Developing evidence-based alternatives to dual salary systems

Policy Brief:

Developing Evidence-Based Alternatives to Dual Salary Systems

Ishbel McWha-Hermann (*Corresponding Author)
University of Edinburgh,
29 Buccleuch Place,
EH8 9JS,
United Kingdom
Email: ishbel.mcwha@ed.ac.uk

Leo Marai
University of Papua New Guinea, Papua New Guinea

Malcolm MacLachlan
National University of Ireland Maynooth

Stuart C. Carr
Massey University, New Zealand

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Executive Summary

The United Nation's Sustainable Development Goal (SDG) 8.5, aims to "achieve equal pay for work of equal value" globally by 2030. This goal conflicts with a widespread and continuing practice of paying skilled workers from higher-income economies working in lower-income settings, more than their host worker counterparts. This brief summarizes research that has found that dual salaries undermine host colleagues' sense of wage justice, work motivation, and team relations. At organizational levels, they fuel turnover, increase brain drain and reduce mental well-being of workers. Higher ratios fuel a 'Double Demotivation' – extending to international staff who overrate their own abilities and reduce their effort at work. International, multi-sector evidence shows conventional dual salaries to be neither compatible nor align with the SDGs. Organizational options for meeting SDG 8.5 identified in civil society groups include reducing dual salary ratios and implementing single salary systems at national level. We offer three macro policy frameworks (Project Fair's Principles and Standards of INGO Fair Reward, the UN Global Compact, and OECD Guidelines for Multinational Enterprises) that can serve to render salary systems more facilitative of the SDGs and the Decent Work Agenda.

Impact statement: SDG8 – Achieving Decent Work and economic growth

Keywords:

Decent Work, Dual Salaries, Double Demotivation, Fair Reward, Global Reward

Introduction

This policy brief is intended for any policy-maker who works at setting salaries for skilled workers in international education, civil society, business enterprise, and government agencies, including bilateral and multilateral aid organizations. It is the first integrated cross-sector brief to focus on the question of how to remunerate workers *fairly* in a global economy and against the backdrop of the United Nations' Sustainable Development Goals (SDGs). These include SDG 8.5 – achieve equal pay for work of equal value (United Nations, 2019). SDG 8.5 is a concern for international human resource managers who are designing reward packages for roles in lower-income settings, that are practicable in terms of recruitment and retention, but also fair to all workers (i.e., both host and international workers). In this brief, by international worker we mean an individual employed on an ongoing contract who is working in a country that is not their country of origin. Host workers are whose working in their country of origin.

Workers are deployed internationally for both organizational reasons (such as organizational learning, and cultivating a common global organizational culture) as well as employee career development opportunities (broadening horizons and experiences by providing insights into different markets). Global mobility of employees is important for organizations that work internationally, so that they may develop strategically integrated policies and practices across their organization, better understand their customer base, and develop and retain talented employees. Research on reward in international work contexts has typically focused on how reward is used to attract and retain skilled international workers. This is because historically international relocation was less desirable and more challenging than it is today[1], however it was strategically necessary for organizations operating internationally. The rise of globalization and self-initiated expatriation has seen growth in

[1] This brief was written prior to the COVID-19 pandemic.

workers wanting to move internationally for reasons of self-transformation and career development. Further, lower-income countries have seen substantial growth of skilled host employees, reducing reliance on skilled international workers (at least in theory). Approaches to reward, however, have not adapted to reflect these changes, and extensive packages for international employees in lower-income settings continue to be offered.

People may accept to work in reward systems which they believe to be unjust and to be discriminating against them, because they feel that they have few alternatives. While an employer may perceive benefit from being able to pay some workers lower individual salaries than others who do the same job, we argue that perceptions of salary injustice undermine work motivation and reinforce issues of group dominance over another group. Such motivational deficits may exceed savings made through the partial reduction in labor costs. In this way, unethical practices combine with ineffective reward to produce an unhappy and inefficient workplace.

The predominant approach for setting wages for international workers is termed a 'home-country balance sheet' (Bonache & Zarraga-Oberty, 2016). This approach is based on ensuring that the employee receives remuneration in line with their home country (typically higher than the host country) so that they are not disadvantaged because of their country of work. Additional allowances are then provided for the inconvenience of living away from home. All of this is typically done without much reference to - or regard for - host workers (Bloom, Milkovitch & Mitra, 2003). Note that a related approach is the 'global balance sheet', where international workers are paid on a common international scale, rather than based on their home country. Finally, where the host country cost of living is higher than the home country, e.g. where employees are relocating from the Global South to the Global North, a 'host-country balance sheet' approach is typically used in order to bring the salary up to the local context. In this brief we focus on North to South relocations as they are more visible and hence more likely to trigger feelings of injustice. A recently emerging approach yet to be empirically studied is a local-plus (or localization) approach, where international workers are provided a locally-benchmarked salary, often supplemented by additional allowances for international employees, at least initially (McNulty, 2014). The emergence of this approach reflects the growth in self-initiated expatriation.

Home country balance sheet policies may assist with recruitment, but may also create challenges for collaboration between workers with greatly differing remuneration packages. Fundamentally, this is because they set in place potentially fractious *reward inequities* between international and host workers. Employers however can be hesitant to reduce packages for international employees, in case they are unable to recruit the needed skills for their projects because their salaries are no longer competitive. In this brief, we outline how and why dual salaries are not only unhelpful, but ultimately discriminatory and unethical.

Approach & Findings

This brief aims to offer evidence-based advice on a policy issue – dual salary systems. In doing so we draw on the literature on dual salaries, focusing on their psychological impact for employees, and emerging research on alternative systems. Using this review, we then identify practical implications for policymakers looking to address dual salaries in their organization.

We draw on a balanced mix of qualitative and quantitative, critical incident and survey-based research that considers the psychological impact of dual salaries for both host and international employees. Such research focuses on the impact of workplace inequities on all employees through distributive and procedural injustice. Early research from the higher education sector in Malawi identified a potential double de-motivation, whereby host workers reported that dual salaries were distributively and procedurally unjust (‘why do they earn more, and how was that decided?!’), international staff struggled to self-justify substantially higher salaries and began to attribute them to their own value ('I am worth the extra money, I don't need to work so hard to do the job') (e.g., Carr, Chipande, & MacLachlan, 1998). In the mid- to longer-term, dual salaries may undermine international collaboration itself (MacLachlan, Carr & McAuliffe, 2010). This may occur insidiously through a cycle of talent loss, depressed trust between partners, and increased reliance on foreign workers (UNDP, 2014).

Though there is considerable research on global reward management (see e.g., Zárraga-Oberty & Bonache, 2018, for a recent review) it has almost exclusively focused in multinational enterprises and on international workers. There are a handful of notable exceptions. For both international and host workers, dual salaries at international schools in Indonesia were associated with reduced mental health and wellbeing, compared to single salary comparisons (Marai, 2002/3). In Cambodia, dual salaries were reported to be incompatible with the goals of aid work for some international staff (Fechter, 2012). Among international joint hospitality ventures in Hong Kong, dual salaries were linked to a reduced sense of distributive justice, job satisfaction and sharing, and increased intention to quit among Hong Kongers (Leung, Lin, & Lu, 2014). Across Public Health roles in Africa, both host and international workers reported dual salaries undermined intrinsic motivation at work in general (Ridde, 2010).

One international study of dual salaries took an integrated approach across sectors, countries and regions (see Carr, McWha, MacLachlan, & Furnham, 2010, for full details). This three-year, multi-method study sampled 1290 skilled international and host employees from across education, business, civil society, and government sectors; including more than 200 organizations, in six countries and three regions (Malawi and Uganda in Africa, India and China in Asia, and Solomon Islands with Papua New Guinea in Oceania). The project found an average pay ratio of 4:1, where international employees earned on average four times that of a similarly skilled and educated host colleague. The range varied from 2:1 (in China) to 10:1 (in Solomon Islands). It is worth noting that all respondents (regardless of pay group) recognized that international work brought additional costs for international workers, and identified a threshold of 2-3:1 below which differences were acceptable, as long as they were clearly justified.

A second major finding of that study was that compared to international workers, host workers generally reported significantly more injustice, which predicted more demotivation, turnover and brain drain intentions. In Oceania, where ratios were highest (approximating 9:1), there was a further significant tendency - for international workers to rate themselves as more talented than their host counterparts. Since there were no *actual* differences in either qualifications or experience, this evidence signaled a 'double' demotivation' (self-inflated ability, proportionately reduced input and effort) (Marai, et al., 2010). Similar, 'passport-based' discrepancies may exist in global health work (https://www.blueabaya.com/2012/07/saudi-salary-racism.html).

Overall, the project findings suggested greater variation based on organization than either country or sector, suggesting organizations are viable points for intervention. Building on this finding an ongoing partnership with 35 major international NGOs, Project Fair, is examining evidence-based alternatives at an organizational level (McWha-Hermann et al, 2017). Three main policy alternatives have been identified so far:

- Single salary systems based on national in-country benchmarking;
- Dual salary systems with reduced international-to-local pay ratios; and
- Hybrid systems that reflect a range of innovative changes to the dual salary approach but have not (yet) reached a single salary system.

Conclusion: Implications and Recommendations

The evidence of the negative impact of dual salaries for employees (particularly host workers) points to an urgent need for organizations to consider alternative reward structures in international work contexts. From a human resources perspective, dual salaries undermine collaborative work, as well as fueling turnover. From a policy perspective, paying people based on their country-of-origin, or their country of passport, is discriminatory and unethical. Providing fair reward is a moral imperative, and also aligns with the ethos of the SDGs and their achievement being inclusive and fair.

A primary implication of this body of research is how fairness is defined and assessed, and by whom. Consultation with stakeholder groups about what is acceptable is crucial. Evidence from workshops held with various stakeholder groups in multiple countries suggests first-and-foremost *closing the gap* between worker groups is important. These in country, largely host national workshop participants also recommended greater *transparency* of reward systems, a policy of local hiring first; and greater *accountability* around actual performance. When reward is set from headquarters without consultation it risks imposing outdated systems that fail to consider local contexts, such as local skills availability.

Relatedly, most reward systems focus on *stressing equity* (outcomes for inputs) at an individual level, an approach that is reinforced by SDG8.5 ('equal pay for work of equal value'). Such systems assume an approach based on equity reflects fairness. However, *defining fairness* in multiple contexts is challenging and subjective. Ethics-based perspectives emphasize the importance of safety nets such as secure and just, *living wages* for all, and need (no local jobs at risk). Setting fair reward may require an understanding of the *contextual nuances* of definitions of fairness in countries of operation.

An additional, important consideration around accountability structures and processes has been raised by the advent of the SDGs. At least three key resources exist to guide organizations in developing fair reward systems. First is the collaboratively developed and openly available set of Standards and Principles of INGO Fair Reward (https://project-fair.business-school.ed.ac.uk/principles/), which identifies five principles of fair reward and their associated standards, designed to help organizations develop a shared understanding of what fair reward means for the INGO sector. Second is the UN Global Compact, a multi-sector voluntary code of conduct to which organizations can subscribe, which includes elimination of discrimination in respect of employment and occupation (see, https://www.unglobalcompact.org/what-is-gc/mission/principles/principle-6); and third is the OECD Guidelines for Multinational Enterprises, in which labor discrimination in any company's supply chain can be notified and acted upon through a system of OECD government-appointed National Contact Points (https://www.oecdwatch.org/oecd-ncps/national-contact-points-ncps/).

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