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Reward management in human resource practice

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Agenda

- Performance management
- Reward dimensions
    - Works
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- Compensation strategies
    - Motivation
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- Special compensation cases
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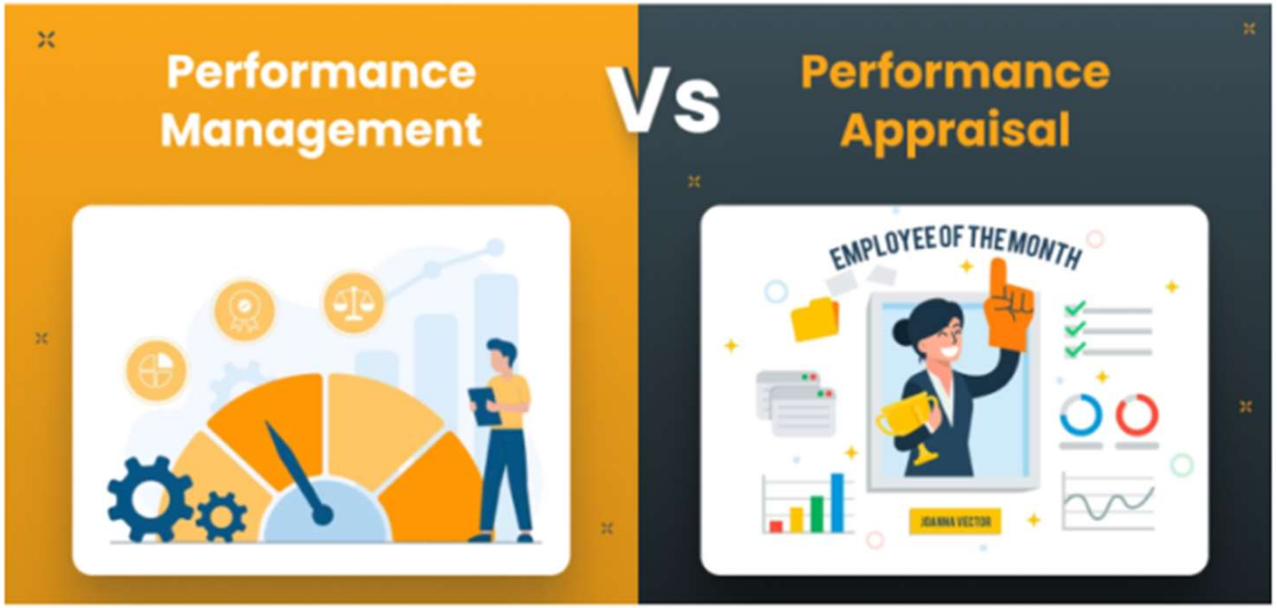
Performance management



Performance management cycle

The performance management process consists of 4 parts:

1. Planning: an employee aligns his or her personal goals with those of the company, identifies core competency improvements and key result areas, agrees with the supervisor the actions needed to accomplish the objectives, and lays out a personal development plan together
2. Leading: during the year whereby the supervisor and employee review the progress on goals and competencies formally or informally and the supervisor gives any coaching and support required to assist the employee to achieve the agreed objectives
3. Reviewing: formal assessment phase that is focused on the achievement of goals and objectives
4. Rewarding: linking performance targets with accompanying rewards.

1. Planning

- **Measures**: desired outcomes/behaviours to measure
- **Standards**: what is expected of a fully job knowledgeable employee who exerts normal effort
- **(stretch) Goals**: agreed performance level
    - (‘*exceeds standards*’, ‘*fails to meet standards’*)
- **Performance**: deviation from goal setting

2. Leading

During the performance period the manager uses the **performance contract as a benchmark** for observing the direct report

- When performance above standard is observed, the standard becomes the basis of positive feedback
- When performance is below standard or below the goal set by the direct report, corrective feedback is used

3. Reviewing

At some point, a summary of performance during the period is provided to the direct report

- In most organisations this is an **annual event**, but some organisations have quarterly or semi-annual performance summaries

At this point the manager provides a summary of how the direct report has been doing against each performance measure, and whether standards and goals have been met

Consequences of achieving various performance levels are communicated, and planning for the next period's performance begins

If performance management has been conducted correctly, the summary appraisal should have no surprises for the direct report

4. Rewarding: the merit matrix

A merit matrix is a guideline that helps managers ensure that similar levels of employee performance are rewarded consistently and funds allocated for merit increases are distributed appropriately

The merit matrix helps managers determine the most appropriate merit increase based on the employee’s performance rating and their compa-ratio

- Compa-ratio is the placement of the employee’s salary in comparison to the salary range midpoint for their role, which is calculated by dividing the employee’s annual base rate by the salary range midpoint
- A compa-ratio of 1.0 indicates an employee is paid at market value. While a compa-ratio higher or lower than 1.0 would indicate a salary above or below the market, job requirements and various factors, including education and experience, play a role in determining the employee’s initial salary placement in the range.

The merit matrix

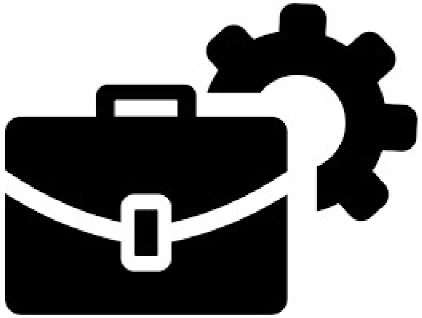
Merit Increase Matrix - Suggested								
Market Value Compa-Ratio								
Performance Rating	Below				Mid-Point	Above		
	Less 80%	80% - 85%	86% - 90%	91% - 95%	96%-100%	101% - 110%	111% - 120%	Over 120%
Exceptional	5.00%	5.00%	4.50%	4.00%	3.75%	3.50%	3.25%	3.00%
Exceeds	4.50%	4.25%	4.00%	3.50%	3.25%	3.00%	2.75%	2.50%
Fully Meets	3.50%	3.50%	3.25%	3.00%	2.75%	2.50%	2.25%	2.00%
Needs Improvement	0%	0%	0%	0%	0%	0%	0%	0%

The matrix is ‘proved’ by multiplying each increase percentage by the percentage of employees with that level of performance and falling in that compa-ratio range, and then summing these values

This weighted average equals the total payout of the matrix for that employee set

Percentage increases in the matrix are adjusted until the proved matrix percentage equals the budgeted percentage increase.

Reward dimensions



Valuing work

- Internal job evaluation (point factor system)
- Market evaluation (market pricing)

Valuing worker

- Skill- based pay systems
- Credential- based pay systems
- Competency-based pay systems

Internal job evaluation

Job evaluation is a process designed to produce an internal hierarchy of job value based on an organization's unique strategy, culture and values

The first issue to be resolved is whether a **single job evaluation** or assessment system should be used for all jobs in the organization

- Few organizations include executives in the job evaluation system used for the bulk of jobs; executive rewards tend to be set on the basis of negotiations, or have a job evaluation system applying to executives alone
- Other groups excluded from the job evaluation system (or have unique systems) include any group with unique terms and conditions: sales jobs, collective bargaining units, and certain professional groups such as actuaries and nurses, who may not be included in the primary job evaluation system.

Point factor systems (1/4)

There are several forms of job evaluation but the most common is the **point factor system** or one of its variants

The point factor system begins with a consideration of what aspects of work are thought to add value to the organization (e.g. training and development)

Most point factor systems use between 7 and 10 factors

- Some typical factors include education required, experience required, supervision received, supervisory responsibilities, creativity/innovation required, responsibility for budget/equipment, and working conditions

1	2	3	4	5	6	7	8	9	10
No formal education required	Some high school education	High school diploma or equivalent	Vocational or trade school certification	Some college education, no degree	Associated degree	Bachelor's degree	Professional Certifications	Master's Degree	Master's Degree & Professional Certifications

Point factor systems (2/4)

After the factors are chosen, they must be weighted. This is usually calculated in line with the organization’s strategy

Scales must then be developed for each factor

- Education: Weightage of 60%
- Experience: Weightage of 70%
- Supervision: Weightage of 80%
- Decision Making: Weightage of 90%
- Business Impact: Weightage of 100%

Factor Name	1	2	3	4	5	6	7	8	9	10
Education	0.6	1.2	1.8	2.4	3	3.6	4.2	4.8	5.4	6
Experience	0.7	1.4	2.1	2.8	3.5	4.2	4.9	5.6	6.3	7
Supervision	0.8	1.6	2.4	3.2	4	4.8	5.6	6.4	7.2	8
Decision Making	0.9	1.8	2.7	3.6	4.5	5.4	6.3	7.2	8.1	9
Business Impact	1	2	3	4	5	6	7	8	9	10

Point factor systems (3/4)

When all the factor scales are completed, all jobs are evaluated

- This is done by a job evaluation committee composed of job-knowledgeable employees and usually chaired by a compensation/rewards specialist

Each of the grey boxes denotes the point factor choice for a job.

Factor Name	1	2	3	4	5	6	7	8	9	10
Education	0.6	1.2	1.8	2.4	3	3.6	4.2	4.8	5.4	6
Experience	0.7	1.4	2.1	2.8	3.5	4.2	4.9	5.6	6.3	7
Supervision	0.8	1.6	2.4	3.2	4	4.8	5.6	6.4	7.2	8
Decision Making	0.9	1.8	2.7	3.6	4.5	5.4	6.3	7.2	8.1	9
Business Impact	1	2	3	4	5	6	7	8	9	10

When you total them all, you will get a Total Point Score of 29.6, which in fact is the total value of the Job in points.

Point factor systems (4/4)

Job Evaluation – Final Calculation

Total Points	**29.6**
Benchmark Data Range	$50,000 – $150,000
Point Calculation	[$150,000 – $50,000] / 40* = $2500
Job Worth (annual)	$2500 X 29.6 = **$74,000**

**Note: 40 is the maximum total points possible in the point table. This is calculated by adding maximum points under the last column of 10 (6+7+8+9+10 = 40).*

Market valuation

In pure **market pricing** the organization gets market rates for as many of its jobs as possible

- Market pricing results in a much more efficient use of salary dollars, since salary dollars are allocated in a way that optimizes competitiveness across all jobs; no one is overpaid or underpaid except by design

There are many association, third- party, and self- developed and commercial surveys available. Nonetheless, market rates will not be available for all jobs in a typical organization

- Thus, even the pure market- pricing organization needs to find a way to estimate market rates when market rates are not available
- Market- pricing organizations do this through statistical analysis, primarily through multiple regression techniques

Critics of market pricing note that survey data are suspect in many cases

Valuing the worker (1/2)

Thus, a number of critics of job evaluation and market pricing emphasize how it is **employees that add value**, not jobs

Skill- based pay is typically used in blue- collar work sites. A work process is divided into major tasks, and these are ranked in terms of how difficult these are to learn. Bundles of similar- difficulty tasks (typically three to five) are specified.

An employee begins work doing only the tasks in the lowest level bundle, and so receives an entry-level rate of pay. As the employee masters these lower-level skills s/he begins training on the second level bundle. When these are mastered, the employee receives an increase.

- Cross- training and requirement to do what needs to be done rather than some set of specific assigned tasks makes scheduling easier
- Higher motivation levels and lower absenteeism and turnover
- Critics note that wage sets in skill-based pay systems are higher than in traditional system

Valuing the worker (2/2)

Variations of skill- based pay systems include:

Credential- based pay: Actuaries typically get an increase for each part of the actuarial examination they pass

- Teachers in the United States get one pay rate when they have a BA or BEd. After completing a fifth year, they get an increased rate. A Masters degree gets them a still higher rate, and a PhD or EdD results in a still higher rate, even though they may still be teaching in the same classroom.

Competency- based pay has been discussed more than implemented for so- called white-collar workers. Acquiring or increasing competencies valued by the organization would result in salary increases

- Critics note that competencies tend to be very similar to traits, and like traits, difficult to change
- Using competencies/traits as a basis for developing compensation strategies is inappropriate

Compensation strategies

1. What is the **purpose** of the compensation strategy? Compensation programs are said to attract, retain and motivate staff that the organisation wants
2. What **compensation** will be included in the strategy?
3. How **consistent** will the compensation treatment be? Will everyone holding the same job title have equivalent rewards?
4. What characteristics make an employee valuable, and how will value be determined?
5. What **competitive stance** will be taken for each individual component of the compensation programs, and for the total compensation package?
6. How will **risk** be divided between the employee and the employer?
7. What will drive **changes** in compensation systems?

Compensation strategies (2/2)

8. What **choice** does the employee have in the rewards components received?
9. What is the **role of employees** in the design and administration of compensation systems?
10. How will compensation systems be coordinated such that they avoid working at **cross- purposes**?
11. How will compensation systems be **integrated** with other human capital strategies?
12. Who is **responsible** for compensation decisions?

Motivation theories

Motivation theory	*Basic assertions relevant to rewards*
Maslow's Hierarchy of Needs (Maslow, 1987)	Money generally considered at physiological or safety/security levels of hierarchy, but may satisfy social/affiliation or esteem/recognition needs for others. Not a great motivator. Requires individual employee motivational analysis and plans.
Herzberg's Two-factor Theory (Herzberg, 2008)	Money is a hygiene, not a motivating factor. Money is a necessary but not sufficient condition for motivation. Data contradict assertions.
Equity Theory (Adams, 1963)	Individual compares outcome/input ratio with that of relevant others. If ratios similar, equity is felt; if ratios dissimilar, individual will seek to correct situation.
Expectancy Theory (Vroom, 1964)	Individual considers probable performance associated with different effort levels, probable rewards associated with different performance levels, liking of different reward sets; then makes effort believed likely to achieve preferred reward set.
Goal-setting Theory (Locke & Latham, 1990)	When people have high, specific, accepted goals they perform better, although they do not necessarily reach their goal.
Reinforcement Theory (Skinner, 1953)	When consequence of a behaviour makes it more likely to be repeated, we say the consequence is reinforcing. Reinforcement immediacy is important. Continuous reinforcement schedules are good for training; variable ratio reinforcement schedules best for sustained behaviour.

Motivation theory	*Implications for rewards systems*
Maslow's Hierarchy of Needs	None: money doesn't motivate
Herzberg's Two-factor Theory	None: money doesn't motivate
Equity Theory	The basis for traditional reward systems: job evaluation promotes internal equity, wage surveys promote external equity, merit systems promote individual equity. Organisation needs to specify which inputs are valuable with respect to rewards and make sure employee is aware of all reward outcomes.
Expectancy Theory	Managers need to make sure direct reports understand probable required effort level to reach various performance levels, and probable rewards outcomes of achieving various performance levels. Organisations must make sure rewards outcomes are, in fact, primarily a function of performance levels. Employees need to know the 'rules of the game'.
Goal-setting Theory	Rewards need to be based on performance, not goal achievement. Anyone achieving all their goals probably didn't have stretch goals.
Reinforcement Theory	To be most effective, rewards should be immediate and delivered on a variable ratio schedule.

Source: Rowley, C., & Jackson, K. (2010). *Human resource management: The key concepts*. Routledge.

Monetary rewards

Traditional wage systems are founded on notions of equity:

- **Base pay** founded on job planning and evaluation and labor market benchmarks
- Permanent Increases given through **merit pay** systems

Systems rarely utilize the findings of expectancy, goal setting or reinforcement theories.

As motivation theory and rewards systems have evolved, to include finding of expectancy, goal setting or reinforcement theories, newer rewards systems have been introduced:

- The newer forms of rewards are usually referred to as **incentive pay**
- Incentive schemes are generally divided into long- and short-term plans, with one year being the dividing line between the two
- All have one thing in common: any reward received is temporary and must be re-earned every year

Types of incentives

Short-term incentives	
Lump sum bonuses	Identical to merit pay increases except that base pay is not changed. Usually an introductory incentive used in moving employees to other incentive schemes.
Other bonuses	Targeted rewards for specific achievements, e.g. quality increase, accident reduction. When desired achievement level reached, may drop bonus programme or replace with a different target.
Gain sharing	Gains in reduced labour costs per unit produced shared with employee teams responsible. Gains made through working smarter rather than harder. Formula-driven, requiring information sharing and consultative, decision-sharing management style. Acceptable to unions. Primarily used with production workers.
Goal sharing	Extra profits resulting from exceeding standards (e.g. reduced time to market, increased market share) shared with employee group responsible. Primarily used with professional workers.
Small group incentives	Similar to individual bonuses but earned and distributed at the group level.
Profit sharing	Some portion of profits is shared with employees, almost always pro-rated by salary level. An incentive only when there is a cash payout.

Long-term incentives	
Stock options	Employee (usually executive) is awarded right to buy some shares at a strike (fixed) price (the market price of shares the date of the set-aside). The employee usually cannot exercise the options for five years. Designed to align interests of the employee with long-range interests of shareholders.
Stock and unit plans	Actual shares awarded to employee but employee restricted from selling for some period and awards are subject to forfeiture under some circumstances. In a performance unit plan the employee is granted 'units' entitling employee to cash payments or equivalent in stock (as valued at time of award) if company achieves predetermined objectives.
Project plans	Some projects have longer than one-year cycle; incentive plan would reward based on overall success of multi-year project, as well as at project milestones.

Source: Rowley, C., & Jackson, K. (2010). *Human resource management: The key concepts*. Routledge.

Benefits

Benefits differ from other compensation or rewards programmes because they are **non-wage compensation that are meant to supplement an employee's salary**.

Benefits differ in nature across countries

- In the United States the two most expensive parts of the benefits package are pensions (and other capital building programmes) and health care
- In contrast, many other countries (such as the UK and Canada) have public pension programmes and some version of public health insurance

All **benefits are biased** towards one group or another

- Paid time off for new parents does not benefit those who have no children or who have older children; allowing employees time off to go to children's soccer games fails to benefit the childless.

Benefit types

As a minimum HRM strategy, employers could offer only those benefits mandated by government and offer higher wages to employees

This is unlikely to occur, since:

- Most organizations and employers compete for labor. Those that offer benefit packages will probably find it easier to attract and retain staff.
- Some employers feel a moral obligation to offer benefits even when not required to by law

Benefits type	*Examples*
Retirement and other capital accumulation programmes	Obligatory government programmes Individual savings programmes Company pension plans
Income protection programmes	Workers' compensation Unemployment insurance Disability coverage Life insurance
Medical and other health benefits	Hospitalisation/medical care Surgery and major medical Health management organisations (HMOs), preferred provider organisations (PPOs), managed care Long-term care Dental care Prescription drugs Vision care Hearing care
Paid time off	Vacation Holidays Personal days Special purpose days (jury duty, bereavement) Family leave Sabbaticals Rest periods Community service Paid time off banking
Services and miscellaneous	Dependent care (child care, elder care) Family leave programmes Employee assistance programmes Legal services Financial advisory services Property and liability insurance buying co-ops Paid or subsidised meals Discount on organisation's products, services Parking Gymnasium and other health/recreation facilities

Trends in benefit planning: Flexible benefits plans

Move toward defined **contribution benefit programs**, where the employer commits to spending a defined contribution level

- If costs rise faster than the employer can afford, the employee is faced with choices between increasing his/her contributions to the benefit, accepting a lower level of service, or (most usually) both.

This trend has also supported the growth of flexible benefits plans, where the organization commits to a specific total contribution for an employee, but allows the employee some choice in the benefits received

- Such plans typically have some core set of benefits the employee must take but then allow the employee to choose higher levels of those benefits or additional benefit categories. These programs usually allow the employee to 'buy' higher quality levels or more amounts of benefits by increased payroll deductions.

Trends in benefit planning: a shift in risk and reward

When organizations offered defined benefit pension programs, the organization committed itself to offering a certain pension level to each employee.

When the pension fund made investments, the organization was obligated for specific pension payments whether those investments lost value or increased by large multiples. All the risk (and reward) went to the organization.

Under a defined **contribution pension plan**, the organization makes some specified contribution to the plan of each individual employee. All the investment risk lies with the employee, and employees who invest wisely (and luckily) will end up with a much larger amount of capital to fund retirement.

Non-monetary rewards

Non-monetary rewards are known by many names

- Recognition awards, low cost/no cost awards, and ‘hugs and mugs’ are just some examples

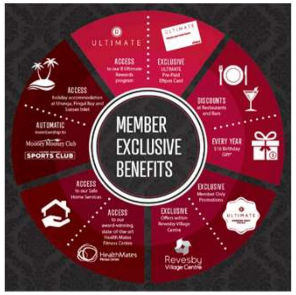
In some cases, money is a part of the reward, but the emphasis is on the **recognition received by the employee** rather than the nominal amount of money involved

The great strength of non-monetary rewards is their **immediacy**

Non-monetary awards have always existed in organisations

- Arbitrary, capricious, and not integrated in any way with the rest of the rewards system
- Rationalisation of non-monetary rewards programmes and their integration into the rest of an organisation’s rewards system

Perquisites (perks)



Perquisites include any non-monetary reward that is a **function of the job** rather than the incumbent

- Special eating areas, use of the corporate jet for travel (or first-class travel), club memberships, cars (sometimes with driver), larger office space (perhaps in a restricted area, and with lavish furnishings) and unsupervised time

These rewards reinforce the **status** of the person receiving them, which received considerable criticism from social activists on moral grounds

- In some countries perquisites were also one way of getting around high marginal income tax rates
- Many organizations have dropped perquisites except for the most senior executives
- Other organisations have turned some perquisites (especially reserved parking spaces and first-class travel) into performance rewards.

Recognition awards

Most incentive programmes are based on plans to reward deserving employees prospectively; recognition awards acknowledge contributions **retrospectively**

The emphasis in most of these awards is on the **psychic rather than the monetary value of the award**

- Spot awards – small amounts of cash; achievement medals or trophies; an all-paid nights in the town; T shirts and other logo clothing; electronic or athletic equipment; choices from a merchandise catalogue; gift certificates; travel awards

Many of these award programs were first used by sales managers

Integrating recognition awards with other compensation programmes means that most recipients of recognition awards would be expected to also receive incentive rewards and more substantial merit increases (on average) than non-recipients.

Since most recognition rewards depend on **nomination by the employee's manager or peers**, it is critical that nominators be trained in the purpose of recognition awards

Psychic pay

Psychic pay also started with sales compensation

- The prototype of psychic pay is the *Million Dollar Club*
- Other forms of psychic pay include *employee of the month programmes, special parking privileges, letters of commendation from management, and stories and features in company newsletters*
- A practice which has had mixed results – depending on the quality and purposes of the executive doing it – is ‘*lunch with the CEO*’ or other senior executives.

Worksite policies

The rationale behind worksite policies is that employees spend so much time at work that it is appropriate to reward them for this by making the **workplace a pleasant place to be**

- Break rooms with game tables, computer games, casual dress codes, gardens and break areas together with an allowance and provision to bring children to work (occasionally) or animals to work (frequently). Choice of office furnishings
- Support services: dry cleaners, laundries, post offices, gift shops, massage tables, barbers and hairdressers, banks and any other services. Some organisations even arrange for company dining rooms to sell takeout food in the afternoon so an employee can take an entire dinner home without having to stop anywhere on the way home and later cook.

Like benefits, worksite policies are not related to performance. Rather, they are membership rewards, available to all employees regardless of performance level

High technology companies are much more likely to use worksite rewards than traditional manufacturers as competitive advantage lies in the intellectual power of their employees

Family friendly policies

In line with the type of worksite policies, family friendly policies apply to all employees

The goal is to have the entire family of the employee connect with the employer, and thus render employee retention more likely

- Frequent open houses for relatives of employees; flexible work hours and temporary or permanent part time work or job sharing is another; support of educational and charitable concerns, often by matching employee gifts; child and elder care referral together with other community information service referrals; general support of work–life balance expectations

Executive rewards (1/2)

Executive rewards have been based for many years on a combination of agency theory and market comparability (external equity), which made executive compensations higher than those of other employees

Agency theory notes that executives and owners of the organization (shareholders) may have different objectives

- In order to have executives serve the interests of owners (i.e. have them be effective agents) it is important to make executives owners as well.
- The drive to make executives effective agents is the rationale for the use of stock vehicles (options, restricted stock, etc.) as a major component of executive rewards.
- As stock markets have surged during the late 20th and early 21st centuries, executive compensation has grown much faster than the pay of other employees

Executive rewards (1/2)

Maintaining **market comparability** – or being competitive against a market for executive talent

- Every year, consultants together with the executives themselves have been eager to point out that competitive rewards have increased, thus necessitating a large increase for executives in the client organization
- This *ratcheting effect* has been exacerbated by having the consultant working for the organization and its executives on terms of executive compensation and of other rewards and management consulting assignments
- Finally, weak governance schemes – primarily weak boards of directors – have had little constraining impact on executive power; rich rewards systems for directors are likely to have influenced directors as well.

Characteristics of executive rewards (1/2)

Characteristics of executive rewards packages differ significantly from packages of other kinds of employees

In most cases the package is negotiated rather than being set following guidelines

Job evaluation is more rarely done for executive jobs, and even then negotiations are still likely to take place

- This is because senior executives – and particularly the CEO – are hired based on individual strengths, and jobs are to some extent built around the individual rather than finding the ‘best’ individual to fit a set of job specification
- Ongoing contracts of employment typically have some ‘change of control’ protections. So if there is a merger or acquisition, the executive has some protection against losing his or her job. Presumably, this allows executives to operate in the best interest of shareholders even though it may mean they lose their jobs.

Characteristics of executive rewards (2/2)

While the components of the rewards package are similar to those of other employees (e.g. in terms of base pay, short- and long- term incentives, benefits and supplemental benefits, deferred compensation, and perks), **the mix distribution is very different**.

- Base pay is likely to be much smaller than either short- or long- term incentive payouts
- Basic benefits form a much smaller part of the mix for senior executives than for other employees
- Senior executives typically get supplemental benefits that are not offered to other employees and may cost the organization much more than the base benefits package

The role of the governments

Government regulations and tax law have had substantial effects on executive rewards levels and the components of the rewards package

- In the United States, for example, tax statutes limit base compensation, i.e. in terms of tax deductibility by the organization

Tax statutes also favor ***options***

- In a period of rising markets, increased market values of companies may not depend on value executives have added to the organization
- Changes in accounting rules: it is now required that organizations account for option grants when they are made. Black- Scholes model overvalues options, and thus discourages corporations from issuing the optimal number of options for attracting, retaining and motivating executive talent

Regulatory agencies have required that publicly traded organizations publish information of rewards packages of senior executives.

Social perceptions of executive rewards

Social critics in general argue that executive pay is too high, and that the divide between rich and poor is becoming too great

The executive pay policy line typically has a much steeper slope than does the rest of the organization.

- **Tournament theory**: executives are willing to forgo remuneration in exchange for the opportunity to compete for the top ‘winner take all’ job.

Several European countries have imposed additional taxes on bonuses of financial industry executives, arguing that these executives are responsible for the economic collapse and should not be getting large bonuses under the circumstances

In the United States, President Obama appointed a ‘pay czar’ to oversee executive pay in companies that took (and have not paid back) federal bailouts

Boards of directors have begun to be more independent. An executive compensation consultant is hired and instructed to report to the board of directors rather than to the HR department or the senior executive team.

Expatriate compensation

Most organizations used to rely heavily on expatriate employees to fill management and other key positions in their overseas operations

- In some cases, the reward package has been the result of negotiations. Some organizations have tried localization, where **expatriates receive the same reward package as local nationals.** Other organizations have developed special pay structures for inter national employees or have had regional plans. Still others have tried multiple programs.

The difficulty with all of these approaches is that labor market rates, costs of goods and services, tax rates and government services together with customary rewards packages vary from country to country

In practice, the outcome has been to **assure that the expatriate does at least as well in every compensation category as he/she would at home**, but to get the customary perks associated with the host country, e.g. a car plus driver.

Balance sheet approach

home country costs
\+ additional home and host country costs
– host country costs paid by company and from salary
= home country equivalent purchasing power

Balance sheet calculations are generally divided into four areas:

1. income taxes (US- based expatriates): under tax equalization principles a hypothetical US income tax is determined for a similar US employee and funding is provided to make sure the expatriate employee does not receive a higher rate or lower net income after **paying both US and foreign income taxes**.
2. housing and related costs: based on the distribution of income and housing expenses for a typical family of a given income level. Included in the calculations are **extra costs due to selling or renting a house in the home country**
3. goods and services, and savings: based on income level and expenses for a typical family at a given income in the home country. Adjustments would be made for cost of living and expected customary **standards of living** in the host country, adjusted for foreign exchange rates.
4. benefits and related areas: Expatriates usually get the best of both worlds: they get what they would get at home or what locals get, whichever is better. In addition, they are likely to get home leave and travel, rest and recreation allowances, dependent education, special health care and other **perquisites**. Finally, expatriates usually get an additional premium, which may be labelled as a 'foreign service premium', a **'mobility premium'**, or a 'hardship premium

Global compensation strategies

The expense of maintaining an expatriate workforce and growing questions about their effectiveness when compared to local nationals has led some organizations to consider developing a global compensation system.

- The true global organization seeks competitive advantage through a uniform global culture, common technologies, and common terms and conditions for its human capital in the con text of different legal systems, socio- cultural expectations, economies and labor markets, and opportunities.
- A global compensation system would seek common terms and conditions.
- At the same time, legal constraints (e.g. mandated benefits, rewards limitations, tax and labor relations laws), social customs (e.g. the enduring roles of family, employer and government), and economic realities (e.g. competitiveness levels, standards of living, foreign exchange rates, labor market rates and demographics) must be recognized and accommodated in the global HR strategy for expatriate compensation.