncommon format and methodology, the result could be more than just confusion and local administrative difficulties. It could also mean the greater likelihood of overpayments in some quarters while paying less in others – all for the sake of sameness and common report generation. This would result in a combination of hurting employees while also hurting the business. Remember that ease of administration is rarely an effective rationale for making good business decisions.

4. Global Compensation Planning

The most effective strategy to achieving both short- and long-term objectives of a global compensation planning is of a two-pronged service structure: First, company should appoint a "home" country international human resources (IHR) contact who is responsible for overall service delivery of HR programs to the company while coordinating efforts on a global basis. The advantage of this approach is that the company has a single focal point of contact for all global HR requirements.



Three Phases of Global Compensation Planning

Krupp, K. (2002). Global Compensation Planning: Establishing and Maintaining a

Competitive Edge in the international Marketplace. Compensation & Benefits Management, Spring, 54-56.

Second, to complement home country efforts, the company should identify a local "host" country HR consultant at each location who is accountable for the delivery of results. This individual will coordinate local efforts for the company operations and be available locally on a day-to-day basis for advice and problem resolution.

Establishing a strong overseas presence typically encompasses three phases:

4.1. Phase One: Philosophy

In the phase, activities center around four main objectives:

4.1.1. Understanding strategic global/regional/local goals and needs.

4.1.2. Addressing global compensation and benefits plans.

4.1.3. Considering program alternatives.

4.1.4. Determining how to implement programs that are culturally acceptable yet competitive blending global strategies with local practices

4.2. Phase Two: Design

The design phase has two major components:

4.2.1. Determining

Employment and working conditions.

Labor laws and contracts of employment.

Statutory and social security benefits.

Competitive hiring practices.

Existing talent pool and gaps.

Mobility of local workforce

4.1.2. Detailing or discussing

Economic trends.

Compensation guidelines.

Other legal requirements.

Employment costs.

Global payroll options

4.3. Phase Three: implementation

In this stage, IHR professionals work within their company to:

4.3.1. Further establish operations in their locations based on information gathered in the design phase—recruiting, hiring, compensating, incenting, paying, and administering company local national employees.

4.3.2. Survey selected company competitors as identified in each location. Then, based on survey data, form recommendations of best practices and complete a “total” compensation/benefits study of these positions in each country.

5. **Global Compensation Approaches**

MNEs (Multi-National Enterprises) often create two classifications — local and international with regard to compensation. All local nationals above a certain level are placed on the headquarters scale, with salaries that are at least partially performance based. The rest of the employees are paid on a local scale. Practices can vary enough so as to make this strategy difficult to implement and may lead to two common problems for host country nationals in the subsidiaries.

The first problem relates to a possible in-country gap in compensation between the highest and lowest paid employee. In most Western countries, there is typically a fairly constant differential between job classifications. (e.g., there is typically about a 15 percent increase in salary from job class to job class, and this tends to be the case across all job classifications). In many developing countries and emerging markets, where there tends to be more unskilled labor, it is common to have low pay at all of the lower job classifications, with very little differential between them and then a major jump in compensation only at the upper few classifications. This creates a situation where there can be a much greater ratio between top management and lower level employees than would be the case for the typical Western, or other

developed-country, MNE workforce.

The second problem relates to the gap in executive compensation of the senior managers of the MNE between countries. A study comparing the total compensation of CEOs in 12 different OECD countries found that US executive compensation is the highest, followed by the UK. Japan has the lowest executive compensation and Continental European is somewhere in between. In addition, the proportions of base compensation (including bonus), long-term compensation, and all benefits/perquisites of executives are also wide ranging, indicating that executive compensation practices are contextual in terms of practices and taxation.

MNE must examine its compensation and benefit programs among its foreign employees at each and all of its foreign operations. The greater the number of foreign subsidiaries and joint ventures and the greater the number of countries within which the MNE operates, the greater will be the problems associated with establishing, monitoring, and controlling compensation programs on a worldwide basis.

A number of different options (for establishing a worldwide compensation system) have been used by various MNEs. These include basing global employees' compensation on:

5.1. Headquarters (HQ) scale

Worldwide salary levels are established at HQ with differentials for each affiliate subsidiary according to the local cost of living. This option is usually reserved for managers and executives.

5.2. Salary scale based on location

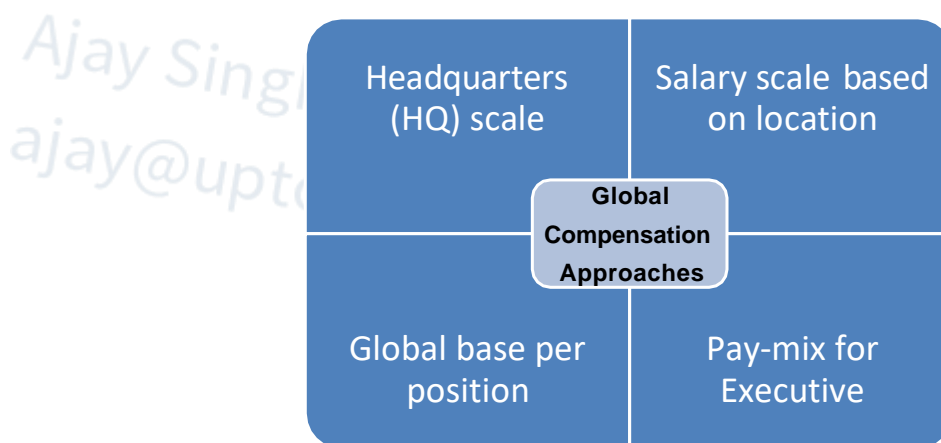
Wages or salary levels are based on location-the local scale and norms. This option is primarily for the broader base of employees and usually excludes executives and globally mobile employees.

5.3. Global base per position

A form of equal pay for equal work exists on a worldwide basis, with possible differentials for locations. Typically, this option is used when there is a global labor market for the type of talent sought.

5.4. Pay-mix for Executive

In a truly global organization, the ideal structure would be a single executive compensation program applied worldwide. However, wide variations in costs of living, tax liabilities, mandated benefits, standard of living, etc., among the countries of the world make such an arrangement virtually impossible. To achieve the "global link" between its executives, most organizations now have a consistent long-term incentive program. However, for practical reasons, salary and short-term incentives are linked to a local-based system.



Four Approaches of Global Compensation

Source: Briscoe, D., Schuler, R., & Tarique, I. (2012). International Human Resource Management: Policies and Practices for Multinational Enterprises; 4 edition, (Global HRM).

5.5. Qualitative Parity and Quantitative Parity

One approach to a global benefit program suggests that the MNE develop both qualitative parity and quantitative parity.

5.5.1. Qualitative Parity

Qualitative parity is a commitment to offer something from each core category of benefit to every employee worldwide. This would include:

Core benefits, a basic item that the company commits to making available to all

employees worldwide, such as a certain level of health care.

Required benefits, a compensation item or non-cash benefit required by local law.

Recommended benefits, a less essential compensation or benefit program to be made available wherever cost considerations permit, such as life insurance.

Optional benefits, a non-essential compensation item to be made available if it is a competitive practice in the local marketplace, such as local transportation or meal support.

5.5.2. Quantitative Parity

The use of qualitative parity is one component of a firm's global benefit approach that provides a means of making a commitment to the entire workforce while still preserving local variations in pay for the less skilled and less mobile employees.

Implementing a program of quantitative equity is usually done only for key global executives. After the elimination of all justifiable differences, any remaining variations are, by exclusion, vestiges of the old system that should be methodically smoothed out. Through eliminating over time the differences that came from different countries' approaches and from the uncoordinated approach to compensation, what is left is a process that assures executives that they are being compensated for their skills, abilities, and contributions – rather than for their choice of address.

However, even the best global compensation program will not eliminate future claims by employees of perceived continued inequity. That is because variations in local labor laws, tax systems, and the cost of living will ensure that dissimilar programs and varying gross pay levels will continue to be a fact of life in a global organization.

The goal, though, of a global compensation system is not to eliminate employees' questions about compensation, but rather to remove the de-motivational impact of inexplicable variations in compensation across borders. Designing a global compensation program in this way can enable IHR to create a working environment that hopefully will retain good employees and keep them focused on performance.

One major problem that arises is the establishment of host-country nationals' salaries on some form of consistent yet global basis. The solution often is to create two classifications – local and international. All local nationals above a certain classification level are placed on the headquarters scale, with salaries that are then

performance-based.

In most developed countries, there is typically a fairly constant differential between job classifications, i.e., there is typically about a 15 percent increase in salary from job class to job class, and this tends to be the case across all job classifications. In many developing countries, where there tend to be many people with low levels of education and training and few with high levels of education, it is common to have low pay at all of the lower job classifications, with very little differential between them and then a major jump in compensation only at the upper few classifications. This creates a situation where there can be a much greater ratio between top management and lower-level employees, such as between the top manager and his/her secretary, than would be the case in the typical US-based, or other developed country, parent-country MNE workforce. Not only is there great disparity between wage rates and salary levels in different countries, but it is also difficult to get reliable data on what those rates and levels are.

6. Global Grading System

As a company matures and expands its global footprint, the approach it takes for organizing its workforce will have a lasting cultural and financial impact. Organizational structure and design affects every aspect of a business, including talent mobility, compensation programs and even the speed of innovation. When headcount grows, it quickly becomes incumbent upon companies to find effective ways to organize jobs into job families where similar work is performed. A solid approach to job evaluation (also called job leveling) translates into better communication with employees, more clearly defined career paths, and salary structures with greater market alignment, among many other benefits. Job evaluation is a structure that has articulated career paths for various job families and which can support a global organization. However, this system is underpinned by job architecture, which is a method of organizing jobs into job codes, job titles and functional areas all before assigning a grade level.

6.1. Job leveling

Job leveling is a process of determining the relative worth of a job within an organization and accordingly aims at:

6.1.1. Reducing inequalities in salary structure by bringing about external and internal consistency in salary further motivating employees within an organization.

6.1.2. Enabling structured approach to division of labor or specialization by defining specific jobs and salary levels.

6.1.3. Helping in selecting employees by defining jobs and responsibilities.

6.1.4. Developing harmonious relationship between employer and employees to avoid any conflicts on salaries.

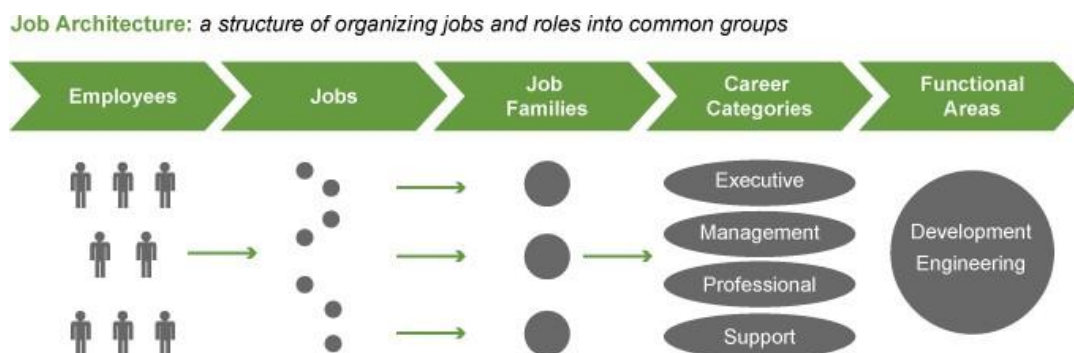
6.1.5. Creating standardization by determining salary differentials for different jobs further helping to bring about uniformity into salary structure.

6.1.6. Generating relevance and relative value to new jobs.



6.2. Job architecture

A job architecture model combines job leveling structures with career paths and job families! job functions to provide a comprehensive platform for supporting global growth across an organization.



Source: radford.aon.com

63. Career Ladders within job leveling

Global job grading approach recognizes this organizational reality by aligning job levels with both the internal value companies place on individual contributor positions relative to managerial positions, as well as the value the market places on each type of job. The system combines individual contributors and managers into global grades where market pay suggests equivalence. Below is an example of how different job families are graded and grouped into two tracks—one for management and one for individual contributor.

Sample Career Ladders within a Global Job Leveling System

Business Leadership	Executive	Management	7	Vice President	Professional	6	Principal		
	Grade 11		6	Sr. Director					
	Grade 10		5	Director					
Management and Professional	Grade 9		4	Sr. Manager				5	Expert
	Grade 8		3	Manager				4	Advanced
	Grade 7		2	Sr. Supervisor				3	Career
	Grade 6		1	Supervisor				2	Developing
Entry Level and Support	Grade 5			1	Entry	Support	5	Specialist	
	Grade 4						4	Highly Skilled	
	Grade 3						3	Senior	
	Grade 2						2	Intermediate	
							1	Entry	

Source: radford.aon.com

An increasing number of multinational companies are using global leveling systems as a way to determine eligibility for all manner of compensation and benefits programs, not just for setting base salary levels. Global levels can be used to determine a position's bonus eligibility, bonus target and equity grant guidelines. While regional differences in pay levels exist, the global leveling system enables a company to be consistent in its determination of program eligibility by considering the internal equity of the positions in a given grade and then letting market practices dictate actual compensation levels.

7. Remuneration Surveys

As discussed earlier, Job evaluation which is considered to determine the relative worth of a job within an organization focuses on internal equity of compensation. Now we would then talk about external competitiveness which can be analyzed by up-to date Remuneration survey.

Remuneration surveys collect information on prevailing market compensation and benefit practices, including base pay, other cash payments (statutory and market), variable compensation (e.g., short- and long-term incentive plans), and time off. Remuneration surveys allow organizations to recognize and relate their remuneration structures to global and local trends.

7.1 Purposes of Remuneration Surveys

7.1.1. Adjust the pay level in response to changing rates paid by competitors.

7.1.2. Set the mix of pay forms relative to that paid by competitors.

7.1.3. Establish or price a pay structure.

7.1.4. Analyze pay-related problems.

7.1.5. Estimate the labor costs of product/service market competitors

7.2 Market Select

To determine the prevailing rate for a job, companies can "benchmark" jobs against compensation surveys that are detailed and specific to the companies' industries and regions. A good compensation survey uses standard, proven methods of data gathering and statistical analysis to determine how much companies pay for a specific job in a specific industry. Match your job descriptions to the descriptions in the salary survey. Only match those which strongly resemble the survey description. Not all positions in your organization will match descriptions in the survey. Relevant labor market includes employers who compete:

7.2.1. For same occupations or skills.

7.2.2. For employees in same geographic area.

7.2.3. With same products and services

7.3. Data Collect

Once an organization decides that it needs a remuneration survey, it must decide how the survey should be designed and conducted. The organization has two choices: It may develop and conduct an internal survey, or it may look to an external source. In the global environment, the use of external third-party data prevails.

There are many sources for global and country-specific compensation and benefits data. Typical sources include:

7.3.1. Government sources (e.g., ministries of labor or government statistical offices).

7.3.2. International organizations (e.g., the International Labor Organization).

7.3.3. Private firms (e.g., consulting organizations around the world that provide current global and local information for a fee).

7.3.4. Membership-based business organizations (e.g., employer federations and local chambers of commerce).

7.3.5. Professional, trade, and industrial associations.

Here are some considerations to weigh for a company who is deciding whether to purchase a compensation survey.

- **The background of the survey research firm and cosponsors, if any.** Look for reputable firms that follow proven methods to gather and analyze compensation data.
- **The scope of the survey.** Look for studies that cover industries, jobs, and regions that are most applicable to your purposes; and that provide data on enough jobs to be cost-effective.
- **The survey methodology.** Review the summary of the methodology to make sure it's consistent with standards set forth by reputable industry associations. Be especially sure the research organization is surveying human resource professionals or other people knowledgeable about compensation information within a company, rather than individuals.
- **The number of participants in the survey.** A good survey should cover a representative number of companies for its target population. A survey doesn't have to cover the entire industry or region to be robust; even a few dozen

responding employers in some industries can provide enough data for a valid survey.

- **The names of participants.** Look for your competitors and peers. For many jobs, you may be competing for candidates with companies in different industries but the same geographic area. Some firms reveal a list of participants, or at least those well known within the industry. The surveying company may disclose big-name participants to draw more interest from smaller companies. A list of major employers can also add credibility to the survey. An important exception to note is that if a compensation analyst or compensation consulting firm is using multiple surveys to produce their own derivative market numbers, they will aggregate the data by combining the surveys, placing differing weight on different sources and sometimes even making a qualitative adjustment. When the data has been aggregated in this manner, it is not customary to report numbers or names of participants. The usefulness and relevance of a salary survey depends largely on the survey participants.
- **The number of incumbents covered by the survey; and the sample size for each salary.** Make sure the participants are a good sample of the recruiting market. Generally, eight to ten participating companies is a good sample for positions below the management level. The sample size should increase the more senior the positions being surveyed, both to get a good representation and to allow for more job matches, since each company is organized differently. There could be limited pay data in some industries, or the available data might not be representative of the industry because of a low participation rate in the survey.
- **The relevance of the job descriptions to the positions being benchmarked.** Look for a good match between the survey and your company. Be sure to compare job descriptions, not just job titles.
- **The effective date of the survey data.** The date a survey is published is always later than the effective date of the data within the survey. If necessary, age the data from the effective date to the current month.

As with any form of research, it is important to use multiple data sources to narrow in on the "true" answer. Relying on a single source can be misleading if that source doesn't perfectly reflect the market in question. WorldatWork suggests that compensation analysts should use multiple data sources wherever possible; consulting firms and academics agree. The exceptions come when there is only one data source, or when there is a spot-on data source, such as a custom survey, that truly describes a precise market.

7.4. Data Analysis

7.4.1. Effective Date

For those surveys conducted on a regular basis, such as annual surveys, the effective date will be until the next survey is released in the following year. Otherwise, knowing the effective date of the survey can prevent companies from using outdated salary figures and causing error in pay budget forecasts.

If the survey is not current, the person using it should age the salaries to the current date. If a survey was conducted in September, the salaries are likely to be as of September or even August. If you are using the survey in December to benchmark for a new position in the company, you will have to age the number. A simple way to do this is to take the annual rate at which salaries are moving for this job and prorate it, salary increases overall this year are around 3.5% but this may vary by job title.

A similar approach is used in setting pay levels across a company. Sometimes these figures are set at the beginning, middle, or end of the company's payroll year by aging the appropriate compensation data to those dates. When salary data is aged, movement in market rates is used to adjust outdated data.

7.4.2. Job Description

If a job on a survey is similar but not identical to one in the organization, the data can be weighted or leveled for a better match. Therefore, conducting job analysis or reviewing job descriptions is important for job matching.

When consulting a compensation survey, match the job descriptions rather than the job titles, even if the survey uses generic or widely used job titles. For example, an associate could be an entry-level position at one consulting firm, or it could be the title for someone with an MBA at another. Companies are structured differently, and different companies use different names for the same jobs, so job descriptions are the best way to match positions. Beware of surveys that use only job titles, as it is unlikely the data will be a reasonable representation of the jobs you're interested in.

A survey job description should list the primary job function in one or two sentences, followed by key responsibilities. While the descriptions should be generic and not specific to any one company, they should contain enough information for participants to match appropriately to ensure the data is accurate. It is also important to match the organizational level of the positions to be surveyed. A position that is at the group

level at one company may be at the subgroup or the sector level at another.

Job titles are broken down differently in different surveys. Some surveys break them down by levels within the organizations, i.e., senior management, middle management, and entry level. Positions may also be broken down by job families or the types of responsibilities, i.e., business development, marketing, product management, and sales.

7.4.3. Geographic area

Some salary surveys do not provide data for a specific geographic area since wage rates will vary by location, and organization should factor for geography any national salary survey data for the local or regional recruiting area to approximate local wage rates.

7.4.4. Compensation data.

There are many things to consider when analyzing the compensation components of a salary survey. Because companies have different pay structures, compensation data is collected in ranges as well as actual pay. Salary surveys can provide employers more information on the marketplace and how to set competitive pay without overpaying or underpaying employees. Surveys should ask for the minimum, midpoint, and maximum for the surveyed positions, in addition to the actual base salary paid.

Usually, the prevailing practice for any one job is to pay a range of incomes. As a result, although the median pay for a job is likely to be a definable number, the range is just as important. Companies pay employees differently for various reasons. It could be the company's pay philosophy; or it could be the geographic location or the industry practice; or it could be the incumbent's length of service or proficiency in the job. Whatever the reason, it is unlikely that two companies will pay an employee doing the same job exactly the same amount.

When reading the base pay figures, it's important to check how the numbers are calculated. The surveying parties can dictate to the participants how the numbers should be reported. Salaries can be on an annual, monthly, or hourly basis. For example, if the incumbent is a contract employee, hourly salaries are more relevant than an annual figure. The survey may request pay data for individual incumbents or averages for all incumbents matching a specific job description, depending on the types of surveys and their objectives.

8. Global Pay Structure

When a company has planned to expand into new countries, it is necessary to establish a global pay (salary) structure. With all the different economic situation, cultures and exchange rates, it is difficult to come up with one structure that works everywhere. In the following, we will introduce more details with regard to pay structure. There are several terms and definitions to acknowledge first:

8.1. Terms and Definitions

8.1.1. Policy Line

A job structure orders jobs on the basis of internal organizational factors. The pay structure, on the other hand, is anchored by the organization's external competitive position, reflected its pay policy line.

The pay level that a company sets its pay at compared to the market pay line, typically the midpoint of the pay structure is set to judge the going market rate. In building pay structure scientifically, the line is a statistically computed least-squares-regression line.

8.1.2. Pay Grades

Pay grades are used to group jobs that have approximately the same relative internal or external worth; in other words, all jobs within a particular grade are paid the same rate or within the same pay range. Grades enhance an organization's ability to move people among jobs with no change in pay.

3.1.3. Pay Range

Pay range typically means high to low or minimum to maximum pay for a certain job grade. The range midpoints, minimums, and maximums reflect career paths, promotions, and other management systems and philosophy within the organization. The differential must be large enough to induce employees to seek and/or accept the promotion or to undertake the necessary training required.

Range spread subtracts the minimum amount from the range maximum and then divides that figure by the minimum. In general, lower-level jobs typically have a narrow range between minimum and maximum salaries, while the salary ranges for higher-level jobs will be wider. People in entry-level jobs have more promotion possibilities and tend to stay at the entry level for shorter periods of time, while

people in higher-level jobs tend to stay in their range for a longer period of time.

Range overlap in salary ranges that will allow career development and pay increases without promotion at each level and the percentage of increase the organization will offer an employee for a promotion.

Overlap = $(\text{max rate of lower grade} - \text{min rate of higher grade}) / (\text{max rate of higher grade} - \text{min rate of higher grade})$

3.1.4. Compa-ratios (CP)

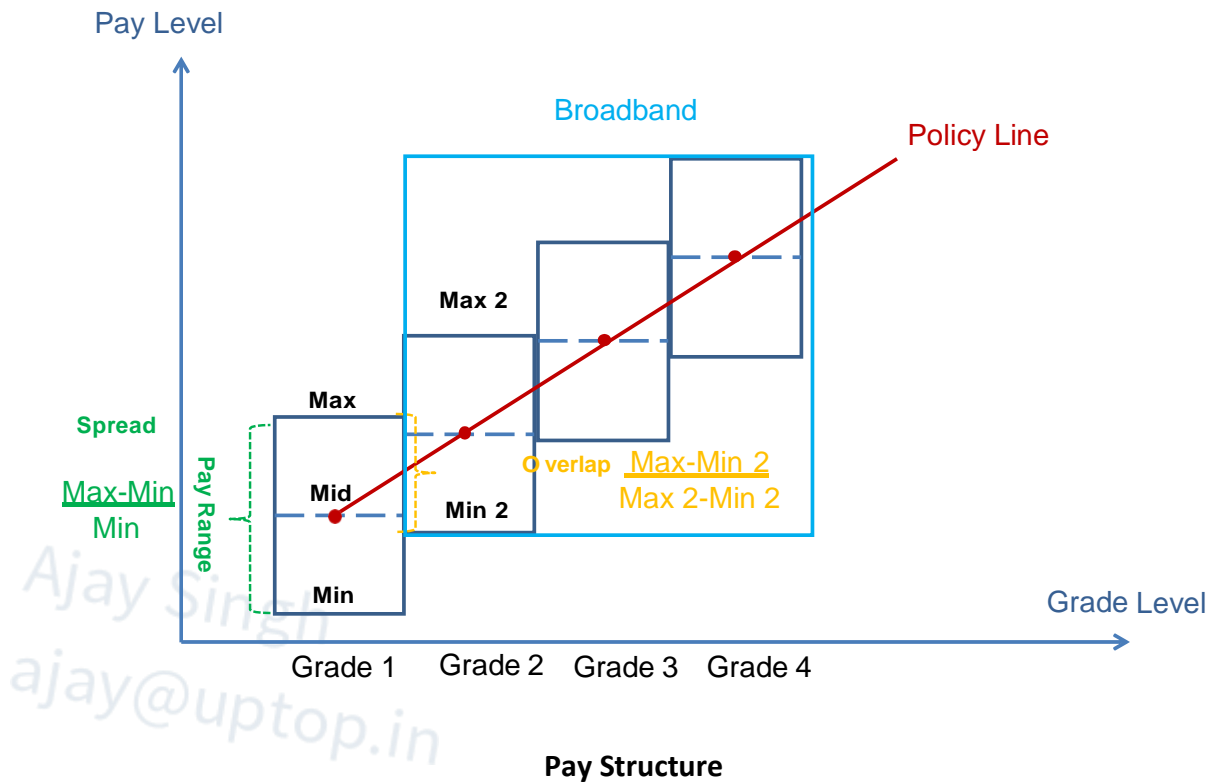
CP is a salary expressed as a percentage of or indexed to the salary range midpoint/market rate (salary/midpoint or market rate = CP). The CP may be used as an indicator of how an individual is doing against plan.

3.1.5. Broad banding

Broad banding, called fat grades, means collapsing pay grades and ranges into just a few wide levels or a band, which includes one minimum and one maximum range, while midpoint often not used. The purposes of using broad banding as follow:

- Provide flexibility to define job responsibilities more broadly.
- Foster cross-functional growth and development.
- Ease mergers and acquisitions.

The most important difference between grades and broad banding is where the controls are located.



82. Global Salary Grades

Global Salary Grades refers to a standardized method of classifying positions across a global enterprise. Alternative titles would be global bands or global job evaluation. Employers often adopt global salary grades to enable internal comparisons and standardize certain elements of compensation and benefits, such as short- and long-term incentives. For example, global salary grades help answer the question “is the Brand Manager position in Greece equivalent to the Associate Brand Manager in France or the Marketing Manager in Kenya?” Or, all staff in band C or higher are eligible for equity compensation awards.

Salary Structure is the term used to refer to the salary ranges associated with salary grades. A Global Salary Structure, by its very name, would imply a single structure for all locations globally. Sometimes you may also see this referenced as an international salary range. Some companies use a global salary structure to manage a cadre of international assignees (usually based on the headquarters market). International organizations such as the World Bank and the United Nations, and many international NGOs, use international salary structures in managing their international (expatriate) staff as well. But it would be very unusual to have a global salary structure applicable to all staff in an organization.

If you are managing a global enterprise, global grades can be very useful in several respects. In addition to the examples above allowing comparison of equivalent positions across different markets with varying titles, and standardization of executive compensation programs, global grades allow the organization to establish leading talent management processes. The global grades will help establish competencies and career tracks, and the related training and development that is required to train future leaders. Global grades also help companies manage succession planning more easily, by providing a common language to describe the challenges and complexities of an individual position.

83. Global Pay Structure

Salary structures are a very useful tool for all organizations. They help ensure consistency and avoid discrimination, control costs, and together with a strong performance management process, allow managers to differentiate between different positions and varying levels of performance amongst the team. Each country is a different market, however, and therefore, you need to build your structure separately for each one. Market data plays a key role here, since the structure must be anchored to the market in which you are competing for talent.

In the end, if you design a global grading system with local pay structures, you'll get it right. The grades will give you global consistency while the structures will be tailored to the local market, guided by your global compensation philosophy, which provides standards for each country to meet.

A salary structure is commonly used by employers to set out the range of pay, from minimum to maximum, associated with each salary grade or band. By associating each position with a grade or band, employers can use a salary structure to help manage compensation in an optimal way.

Here are ten steps to develop a salary structure for your organization, with some special considerations for international developing markets:

8.3.1. Establish your compensation philosophy

Each employer needs a policy which outlines their desired market position. What percentile of the market is your target? Which comparators are appropriate? Is the target the same for all grades? A well-articulated compensation policy provides valuable guidance for the development of a pay structure. In large organizations, there is often a corporate policy which forms the basis for local policies.

8.3.2. Gather market data

Identify surveys with your desired comparators (as specified in your company policy). Most employers prefer at least two survey sources. In international markets this can be challenging, especially in developing countries and smaller markets. Consider sector-specific surveys as well as multi-sector options – certain jobs are found across many employers, not just your sector. In smaller international markets, leading employers often provide a better proxy for the most competitive market than do sector surveys with many less sophisticated employers. Don't overlook international organizations; they pay very competitively and are often well-established in the smallest of countries.

8.3.3. Identify benchmark jobs

Benchmark jobs are those that are representative of roles found across many organizations – standard roles such as Manager, Accountant, Payroll Administrator, Secretary, Clerk and Driver. Benchmark jobs are easy to understand and match to, and will appear in multiple surveys, enabling the use of multiple sources. For professional roles specific to your sector, sector surveys could be a good source. In other cases, and with multi-sector survey sources, look for those that utilize well-developed career ladders, enabling easy cross-occupational job matching. As an example, such an approach would examine Analyst positions across different functional areas (e.g., finance, HR, procurement, marketing, etc.).

8.3.4. Measure your market position

There are several ways to do this. If you have a lot of benchmark jobs, tabulate the average of all of the roles in the same internal level or grade. Weighted averages incorporating number of incumbents associated with each survey data point is a common approach. Select the market reference from the survey most appropriate under your policy. In developing countries market data is more volatile. A good approach is to use minimum and maximum values to “bookend” the data in these markets. This helps eliminate outliers and capture more realistic market survey values.

8.3.5. Calculate the compa-ratio

Calculate the compa-ratio. This is the ratio of your data to the market — 100 means fully comparable, while a ratio under 100 indicates a below market position, and over 100, above market. There are different approaches to summarizing the data — by

position, by grade, etc. Whatever approach you use, the compa-ratio analysis will illustrate which parts of the organization are competitive against the market and which ones require some attention!

8.3.6. Check your budget

This is a critical step. In 8.2.5., you can calculate the average difference between your current scale and the market. This indicates about how much of an increase would be required to make your scales fully comparable to the market. Your internal budget constraints, though, will dictate how close to this ideal you can achieve. In addition to internal budgets, consider the average market movement in your surveys, and the general inflation rates (never use inflation to determine how much more to pay staff—this is determined by cost of labor, not cost of living).

8.3.7. Start allocating

This is the start of an exercise which will repeat many times, until you get the desired result. Build a model of your organization, ideally with the number of incumbents in each grade. Using your overall percentage of market and budget number, start increasing your scale (use Mid points, or the Mins and Maxs). See how close you can get to fully comparable to the market, and how much it will cost. Does it jive? If not, tweak the data a bit. You can adjust the percentage each grade is increased, as well as examine the spans (range from min to max) and inter-grade differentials, in order to gain better market alignment. Obviously, the incumbent count of each grade will impact the overall costing model.

8.3.8. Final adjustments

Once you have built your new scale and matched it to the market as closely as possible, and within your budget, give it a once over. Does it make sense? Are the increase amounts distributed in a pattern which will cause unrest amongst your staff? Strive to achieve a scale which will reflect your comp policy and enhance internal cohesion in the organization. This step is the art of compensation, not the science.

8.3.9. Management approval

Review your proposed scale with management, presenting your rationale, budget and overall market comparisons. Discuss concerns you may have uncovered about specific positions or grades, and educate your management about the process used. Outline your implementation plans.

8.3.10. Communicate

Develop appropriate communications for managers and staff. Let them know all of the work that went in to the exercise, and how the organization compares to the market. Be careful here—you need to obviously put on a positive spin—that's why statistics are so flexible!

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Part Two: International Assignment Package

1. Objectives of Expat Compensation

Designing a pay system is always a challenging process, but doing so in multinational corporations (MNCs) is particularly complex and difficult. A set of situational factors not normally encountered in a strictly domestic situation must be taken into account when designing the compensation package of an expatriate. For example, the nationality of the individual, their family situation (number and ages of their children, work situation of the spouse), floating exchange rates, differences in living costs, taxes and inflation rates, the need to reconcile home and host-country laws and regulations for compensation and benefits, and the geographically imposed problems of communication and control are all of great importance. These issues increase the complexity of the situation, and the information needed as regards the individual and his/her destination. In addition to these situational factors, there are a number of objectives that must be incorporated in the design of expatriates' pay packages

- To attract personnel in the areas where the multinational has its greatest needs and opportunities
- To facilitate the transfer of international employees in the most cost-effective manner
- To be consistent and fair in the treatment of all its employees,
- To facilitate re-entry into the home country at the end of the foreign assignment
- To contribute to organizational strategy (that is, to support organizational goals, foster corporate culture and help motivate employees to contribute their efforts to further organizational success).

Attracting personnel to international service by offering generous compensation packages is a widespread practice in many MNCs. This initiative is designed to break the frequent barriers to international mobility. In addition to family and personal issues (such as the growing unwillingness to disrupt the education of children and the growing importance of quality of life considerations), and the continued uncertainty regarding international terrorism and political and social unrest of certain destinations, it is well documented that the career implications of international assignments are often frustrating. A lack of respect for acquired skills, loss of status and reverse culture shock upon return are recurring problems in many companies. Because of these barriers, a logical way of encouraging individuals to accept a foreign assignment is to provide generous compensation packages for expatriates.

Yet this way of attracting individuals to the international service may conflict with other objectives of the system. Firstly, it leads to costly assignments. This, in turn, puts an economic strain on the company, and finally leads it to reduce the costs of assignments, in an attempt to save money.

In doing so, the company might also reduce the pool of qualified candidates, thereby making the recruitment process all the more difficult. Thus there is tension in the achievement of the first two objectives of the system. Second, it might also conflict with the repatriation objective. The incentives and allowances designed to encourage employees to take up a foreign assignment are not sustained when the expatriate return home, leading to a substantial loss of income.

In fact, such a loss of income is cited as one of the main difficulties upon return. In other words, a less attractive pay package facilitates re-entry but reduces the ability of the company to attract employees for the international service. Finally, the generous incentives designed to help attract overseas employment have the side-effect of creating large pay gaps between expatriates and local employees. The less fortunate position of the local employees relative to that of the expatriate may damage their perceptions of the company's procedural and distributive justice, thus failing to achieve the objective of fairness.

As in many other areas of human resources, the compensation policy for multinational expatriates is bound to confront various dilemmas and conflicts. For example, the company faces the potential conflict of maintaining some form of internal equity while providing sufficient incentive to attract and motivate overseas assignees. There is no magic formula that can solve these dilemmas, and so one should be wary of those who present this area of management as a science, with which one can limit oneself to applying technical solutions.

2. Approaches of Expat Compensation

Bearing in mind the situational factors and objectives outlined above, the MNCs have a number of ways to deal with the retribution of expatriates. Each way reflects the MNCs' priorities when paying expatriates. Three main approaches, each with its strengths and weaknesses in achieving the five objectives (see the below Table), have been developed.

Retribution approaches and their Impact on compensation objectives

Objectives	Retribution approach		
	Host Country	Home country	Global
1. Attract talent	-	+	+
2. Cost effective	+	-	-
3. Be fair			
with respect to local employees	+	-	-
with respect to other expats from a different nationality in the same location	+	-	+
with respect to other expats in another locations	-	+	+
4. Facilitate re-entry	-	+	-
5. Support the corporate strategy	0	0	0

+ positive impact, - negative impact, 0 irrelevant

2.1. Host-Country Approach

The first is the host-country approach. The main intention of this approach is to fit the expatriate into the assignment location salary structure. This approach is satisfactory when a number of eligible candidates for the particular position have a personal interest in living abroad, and so a local salary does not seem unattractive. In addition to reducing costs, this approach helps to create a sense of equity between expatriates and local employees, since nobody feels underprivileged. However, this method only has limited use in motivating international mobility, as worldwide variations and the consequent inconsistencies may inhibit the transfer of expatriates. This approach is usually adopted when the expatriate has become replaceable by a local hire but wants to remain abroad for personal reasons.

2.2. Global Approach

The second is the global approach. The intention is to pay on an international scale, with allowances derived from that base. An international basket of goods would be used across all expatriates regardless of country of origin. This approach is most relevant in the case of expatriates who are expected to move to more than one foreign country, thereby losing direct connection with either their home country or their host country grading and pay structure. The high costs and difficulties of re-entry are often mentioned as the main shortfalls of this system.

2.3. Home-Country Approach

The third is the home-country approach. The idea of this approach is to provide the

expatriate with equivalent purchasing power abroad in order to maintain his/her standard of living in his/her home country. This is consistent with the so-called balance sheet approach. This system applies home country deductions and pays differential allowances (cost of living differential, housing allowance) to arrive at net disposable income which should maintain the expatriate's home country standard of living.

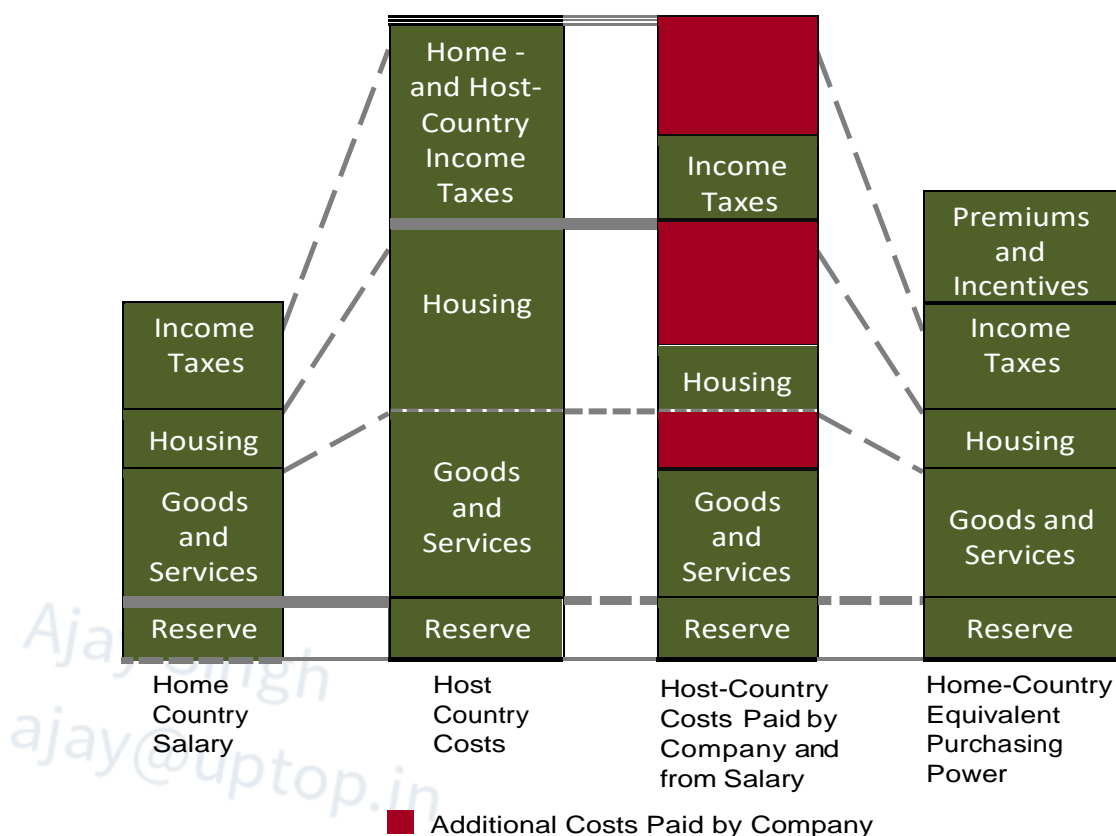
3. Balance Sheet Approach

To date, most companies compensate their expatriates based on either a home- or host-country philosophy as discussed above. The home-based balance sheet approach is used by most firms, particularly in situations where the expat is opening new markets and new operations, transferring technology, and training local staff.

This home country based approach equalizes purchasing power across countries so employees can enjoy the same living standard in their foreign posting that they enjoyed at home. In addition, the approach provides financial incentives to offset qualitative differences between assignment locations.

The figure shows a typical balance sheet. Note that home-country outlays for the employee are designated as income taxes, housing expenses, expenditures for goods and services (food, clothing, entertainment, etc.), and reserves (savings, pension contributions, etc.). The balance sheet approach attempts to provide expatriates with the same standard of living in their host countries as they enjoy at home plus a financial inducement (i.e., premium, incentive) for accepting an overseas assignment.

The balance sheet approach to determination of an expat's compensation (which is still pretty much customized, in most firms, for each expatriate, although there will be standardized options) begins with the employee's existing parent-company compensation (salary, benefits, and any other forms of monetary or non-monetary remuneration). To this is added two other components: a series of incentives to accept and enjoy the foreign posting and a series of equalization components that ensure the expatriate does not suffer from foreign-country differences in salary or benefits. Interestingly, today, even with pressure to reduce the high cost of expat compensation, most MNEs still find it necessary to provide significant incentives to encourage potential assignees to accept foreign postings.



A Typical Balance Sheet

Source: Reynolds, C. (1986). "Compensation of Overseas Personnel," in Handbook of Human Resource Administration, 2nd ed., ed. J. J. Famularo, pp.47-61. New York (USA): McGraw-Hill.

As argued by scholars regarding expatriate compensation practices, such adjustments are made using the 'no loss' approach: expatriate compensation is adjusted upward for higher costs of living, but is not adjusted downward if the cost of living in the host country is less than in the home country.

The components of the typical expatriate compensation package are a base salary, a foreign service premium, allowances of various types, tax differentials, and benefits. We shall briefly review each of these components. An expatriate's total compensation package may amount to three times what he or she would cost the firm in a home-country posting. Because of the high cost of expatriates, many firms have reduced their use of them in recent years. However, a firm's ability to reduce its use of expatriates may be limited, particularly if it is pursuing an ethnocentric or geocentric staffing policy.

3.1. Base Salary

An expatriate's base salary is normally in the same range as the base salary for a similar position in the home country. The base salary is normally paid in either the home-country currency or in the local currency.

3.2. Foreign Service Premium

A foreign service premium is extra pay the expatriate receives for working outside his or her country of origin. It is offered as an inducement to accept foreign postings. It compensates the expatriate for having to live in an unfamiliar country isolated from family and friends, having to deal with a new culture and language, and having to adapt new work habits and practices. Many firms pay foreign service premiums as a percentage of base salary ranging from 10 to 30 percent after tax with 16 percent being the average premium.

3.3. Allowances

Several types of allowances are often included in an expatriate's compensation package including hardship allowances, housing allowances, cost-of-living allowances, and education allowances, etc. A hardship allowance is paid when the expatriate is being sent to a difficult location, usually defined as one where such basic amenities as health care, schools, and retail stores are grossly deficient by the standards of the expatriate's home country. A housing allowance is normally given to ensure that the expatriate can afford the same quality of housing in the foreign country as at home. In locations where housing is very expensive (e.g., London, Tokyo), this allowance can be substantial--as much as 10 to 30 percent of the expatriate's total compensation package. A cost-of-living allowance ensures that the expatriate will enjoy the same standard of living in the foreign posting as at home. An education allowance ensures that an expatriate's children receive adequate schooling (by home-country standards). Host-country public schools are sometimes not suitable for an expatriate's children, in which case they must attend a private school.

3.4. Taxation

Unless a host country has a reciprocal tax treaty with the expatriate's home country, the expatriate may have to pay income tax to both the home- and host-country governments. When a reciprocal tax treaty is not in force, the firm typically pays the expatriate's income tax in the host country. In addition, firms normally make up the difference when a higher income tax rate in a host country reduces an expatriate's

take-home pay.

3.5. Benefits

Many firms also ensure that their expatriates receive the same level of medical and pension benefits abroad that they received at home. This can be very costly for the firm, since many benefits that are tax deductible for the firm in the home country (e.g., medical and pension benefits) may not be deductible out of the country.

4. Localization and Local-Plus

From an organizational perspective, thinking about expatriation often starts with thinking about expatriate compensation. Compensation packages should attract, retain and motivate employees, while at the same time balancing these costs with the expected returns for the organization, which is not an easy task.

Although different situational factors such as the attractiveness of the assignment destination and the number of potential candidates require flexibility in compensation practices, some general guidelines and methods exist. Broadly speaking, we can differentiate between two different approaches to expatriate compensation: the balance sheet approach and the going rate approach.

Other than home-country approaches, the focus here is on the host country based package, "localization (Going rate)" and "local-plus", which have emerged as viable and popular alternatives to the traditional balance-sheet approach.

4.1. Localization

Contrary to the balance sheet approach, there is a second approach, the going rate approach, which is also known as the 'localization', 'destination' or 'host country-based' approach. As these names suggest, the core of this approach lies in linking the expatriate compensation to the salary structure of the host country, taking into account local market rates and compensation levels of local employees. The going rate method aims to treat the expatriate employee as a citizen of the host country, encouraging a "when in Rome, do as the Romans do" mentality.

Localization is an approach in which assignees are paid according to the salary levels, structure, and administration guidelines of the host location where they are being sent to, or are already living and working. Localization involves the removal or absence of an assignee's "expatriate" status from a policy standpoint, including

benefits and allowances. In practical terms, it means that ties back to the home country from where an assignee has come from, or from where they may have originally been remunerated, are severed and the assignee becomes a “local” in the host-country. It almost always involves replacing a salary package (e.g. base salary, incentives, allowances, perquisites, social security, and retirement plans) with compensation comparable to that offered to locally hired employees. Thus, the Balance Sheet and Going Rate approaches have different foci and hence also different advantages and disadvantages (see the following table):

	Going Rate Approach	Balance Sheet Approach
Advantages	<ul style="list-style-type: none"> • Equality with locals nationals • Simplicity • Identification with host country • Equity among different nationalities 	<ul style="list-style-type: none"> • Equity between different assignments and between assignees of the same nationality • Facilitates assignee re-entry • Easy to communicate to employees
Disadvantages	<ul style="list-style-type: none"> • Variation between assignments for same employee • Variation between assignees of same nationality in different countries • Potential re-entry problems 	<ul style="list-style-type: none"> • Can lead to disparities between assignees of different nationalities in the same host country, and between assignees and local nationals • Administration can be complex

Source: Reiche, S., Harzing, A.-W., & García, C. (2009). Management of International Staff. IESE Technical Note, DPON-79-E, IESE Publishing

Apart from the stated differences in the two approaches and the related benefits and drawbacks, the going rate approach seems to be more cost-effective than the balance sheet approach. In other words, ‘going local’ may reduce the host-country market adjustment costs, which may be especially tempting for Western multinationals sending people to countries with lower salary levels. Despite these advantages, the balance sheet approach continues to be the most widely used method.

4.2. Local-Plus

Local-plus is an approach in which expatriate employees are paid according to the salary levels, structure, and administration guidelines of the host location, as well as being provided, in recognition of the employee’s foreign status, with special expatriate benefits such as transportation, housing, and the costs of dependents’ education. It is worth noting that not all expatriates on local-plus receive the full range of additional benefits, these being at the discretion of the employing organization and largely determined by the location of the assignment (e.g. hardship versus non-hardship location), among other factors.

Local-plus and localization is offered in one of two ways. When it is “delayed”, an expatriate commences an international assignment on a balance-sheet approach and, after a period of between three to five years, then transitions to local-plus or is fully localized directed by either the employer or employee. Some assignees relocate, for example, with full knowledge that local-plus will be offered, or localization will occur, after two years in the host-country as pre-determined in their contract, whereas other assignees may not be transitioned to local-plus or localized until completion of the initial, or subsequent extension(s) of, the assignment which may be five to seven, or even ten, years after it first began.

Transitioning to a reduced compensation package usually involves a phasing out period during which special expatriate benefits (such as transportation, housing, health care, and the costs of dependents’ education) are reduced over a “wind-back” period (e.g., 50% phased out in Y1, and 50% in Y2). For fully localized assignees, it is essential for them to resign from his/her home country office and to be formally hired by the host country office of the same company for accounting purposes. This is also a typical requirement for local-plus assignees, but not always enacted.

Reduced compensation can also be offered immediately at the onset of an assignment, typically in the form of a “permanent” or “one-way” transfer. In this scenario, employees know from the outset that they will be on local-plus or fully localized which removes the company’s obligation to repatriate or reassign them elsewhere. Companies typically use reduced compensation approaches as a cost cutting measure in terms of maximizing both talent management and cost containment. A recent study found that reduced expatriate compensation is used when the assignment has a combination of: (a) a permanent position in the host country; the assignment location is in the same region as an employee’s home-country; (c) there is not likely to be a suitable role in the home-country for an employee to return to; and (d) cost reduction is a priority.

A recent assignment trend directly related to reduce compensation is the increase in “permanent transfers” resulting in the localization of expatriates. A research found that more than one-third of the participating firms in their survey used permanent transfers, which is viewed as a cost effective alternative to the traditional (balance-sheet) international assignment.

Policy Name	Strategy	Description of Policy	Purpose Used For
Balance-Sheet (full package home-based)	Development	<ul style="list-style-type: none"> • Full 'bells and whistles, i.e. generous remuneration (including bonus and incentives) and benefits (including tax equalization, look-see trip, cost of living allowance, housing, education, spousal allowance, car, home leave, club memberships) • Designed to ensure employee lifestyle in comparison to 'home' not disadvantaged by relocating • Based on notion that there is a 'home-country' from where the expatriate originates 	<ul style="list-style-type: none"> • Targeted at executives for career development who possess universal skills and considered high potential • Used for 'cadre' approach to develop careers of elite group of high performers whose permanent mobility is long-term strategic goal • Used for retention purposes where goal is to repatriate to corporate headquarters or business group headquarters • Used sparingly as reward for key individuals • Complex to administer with many home-host country combinations
Balance-Sheet (light package home-based)	Skill / Secondment	<ul style="list-style-type: none"> • Reduced version of full package, i.e. generous remuneration with/without bonus and incentives, and inclusion of some benefits (e.g. housing, education, car, home leave) but not others (e.g. club memberships, spousal allowance, cost of living) 	<ul style="list-style-type: none"> • Expatriates with deep technical skills or competencies • Specific goal is to transfer skills and knowledge for duration of assignment only (no more than 2 years) • Expatriate relocates for fixed period and repatriates with no intention to relocate again unless a specific skill need arises • Used to service clients in location where local skills not available
Local-Plus (host-based)	Cost savings	<ul style="list-style-type: none"> • Provides some benefits of developmental strategy but on greatly reduced basis • Expatriates often localized with some additional benefits provided to sustain retention • No on-going allowances (e.g. cost of living) 	<ul style="list-style-type: none"> • Combination of developmental and skills / secondment expatriates, but generally targeted at middle management executives who are specialized, functional people, or broad business managers and/or generalists who move between variety of different positions (and locations) throughout their career • Typically offered to managers initiating relocation or indicating willingness to relocate
Localization (host-based)	Cost savings, functional retention	<ul style="list-style-type: none"> • Initial allowances from any of above phased out over period of assignment (50% benefit Y2, 30% benefit Y3) to achieve full "local" remuneration 	<ul style="list-style-type: none"> • Offered to managers initiating relocation and long-term assignees exceeding term of contract (i.e. beyond initial assignment) but who wish to remain in location or firm does not wish to repatriate
Permanent Transfer (host-based)	Self-initiated transfers	<ul style="list-style-type: none"> • One way relocation package to host-destination • Salary, incentives and benefits from local payroll 	<ul style="list-style-type: none"> • Self-initiated / employee-initiated relocation

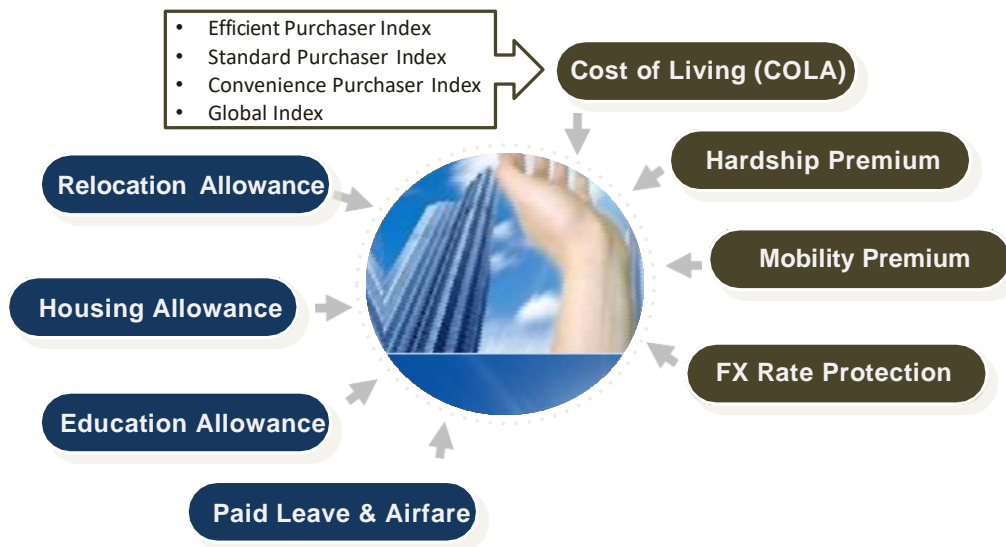
4.3. Net-to-net Approach

Integrates employees who make a permanent or indefinite move into local pay programs, adjusting home-country net pay for any cost-of-living difference, then grossing up for local taxes and housing. This approach is best used for integrating assignees into local pay programs when the relocation is permanent or for an indefinite period. Starting from the employee's current home-country compensation package, a computation is carried out to take into consideration differences in income taxes, housing costs and cost of living to arrive at a local salary in the host country that would provide an approximately equivalent standard of living to the transferee. This is not an inexpensive approach, but its primary goal is to preserve the assignee's standard of living in the assignment location.

In the end, it is important to consider the concept of 'wholeness' with regard to the goals of compensation packages. The concept refers to the organization's desire to ensure that the expatriate does not experience an overt gain or loss when all elements of the compensation package are combined. While finding a balance between the organization's and expatriates' perceptions of 'wholeness' can sometimes be difficult, the intentions of 'keeping the employee as a whole' by not letting expatriates experience drastic lifestyle changes are paramount.

5. Expatriate Allowance and Premium

Once the base salary has been determined, then the firm must decide which incentives it feels are necessary to convince its employees that it will be to their financial advantage (or, at least as is being increasingly maintained, not to their disadvantage), to take the foreign assignment. One of the key issues that have arisen, here, at least for more experienced MNEs, is the high cost of expatriation. In the past (and still normally for less developed multinational firms), many incentives were offered, often with sizable monetary benefit to the expatriate as follows:



Expatriate Allowance and Premium

Source: Reynolds, C. (1986). "Compensation of Overseas Personnel," in Handbook of Human Resource Administration, 2nd ed., ed. J. J. Famularo, pp.47-61. New York (USA): McGraw-Hill.

5.1. Cost of Living Allowance (COLA)

MNEs often provide a number of what are referred to as equalization adjustments. These are payments whose purpose is to adjust for differences (generally in a higher direction) in mandated payments that expats have no control over – some of which are paid by the expat and some of which are paid to the expat. The most common and probably significant of these adjustments is the cost-of-living adjustment (COLA).

The purpose of the COLA is to enable expatriates to maintain as closely as possible the same standard of living in the foreign assignment that he or she would have had at home (or better, if coming from a low-cost-of-living city or country). The COLA is determined by calculating the costs for typical goods and services in the home location as well as in the foreign location and adjusting accordingly. These adjustments also vary according to the techniques that the consulting firm uses to determine the cost of living in various foreign locations.

5.1.1. Efficient Purchaser Index

Mean-to-mean index compares the mean prices (the average of the price range of each item) in the base city to the mean prices (the average of the price range for each

item) in the host city.

This index is not biased in any direction and gives a good indication of overall price levels in the two cities.

It is reversible. If Singapore is 100 and Tokyo is 120, then when Tokyo is 100 Singapore is $83 (=100/120)$.

This index is the best indicator of overall differences in prices between two cities as it compares the average of the price range for each item both at home and abroad.

The efficient purchaser index assumes that an assignee is no longer completely new to the location and has learned to purchase better and can secure prices that are lower because of his or her increasing familiarity with the location.

5.1.2. Standard Purchaser Index

Compares the average of the low and median price level in the base city to the average of the price range in the host city.

Higher than the efficient purchaser index.

This index may reflect cost of living differentials as they should apply to very experienced shoppers in their home city and who, due to the short-term nature of the assignment, may not develop the same level of efficiency.

5.1.3. Convenience Purchaser Index

Compares the average of the low and median price level in the base city to the highest prices for selected categories or items in the host city.

Higher than the standard index.

It allows the expatriate to purchase food, beverages, domestic supplies, personal care, sports and leisure items at the more expensive or convenience stores.

This index can be used in locations where even the slightest bit of adaptation is not always evident, or where shopping convenience is essential.

5.1.4. Global Index

A recent development in the field of global human resources is to maintain a cadre of

"globally mobile" employees. The weights in this type of "goods and services" index reflect the consumption pattern of an internationally mobile executive who has adopted a flexible approach to lifestyle and who no longer retains any ties to a specific home location.

5.2. Hardship Premium (Allowance)

The hardship allowance refers to a premium payment in order to provide special compensation to expatriates who would experience a significant deterioration in living conditions in their host country. The allowance is calculated based on quality of living differentials of home city compared with host city.

Quality of living differentials are calculated based upon variable categories, such as political and social environment, economic environment, socio-cultural environment, medical and health considerations, schools and education, public services and transport, recreation, consumer goods, housing, and natural environment.

The three broad areas typically considered in evaluating the extent of hardship include physical threat, level of discomfort, and inconvenience. The physical threat category includes potential or actual violence, hostility to foreigners from the local population, prevalence of disease, and the adequacy of local medical facilities and services. The discomfort category evaluates the physical environment and climate, as well as geographical, cultural, and psychological isolation. And the inconvenience category rates the local education system, the availability and quality of local housing, access to recreational and community facilities, and the availability, quality, and variety of consumer goods and services.

This allowance will be adjusted or removed by a Company in its sole discretion in accordance with continually updated information provided from multinational consultant firms. The expatriate will not gain the allowance as a result of higher or equivalent quality of living levels in the host city compared to the home city.

Hardship allowances typically range from 5 percent to 25 percent of base pay with danger pay maybe adding another 15–20 percent to base pay. Many US MNEs use the US State Department tables for determining these amounts.

5.3. Mobility Premium (Allowance)

A company pays a foreign service premium to expatriates to compensate their life style adjustments, family's hardship, dependent care, maintenance of residence in

home country, and other costs due to the assignment, while providing an incentive to take the assignment.

This incentive is used to (1) compensate the expatriate for all the adjustments that s/he will need to make; (2) compensate the expatriate and her/his family for the “dislocation” of having to move to an unfamiliar country and to live in what might be seen as an uncomfortable (i.e., different) environment; (3) provide an incentive to take the foreign assignment; and (4) keep up with the practices of other MNEs. These premiums used to average about 15-25 percent of the expatriate’s base pay.

Where applicable, such premium will be specified in the Assignment Agreement, and shall be based on data from the most recent compensation survey of international assignments.

Increasingly, firms are questioning whether it is necessary to pay this premium for an overseas assignment (or, at least, for most overseas assignments). Critics argue that in a truly global economy with improved communication and transportation, general availability of global consumer products, and accepted international business norms, there is no longer as much trauma and dislocation associated with an overseas transfer.

5.4. Foreign Exchange Rate Protection

When home-country currency strengthens, it takes less of it to purchase goods abroad; when home-country currency weakens, it takes more of it to purchase goods. Currency fluctuations leave assignees wondering if their home-based compensation packages are sufficient. A company can protect their international assignees’ purchase power by following:

It is important that the exchange rate be determined using a transparent method that can be explained and supported easily. The COLA should be updated regularly following a predetermined schedule. Regular updates let the allowance be adjusted automatically depending on exchange rate changes. An easy way to stay on top of exchange rate movements is to adopt a quarterly COLA update schedule.

Exchange rate monitoring is conducted between COLA updates, and it can trigger a new allowance linked to automatic updates if the exchange rate change meets a predetermined threshold (usually 5%). In conjunction with regular COLA updates, exchange rate monitoring helps to ensure that action is taken promptly if the rate moves significantly.

Split payroll (or split pay) can also protect against interim changes. Rather than paying employees entirely in home currency, split pay allows an employee to draw a portion of his or her compensation in host currency and the remainder in home currency.

5.5. Relocation Allowance

A company may pay for expenses including household shipping and purchase of daily necessities for expatriation or repatriation. After an expatriate confirms and signs an international assignment agreement or receives a repatriation notice, s/he is eligible to have some days personal leave with full pay to arrange moving, housing, schooling, and other personal issues in home/host country. The flying time between the home and host country/city may be excluded from the relocation leave.

5.6. Housing Allowance

A Company may establish a housing standard on the rental cost of the host country accommodation. The accommodation costs guideline is usually based upon the recommendation of an independent consultant firm. The housing standard often reflects family size and Home Country job grade level.

Housing Allowance will be paid equal to the amount of actual, reasonable and necessary the host country housing and utilities costs, subject to the housing standard. If the Company provides the housing, the allowance will be zero.

When it is tax-effective, the lease may be in the name of the Company's legal entity in the host country.

When a company uses the balance-sheet approach, it typically agrees to pay any increased cost of housing in the host location. The most common approach is for the company to lease the housing in the host location and collect a home-country housing norm (contribution) from the employee. The home-country housing norm is the amount that a typical family pays for housing and utilities in their home country.

Actual, reasonable expenses incurred in retaining an agency to find living quarters, where such services are normal and essential (such as the one-time fee charged by rental agents at the beginning of a rental contract, including special legal fees for the lease and other documents) will be reimbursed by the Company.

5.7. Education Allowance

It is the cost of primary and/or secondary education for the eligible dependent

children residing in the Host Country with the expatriate. The educational assistance will include tuition and registration, textbooks, required donation fees, and uniforms.

5.8. Paid Leave and Airfare

Annual leave for the expatriate is as according to the working regulations of the home country.

Home leave was intended to help minimize the effects of the culture shock of an international assignment. It allows assignees to maintain family ties and stay current with home business contacts and associates; and keep connected with their community and culture.

Expatriates are eligible for home leave after several months on initial assignment in the host country. This regulation does not apply to travel for home business assignment, family emergency, medical necessity, or due to legal regulations approved by the host country Head.

If the expatriate is eligible for home leave, the Company will reimburse the assignee and immediate family for the expense associated with the airfare of the round trip between home and host countries.

A period of leave, usually in addition to the normal vacation entitlement, given to employees posted to certain locations which are considered "challenging" enough to require brief periods away from the assignment location.

5.9. Others

5.9.1. Completion Bonus

A bonus paid at the end of an assignment to reward the successful completion of an international posting.

5.9.2. International Cadre/Career Expatriate Premium

A premium paid to international cadre/career expatriates as an incentive to remain mobile.

5.9.3. Per Diem Allowance

A daily allowance designed to cover miscellaneous expenses incurred on meals out,

local transportation and incidentals while on assignment. Where hotel accommodation is necessary, a per diem will usually also cover the cost of a room and breakfast. It is usually used for short-term expatriate or business trip.

5.9.4. Healthcare Services

Those service offer employees and expatriates support to access non-urgent and primary medical care, especially in regions that lack a reliable medical infrastructure. A Company may cover the assignee's enrollment in the global medical and health service system, including emergency medical repatriation.

5.9.5. Insurance

Insurance is another area of benefits that can add complexity to the design of compensation programs for expatriates. Most big firms provide their managers and senior technicians with life insurance as part of their employees' benefit packages. But many life insurance policies have clauses that in case of declared or undeclared war the insurance are null and void (which may be more likely to happen in a foreign assignment). Thus the firm may need to purchase special coverage while the expatriate is overseas.

In addition, the typical travel coverage (such as that provided when buying airline tickets through a credit card) may not be valid if going abroad for an extended period of time. Again, the firm may want to consider purchasing special travel insurance for its expatriates and their families.

Depending on the location of the overseas assignment, the firm may also have to provide special "work risk" insurance, for more dangerous or remote locations and, possibly, other forms of special insurance, e.g., kidnapping insurance.

Multinational pooling allows multinational companies to benefit from favorable insured claims experience on a world-wide basis. In contrast if each country office had to pay for policies based on their individual experience ratings, this can become very costly as a whole for the company. A multinational pool brings together insurance plans that have been set up locally for two or more countries. Premiums can then be paid by subsidiaries on a purely local basis, and claims are settled on a purely local basis. The advantage of this arrangement is that organizations can spread the risk across its offices and achieve optimal cost savings.

5.9.6. Loan-bonus

A loan-bonus program is an alternative to the employer paying tax on the expatriate employees grossed-up income (which would include any tax reimbursements paid to the employee). Instead, the employer arranges for the employee to obtain an unsecured loan to cover his or her individual tax bill plus interest due on the loan. After the employee's assignment has ended and he or she is no longer a resident of the host country, the employee receives a bonus equal to the outstanding loan. A number of banks can provide this service; however, this strategy is accepted only in certain taxing jurisdictions. Companies that wish to use this approach must seek guidance from a tax adviser to determine its viability (in a given location) and its structure and implementation. Additionally, the Sarbanes-Oxley Act could potentially restrict loans given to executive officers.

6. Tax Reimbursement

International assignments are complicated by tax regulations both at home and abroad. Home-country and foreign tax laws, as well as company policy, determine how an employer will treat assignees' and their spouses' income, their income from investments and other sources not related to the company, as well as property ownership. In general, however, the majority of multinationals attempt to focus their expatriate compensation programs, including the treatment of income tax, around the following principles:

6.1. Principles of Tax Treatment

6.1.1. Employees will neither gain a windfall nor suffer undue financial burden as a result of the special circumstances and complexity of compensation and tax matters while they are on an international assignment.

6.1.2. Employees and the employer must comply fully with the tax laws and filing requirements of both home and host governments.

6.1.3. The employer's policies are fair and reasonable, equitable to all employees, cost effective, easy to administer and easy to understand.

6.2. Tax Liability

It is likely that employees' tax liability will be higher when they go on an international assignment for following reasons:

In many countries, the taxes applicable expatriates are higher when compared to

their home country tax system because they do not have the same opportunities to reduce their local tax liability as do local-national employees. While they may find special concessions available for expatriates, such as advantageous tax rates and deductions or credits, individual circumstances do not always allow assignees to claim the same deductions as their local counterparts. For example, they will probably rent a home while abroad, thus preventing them from taking any existing tax deduction for mortgage interest.

Another possible reason is that they are likely to make charitable and pension contributions in their home country, again prohibiting the use of deductions. On the other hand, there will often be situations where the host-country taxes are lower. These cases result in a windfall that would revert either to you or your employer, depending on how the company handles your taxes.

Many companies provide allowances on a tax-free basis to help them pay for miscellaneous expenses related to their international assignment. For example, the employer might provide a relocation allowance to cover unspecified settling-in expenditures, such as new drapes or locks for the family residence. Or, the company might pay a car allowance to supplement loan payments or a hardship premium to compensate you for living and working in a dangerous or difficult location. Even goods and services differentials to bridge the gap between home and host prices are generally provided tax-free. However, as they are considered part of their income, it will raise their overall income level, resulting in a higher tax liability.

6.3. Approaches of Tax Treatment

Employer practice ranges from heavy involvement (making complex calculations) to little or none (making the employee responsible). Although there are four common methods of treating expatriate tax – equalization, protection, ad hoc treatment and laissez faire – the latter two are rarely used:

Laissez-faire	<ul style="list-style-type: none"> You are on your own when it comes to tax matters
Ad hoc	<ul style="list-style-type: none"> Management handles each expatriate's tax situation on a case- by-case basis
Tax protection	<ul style="list-style-type: none"> You do not have tax liability if your income taxes are higher than what you would have paid at home
Tax equalization	<ul style="list-style-type: none"> You will be no better or worse off financially than if you had stayed at home

Tax Reimbursement Approaches

Source: Briscoe, D., Schuler, R., & Tarique, I. (2012). International Human Resource Management: Policies and Practices for Multinational Enterprises; 4 edition, (Global HRM).

6.3.1. Laissez Faire

Companies first entering the global market are sometimes inclined to use laissez faire in the early stages of their expatriate program. This method places the entire responsibility on the assignee for calculating and paying income taxes related to both their home country and assignment location. In effect, they are on their own when it comes to tax matters. A number of results are possible: potential windfalls when taxes are lower in the host country, an extra liability burden when taxes are higher and noncompliance with government filing requirements.

In this approach, the organization is not actively involved in managing home or host taxes. Essentially, the employee is responsible for any taxes incurred. However, often the employer increases the assignee's compensation to cover the additional tax expense.

6.3.2. Ad Hoc

When a company has relatively few expatriates in the same location (or no clear destination pattern), either because it is just beginning its international assignment

program or by design, it often has no formal tax policy. Management handles each expatriate's tax situation on a case-by-case basis, allowing the possibility for inequitable and inconsistent treatment of expatriate tax.

Essentially, each international employee negotiates his or her own deal with the organization. This approach may work for a small international workforce, but as the international program grows, the negotiation process can become cumbersome.

6.3.3. Tax Protection

This method holds the employer responsible for employees' tax liability if their income taxes are higher than what they would have paid at home. However, it allows them to keep any windfall when taxes are lower. A major problem is that windfalls available only to some expatriates raise a serious issue of inequity with their colleagues in other locations. Other points of concern relate to the fact that tax protection focuses on their actual tax payments. Consequently, two adverse results might cause some uncertainty:

They have no way of knowing what to expect regarding their tax reimbursement until they have filed the tax return, paid their taxes to the proper authorities and reconciled any differences between what they would have paid had they stayed at home and what they had to pay as a result of the international assignment; and

As a result, they might suffer a negative cash flow until the company has a chance to reimburse what it owes them.

In the tax protection approach, the organization figures the assignee's hypothetical income tax and compares it with actual taxes paid. At the end of a year, the organization reimburses any disparity. If the employee pays less in taxes than he or she would have paid in the home country, the assignee keeps the difference. A disadvantage of this program is that it can create inequities between assignees in low-tax countries and those in high-tax countries.

6.3.4. Tax Equalization (TEQ)

This method is consistent with the balance sheet approach to international compensation: As an expatriate, they will be no better or worse off financially than if they had stayed at home. In other words, they will be responsible for income taxes at a level equal to that incurred if they had continued to live and work in their home country rather than going abroad. To meet the objective of keeping them "whole,"

the employer withholds a hypothetical income tax that is assessed against their compensation at the same level as that assessed for their home-country peers. In turn, their employer is responsible for the tax assessed on their company-earned income (e.g., base salary, bonus). If their taxes are higher on assignment than what they would have paid at home, their employer reimburses the difference; if the taxes are lower, the company keeps the savings.

In a tax equalization program (also known as tax balancing), a hypothetical tax is withheld from each paycheck. All actual taxes are either paid by the employer or reimbursed by the employee if it is determined that the hypothetical tax was too low.

Is all income included in tax equalization? The answer varies by company policy as to what income elements will be tax-equalized. Complicating the issue is the fact that authorities in home and host countries may (or may not) assess taxes on both their company source income as well as any outside income from investments and their spouse or partner's employment. Although many employers limit their coverage to income directly related to their job, some include a portion of outside income. When they do, their equalization of outside income is generally similar to that of company-source income.

Under tax equalization, the hypothetical tax (which is subtracted from base salary and retained by the employer) approximates the amount that would be paid by their home country peers at a comparable salary level and family size. For practical purposes, making a hypothetical deduction is easier than calculating their actual tax liability, which would require details of their financial circumstances. Such calculations would be problematic for one expatriate; imagine that same task multiplied by hundreds of assignees, each with a different home-host combination and tax related situation.

In general, the employer will use the "hypothetical tax" (it is also known as hypotax) it has withheld from their paycheck to submit payments for their home and host-country taxes. Should the foreign authorities prohibit their employer from paying their foreign taxes directly, they would be responsible for payment (with subsequent reimbursement by the employer). They may also be responsible for home-country tax payments on non-company-source income (such as investments).

6.4. Protection vs. Equalization vs. Localization

Once an international assignment exceeds a year OR it is known that the international assignment will exceed a year, everything paid to, for, or on behalf of the expatriate is

taxable compensation to the expatriate. Further, since taxation in both home and host countries is the norm, inflation of the overall tax liability is unavoidable. Therefore, tax preparation assistance as a benefit for expatriate employees is almost imperative. Companies may opt to address taxation issues by adopting a localization, tax protection, or tax equalization approach.

Tax Protection

- If the actual worldwide taxes exceed the hypothetical taxes, the employer reimburses the excess to the expatriate employee.
- If actual worldwide taxes are less than the hypothetical taxes, the employer receives NO reimbursement from the employee.

Tax Equalization (TEQ)

- It is no gain or loss approach. The employer bears the responsibility for paying the expatriate's actual home and host country tax burden. In exchange, the expatriate pays a hypothetical (i.e. 'as if' or 'stay at home') tax to the employer as determined under the company's equalization policy.

Tax Localization

- Expatriate employee is responsible for his or her own tax liabilities.
- Localization may result in significant tax burden on the employee.

Source: Global Executive Management Solutions (GEMMS)

6.4.1. Localization

LOCALIZATION is the least common approach. Under the localization approach, the expatriate employee is responsible for his or her own tax liabilities. Localization may result in significant tax burden on the employee. Additionally, most company's feel the expatriate will turn to the company for financial support in meeting these tax liabilities should this approach be utilized. Therefore, this approach is seldom utilized.

6.4.2. Protection

Under tax PROTECTION, the expatriate employee is responsible for paying actual home and host country taxes. A hypothetical (or stay at home) tax is determined and compared to the actual worldwide taxes that the expatriate employee paid. If the

actual worldwide taxes exceed the hypothetical taxes, the employer reimburses the excess to the expatriate employee. If actual worldwide taxes are less than the hypothetical taxes, the employer receives NO reimbursement from the employee. This is the most generous approach since the employer reimburses the expatriate employee for amounts in excess of the hypothetical tax. However, there is a timing issue with this approach. Normally, all home and host country taxes are paid up front. Then after the returns are completed, or later, credits and double taxation issues are worked out and refunds are returned from the tax authorities. Therefore, an expatriate could pay 30% taxes to the home country and another 30% taxes to the host country and be forced to live off of the remaining 40% of gross salary ... or call upon the company for financial support.

6.4.3. Localization

When tax EQUALIZATION (or no gain or loss) approach is utilized, the employer bears the responsibility for paying the expatriate's actual home and host country tax burden. In exchange, the expatriate pays a hypothetical (i.e. 'as if' or 'stay at home') tax to the employer as determined under the company's equalization policy. The amount is recalculated annually along with the preparation of the home country tax return. The result may generate a refund to or an additional payment from the expatriate. The benefits to this approach are numerous but the major benefits include:

The expatriate bears an approximately similar tax liability; thereby, leaving the issue of taxation out of the equation of accepting the assignment.

Hypothetical withholding, when retained by the company like in the equalization approach, is considered a form of deferred compensation and therefore not taxable in most of the countries today.

Basically, localization was the first approach used when companies began sending assignees abroad (i.e. an assignee goes to a foreign country and with the government's sophisticated tax treaties, etc. the assignee should not be unduly burdened by taxes.) Then after realizing there is no dollar for dollar benefit, the timing issues, and the expatriates complaints of dealing with double taxation, companies began an effort to entice employees to accept international assignments by using the protection approach. After losing money with the protection approach and expending extreme efforts on researching the best tax effects, equalization was developed. Today, the majority of sophisticated expatriate companies utilize the

equalization approach.

7. Tax Equalization (TEQ) Process

The primary objective of any tax equalization (TEQ) policy is to help neutralize the tax impact of an international assignment. An individual who is subject to tax equalization should not experience a tax benefit or a tax detriment as a result of an international assignment, regardless of the host location. In other words, TEQ ensures that the assignee pays no less and no more taxes than he or she would have paid in the home country, hence the term "tax equalization".

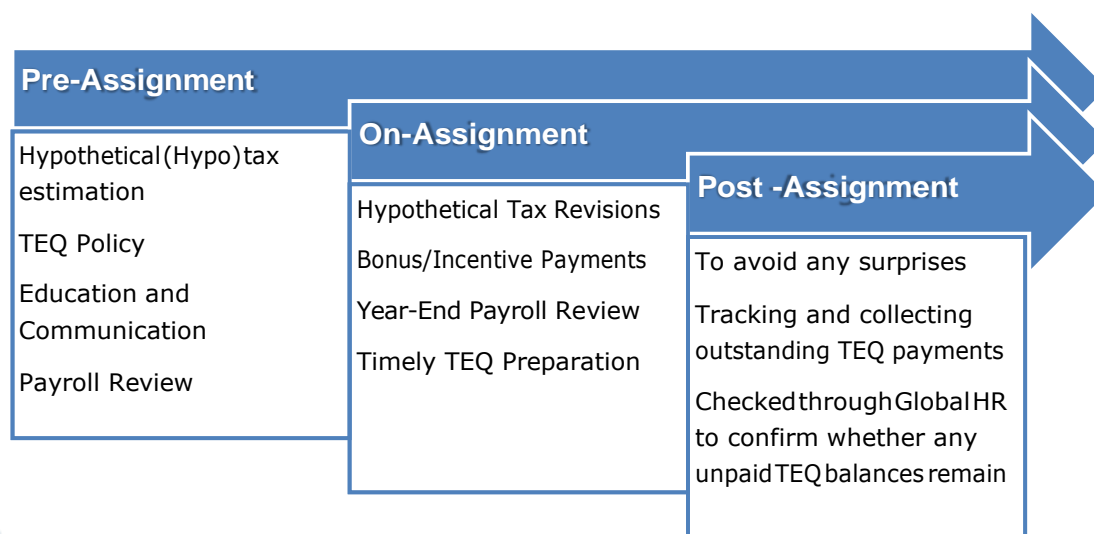
Advantages of TEQ are not artificially inflating salaries in high tax countries and allowing substantial employee tax gains in a low tax country. TEQ also minimizes tax and compensation issues at repatriation.

7.1. Hypo Tax

TEQ in international compensation means that the assignee's host-country salary is reduced by the hypothetical tax (hypo tax) that the assignee would have experienced in his or her home country. The employer pays and reports in the host country only the net salary after the reduction for the home-country employee's tax. Thus, the host-country taxes are based on a lower compensation level than would have been experienced if the hypothetical taxes were not subtracted.

To implement a tax equalization policy, companies typically withhold a hypothetical tax from the assignee during each payroll cycle. The hypothetical tax deducted represents the estimated "stay-at-home" tax the assignee would have paid had he or she not gone on assignment. In turn, any actual home or host country taxes are typically funded by the company.

After the actual tax returns are completed, a tax equalization calculation is prepared to compare the estimated hypothetical tax retained during the year with the assignee's final theoretical "stay-at-home" tax liability. The calculation results in a balance owed either to the company or to the assignee.



TEQ Process

Source: Foss, M. (2009). I Owe the Company How Much? How to Manage the Tax Equalization Process to Avoid Surprises. The Expatriate Administrator, Winter(4), KPMG Publication.

A large TEQ balance due to the employer is often the result of an inaccurate hypothetical tax deduction. Large TEQ balances can also arise from other causes such as tax return balances due that need to be initially funded by the employee or refunds that need to be returned to the company. However, with the proper planning throughout an assignment, companies can potentially mitigate the impact of the TEQ and reduce the amount owed to or from the employer.

7.2. Pre-Assignment Planning

Once a decision is made to send an employee on assignment, investing the time up front to understand and properly account for the hypothetical and actual tax components of an assignment is critical to managing the TEQ process. Implementing an accurate hypothetical tax calculation and estimating actual assignment tax costs are the first steps.

An initial hypothetical tax calculation should be prepared at the start of an assignment using the most accurate information available. The more detailed the calculation, the better, since the amount of hypothetical tax deducted during the year

will have a direct impact on the final tax equalization results. A company's tax equalization policy will determine the types of income and deductions that should be included in the hypothetical tax calculation.

Generally, the calculation will be based on an assignee's "stay-at-home" income and will not include tax protected items such as assignment related allowances. "Stay-at-home" income refers to the income the assignee would have received had he or she not gone on assignment and typically includes base salary, net of deferred contributions (such as pensions) and other pre-tax deductions, incentive compensation such as bonuses, commissions, or stock option income, and in most cases, personal income. In certain cases, special assignment-related payments, such as a mobility premium or a car allowance, may also be subject to hypothetical tax depending upon the company's policy.

Ideally, the initial hypothetical tax calculation should consider the assignee's personal income and deductions, in addition to company compensation that is subject to hypothetical tax. In an effort to save time, some companies may implement a hypothetical tax deduction based on company income only and rely on the TEQ to reconcile any discrepancies. This short-cut can lead to a TEQ with a large balance due to the employer and could lead to lengthy discussions with the assignee.

7.2.1. Hypothetical (Hypo) Tax Estimation

In conjunction with a detailed hypothetical tax calculation, an assignment cost projection can also be an invaluable planning tool during the preliminary phase of an assignment. A cost projection provides an estimate of the total overall cost of an assignment and can assist companies with identifying and budgeting for home and host country tax costs.

By being aware of the potential tax costs upfront, companies can better determine how much, if any, home country tax withholdings need to continue during an assignment and they can accrue for the host country tax liability. Accounting for and paying actual taxes throughout the year can significantly reduce the amount owed with the tax equalization, particularly if the assignee is expected to initially fund any balances owed with the tax returns and receive credit for making the payments on the final tax equalization.

In addition to implementing an accurate hypothetical tax deduction and estimating actual tax liabilities, taking the following additional tips into consideration at the beginning of an assignment can also help to reduce surprises with the TEQ:

7.2.2. TEQ Policy

Companies should have a comprehensive written tax equalization policy in place that clearly describes the process and sets forth the guidelines for allocating tax responsibilities between the assignee and the company.

7.2.3. Education and Communication

Assignees should have an assignment briefing and tax consultation session at the beginning of the assignment to review the process and the company's tax equalization policy. Assignees should also receive the details of the hypothetical tax calculation implemented by the company. When assignees object to the results of a TEQ, it may be because they do not fully understand the process.

7.2.4. Payroll Review

After the initial hypothetical tax calculation goes into effect, the assignee's first paycheck should be reviewed for accuracy.

If an assignee is used to receiving a tax refund, then having to pay over the company more than likely will frustrate the assignee even if he or she ultimately understands the source of the balance due. The company may need to expend additional resources to collect the amount owed from the assignee and may risk having an uncollectable receivable.

7.3. During Assignment

A significant opportunity for advance planning and control of the TEQ process exists at the very start of the assignment. However, even the most comprehensive pre-assignment planning can break down if there is insufficient follow-through and planning "maintenance" (e.g., execution, monitoring, and adjustments) during the assignment. Companies should have processes in place to identify and account for changes that could impact an assignee's hypothetical tax or actual tax liabilities.

7.3.1. Hypo Tax Calculation

A company's TEQ process should provide for the hypothetical tax calculation to be updated to reflect any of the following:

Annual salary increases, or other compensation adjustments

Changes in the assignee's personal situation (e.g., change in marital status, birth of a child, substantial change in personal income, or loss of personal deductions used in the hypothetical tax calculation such as mortgage interest or real estate tax deductions, etc.)

Changes to related income and social security tax laws.

A leading practice is for companies to update the hypothetical tax calculation on an annual basis when pay increases are implemented. Any changes to an assignee's personal situation should also be incorporated into the updated calculation. To facilitate this process, assignment administrators could request assignees complete and return a form to the tax service provider to confirm their marital status, number of dependents, personal income, spousal income, etc. After the hypothetical tax calculation is updated, the new annual hypothetical tax amount should be communicated to the assignee.

7.3.2. Bonus/Incentive Payments

When a company pays a bonus or other incentive compensation, a process should be in place to determine and withhold the correct amount of hypothetical tax. When an assignee owes on the final TEQ, the under-payment may be attributable to incentive compensation. The hypothetical tax on the payment might have been withheld at a flat withholding rate that is less than the assignee's final marginal tax rate, or the company may have inadvertently failed to withhold any hypothetical tax.

7.3.3. Year-End Payroll Review

Annual year-end compensation and withholding reviews conducted with sufficient lead time can assist companies in determining potential withholding shortfalls that can be addressed before year-end rather than with the tax return and tax equalization.

7.3.4. Timely TEQ Preparation

If possible, the TEQ should be prepared and issued simultaneously with the tax return. Issues often arise when an assignee receives a refund of actual taxes that needs to be returned to the company as a result of the tax equalization. When several months have passed between the time the tax return and TEQ are prepared, the assignee may have already spent the refund or may be less willing to return it to the company, which could lead to TEQ collection problems.

7.4. Post-Assignment

Managing the TEQ process does not end at the conclusion of an assignment and needs to continue during the post-assignment period. Many times, assignees are surprised when they are authorized for tax services and subject to TEQ for a year or two after their assignment ends. However, it is not uncommon for assignment-related allowances or tax payments to be made after the assignment ends that will be subject to tax equalization.

In addition, if the assignee has excess foreign tax credits that can be utilized after the assignment ends, a company's tax equalization policy typically will provide that the benefit of the foreign tax credit utilization goes to the company to the extent that the company funded the foreign taxes. To avoid any surprises, assignees need to be aware that the TEQ process may continue after their assignment ends.

Tracking and collecting outstanding TEQ payments can also prove to be more difficult to administer after an assignment ends. The assignee may relocate to a different office, department, or may leave the company entirely. Companies need to have a systematic process in place for tracking and collecting unpaid TEQ balances to prevent uncollectable receivables³. As many companies reduce their head-count during challenging economic times, it is especially important that terminated employees are checked through Global HR to confirm whether any unpaid TEQ balances remain.

8. Totalization Agreement and Tax Treaty

8.1. Totalization Agreements

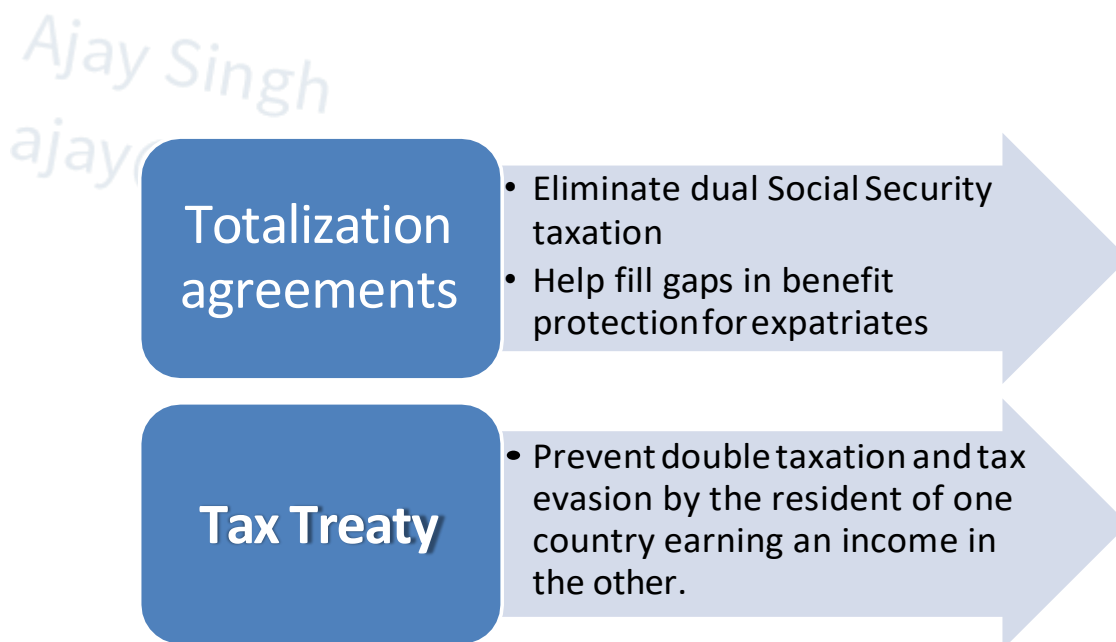
International Social Security agreements, often called "Totalization agreements," have two main purposes. First, they eliminate dual Social Security taxation, the situation that occurs when a worker from one country works in another country and is required to pay Social Security taxes to both countries on the same earnings. Second, the agreements help fill gaps in benefit protection for workers who have divided their careers between the home country and host country. The agreements assign coverage to just one country and exempt the employer and employee from the payment of Social Security taxes in the other country. Typically, the social security agreements are based on two rules:

8.1.1. Territorial rule: In general, an employee will be subject to the taxes of the country in which the work is to be performed.

8.1.2. Detached worker rule: In the case of individuals on international assignment, home-country social security taxes will apply in order to minimize disruption.

8.2. Tax Treaty

Tax treaties are also referred to as tax conventions or double tax agreements (DTA). They prevent double taxation and fiscal evasion, and foster cooperation between a country and other international tax authorities by enforcing their respective tax laws. Tax treaty is a bilateral agreement made by two countries to resolve issues involving double taxation of passive and active income. Tax treaties generally determine the amount of tax that a country can apply to a taxpayer's income and wealth. Tax haven countries are the only countries that typically do not enter into tax treaties.



Totalization Agreement and Tax Treaty

Source: Weiser, S. (2015). Understanding Social Security Tax, Totalization Agreements and Your Benefits, by Steven Weiser. (Siskind Susser PC)

9. Global Employment Company (GEC)

GEC is a term used to describe a subsidiary that multinational enterprises sometimes form to manage high performers and other types of employees who do not readily fit within the traditional operations of the MNEs. A GEC will have its own board of directors and, often, a separate management team.

The GEC defines the entire relationship and formalizes the salary, short- and long-

term incentives, and other benefits for the individual employed under its auspices.

GECs may also provide tax advantages it: for example, the GEC is formed in a country that has low tax rates or a favorable totalization agreement. Popular destinations for MNEs to form GECs include Bermuda, Hong Kong, Ireland, and Singapore.

A GEC simplified administration of the employment relationship. There is a single payroll for all employees. Management of pension plans is simplified. Other benefits can be more readily tailored to address an employee's circumstances. Health care is typically contracted with a third-party international provider to augment public health-care systems.

10. Global Payroll Management

Employees on international assignment present a challenge to HR and payroll functions in organizations. There is increasing scrutiny and enforcement from tax authorities, the length and structure of assignments are changing, and businesses continue to demand a return on their investment in talent.

The payroll process relies on local knowledge to assess local obligations and, given the pressures on mobility functions, it is understandable that there is more devolution of responsibility to local teams. However, without a common approach, local payroll teams can become detached from the assignment program's fundamental aims. This means not only potentially sharing information inefficiently between teams, but also creating compliance gaps and a lack of overall control of costs.

A standardized process can provide greater certainty that all income is reported and shadowed for tax purposes, that tax and social security contributions are paid according to the countries' regulations, and that withholdings are applied correctly. The monthly compensation process needs a proactive, built-in controls framework to maximize compliance across multiple jurisdictions. These controls should be automated as far as possible to allow for any errors and inconsistencies to be corrected.

Validating payroll data at the outset, improving communication with local payrolls and comparing pay instructed with pay delivered could, for many organizations, bring significant clarity for local payroll teams and improve compliance as a result.

10.1. Establish appropriate data validation and controls

Starting out with a complete and accurate data set is critical to the success of each of the subsequent stages in the compensation cycle. It also provides confidence that compliance and cost is managed across the assignee population, as a robust validation process will identify any incorrect or missing payments before they are delivered to employees. Moreover, tax authorities and internal auditors are increasingly seeking reassurance that controls are in place to actively manage payroll compliance, and the effectiveness of these must be demonstrated.

To establish a robust data collection and validation process, take the following steps:

10.1.1. Set up regular training to improve local payroll and HR team knowledge of global assignee payroll reporting.

10.1.2. Agree and communicate ultimate accountability and responsibility for assignee payment and tax compliance in the home and host countries.

10.1.3. Put more checks and controls in place, review all data sources and establish company guidelines. Controls should include comparing collected data against assignment policy, and reviewing against prior months and across the assignee population.

10.2. Communicate assignee tax and social security positions

Significant time and resources are spent within organizations to confirm the correct tax and social security position of their assignees, such as applying certificates of coverage and scheduling arrival and departure meetings to establish tax residence. However, this effort could be wasted if these instructions are not effectively communicated to the local payroll.

Clear payroll instructions are even more important for teams who lack sufficient knowledge of assignee payroll reporting. Without accurate and clear instructions, local payrolls run the risk of making incorrect payments to assignees or to local revenue authorities.

Reduce the risk of error by providing local payrolls with complete process information on all tax positions each month. Consider local payroll guides for each location that include reporting and withholding obligations, taxability and processes, as well as clear instructions for assignees who continue to pay social security in their home

country.

103. Carry out post-payroll analysis

By making post-payroll analysis part of the monthly compensation process, any issues or omissions can be addressed quickly in the next payroll cycle. This can include identifying any out-of-policy or duplicate payments delivered locally in addition to those instructed centrally. It also provides a control mechanism to confirm that tax and social security positions have been followed.

Compare payroll output files to payroll instructions each month to identify any variances and take corrective action. Such checks can be largely automated, provided they are set up correctly and wage types are clearly understood.

104. Seek continuous improvement through reporting and analytics

Harnessing global compensation information for analysis and reporting purposes can contribute greatly to an organization's understanding of the fundamentals of their mobility program.

Oversight of total program and individual country cost, or the ability to drill down to specific grade and policy components, can help identify areas for cost savings. It can also give an indication of the overall value for money generated by assignments. This, in turn, can inform strategic decisions, for example to explore alternative options to secondments such as localization, local hires or outsourcing to fill skills gaps.

Add greater detail to the data gathering process by including breakdowns of, for example, shipping invoices and nontaxable items such as vendor fees. Such minor changes will enhance the value of the data to allow analysis of costs. Make use of data analysis techniques and technology to spot trends and identify areas of high-cost or potential savings.

**"Secondment" refers to the opportunity many employers provide employees to work within a different area of the company, by making an internal transfer. This includes transferring to a different work area in the same office (such as switching from an HR Generalist role to an HR Specialist position), transferring to another office to continue their current job (such as moving from Shanghai to Hong Kong, or Shanghai to Australia) or a combination of the two.*

Part Three: International Retirement Plans

1. Primary Retirement Plans

Retirement plans fall into two basic broad categories in many countries: defined benefit plans or defined contribution plans. The difference between the two is substantial and it's important to understand the characteristics of both categories in order to make the right retirement plan benefit choices. Hybrid plans are also available.

<i>Defined Benefit Plan</i>	<i>Defined Contribution Plan</i>
1. Provides an explicit benefit which is easily communicated	1. Unknown benefit level is difficult to communicate
2. Company absorbs risk associated with changes in inflation and interest rates which affect cost	2. employees assume these risks
3. More favorable to long service employees	3. More favorable to short-term employees
4. employer cost unknown	4. Employer cost known upfront

1.1. Defined Benefit Retirement Plans

A defined benefit plan is one set up to provide a predetermined retirement benefit to employees or their beneficiaries, either in the form of a certain dollar amount or a specific percentage of compensation.

Employer contributions to a defined benefit plan are very complex to determine and require the work of an actuary. The assets of the plan are held in a pool, rather than individual accounts for each employee, and as a result, the employees have no voice in investment decisions. Once established, the employer must continue to fund the plan, even if the company has no profits in a given year. Since the employer makes a specific promise to pay a certain sum in the future, it is the employer who assumes the risk of fluctuations in the value of the investment pool. There are three basic types of defined benefit plans:

1.1.1. Flat benefit plan

All participants receive a flat dollar amount as long as a predetermined minimum years requirement has been met.

1.12. Unit benefit plan

Provides a benefit that is either a percentage of compensation or a fixed dollar amount multiplied by the number of qualifying years of service.

1.13. Variable benefit plan

Benefits are based on allocating units, rather than dollars, to the contributions to the plan. At retirement, the value of the units allocated to the retiring employee would be the proportionate value of all units in the fund.

1.2. Defined Contribution Plans

The way that a defined contribution plan works is that either an individual alone, or an employee and the employer make contributions into the plan, usually based on a percentage of the employee's annual earnings. Each participant has an individual, separate account. There is no way to determine in advance what the final payout at retirement will be. Benefits depend on how much was contributed in the employee's name and how well the pension fund investments performed. So, the risk of fluctuations in investment return is shifted to the employees.

The defined contribution plan category contains a broad range of plans including profit-sharing plans, called cash or deferred arrangements, employee stock ownership (ESOP) plans, and money purchase plans.

1.2.1. Profit-Sharing Plans

Initially developed to encourage hard work and loyalty, profit-sharing plans encourage companies to set aside money in the employees' names when the company shows a profit. The employer may decide not to contribute in any given year, if it so desires.

Profit-sharing plans allow employers to make contributions to an account that earns investment income and is sheltered from taxation until the money is actually distributed. The employer's contributions are usually based on a percentage of the profits that the business makes, but contributions can be made even if the business makes no profit for the year.

1.2.2. Called cash or deferred arrangements (CODAs)

Many qualified defined contribution plans permit participating employees to make contributions to a plan on a before-tax basis. These plans are also called 401(k) plans in the United States. They enable participants to save for retirement on a before-tax basis. The employees authorize their employer to reduce their salary and contribute the salary reduction on their behalf to a qualified retirement plan. In addition to these employee elective deferrals, an employer can make supplemental contributions on behalf of employees. These employer contributions can be subject to a vesting schedule, but the employees' contributions must be nonforfeitable.

123. Employee Stock Ownership Plans (ESOPs)

An ESOP is a stock bonus plan or a combination stock bonus plan and money purchase plan that is designed to invest primarily in qualifying employer securities and to use borrowed funds to do so. An ESOP is funded by employer contributions of stock in the corporation or allows you to buy shares of stock as a plan investment option.

124. Money Purchase Plans

In money purchase plans, the employer is obligated to contribute even if the company didn't make a profit. The contributions are determined by a specific percentage of each employee's compensation and must be made annually.

2. International Retirement Plans (IRPs)

For multinational companies, growing a business means leveraging the right talent in the right place. In the world of “global nomads” — expatriates and third country nationals who spend much of their working lives away from their home country — the provision of future financial security becomes ever more important. To attract and retain the right talent willing to move across borders, whether on a temporary or permanent basis, employers need to provide competitive compensation packages that include a retirement savings component.

2.1. Expats and Retirement

Compensation has evolved substantially over the years, with the focus shifting away from relocation allowances to global special benefits. As pension debates in many countries bring retirement planning to the fore, employer-sponsored retirement benefits are often seen as key in a competitive remuneration program. Many mobile employees do not remain long enough in a given location to build an old-age retirement benefit under the local rules, and local social legislation and related tax

regimes often complicate their participation in locally organized retirement plans.

As part of a creative pay package, an International Retirement Plan (IRP) provides a straightforward and flexible solution for your mobile employees regardless of their employment locations. An IRP can help them save for the future efficiently when local statutory and supplemental programs don't provide sufficient financial security

2.2. Target Groups

In general, participation in an IRP is reserved for those employees who are either highly mobile — the true global nomads — and for those permanent transferees for whom the local provisions in the host country are not sufficient or possible.

The most common approach with mobile employees is to maintain their active membership in the retirement program of their home country while they are relocated. But when tax or legal matters make such a solution sub-optimal or even impossible, a move to the retirement arrangement established in the host country is another solution. The first option may be appropriate for employees on short-term assignments, while the second might be recommended for long-term assignees or employees who permanently relocate.

However, for some mobile employees, neither of these options may work, as the move from country to country for short amounts of time may not always let them meet all vesting and participation requirements. What's more, the payout of benefits when retiring abroad may not occur in a tax-efficient manner.

An IRP may help solve the challenges of these globally mobile employees. Of course, due to the absence of fiscal incentives and sometimes even the ability to deduct contributions, these plans may be more expensive than local supplemental plans. Therefore it is important to clearly define the target group and to lay out a consistent retirement strategy for your mobile employees.

2.3. Design

2.3.1 Trust vs. Insurance

The current global trend is that IRPs are being set up as defined contribution savings plans financed and administered through either an insurance or trust arrangement. The choice between these structures generally depends on the actual or anticipated number of plan members and/or the level of contributions.

	Insurance	Trust
Target Plan Size	Limited number of participants (fewer than 100) and/or low contribution levels (up to USD 1,500,000 p.a.)	Significant number of members (100 or more) and/or contribution levels (USD 1,500,000 and more p.a.)
Plan Design	Simple plan design (off-the-shelf) with limited customization options	Customized plan design tailored to sponsor's needs
Administration and Other Services	Insurance, administration and investment services are commonly bundled	Most providers offer bundled administration and investment services Customization may require additional services not included in the bundle
Cost Structure	Low implementation fees and limited ongoing costs due to the limited customization and bundled services	Higher start-up fees and ongoing operation costs due to the customized plan design
Company Liabilities	Plan sponsor is the holder of an insurance policy Plan assets are held by the insurance company/ plan provider	Plan sponsor has fiduciary responsibility Plan assets are held and independently controlled by the trustee, separate from the assets of the employer

232. Plan Membership

The career path of expatriates and third country nationals is often not as predictable as that of their less mobile colleagues, and requires more flexibility in terms of benefit and membership eligibility. Because IRPs are non-qualified plans and are not subject to any social legislation in the countries where they're reestablished, employers can set their own criteria for eligibility and contributions within the often very wide framework provided by the diverse vendors. Most plans, for instance, have immediate vesting with no minimum age or service requirements.

233. Contributions

In defined contribution IRPs, contributions mainly depend on the location of the sponsoring company. They vary between 7% and 15%, with higher contributions up to 20% offered by some European sponsors. Plans may integrate social security accruals from the home or host country, by reducing the contributions in part with any payments to a local social insurance system.

234. Investment Options

Participants can usually choose from a range of funds denominated in major currencies, allowing participants to tailor their portfolio to fit their needs regardless of the location to which they're currently assigned or plan to retire.

2.4. Setting Up

241. Step 1 – Select the participants.

Before setting up an IRP, it is important to identify all possible members of the plan. Because of the higher costs, it is highly advised to carry out an inventory of all mobile employees, and to assess how their current conditions affect their retirement savings arrangements. That way, a single global retirement strategy for the mobile workforce can be established with the proper distinction between those employees for which local plans with fiscal benefits are possible, and those for whom such local solutions will provide too little value.

242. Step 2 – Design the plan.

Dealing with a mobile workforce requires a genuine global approach to retirement plans. Where local plans commonly supplement the level of statutory benefits, this approach usually doesn't work for a diverse expatriate group. Sponsors should design a contribution structure that best meets the needs of the selected employee population within the limits of statutory requirements.

243. Step 3 – Select the vendor.

This is a niche market for providers, so when choosing an IRP provider it is important to base your choice on the vendor's experience with the product, its financial strength, and its ability to help and inform your participants regardless of their location.

244. Step 4 – Determine location

IRPs are generally set up in an offshore location such as Bermuda or the British Channel Islands where investment income enjoys favorable tax treatment. This fact ensures that these plans are commonly non-qualified and therefore are not subject to any specific social legislation. That also means they don't benefit from the same tax treatment that applies to approved local retirement plans, such as tax deductible contributions and other tax incentives. Nevertheless, in most cases sponsors are able to claim the costs related to these plans as business expenses.

2.5. Fees and Charges

An IRP's cost structure generally depends on the following factors: number of employees, level of contributions, chosen investment manager and the structure. Most IRPs with insurance providers work on a flat level fee basis, while most trustee plans use a levy based approach where fees depend on the level of contributions and/or assets under management. Also, trust structures require flat set-up fees for

the development of the trust deed and plan rules of up to USD \$5,000.

2.6. Exclusion of US Tax Residents

Because US citizens and US tax residents are being taxed on their worldwide income, additional reporting requirements apply to these employees. As a result, most providers exclude these employees from IRP participation to avoid these requirements and related administration demands.

2.7. Other Considerations

In addition to their future financial security, employees who work or live overseas are of course concerned about their current benefits coverage. Employers should take a thoughtful approach to health and accident risk, gain a solid understanding of foreign legal systems, and develop the expertise to design a global benefits strategy that affords quality protection at an acceptable cost to ensure they attract and retain the right talent worldwide.

3. Global Equity Program

In today's global business environment, more and more companies with operations overseas use equity-based compensation to attract, motivate, and reward employees worldwide plus retirement plans. The benefits are great for both the employer and the employee, but many difficult issues are raised.

Many multinational firms are seeking ways to provide equity ownership in their firms for their employees around the world. The concept of employee ownership is not new, nor is it a concept limited to a few countries. Now, newly democratizing and newly industrializing countries are looking afresh at the idea of employee ownership as one approach to converting their state-owned enterprises to privately owned firms. Multinational firms with an interest in providing employee ownership can try to follow the patterns that have evolved in the countries of their foreign subsidiaries or they can export concepts from their home countries, to the extent that local laws allow such innovations.

However, the design of such programs is not easy. Every country has its own laws and regulations related to the use of such practices and their tax treatment. And not all foreign employees understand the concept of firm ownership or necessarily agree with it when they do. Global HR professionals must be vigilant in its monitoring of the use of these programs. But even though there are many difficulties in establishing these stock sharing schemes, at least one international consulting firm has found how great the

welcome has been by local management in a number of countries for ability to participate in a share option or share scheme providing parent company shares.

Equity Program is frequently used for companies which need to attract high quality employees to build their businesses but lack the financial resources to offer their employees competitive salaries (Start-up companies or subsidiaries of foreign companies). In the following, we would discuss more about this kind of compensation.

Equity compensation is non-cash compensation that represents an ownership interest in the company. The two most common forms of equity compensation are stock options and restricted stock. Due to the variety of legal, accounting, and tax issues that are involved with equity compensation, proper planning is critical. Therefore, a company should seek legal and accounting advice before implementing an equity compensation plan.

The two most common forms of equity compensation, stock options and restricted stock, serve similar, yet different, purposes in structuring a company's compensation plan. Proper use of equity compensation is important in building a start-up company as it helps ensure the hiring, motivation, and retention of quality employees.



The Basics of Equity Compensation

Source: Doyle, et al. (2008). Equity-Based Compensation for Multinational Corporations (Tenth Edition). The National Center for Employee Ownership.

3.1. Stock Option

A stock option is a right to purchase shares of a company's stock at a predetermined price, which is referred to as the exercise price. The right to exercise the option and purchase shares of a company's stock generally accrues, or "vests," over a period of time. The vesting of options over time creates an incentive for the employee to remain with the company to build its value. Option holders are not stockholders and thus are not entitled to vote their option shares or otherwise exercise any other rights of stockholders. All or a portion of the vesting of options often accelerates upon the sale of the company, unless the buyer assumes the options under its plan. Conversely, if an employee leaves the company, the vesting of stock options ceases, and the employee usually has a limited period of time to exercise the options that were vested on the employment termination date.

There are two types of stock options: incentive stock options ("ISOs") and non-qualified stock options ("NQSOs"). In the case of ISOs, and generally in the case of NQSOs, there is no tax to the option holder when the option is granted or when the option vests. The crucial distinction between ISOs and NQSOs is when the option is exercised. Generally, there is no tax to the option holder when ISOs are exercised. (However, the option holder may be subject to alternative minimum tax when ISOs are exercised.)

When NQSOs are exercised, the option holder is subject to ordinary income tax on the difference between the exercise price and the fair market value of the stock on the date of exercise. The option holder is subject to capital gain tax on the sale of the stock that was purchased upon the exercise of ISOs and NQSOs. This tax is on the difference between the sales price and, in the case of ISOs the exercise price, and in the case of NQSOs the fair market value of the stock on the date of exercise.

Sometimes, a stock option must satisfy several criteria to qualify as an ISO. Principal among these is that ISOs may be granted to employees only, and the exercise price of ISOs must be equal to or greater than the stock's fair market value on the grant date. NQSOs may be granted to non-employees, such as outside directors or advisors. The exercise price of NQSOs may also be less than the stock's fair market value on the grant date.

3.2. Restricted Stock

While stock options are appropriate for most employees, a company's founders generally demand the voting and other rights of stockholders. However, the founders may desire to ensure that the stock owned by all of the founders is at risk and thus subject to forfeiture if a founder leaves the company. This motivates all the founders to work hard to build the company's value, and if the stock of a departing founder is forfeited, it can be used to hire a replacement thus minimizing the dilution to the remaining founders. In addition, investors may wish to ensure that the founders are motivated to remain with the company to build its value. Restricted stock fulfills these objectives and is often used as a form of equity compensation for founders.

Unlike the grant of stock options, the grant of restricted stock is the issuance of shares of the company's stock. A holder of restricted stock can vote the shares at stockholder meetings and has all of the other rights of a stockholder under applicable corporate law.

Restricted stock is generally subject to a repurchase right that allows the company to repurchase a portion of the founder's stock if his or her employment is terminated by the company for cause, or if the founder voluntarily resigns within a certain period of time. This repurchase right lapses over time, freeing the stock of the restrictions in much the same way that stock options are subject to a vesting schedule.

3.3. Implementation of Global Equity Compensation

Researchers found that successful implementation of global equity programs requires constant attention and a full understanding of the cultural and legal climate of each country and region in which they are offered.

We summarize the tax, regulatory, and employment compliance requirements that multinational companies need to address when "going global" with employee equity programs:

331 Income Tax and Social Insurance

The taxation of equity-based compensation is always a concern for issuing companies, local subsidiaries, and employees. In several countries, the standard income tax and social insurance charges can be so high that the equity award does not provide a real incentive or retention tool for the employees. In many countries, companies may set up tax-advantaged alternatives that allow the company and its

employee preferential tax treatment (such as reduced or deferred tax obligations).

332 Tax Withholding and Reporting

Tax withholding and reporting is one of the most complicated and regulated areas for employee equity awards. The withholding and reporting requirements vary greatly by country. In addition, the type of award offered and the company's local corporate structure impacts the company's obligations. Because the collection of tax generates revenue for the country, the withholding and reporting process set up by the issuing company and the local subsidiary are audited regularly by the local tax authorities.

333 Local Tax Deductions

The availability of a tax deduction for the local subsidiary is important when determining how to implement the employee equity programs. If structured appropriately, the local subsidiary should be able to deduct the costs of the employee equity programs from its local tax obligations and reimburse the issuing company for the expenses.

334 Securities Compliance

Offers of equity awards may be subject to securities registration and disclosure requirements in the countries where the offers are made. These requirements may include registering the equity programs, drafting prospectuses, publishing offer information, and/or compliance with filing requirements. In many countries, exemptions or exclusions from these requirements are available if the offer is structured properly.

335 Currency Exchange Controls

Companies must address the intricacies of currency exchange restrictions that affect the conversion and transfer of funds across borders between the issuing company, the local subsidiary, and employees. Compliance with currency exchange restrictions will likely require obtaining exemptions or approvals from the regulatory authorities.

336 Data Privacy

Data privacy is an important and often confusing area of the law. Because employee information is always collected, stored, and transferred in the administration of the equity award programs, the local data privacy laws must be addressed. Companies must structure the administration of these programs so that they comply with the

local data privacy laws and, where necessary, obtain the appropriate approvals from the local data privacy authorities.

337. Employment Issues

Employment issues are becoming more problematic for companies that offer equity award programs. Employment issues include employee acquired right to plan benefits, works council co-determination rights, and discrimination. These issues, if not addressed properly, can result in fines or judgments against both the issuing company and the local subsidiary.

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