



DOES YOUR COMPANY PAY A “LIVING WAGE” ON A GLOBAL SCALE?

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It is time to look at your salary structures with a global lens. Why? Three main reasons are creating a sense of urgency. First, jobs are increasingly being able to be performed from anywhere, not just domestically but internationally. Second, scarce talent is a confirmed global commodity; certain skill sets have global value no matter where the talent is sourced. And third, there is an increasing societal expectation to treat people fairly.

As case in point, I have been receiving very similar calls lately from Total Reward Leaders that usually start with, “I want to evaluate whether there are ‘have and have nots’ in my global salary scales” or “I want to understand if I am paying a living wage globally.” I find this fascinating.



Why?

I believe we have reached the point where companies are starting to think globally as well as locally when setting their salary structures. Forward-thinking companies are evaluating the cost of labor and the cost of living hand-in-hand to assess if pay rates are attractive locally and that they meet the company's definition of equality. While cost of labor tells what the prevailing wage is in a country, it does not tell us the inherent standard of living that wage delivers.



Where are we coming from?

While most large companies have global structures for equating or banding job levels globally, traditionally the rates of pay associated with each band are determined using the local cost of labor. Therefore, a Band C in the U.K. and Turkey might both be managers, but they earn very different salaries depending on the cost of labor in the U.K. or Turkey respectively. That we have this global structure in place is a good starting point. But how do we know if the British and the Turkish nationals live similarly or disparately on that wage?



How can cost of living help?

While we have the infrastructure to set structures from one country to the next, we can introduce another input: cost of living. Cost of living allows us to include a purchasing power component to our salary structure evaluation process. It can tell us if there are hiccups in our salary structures. For example, if the manager in the U.K. earns GBP 100,000, and in Turkey they earn GBP 50,000, does this mean we are delivering half the living wage in Turkey? If the cost of living in Turkey is half what it is in the U.K., it means the two managers have similar standards of living ($\text{GBP } 50,000 / 0.5 = \text{GBP } 100,000$). If, however, Turkey is one third less expensive, we are delivering a lower living wage in Turkey ($\text{GBP } 50,000 / 0.667 = \text{GBP } 75,000$).

Cost of living data can also introduce a more current method of evaluating salaries when economic volatility occurs. Let's say the currency in Turkey depreciates sharply, immediately causing hyperinflation. If we rely on cost of labor alone there is a lag from the time of volatility until new cost of labor data is available. However, cost of living data can be updated in real time to incorporate loss of purchasing power, allowing for a more current input to be considered.



Where might we go?

While some skills are globally in demand, they are not for all positions and we have admittedly not yet reached a global market for talent across the board. In the short term, the local cost of labor will continue as the primary input in setting salary structures.

Yet, we need to start to incorporate cost of living into the process to begin to examine important questions of pay equality and global attractiveness of salaries. Otherwise, we will face hard questions about whether it is ok to pay talent much less in certain countries. Or we will face situations where global talent shops the best countries to work because the wages convey the highest standard, hampering our ability to fill key roles in lower wage countries.

There is also a bit more aspirational reason to add cost of living to the equation. If companies are truly seeking to attract talent on a global scale and to offer equality of pay, they may enhance their employee value proposition if they boldly move to a position of offering a globally equal rate of pay. That is a powerful position to take. Will your company be the first to make the move?

