

Discuss the
challenges to
effective
compensation
management essay



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Human Resource is the most critical resource for any organization. In today's world many MNCs are operating globally and to keep them on the competitive position they need to use their human resources effectively and reasonably to achieve optimal business results. The success of any company highly depends upon how efficiently its work force performs and how they are motivated to do so. This can be achieved by providing adequate wage for their work and compensation as per the industry standards. Best employees can be attracted by giving them the lucrative compensation. According to the Jance A. Berger and Dorothy R. Berger compensation programs are complex financial distribution systems serving a multitude of overlapping, conflicting and frequently unclear purposes. (The Compensation Handbook fourth edition Jance A. Berger and Dorothy R. Berger). Compensation is provided in the form of monetary and non-monetary benefits to employees simply, we can say compensation is an essential part of human resource management which helps in motivating the employees and improving organizational strengths. Compensation, particularly monetary compensation is an integral part of an organization's reward system and it is a way of telling the employee that their interests are being looked after by the organization in return for their hard work and efforts. With many organizations turning global and having operations in multiple countries and cultures, the challenges to compensation become of a dimension far more complex than if they were dealing with one country alone. To complicate matters more, the transfer of employees from one location to another can lead to even more challenges in what and how much to compensate as now much of big MNC organizations have workers all over the world. For example, Citibank now has nearly half of the credit-card market in Thailand (McFarlin <https://assignbuster.com/discuss-the-challenges-to-effective-compensation-management-essay/>)

& Sweeney, 1998). Colgate-Palmolive has operations in 194 countries. AT&T has 52, 000 employees overseas working in 105 countries. McDonald's International is operating 22, 000 restaurants in 106 countries. The vast Majority of McDonald's workforces are host-country nationals (French, 1998 & Fisher, 1999). Nike and Reebok also manufacture all of their shoes overseas in plants owned and operated by foreign companies. Because of these factors, the total number of international workforces directly employed by U. S. companies may understate the extent to which manufacturing capacity and the employment base has shifted abroad (McFarlin & Sweeney, 1998). Moreover, Procter & Gamble (P&G), International Business Machine (IBM), and Citibank have long had extensive overseas operations.

International compensation and its challenges

As the world is becoming a global village where entertainment fashion and music spreads in weeks one can easily get miss guided by choosing same compensation strategy for every country but compensation is highly influenced by the national culture, national patterns of compensation, legislation and employment relationship context or climate (Schuler and Rogousky 1998).

Without understanding national culture one cannot practice international reward system effectively. As Harris et al 2003 points out the basics for pay throughout the world is attendances and basis of progression is the experience or length of service . Some of the basic building blocks of compensation system are base pay, variables or contingent pay, Benefits and lastly non financial benefits.

Base pay is the form of compensation which is received for the specific position excluding any allowances or other type of compensation. The principal at which base pay is calculated is according to specific grades or positions in the company. It can be thought as the simplest form of compensation but it can highly affect the employees performances as base pay act as a motivating tool and helps in retaining good employee. Human resources managers have to keep in mind base pay should be equal for same position within the company and in comparison with the competitors base pay should be more or at least equal this will avoid dissatisfaction and feeling of inequality with in employees and help in retaining consistent employee.

Variable and contingent pay is other form of compensation which is used by human resources managers to promote sales, achieve targets, improve consistence in the firm and improve quality and quantity of the product or services. It can be of individual performances related pay or group related pay. It have been seen Individual Performances Related Pay are mostly used in developed countries such as U. K, U. S, Australia and Canada because of the individualistic masculine culture where as Group performances related pay in mostly used in developing countries like CHINA, INDIA AND BRAZIL. IPRP are difficult to measure and it is unsustainable and inappropriate for team work, it may create differences between fellow employees and affect the performances. The positive point of IPRP can help you to identify weak employees which do not perform and create inefficient results. GPRP helps in improve the relations between employees so they can work as team and giving high performances, this is costly for the firm as every time group

performs firm have to compensate the performances by pay raise which is usually much higher than IPRP and sometime group work can also create problems if group members are not able to stick to one decision or they start having ego problems which ultimately effects the whole group performances . Benefits are what HR managers use to boost the confidences and encourage the employee to work harder and to improve the consistency of their work. To reduces the negative aspects of living in a foreign country expatriates are given benefits to keep them in the same financial condition they were before accepting the foreign assignment and to promote them to perform more beneficial and effective work. Some of the benefit are Foreign service premium Language training, Assignment completion bonus, Emergency leave, Home leave, Domestic staff, Spousal employment, Housing allowance, Club membership, allowance for children, Cultural training for family . For HR managers the most challenging part of the compensation is to keep it equal and consistent for everyone and to making that possible they have to be very careful about the decision . Some of the things as pay secrecy which HR managers use as a tool to promote for individual performance and make him feel he is more important for the company but it can work other ways it can creates inequality among employees so they HR should avoid pay secrecy and the payment system more transparent to prevent conflicts and misunderstanding . Severance pay is one of compensation which given to employees mostly when they are retired or fired or lay off situations most of the employees think it as thank you pay but it more than that HR managers should stress employees to read there contract and about the benefits of the severance pay. Pay equality or comparable worth means the pay should be based on work done not based <https://assignbuster.com/discuss-the-challenges-to-effective-compensation-management-essay/>

on gender as in many companies males are paid more than their female counter partners it mostly happens in developing or under developed countries. It creates inequality in the work environment and chances of promotion for females are less or they are not promoted which creates less dedication for their work which ultimately gives rise to underperformances HR managers should try to avoid these kind of situations by giving equal pay and giving equal opportunity for promotion based on performances not gender. Pay compression means to hire new employees at comparable or higher than the current employee who have been with the firm for several years and sometime pay raise at lower level of the company without changing in the higher levels creates problem among the employees to avoid these circumstances HR managers should try to balances between the pay of newly employed and old and faithful employees . Pay increment should be based on the superiority and performances there should proper pay structure so that there should be no confusion among employees. HR managers should make an interesting compensation package so that it should motivate the employees to increase the organizational productivity and so that everyone should come punctually and work efficiently for the organization. Thus, compensation helps in running an organization effectively and accomplishing its goals. Salary is just a part of the compensation system, the employees have other psychological and self-actualization needs to fulfill. Thus, compensation serves the purpose, the most competitive compensation will help the organization to attract and sustain the best employee . It is rightly said by Hempel (1998) employees benefit lie at the heart of the employment relationship.

International compensation and expatriate

A multinational corporation (MNC) is usually defined as a company with operations in more than one country (Porter, 1990). These MNCs have international business spread to other nations where they will have manufacturing plants or services that simply means these MNCs spend huge amounts to get successful in these countries for that they need experts which have high quality of experiences and able to make decisions which will benefit companies international market share these are called expatriate which are used by the company to overlook their branches or subsidiaries in other nations. Expatriates are of three types: host country nationals (HCNs), parent country nationals (PCNs) and third country nationals (TCNs). As the impact of the growth of international economy has become a major force in business in general and in human resource management in particular. These practices are important realities faced by MNCs doing business overseas and to retain the best of the expatriates MNCs have to form an attractive compensation package which is one of the most complex and difficult part of the international human resource management as they have to keep in mind that pay systems must conform to local laws and customs for employee compensation while also fitting into global MNC policies. It is also important for MNCs to consider carefully the motivational use of incentives and rewards among the employees to boost their confidence level, their dedication and loyalty towards the company and to improve their efficiency in work. HR managers should make a compensation package which helps in keeping the expatriates motivated and meeting MNCs goals and budgets. To make their strategy successful they have to keep three things in mind: firstly, meeting corporate goals at home and abroad; secondly, keeping expatriates

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motivated , and thirdly complying with the company budgets(latta, 1998). IHRM work is to make international work forces which is highly motivated , flexible and highly trained according to the international standards . Success and failure of the IHRM strategy highly depends upon how expatriate is able to manage international work force. Simply highly skilled expatriate is what MNCs need to achieve their corporate goals and to retain of the best expatriate they should have better international compensation. IHRM should make International compensation which should contains base salary which depends upon the Base salary depends on the pay location it can be home or host country and it is predetermined by the company's compensation system used for the expatriate assignments and allowance, housing allowance, tax equalizations, premiums, benefits and perquisites and relocation allowance Mobility allowances, Cost of living allowances, Housing allowance, Hardship allowance, Mobility premium, Settling-in allowance, Spouse support. The most commonly and widely used approach by IHRM for expatriates are going rate approach and balance sheet approach . In the going rate approach survey is done on the local market rates were expatriate is going to be send where survey is based on the local nationals , expatriates of same nation and expatriates of all nations then compensation is based on that result of that survey . this compensation has lot benefits such as equality with the locals and other nationalities but this approach is outdated now because of its disadvantages such as variation between assignments for same employee , variation between expatriates of same nationality in different countries so now a day IHRM use balances sheet approach which is most famous and mostly used by U. S expatriates , its objective is to keep the expatriate on home country living standards plus a financial inducement <https://assignbuster.com/discuss-the-challenges-to-effective-compensation-management-essay/>

to make the package attractive such as well furnished house with home country outlays for items such as food , house hold items, clothing and medical care and to provide them with benefits pension contributions, investments, education expenses and social security. Balance sheet approach also has disadvantages which can result in great disparities between expatriates of different nationalities and between expatriates and local nationals.

CONCLUSION

Employees of modern, especially large corporations are being expected to be extremely mobile (sometimes even in a matter of hours). They would still need to be paid for the work done, even though it can be in multiple different countries with multiple challenges. We have also seen that most of the processes discussed to mitigate the compensation scenario in an expatriate environment are fraught with risks and cons, whatever the pros they may have. What an organization should ideally do is to read into the situation and adopt the best method suitable at that time. This is easy for smaller organizations which can be very flexible in terms of policies and procedures, but when an organization becomes big and bureaucratic, the flexibility is easily lost and they must think in terms of procedures and policies which would be best suited to them. There are organizations (especially from the emerging economies) that are taking advantage out of this situation. The organization is the best judge of the situation it is in and should apply the best mechanism of rewards for its international employees to keep them motivated high enough to perform the best in terms of performance.