

DESIGNING EXPATRIATE COMPENSATION STRUCTURE AND COMPARISON STUDY BETWEEN THE TWO APPROACHES OF INTERNATIONAL COMPENSATION

APOORVA TRIVEDI

Assistant Professor / Corporate Communication Manager, SIES College of Management Studies,
Sri Chandrasekarendra Saraswati Vidyapuram, Nerul, Navi Mumbai, India

ABSTRACT

The Indian IT market presently emphasizes on bringing low cost solution in the facilities business of global IT. Attendance of Indian companies in the creation expansion business of global IT is very insufficient, though, this amount is gradually on the increase. US giants that delegate work to India, do not assign the tall end SDLC (Software Development Life Cycle) procedures like obligation study, high level enterprise and architectural objective, while some Indian IT companies have sufficient ability to take up and positively whole these high level software jobs. The other obvious tendency is, IT jobs, that were previous limited to Bangalore, are slowly opening to practice a geographical distributed into metropolitan cities. This paper will specific role of expatriate managers, and their distinct contribution to MNCs, may be understood in relation to the gap they are considered competent to fill at a particular location in the division of labor in a given geography The understanding that these expatriate managers carry special skills is explicit in both the literature on the subject and in all the respondents' accounts.

KEYWORDS: Expatriate, Compensation, Total Rewards, Mercer Global Compensation

INTRODUCTION

As the world wealth becomes progressively combined and tangled, the environment has ongoing to get more indeterminate and multifaceted. Organizations are dealing with countless subjects reaching from varied monetary environments to diverse national shades, marked by the need to bargain a equilibrium between global steadiness & regulator and locally actual performs. More recently, as organizations expanded globally, they were faced with different business and economic environments, laws & legislations and taxation rules. Engagements also needed Organizations to take into account many specialized, social and family stresses that could often overpower the managers. Organizations consequently, wanted to revolutionize and uncover Real ways of remunerating employees. Scheming compensation for this group of persons usually mentioned as expatriates, therefore developed a key and specific attention field. In this situation, global compensation has arose to be one of the key encounters for organizations today. And though there is much to learn from worldwide multinationals, there are a number of chances and experiments that are single to a developing market's site.

Companies understood that they wanted to emphasis more evidently on the expatriate's part and what he or she was achieving in the foreign place. With expatriate allocations valuation on mean three to three-and-a-half times an executive's annual salary, all stipends were open for appraisal. The first and foremost step in this appraisal process is to acquire clear and distinct business objectives. Comparable to those of home-based executives. Moreover, the administrative has to look at the allocation as a step in career development, permitting the company to decrease the extreme allocation connected payments and present the administrative with a clearly distinct path. This new approach permits expatriate administrator to be encompassed in the capacity planning procedure, and the skill management group within HR contains these administrators in its ability

management evaluation process. Expatriate plans that were firstly distinct departments in HR has been stimulated into the recompense department to healthier support these employees with the overall compensation policy.

Different approaches to Compensation: The BWCS approach – which entails studying the mix of Business, Workforce, Culture and Strategy – provides the framework to organizations to start defining global compensation.

Objective of Research

- To study the determinants of the Expatriate compensation
- To compare the Going rate approach and balance sheet approaches used in designing the expat compensation and relate it with the statutory petition wage requirement of the host country.
- To suggest a compensation approach which will best suit L&T InfoTech
- To study the different indices, tools and models that is used in calculating the expat compensation

LITERATURE REVIEW

“**Monique Neijzen, Sandra De Bruyker**”, *Diverse Expatriate Populations - Alternative*

Remuneration Packages discusses the different approaches to compensation taken by

Companies with diversifying expatriate populations. It also states that companies are

Increasingly using alternative packages, including the reduced balance sheet package,

Headquarter based system, proxy based system, equalized host spending, safety net, host salary, and greater of home or host and international salary instead of the traditional approaches.

Kartik Rishi, Aon Hewitt Total Rewards Quarterly India, Volume 1, Issue 3 states that the compensation approach is typically decided taking into consideration a host of factors such as assignment objective, assignment costs, organization’s compensation philosophy, mix of home and host locations, international assignee demographics, desired extent of standardization, internal equity with locals and international assignees both within the company and the market, ease of administration, repatriation and continuity of payroll and home-country benefits.

RESEARCH METHODOLOGY

Type and Nature of Research

The methodology that was adopted is a case study research method. I needed a methodology which will allow me to study the challenges and the process of calculation and integration of onsite compensation within the organizational context and would allow use of multiple data point. Considering these factors, case study research using qualitative data was done.

The case study describes the Compensation approach (Going Rate Approach) used by L&T InfoTech and the various determinant/factors considered while computing the allowance structure. To extend the research, we compare it with another method i.e. Balance sheet approach and suggest the approach best suited for L&T InfoTech in the current scenario.

Sample Size: 1 company

Sources of Data Collection

- **Primary Source:** Un-structured questionnaire was used to gather data about the Various approaches of Expat Compensation. It was a face to face interview with the C&B team members of L&T InfoTech.
- **Secondary Sources:** Published articles, research paper, published compensation Survey results etc was used as reference.

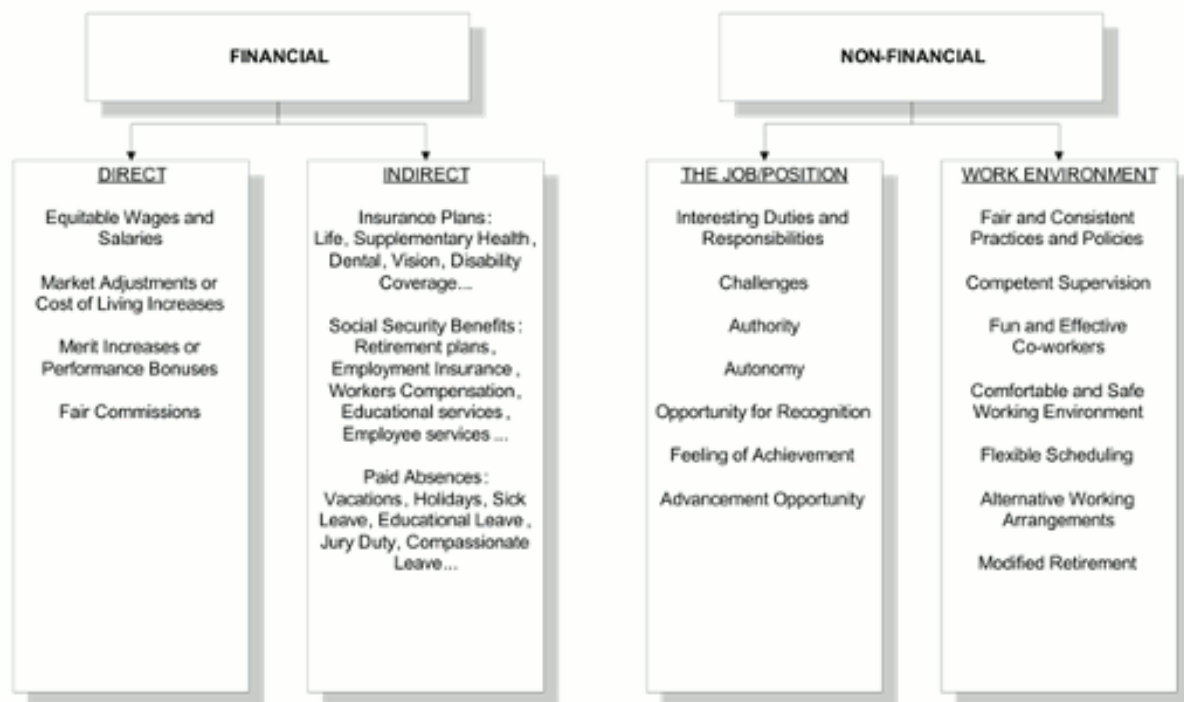


Figure 1

Equity

Equity or equality has been stated as a key constituent in making a fruitful Reward scheme. It can be distinct in the following three ways:

- Workplace impartiality denotes to the awareness that all employees in an organization are being given equal chance.
- External pay equity subsists when employees in an association notice that they are being compensated equally in relation to those who achieve comparable jobs in other associations.
- Internal pay equity occurs when employees in an organization observe that they are being content justly rendering to the qualified value of their jobs within an group.

Internal Equity

“Internal equity subsists when workers in an association notice that they are being remunerated equally conferring to the comparative worth of their jobs within an association”. Another way of uttering this is to say that a person’s awareness of their obligations, payments and work environments is seen as reasonable or unbiased when associated with those of other workers in comparable locations in the same association.

External Equity

“External equity subsists when employees in an association observe that they are being remunerated equally in context to those who achieve comparable occupations in other establishments. External fairness subsists when an association's pay taxes are at least equivalent to the regular rates in the establishment's sector. Organizations want to guarantee that they are able to forfeit what is vital to find, keep and inspire an satisfactory number of competent employees.

Different Approaches of Compensation

The decision regarding which compensation approach to use is key as it determines not only the competitiveness of the assignee package, and consequently its acceptance by the employee. The compensation approach is typically decided taking into consideration a host of factors such as assignment objective, assignment costs, organization's compensation philosophy, mix of home and host locations, international assignee demographics, desired extent of standardization, internal equity with locals and international assignees both within the company and the market, ease of administration, repatriation and continuity of payroll and home-country benefits.

The different approaches employed by organizations, are below:

- Balance Sheet Approach
- Host Based Approaches (Local and Local Plus)
- Higher of Home Country Based Balance Sheet and
- Host Based Approaches Multiple Approaches
- Daily Allowance & Other Approaches.
- The assignee's compensation level should at least be competitive with host country local levels

Balance Sheet Approach

As per Aon Hewitt report, Balance Sheet approach emerged as the sole approach adopted by a majority of organizations for inbound assignments (employed by 83% participating organizations) as well as outbound assignments (used by 67% America based MNC's). All but two of these organizations use the Home Country Based variant. One of the main benefits of a Home Country Based Balance Sheet approach is that it supports reserve a home country salary. This salary not only helps as a center for establishments to calculate and last pensions and other home country benefits linked to it, but also helps as a orientation for differences with home country associates as well during expulsion. The approach is extremely relevant for actions to countries with lower salary levels and living standards .Since mainstream actions to India are from the regions of North America, Western Europe and South and South East Asia (typically with higher salary levels and living standards.

Host Based Approaches

Host Based approaches are primarily of two types: Local and Local Plus. Though Local or Local Plus approaches are used standalone by only 10% organizations for long-term outbound assignments from India, it is important to note that another 14% organizations employ at least one of these along with other approaches. Approximately 11% of the organizations use Local or Local Plus as the sole approach for long-term inbound assignments to India, another 3% organizations employing them along with the Balance Sheet approach. Host Based approaches have considerable applicability for movement from India to countries

with higher salary levels and living standards. These approaches also have the advantage of being market-linked in the host country. Further, Host Based approaches also ensure that all international assignees in the assignment location are paid similar levels.

Higher of Home Country Based Balance Sheet & Host Based Approaches

This approach entails computing the assignee package using both a Home Country Based Balance Sheet approach and a Host Based approach (Local/ Local Plus) and using the higher of the two. From an employee viewpoint, this is a progressive approach since it ensures not only that the standard of living of the assignee in the host location is at least the same as that in the home location, but also that the assignee compensation level is at least as high as host country local levels. From an employer's perspective, however, the costs of this approach are higher as compared to both the Home Country Based Balance Sheet approach and Host Based approaches, when employed in isolation. Moreover, assignees on this form of approach may be reluctant to repatriate to their home countries with lower levels of salaries. This form of the compensation approach is used by around 4% organizations for outbound assignments and 3% organizations for inbound assignments.

Multiple Approaches

This implies usage of multiple compensation approaches, the choice of approach depending on factors such as assignment location, duration or objective. There are many variants of this approach: Using a Home Country Based Balance Sheet approach for movements to countries with lower salary levels or living standards, and a Local or Local Plus approach for movements to countries with higher salary levels or living standards. This approach ensures that the salary levels remain competitive in both forms of movements. However, it involves managing the complexities of two separate salary systems running side-by-side.

Daily Allowance

This involves maintaining continuity of the assignee salary in the home country and payment of a daily allowance or per diem to take care of assignee host country expenses. The approach ensures continuity on home country payroll, however, which can become very expensive.

COMPENSATION PACKAGE COMPONENTS

The Base Salary

The purpose of the base salary is persuaded by the compensation method monitored by the corporation. When the home country method is monitored, the foremost step is to control a home salary. The further more step would be to deduct home tax, social safety and any other required expenditures such as pension assistances.

Bonuses: Expatriates can be granted performance bonuses or senior bonuses. Although in particular performance bonuses are commonly used, the determination of these bonuses on the basis of performance involves many complexities and thus enough attention should be paid to the method of performance appraisal in order to be able to create a system that operates effectively particular performance bonuses are commonly used, the determination of these bonuses on the basis of performance involves.

Allowances

Many allowances (e.g. expatriate allowance, hardship allowance and cost-of-living allowance) are directly related to

the base salary. The housing allowance represents one of the most costly elements of expatriation compensation. Companies tend to ensure that expatriates live as well as their foreign peers or that their housing and utilities are comparable to what they had back home.

Taxation

Employers have not agreed on any expatriate policy and therefore each expatriate is handled differently. The third approach, the tax protection, the employer pays the excess of the expatriate's foreign income tax over the assumed home-country tax in case of higher taxation in the host country.

Determinant Variables and their Operationalization

Internal Factors

- Labor pool: not included since the respondents were Finns and mostly operated in Finnish companies
- Personal background:
 - Sex
 - Age group
 - Earlier international experience (i.e. international assignments)
- Stage of family lifecycle:
 - Marital status: single, married/common-law marriage
 - Whether the expatriate has a spouse with him/her on the assignment
 - Whether the expatriate has children with him/her on the assignment
- Level in the organizational hierarchy: top management, management, middle management, supervisor, expert, and clerk
- Task type: general management, economical, marketing, and other
- Nature of assignment: short-term assignment (1–4 years), long-term assignment (over 4 years)
- Stage of development and objectives of the company: not included

External Factors

- The level of economic development & cultural distance & environmental risk: Scandinavia, other West Europe, Eastern and Central Europe, Asia, the USA, Other
- Nationality of the company: Foreign or National
- Field of business: Industrial, Commercial, other

Comparison between Balance Sheet approach (Home Based) Compensation and Going Rate Approach (Host Country Based) Compensation

Balance Sheet Approach

- The assignee remains aligned with the home organization's compensation structure while on assignment, allowing for a

seamless transition upon repatriation

- The assignee's salary progresses appropriately with home country merit increase cycles and rates.
- Home based pay, which is more closely aligned with the Balance Sheet Approach, ensures that the assignee has the ability to meet any financial obligations in the home.

Disadvantage

- The host country tax remittances cannot be automatically managed through payroll withholding. Instead, where withholding through payroll requirement exists, home country compensation data first needs to be reported to the host payroll for the subsequent remittance of taxes ("shadow payroll" reporting). Companies should be sure that their provider of compensation services provides a standardized process to ensure compliance with host country report in and payroll withholding requirements.
- The assignee has to convert funds to host currency in order to pay for goods and services, transportation, and potentially housing, the same issue exists when the assignee has to convert funds back to home currency in order to cover home country obligations.
- The steps followed in designing an allowance structure using Balance sheet approach are as follows:
 - Start with home based gross income, including bonuses.
 - Deduct home tax, social security and pension contributions (either a hypothetical tax or a real tax).
 - Add or subtract a cost of living allowance. Usually, companies don't subtract. Instead, they allow the expatriate to benefit from the negative differential.
 - Add a housing allowance, either with or without a housing norm deduction.
 - Add incentive premiums, including general mobility premiums and sometimes hardship premiums.
 - Add or subtract to equalize taxes. In other words, gross the net salary to protect against the Double tax obligations in the home and host countries

Factors Considered are

- Gross salary in home country
- Home country taxes and social security
- Spendable Index
- Standard of living comparison
- Quality of living comparison between home and host country
- Host country Social security and taxation.

Going Rate Approach

Host based pay means that the assignee transfers to the host country payroll for purposes of receiving base and

incentive pay based on host country compensation practices and regulations. The company usually provides only limited, if any, assignment related

ADVANTAGES

- It facilitates the remittance of host country tax and ensures greater compliance with foreign fiscal requirements.
- Benefits would ideally be determined based on host country practices and regulations. This means that continuation of benefits in these cases introduces a new element: the issue of the host country accrediting years of service in the home country and “bridging” tenure across benefits schemes.
- Merit increases for assignees on host based pay should follow host country practice to ensure that the assignee’s pay remains aligned with the host country compensation structures.

DISADVANTAGES

If an employee is paid entirely from the host country payroll and has previously terminated employment with the home country company, she may (if she ultimately returns to her home country) lose out on some or all of her retirement benefits. Credit for years of service may help soften this blow.

The Steps followed in Designing an Allowance Structure using Going Rate Approach is as follows:

- Local expenses per month
- Comparison of India and the onsite location
- A Convert with the local currency. This forms the minimum (Net salary)
- Add Social Security to it. Add the liable local taxes. This forms the gross Salary
- Comparison with the Competitors salary
- Check the internal equity with Allowance structure of other countries.

Factors considered are:

- Host country expenses
- Inflation rates of host country
- Local compensation rates
- Market/ Competitors rates.
- Host country Social security and taxation

OBSERVATION

In the following tables, the allowance derived using the 2 approaches are stated. By comparing the allowance with the regulatory requirements of the specific countries, we can derive at the cost which an organization has to bear for expatriation. We can also determine the approach best suited for L&T InfoTech, with cost minimization and benefit maximization.

Comparison of the Allowance Structure of Singapore in SGD using the 2 Different Approaches

Table 1

Income Range in INR	Allowance using Balance Sheet Approach in SGD	Allowance using Going Rate Approach in SGD
500000	5,343	4,460
600000	5,653	4,940
700000	5,962	5,340
800000	6,215	5,950
1000000	6,709	6,510
1400000	7,427	6,800
1600000	7,812	7,080
2000000	8,551	7,370

Most of the Indian MNC`s use Going rate approach i.e. host based salary approach for computing expat compensation as it is considered to be more economical and is easy for administration The same is true when allowance comparison was done for Singapore. But as per regulations in Singapore, the minimum petition wage is SGD 5000. Thus there is a shortfall of wage, which needs to be compensated by giving additional allowance to meet the statutory requirements.

It was also observed that as Balance sheet approach is based on the Gross Indian salary of the expatriate, as the Indian (Home) salary increases, the allowances tend to increase proportionally thus maintaining equity with home colleagues while in Going rate approach of compensation as grade increases there is a very small increase in the allowance which tends to stagnate post reaching a certain level which can lead to dissatisfaction among the expatriates.

Comparison of the Allowance Structure of Australia in AUD using the 2 different approaches

Table 2

Income Range in INR	Allowance using Balance Sheet Approach in AUD	Allowance using Going Rate Approach in AUD
500000	3516	5,300
600000	3725	5,300
700000	3935	5,465
800000	4145	5,615
1000000	4574	5,870
1400000	5137	6,070
1600000	5458	6,270
2000000	6023	6,470

In Australia, Balance sheet approach seems to be more economical but the trend is somehow similar to that of Singapore. On comparing the 2 allowance it can be concluded that employees under going rate approach will have excess allowance saved as there is a significant difference between the home and host pay. This would create discrepancy among the employees working offshore and onsite due to disparity in salary. Another disadvantage of using Going rate approach is that during repatriation the employee may not refit into the offshore system as he was earning a lot more at onsite.

Comparison of the Allowance Structure of South Africa in ZAR using the 2 different approaches

Table 3

Income Range in INR	Allowance using Balance Sheet Approach in ZAR	Allowance using Going Rate Approach in ZAR
500000	16,102	19,970

600000	17,477	21,500
700000	18,864	23,040
800000	20,264	25,330
1000000	23,109	26,870
1400000	27,263	28,400
1600000	29,532	29,930
2000000	33,707	31,470

Similar to Australia, the allowance for going rate approach is higher than Balance sheet approach for South Africa. In South Africa, organisations are forced to pay much higher than the host country expenses, reason being the circumstances including the instable environment and risky neighborhood which forces employer to provide best-in-class arrangements for expatriates. South African Regulatory service also overlooks the salary paid to expatriates. So in the Going rate approach, instead of computing expenses with mean to mean reference, for South Africa mean to convenience ratio is used which exponentially increases the allowances for South Africa. In balance sheet approach the added expenses will be covered in the expatriate privilege benefits which will be added to the Allowance.

CONCLUSIONS

- For expatriates sent on long term assignments, Compensation should be design educing balance sheet approach whereas for expatriates on short term assignments, Compensation should be designed using Going rate approach.
- Balance sheet approach maintains the standard of living of the expatriate in the host country thus it attracts the employee for onsite assignment.
- Balance sheet approach encourages employees to travel to less developed countries on deputation majorly African countries which have a bad reputation about safety and security.
- For attracting expatriates, organization offer to pay their onsite taxes and social security contribution over and above their salary. This type of allowance payment falls under the Net allowance structure.
- In most of the organization, the allowance which is higher in the two approaches is considered for implementation as organizations wants to make sure that the expatriate gets the same privilege that he used to get in the home country.
- Along with the allowances, organizations provide Settlement allowance to ease the expatriation process.
- Various other benefits such as car allowance, Medical insurance, travel allowance, food coupons, tax benefits etc are provide incentive for relocation.

REFERENCES

1. [Http://hrcouncil.ca/hrtoolkit/developingcompensationrewardsprogram.cfm](http://hrcouncil.ca/hrtoolkit/developingcompensationrewardsprogram.cfm)Alanko, h. & k. Rousku (1998).Työjakotimailmalla: muuttajanvalmentautumisopas. Fintra publication 122. Helsinki: fintra. Allard, l.a.c. (1996). Managing globetrotting expatriates. Management review 85:5, 39–43.
2. Armstrong, m. & h. Murlis (1991). Reward management. London: kogan page. Bailey, e.k. (1995).International compensation. In: global perspectives of human resource management.
3. Ed o. Shenkar. Englewood cliffs: prenticehall, inc. Black, j.s. (1991). Returning expatriates feel foreign in their nation land. Personnel 68:8. Black, j.s., h.b. gegersen, m.e.mendenhall, &l.k. stroh (1999).

4. Globalizing people through international assignment. Reading, Massachusetts: addisonwesley. Bonache, j. & z. Fernandez (1996).
5. Expatriate compensation and its links to subsidiary strategic role: a theoretical analysis. The international journal of human resource management, 8:4, 457– 475. Briscoe, d.r. (1995).
6. International human resource management. New Jersey: prentice hall

