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COMMENTARY

Equitable compensation and the Canadian multinational corporation

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Deciding whether to provide similar levels of pay for work of equal value is a natural consideration for Canadian companies with operations abroad — internal equity is a key platform for human resource strategy. However, a number of challenges must be surmounted, which raises the question: Is this a noble cause, or a foolhardy gesture?

In looking at what "similar pay" actually means, it's important to look at why there are differences in pay for the same job in different countries:

Talent supply: Labour is not free to move at will across international borders. And while this is changing, at different times countries will have shortages of certain skills that cause competitive pay to increase at different rates.

Costs of living (including housing): As a general rule, in free-market economies, salaries rise in relation to the prosperity of the economy and underlying inflation. This will differ by country and over time has resulted in significant variances among countries in compensation levels for the same work. In the last 20 years, however, with more goods and services available on a global basis, differences in costs for the same goods have begun to diminish.

Payroll taxes: These include income tax, social security and other state-initiated deductions from pay. While not directly impacting gross pay, they cause indirect upward pressure on pay when net pay is reduced.

Social policy: This plays an important part in influencing pay. For example, Canada has seen significant increases in the compensation of mining executives as they are free to leave and work in higher-paying jurisdictions. Other reasons might include the level of (and who pays for) the social safety net. The U.S. government, for example, unlike Canada, plays a limited part in subsidizing health care or tertiary education costs for working individuals, thus putting more pressure on pay levels.

Location: The attractiveness of a location may have a discounting effect on local salaries. For example, Canada has lagged international competitive pay levels despite higher taxation, and many considered this to be because Canada — with its open spaces, safe cities, high human-rights standards, education and health care — is a first-rate location for families.

What is 'equal'?

While the sentiment may be noble, paying the same rates for similar jobs in different jurisdictions can have unintended consequences. For example, "equalizing" the pay between Mexican and Canadian supervisors would almost certainly mean paying the Mexicans more. Mexican salaries at this level are lower because the competitive pressures are fewer, Mexican supervisors are unlikely to (be able to) move to competing jurisdictions, and their standard of living is lower.

Increasing their discretionary income would improve their standard of living, but is this reasonable for one group of employees and not others? Why wouldn't Canadians ask for something similar? Fairness may not just be a question of pay: it may also mean what that pay can buy. In addition, how will the company respond to investors when asked why it pays more than what is required to attract and retain supervisors in the local competitive market?

Paying employees the same amount for doing the same work — irrespective of local competitive pressure — is, therefore, probably not a sound approach. However, there are occasions where moving towards the same pay for certain types of skills may be prudent.

For example, an international organization may have a pay philosophy that advocates a global pay scale and equalizing absolute discretionary income for the executive team. Why? Because they are globally mobile and capable of being hired by anyone, anywhere. As a result, the amount available for lifestyle items and services (such as cars or vacations) is at a similar level irrespective of location, and executives from low-paying countries don't feel discriminated against.

That same company might want to equalize pay for senior managers because they are successors to the executive team and mobility is a scarce competency. This would retain managers with a successful international transfer record who have skills or experience useful to international growth.

Expanding internationally introduces

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a number of considerations that don't exist when dealing with operations in a single country. Employees at a newly acquired overseas subsidiary may expect to be paid at Canadian levels, and human resources will need to have a prepared response. Equally, if the new operation is in a higher-paying location than Canada, human resources will need to know how to respond to Canadians seeking parity with their new international colleagues.

An international compensation policy should similarly address the philosophy and practices behind how relocating employees are to be treated. The approach must be informed by the needs, nature and goals of the business. Employers have developed numerous iterations, but the traditional method of keeping employees "whole" and reimbursing every extra expense that may arise is rapidly being replaced with more holistic and less administratively cumbersome and costly approaches.

Here are three examples of pay strategies for expatriates at an international organization:

1. Assignment of less than one year:

Future career plan: Likely in home country; may be high-potential; unable or unwilling to relocate; temporary assignment will reflect temporary need for short-term specialized skills in host location; possibly may repeat this approach in other locations.

Pay philosophy: Home country pay scale plus temporary allowance and per diem for expenses or international contract scale; permanent or fixed-term contract reflecting progression potential within company and industry norms.

2. Assignment of one to three years:

Future career plan: At end of assignment, return to home location and unlikely to move abroad again; likely to have a series of overseas assignments.

Pay philosophy: Home country salary with expenditure components protected for high costs in host location, such as housing, taxes, goods and services; may also recover amounts representing less costly expenditure in host location, such as equalizing housing or taxes to home country; to reinforce mobile nature of career, sever compensation links to home country and provide an internationally competitive salary; reimburse additional costs of temporary housing and any double taxation (not equalize); international assignment objectives should be included in regular short-term incentive goals; subject to numbers and locations, may involve a global employment strategy or company.

3. Assignment of indefinite length:

Future career plan: Likely to remain in host location.

Pay philosophy: Host location pay scale and incentives; additional, fixed offshore amount to retain total in-line with former home country compensation, if required.

When administering pay in an international context, the approach must reflect and align with a company's business values and culture, industry practices and serve the goals of the business. Fundamentally, the issues remain the same as when managing domestic compensation:

Do we have the right skill sets to achieve the tasks required? If this means attracting employees from overseas to the home base (or encouraging employees to move overseas), the employer may need to go beyond its traditional compensation philosophy and pay components.

What do we need to pay to attract, retain and motivate? Research gross and net competitive pay levels in the host location for the skills you need to retain. Determine to what extent you will recognize any differences, how you will do that and whether an incentive is required to motivate mobility.

Are incentives aligned with strategic goals? Ensure assignment goals are clearly documented and agreed to, and that they are appropriately incentivized. For example, if completing the assignment is critical to your business, consider a completion bonus.

While equity and pay equity are important principles when considering employee compensation, it becomes more complicated across international operations. At senior levels, there may be competitive justification to equalize some or all of the key components of pay, but, as a general rule, this will create more challenges than it resolves.

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