ANALYSIS OF THE COMMONLY USED EXPATRIATE COMPENSATION STRATEGIES

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Analysis of the Commonly Used Expatriate Compensation Strategies

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 adequate 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 understand:

- all types of individuals working at multi-national firms;
- the components of the international compensation structure;
- the particular challenges of the employees, returning from abroad missions to 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 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, have been regarded as one of the prime logistical and strategic challenges for most corporations. It has happened because the type of a strategy appropriate for the compensation of individuals coming from one country may not be applied to the employees of other nationalities. This essay is intended to analyze various compensation options available to multinational companies, particularly for the employees who fall into the category of expatriates. The research will cover the key issues using the data gathered from various credible publications, and will provide basic exemplification of the global approaches.

II. Key Issues

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

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 find the strategies that count the strengths of the group rather than the ones recognizing the individual.

III. Components of International Compensation

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

A. Base Salary

There are two methods for establishing a base salary for an individual working for a company in its overseas branch. The first is complying with 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 given for short periods, 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 decreased (Caves, 2001). The reason is that the greater compensation changes have already been applied.

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

B. Equalization Benefits

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

IV. Expatriate Compensation Strategies

A. Indirect Monetary Compensation (Benefits)

Indirect monetary compensation is primarily made up of monetary value components 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 given.

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

1. Indirect monetary compensation should help a corporation attract enough well-qualified workers.

These apprehensible elements of a compensation often attract individuals to a given organization. If these attributes do not appear to be competitive within the labor market, an institution will not get a substantial database of applicants to isolate the ones with the best-fit qualifications (Caruth & Handlogten, 2001). As long as the package of benefits appears acceptable, a Human Resource department will have enough candidates for both local and overseas assignments.

2. Indirect monetary compensation is to assist a company to retain the employees who are already on its pay roll.

Indirect monetary compensation helps institutions retain the workforce members that they hire (Caruth & Handlogten, 2001). Such benefits help in giving employees a sense of security with the added advantage of increasing their positivity and satisfaction with their hiring company. In addition, as most of the benefits are provided to favor employees with longer-term service, an indirect monetary compensation has 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 devoted to the company. This way the employees would shy away from moving to other companies as their transfer would essentially cancel all their advantages or privileges that have been garnered throughout the extended lengths of service (Caves, 2001).

3. Indirect monetary compensation is set in order for an institution to comply with a state regulation.

Federal law demands that all employers develop systems for contribution to social security as well as funding on behalf of both their local employees and expatriates (Caruth & Handlogten, 2001). Aside from this, employers have to allow their employees some leave periods or provide them with a system of health insurance once an employee retires from employment.

4. Indirect monetary compensation makes an institution comply with the labor agreements.

The National Labor Relations Acts in most countries demand the employers to provide genuine Terms and Conditions during the recruitment of their employees (Caruth & Handlogten, 2001). These acts regulate such points as retirement and various other benefits. Once all types of benefits are ensured, including indirect monetary compensations, the company is expected to provide them to the workers during the entire period that they are hired (Aliber, 1996).

5. Indirect monetary compensation is a part of the company’s social responsibility to its staff members and their dependents.

Eventually, the employers have realized that they have a role to play in the well-being of their employees and their dependents (Caruth & Handlogten, 2001). This is just a manifestation of genuine concern on the part of the company’s senior management about its staff. The workers, on their behalf, also appreciate an importance of this compensation aspect and call for its raise.

The benefits, granted to the employees of corporations while on international missions, are usually similar to the ones they enjoy in their parent. However, there are some countries that demand for benefits to be provided only in the specific place where the employee is based. For 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 an overseas assignment for a British corporation in France is not legally guaranteed 25 days for vacation, the company may find itself pushed to provide it in order to avoid a staff member's morale decrease (Caruth & Handlogten, 2001).

Most countries have benefits that are different from those of other nations.

B. Incentive Compensation Plan

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

C. Development of an Incentive Compensation Plan

When it comes to the development of an incentive program, there is no unique 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 identical. However, there is a number of premises on which the development of an incentive compensation program is grounded.

First, it should equally and consistently appreciate efforts of individuals towards a better performance. If ignored, the staff members, and particularly those based overseas, may end up regarding bonuses as their primary right, which does not contribute to their development (Herod, 2009). In this case, the staff members simply expect their bonuses to be remitted only for coming to work every day 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 the workers with different performances an equal treatment ends up severely compromising this strategy (Caves, 2001). Providing awards and other forms of recognition to the best performers has the added advantage of creating role models for other workers (Herod, 2009). Consequently, the levels of performance are raised, and the general morale of the company is boosted.

The second premise in the development of a proper incentive program is that it must encourage individuals to behave in the ways that would be beneficial to the achievement of the company's goals. Most individuals regard money as a primary motivation (Aliber, 1996). However, a few employees 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 assertion 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 those who have to contend with sporadic periods of change (Herod, 2009). It is characteristic of a human to always fear and develop resistance when it comes to changes. 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 a compensation to take the form of a variable cost

(Herod, 2009). A plan should be geared at rewarding for positive results as opposed to the behavior of the employees. This means that a worker who stays in the office for eight hours daily should not be simply rewarded for having a proper work ethic. Instead, a reward should be provided if the individual only attains noticeable results, such as beating the deadlines or making good 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 divided into a company's expense that has both variable and fixed elements (Aliber, 1996). It means that for overseas staff members, the fixed and variable elements of compensation will depend on the type of employee. For instance, if the variable component is high, so that the employee can earn even more money as a bonus, it is most likely that the position will attract the applicants who think of the risks as a challenge to deal with. Such individuals appreciate the fact that there is a greater reward for more risks taken.

On the other hand, if the compensation plan offers a high-fixed element (salary), the job will draw the attention of more conservative people, who are mainly interested in the security of their job positions. Luckily, every establishment needs to have an amalgamation of both kinds of workers. For instance, for a company to run well, the manager should be a sensible risk taker while the controllers should lean 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 part of flexibility if it has to attend general needs of both the institution and its employees. It is definite that the program should recognize the role played by different types of workers (Herod, 2009). For instance, the efforts of a company's director and a sales manager may be equally relevant to the success of the enterprise.

However, the bonus plan should be designed in a way to reward them depending on the unique roles they play in their individual capacities. On the one hand, 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 revenue. In addition to this, the performance of employees in a given job category may vary depending on their relative impact on the corporation's goals (Herod, 2009). It means that the compensation plan should be developed to allow the individuals in similar positions to be rewarded in direct proportion to the amount of work they put in.

V. Conclusion

In modern day business, more and more countries are establishing their bases globally. The growth of corporations from humble enterprises with studio offices to multinational companies, turning over millions of pounds, 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 these 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. The reason is to ensure the conformity with the legislation of the region in which the expatriates are working. Therefore, this strategy should 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 the diverse scholars. In conclusion, it is important to note that these strategies work for the most multinational companies and, thus, should be reinforced by other approaches to be discussed beyond the scope of this report. It would be unwise for the enterprises to ignore the proven-to-work compensation plans due to transformational changes that a company faces in favor of other plans not tried or tested for the same market.

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