

DEPARTMENT OF BUSINESS AND MANAGEMENT

**WHAT FACTORS INFLUENCE THE DIFFERENCE IN WAGE RANGES:
A CROSS-COUNTRIES STUDY**

Global Standardization, Local Adaptation

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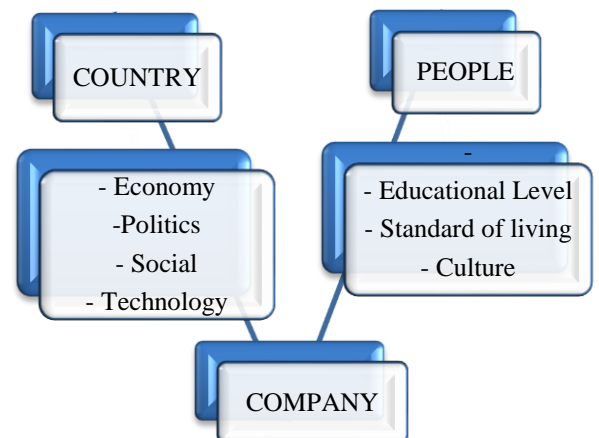
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We, as human beings take step by step towards our future. We start with kindergarten, primary, elementary, high school and then university. But before graduating from high school, we choose carefully the university we would like to enter in terms of best education, reputation, faculty, etc. This is because university is the first real step towards our future. Then, the thinking of the right job market takes place. Which company should I work for? Which position I would like to have? Should I stay in my country or move elsewhere? All these questions shape our decision and make us precisely think of which job market to join. Because the right job market is what we are looking for to repay all the hard work we put in our previous years and to provide us with a good and satisfying living.

ABSTRACT

In this thesis, I will talk about multinational corporations and the consequences of their existence, such as technological advancement and market development, yet creating income inequality which will be discussed in chapter one. Moreover, I will highlight the factors that influence the wage ranges difference across countries, the company and country environments as forces that shape the International Human Resources Management (IHRM) decisions in multinational corporations (MNCs)¹ and what are their functions across countries.

I will give an example about two countries and the difference in the wages between these countries for a particular job beside a comparison of some other countries and the difference in wages for similar jobs.



¹ A Multinational Corporation (MNC) is a company that has operations in several countries but controlled from the home country.

I believe, by the end of this thesis you will be able to form an idea on how to choose the right job market for you based on the different factors that influence the wage ranges across countries and whether you would stay in your country or move to another if the payment is better in the other country.

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INTRODUCTION

Managers in international firms are bound by some forces in the host country. In order for them to have successful operations worldwide, Ghoshal and Bartlett identified some of these forces². The first is culture as MNCs operate in countries with different cultures, values and backgrounds. These differences in cultures are seen as 'local differentiation' which means that MNCs have standardized rules and policies in their home country, which need to be adapted to the host country's rules and regulations. The second force is applicable in firms that provide consumer products, such as TVs, computers, etc. In order to succeed, these firms need to focus on achieving economies of scale to cope with the competition and gain competitiveness. In order to do so, some of these companies develop internationally integrated production processes. This results in the creation of the force of 'global integration'. The third force is that MNCs are expected to respond to evolving markets with products that have short life cycle. This is done by linking their international operations and transferring expertise across countries³.

² Ghoshal and Bartlett; from "International Human Resources Management", 2nd edition 2011.

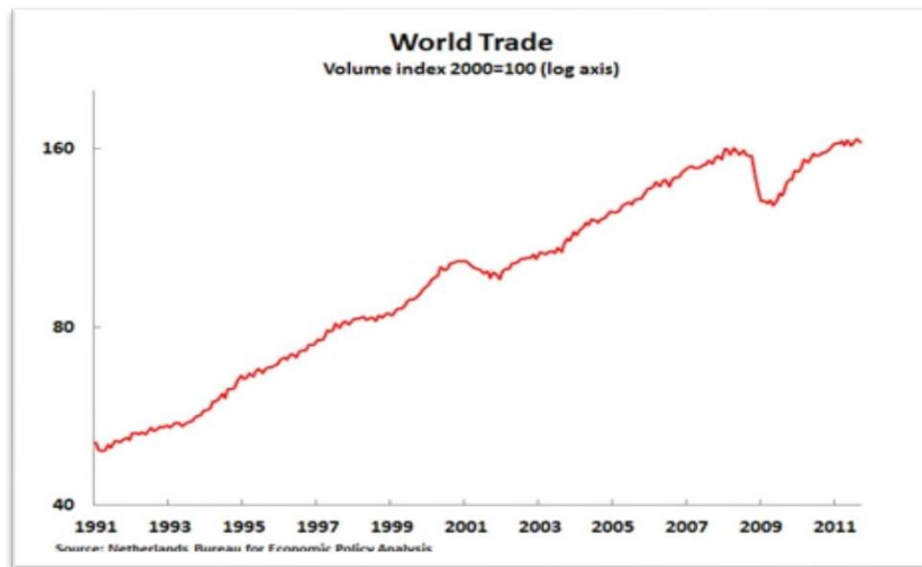
³ "International Human Resources Management", 2nd edition 2011.

CHAPTER 1: MULTINATIONAL CORPORATIONS AND PAY INEQUALITY

This chapter will briefly talk about MNCs and their modes of entry and their positive and negative effects on the home and host countries. Later in the chapter I will talk about the pay inequality between individuals and countries.

MULTINATIONAL CORPORATIONS (MNCs)

With the openness of countries and the emergence of the term “borderless world”, foreign direct investment (FDI) took its wide spread. Companies started to look for opportunities outside their home country for many reasons, such as cost cutting, acquiring new technologies which are not available in the home country or are cheaper in other countries, expanding their business, achieving economies of scale, etc. MNCs existed many decades ago and their growth has been visible over the last 20 years.



There are about 61,000 MNCs in the world controlling around 900,000 subsidiaries according to the United Nations Centre on Transnational Corporations estimates⁴. The graph above shows how trade grew in the last 20 years outperforming real GDP.

⁴ “International Human Resources Management”, 2nd edition 2011.

Many policy institutes, such as the Organization for Economic Co-operation and Development (OECD) encourage liberalization, transparency, non-intervention by governments and freedom of capital movements alongside with other institutes, such as the World Trade Organization (WTO) and the International Monetary Fund (IMF) which encourages the market forces and discourage government intervention⁵. With the existence of these institutions that encourage and support international trade and try to secure companies' rights, many companies decide to be multinational and have operations in multiple locations worldwide.

MNCs enter other countries in different modes of entry/FDI:

- a. **Greenfield:** the company construct a new plant/firm
- b. **Merger & Acquisition:** companies merge with or acquire another company
- c. **Joint Venture:** a foreign company have a shared ownership with a local company
- d. **Non-Equity:** through franchising or licensing

Depending on the scope of the firm, the suitable mode of entry is chosen.

There are some positive effects of MNCs entering a new market, some of these effects on the host country are creating job opportunities, establish healthy competition, increase trade between the two countries (import, export), and generally improve the economy of the host country due to the increased trade (exports). Moreover, in many cases the foreign companies/MNCs usually pay higher salaries to the employees compared to the local companies. This is to attract the local talents to work for them which is a reason for some governments to emphasize on education and provide scholarships for worthy students to study in the fields which are most required or are at scarce. Additionally, many MNCs seek to increase their economies of scale, and to do so, they need the skills and proficiency of the local people to help them achieve this target. So to attract the skilled and talented people, they need to pay them higher wages and attractive benefits which will be discussed in chapter 2. This is also dependent on the company's policy.

The company's policy in terms of wages could be a global one as to offer wages that represent a specific market. Large MNCs which are well established and are known for their quality

⁵ "International Human Resources Management", 2nd edition 2011.

products and people could have a global policy to pay the highest wages in all of their subsidiaries⁶.

As for the negative effects of MNCs, they are both on the home and the host countries. As for the home country, due to outsourcing, job opportunities in the home country are becoming limited and the percentage of unemployment increases. This is because MNCs usually go to developing countries, such as China and India where the wages are way less than what they are in their home country and they usually have the set of skills required by MNCs. Moreover, they create sort of trade deficiency as imports will exceed exports.

On the other hand, the MNCs affect negatively the host country by sourcing the skilled people and paying them higher wages, in which this action damages the business of the local companies and many of them eventually go out of business.

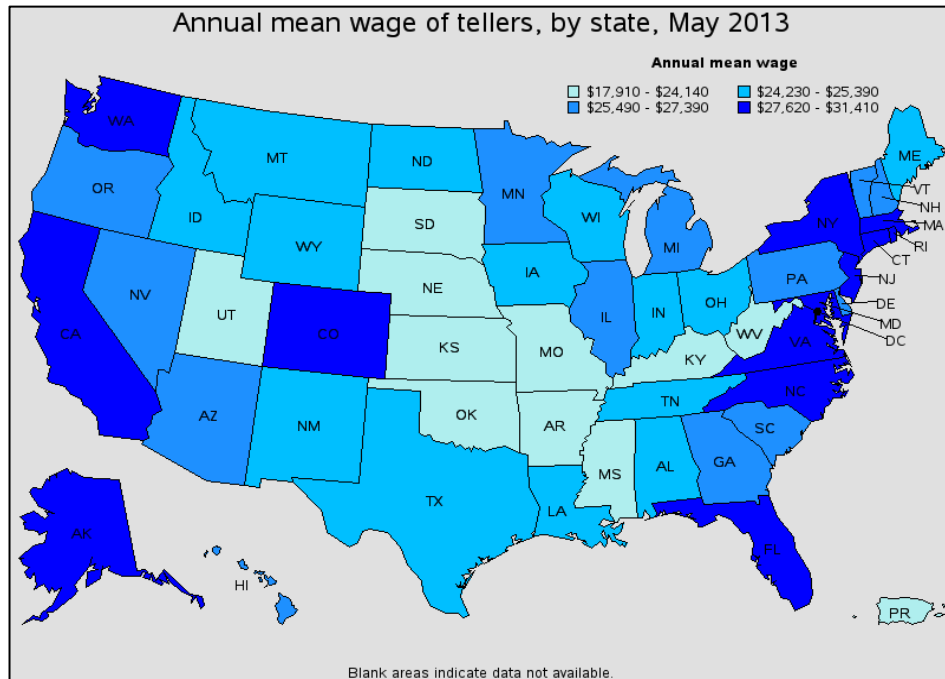
PAY INEQUALITY

As I mentioned in the previous part, MNCs are usually known for paying higher wages than the local companies when they start their operations abroad. This creates payment inequality among individuals who are working in MNCs and those who are working in local enterprises. Pay inequality has a positive correlation with performance. The higher the pay, the higher the performance and productivity and vice versa. This was evident in some American and Japanese manufacturing firms from the data analyzed by Levine (1993) in which the data was collected on more than 8,000 employees. Employees who received high wages worked harder than required and had higher commitment⁷. Inequality can be seen among individuals, between countries and within a country.

⁶ Article: "Human Resources Management in International Organizations" by Sonja Treven, 2001.

⁷ Levine 1993, from the article "Show Me the Money! Pay Structure and Individual Performance in Golden Teams" by Edoardo Della, Torre, Antonio Giangreco and Johan Maes, 2014.

An example of income inequality within a country is shown in the following graph⁸ that illustrates income inequality for a particular job (Teller) between the different states in the United States. This is due to different states characteristics as country characteristics have an influence on wage dispersion which will be discussed in chapter 3.



PAY INEQUALITY AND PERFORMANCE

In economy, many researchers suggested that talented and skilled employees are attracted by high wages which in return encourage the employees to increase their level of productivity and performance and this is due to the fear that they have of losing their job and its premium⁹.

Payment of wages depends on the firms' strategy and the market. Whether they foster the spirit of team work, or encourage individual performance and the type of market they operate in and its competitiveness level.

⁸ Bureau of Labor Statistics; from the article "Occupational Employment and Wages", 2013.

⁹ Article "Show Me the Money! Pay Structure and Individual Performance in Golden Teams" by Edoardo Della, Torre, Antonio Giangreco and Johan Maes, 2014.

As noted by Frick *et al.* (2003: 476) “*the optimal degree of pay inequality depends on the type of behavior the firm wants to encourage and the ability to monitor performance*”¹⁰.

Pay inequality or dispersion is concentrated on the contrast between the hierarchical and the compressed hypotheses. From one side, the hierarchical hypothesis¹¹ looks at the pay dispersion as “*networks of incentives ... that attract talent and motivate individual performance ... Hierarchical pay distributions are expected to induce higher employee performance because they create a meritocracy*¹² in which rewards for effort or human capital increase monotonically”¹³. So under this hypothesis, employees who are placed in the minimum wage range will try to increase their performance to reach the highest level of pay, while those who are in the highest end of pay will try to maintain their position or even increase their performance as they are rewarded according to their individual performance. This implies on the two different job classes (white-collar and blue-collar) as it will be clarified in the next chapter. White-collar employees tend to have higher wages due to their higher set of skills and they will try to increase their performance to maintain their salary premium. Blue-collar employees will try to obtain higher skills level in order to reach the level of white-collar employees salary.

From the other side, the compressed hypothesis “*focuses on how pay distribution affect collaborative work and cooperation. From this perspective, hierarchical pay distribution create “disincentives” for cooperation, instill feelings of inequity, promote dissatisfaction, and diminish performance ... Conversely, following the compressed hypothesis, pay distribution are said to inculcate*¹⁴ feelings of fairness, foster notions of common fate, and reduce interpersonal competition”¹⁵.

So to sum up the two hypotheses, the hierarchical one encourages and rewards individual performance in which people focus on increasing their productivity and performance, as a

¹⁰ Ibid.

¹¹ The hierarchical hypothesis has its theoretical foundation in the tournament theory (Lazear and Rosen, 1981).

¹² Meritocracy: a system in which such persons are rewarded and advanced.

¹³ Bloom 1999: 26, from the article “Show Me the Money! Pay Structure and Individual Performance in Golden Teams” by Edoardo Della, Torre, Antonio Giangreco and Johan Maes, 2014.

¹⁴ Inculcate: to cause or influence someone to accept the idea or feeling.

¹⁵ Bloom 1999: 27, from the article “Show Me the Money! Pay Structure and Individual Performance in Golden Teams” by Edoardo Della, Torre, Antonio Giangreco and Johan Maes, 2014.

consequence it creates competition among individuals. While on the other hand, the compressed hypothesis promotes team work and cooperation and it reduces competition among individuals.

As noted earlier, pay inequality has a positive correlation with performance. When employees recognize that they receive different wages having similar jobs as their counterparts, they tend to reduce their performance and output, increase absenteeism and eventually quit their job as they lose their sense of commitment and belonging.

INCOME INEQUALITY AMONG COUNTRIES

Income inequality among countries increased sharply between the 1980s and the mid-1990s. It is one of the greatest challenges in the world. Countries (215 countries) have been divided into 4 categories based on income level according to the World Bank. The table below shows the categories and the characteristics of the countries in each group.

Income categories	Income classification criteria: gross national income per capita in 2009 (US\$)*	Number of countries	Country examples	Total population	Average income in 2010 (constant PPP 2005 international \$)	Secondary school enrolment rate, 2010**	Life expectancy at birth (years, 2009)	Infant mortality rate (per 1,000 live births, 2009)
High-income countries (rich countries)	Higher than \$12,276	70	Canada, Poland, U.S.	1.1 billion	\$33,232	100%	79.8	5.8
Upper-middle-income countries	\$3,976 to \$12,275	54	Brazil, China, Russia	2.5 billion	\$8,731	90%	71.5	17.5
Lower-middle-income countries	\$1,006 to \$3,975	56	Guatemala, India, Nigeria	2.5 billion	\$3,287	64%	64.8	51.7
Low-income countries (poor countries)	\$1,005 or less	35	Bangladesh, Cambodia, Kenya	817 million	\$1,099	39%	57.5	76.5

*The World Bank calculates gross national income using the Atlas conversion factor, which reduces the impact of exchange rate fluctuations when comparing national incomes across different countries.
 **Ratio of enrolment in secondary school (regardless of age) to the population of the age group that corresponds to that level of education.
 Source: World Bank, World Development Indicators; The Conference Board of Canada.

Income inequality has been analyzed by The Conference Board¹⁶ using three methods:

1. Calculate the income gap between rich and poor countries by calculating the average income of high-income countries and compares it with the average income of low-income countries. The difference between them is called the “income gap”.
2. Calculate the overall world income inequality using the Gini index¹⁷ measure, which calculates the extent to which the distribution of income deviates from a perfectly equal distribution. It ranges from 0 to 1 in which zero represents exact equality and one represents total inequality.
3. Calculate the income inequality of each country and compare them.

The increase in income inequality between countries can be explained by two major factors; market forces and institutional forces. Market forces are basically the technological advancement and the increase in globalization as mentioned earlier that openness of countries led to the increase of trade between countries and the existence of MNCs and this led to the demand of new technology and skilled people. Therefore, when MNCs move their operations to developing countries with low-cost and high skilled people, equal jobs in the developed countries are lost due to their higher cost.

As for the institutional forces, it will be explained in more depth in the next chapter; however, they have a great influence on companies such as setting minimum wage rates, deregulation and national policies that favor the wealthy¹⁸.

Moreover, the economist Simon Kuznet explained in his hypothesis that “*when countries become more developed, they first experience more inequality and then progressively less inequality. High-income countries are more likely to have lower income inequality. The income groupings*

¹⁶ A tax-exempt non-profit business membership and research group organization that accounts for approximately 1,200 public and private corporations of 60 countries.

¹⁷ The Gini index is the most commonly used measure of income inequality named after the Italian statistician Corrado Gini.

¹⁸ Paul Krugman; from the article “World Income Inequality”.

*most likely to have high inequality ... are countries moving up the economic development ladder*¹⁹.

However, his hypothesis has been criticized because it ignored other factors, such as the openness of the economy, government intervention and the country's financial sector efficiency.

There are some factors underlay income inequality between countries. As mentioned earlier, globalization is debated to be one of the most reasons causing inequality. The increased trade integration and FDI is associated with technological development and thus the increased demand for skilled labor, which is associated relatively with high wages. Globalization has different aspects to be clarified as they are likely to have different impacts on wage and inequality, which are: trade integration (goods and services mobility), financial integration (capital mobility), technology transfers (information mobility), production relocation (firm mobility) and international migration (labor mobility)²⁰. Additionally, policy, regulations and institutions also have their role in inequality between countries.

Inequality should be carefully looked at as inequality of what and between whom. This is because the factors mentioned in the previous parts are general factors, but when it comes to calculating the inequality properly, other specific factors arise, such as the population of the country, the number of hours worked (part-time vs full-time), and finally self-employed vs company employee.

¹⁹ Article "World Income Inequality".

²⁰ Article "An Overview of Growing Income Inequalities in OECD Countries: Main Findings".

CHAPTER 2: COMPANY ANALYSIS – THE INTERNAL FORCES

In this chapter, I will discuss the company environment in terms of the nature of the company, the roles and responsibilities of the International Human Resources Management (IHRM) and the different bases of pay along with the wage ranges. Moreover, I will explain the difference in the job classes, as there are basically two classes, white-collar and blue collar.

COMPANY ENVIRONMENT

Companies' business is driven by revenues, but at the same time earnings are driven by many factors, for example the business model (local vs. multinational), ownership type (public/government vs private), etc. Based on the company type, some sort of skills are required such as technical, creative, analytical and innovative skills. According to the company type, the salary levels offered to employees differ from one company to the other even if the job level is similar; i.e. entry level, middle management or higher management. This is because the requirements of the job²¹, such as the demand of mental labor, creativity, work complexity, skills required, the level of craftsmanship and others play a role in setting the minimum pay for this job. Therefore, jobs that require creativity will have higher pay range than ordinary ones and jobs that require some sort of special skills have also a higher pay range than unskilled jobs. Moreover, the country condition also plays a role in setting the minimum and maximum wage of employees, which I will discuss in chapter 3.

To elaborate on jobs that require creativity for example, I will talk about the creative class, which is a term identified by Richard Florida who wrote his thesis on the creative class²². He argued that for a country to attract the “creative class”, it should have what he calls “the three T’s”: Talent (a high talented, educated, skilled population), Tolerance (a diverse community) and Technology (an infrastructure that is required to promote an entrepreneurial culture). We can see the Silicon Valley in California as an example of a city of creative class people. It has an

²¹ Article “Factors Affecting Salary and Wage Level”.

²² Richard Florida; “The Rise of the Creative Class”, 2002.

advanced technology infrastructure with high concentration of major technology companies with a fierce competition.

Therefore, for companies that are based on creativity or particular skills, in order for them to attract the creative, skilled and talented personnel, they would have to offer a high and competitive salary package.

And in general, people who possess creativity, skill and talent, they usually are paid higher wages than the ordinary ones even if they have a limited experience, because they are scarce and their skills are highly demanded.

Therefore, each job salary may vary based on each employee according on his/her level of education, experience, skills and talent and according to the job class (white-collar vs blue-collar). That's why for each position there is a wage range depending on the qualifications of each candidate for a given job, and this wage range for a particular job may differ from one country to another based on the characteristics of the country.

For instance, the position of a Teller in a bank in the United Arab Emirates (UAE) has a wage range the starts from approximately \$817 up to \$1,225. And for the same position in Hong Kong, the wage range is approximately starts from \$1,290 up to \$1,677. So the difference in the starting wage of a Teller in Hong Kong is 37% higher than the UAE's, and the maximum wage of a Teller is 27% higher in Hong Kong as well. Other examples of the wage difference for similar jobs in different countries are listed in the table²³ below.

Job Title	Average Salary by Country in USD\$			
	UAE	HK	Italy	Germany
Office Manager	2,314	3,737	3,417	3,177
Accountant	1,572	2,626	2,377	3,815
HR Manager	4,463	5,008	2,917	5,536
Marketing Manager	4,612	4,434	4,604	4,570

²³ The information in the table are gathered from the following web pages: www.gulftalent.com, www.payscale.com, www.indeed.com

So if we look at the table and maybe take the mean of the total jobs for each country, we will find that Germany has the highest average salary among the other mentioned countries. This is an indicator of the country's strong economic situation, and it is known that Germany has a strong economy, especially among the OECD countries.

INTERNATIONAL HUMAN RESOURCES MANAGEMENT (IHRM) ROLE

The HRM is the most important unit within any organization. It is the unit which is responsible for recruitment, employee performance management, training and development. Companies' rules, policies, standards and codes of ethics are initiated by the HRM unit. For international organizations, the HRM helps the company in standardizing globally and adapting locally their policies, which means the company would have a standard set of rules and policies in all of its subsidiaries around the world, but some of them would have to be adapted according to the laws of the host country. This is due to the difference in government rules and regulations in each country beside other factors that I will discuss, such as the politics of a country, its economic, social and technological levels.

SETTING THE COMPANY'S STRATEGY

Setting the company's strategy is one of the HRM responsibilities along with the Management of the organization. Companies can choose its strategy of managing and recruiting their manpower among three different approaches²⁴:

- i. **Ethnocentric:** the home country practices have a great influence in this approach. Key decisions are made from the headquarters in the home country and employees from the home country take key positions in the subsidiaries following the home country HR practices.
- ii. **Polycentric:** the subsidiaries manage their practices based on the host country basis. Local people are employed in managerial positions and head the subsidiary as home country people are considered to lack knowledge about the host country. HR practices in the subsidiary are created locally.

²⁴ Francesco, Gold 1998; from the article "Human Resources Management in International Organizations" by Sonja Treven, 2001.

- iii. **Geocentric or Global:** companies applying this approach manage and staff employees on global basis. International managers from different countries are recruited. In this approach, the staff are usually mobile and are used in other subsidiaries as needs arise.

Each of these approaches has its positive and negative aspects. For example, using local employees in international subsidiaries increase the acceptance of the corporation in the local community, but recruiting the right and qualified personnel may not be easy. On the other hand, using expatriate employees in international subsidiaries allow easier control and coordination of international subsidiaries, but at the same time it could create issues with regards to adaptability to the foreign environment and culture²⁵.

The term ‘culture’ is becoming crucial in international HRM research. MNCs of different national origins implement different HRM practices. Based on their country of origin, some of their home country aspects influence their HR practices in the host country as said, “*purportedly global companies in fact remain deeply embedded in their respective ‘home’ countries, and their actions are thoroughly enmeshed in the logic of inter-state relations*”²⁶. This refers to the ethnocentric approach.

RECRUITMENT AND SELECTION

Companies have to be comparative in their organizational analysis, in which they should be able to explain the patterns of similarity and differences, of convergence and divergence²⁷. Based on the strategy of the company, the selection of the manpower can be according to the following classifications²⁸:

- i. **Parent country national:** this means that the employees of the subsidiary are of the home country nationality = **ethnocentric**.

²⁵ Gomez-Mejia, Balkin, Cardy 1995; from the article “Human Resources Management in International Organizations” by Sonja Treven, 2001.

²⁶ Almond and Ferner 2006, Geppet and Mayer 2006; from “International Human Resources Management”, 2nd edition 2011.

²⁷ “International Human Resources Management”, 2nd edition 2011.

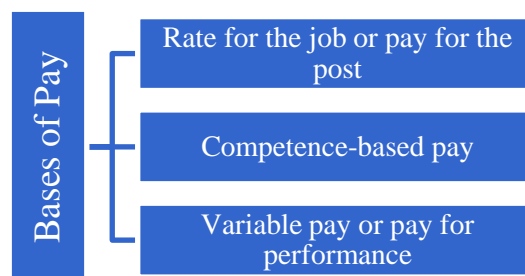
²⁸ Article “ Human Resources Management in International Organizations” by Sonja Treven, 2001.

- ii. **Host country nationality:** in this type of manpower selection, the employees of the host country are hired for various positions in the company, especially in the managerial positions = **polycentric**.
- iii. **Third country nationality:** here, the employees hired are neither of the home country nor of the host county = **geocentric**.

The IHRM should consider the home country practices and adapt them in accordance with the host country laws and regulations. As easy as it may sound, recruitment is not an easy process in international organizations. The local culture of the host country has a big influence on the recruitment and selection process. In some countries, national institutions play a great role in influencing MNCs practices as they will be discussed later in this chapter. They place specific rules with regards to the recruitment and selection of the manpower. Therefore, IHRM should balance between global standardization and local adaptation in terms of their strategies.

PAY BASES AND WAGE RANGES

When it comes to wages, the pay range is set by the HRM, and there are three bases of pay²⁹:



The FIRST type of pay is for most employees and it is based on the job evaluation and a detailed description of the roles³⁰. This step of detailing the job specifications and requirements assist in setting the wage range for each post or position within the organization, and to some extent eliminates any discrimination and sets some kind of fairness in pay among employees holding

²⁹ "International Human Resources Management", 2nd edition 2011.

³⁰ Kessler, 2007; from "International Human Resources Management", 2nd edition 2011.

the same job. The SECOND type of pay is assessed by the employees' qualifications, the relevant experience he/she may have, the seniority level and age or tenure. The THIRD type is usually used as a bonus, whether it is an individual, team, department or company performance³¹.

After the selection of the appropriate payment type that represents the company's strategy, the set-up of wage ranges takes place.

WAGE RANGES

There are different pay systems for companies to choose from and there are specialized agents that can help the companies adopt the suitable pay system³². Based on the type of business, the wage range may differ within a particular company from one position to the other. Some companies pay only the basic salary with no benefits, others pay the basic salary plus benefits (the benefits differ from one position to the other, and from one company to another) and sales driven companies pay either the basic salary plus bonus or just bonus.

Each position has a minimum and maximum pay based on the level of the job. In a study conducted by Martin Personick³³ regarding the wage range distribution, he noticed that employees are placed in the lower side of the wage range. Referring back to the role that the working groups/unions play and the influence they have on companies, David Belcher³⁴ explained "*Unions often favor the single-rate principle because it eliminates judgment-based differentials in individual pay*".

To establish the difference in wage ranges between jobs, we must understand the difference in the job classes. There are two job classes, white-collar and blue-collar.

³¹ "International Human Resources Management", 2nd edition 2011.

³² A financial system of transferring funds from payers to payees i.e. employers to employees.

³³ Article "Wage difference among workers in the same job and establishment" by John E. Buckley, 1985.

³⁴ Ibid.

JOB CLASSES

Job class is highly considered when setting a wage range within organizations. There are mainly two job classes: white-collar and blue collar. White-collar jobs refer to an office based official work that normally doesn't require manual labor and are of people with high educational level, such as bankers, brokers and agents. While blue-collar jobs are usually commenced by illiterate people and these jobs require manual labor and are usually field jobs, such as mechanics and electricians.

There is a big difference in the wage ranges between white-collar and blue-collar jobs. The minimum pay of a white-collar job could be the maximum of a blue-collar wage range. This is due to the characteristics of each of them and the proficiency level that accompany each of the job classes.

Among white-collar employees, the percentage of people who are paid the highest in the wage range is higher than the ones who are paid at the lowest wage range. This difference is noticed more in white-collar jobs than blue-collar ones³⁵ and this is an attraction strategy for companies to attract the most skilled and experienced people from the competitors.

Paolo Figini and Holger Görg came across an assumption in their article "Multinational Companies and Wage Inequality in the Host Country: the Case of Ireland" that at the beginning of the life of MNCs, the new technologies they provide improve the skills of white-collar employees and accordingly increasing their productivity and as a result their salaries would be increased. In this stage, blue-collar employees remain unskilled compared to the advancement in the skills of white-collar employees. As time passes, this scenario changes; blue-collar employees become more skilled so they can be able to work with the new technology and they gain the skills required in the process of "learning-by-doing" and this is to reach the payment level of white-collar employees. So the blue-collar employees transform from being unskilled to being skilled. This suggests that at the beginning of the existence of MNCs, the wage inequality between blue-collar and white-collar employees increase, however as blue-collar employees

³⁵ Article "Wage difference among workers in the same job and establishment" by John E. Buckley, 1985.

acquire the required skills, the wage gap between the two classes decline and inequality as a measure decreases³⁶.

IHRM AND EMPLOYEES' PAY

Multinational corporations have three approaches³⁷ of employees' pay that they can choose from:

- i. **Home-based policy:** in this type, employees pay is equal to their home country payment scale.
- ii. **Host-based policy:** the salaries in this approach are set according to the host country pay level, along with the benefits which are usually the same as the home country.
- iii. **Region-based policy:** in this approach, the region determines the pay. Employees' wages working in subsidiaries reflect if they are working in subsidiaries within their home region or in another. Thus, employees working in subsidiaries that are closer to their home region receive wages lower than the ones who are working in regions further than their home region.

So according to the company's policy approach as mentioned earlier in the chapter and its level of establishment and its competitiveness in the market, it can select the appropriate approach that goes along with its policy and retain its competitiveness and image in the market. Moreover, IHRM should create attractive packages for expatriate employees and this should be done by meeting the corporate goals at home and abroad, keeping the foreign employees motivated and finally comply with the corporate's budget³⁸. All of these aspects are very important in MNCs and they differ from one multinational to the other as their strategy and approach differ. That's why we can see the difference in wage ranges, as each company has its own policies and objectives.

Moreover, the market competitiveness also differs from one country to the other, even if it is the same industry. For example, the market of technology in Japan is the second largest after the US

³⁶ Article "Multinational Companies and Wage Inequality in the Host Country: the Case of Ireland" by Paolo Figini and Holger Görg.

³⁷ Article "Human Resources Management in International Organizations" by Sonja Treven, 2001.

³⁸ Latta 1998; from the article "Challenges in International Benefits and Compensation Systems of Multinational Corporation" by Semere Haile, 2002.

and accounts for 40% of the total IT spending in Asia Pacific³⁹. So we can assume that wages in the field of technology in Japan are way higher than the wages in the technology field in the United Arab Emirates (UAE). This is because the fierce competition in the technology market in Japan would be much higher than the one in the UAE, and so, technology companies in Japan would offer very high wages to attract the best skilled and talented people. However, if the same technology company existed in the UAE, we can predict that its wages won't be as high as the ones offered in Japan due to the limited competition in the technology market in the UAE.

Moving forward, another important role of IHRM other than researching the new target market and amending the rules and policies for the new market is to offer an attractive pay package for mobile employees. This is because there are many factors that could influence their lives due to them moving from one country to another. One of these factors is the standard of living in the new country whether higher or lower, it would have an influence on the salary that the employee will receive. If the standard of living is higher in the new country, the employee would have to spend more to be able to manage living in the new country. In the contrary, if the standard of living is lower, the pay has to compensate for the lower standard of living the employee would be moving to. Other factors involved in this are the exchange rates, the value of the new currency and tax rates. All these factors affect employees' moral, performance and work outcome. That's why IHRM should pay great attention in designing employee benefits package.

EMPLOYEE BENEFITS

Employee benefits are optional; companies may choose to offer a wide range of employee benefits, limited employee benefits package or none, meaning just offering the basic salary. Some companies have different benefits for senior personnel, such as child education, accommodation and furniture allowance. This could be offered in a company in one country but not in the other counterpart. This is due to the country's environment and what attractive benefits should be offered in order to attract high caliber people.

³⁹ Article "Modest Growth for Japan's Tech Market in 2014" by Masami Kashiwagi, 2013.

Multinational corporations can use one of the four following approaches⁴⁰ in determining international benefits and compensation of expatriate managers:

- i. **The balance sheet or the home-based approach:** the balance sheet approach is the common approach and it is widely used. Its main objective is to ensure that the expatriate employee do not lose or gain compared to his/her colleagues in the home-country. It makes is easy for the employees to be mobile in the most cost effective way possible (Reynolds, 1995). The foundation of the pay is the home-country salary. The philosophy behind this approach is to encourage global mobility and make assignments attractive economically in any part of the world (Reynolds, 1997).
The package it offers tends to balance expatriate managers' purchasing power in the host country and make it equal to his/her purchasing power in the home country. The negative side of this approach is that it may create inequality between the expatriate manager and the local one or even with expatriate managers who come from another country.
- ii. **The host-based approach:** this approach calculates the wages according to the host country standards. This approach is found to be easy to manage and save money. The negativity of this approach is that currency fluctuation can create big problems.
- iii. **The better-of-home-or-host approach:** this approach suggests that expatriate managers should not be living in a level lower than the national/local managers' level.
- iv. **The international citizen's approach:** this approach aims to have a fair pay system among all international employees. It is suitable for the Executive Managers who are moving from one country to the other (Solomon, 1995).

Most companies choose to provide a complete employee benefits package in order to attract and retain people. A careful planning of employees' benefits package is required from MNCs. They need to consider the host country's requirements in terms of employees' benefits and at the same time maintain consistency with the home country benefits package offered to their local employees. Moreover, they also need to carefully study the budget that would be allocated for employees' benefits in the host country in order for them to retain a beneficial business thus an

⁴⁰ Article "Challenges in International Benefits and Compensation Systems of Multinational Corporation" by Semere Haile, 2002.

attractive one that is appealing to the local manpower in the host country⁴¹. Employees' benefits may include health insurance, paid holidays, life insurance, retirement, etc.

Most of the companies that offer the best pay and compensation are in the technology industry followed by biotech-pharma industry. See Appendix I for the list⁴² of the 25 companies with the best pay in the perspective of employees. This best companies' data was gather from the feedback of employees in a scale of five points in 2013 by the job hunting site glassdoor.com.

TRAINING AND DEVELOPMENT

International Human Resources Management (IHRM) should have a well-established training and development plan for their international subsidiaries' employees. The target must be that employees should be able to fulfil their duties in the subsidiaries to the maximum and achieve the company's target of international expansion and growth. Even though salary is an important factor for employees, they now place higher weight on career development and training beside health insurance and bonuses⁴³.

The IHRM responsibilities in terms of training and development programs⁴⁴ are:

- i. Training and development of employees who are working in the different subsidiaries around the world.
- ii. A special training that could help in preparing expatriate employees to work on different projects around the world.
- iii. A special development program for globally minded managers.

These different training and development programs could be performed in two ways; centralized and decentralized⁴⁵. As for the centralized programs, they are created in the headquarters in the home country with some local adaptation, and trainers from the headquarter go the subsidiaries in the other countries to give the training. This is consistent with the ethnocentric approach.

⁴¹ Susan M. Heathfield; from the article "What's In a Comprehensive Employee Benefits Package?"

⁴² The list is gathered from <http://www.businessinsider.com> in an article written by Julie Bort, 2014.

⁴³ Article "Salary and Employment Insights 2013" by Hudson leading global employee provider, 2013.

⁴⁴ Article "Human Resources Management in International Organizations" by Sonja Treven, 2001.

⁴⁵ Ibid.

The geocentric approach is also centralized, but the input of the training program is from both, the headquarter and the subsidiary.

As for the decentralized programs, they are based on the location of the subsidiary and are developed locally. This type of training program follows the polycentric approach as local people develop the training materials and the trainer and trainees are usually from the same country and background.

IHRM AND THE NATIONAL INSTITUTIONS

The HRM of international organizations should recognize the constraints resulted from national institutions and working groups⁴⁶ or unions in the targeted country. The main institutions are the state, the legal system, the financial system and the family. Some of these institutions and working groups have a great influence on companies' decisions and policies and they constitute the distinctive social organization of a country and its economy⁴⁷.

As Howard Gospel and Andrew Pendleton⁴⁸ argued: *“within national systems, firms face systemic constraints and opportunities (of which finance and governance are especially important) that influence the management of labor”*. While Whitley states the importance of national institutions as: *“cross-border economic flows and coordination processes depend overwhelmingly on national state legal systems, enforcement mechanism, and institutional arrangements to manage risks and uncertainty sufficiently to enable strategic decisions to be made. Internationalization, then, remains highly interdependent with national agencies' and institutions' structures and actions. As a result, its effects on established systems of economic organization and firms are greatly guided and limited by variations in these national institutions (2000: 122)”*⁴⁹.

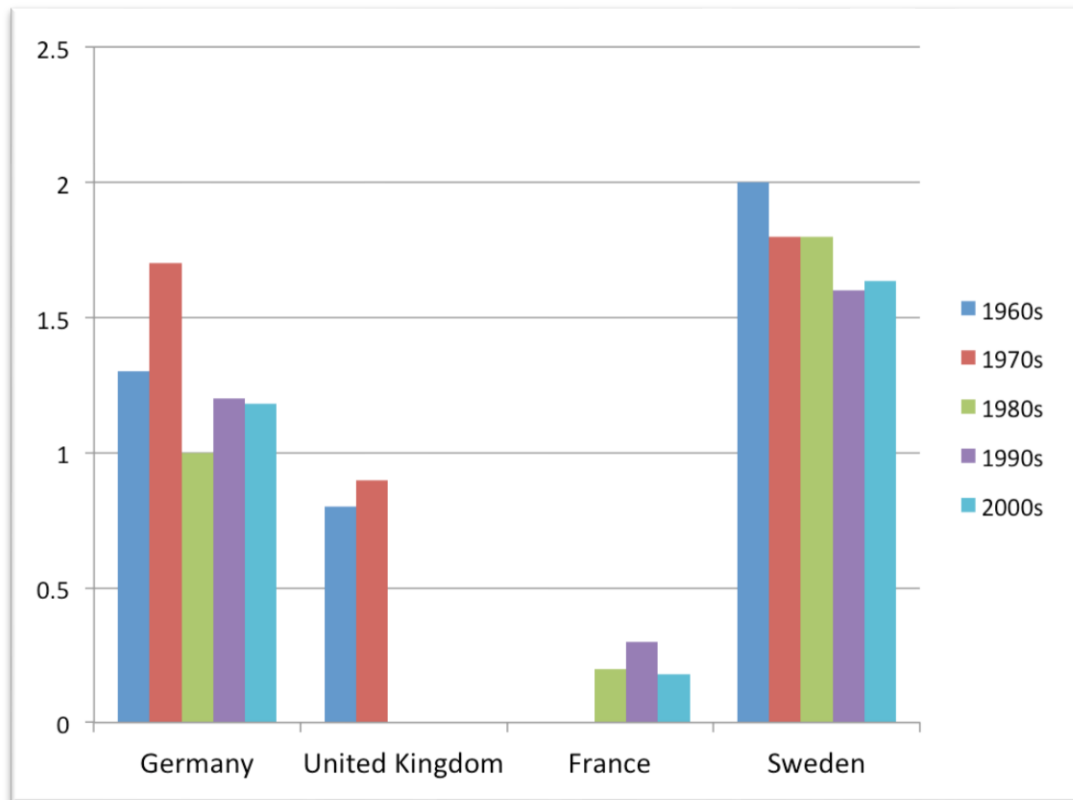
⁴⁶ A group of people who are expert in their field and they come together to achieve specific goals and put some rule for companies to adhere to in order to guarantee employees' rights and ensure that companies are working in accordance with the country's regulations.

⁴⁷ Hall and Soskice 2001, Whitley 2000; from “International Human Resources Management”, 2nd edition 2011.

⁴⁸ Article “Finance, Corporate Governance and the Management of Labor” by Howard Gospel and Andrew Pendleton, 2003.

⁴⁹ “International Human Resources Management”, 2nd edition 2011.

National institutions have a major role in shaping the international HRM practices and in some countries, their role is much influential than the others. For instance, trade unions are extremely strong in terms of decision making in Sweden as appose to the United Kingdom⁵⁰. The following graph⁵¹ illustrates the involvement of trade unions in decision making in a decade average.



From the graph, we can see the difference of the power of the trade unions in four countries, and it is obvious that Sweden has the strongest trade unions in terms of decision making and involvement among the other three countries. However, from the 1980s the trade unions in the United Kingdom even disappeared.

⁵⁰ Alexandre Afonso; "How Strong are British Trade Unions, Really", 2013.

⁵¹ Ibid.

Moreover, the social and legal framework of a country have influence in many areas, such as recruitment and release, the formalization of educational qualifications, pay, the nature of employment contracts and others⁵². As mentioned in the previous chapter, institutions have their role in income inequality as they have an effect on employment and wage distribution, thus institutions roles and effects differ from one country to the other, that's why inequality exists and varies in its levels between one country to the other.

Whitley (2000) distinct between “*background institution*” such as family and education that make general social patterns and norms and “*proximate institutions*” such as labor market systems that make the immediate business environment.

This distinction has an influence on broader institutionalist perspectives on sociology⁵³ and in particular with the societal effects approach of Maurice and Sorge (2000). Maurice and Sorge conducted a research that showed difference in work frame of organizations due to national institutional logics. This influence of national institutions on organizations led to the variation and difference in salary structures, career paths and management relations among closely matched firms⁵⁴.

Moreover, national difference not only constrain management actions, but MNCs will try to benefit from these differences in national culture and look for opportunities and advantages, such as national or regional production, innovation and business systems that come along “locational advantages”⁵⁵.

⁵² Sparrow and Hiltrop 1994: 52-59; from “International Human Resources Management”, 2nd edition 2011.

⁵³ Powell and DiMaggio 1991; Scott 2001; from “International Human Resources Management”, 2nd edition 2011.

⁵⁴ “International Human Resources Management”, 2nd edition 2011.

⁵⁵ “International Human Resources Management”, 2nd edition 2011.

CHAPTER 3: COUNTRY ANALYSIS – THE EXTERNAL FORCES

In this chapter, I will cover some aspects concerning the country and their effects on MNCs. I will conduct a PEST analysis about two countries (United Arab Emirates and Hong Kong), and I will talk about the labor market in these two countries and other external forces that influence MNCs' decisions, such as taxation and exchange rates.

COUNTRY ENVIRONMENT

It is important for companies to conduct a market research before entering a new market. This is an important step as it will point out the positive and negative aspects of this country and whether or not it is a suitable one to commence business in. Howard Gospel and Andrew Pendleton said “*the type of finance-governance regime a country adopts will tend to influence decision-making in similar ways across firms, because they are subject to these environmental influences to more or less the same extent and because isomorphic processes will work against alternative patterns over time*”⁵⁶.

In explaining the importance of national dimensions, there are two major analytical categories; the cultural theories and the institutional theories. These two theories are used to focus on national level factors as to global ones when looking for differences between organizations.

Moreover, the type of economy has an influence on the HRM of MNCs. To clarify, we will look at two different economies; the liberal market economy and the coordinated market economy. The table⁵⁷ below will show the difference between the two economies and their effects on IHRM.

⁵⁶ Article “Finance, Corporate Governance and the Management of Labor” by Howard Gospel and Andrew Pendleton, 2003.

⁵⁷ “International Human Resources Management”, 2nd edition 2011

Differences between national varieties of capitalism, and their effects on HRM:

	Liberal Market Economy	Coordinated Market Economy
Examples	UK, USA, Canada, Australia, other developed English-speaking economies	Germany, Japan, Scandinavian economies, Netherlands, Austria, Switzerland
Finance system	Equity-based, large stock markets. Easy for investors to switch assets-this leads to strong pressures for short-term profitability	Credit-based, i.e. important role for banks. These often take a direct role in the corporate decision-making, through representation at board-level, etc., and take longer-term view of corporate success
Relations between firms	Competitive and contract-based, e.g. subcontracting tends to be based on price competition and be relatively low-trust	Collaborative, both in terms of creating institutional infrastructure (wage bargaining, training, etc.) and in terms of long-term, high-trust relations across the supply chains of large firms
Vocational training and education	General education provided by state. Vocational training systems unstable, as large firms prefer to develop their own systems rather than contribute to sectoral/occupational systems	Firms pool resources into highly developed vocational training systems, usually at sectoral level (not Japan)
Wage determination	Workplace or firm level	More centralized (sectoral or national level)
Employment relationship	'Hire and fire' principles lead to low-trust relationships between employers and employees. Reliance on numerical flexibility	Long-term, higher-trust relationships for core workers. Reliance on functional flexibility
Union organization	Primarily occupational	Primarily sectoral (not Japan)
Role of the state	To ensure 'free and fair' markets, but otherwise to intervene as little as possible	To establish framework by which authority can be delegated to corporate actors, e.g. employers' organizations and trade unions
HRM	Attempts to increase co-operation from employees historically made difficult by conflictive industrial relations, more recently by low levels of employment security creating difficulties in obtaining commitment Individualization of HR (individualized pay and career development, decline of trade unions)	More collectively oriented HRM (high levels of collective employee involvement, greater prevalence of autonomous teams, less individualized pay)
Areas of competitive strength	Sectors involving radical innovation (IT, science)	Sectors involving incremental innovation (engineering)

Moving on, Sparrow and Hiltrop (1994)⁵⁸ noticed that MNCs will work in accordance to the national cultural diversity. If MNCs managers think the impact of national culture is insignificant, their approach will be to ignore the differences in employee values, norms and preferences, such as the case in the *narrow-minded organization*. While if it is the other case where the national culture is significant as in the *ethnocentric organization*, their approach will be to control and limit the influence of cultural diversity by for instance hiring a homogenous workforce. Last but not least, managers will create an international workforce if they noticed cultural diversity and its potential positive impact as in the *synergistic organization*⁵⁹.

Moreover, there is another scheme to understand the relationship between a company and a country, which is the System-Society-Dominance (SSD) framework⁶⁰.

This frame work analyzes the tension within international firms between:

- i. *Generic* features of capitalist social relations and structures, i.e. property rights, wage, labor, competition, capital accumulation (**system effects**) ;
- ii. *Particular* forms of management and labor derived from where MNCs originate and their subsidiaries are located, i.e. the way enterprises are historically embedded and conditioned by distinctive institutional arrangements and cultural dispositions (**society effects**);
- iii. *Standardizing* forces derived from dominant actors or global discourses, i.e. the process whereby ‘lead societies’, or sectors or firms, develop ‘best practices’ or global standards which are seen as dominant ideologies or logics and are subsequently emulated through processes of diffusion (**dominance effects**).

⁵⁸ Sparrow and Hiltrop 1994; from “International Human Resources Management”, 2nd edition 2011.

⁵⁹ “International Human Resources Management”, 2nd edition 2011.

⁶⁰ Elger and Smith 2005; Smith and Meiksins 1995; from “International Human Resources Management”, 2nd edition 2011.

PEST ANALYSIS – How it affects a company's wage range

As mentioned earlier, it is important to analyze the country's environment to know how it affects the companies that operate in it and the decisions that companies need to take in accordance with the country that they are operating in. As Sparrow and Hiltrop stated “ *the evidence suggests that our national culture is so deeply ingrained in us that it cannot easily be erased by any external forces [such as a company culture]* ” (1994:77)⁶¹.

To understand the impact of a country to MNCs, I will conduct a PEST analysis (Political, Economic, Social, Technology) in two different countries, Hong Kong and the United Arab Emirates (UAE).

Hong Kong

Hong Kong is a city located in the southern cost of China. It became a British colony after China defeated the first opium war (1839-42). In 1997, it was transferred to China and became China's first special administrative region under the principle of “one country, two systems”. Hong Kong is considered the global hub for freight logistics and finance. It is ranked as the third most important international financial center. It has a low taxation and free trade systems and it attracts a lot of investments in the fields of finance and trade. It is ranked the second in the Ease of Doing Business Report in 2012 after Singapore. Hong Kong is known for its rapid development and growth rates, especially from 1960s to 1990s. Investors who are interested to enter the Asian market establish their operations in Hong Kong. They search for the local talents to help them maximize the success of their operations. Hong Kong people are known to be hard working. Their average working hours per year equal 2,287 hours compared to 1,625 hours in Britain⁶².

⁶¹ Sparrow and Hiltrop 1994; from “International Human Resources Management”, 2nd edition 2011.

⁶² Article “Salary and Employment Insights 2013” by Hudson leading global employee provider, 2013.

The United Arab Emirates (UAE)

The United Arab Emirates (UAE) is a federation of seven emirates (Abu Dhabi, Dubai, Sharjah, Ajman, Um Al Qaiwain, Ras Al Khaima and Fujairah) that came together in 1971 and is located in the Arabian Peninsula. Abu Dhabi is the capital and it is the largest city in the country. The country was dependent on fishing and pearl diving before the discovery of oil in the 1950s. Now, the UAE is one of the OPEC members (Organization of Oil Exporting Countries). Although the country is rich with oil reserves, it has diversified its economy into other industries, such as tourism and construction. It is one of the Middle East's most important economic hubs. The UAE is a liberal country with more than 200 nationalities coming from different religious beliefs living in harmony and peace with each other notably that their number exceeds the number of locals. Due to its tax free system, the UAE attracts many foreign investments and many international organizations have their subsidiaries there, such as Microsoft and Facebook which has its first office in the Middle East located in Dubai.

POLITICAL

The political environment⁶³ within a country is considerably important to MNCs as it affects their operations and business decisions. If the political situation in the country is stable, it will attract foreign investments and vice versa. Moreover, the government in many countries plays a big role in different aspects of the company. For instance, during the industry period in China, the company's operations would be managed by the government and it would tell the managers of the company what to produce and how to produce⁶⁴. And in general, MNCs are something attractive for developing countries, in which due to the massive existence of MNCs in developing countries, it made them gain indirect economic power and political influence⁶⁵. They can limit the access of MNCs to grants, tax credits, loans, subsidies and investment insurance.

⁶³ Government actions that have influence on companies operations.

⁶⁴ Article "An Analysis of Business Challenges Faced by Foreign Multinationals Operating in the Chinese Market" by Jianlian Wu, 2008.

⁶⁵ Emmot 1993; from the article "The Influence of Political and Legal Challenges Facing MNC", author not disclosed in the preview version of the book.

- **Hong Kong:** the information is limited, but in terms of political parties, it has many of them.
- **UAE:** it is considered to have an autocracy⁶⁶ system and it has been ranked poorly in the freedom indices in terms of civil liberties and political rights. Political parties are not allowed in the country.

ECONOMIC

The economic situation of a country has a great impact on the type of companies that enter this country. Countries with stable and high economic standard attract major international corporations, by which in return these corporations participate in the country's economic development by hiring people and paying taxes to the respective government.

In addition, the more stable and advanced the economy of a country, the higher the compensation is given to employees. Furthermore, national business systems⁶⁷ within a country also impact companies' entry decision and shapes IHRM policies and practices in this country.

- **Hong Kong:** it has high international ranking in economic competitiveness and it is described as a laissez-faire⁶⁸ capitalism. It has low taxation and free-trade systems. This attracts many foreign investments to Hong Kong. Although Hong Kong's economy was affected by the global economic drawback, its economy prospect was expected to grow in 2013 due to the growing demand of Chinese middle-class consumers⁶⁹.
- **UAE:** it has the most diversified economy in the GCC and it possesses the second largest economy in the GCC (Gulf Cooperation Council) which consists of six members, and they are Bahrain, Qatar, Saudi Arabia, Oman, Kuwait and the UAE and it had a GDP of \$377 billion in 2012. The UAE is a tax free country and it has a free trade zone, which offers total foreign ownership. This attracts a lot of FDI, which as a result improves the economy of the country.

⁶⁶ A form of government that is run by a single, self-appointed leader as opposed to a group of leaders or elected officials.

⁶⁷ MNCs are affected by factors in the business environment they are operating in and are bounded by the laws and regulations of the country in which they are operating in.

⁶⁸ An economic system which is free from government intervention or moderation and driven only by market forces.

⁶⁹ Article "Salary and Employment Insights 2013" by Hudson leading global employee provider, 2013.

SOCIAL

Countries have different social status as some are socially more advanced than the others. Educational level, country's development level and the society's way of living are some of the factors that determine the social status of a country. Basic human needs such as food and security are explained in the psychological spectrum, but when it comes to higher needs, such as self-esteem and self-actualization, the psychological spectrum is questionable, since the higher needs are expressed over social norms and are subject to cultural definition. This gives us the idea that countries with high social standards would have higher wages offered to the employees as they will not only have the basic needs to satisfy, but they will have higher needs to be fulfilled and so they would require a high source of income (wage) to cope with the social standard in this country. Thus, countries with higher educational level produce highly skilled people which as a result create wage dispersion as they attract FDI who require skilled people compared with other countries that has lower educational level and unskilled people.

Moreover, different countries have different cultures, thus people have different attitudes towards the business culture. For instance, in China, there are three philosophy traditions, Confucianism, Taoism, and Buddhism. These three philosophy traditions had dominated the Chinese people for thousands of years. For example, in Confucianism, people respect the human relationships and they ask people to trust each other, avoid conflict and keep the harmony between them and Taoism is famous for the Yin Yang principle of dualism⁷⁰.

Therefore, in order to do business in China, people need to understand the culture very well and to know what kind of belief the people they deal with believe in so that they can build a successful relationship and be able to establish the business on clear grounds.

- **Hong Kong:** Hong Kong's culture is described to be "where east meets west" as a consequence of the culture mix of the neighboring country (China) and the influence of (Britain) for the period when it was a British colony. The standard of living in Hong Kong is very high compared to the UAE and other countries.

⁷⁰ Article "An Analysis of Business Challenges Faced by Foreign Multinationals Operating in the Chinese Market" by Jianlian Wu, 2008.

- **UAE:** the UAE's society is known for its openness and tolerance. It has a mixed culture due to the high number of immigrants and foreign employees. Indian, Filipinos, Pakistanis and other Arab countries nationals are the major nationalities living together in the UAE in a harmonious and peaceful way. It has an average standard of living compared to Hong Kong.

TECHNOLOGY

In terms of globalization, technological change and advancement is looked at as an important factor of a country's development and a company's globalization process. Scholte states: "*these developments* (referring to technological development in the fields of information and communication) *changed what is produced and how it is produced.*" Hence, one of the factors that MNCs look at in a targeted country is the level of technological advancement.

As Dicken said: "*it is all too easy to be seduced by the notion that ... technological change is linear and predictable ... when in fact technology is not independent or autonomous ... technological change is a socially and institutionally embedded process ... technology should be seen as, essentially, an enabling or facilitating agent ... while not making particular outcomes inevitable (2007: 73, 74)*"⁷¹.

Many scholars have argued that the shift towards new technologies have increased the demand of skilled labor, which as a result led to the increase in the wages of the skilled people compared to the unskilled ones thus increasing the wage inequality in the respective economies⁷².

The more the country is technologically advanced, the more it attracts businesses. On the one hand, companies are looking for cost cutting and achieving economies of scale by which technology is the factor that could help them do so. On the other hand, technologically advanced countries will have high skilled people who are highly desired and are hunted by organizations as they are scarce in some countries and they have the ability to help ease the work of the company and at the same time help the company escalate.

⁷¹ "International Human Resources Management", 2nd edition 2011.

⁷² Katz and Murphy, 1992; Lawrence and Slaughter, 1993; Berman et. al., 1994; Machine et al., 1996; from the article "Multinational Companies and Wage Inequality in the Host Country: the Case of Ireland" by Paolo Figini and Holger Görg.

For instance, technology could automate a particular procedure which in return reduces employee headcount. This is an attraction factor to corporations as they will reduce the company's cost. Moreover, companies are willing to offer higher compensation to the experts and skilled employees who possess high technological knowledge due to the reasons mentioned above. The automation of some jobs and the possibility of having highly skilled people will limit the number of unskilled people, which as a result cut cost and at the same time achieve economies of scale.

- **Hong Kong:** it has the most advanced information technology sector in the world. This is due to its advanced information and telecommunication infrastructure.
- **UAE:** the UAE is increasing its annual spending on information technology and telecommunication as it aims to develop a knowledge-based economy.

To understand better the difference between countries, Geert Hofstede created an index of six cultural dimensions within a country. The levels of these dimensions differ from one country to the other and this index could give a general idea about the culture and behavior of this country. I will look into the Hofstede index of Hong Kong and the United Arab Emirates and see the difference between the two countries in terms of Hofstede's six cultural dimension index.

HOFSTEDE'S INDEX

Geert Hofstede is a Dutch social psychologist who's famous for his cultural dimensions theory. He conducted his study on IBM in various countries as he was an employee with the company. In his theory, he studied six cultural dimensions within a country which are derived from a society's culture and behavior. These six dimensions⁷³ are:

1. **Power distance:** refers to the extent to which people accept and expect power to be distributed unequally in organizations.
 - **Hong Kong:** a score of 68 indicates inequality between people is accepted in Hong Kong. There is no protection against the abuse of superiors to their subordinates and the relationship between them tends to be differentiated.

⁷³ "International Human Resources Management", 2nd edition 2011.

- **UAE:** a score of 90 represents that the country accept the hierarchy in the organization and that everyone is in the right position with no question.
2. **Uncertainty avoidance:** it indicates that people within a culture feel threatened by uncertainty and therefore create institutions and rules to try to avoid them.
- **Hong Kong:** it ranks very low (29) in uncertainty avoidance. This means that the people accommodate with uncertainty. They are considered to be adaptable and entrepreneurial.
 - **UAE:** the UAE scores very high in this dimension (80) which means that this society takes high precaution in preventing uncertainty. This is evident in its economy diversification and not only depending on oil.
3. **Individualism/collectivism:** it points out that in an individualist culture, people tend to think selfishly and look after their own interests whereas in a collectivist culture, there is a higher social framework where individuals respect the group and have a sense of belonging to the group.
- **Hong Kong:** Hong Kong ranks 25 in individualism, which means it is a country of collectivism and they act in the favor of the group. It affects the hiring and promotion of people with closer in-groups, such as family as they get the preference and the relationship with the colleagues is cooperative. We can see this collectivism in the population of Hong Kong as it has many foreign people living and working there.
 - **UAE:** with as low as 25, UAE is also considered as a collectivist country. This kind of society encourages relationships and that everyone takes the responsibility of a fellow member in the group. It is clear from the number of different nationalities who live and work there, and in some companies you may find the number of expatriate employees exceed the number of UAE nationals as they would be working together with no racism or differentiation.

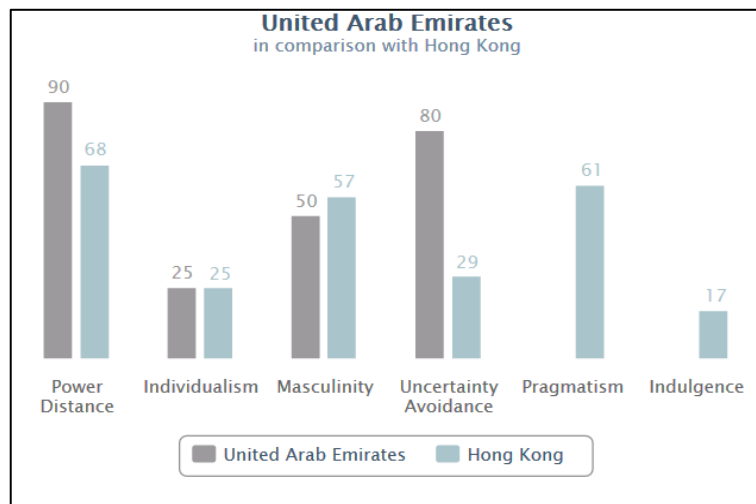
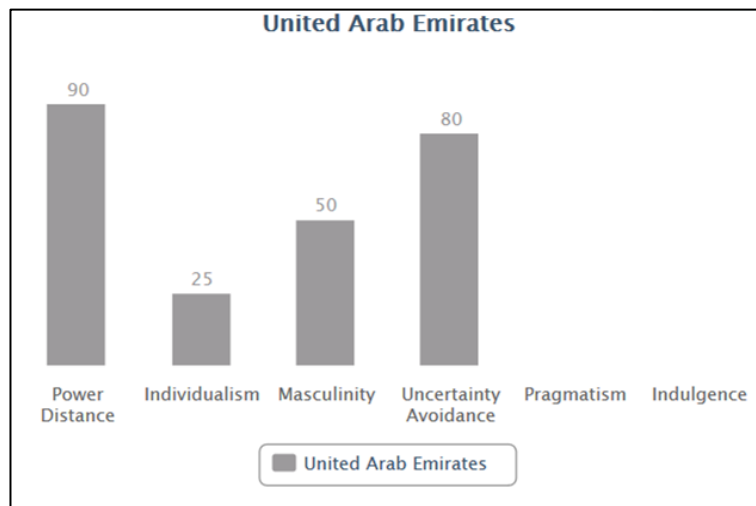
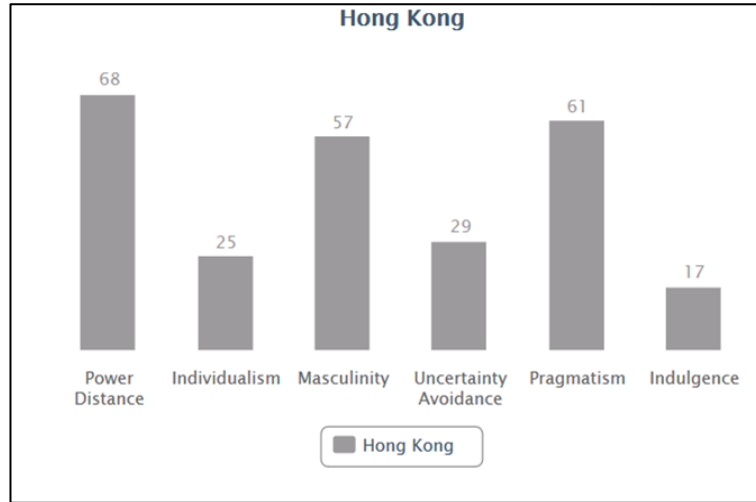
4. **Masculinity/femininity:** masculine societies tend to have competitive and strong values which are ambitious, have some assertiveness, aim for high performance and acquire money and material objects whereas feminine societies have softer values, such as the quality of life, maintaining personal relationships and care for the weak and the environment.
 - **Hong Kong:** it ranks 57 in masculinity which indicates that the country is of high competition, achievement and success.
 - **UAE:** it scores 50, which means it's neither masculine nor feminine society. Women in the UAE can be found in high positions and working levels and sometimes are supervising men. The UAE encourages the work of women, although it has a conservative culture.

5. **Pragmatism**⁷⁴: this dimension shows how societies maintain links with their past while dealing with the challenges of the present and future.
 - **Hong Kong:** it is a country with pragmatic culture as it scores 61. In this society, people believe that the truth depends on situations, context and time.
 - **UAE:** there is no score available currently for UAE in this dimension.

6. **Indulgence**⁷⁵: it describes the extent to which people control their desires and impulses according to the way they are raised.
 - **Hong Kong:** it scores as low as 17, which means that the people in this society are characterized by suspicion and distrust.
 - **UAE:** there is no score available currently for UAE in this dimension.

⁷⁴ New dimension which was not available in his earlier study; The Hofstede Center: <http://geert-hofstede.com>

⁷⁵ Ibid.



LABOR MARKET

The labor market within a particular country has an influence on employees' salary. Companies have to obey the country's work legislations in order to be able to operate legally in this country.

It is argued that countries with liberal market economies such as in the USA and UK, companies tend to reduce labor costs to have stable profitability. In the coordinated market economies, such as the ones in Germany and Japan, companies involve employees in corporate governance which means during shocks, the company will tolerate this shock by leaning towards profit reduction and returns to shareholders⁷⁶.

Moreover, well established labor markets should show flexibility in wages and employment during shocks. Meaning, wages should be cut to offset the negative shock and employees should move from less productive sectors to more productive ones.

- **Hong Kong:** the labor market in Hong Kong is considered to be flexible. The country went through many economic down turns, such as the Asian financial crisis, the deflationary period, the burst of technology bubble in the US and the SARS outbreak. However, it responded according to the well-established labor markets during negative shocks and it has reduced the wages of employees and moved the labor from the less productive to the more productive sectors.
- **UAE:** the UAE has become a nation for foreign employment due to the lack of some of the required skills in UAE nationals in some positions. Nationals are noticed more in the public sector rather than the private sector. The economic growth post the global recession of 2007 has led to the concentration of UAE nationals in the public sector (government occupations) and overall reduction in the labor productivity. Other reliable information about the UAE labor market is limited.

⁷⁶ Article "Finance, Corporate Governance and the Management of Labor" by Howard Gospel and Andrew Pendleton, 2003.

EXCHANGE RATES AND TAXES

Globalization is a term that is being used widely these days. Companies operate in different countries and there are some implications to the transactions that companies make, such as exchange rates and taxes.

In order to start a company or a branch of a company in any country, the management of the company would study the implications that they might face to operate in the targeted country. Such decisions also include the minimum and maximum salary to be offered to the people and the tax percentage they would have to pay. It is not an easy decision to take to operate in another country.

When it comes to wages, if the difference is highly noticeable between the home and the host country for similar positions, it might affect employees' morals and motivation. Therefore, a careful study has to be conducted by the management in the Human Resources Department in order to offer the best suitable and fair wage to each position and to have the right justification of the difference in wages between the countries. Additionally, Human Resources Management has to pay attention to taxation, as it may be applied on recruitment, retention, motivation and mobility of international staff which will have a considerable affect while setting the budget for the new operational country and how taxes play part in an employee's salary⁷⁷.

To sum up, after studying the two countries, and looking at the external forces of each country, we can conclude that there is a difference in the political system in each of the countries, they both have strong economic backgrounds, regardless of the shocks they encountered and they have attractive free-trade systems and low taxation. In terms of technology, Hong Kong is more advanced than the UAE, thus the UAE have a good enough technological advancement and it is spending huge amounts of money in the technology sector to be a knowledge-based economy. So with these similarities and differences in mind, we can understand how and why companies have different pay scales in different countries and the factors that influence this decision. Remember the example given earlier about the wage of a Teller both in Hong Kong and UAE and the big difference in the minimum and maximum wage range of this position between the two countries.

⁷⁷ "International Human Resources Management", 2nd edition 2011.

DISCUSSION AND CONCLUSION

In this thesis, I discussed multinational corporations and their decision to operate in another country. By them deciding to move to another country, many implications are involved in the process. The main aspect of this discussion was the difference in wage rates offered to employees in different countries. We looked at the reasons behind pay inequality among countries, we considered the company environment and how it may shape the company's decisions in terms of pay, and finally we discussed how the country environment as an external force may play a role in determining the policies of MNCs, such as the economic situation of the country, the national institutions in the country and the labor market. We also looked at Hofstede's index with regards to the two studied countries, the United Arab Emirates and Hong Kong and saw the difference in the cultural dimensions ratings of both countries as culture varies from one country to the other and thus the values and beliefs of the people.

Summarising the aspects of the two countries, Hong Kong is known to be one of the countries that have the highest wages. This is because it is the hub for freight logistics, low taxation, free-trade and ease of doing business. These attractive factors are appealing to many foreign multinational companies. Moreover, it has a territory of 1,104 km², so its small size helps in concentrating, controlling and connecting the business. On the other hand, the UAE has a tax-free system, and its strategic location helps in connecting the east with the west and it has one of the biggest ports in the middle east. Because of its tax-free system, it also attracts many foreign direct investments (FDI).

So, when it comes to comparing the salaries, Hong Kong represents 1.3% of the total area of UAE, so the small size and the concentration of businesses contribute to the right distribution of resources and the fact that the wages offered in Hong Kong are higher than the UAE's. So with regards to income, Branko Milanovic⁷⁸ suggested that at your birth and depending on the country that you live in, your likely income is determined by around 60% and another 20% is determined by the income class of your parents. This is an indicator of the status of the country as well.

⁷⁸ From the article "World Income Inequality".

As discussed in chapter 3, the country environment plays a great role in individuals' income considering the PEST analysis of the country and by which the standard of living in that given country. For example⁷⁹, the Canadians who are at the lowest income group and represent 20% had an average income in 2008 of \$14,500. After converting this income amount in US dollars in terms of the purchasing power parity (PPP), the income per capita would equal to approximately \$12,000. This income amount is higher than any average person's income in 120 countries in the world.

What we learnt from this thesis is that MNCs were born by the transformation of the economy into a global integrated economy. Multinational corporations face different cultures, political systems, national unions, etc. yet they need to face these challenges wisely and adapt to the new environment. This birth of MNCs caused income inequality among countries, which is a result of globalization, technological advancement and trade integration. Thus, the real reasons behind inequality among countries are questionable due to the shortage of specific definitions and concepts used in various studies⁸⁰.

By now, we must know that International Human Resources Management (IHRM) is the main organ in multinational corporations. They are responsible about establishing the appropriate company strategy (ethnocentric, polycentric or geocentric), recruiting people based on the three employee classifications (parent-country national, host-country nationality, and third-country nationality), preparing a suitable and attractive employee benefits package and finally creating promising training and development programs.

What managers should learn is that setting up a subsidiary in a new country requires a lot of time, attention and preparation. They must learn the different aspects that influence their business decisions, such as the national institutions, the local laws and regulations, the labor market in the new target country and the implications of exchange rates and tax.

⁷⁹ From the article "World Income Inequality".

⁸⁰ From the article "An Overview of Growing Income Inequality in OECD Countries: Main Findings".

APPENDIX I

No.	Company Name	Firm Activity	Employee Rating of Salary and Benefit	Sample Average Salary/Annual	Comments
25	eBay	Online shopping and auction	3.9	Software Engineer = \$114,788	"Great benefits, employee engagement, potential for growth." by eBay Fraud Agent.
24	Union Pacific	Railroad	3.9	Not Available	"UP cares about their employees through competitive salaries, reviews each 6 mo with potential for raises, excellent benefits, PENSION (for non-union jobs), and training and development opportunities." by Union Pacific Employee.
23	P&G	Consumer products	4.0	Assistant Brand Manager = \$93,903	"Awesome benefits, competitive salary, options for relocation, advancement opportunities." by P&G Supply Planner.

22	Orbitz	Online Travel Site	4.0	Not Available	"Flex time, ability to work from home as needed, internal employee events, salary and benefits, employees who care about their jobs." by Orbitz Employee.
21	Southern California Edison	Electric Company	4.0	Not Available	"Great company to begin career. Flexible work schedules, educational reimbursement, great benefits for individuals and family." by Southern California Edison Marketing Analyst.
20	Pfizer	Pharmaceuticals	4.0	Pfizer Scientist = \$ 82,323	"Great benefits and surroundings along with the gym, clinic, cafeteria, and day care." by Pfizer Technical Specialist.
19	Amgen	Biotech	4.0	Not Available	"Amgen's known for their generous bonuses and European-style paid time off, matching 401k, and awesome gym." by Amgen Project Manager.

18	Microsoft	Software, PCs and Devices	4.0	Program Manager = \$107,364 - Software Development Engineer = \$109,375	"Benefits are great. You get a great sense of security at Microsoft." by Microsoft Marketing Manager.
17	T-Mobile	Telecommunications	4.0	Retail Sales Associate Hourly Salary = \$10.65/hour - Retail Store Manager Annual Salary = \$49,870	"Time off, pay incentives, discounts on plan, health care, etc. you get paid a good salary and can maintain a work life balance." by T-Mobile Retail Store Manager.
16	Vmware	Enterprise Software	4.0	Software Engineer = \$107,416	"GREAT Benefits, It seems that every time I turn around, they improve benefits and add something else. Flexible work schedule, and working from home is great." by Vmware Technical Consultant.
15	Verizon	Telecommunications	4.0	Not Available	"Good benefits, excellent 401k options, flexible hours." by Verizon Member of Technical Staff.

14	Riverbed	Computer Network Equipment	4.0	QA Engineer = \$91,259	"Overall company culture of excitement and pride for solutions. Good pay and benefits are very cost competitive." by Riverbed Technology Marketing Manager.
13	Qualcomm	Semiconductors and wireless telecommunications	4.0	Software Engineer = \$103,140	"Great benefits, ESPP, bi-annual merit increases and bonuses and onsite gym, health care facility, and cafeteria." by Qualcomm Accountant.
12	Kaiser Permanente	Healthcare	4.0	Not Available	"Great benefits and vacation time. Kaiser Permanente treats its people well." by Kaiser Managerial Consultant.
11	Genentech	Biotech	4.0	Research Associate = \$79,082	"Great amenities - shuttles around the campus, buses that will pick you up around the bay area, relaxation rooms, free beverages, on-site dental, haircuts, exercise facilities, etc." by Genentech Support Technician.

10	Monsanto	Chemical and agricultural products	4.1	Not Available	"The benefits are wonderful! Monsanto really cares about the safety and well-being of its employees by offering courses and resources for employees to access." by Monsanto Legal Employee.
9	Salesforce.com	Enterprise cloud-computing software	4.1	Associate Member of Technical Staff = \$103,150 - Senior Member of Technical Staff = \$131,282	"Amazing culture and very upbeat atmosphere. Great perks including stocked kitchens with food & drink, gym reimbursement, career advancement and trips to Hawaii!" by Salesforce Account Executive.
8	Chevron	Petroleum and energy	4.1	Not Available	"People are genuine, good pay relative to other industries, friendly work environment, 9/80 work schedule, and global employment opportunities increase pay substantially." by Chevron Facilities Engineer.

7	USAA	Insurance	4.2	Not Available	"Excellent benefits, great people, innovative ideas and technologies, great campus, many perks available to employees on campus, excellent bonuses for employees." by USAA Manager.
6	Intuit	Personal finance software	4.2	Software Engineer = \$103,538	"A very caring company that pays well and offers fantastic 'total rewards' including fitness reimbursement, heavily discounted healthy lunches, and generous bonus packages." by Intuit Finance Employee.
5	Epic Systems	Healthcare software	4.2	Project Manager = \$82,600 - Software Developer = \$89,400 - Technical Services = \$71,865	"The benefits are very good - health insurance is obviously a huge win here. The pay is very competitive, and they offer many other (and great) benefit options." By Epic Project Manager.

4	Adobe	Software	4.2	Computer Scientist = \$123,351	<p>"Strong rewards: pay is equitable if not better than peer companies. ESPP, in particular, is ridiculously good. Health care is similar to most high tech companies but they do offer pet insurance which is somewhat unique." by Adobe Senior Program Manager.</p>
3	Facebook	Social networking	4.3	<p>Production Engineer = \$131,638 - Research Scientist = \$128,431 - Software Engineer = \$119,682</p>	<p>"Excellent benefits and employee perks — on-site healthcare, chiropractor, acupuncture, gym and many others I haven't tried out yet." by Facebook Program Manager.</p>
2	Costco	Retail warehouse	4.4	<p>Cashier Assistant Hourly Salary = \$11.74/hour - Front End Cashier Hourly = \$16.07/hour</p>	<p>"Benefits are great with medical, dental, sick pay, bonuses for hourly, and vacation time. Raises are based on hours worked and starting pay is competitive." by Costco Area Manager.</p>

1	Google	Internet search engine	4.4	Product Manager = \$146,215 - Software Engineer = \$127,315	"The company really takes care of us professionally and personally. The benefits are incredibly high. My team has been on offsites to Tahoe, Vegas, and Hawaii in the last year. The company creates an environment where you don't really want to leave campus." by Google senior Software Engineer.
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