

# APPROACHES TO INTERNATIONAL COMPENSATION

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# Localization Approach or Going Rate Approach

- ▣ Global compensation is based on salary levels for similar jobs in comparable organizations in the host country.
- ▣ For example, Standard Chartered Bank in India pays salaries to Indians(host country nationals), British citizenen (parent country nationals) & Americans(third country nationals)based on: salary levels of Indian banks like ICICI,IDBI,HDFC or salary levels of foreign banks operating in India like Citi bank or salary levels of other Chinese financial institutions operating in India.

# Negotiation/Bargaining Approach

- ▣ Some employees as well as MNC's prefer to determine the compensation package through mutual negotiations between the employee & the employer.
- ▣ It would be possible when
  - The number of expatriates is relatively less
  - The company & potential employee have full knowledge of on-going salary levels,
  - The skills of the prospective employee are in limited supply.

# Buffet Approach

- ▣ Under this, the total salary level is determined by the organization & the employee given an option to decide the cash component & benefits component in the total compensation package.
- ▣ Employees normally select more components of benefits depending upon their needs & remaining portion of the compensation in the form of cash.
- ▣ This option reduces the tax burden.

# Lump sum Approach

- ▣ Under this, MNC determines the total package in money value that covers the base salary, all kinds of allowances and benefits.
- ▣ The employee is provided with the freedom of allocating the money & deciding up on the type and quality of housing, medical, conveyance, education for self & family members, air travel, recreational facilities, taxation, repatriation of savings, setting-in, setting-out, exchange rate production etc.

# Cluster Systems Approach

- ▣ MNC's segment the countries and/or cities into clusters based on the cost of living & other factors like hardships & danger issues that affect the compensation package.
- ▣ They determine more or less same compensation package for each job within the same cluster of cities.
- ▣ This approach reduces the cost of complexities in the compensation administration.

# Global Approach

- ▣ Under this approach, MNC determine the uniform pay scales for such jobs throughout all the countries where they operate. Further, these pay scales are applicable uniformly for all categories of employees including the host country nationals
- ▣ This approach is based on the concept of national pay scales with in a country.

# Performance Based Approach

- ▣ This approach provides the opportunity for best performers to earn high salary irrespective of nationality including host country nationals.
- ▣ This approach provides a minimum guaranteed base salary irrespective of performance that would be enough to meet the basic needs of employees.
- ▣ This approach is organization friendly as it enhances organization performance & increases value & productivity.



# Balance Sheet Approach

- ❑ Basic objective of global compensation is maintenance of home-country living standard plus financial inducement
- ❑ Home-country pay and benefits are the foundations of this approach
- ❑ Adjustments to home package to balance additional expenditure in host country
- ❑ Financial incentives (expatriate/hardship premium) added to make the package attractive
- ❑ Most common system in usage by multinational firms

# Balance Sheet Approach

- ▣ The four Balance Sheet Approach categories:
  - Goods and services – home-country outlays for items such as food, personal care, clothing, household furnishings, recreation, transportation and medical care.
  - Housing – the major costs associated with housing in the host country.
  - Income taxes – parent-country and host-country income taxes.
  - Reserve – contributions to savings, payments for benefits, pension contributions, investments, education expenses, social security taxes, etc.



# THANK YOU