#### Summary

Chapter Nine Compensation & Benefits

### 9.1 Introduction

Rewards can be intrinsic or extrinsic. Intrinsic reward is a feeling of pride of a job well done and achievement. Extrinsic rewards include praise from salary, employee benefits, superiors, career progression etc. Compensation is key extrinsic reward and a key issue in international human resource management. Expatriates take risk, bear inconveniences and discomforts in foreign mostly based the assignment on expected international compensation package. As such HR managers prioritize compensation function over others.

## 9.2 Complexities in international compensation management.

The factors causing complexities are varying salary & benefit levels and Cost of living from country to country. Further expatriates require housing, medical, transport and education facilities which also vary with each country. Fluctuations in foreign exchange rates and varying tax rates on incomes and rates of inflation in economies add to the complexities.

## 9.3 Objectives of international compensation management.

MNCs design and practice compensation and benefits to recruit and retain most suitable employees in terms of efficiency & cultural adaptability as also secure consistency between pay and performance & equity among employees of different nationalities and categories. Compensation is designed to facilitate expatriates' mobility and motivate them,

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to increase performance. It has to be competitive & also within MNC's ability to pay.

#### 9.4 Factors that affect international compensation.

The contingency theory of international compensation suggests that there are a number of variables that affect international compensation. This theory attempts balance sheet approach and identifies factors like host country preferences in designing international compensation package. Resource based theory recognizes the factors of competitive advantage through human resources which are valuable, rare and difficult to process / imitate and replace.

MNC's Internal Environmental factors are related to the company's strategic management and functional areas of management. They are objectives and goals of MNCs, their capacity to pay based on long term profitability, competitive strategy, organizational structure and level of technology.

MNC's External Environmental factors include MNC's parent country culture, cost of living, values and attitudes towards compensation etc. Labor market characteristics, local conditions of the country where MNC or subsidiary is located, host & home country government roles, industry type and competitors' strategies in business, human resource management, as well as in compensation package are other significant factors.

# 9.5 Structure of international compensation package.

MNCs design the compensation structure for their employees in such way that it meets the financial needs of employees for various facilities, compensates the current and future inconveniences and insures a variety of risks. The components of international compensation include: Pay or base salary; Cost of living allowance; Tax equalization allowance, International market allowance, Housing allowance; Educational

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allowance; Relocation allowance; Setting in and setting out allowance; Medical allowance; Hardship and danger allowance; Exchange rate protection allowance; Insurance allowance; Stock option; Bonus; Gratuity; Pension; Social security benefits etc.

#### 9.6 Executive Compensation.

India.

MNCs across the world pay attractive compensation for executives to attract and retain the best talent in order to enable them to craft and implement most appropriate strategies. They, however, pay different levels of compensation for executives in different countries e.g. in the year 2007, MNCs paid highest compensation to expatriates from the US and lowest to those from

### 9.7 Approaches to International Compensation Management.

Different MNCs follow different approaches to compensation determination, revision and adjustment. They are 1] Salary Level in host country approach, 2] Negotiation and Bargaining approach, 3] Lumpsum approach, 4] Buffet approach, 5] Cluster systems approach, 6] Global approach, 7] Performance based compensation approach, 8] Double home country salary and living compensation at the host country approach and 9] Balance Sheet approach.

It is still a fact that HCN and the expatriate carrying the same job in the same company in the same city receive varied salary package. MNCs should carefully design compensation to reduce level of dissatisfaction of HCN caused by this discrimination.

The End