Among the many questions you may have if you're hiring internationally is how international bonuses work. Bonuses are a common feature of employee compensation packages, but as with many other aspects of employment, they differ across the world. Let's look at some important considerations that can help you understand how bonuses work and how they can vary from one country to the next.

Can You Give International Employees Bonuses?

If you're expanding your business globally for the first time, you likely have a lot of questions about the proper ways to compensate your employees abroad. Laws and customs that govern compensation, including bonuses, differ around the world. You can and, in many cases, should give your international employees bonuses. The types of bonuses and the amounts you award will depend on several factors.

It's important to recognize that how you handle bonuses in your company headquarters may not translate to another country. Before you hire staff in a new country, reevaluate your compensation and benefits packages, and tailor them to fit this new labor force.


GLOBALIZATION PARTNERS
TYPES OF
BONUSES
Spot bonus
13th-month salary
13th-month salary
Signing bonus
Retention bonus
Referral bonus
Vacation bonus
Profit-sharing
Commission

Types of Bonuses

As the name suggests, a “bonus” is an extra sum of money given on top of an employee’s standard wages. There are different types of bonuses you may be used to giving in your home country or you may find are more common in other countries. Some of the most common types of bonuses include:

- Spot bonus: A spot bonus is a merit-based bonus given to an employee to reward them for a job well done on an important project or for going above and beyond the call of duty. These bonuses are one-off and given at a manager’s discretion as their budget allows.
- 13th-month salary: The 13th-month salary is a bonus some employers provide across their organization if they so choose or if it is legally required. This bonus is typically equal to a full month’s wages given at the end of the year — hence, the name 13th-month salary. Various countries have different ways of calculating the right amount. In some cases, it may even equal two months’ wages, making it a 13th/14th-month bonus.
- Holiday bonus: Countries where a 13th-month salary is not customary may still give a holiday bonus, also sometimes called a Christmas bonus. The amount you give may differ from employee to employee based on their salary or may be a set dollar amount for all your employees.
- Signing bonus: A signing bonus is a one-time bonus given at the beginning of someone’s employment with your company. It serves as an extra enticement to get someone to sign on with your company. This can be especially helpful if you’re persuading someone to leave a position elsewhere or choose your job offer over another offer from a competitor.
- Retention bonus: A retention bonus is a bonus you give an employee to convince them to stay on with your company if they’re considering leaving. It could be that another company has attempted to recruit them, or maybe they’re dissatisfied somehow. In addition to addressing any issues that may be troubling the employee, you can offer a retention bonus to incentivize them to stay.
- Referral bonus: A referral bonus is a monetary gift to thank an employee who was instrumental in bringing new talent onto the team. For example, an employee may have encouraged a friend to apply for a new job opening with your company. Companies may wait a probationary period after hiring the new employee and then give a referral bonus to the person who encouraged this new employee to apply.

- Vacation bonus: Paid vacation typically means employees receive their usual wages for the days they are absent from work. If employers also pay out a vacation bonus, that means employees receive a premium on top of their normal wages. In other words, they are paid extra for the time they are on vacation.
- Profit-sharing: Profit sharing is a bit different than other types of bonuses, but it's worth a mention since it's another common way global businesses compensate their employees beyond their regular salary. Profit-sharing is an incentive plan where a portion of profits is divided among employees. The better your company performs, the more money employees receive.
- Commission: Commission is a way to reward job performance. Some employees work entirely or mostly on commission, in which case, it does not function as a bonus. In other cases, commission may be a small part of an employee's overall compensation. There are multiple ways to structure compensation. Employees may have a sales quota they must reach to get a set dollar amount, or they may receive a certain percentage of profits they bring in, for example.

How to Decide When to Give Bonuses

Regardless of the country where you're employing people, there are several reasons that may motivate you to give bonuses to your employees. You can apply the same rationale you're used to using when deciding when to give employees bonuses in your home country, but you may find some different factors apply that lead you to adjust your policy for the new country.

1. They Are Legally Required

One reason to give a bonus is if it is legally required. Some definitions of a bonus will specify that it's a non-guaranteed type of compensation, but in some countries, certain bonuses are, in fact, guaranteed. For example, some countries mandate the 13th-month salary. This is true for many Latin American countries, as well as some Asian, African, and European countries.

A country may legally require other types of bonuses, as well. For example, in Mexico, in addition to the 13th-month bonus, companies are legally required to share 10% of their pre-tax profits with employees each year. To avoid lawsuits and fines, you need to make sure you carefully follow the bonus policy in different countries.

2. They Are Customary in the Country

Some bonuses are not legally required in a country, but they are customary. Even if they are not customary for the whole country, they may be standard within a certain industry in the country. That means only studying the employment laws in a country is not enough to tell you what your employees there will expect. For example, the 13th-month salary may not be legally mandated in a country, but it could be customary. This is the case in about two dozen countries across the world.

That means employees in these countries will likely assume that their wages will actually be over 8% more than the annual salary to which they agree. If the customary time for the bonus comes and goes with no bonus, you can expect to have some upset employees. If you make it clear to employees that you do not give out a bonus that is customary in the country, you may have trouble recruiting since employees may choose to work for other companies where they will receive the traditional bonuses.

3. They Will Give You a Competitive Edge in a Tight Market

Another reason to offer bonuses for international employees is if you're trying to gain a competitive edge in a tight labor market. In some countries, you'll find that the talent pool is limited for your industry, or there are simply more jobs available than there are workers in the country. About two-thirds of employers report having trouble filling jobs in the following countries:

- Croatia
- Finland
- Greece
- Hong Kong
- Hungary
- Japan
- Poland
- Romania
- The United States

Japan is also a notoriously difficult country for recruiters.

When you're trying to hire in a tight market, you have to find ways to attract top talent and convince them to accept your job offer over another offer. A signing bonus or the promise of other bonuses may be the extra perk you need to sweeten the pot for job candidates. A retention bonus could also help you hold onto an employee who may be tempted to take another job.

4. You Want to Boost Employee Morale

Another reason to give your employees a bonus is to boost morale. You may compensate your employees fairly for the work they do, but an extra monetary gift demonstrates a keener sense of appreciation for your employees. A holiday bonus, for example, is an excellent way to show goodwill and help the families who work for you when their finances may be getting a bit tight due to holiday spending.

The one thing to be wary of is giving out discretionary bonuses to some employees and causing negative feelings among the employees who do not receive a bonus. This could happen if you give a spot bonus to an employee who did a great deal of work on a project but fail to realize another employee contributed equally. Be careful to identify the employees who deserve some extra appreciation, and when you want to boost morale across the whole team, give a bonus to all your employees.

5. Your Employees Need Incentives to Excel

A primary reason to offer performance-based bonuses is to motivate your employees to be more productive. If an employee knows they can get a commission bonus by meeting a sales quota, for instance, they are likely to work harder to achieve their goal. Keep in mind that not all types of bonuses motivate employees equally.

A study of employees in the United Kingdom found that performance-related pay was positively associated with trust in management, job satisfaction, and commitment to the organization. However, the study also revealed that profit-sharing bonuses did not achieve the same positive effect. Every organization and team of employees is different, so you may be able to motivate your employees with various types of bonus pay. Even a small bonus can be enough to push employees to try their best and then make them feel appreciated when they do.

How to Handle International Employee Bonuses

Even if you have a basic understanding of the various types of bonuses you can offer and the reasons for offering them, you may still be wondering how to give international employees bonuses. All aspects of compensating your international employees can be more complicated than compensating your domestic employees since you have to navigate different laws, customs, and payroll practices. To put a bonus policy in place for your international employees, make sure you do the following.

1. Consult Local Experts on Employment Law

The first and most important step is to understand the laws that govern compensation and bonuses in the country. You can pore over resources on your own, but typically, you'll want to partner with a lawyer on the country who can help you understand the laws so you can create compensation and benefits packages for your new employees that comply with the law.

2. Research Customary and Competitive Bonuses

Whether you have any legal requirements for bonuses, you should also research what sorts of bonuses are customary in the culture. If you want to remain competitive as an employer, you need to offer these customary bonuses. You may also find there are other bonuses that are attractive perks to job candidates and could make the difference in helping you recruit top talent in the country.

3. Inform New Employees About Bonus Opportunities or Guarantees

It is fine to award some bonuses, such as spot bonuses, as an unexpected gift. However, in the case of guaranteed bonuses or other bonuses that are guaranteed to employees who meet certain standards, you should inform your new hires about these perks. You can even allude to them in your job ads. When it comes to commission bonuses, be sure to include information about these in your employment contracts. Make the standards as clear as possible so there is no confusion and employees have specific goals to strive toward.

The PEO Solution for Handling Bonuses for International Employees

The easiest way to determine how international employees get bonuses is to entrust a professional employment organization (PEO) with handling your employees' compensation and benefits. A PEO is a third-party that serves as your international employees' employer of record. This saves you from having to research employment laws and compensation best practices in a new country or hire lawyers to help you.

More importantly, it saves you from having to establish a legal entity in the country where you want to hire. This means you can hire a new team of employees in Singapore, Germany, Canada, or wherever you want to expand without spending the time and finances on creating a subsidiary there.

