

International Compensation - I



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Introduction

- Compensation is the remuneration received by an employee in return of their contribution to the organization.
- Compensation is extrinsic reward for an employee. Extrinsic rewards include praise from a superior, salary, employee benefits, career progression etc.
- International compensation refers to all forms of financial returns and tangible benefits that employees of an international organization receive from their employer in exchange for providing their labor and commitment.
- Almost all the employees accept jobs in MNC's take-up assignments in various countries, & take-up the risk, bear inconveniences & discomforts in foreign assignments mostly based on the compensation package.

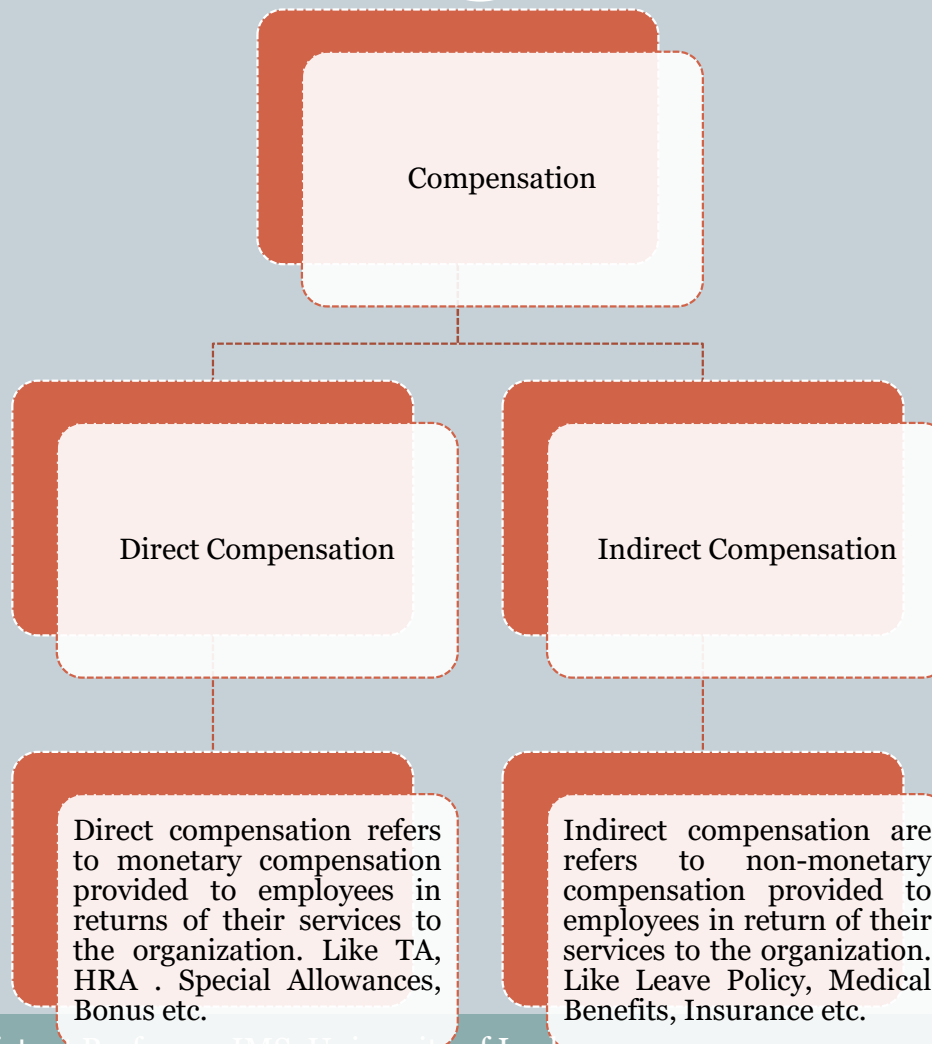
Objective of Compensation

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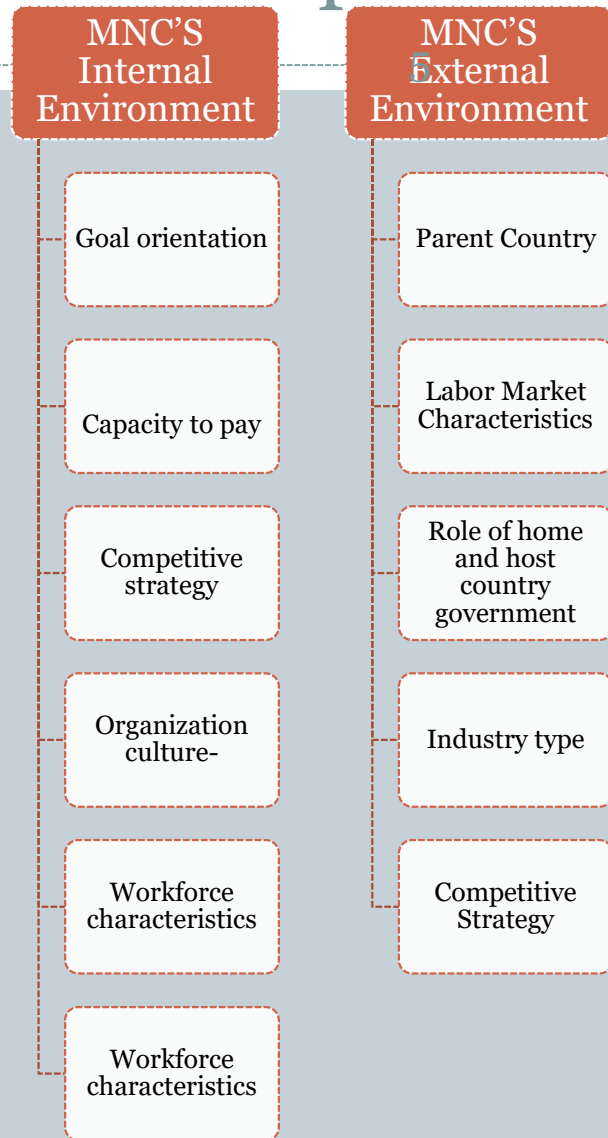
- Recruit & Retain Competent Employees
- Consistency & Equity in Pay
- Employability in a Cost Effective
- Financial Protection to Employees
- Organizational Ability to Pay
- Comparative & Comparable
- Benefit Management
- Improve Organizational Performance

Forms/ Types of International Compensation

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Factors Affecting International Compensation



Internal Variables Affecting International Compensation Strategy

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- Goal orientation - UK-based foam manufacturer Zotefoam, where equality is a key aspect of HRM in the company's mission, the only perks that differentiate executives from other workers are private health insurance and a car allowance – MD of the firm sees the internationalizing firm as one with minimal status differences between levels in the org. hierarchy.
- Capacity to pay - Cost constraints on the enterprise
- Competitive strategy - If for eg., as part of the MNC competitive strategy, the IHRM strategy is to be a market leader in employee compensation in order to compete for the most competent candidates, then the levels of compensation might well be higher than if the competitive strategy is based on, say, the provision of secure employment.

Internal Variables Affecting International Compensation Strategy

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- Organization culture- It also influences the degree to which employees are compensated on the basis of seniority, in contrast to personal connections or performance.
- Workforce characteristics -Age, education level, qualifications and experience, along with workforce tastes and preferences, and labor relations factors such as nature of employment relationship (level of TU involvement within MNCs) will result in different international compensation approaches

External Variables Affecting International Compensation Strategy

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- Nationality of the parent country - In terms of culturally determined values and attitudes towards compensation policy and practices – local culture influences international compensation strategy through the dominant societal values, norms, attitudes and beliefs concerning for eg. bases for compensation differences (performance, family connections, gender), degrees of compensation differences between managerial and non- managerial employees, and the propensity for using particular types of compensation (pay incentives and benefits).
- Labor market characteristics of supply and demand - Education and skill levels, ages and experiences of those in the labor market.
- Role of home and host country government in labor relations- Affect the level of govt. regulation of the labor market and employment relationship, including compensation of the workforce

External Variables Affecting International Compensation Strategy

- Industry type
 - Evidence from two global industries, scientific measuring and medical instruments suggest that MNCs competing in a global industry may be more likely to allocate rewards based on corporate and regional performance rather than on subsidiary performance, as favored by MNCs competing in a multi-domestic industry .
 - Different industry sectors also have different norms and practices for international compensation (eg. service-sector and high technology MNCs have been more likely than manufacturers to incorporate equity- based options in their international compensation strategies
- Competitors' strategies
 - Even if the MNC is not seeking to be a market leader in international compensation, it generally cannot afford to fall behind market rates across its locations, as it will risk losing valuable employees to competitors

Thank You