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### Remuneration differences in the emerging economies of China and India

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# Remuneration differences in the emerging economies of China and India

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**E**merging economies by definition tend to be less dependent on expatriate skills and labour than lower-income countries, yet remuneration (pay plus benefits) differences between expatriate and local workers persist in them to some degree. According to relative deprivation theory, economic development paradoxically elevates the salience of relatively small gaps in remuneration. We therefore expected workers to report injustice and demotivation regarding relative remuneration, despite the closing of remuneration gaps between expatriate and local workers due to the economic development of recent years. To explore that possibility, 482 skilled professionals from a variety of sectors and organizations in two emerging economies, India ( $n=233$ , response rate=54%) and China ( $n=249$ , response rate=58%), participated in the research. International salaries were greater than local salaries by a factor of 2.73:1 in India and 1.90:1 in China; these mean ratios bordered on intolerable in the India sample and were largely tolerable among the sample from China. In both countries, differently remunerated workers differed in their justice cognitions and their demotivation, with lowered motivation and fewer justice cognitions in the locally salaried, local workers. These differences were however more statistically significant between people working in India than in China. Insofar as the motivational and justice gaps persisted, the findings support relative deprivation theory. Insofar as the same gaps appear to be sharper in the country with the higher—not lower—mean remuneration differential, they do not. An in-country workshop with local experts who interpreted the findings (in India), and content analysis of the participants' recommendations (in China) jointly recommended linking remuneration to (i) workplace performance instead of (ii) economy-of-origin, to help promote (iii) fairness.

**Keywords:** Poverty reduction; International aid; Development work; Capacity development; Humanitarian; Work psychology.

**L**es économies émergentes, par définition, tendent à être moins dépendantes des habiletés et du travail expatriés dans les pays à faible revenu, quoique les différences de rémunération (salaire et bénéfices) entre les travailleurs expatriés et locaux persistent dans ces pays, dans une certaine mesure. Selon la théorie de la privation relative, le développement économique hausse paradoxalement la saillance des écarts relativement petits de rémunération. Nous nous attendions alors à ce que les travailleurs rapportent de l'injustice et de la démotivation en regard de la rémunération relative, en dépit des faibles écarts de rémunération entre les travailleurs expatriés et locaux, dû au développement économique des dernières années. Pour explorer cette possibilité, 482 professionnels habiletés issus de divers secteurs et organisations dans deux économies émergentes, l'Inde ( $n=233$ , taux de réponse=54%) et la Chine ( $n=249$ , taux de réponse=58%) ont participé à cette étude. Les salaires internationaux étaient plus grands que les salaires locaux dans une proportion de 2,73 : 1 en Inde et de 1,90 : 1 en Chine; ces ratios moyens étaient à la limite de l'intolérable dans l'échantillon indien et étaient

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largement acceptables dans l'échantillon chinois. Dans les deux pays, les travailleurs rémunérés différemment différaient sur les plans de leur justice perçue et de leur démotivation. Plus précisément, une plus faible motivation et une plus faible perception de justice étaient observées chez les travailleurs locaux, salariés localement. Cependant, ces différences étaient plus significatives statistiquement entre les employés de l'Inde qu'entre les employés de la Chine. Dans la mesure où les écarts de motivation et de justice perçue persistent, les résultats supportent la théorie de la privation relative. Mais si les mêmes écarts apparaissent plus nets dans le pays ayant un différentiel de rémunération moyen plus élevé – pas moins élevé – les résultats ne supportent pas la théorie de la privation relative. Lors d'un atelier réalisé dans chaque pays, des experts locaux qui ont interprété les résultats (en Inde) et qui ont fait une analyse de contenu des recommandations des participants (en Chine) ont conjointement recommandé de relier la rémunération à (i) la performance au travail plutôt qu'à (ii) l'économie d'origine, afin d'aider à promouvoir (iii) la justice.

*L*as economías emergentes, por definición, tienden a depender menos de las habilidades y la labor de los expatriados que los países más pobres, a pesar de que las diferencias en la remuneración (paga-más-beneficios) de los trabajadores locales y los expatriados siguen persistiendo hasta cierto punto. Según la Teoría de la Privación Relativa, el desarrollo económico, paradójicamente, eleva la importancia de las relativamente pequeñas lagunas en la remuneración. Por tanto, hemos esperado que los trabajadores relataran injusticia y desmotivación en relación con la remuneración relativa, a pesar de cerrar la brecha de remuneración entre los expatriados y los trabajadores locales debido al desarrollo económico en los últimos años. Para estudiar esta posibilidad,  $N = 482$  profesionales de diferentes sectores y organizaciones en dos países de economías emergentes, la India ( $n = 233$ , tasa de respuesta = 54%) y China ( $n = 249$ , tasa de respuesta = 58%), han participado en el estudio. Los salarios internacionales fueron mayores que los locales en la condición de 2.73:1 en la India, y 1.90:1 en China; estos ratios medios estaban en el límite de lo intolerable en la India y estaban ampliamente tolerados entre los participantes de China. En ambos países, los trabajadores remunerados de diferentes maneras diferían en sus pensamientos sobre la justicia y su desmotivación, con motivación rebajada y menos pensamientos de justicia en los localmente asalariados trabajadores locales. Estas diferencias, sin embargo, fueron más claras entre los trabajadores en la India que en China. En la medida en la que persistían las lagunas en la remuneración, estos resultados apoyan la teoría de la privación relativa. Un taller dentro de los países, con expertos locales que interpretaron los resultados (en la India) y el Análisis del Contenido de las recomendaciones de los participantes (en China), recomendaron en conjunto relacionar la remuneración con (i) el rendimiento en el lugar de trabajo en vez de (ii) la economía-del-origen, para fomentar (iii) la justicia.

“Emerging” economies are by definition less reliant on international aid, with a workforce that is more skilled than in economies still “developing.” As well, however, their labour markets are not yet fully “emerged,” so that workers from higher-income economies may continue to receive higher pay and benefits (remuneration) than equally skilled (and experienced) local counterparts. Two of the world’s leading emerging economies are India and China. They retain diplomatic missions, international aid agencies (multilateral, bilateral, and voluntary organizations) and other nonprofit organizations, such as international educational institutions. They have, as well, witnessed a massive expansion in recent decades in the commercial sector. Included are companies fully owned and operated by foreign entities, international joint ventures between local and foreign entities, and wholly locally owned, generally large companies. The presence of the foreign companies implies an increased presence of foreign workers. Further, the presence of foreign companies with foreign workers induces competition with large local companies, who also begin to hire internationally.

In addition, the export orientation of these economies implies developing the capacity to service external markets and this is partly achieved by hiring foreign workers. The major focus in this study is thus the duality of foreign and local workers who interact every day in a wide range of organizations and sectors, in two major emerging economies—India and China. Included are workers from a range of sectors, both nonprofit and for-profit: aid workers, workers from foreign companies, and workers with local companies that hire foreigners (in the commercial sector).

A salient feature in development policy in China has been building human capacity within organizations (Yiu & Saner, 1998). Studies of workplace relationships, however, in internationally vs. locally remunerated colleagues and collaborators have found that human factors, stemming from remunerative differences, may be undermining performance and possibly capacity: Disparities in remuneration between local and expatriate workers have been linked empirically to perceived injustice (Choi & Chen, 2007), made worse by apparent insensitivity to the issue from the expatriate side (Chen, Choi, & Chi, 2002).

In their 2009 study of international joint ventures in China, Leung, Zhu, and Ge found that trustworthiness of expatriates also moderated the linkage between distributive justice and evaluation of expatriates, while Leung, Wang, and Smith (2001) reported an increasing trend for local workers to use expatriate groups rather than local groups as referents. At the same time came a trend for a sense of unfairness and injustice to rise rather than fall, coupled with an increase in less positive job attitudes—measured in both studies by intentions to quit (or “turnover”) (Leung et al., 2001, Leung, Zhu, & Ge, 2009).

The authors above linked remuneration differences in global settings to concepts in work justice, including inequity and interactional unfairness (Greenberg, 2007). In the same vein, we suggest that any covariance between rising perceived unfairness coupled with economic development suggests another work justice concept: Relative deprivation (Stouffer, Suchman, DeVinney, Star, & Williams, 1949). In their original research, Stouffer, et al. (1949) compared morale in work units that had high vs. low prospects for promotion. Counterintuitively, perhaps, morale was lower in the *higher*-prospect but otherwise comparable organizational group. This was interpreted as being due to higher expectations of promotion in the higher-prospect group, with the problem being that most individuals could not of course be promoted—leaving a sense of breached entitlement. The theory was subsequently broadened to contexts where socioeconomic expectations were rising, when smaller gaps might be particularly frustrating (Davis, 1959). Latterly, this prediction has been linked in controlled experiments to pay differences between groups (Carr, Hodgson, Vent & Purcell, 2005). Groups paid less than counterparts performing the same task were particularly demotivated when their pay was higher than the local majority but lower than an elite pay-group. An analogous process could occur in joint ventures in China and India, as sense of ability and entitlement increases with economic advancement, including educational attainment (Carr, McWha, MacLachlan, & Furnham, 2010 this issue). The present study explores relative deprivation over two multisector contemporary emerging economies, sectors, and remuneration groups, expecting that: Workers in general will compare each other’s (a) abilities and (b) remuneration. In addition, workers remunerated less will report more thoughts about (c) injustice; (d) demotivation; (e) turnover; and (f) international mobility.

## STUDY I: INDIA

Most of the research above has focused on one particular emerging economy—China, or workers from China (Ang, Van Dyne, & Begley, 2003). Emerging economies such as Brazil, Russia, and India may be very different, and those differences could interact with the difficulties of managing remuneration in specific emerging markets (The Conference Board, 2008). China and India, for example, have taken different approaches to development: China has invested more in education and training for human resource capacity (Sen, 1999). China eased market restrictions a full decade before India (early 1980s vs. 1990s), and some foreign companies, for example in retail trade and real estate, are still forbidden from operating in the Indian economy, with limited ownership (less than 50%) in sectors such as insurance, defence, and banking. Socioculturally India has a caste system, and socioeconomically a higher “Gini coefficient” than China (UNDP, 2008). The present paper therefore explores whether unequal remuneration is a significant socioeconomic issue in the Indian workplace, while controlling for sociocultural values such as “vertical collectivism.”

## Method

### Sample

The sample comprised a total of 233 participants from 78 organizations in Delhi, Bangalore, Mumbai, Chennai, Pune, and Hyderabad. There were 183 locals and 50 expatriates of 27 nationalities. There were 30 aid organizations ( $n = 89$ ), 38 commercial organizations ( $n = 120$ ), and 10 educational institutions ( $n = 24$ ). Mean  $n$  per organization was 2.99 (ADDUP, 2009). This is relatively low, indicating caution when extrapolating to organizational representativeness. An overall multivariate effect for “organization” was found,  $F(354, 672) = 1.24$ ,  $p < .01$ , across variables in Table 1. Organization was thus partialled out as a level-2 variable using a technique in Kenny and La Voie (1985). In terms of sex, 67% of the sample was male, 33% female. By sex and salary type, males on local salary = 113, females = 64; males on international salary = 37, females = 13. Qualifications ranged from tertiary diploma ( $n = 4$ ; of which three were locally remunerated) to bachelor degree ( $n = 62$ ; 43 were locally remunerated, 19 internationally remunerated), postgraduate diploma ( $n = 47$ ; 35, 10), master’s degree ( $n = 79$ ; 61, 15), doctoral degree ( $n = 40$ ;



TABLE 1.

Cognitions by Remuneration controlled for covariates (culture shock, agreeableness, horizontal individualism, vertical individualism and collectivism, candour, neuroticism, job satisfaction/work engagement, sex, years' experience and highest qualification; Study 1; India)

	Remuneration	
	Local ( <i>n</i> = 175)	International ( <i>n</i> = 50)
Mobility <sup>a</sup>	2.51 (0.87) 2.52	2.93 (0.78)*** 3.14
Turnover	2.72 (0.96) 2.69	2.64 (0.82) 2.75
Demotivation <sup>a</sup>	2.88 (0.77) 2.94	2.39 (0.67)*** 2.40
Justice <sup>a</sup>	2.81 (0.58) 2.76	3.13 (0.56)*** 3.16
Comparison	3.50 (0.57) 3.48	3.08 (0.53)*** 3.12
Ability <sup>a</sup>	3.47 (0.64) 3.48	2.98 (0.59)*** 2.95

Italics denote corrected *M*, if different from raw *M*. Standard deviations in parentheses. <sup>a</sup> Effects of organisation partialled out. \*\*\**p* < .001.

35, 5), and postdoctorate (*n* = 1; internationally remunerated). Hence the sample is relatively well qualified.<sup>1</sup>

Mean age for the sample was *M* = 36.68 years (*SD* = 8.60). Professional experience across the sample as a whole averaged *M* = 9.57 years (*SD* = 6.81). This was broken down to *M* = 9.84 years (*SD* = 6.89) and *M* = 8.96 (*SD* = 6.45) for local vs. internationally salaried workers, respectively. Hence the sample was generally experienced.

*Measures.* The 97-item questionnaire used in this study is presented, and psychometrically evaluated, in Carr et al. (2010 this issue).

*Salary.* Type of salary was measured by asking, "In your current main job, is your salary Volunteer/Local/International?" We measured salary itself with the question, "What is your approximate official annual salary, in the currency in which it is paid?" Additional questions included: "Is your current combined pay and benefits enough for your everyday needs?," "Expatriate salaries start to become unacceptably large once they reach \_\_\_ times a local salary (Choose a number from the following 2 3 4 5 6 7 8 9 10 > 10 times," and "My job brings me into contact with differently paid and benefited... (a) expatriates;

(b) locals," scaled 1 (strongly disagree) to 5 (strongly agree). We included a range of demographic questions, including age, sex, qualifications, experience (Carr et al., 2010 this issue).

*Other core variables.* In addition to salary, the core variables (all measured on a 5-point Likert scale, strongly disagree–strongly agree) included ability (four items, e.g., "I perform better than most expatriates/locals," Cronbach's  $\alpha$  = .86); comparison (four items, e.g., "I am aware of the pay and benefits received by expatriates/locals,"  $\alpha$  = .58); justice (six items, e.g., "I feel that there is fairness in the process for allocating pay and benefits to locals/expatriates,"  $\alpha$  = .80); demotivation, (six items, e.g., "I am demotivated by the pay and benefits received by expatriates/locals,"  $\alpha$  = .89); turnover (six items, e.g., "I think about leaving this job,"  $\alpha$  = .95); and international mobility (three items, e.g., "I wish I could leave this country,"  $\alpha$  = .87)

Control measures were included from Carr et al. (2010 this issue): culture shock (five items, adapted from Mumford's, 1998, Culture Shock Questionnaire;  $\alpha$  = .74, exemplar item "I feel confused about my role working with the new culture"); agreeableness (from McManus & Furnham, 2006, which combined with horizontal collectivism in Triandis & Gelfand, 1998, six items,  $\alpha$  = .69, exemplars "I generally try to be thoughtful and considerate" and "if a coworker gets a prize, I would feel proud"); horizontal individualism, vertical individualism and vertical collectivism (from Triandis & Gelfand, 1998, two items per measure,  $\alpha$  values = .66, .23 (too low to be included in subsequent analyses), and .69, respectively, exemplars "I often 'do my own thing,'" "Winning is everything," "Family members should stick together, no matter what family sacrifices are required"). Candour (five items from the Socially Desirable Response Set in Hays, Hayashi, & Stewart, 1989, mixed based on factor analysis with Neuroticism from McManus & Furnham, 2006,  $\alpha$  = .61, exemplar items, "I often feel tense and jittery," and "I sometimes try to get even rather than forgive and forget"). Job satisfaction and work engagement were measured using a combination of the three-item measure of job satisfaction from the Michigan Organizational Assessment Questionnaire (Cammann, Fichman, Jenkins & Klesh, 1983) blended with eight items from the Utrecht Work Engagement Scale (Schaufeli, Bakker & Salanova, 2006),  $\alpha$  = .91,

<sup>1</sup>Total numbers here and in Study II may not tally exactly due to non-response/missing response to some questions.

exemplar items “In general, I like working here” and “At my job, I feel full of energy”. These variables were combined into one measure as they could not be separated using factor analysis (Carr et al., 2010 this issue). Sex, education level, and years’ experience were also treated as statistical controls.

*Open-ended views.* Participants were asked, “Based on your own observations and experiences, what would be the number 1 improvement that could be made to help manage pay and benefits in your immediate work environment?” The answers to this question were considered and interpreted, along with the processed data from the survey form itself, during a post-survey in-country workshop.

*Procedure.* The questionnaire was initially emailed to a large number of potential respondents, and follow-up was undertaken by personal visits and interviews. Respondents in India were however given the option to answer the questionnaire electronically, print and post, or through an interview with a research assistant. Most of the responses were in part filled by respondents and in part completed during an interview that was typically shorter than canvassing the entire questionnaire.

In India expatriates are mainly employed as specialists, company representatives, and consultants, making it difficult to find enough expatriate participants working at the same or a similar level to Indians. As a result, two subgroups of respondents participated in the study. The first subgroup was respondents who are working in situations where Indians and expatriates are currently working together. The second subgroup comprised Indian nationals who do not currently work with expatriates, but have done so in the past. Minor adjustments were made to the questionnaire to reflect this; however, the overall meaning of the questions was retained, enabling all responses to be analyzed together. Subsequent analysis of variance across the two subgroups found no significant differences on any of the attitudinal variables reported.

An in-country workshop was organized for  $N=20$  local aid, government, and educational professionals to discuss the findings and derive policy recommendations.

## Results and discussion

### Salary

Of  $N=233$  respondents,  $n=177$  reported earning a local salary, while  $n=50$  received an

international salary. Five volunteer respondents (one local and four expatriate) were removed from the analyses due to insufficient numbers for meaningful analysis. One respondent did not provide salary-type information. Measured in international dollars using the World Bank’s purchasing power parity index, mean local pay was International\$43,907 ( $n=161$ ) and mean international pay was International\$120,030 ( $n=45$ ). These figures reflected a ratio of pay given to international and local workers of 2.73:1. Of those earning a local salary  $n=6/177$  were expatriates, and of those earning an international salary  $n=9/50$  were Indian. Though we did not do so, removing these  $n=15$  respondents from the analyses would yield a pay ratio between internationally remunerated expatriates and locally remunerated Indians of 2.56:1.

Respondents were asked to identify the mean ratio at which expatriate salaries become unacceptably large. Locally salaried workers gave a mean figure of 2.99 times the local salary; internationally salaried 2.90 times. Hence actual salary differences may have bordered on what is reportedly able to be tolerated by workers in this sample. Both locally and internationally remunerated respondents reported that their salaries were sufficient to meet their everyday needs. 79% ( $n=140$ ) of respondents on local salary reported that their salary was enough, and for internationally salaried workers the figure was 94% ( $n=47$ ).

*Variables in hypotheses.* Table 1 gives mean scores on “remuneration,” i.e., pay and benefits combined (on a scale from 1 (strongly disagree) to 5 (strongly agree)). After accounting for missing data, subsample sizes for tests in Table 1 were:  $n=175$  (75% of the total sample of  $N=233$ ) received a local salary;  $n=50$  (22%) international compensation. To test for differences between the remuneration groups, we used analysis of covariance (ANCOVA). Independent variable was remuneration group, dependent variable mean score per item on each variable in Table 1. Following Kenny and La Voie (1985, p. 342), “organization” was entered as a random factor if the intraclass correlation coefficient for organization was a significant predictor ( $p < .25$ ) in a one-way  $F$ -test for any particular variable. Under this conservative protocol, organization had the potential to contribute to the variance in ability ( $p=.164$ ), injustice ( $p=.245$ ), demotivation ( $p=.106$ ), and mobility ( $p=.054$ ), and was therefore controlled statistically as a random factor in respective analyses.

Controlling for vertical collectivism,  $F(1, 109) = 21.26$ ,  $p < .001$ , partial-Eta-squared = .16, horizontal collectivism/agreeableness,  $F(1, 109) = 7.91$ ,  $p < .01$ , partial-Eta-squared = .07, and organization ( $p = .12$ ), the internationally salaried were more likely to agree with international mobility ( $M = 3.14$ ,  $SD = 0.78$ ) than those salaried locally ( $M = 2.52$ ,  $SD = 0.87$ ),  $F(1, 47.76) = 21.60$ ,  $p < .001$ , partial-Eta-squared = .31. Controlling for vertical collectivism, positive,  $F(1, 109) = 13.51$ ,  $p < .001$ , partial-Eta-squared = .06, the two groups were equally unlikely to be thinking about turnover. Controlling for organization ( $p = .08$ ) internationally remunerated workers were more motivated ( $M = 2.40$ ,  $SD = 0.67$ ) than locals ( $M = 2.94$ ,  $SD = 0.77$ ),  $F(1, 39.35) = 11.82$ ,  $p < .001$ , partial-Eta-squared = .23. With candour, positive predictor,  $F(1, 109) = 4.09$ ,  $p < .05$ , partial-Eta-squared = .04, years' experience, positive,  $F(1, 108) = 7.46$ ,  $p < .01$ , partial-Eta-squared = .07, and organization,  $F(76, 8.99) = 2.79$ ,  $p < .05$ , controlled, locally remunerated workers ( $M = 2.76$ ,  $SD = 0.58$ ) reported more injustice in remuneration disparities,  $F(1, 41.07) = 15.51$ ,  $p < .001$ , partial-Eta-squared = 0.27, than internationally remunerated ( $M = 3.16$ ,  $SD = 0.56$ ). With vertical individualism controlled, positive predictor,  $F(1, 162) = 8.29$ ,  $p = .005$ , partial-Eta-squared = .05, both groups compared their remuneration against others', though locally remunerated respondents did so more clearly ( $M = 3.48$ ,  $SD = 0.57$ ) than internationally remunerated counterparts ( $M = 3.12$ ,  $SD = 0.53$ ),  $F(1, 162) = 14.23$ ,  $p < .001$ , partial-Eta-squared = .08. Controlling for culture shock, positive predictor,  $F(1, 108) = 10.63$ ,  $p < .001$ , partial-Eta-squared = .09; candour, negative predictor,  $F(1, 108) = 4.22$ ,  $p < .05$ , partial-Eta-squared = .04; and organization,  $p = .292$ , locally remunerated workers reported higher self-appraisals of own ability ( $M = 3.48$ ,  $SD = 0.64$ ) than workers remunerated internationally ( $M = 2.95$ ,  $SD = 0.59$ ),  $F(1, 36.11) = 17.65$ ,  $p < .001$ , partial-Eta-squared = .33.

Overall, these data suggest a confident local workforce, actively engaged in comparison with local and expatriate colleagues, which felt some injustice and possibly demotivation, but not thinking a great deal about turning over, or moving from India. These data are consistent with hypotheses (a) and (b) insofar as both groups rated their own ability and engaged in remuneration comparison. Hypothesis (c) was supported because locally remunerated workers reported injustice in contrast to internationally remunerated counterparts. Hypothesis (d) was only partially supported, since both groups tended to disagree

with being demotivated although locally remunerated respondents were less likely to do so. Hypotheses (e) and (f) were not supported, since neither group tended to focus on thoughts of organizational turnover, and internationally remunerated respondents were the only ones likely to think about international mobility.

## STUDY II: CHINA

A second study sought to build on the findings in Study I by (a) replicating Study I in a different emerging economy, China, and especially (b) exploring the concept of relative deprivation there, through the hypotheses. Alongside economic emergence, these hypotheses stress a concomitant development in sense of ability, remuneration comparisons, feelings of injustice and demotivation, turnover, and international mobility (Gladwin & Walter, 1980).

### Method

#### Sample

There was a total of 249 participants from 11 organizations. The response rate was 58% (for 174 locals and 75 expatriates of 10 nationalities, with response rates of 77% and 36% respectively). There was one aid organization ( $n = 20$ ), nine commercial organizations ( $n = 207$ ) and one educational institution ( $n = 22$ ). Mean  $n$  per organization was 22.64. A multivariate effect for "organization" was found,  $F(60, 1392) = 1.94$ ,  $p < .001$ . Although the low number of organizations (11) did not permit multilevel analyses, organizational effects were controlled (and threats from non-independence ameliorated) by applying statistical procedures in Kenny and La Voie (1985, as in Study I). Sex-wise, 61% of the sample was male and 39% were female. By sex and salary type, males on local salary = 100, females = 70; males on international salary = 43, females = 14. Qualifications spanned high school ( $n = 10$ , of which  $n = 5$  were locally remunerated and  $n = 4$  were internationally remunerated), tertiary diploma ( $n = 18$ ; 13 and 3), bachelor degree ( $n = 136$ ; 105 and 15), postgraduate diploma ( $n = 25$ ; 13 and 12), master's degree ( $n = 44$ ; 26 and 16), doctoral degree ( $n = 13$ ; 6 and 7), postdoctorate ( $n = 1$ ; internationally remunerated). The sample is therefore generally well qualified.

Mean age for the sample was  $M = 33.58$  years ( $SD = 9.17$ ). Professional experience across the

sample as a whole averaged  $M=7.88$  years ( $SD=7.91$ ). This was broken down to  $M=5.91$  years ( $SD=6.01$ ) and  $M=14.00$  ( $SD=9.81$ ) for locally vs. internationally salaried workers, respectively. Hence the sample was generally experienced.

**Measures.** Identical to Study I. Core variables included ability (for China  $\alpha=.73$ ; comparison = .68; justice = .74; demotivation = .79; turnover = .91; and mobility = .89).

Control variables were identical to Study I: Culture shock  $\alpha=.68$ ; agreeableness/horizontal collectivism = .54; horizontal individualism, vertical individualism, and vertical collectivism, two items per measure = .33 (included as a covariate but regarded with obvious caution), .53, .51, respectively); candour = .68; job satisfaction/work engagement = .89.

**Procedure.** Identical to Study I. For Chinese respondents however, the instrument was translated and back-translated into Chinese; for expatriates, the language was kept as English (the international language for business). The workshop was cancelled due to H1N1 virus.

## Results and discussion

### Salary

Only 4 “volunteer” salaries were reported in the sample, and these were removed from the main analyses. In China, there was close overlap between expatriate/local status and international/local salary. There were 174 local workers and 75 expatriates, with 170 reporting a local salary and 58 reporting an international salary package. The mean local salary in international dollars calculated using the World Bank’s purchasing power parity index was International\$29,581 and the mean international salary was International\$56,305, a ratio of 1.90:1. The majority of respondents, international ( $n=55$ ; 95%) and local ( $n=107$ ; 63%) reported that their salary was enough to live on. Salary differences were, on average, within tolerance limits. The median reported level at which the ratio between expatriate and local pay “started to become unacceptably large” was 5.00:1 for expatriates and 4.00:1 for local workers. Ratings for extent to which these differently remunerated groups came into contact with one another were consistently above 3.50/5 (tending to agree). Hence the overall pattern is one of contact with pecuniary differences, which did not exceed tolerance limits.

### Variables in hypotheses

Table 2 contains mean scores per item for each variable across remuneration (pay and benefits) groups. After accounting for missing data, the subsample sizes for tests in Table 2 were  $n=170$  (68% of total sample of  $N=249$ ) received local, and  $n=58$  (23%) international compensation. To test for differences between groups in Table 2, we used ANCOVA. Independent variable was remuneration group, dependent variable mean score per item. Following Study I, “organization” was entered as a random factor if the intraclass correlation coefficient for organization had been statistically significant (at the  $p < .25$  level, Kenny & La Voie, 1985, p. 344) for a particular variable. These were ability ( $p=.032$ ), justice ( $p < .001$ ), demotivation ( $p=.011$ ), turnover ( $p=.089$ ), and comparison ( $p=.023$ ).

From Table 2, after controlling for candour,  $F(1, 223)=14.23$ ,  $p < .001$ , partial-Eta-squared = .06, there was no significant difference between internationally remunerated and locally remunerated workers’ thoughts of international mobility ( $M=2.18, 2.21$ ;  $SD=0.75, 0.56$ ). For turnover, we controlled for culture shock,  $F(1, 203)=13.54$ ,  $p < .001$ , partial-Eta-squared = .06, and organization ( $p=.86$ ). Remuneration types differed significantly,  $F(1, 11.83)=6.16$ ,  $p < .05$ , partial-Eta-squared = .34. On demotivation, controlling for horizontal individualism, positive predictor,  $F(1, 200)=5.64$ ,  $p < .05$ , partial-Eta-squared = .03,

**TABLE 2.**

Cognitions by Remuneration controlled for covariates (culture shock, agreeableness, horizontal individualism, vertical individualism and collectivism, candour, neuroticism, job satisfaction/work engagement, sex, years’ experience and highest qualification; Study 2; China)

	Remuneration	
	Local ( $n=170$ )	International ( $n=58$ )
Mobility	2.16 (0.75) <i>2.18</i>	2.26 (0.56) <i>2.21</i>
Turnover <sup>a</sup>	2.56 (0.74) <i>2.60</i>	2.31 (0.47)* <i>2.26</i>
Demotivation <sup>a</sup>	2.62 (0.56) <i>2.61</i>	2.45 (0.50) <i>2.43</i>
Justice <sup>a</sup>	2.85 (0.53) <i>2.89</i>	3.20 (0.58)* <i>3.17</i>
Comparison <sup>a</sup>	2.99 (0.72) <i>3.03</i>	3.22 (0.71) <i>3.11</i>
Ability <sup>a</sup>	3.17 (0.59) <i>3.19</i>	3.44 (0.54) <i>3.31</i>

Italics denote corrected  $M$ , if different from raw  $M$ . Standard deviations in parentheses. <sup>a</sup>Effects of organization partialled out. \* $p < .05$ .



and organization ( $p = .98$ ), there was an interaction between organization and remuneration type,  $F(10, 200) = 2.27$ ,  $p < .05$ , partial Eta-squared = .10, although remuneration itself was not significant ( $M = 2.61, 2.43$ ;  $SD = 0.56, 0.50$ , local and international remuneration, respectively). On justice, controlling for organization ( $p = .69$ ), vertical individualism, positive predictor,  $F(1, 198) = 7.91$ ,  $p = .005$ , partial-Eta-squared = .04, vertical collectivism,  $F(1, 198) = 10.57$ ,  $p = .001$ , partial-Eta-squared = .05, and agreeableness/horizontal collectivism,  $F(1, 198) = 7.06$ ,  $p < .01$ , partial-Eta-squared = .03, there was an effect for type of remuneration,  $F(1, 12.27) = 6.78$ ,  $p < .05$ , partial-Eta-squared = .36. From Table 2, local remuneration tended toward perceived injustice ( $M = 2.89$ ,  $SD = 0.53$ ) while international remuneration tended toward justice ( $M = 3.17$ ,  $SD = 0.58$ ). For comparison of remuneration, controlling for organization ( $p = .38$ ), there was no difference between locally and internationally remunerated groups (respectively,  $M = 3.03, 3.11$ ,  $SD = 0.72, 0.71$ ). Though organization was *ns*, it moderated impact of remuneration type on comparison,  $F(10, 203) = 2.66$ ,  $p < .005$ , partial-Eta-squared = .12. Controlling for years of experience (positive predictor,  $F(1, 190) = 4.00$ ,  $p < .05$ , partial-Eta-squared = .02, sex (men inflated their own ability ratings more than women did theirs,  $F(1, 190) = 5.89$ ,  $p < .05$ , partial-Eta-squared = .03), and organization ( $p = .86$ ), there was no significant difference between internationally remunerated and locally remunerated workers' self-ratings of ability compared to colleagues (respectively,  $M = 3.19, 3.31$ ,  $SD = 0.59, 0.54$ ).

Summing up, both remuneration groups rated their own ability above average, supporting hypothesis (a) ( $H_a$ ). Both groups compared remuneration, consistent with  $H_b$ . For  $H_c$ , local workers disagreed there was justice, unlike international counterparts. On demotivation, China respondents like expatriates reported being motivated not demotivated by remuneration; and did not tend to think much about turnover or international mobility. These findings as a cluster do not support  $H_{d-f}$ .

## GENERAL DISCUSSION

### Summary of findings

There were remuneration differences across the two sites sampled, with the gaps in remuneration being larger in India than in China. In India, local workers were equivocal on whether they

themselves were demotivated by the differences in remuneration compared to their international counterparts. In China, demotivation did not tend to be reported. Across both sites there was at the least a slight tendency for local respondents to report injustice rather than justice in their relative remuneration.

### Links to theory

On one hand, remunerative differences, though smaller than in other sites involved in this research (Marai et al., 2010 this issue, and Munthali, Matagi, & Tumwebaze, 2010 this issue), not only were persistent but also instilled a sense of injustice (in locally remunerated workers performing similar jobs to expatriates). This pattern was broadly consistent with relative deprivation theory, which predicts that relatively small discrepancies will still be seen as unjust, even though materially speaking, in an absolute sense, people are becoming better off than beforehand.

On the other hand, the same theory suggests that smaller ratios and discrepancies become more irksome than larger ratios, all else being equal (Davis, 1959; Stouffer, et al. 1949). This general pattern was *not* observed in these two studies. The larger ratio between international and local remuneration was found in India, where local workers also reported being significantly *less* motivated than international colleagues (with cultural values etc. statistically controlled). If anything, in fact, the lower ratio was linked to a lowered risk of demotivation, not only in our two studies but also across the project sample sites as a whole (Marai et al., 2010 this issue, and Munthali et al., 2010 this issue). This type of finding is broadly consistent with observations in Chen et al. (2002), where relative privilege compared to fellow locals cushioned rather than exacerbated injustice, and in Leung et al. (2009), where better compensation buffered the level of unfairness in the dual remuneration system reported by locals. Hence the findings with respect to relative deprivation are at best mixed, despite supporting the importance of justice more generally (Leung et al., 2009; Chen, et al., 2002).

### Practical recommendations

#### India

Local workers receiving significantly lower salaries and benefits have reasons for demotivation and may feel that something is wrong in the system

of remunerative differentials. Their recommendations at the workshop naturally related to upgrading their own compensation packages and thereby reducing differences. At the same time, the workshop emphasized that not only should remuneration structure and differences be based on fairness/justice, but the criteria involved in arriving at the structure should be made clear to employees. Hence it was strongly recommended that principles and processes of determining remuneration should be transparent to all. Employers should invest in improving the capabilities of employees through training. Local employees would benefit most from this. In a situation where most workers in the nongovernment sector are not covered under social security nets, it was felt that local workers should be extended healthcare and other benefits similar to those offered to expatriates.

### **China**

Open-ended suggestions offered by  $n=104$  respondents from the survey were content-analysed. Recurring themes included building more fairness into the system, via salary/benefits and more transparency (36/104, 31 local workers); plus linking pay and benefits to performance, including ability, education, experience, and performance evaluation (20/104, six expatriate workers). These recommendations are interlinked and consistent with recommendations reached in India.

In China, while the reliance on expatriates is not yet changing, the makeup of expatriate populations is in flux. Ten to 20 years ago, China employed a single type of expatriate: traditional Western expatriates who were typically lured to China with lucrative packages to fill top executive positions. Today, there is further segmentation, with organizations hiring “China-hired foreigners,” i.e., foreign nationals hired in China, often western expatriates who have completed two to three assignments in China and do not want to return home, as well as “China returnees,” those born in China and having at least three years of work experience overseas. Continuing economic growth will create more opportunities for China returnees and expatriates from Hong Kong, Taiwan, and other markets overseas. This diversity of expatriates has led to their compensation and benefits packages in China being less ‘robust’ than in previous years. Foreign organizations that have been in China for a long time now tend to design compensation and benefits packages that are more aligned to local packages in terms of size and program features. Foreign organizations that are fairly new to China or in a rapid-growth phase still

tend to bring expatriates from overseas, while those organizations that are more established, coupled with steady business growth (and across more progressive industries such as hi-tech), tend to seek more “nontraditional” expatriates.

Features such as these bode reasonably well for a continuing trend to hire globally and remunerate locally. In that sense, China’s relative experience with global investments may contain lessons for other emerging economies and lower-income economies. Foreign organizations can design compensation and benefits packages that are more aligned to local packages in terms of size and program features. They can try to seek more “nontraditional” expatriates such as “home country returnees,” who often have strong technical skills, especially in research and development, which, when coupled with their language and cultural skills, make them highly valuable. Companies are also taking rewards as a strategic tool. Firms used to look at employees by categories and whether they were expatriate, regional, local, or returnee. Now they are increasingly remunerating employees according to the business performance they bring to the company, rather than simply because they are assigned to a foreign country. With the advance of China’s education system, better-quality talents are delivered with each passing year which can compete with foreign counterparts in many of the same positions.

In summary, we recommend the following for managing remuneration differences.

1. Recruit expatriates by “localizing” the compensation packages offered—reducing the benefits and perquisites component in traditional expatriate packages, and hiring “nontraditional” expatriates at lower remuneration.
2. Remunerate employees not by categories or whether they are expatriate, regional, local, or returnee, but according to their performance.
3. Use benefits such as educational assistance as motivators for all employees, not only for assigned expatriates.
4. In emerging economies, comparison processes increasingly focus on the closing gap between local and international remuneration. Even when these gaps have shrunk (as they have in China over the past few decades, from a reported 15:1 in Chen et al., 2002, p. 812, to the present study), they remain potentially problematic.

## CONCLUSION

As conditions in China improve, it can no longer be considered a hardship posting. The global indices that determine hardship and cost-of-living decisions will continue to drop, meaning lower payouts to expatriates. Many companies have already eliminated the “hardship” element from postings. The changing face of expatriate remuneration is also a testimony to China’s efforts in realigning current talent strategies.

India and China used different strategies for economic development. China was opened up earlier and more than India and the Chinese economy relies on foreign direct investment more than India. However, like China, India has experienced high levels of economic growth in recent years. With rising incomes, infrastructural facilities, and growing importance of the external sector, it is expected that the gap between expatriate and local remuneration will narrow in India too.

A core issue identified in this research is workplace justice. On that, these two studies in emerging economies seem to agree. So too does at least one study in the developed economy of Singapore, in which expatriates from China were found to be remunerated *less* than local counterparts (Ang et al., 2003). As Ang et al. have found, one of the first casualties of perceived injustice is organizational citizenship behavior, including collaboration (Siegel & Hambrick, 2005). Future research might like to consider the range of subtle contextual behaviours that possibly continue to be impacted by remuneration differences.

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