

Compensation practices of multinational corporations



**ASSIGN
BUSTER**

Global compensation managers that is, everyone involved at any level in pay-related decisions increasingly deal with two areas of focus. They must manage highly complex and turbulent local details while concurrently building and maintaining a unified, strategic pattern of compensation policies, practices and values. For multinationals successfully to manage compensation and benefits requires knowledge of employment and taxation law, customs, environment and employment practices of many foreign countries, familiarity with currency fluctuations and the effect of inflation on compensation and an understanding of why and when special allowances must be supplied and which allowances are necessary in what countries – all within the context of shifting political, economic and social conditions.

DIFFERENCE BETWEEN MULTI NATIONAL CORPORATION (MNC) AND TRANS NATIONAL CORPORATION (TNC)

The both multinationals corporations and transnational corporations operate internationally and their compensation or reward system is also similar, but some differences exist between two, which are:

MNCs engage or perform function in several different countries while

Transnational involve “ just across the boundary” obviously, both engage outside the nation.

A MNC has engages in performing their operations or functions in more than one country with a centralized headquarters . Examples are Vodafone, Ford motors, Hyundai, Wal-Mart, and Mitsubishi.

A Transnational company working or performing their function on a borderless basis. These companies have no head office, they work as per the rules of the national office means where the company is set up. It is also works as MNC that operates worldwide without being identified with a national home base . Examples are Sony, Samsung Group, Shell Oil etc.

OBJECTIVES OF INTERNATIONAL COMPENSATION

When designing or formulating international compensation policies, a company must fulfil the several objectives:

The multinational companies should formulate the international compensation policies which are policy should be compatible with the overall strategy, structure and business needs of an organisation.

The compensation policy for international employees must be competitive for retaining and attracting the manpower in those areas where MNC gets the opportunity and feels need.

The policy should be cost effective.

The international employee will also have a number of objectives that need to be achieved from the firm's compensation policy.

First, the employee will expect that the policy will provide the benefits in monetary terms, social security and living cost the other country.

Second, the employee will expect a foreign assignment to offer opportunities for financial advancement through income and/or savings.

Third, the employee will expect benefits in the policy like as accommodation facility, education of children and recreation to be addressed in the policy.

If we contrast the objectives of the multinational and the employee, we see, of course, the potential for many complexities and possible problems, as some of these objectives cannot be maximized on both sides. Firms must rethink the traditional view that local conditions dominate international compensation strategy.

COMPENSATION MANAGEMENT OR SYSTEM

The type and amount of compensation is understood by these terms.

PCNs (parent country nationals)

TCNs (third country nationals)

HCNs (host country nationals)

Expatriate

PCNs (Parent Country Nationals)

Those employees who are of the same nation, means birth country of any organization

These persons are from the country in which operations are firstly started or performed.

The policy PCNs is usually worked when the host country nation is not ready of provide sufficient manpower, communication required with headquarter at a high degree and a centralized approach is followed for the globalization

TCNs (Third Country Nationals)

Those personnel are the foreign national citizen i. e. whose birth nation or home residence country is neither the host country nor the parent country.

These personnel basically recruited from outside the host country and the parent country

HCNs (Host Country Nationals)

These are employees who are selected or recruited from the host country or to the area of operations. The basic residence or home is the host country.

Expatriate

Expatriates are the person of the parent country and work in the host country for a specific assignment and when he comes back then they will known as the repatriate

Let us take an example of defining these terms from Indian perspective.

Dabur India limited is an Indian company.

If the Chinese citizen who work for the Dabur in Shanghai is known as HCNs.

It means HCNs are those countries national who work where the operation are conducted. If the US citizen who work for the Dabur in Shanghai is known as TCNs. An Indian citizen who works for Dabur in Shanghai is an Expatriate.

ELEMENTS OF AN INTERNATIONAL COMPENSATION PROGRAM

The scope of international compensation is complex primarily It includes three categories of employees:

PCNs, TCNs and HCNs.

Key components of international compensation are as follows

Basic pay: It includes three methods for setting basic Pay

Parent Country Based Method: In this method an expatriate will get same amount of money as compensation as he/she was receiving in their home country but condition is that they were performing the similar task in other country. On the other if they are learning foreign language skill to survive in other country they will get more.

Host Country Based Method: All the Companies use several standard for determining basic pay, including marketing, pricing, job evaluation, techniques and job holder past relevant expatriate's basic pay will be competitive with other employee's basic pay in the host country.

Headquarter Based Method: As per the headquarters method, it compensates all the employees as per the pay scale followed at headquarter location, skill are totally ignored in this method.

Element of International Compensation

Rest & Relaxation Leave Benefit

Incentive Compensation

Foreign Compensation

Enhanced Benefit

Basic Pay

Foreign Home

Service Protection Paid Relocation leaves

Premium Hardship Mobility Programs Time off Assistance Educational

Allowance Premium Benefits for

Expatriate

Children

Incentive Compensation: It includes three methods as follows

Foreign Service Premium: These are the financial payments beyond the regular basic pay. A company provides Foreign Service Premiums to encourage employees to accept expatriate assignment. This premium basically applied to the assignments that extent more than 1 year. It is calculated as a % of basic pay and the amount of this premium covers the range 10 to 30 percentage. The amount of premium increases with the length of assignment.

Hardship Allowances: This kinds of allowance s given to the expatriate when he/she is ready to live and perform work in hard and tough working conditions such as:

Extraordinary working condition like as inadequate housing facility, lack of recreational facility, isolation, inadequate transportation facility, lack of food or consumer services.

Severe climate, high altitude and presence of dangerous conditions affecting physical and mental status

Unhealthy conditions such as diseases and epidemics, lack of public sanitation and inadequate health facilities

Mobility Premium: It provides to employees for encouraging them for accept, leave or change their job assignments. It helps to increase the movement of employee from one place to another for job assignments.

Foreign Compensation: It consist the following terms

Protection Programs: According to the Social Security act 1935 and Family and Medical Leave act 1993 an expatriate will get the following benefits

Retirement Insurance

Benefit For Dependent

Medicare

Paid Time off: It includes the annual vacation, holidays and emergency leaves. Expatriate get same number of leaves which they get in the home country.

Enhanced Benefits: It includes following methods

<https://assignbuster.com/compensation-practices-of-multinational-corporations/>

Relocation Assistance: This payment covers expatriates expenses to relocate to foreign costs. The relocate allowances are:

Temporary quarters prior to departure

Transportation expenses for employee and their family

Moving House hold goods to the foreign post

Reasonable expenses incurred by the family during travel

Storing house hold goods in foreign country

Educational Benefits for Expatriate Children: Company bears all the expenses of foreign schools and tuition fee of expatriate's children, which are higher than domestic fee.

Home Leave Benefits: These benefits help the expatriates to manage the adjustments to foreign culture and to make direct contact with their family members and friends.

Rest & Relaxation Leave: Expatriate who work in the hardship foreign location receives rest and relaxation leaves benefits. It represents the additional paid off. Expatriates working in the hardship locations may need extra time away from unpleasant conditions to recharge their bettleness.

ADDITIONAL PAYMENTS AND SERVICES

Lifestyle enhancement services

- Provision for the payment to employee & family for learn the local language

- Payment for Education & training on the local culture, customs and social expectation for the employee & family
- Counseling services for employee & family
- Company car, driver, domestic staff, and child care

Allowances & Premiums

- Foreign Service premium & tax equalization allowance
- Currency protection
- Stopover allowance
- Bonus regarding Completion of assignment
- Emergency advances
- Extended work-week payment

APPROACHES TO INTERNATIONAL COMPENSATION

There are two main approaches in the area of international compensation –

The Going Rate Approach (also referred to as the Market Rate Approach)

The Balance Sheet Approach (also known as the Build-up Approach).

(a)The Going Rate Approach

With this approach, the base salary for international transfer is linked to the salary structure in the host country. The multinational usually obtains information from local compensation surveys and must decide whether local

nationals (HCNs), expatriates of the same nationality or expatriates of all nationalities will be the reference point in terms of benchmarking. For example, a Japanese bank operating in New York would need to decide whether its reference point would be local US salaries, other Japanese competitors in New York or all foreign banks operating in New York.

With the Going Rate Approach, if the location is in a low-pay county, the multinational usually supplements base pay with additional benefits and payments.

(b)The Balance Sheet Approach

The basic objective is to 'keep the expatriate whole' (that is, maintaining relativity to PCN colleagues and compensating for the costs of an international assignment) through maintenance of home-country living standard plus a financial inducement to make the package attractive. The approach links the base salary for PCNs and TCNs to the salary structure of the relevant home country. For example, a US executive taking up an international position would have his or her compensation package built upon the US base-salary level rather than that applicable to the host country.

The key assumption of this approach is that foreign assignees should not suffer a material loss due to their transfer, and this is accomplished through the utilization of what is generally referred to as the Balance-sheet Approach.

COMPENSATION ISSUES IN INTERNATIONAL SCENARIO

Benefits offers to specify movement or expatriation to a foreign location/
host country

Allowances for repatriation to home country

Tax burdens on expatriates working in a foreign country

Labour regulations in home and host country

Cost-of-living allowances in the foreign location

Home country and host country currency fluctuation

specifying parent country for setting basic pay of TCNs

MANAGEMENT CHALLENGES CONCERNING INTERNATIONAL

BENEFITS & COMPENSATION

Compensation is one of the most complex areas of international human
resource

management

Compensation systems must adopt to local laws and customs for employee
compensation while also setting into international MNC policies

Managerial personnel face diversity in political systems, laws & ordinance;
confront different economic climates, economic development, taxation

policies, diversity in culture, customs, the role of labor unions, standard of living

TNC/MNCs must ensure to achieving goals that make the international business operations succeed and compensated that those skilled employees

HR managers focus on their strategic objectives to develop a comprehensive compensation plan, in terms of considering base pay, short and long-term incentives, benefits and growth opportunities

The objective of this kind of strategy is to ensure that both TNC/MNCs' long and short-term objectives coexist in the compensation system without overlap, which would duplicate a single pay plan for the same objectives.

The purpose of the planning is also designed to ensure that the compensation system attracts and retains the desired employees and that it motivates them to do those things that support the business plan

The costs of compensation are shifted towards hardship benefits including schooling for their children's, Medicare and all fringe benefits associated with supporting a family life cycle instead of cost of family

It may be that international compensation administration is more complex than its domestic counterpart, but not radically different in pattern or form.

QUESTIONS:-

Q1. What is international compensation system? Explain its objectives.

Q2. Explain the parties involved in international compensation system?

Q3. List the components of an international compensation program.

Q4. Explain the approaches to international compensation system.

Q5. What are different challenges faced by the management concerned to various benefits in international compensation program.