Analysis of the commonly used expatriate compensation strategies

Outline

I. Introduction

Globalization is gaining more and more impact on institutions, ranging from small companies to multinational corporations. The shrinking of international boundaries among enterprises and their markets has made it necessary for institutions to come up with the possible strategies for dealing with the demands of such diversification. The element of globalization has necessitated an increase in the awareness of the development of proper compensation systems in most enterprises across the globe. Due to the complexities associated with international compensation, it is imperative that proper attention should be given to the payment options, particularly in firms with branches in a number of countries. In this regard, it is important for institutions to properly understand all kinds of individuals, working at multi-national firms, the components of the international compensation structure and particular challenges that are linked to employees, returning from overseas missions to the parent institutions. Modern day multinational enterprises have to contend with far more challenging mobility difficulties in comparison to how things were in the past. Some companies have been forced to work around policies in order to ensure that the needs of individuals from tens of nationalities, relocating on various types of assignments, are well accommodated. The process of settling on to the given compensation policies, as well as how to make relevant communications and administration decisions, has been regarded as one of the prime, logistical, and strategic challenges for most corporations. This is because the type of a strategy, that may be appropriate for the compensation of individuals coming from one country, may not be ideal for employees coming from other nationalities. This essay seeks to analyze various pay options available to multinational companies, particularly for the employees who fall into the category of expatriates. To its end, various key issues will be dealt with, using information gathered from various publications, as well as basic exemplification from the implementation of the approaches in various countries across the continents.

II. Key issues

All the compensation strategies are influenced by two primary cultural issues. These are the institutional culture of the enterprise and the local culture of the location in which the company operates (Caves, 2001). A compensation plan, which is regarded as extremely effective in Ireland, will not work properly if it ends up violating the traditional values of the work environment in which the expatriates find themselves in. corporations, which use individual rewards and performance-based payments, as both elements of motivation and uniform compensation for their employees all around the world can easily have the strategy backfiring on them (Aliber, 1996).

The efficacy of the rewards, as a motivator, stems from the cultural frameworks regarding motivation (Caves, 2001). In the group-oriented communities the individual pay differences do not generally influence the hierarchy of the basic human requirements. The most highly appreciated motivations are based on the attainment of the group desires and potential. Trying to use such incentive strategies as awarding expatriates with employee of the year award, will most likely end up creating an embarrassing situation for the target employee (Swedenborg, 1999). It is advisable for the developers of these motivational programs to come up with strategies that appreciate the strengths of the group rather than those, that recognize the individual.

III. Components of International Compensation

There are two primary elements that comprise compensation for individuals, working in international environments. These are briefly explained below:

Base salary

There are two methods for establishing base salary for an individual working for a company in its overseas branch. First is sticking to the pre-determined rules, regulations and procedures of the home company, including proper evaluation of the work done (Aliber, 1996). The second method is to follow the policies and procedures of the state in which this overseas employee works. As most international assignments are for short amounts of time, it is advisable for companies to use the first option. By keeping the base salaries of overseas employees in tandem with the salaries in the parent country, the complications, associated with the transition back home, are lessened as the greater compensation changes have already been dealt with (Caves, 2001).

Base salaries form the foundation of the compensation systems adopted by companies for their overseas employees (Swedenborg, 1999). As a matter of fact, they are the mandatory minimum that employees, working for a company, are accorded, and which are normally never considered for reduction. The importance of base salaries are further emphasized by the fact that other earnings such as target bonuses, pay deductions and pension contributions are determined as factors of this compensation element (Aliber, 1996).

Equalization Benefits

These benefits are awarded to the employees on overseas missions in order to retain them in the same financial position that they were in their parent country (Caruth and Handlogten, 2001). Some of these benefits include housing allowances, emergency leave and club memberships. The United States appreciate the importance of these benefits, and most of their expatriates in many countries across the globe live at almost the same levels of comfort that they had in their home country.

IV. Expatriate compensation strategies

Indirect Monetary Compensation (Benefits)

Indirect monetary compensation is primarily made up of components of monetary value that a company gives to its employees on top of their normal salary or wage (Caves, 2001). Most of this payment is given in the form of protections or services, however there are some forms of the compensation that can result in direct cash remittances to employees. Indirect monetary compensation is one of the most challenging strategies, especially when it comes to managing payments to overseas employees. This is particularly because of the legal challenges that come with the tax considerations, and which should be carefully assessed before any recommendations are made.

There are six key roles that indirect monetary compensation plays in an institution. These are detailed below:

To help a corporation attract enough numbers of well-qualified workers

 More often than not, it is the tangible elements of compensation that attract individuals to a given organization. If these attributes do not appear to be competitive with the labor market, an institution will not be in a position to have a substantial database of applicants from which to isolate the ones with the greatest qualifications (Caruth and Handlogten, 2001). As long as the package of benefits appears acceptable, an organization's human resource department will have enough candidates for both local and overseas assignments.

To help company retain the employees who are already on its pay-roll

Indirect monetary compensation helps institutions retain members of the workforce that they hire (Caruth and Handlogten, 2001). Such benefits help in giving employees a sense of security with the added advantage of increasing the workers' positivity and feelings of satisfaction towards the company. In addition to this, as most of the benefits are categorically designed to favor employees with longer service time, indirect monetary compensation tends to have the advantage of encouraging workers to stay with an institution for longer periods (McManus, 1972). For instance, retirement benefits increase with the number of years that an individual has been with the company. Employees would therefore shy away from moving to other companies since such a transfer would essentially cancel all advantages or privileges that were garnered through the extended lengths of service (Caves, 2001).

In order for an institution to comply with a state regulation

Federal law demands that all employers develop systems for contribution to social security, funding on behalf of both their local employees and expatriates (Caruth and

Compensation Strategies 7 Handlogten, 2001).
Aside from this, employers have to allow their employees some leave periods or allow a system of health insurance once an employee retires from employment.

To make an institution comply with the labor agreements

The National Labor Relations Acts in most countries demand that employers provide genuine terms and conditions during the recruitment of their employees (Caruth and Handlogten, 2001). These acts touch on such items as retirement and various other benefits. Once all types of benefits are provided, including indirect monetary compensations, company is expected to provide them to the workers during the entire period that they are with the company (Aliber, 1996).

As part of the company's social responsibility to its members of staff and their dependants

Over some time, employers have come to a realization that they have a role to play in the well-being of their members of staff and their dependants (Caruth and Handlogten, 2001). This is just a manifestation of a genuine concern on part of the senior management and proprietorship of the company to employees. Employees on their part also appreciate an importance of this aspect of compensation and are demanding it more and more.

The benefits, enjoyed by employees of corporations while on international missions, are usually similar to those enjoyed in the parent country (Aliber, 1996). However, institutions should know that there are some countries which demand, that benefits should be provided only in the specific place where the employee is based. For

Compensation Strategies 8 instance, in France companies are required to ensure that their workers are given a minimum of 25 days for vacation per year. Therefore, even though a Briton on overseas assignment for a British corporation in France is not legally guaranteed the 25 days for vacation, the company may find itself pushed to provide this allowance in order to avoid a staff member's morale decrease (Caruth and Handlogten, 2001). Most countries have benefits that are different from those of other nations.

Incentive compensation plan

There are various incentives that can be awarded to employees in order to boost their morale, especially when working in overseas nations. These include cash bonuses and monetary compensations related to their performance (Herod, 2009). The process of drafting of a workable international compensation strategy demands the consideration of the various compensation plans alongside with the specific details of the employee's role in his/her assignment (McManus, 1972). This plan has been well utilized in the East African country Kenya in order to ensure that its expatriates in various countries are comfortable enough to adequately fulfill their duties.

Development of an incentive compensation plan

When it comes to the development of an incentive program, there is no approach that can be used to meet the needs of companies across the world. All establishments, particularly those in the corporate world, are different in one way or another, depending on the market, organizational culture or uniqueness of the workforce (Herod, 2009). Therefore, there is no way that bonus plans for two different companies can be

Compensation Strategies 9 identical. However, there is a number of premises on which the development of an incentive compensation programme is grounded. These are explained below:

First is the fact that it should equitably and consistently appreciate efforts of individuals towards the great performance. If this is ignored, the members of staff and particularly those, based oversees, may end up regarding bonuses as their primary right, which in turn leads them to not putting the best into their level (Herod, 2009). In this case the staff members simply expect their bonuses to be remitted for just everyday showing up at work and staying there for the stipulated number of hours. If the company’s main aim was to use bonuses as a method of increasing employees' motivation, then giving workers with different performances an equal treatment ends up severely compromising this strategy (Caves, 2001). Providing awards and other forms of recognition to the great performers has the added advantage of creating role models for other workers. Consequently, the levels of performance are raised and the general morale of the company is boosted (Herod, 2009).

The second premise in the development of a proper incentive program is that, it must encourage individuals to behave in ways that would be beneficial to the achievement of company's goals. Most individuals regard money as a primary motivator (Aliber, 1996). However, there are a few individuals who would content with a simple recognition of their work as well done. Irrespective of the compensation preferences, incentives should be used to encourage positive behavior towards the attainment of the organizational objectives.

The third premise of a proper incentive system is that it should be implemented in such a way that it affects the desired change within the corporation. This particularly affects workers dispatched on international missions and who have to contend with sporadic periods of change (Herod, 2009). It is characteristic of a human always to fear and develop resistance when it comes to a change. Incentives can be used as a motivational factor to encourage workers to embrace changes that are beneficial to the company.

The fourth premise of a properly functioning incentive system is that it should provide for a decent amount of the compensation to take the form of a variable cost (Herod, 2009). A plan should basically be geared at rewarding for positive results as opposed to the behavior of the employees. This basically means that a worker, who stays in the office for eight hours daily, should not be simply rewarded for having proper work ethic. Instead, a reward should be provided only if the individual attains noticeable results such as beating the deadlines or making proper sales (Herod, 2009). Consequently, if a certain percentage of a person’s compensation is linked to their performance, then the company automatically becomes more successful in the attainment of its specific goals. In this regard, what some schools of thought may consider a fixed salary is, in essence, divided into a company's expense that has both variable and fixed elements. This definitely means that for overseas members of staff, the fixed and variable elements of a worker’s compensation will vary depending on the type of employee. For instance, if the variable component is high, such that the employee can make even more money in the form of bonus, then it is most likely that the position will attract individuals who think of the risks as a challenge to dealt with. Such individuals appreciate the fact that there is a greater reward for more risks taken (Aliber, 1996). On the other hand, if the compensation plan offers a high fixed element (salary), the job will draw attention of the more conservative individuals, who are mainly interested in the security of their job positions. Luckily, each and every establishment needs to have an amalgamation of both these workers. For instance, for a company to run well, the manager should be a sensible risk taker while the controllers should lean more towards the conservative side. The general compensation plan of an institution should equitably regard the efforts of all the employees, both local and international.

Finally, the incentive compensation plan should have some amount of flexibility if it has to attend general needs of both the institution and its employees. It is definite that the programme should recognize the role played by the different types of workers (Herod, 2009). For instance, the efforts of the company's director and sales manager may be equally relevant to the success of the company. However, the bonus plan should be designed in such a way that rewards them depending on the unique roles they play in their individual capacities. The director might be rewarded based on the effectiveness of the day-to-day running of the company, manifested by its recognition amongst the rival enterprises. The sales manager, on the other hand, might be rewarded based on the financial performance of the company, illustrated by increased sales. In addition to this, the performance of employees in a given job category may vary depending on their relative impact to the corporation's goals. This means that the compensation plan should be designed in such a way that it allows individuals in similar positions to be rewarded in direct proportion to the amount of work they put in (Herod, 2009).

V. Conclusion

In modern day business, more and more countries are establishing their bases in various countries across the globe. The growth of corporations from humble enterprises in the studio offices to multinational companies, turning over millions of pounds sterling, is a feat that only a well rounded business-minded team can achieve. This report has analyzed the input of expatriates into the growth of a company while taking into consideration the strategies that are commonly used in compensating such employees. It has been well established that the transformational leadership style, used in most multinationals, advocates for the use of indirect monetary transfers and incentive compensation plans on top of the base salary in order to ensure the conformity with the legislation of the region in which the expatriates are working. This strategy should therefore be maintained even when a company is facing the paradigm shifts. The report has elaborated on the various components of the two compensation plans, using extensive literature drawn from the works of various scholars. In conclusion, it is important to note that these strategies work for the most multinational companies, and should therefore be reinforced by various other strategies, which discussion was outside the scope of this report. It would be unwise for the enterprises to completely ignore proven-to-work compensation strategies due to the transformational changes which company faces, and for other plans that have not been tried and tested for the same market.

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