International salary benchmarking: A how-to guide

SAFEGUARD GLOBAL

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The complexities of hiring internationally

When your company is planning to grow into new international markets and you're charged with creating a strategy for hiring global workers, there's a lot to do before your new employees can be up and running.

Experienced human resources leaders and hiring managers may know *what* to do, but *how* to do it in a new country with unfamiliar laws and employment requirements can be frustrating—and have serious financial and legal consequences if it's done wrong.

Before you can hire internationally, you'll need to understand what salary range is appropriate for each position and what compensation is required in each country where you'll do business. If your offers aren't in line with the local market, you risk being unable to attract or retain the right talent, leading to high turnover that wastes time and money and stymies your growth. Improper compensation can also open you up to litigation if you violate employment laws.

This is why salary benchmarking is a critical part of your strategic hiring plan. It allows you to understand market forces now and in the future so that you can hire and retain the right talent to position your company for growth.

This guide to international salary benchmarking is based on our experience helping organizations big and small hire workers in over 179 countries. We'll tell you what salary benchmarking entails, how to undertake it in any country where you plan to do business, and where to find trusted sources of salary data.

Let's get started.

An introduction to salary benchmarking

Conducting a global salary analysis can seem daunting, especially if you've never done so before. We'll take you through the process one step at a time so that you have the know-how and the tools to do it.

If your organization has plans to hire in more than one country, it's important to complete salary benchmarking for each local market. And just as in the U.S., you may also need to consider regions within a country. For example, what you pay an IT manager can differ considerably among large markets like New York City, midsize cities like Austin, Texas, and small markets like rural Idaho.

What is salary benchmarking?

Salary benchmarking, also referred to as salary analysis or compensation benchmarking, is the process of collecting and analyzing recent salary data from outside your company to determine competitive pay ranges by position.

It involves matching local market data to a list of positions within your company, usually by job description rather than job title since titles can vary greatly among companies. It requires aging the data so that you're not only hiring at a competitive rate, but also positioned to retain your employees as salaries rise or fall.

> **"A well-designed compensation philosophy supports the organization's strategic plan and initiatives, business goals, competitive outlook, operating objectives, and compensation and total reward strategies."**
>
> Source — **Society for Human Resource Management**

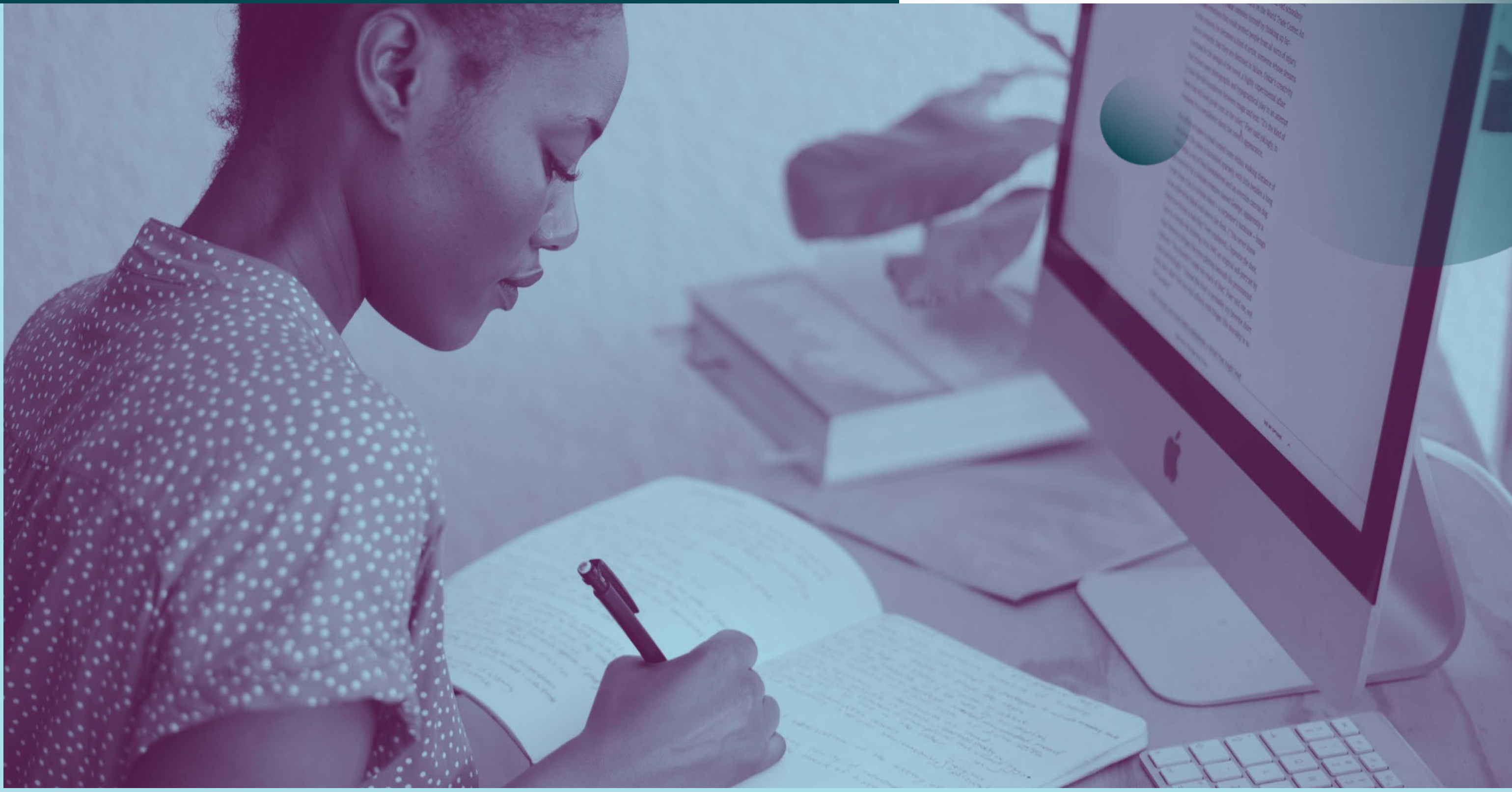
Salary benchmarking is about more than just determining what you'll pay new hires. It also requires you to formulate a compensation philosophy that matches hiring objectives to business goals.

For example, do you want to be a market leader and pay more than most of the competition in order to attract top talent? Or do you want to pay closer to the bottom of the market because you have access to a plentiful labor pool with little competition? Are you recruiting nationally for a leadership position or locally for an operational role paid by the hour?

Your compensation philosophy will be your guide. It can help you understand your needs today and address how market dynamics—perhaps in new, unfamiliar countries—will affect what you'll need tomorrow.

Five steps to salary benchmarking

1. **Craft your compensation philosophy**
2. **Define your positions (job titles and descriptions)**
3. **Gather the data**
4. **Analyze the data**
5. **Finalize your salary targets**



Step one: Craft your compensation philosophy

Now that you understand how salary benchmarking fits into the big picture, let's go through the five steps you'll need to complete to ensure your benchmarking exercise is thorough, trustworthy and timely. The first step, and one of the most important, is determining your compensation philosophy. In fact, 60% of companies have a written compensation policy.*

A compensation philosophy outlines the objectives of your company's salaried and non-salaried compensation program. This philosophy will depend on numerous factors, including your industry, competition, business goals, which geography you're hiring for and even which position. You'll also want to take into account what type of market you're entering (established vs. developing) as well as supply and demand relative to the labor pool.

You may need a different philosophy for different jobs. For example, you might approach compensation for "hot jobs" where competition is fierce and there's a shortage of qualified talent more aggressively than jobs where potential hires are plentiful.

Finally, your global philosophy should factor in how you've set compensation for your current local offices, and how that has worked for you. Your compensation philosophy may reflect what you've done in the past or it could be an opportunity to make much-needed changes.

* https://hrsoft.com/blog/tips-for-developing-a-powerful-compensation-philosophy/

Sample compensation philosophy

This compensation philosophy comes from Stanford University.

"Stanford is committed to providing a fair and competitive staff compensation program that will attract, retain and reward high-performing employees at all levels. The university is also committed to providing a total staff compensation package tied to the attainment of individual and group results and the achievement of organizational goals.

Primary principles that guide our staff compensation program

- Pay what a job is worth.
- Recognize and reward individual and group performance.

The staff compensation program is designed to meet certain key objectives:

- Transparency: Provide managers and employees access to job-related content, pay guidelines and salary ranges.
- Flexibility: Support a diverse, decentralized organization to accommodate differences and changes in job requirements, job market and economy.
- External Competitiveness: Reflect pay rates for comparable jobs within the relevant labor market.
- Internal Comparability: Provide pay guidelines that ensure similar jobs are paid equitably across the organization.
- Recognition: Reward performance through salary increases, bonuses and incentives; extraordinary performance and contributions are further rewarded at a level that signifies the value of the employee to the organization and encourages retention."

Source

Does your compensation philosophy pass the quality test?

According to the Society for Human Resource Management (SHRM), an effective compensation philosophy must be:

- **Equitable**
- **Defensible**
- **Perceived by employees as fair**
- **Fiscally sensitive**
- **Legally compliant**
- **Able to be effectively communicated by the organization to its employees**

Step two: Define your positions

Each job you plan to fill should have a list of responsibilities. Besides helping you recruit the right candidates, having position definitions makes it possible to accurately compare salary ranges from different companies, since job titles often differ from place to place. Once these are formalized, you'll match internal job descriptions with external ones and target those positions for data collection.

You also need to determine the industry or industries, markets and company sizes you'll sample. The goal is to ensure that when you gather salary data, it's as close as possible to matching your exact hiring conditions.

You may be able to streamline the positions you benchmark by condensing several into one. For example, though you may hire administrative assistants in multiple departments, such as sales, marketing or accounting, you only need one salary benchmark for that position if job duties across departments are essentially the same.

Seek local HR expertise

When hiring and devising salary benchmarks in unfamiliar global markets, guidance from local HR experts can be invaluable.

Local experts can advise you on payroll and cultural considerations for the country that go beyond job descriptions, including:

- Gender pay equity requirements
- Mandatory raises and bonuses
- Other social costs
- Sources for local government data

An employer of record is worth considering when you lack experience with international hiring. In addition to providing in-country HR expertise, an employer of record also protects your organization from noncompliance because it hires local workers—and assumes all risk—on your behalf.

Step three: Gather the data

Now that you know what kind of information you need to benchmark salaries for your defined positions, there are a number of places to find it. No matter where you source your data, you'll want to be sure it is no more than two years old, and preferably collected within the past six months. Watch out for free data available from nongovernmental sources; it usually comes from employee-reported surveys so it can be biased or unreliable. Use multiple surveys to ensure that you're getting an accurate picture of the market. You'll also want to gather internal salary data in order to compare and align salaries across the organization.

Purchase a salary survey

Consulting companies that specialize in compensation conduct surveys at regular intervals that they package and sell. Industry trade organizations and associations are another place to look for data.

Commission your own survey

You can create a bespoke survey that is customized specifically to your needs. This might be more cost-effective if you have a lot of different markets or industries to cover.

Use free, publicly available data

The Bureau of Labor Statistics collects wage data in the U.S. Other countries have similar entities that do the same, such as the Office for National Statistics in the U.K. or Statistics Canada.

Data collection parameters

Defining the data you gather is an important step, since the closer it matches your business, the likelier it is to be on target. These are the major considerations:

- Geography (local, regional or national)
- Industry
- Company size (by revenue or employees)

Step four: Analyze the data

Now you need to dig into the numbers. There are multiple ways to do this, with varying degrees of complexity. Depending on your experience level, you can tackle it internally or work with an organization that will do the benchmarking exercise for you. Here are the essential steps in the process.

Aging the data

According to global HR organization WorldatWork, aging data is “the practice of increasing market survey data by a percentage assumed to be representative of wage movement to bring the data to a consistent point in time.” In other words, what’s fair market pay in January most likely won’t be by July. Aging the survey data enables you to set wages at any point in time and know that they will fall in line with the compensation philosophy you’ve chosen for the remainder of the year.

Four steps to age your data

1 Decide how far ahead you need to age the data

Let's say your survey data has an effective date of January 1, 2020, and you need to know what the projected pay rate would be on July 1, 2020.

2 Research the wage movement percentage

The New York Times reported that U.S. wages were trending up at a rate of 3.9% for 2018-19. For simplicity's sake, we'll round that up to 4%.*

3 Determine the aging factor

Time for a little math. There are six months between January 1 and July 1: 4% movement x (6 months/12 months) = 2%. That's your aging factor.

4 Apply the aging factor

Using a wage of $15/hour as of January 1, 2020, multiply the aging factor by the wage and then add the two amounts together. 2% x $15 = $0.30 + $15 = $15.30 is the projected rate for July 1, 2020. Use this number to determine your pay scales.

Source

Now you're ready to set pay ranges. Match the job descriptions of internal jobs with external jobs. You're not looking for an exact match; aim for 70% or higher match in job duties. If you can't hit that for certain positions, you can blend data from multiple jobs to gain a more accurate picture.

Use the survey data to determine the low and high pay for each position. Any salaries that are extremely low or high may or may not be valid. If you have a local resource, they should be able to provide insight into local market forces that may provide an explanation for any outliers.

You may want to weight the data; for example, one of the surveys may be a better match because it's from your specific industry, it's a significantly larger sample size or you want to rely more on national than local data.

The goal of this analysis is to determine both the market average and pay range for each position. Once you have that, you're ready to set your own rates.

*https://www.nytimes.com/2020/01/03/upshot/minimum-wage-boost-bottom-earners.html

Step five: Finalize your salary targets

Now is the time to revisit the compensation philosophy you crafted at the beginning of this process in order to decide where you want your pay rates to fall in relation to the market average. Do you want to lead, lag, match or lead-lag? (See definitions of these terms at right.)

When you set your ranges, take the following into account.

Experience levels

Not everyone you hire for the same role will have the same level of experience or expertise. Your salary ranges should be large enough to account for levels of seniority within a set position.

Room for growth

If you peg base salaries too high, it can make it difficult to reward employees who attain new skills or demonstrate growth with raises.

Total compensation

It's not enough to look solely at base salaries. You also need to account for bonuses and incentive pay as well as non-salaried compensation like healthcare, stock options, vacation time, profit-sharing, retirement plans, moving allowances and company cars.

Special requirements

Some compensation may be dictated by law, union and collective bargaining agreements, and/or government or other special contracts. Make sure you factor these in.

Lead, lag, match or lead-lag? Defining our terms.

There are four ways to approach compensation as compared with the competition. Let's break down what each one means.

Lead: You pay more than your competitors

Lag: You pay less than your competitors

Match: You match what your competitors pay

Lead-lag: For half of the year, you pay more than your competitors, but as market rates rise to match, you fall behind during the second half of the year

Local compensation requirements

Depending on the country where you plan to hire, you may need to include mandatory pay raises and bonuses, as well as gender pay equity requirements in your salary planning.

Mandatory pay raises

In the U.S., salary increases are typically merit-based and at the discretion of the employer, with the exception of raises stipulated in union contracts. In some countries, however, both unions and the federal government require regular wage hikes.

Country	Pay raise requirement
Brazil	Union workers
Colombia	Minimum wage earners
Denmark	Union workers
Greece	Minimum wage earners
Malaysia	Union workers and blue-collar workers
Turkey	Union workers

Source

Cash payments

U.S.-based employers have likely never heard of a 13-month salary payment, but many countries require a 13th installment, usually equivalent to a month's salary. It might be paid as a one-time bonus, a holiday bonus or in multiple payments.

Country	Bonus requirement
Argentina	13-month salary payment
Brazil	13-month salary payment and vacation bonus
Mexico	Holiday bonus and profit-sharing
Puerto Rico	Holiday bonus
Belgium	Transportation allowance
France	Transportation allowance
Italy	13- or 14-month salary payment
Norway	Transportation allowance
Portugal	13-month salary payment

Country	Bonus requirement
Spain	14-month salary payment
China	Additional payments exist, but not common
India	13-month salary payment
Indonesia	13-month salary payment
Malaysia	Additional payments exist, but not common
Philippines	13-month salary payment
Singapore	13-month salary payment, often
Taiwan	13-month salary payment, often

Source

Gender pay equity

Many international markets have laws governing pay equity among genders, although requirements can differ vastly from place to place.

Country	Gender pay requirement
Australia	The Australian Workplace Gender Equality Act of 2012 has annual reporting requirements for companies with 100+ employees that include information like the gender composition of the workforce and any governing bodies.
Canada	Federal legislation requires employers with 10+ employees to complete Pay Equity Plans and adjust compensation accordingly. Additionally, some provinces have their own pay equity laws.
France	As of 2018, companies have annual reporting requirements and receive an "equal pay rating" that must remain above a certain level. Companies that don't meet the benchmark must undertake corrective measures within a specified timeframe. If they don't, they may face financial penalties.
Germany	The law states that employees of companies with 200+ workers may find out what co-workers of another gender at the same level earn, using an average taken of at least six comparable employees.

Source

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Connect with a global solutions advisor today to learn more about how an employer of record can provide local HR expertise to help guide you as you hire new global workers.

safeguardglobal.com/GEO

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