

**Performance And Reward Management**  
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**Lecture - 29**

**Overview, reward system, understanding total strategic and international reward  
(Contd.)**

Welcome to the topic on Overview of reward system, understanding total and strategic and international reward.

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That concept, that will be covered today are international and global reward management what are the external context of the firm and the key components of an international compensation program. Its very important that, we discuss about the international compensations and the reward management separately; because the nature of it varies from the domestic nature of compensation; if the employees working inside. As in a particular country, as compared to like if he or she is going to a different country, getting adapted to a different culture.

A national culture getting adapted to the different challenges of the life and work situations getting adapted to the different work environment. And where like we face different kinds of comparison with people coming from other different countries. So, managing global reward is a very important issue. So, that again the principles that we

fundamental principles that we were discussing that of fairness ,equity and consistency is maintain the person does not feel discriminated against or being paid less than the others.

So, these kind of concerns are there does not feel like the work life balance has been like compromised on. So, because the children, the spouses may or may not travel you know with the person and their responsibilities in the back end at the home also. So, there could be parents to be taken care of.

So, there could be 'n' number of issues in the person's life which may affect the work life balance. So, this is the section of reward management which needs to be dealt with separately and we are going to devote this lecture of today to discussion of the global reward management.

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So, when we talk of global reward management it is a critical issue for human resource management in multinational enterprises as it like influences and controls the behaviour of managers and the employees worldwide and it has a great impact on the global firm performance, since there is lot of evidence that the compensation systems are able to increase organisational effectiveness because compensation acts as a motivator it acts as a balancing factor for the stress taken by the individual in a foreign assignment.

So, it help it affects the individual performance and it like also because it affects individual performance it has a greater effect on the organisational effectiveness also.

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There are **two dominant paradigm** in issues dealing with International Reward Management.

- The **universalist** paradigm
- The **contextualist** paradigm

The universalist paradigm, assuming the worldwide convergence of human resource management (HRM) practices, and the contextualist paradigm, highlighting the constraints of such an approach (Brewster, 1999).



So, whenever we are talking of the global reward management there are two dominant paradigms of it. So, in issues which are with dealing with international reward management first is the Universalist paradigm and the second is the Contextualist paradigm. We will discuss each of these separately now. The universalist paradigm its assumes like the worldwide convergence of the human resource management practices and the contextualist paradigm is give the highlighting of the constraints of such an approach.

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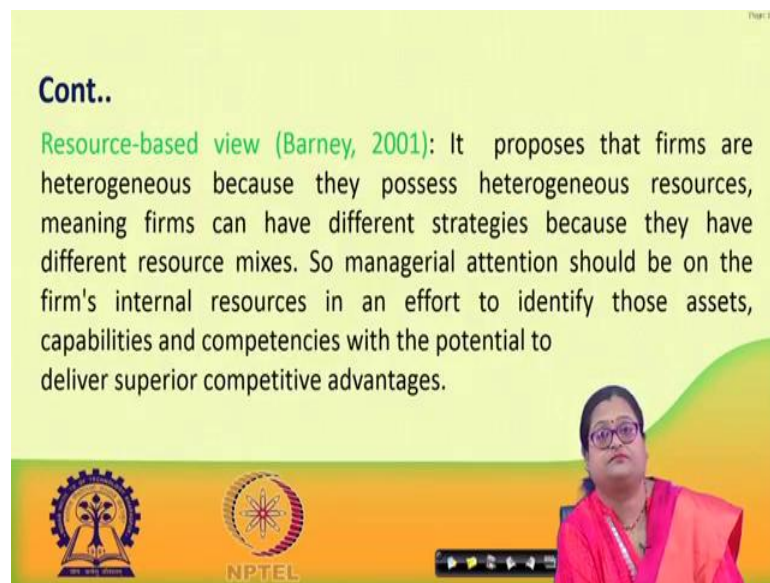
The stream following the universalist paradigm claims that (the same) HRM practices including compensation and rewards can be applied effectively in various **cultural** and **institutional settings** (Chênevert & Tremblay, 2011).

This is often explained by theories that take a primarily firm-internal perspective, i.e. the resource-based view (Barney, 2001).



So, the stream which is following the universalist paradigm it claims that the same HRM practices including compensation and rewards can be applied effectively in various cultural and institutional settings. So, this is often explained by theories that take a primarily firm internal perspective that is the resource based view of the firm.

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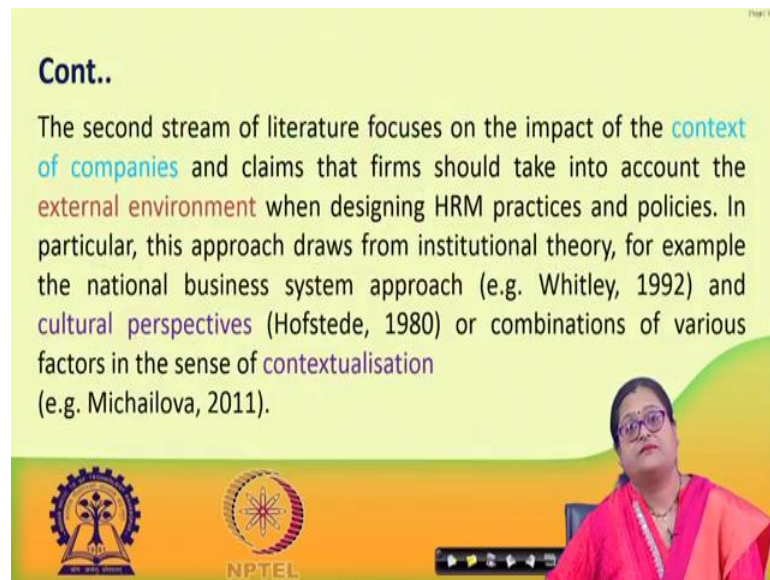
**Resource-based view (Barney, 2001):** It proposes that firms are heterogeneous because they possess heterogeneous resources, meaning firms can have different strategies because they have different resource mixes. So managerial attention should be on the firm's internal resources in an effort to identify those assets, capabilities and competencies with the potential to deliver superior competitive advantages.

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When we talk of the resource based view of the firm it proposes that the firms are heterogeneous because they possess heterogeneous resources meaning firms can have different strategies because they have different resource mixes.

So, managerial attention should be on the firm's internal resources in an effort to identify those assets capabilities and competencies with the potential to deliver superior competitive advantage. So, it should be internal focus in identifying what are the resources which are important for the organization's effectiveness and like which can give superior contribution towards the competitive advantage of the organisation.

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The second stream of literature focuses on the impact of the **context of companies** and claims that firms should take into account the **external environment** when designing HRM practices and policies. In particular, this approach draws from institutional theory, for example the national business system approach (e.g. Whitley, 1992) and **cultural perspectives** (Hofstede, 1980) or combinations of various factors in the sense of **contextualisation** (e.g. Michailova, 2011).

The slide features a green background with a yellow gradient at the bottom. On the right side, there is a small inset image of a woman with glasses wearing a pink shawl. At the bottom left, there are logos for IIT Bombay and NPTEL.

So, when it is the second stream of literature which focuses on the context of the companies the impact back to the context of the companies it claims that the firms should take into account the external environment while designing its HRM practices and policies.

So, this in particular draws from institutional theory for example, the national business system approach and the cultural perspectives Hofstede are the combinations of various factors in the sense of contextualisation. So, the difference between these two things is when the resource based view it is internally focus, it is focusing on the potential of the individual the future assets and who can perform better way to the organizational effectiveness.

When we are talking about the context based view of the firm it takes like it tells like the same set of resources functioning in different types of context may give different levels of effectiveness. Because whether they match with the demands of the external context or not also is very important.

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Localisation and global alignment pressures antagonise each other, and the dominance of either localisation or alignment in relation to global reward balance has an impact on MNEs' global reward approaches (Kang & Shen, 2015).

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So, the localization and the global alignment pressures antagonize each other and the dominance of either localization or alignment in relation to global reward balance has an impact on the reward management approaches. So, whether do we contextualize based on like what are the what others are paying what is the industry standard and what is a special nature of the living standard of a particular country which is going to affect the rewards or not.

So, it is the pressure for that what those things as compared to again localization what is very specific to the country to the organisation these are sometimes like some dilemma may happening and it may affect the global reward management.

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**Firm-external context**

The firm-external context, i.e. the organisation's **cultural, social or political environment**, is supposed to have an influence on variations in reward decision-making concerning certain pay elements (Armstrong & Murlis, 1991).

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So, when we are talking of the firm's external context it is the organisations cultural social or political environment and it supposed to have an influence on the variations in the reward decision making concerning certain pay elements.

So, what are the like the maybe dearness allowances what are the benefits structures given like what type of holidays. So, these and when do the when should the bonuses be given, what kind of bonuses be given, do we have any holiday allowances or not these kind of questions of reward system will get affected by the cultural, social or the political environment and the pressure that they put on the organisation on deciding on the reward system.

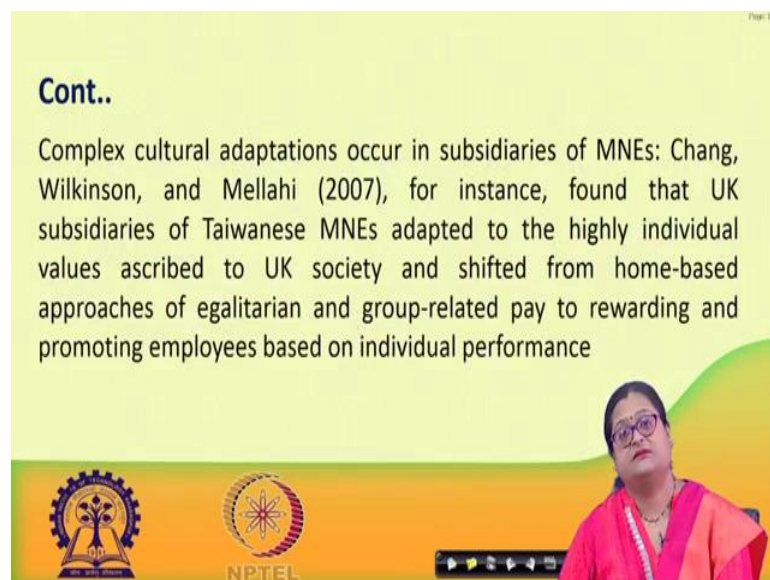




Furthermore like when you talking of the dimensions of like individualism is supposed to have an impact on like performance criteria. So, like low individualism countries prefer more group based performance high individualism countries prefer reward based on individual achievements. So, even if we have similar kind of resources similar kind of talent similar kind of people who can make effective contribution because of the nature of culture that the people are in the organisation is functioning in.

So, that type of reward design may vary from country based on the cultural system in which the organisation is functioning. So, in low individualism countries maybe we have to design more group based rewards and for high individualism countries we need to design more rewards based on individual achievements.

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The slide features a light green background with a yellow-to-green gradient at the bottom. The text is centered and reads: "Cont.. Complex cultural adaptations occur in subsidiaries of MNEs: Chang, Wilkinson, and Mellahi (2007), for instance, found that UK subsidiaries of Taiwanese MNEs adapted to the highly individual values ascribed to UK society and shifted from home-based approaches of egalitarian and group-related pay to rewarding and promoting employees based on individual performance". In the bottom right corner, there is a small video inset of a woman with glasses wearing a pink and orange sari. At the bottom left, there are two logos: the Indian Institute of Management (IIM) logo and the NPTEL logo.

What we see like complex cultural adaptations happen in subsidiaries of multinational entities like which like Chang Wilkinson found like the in UK subsidiaries of Taiwanese MNEs adapted to the highly individualized values ascribed UK society and shifted from home based approaches of egalitarian and group related pay to rewarding and promoting employees based on individual performance. So, if you have to sustain in a culture if you have to like be within that system and function effectively some degree of cultural adaptation happens and sometimes it become ingrained.

So, deep in into psyche of the organisation like there is a total shift from the home based approaches and to a and getting adapted to a newer system as shared in this example.

Like moving away from the approaches of egalitarian and group level pay to rewarding and promoting employees based on individual performance.

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Pay schemes based on **organisational performance** (i.e. employee share options, stock ownership) are less prevalent in **high power distance cultures**. Barber et al. (2017) indicate a positive impact of power distance (as well as individualism) on the usage of variable pay in Central and Eastern Europe. Furthermore, pay differentials between job levels tend to be higher in high power distance countries such as China (Tosi & Greckhamer, 2004).

Like also to continue this discussion pay schemes which are based on organisational performance like employee share options, stock ownership et cetera are less prevalent in high power distance culture. And like the Barber et al in 2017 indicated a positive impact of power distance as well as individualism on the usage of the variable pay in central and Eastern Europe.

Furthermore when you talk of pay differential between job levels it tends to be higher in high power distance countries such as China. So, what you see over here time and again in this examples like the culture of the place and the weather it is high power distance low power distance and affects the culture of the organization, culture of the how the pay system gets designed and you have to like use of different kind of incentives. So, what you find like as mentioned over here uses of variable pay in central and Eastern Europe and it has been affected by the impact of the power distance.

So, the power distance which is a specific nature of the national culture which is present in how the society looks into the sense of power has a long term impact on deciding the different kinds of reward and the reward design which is going to be accepted by the members, the members will feel comfortable with it and we will be able to link it with their performance.

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Moreover, benefits have been related to various cultural dimensions. For example, social pensions have proven helpful in minimising income differences in low power distance countries, while the masculinity dimension is related to whether a society prefers job or rather income protection (Hempel, 1998). Benefits have been also related to the femininity dimension, predicting more important work-life arrangements such as maternity leave, workplace childcare or career-break schemes (Schuler & Rogovsky, 1998).

The slide features a yellow background with a green gradient at the bottom. On the right side, there is a video inset of a woman with glasses wearing a pink and orange sari. At the bottom left, there are logos for IIT Bombay and NPTEL. A navigation bar with arrows is visible at the bottom center.

Also what we find over there over here is like the benefits also get affected by various cultural dimensions like for example, social pensions have proved helpful in minimizing income differences in low power distance countries while the masculinity dimension is related to whether society prefers a job or rather income protection.

So, benefits has also been related to the femininity dimension like predicting more important work life arrangements such as maternity leave, workplace childcare or career break schemes. So, these are feminine aspects feminine dimensions of the culture and this also talks of the different kinds of benefits like the maternity leave workplace child care and career break which is more on the softer qualities shared by the organisation to like answer to the needs of the people.

And so, femininity qualities, masculinity qualities in terms of the job rather than income protection and also like when we talk of social pensions it is more like acceptable in low power distance countries because it helps to minimise the income differences.

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**Key Components of an International Compensation Program for Expatriates**

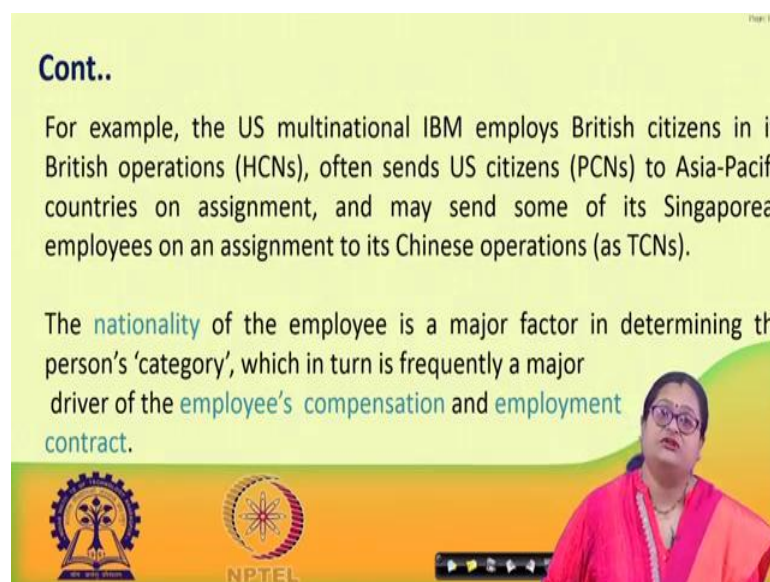
The area of international compensation is complex primarily because multinationals must cater to three categories of employees:

PCNs (parent-country nationals),  
TCNs (third-country nationals) &  
HCNs (host-country nationals).

The slide features a presenter in a pink sari on the right side. At the bottom, there are logos for IIT Bombay and NPTEL, along with a navigation bar.

Here now we will discuss on the key components of an international compensation program for expatriates. So, the area of international compensation is complex primarily because of the multinationals must cater to three categories of employees. So, there are three categories of employees like parent country nationals, third country nationals and host country nationals.

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For example, the US multinational IBM employs British citizens in its British operations (HCNs), often sends US citizens (PCNs) to Asia-Pacific countries on assignment, and may send some of its Singaporean employees on an assignment to its Chinese operations (as TCNs).

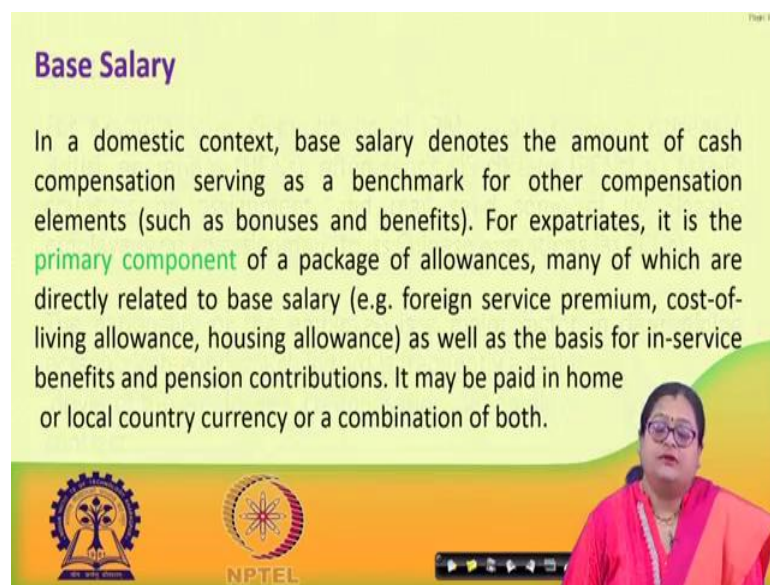
The **nationality** of the employee is a major factor in determining the person's 'category', which in turn is frequently a major driver of the **employee's compensation and employment contract**.

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Now, who are they? So, when we talk of the example like the us multinational IBM employs British citizens in its British operations it is called host country nationals.

It often sends US citizens to Asia Pacific countries on assignment this is called like parent country nationals and to Asia Pacific countries on assignment and may send some of its Singaporean employees to an assignment in Chinese operations as third country nationals. So, we have three different kinds of like staffing structure one is host country nationals another is like the third country nationals and the second one is the parent country nationals. So, the nationality of the employee here is a major factor in determining the person's category which in turn is a major driver for defining other employee's compensation and employment contract.

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**Base Salary**

In a domestic context, base salary denotes the amount of cash compensation serving as a benchmark for other compensation elements (such as bonuses and benefits). For expatriates, it is the **primary component** of a package of allowances, many of which are directly related to base salary (e.g. foreign service premium, cost-of-living allowance, housing allowance) as well as the basis for in-service benefits and pension contributions. It may be paid in home or local country currency or a combination of both.

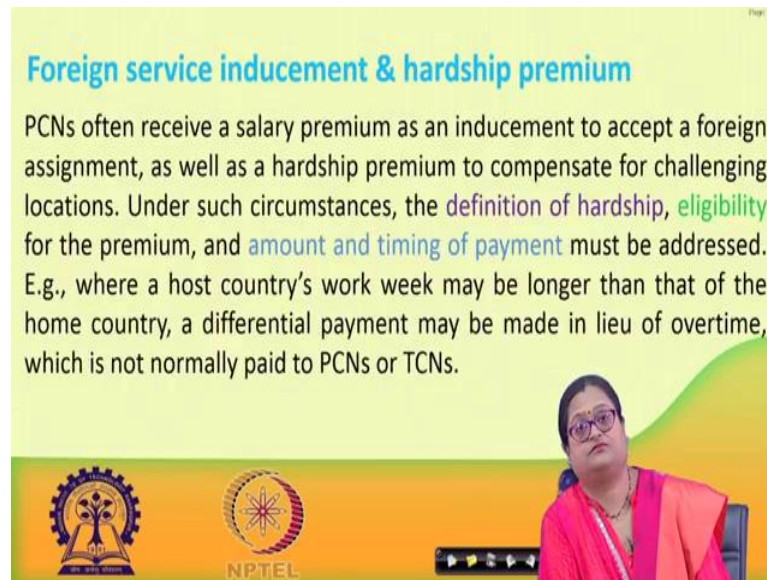
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So, in a what we find in a domestic context base salary denotes the amount of cash compensation serving as a benchmark for other compensation elements such as bonuses and benefits for expatriates it is the primary component of a package of allowances many of which are directly related to the base salary that is foreign service premium cost of living allowance housing allowance as well as the basis for in service benefits and pension contributions.

So, it may be paid in home or local country currency or a combination of both. So, when we seen about the base salary which is an important component of the remuneration the reward you find like what is the differences or similarity with the domestic compensation is that in it denotes in domestic compensation as a benchmark for other compensation element like bonuses and benefits.

For expatriates this is the primary component of a package of allowance and many of which are directly related to the base salary like this premiums and housing and living allowances. So, and it is also the basis for in service benefits and pension contribution.

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The slide features a light green background with a blue title. The text discusses salary premiums for parent country nationals (PCNs) and mentions factors like hardship definition, eligibility, and payment timing. An example is given about work week differences. At the bottom, there are logos for an institution and NPTEL, and a woman in a pink sari is visible in the bottom right corner.

**Foreign service inducement & hardship premium**

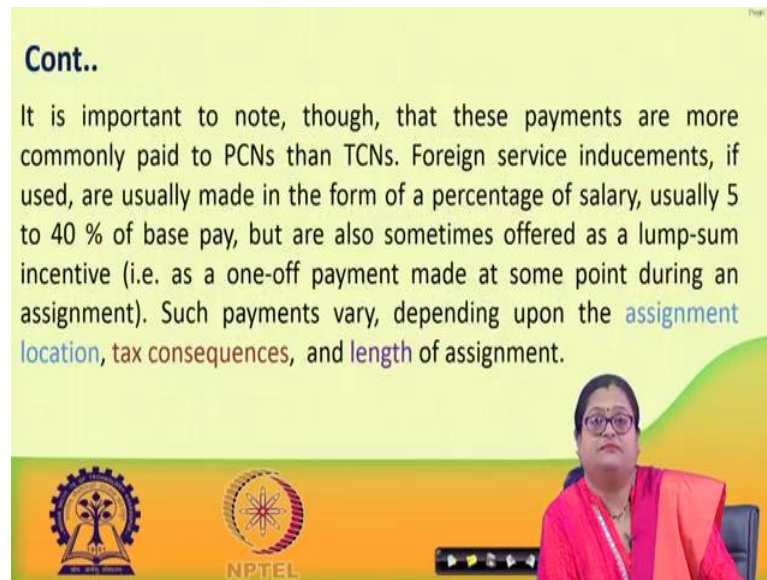
PCNs often receive a salary premium as an inducement to accept a foreign assignment, as well as a hardship premium to compensate for challenging locations. Under such circumstances, the **definition of hardship**, **eligibility** for the premium, and **amount and timing of payment** must be addressed. E.g., where a host country's work week may be longer than that of the home country, a differential payment may be made in lieu of overtime, which is not normally paid to PCNs or TCNs.

So, foreign service inducement and hardship premium this is also important and what we find over here is whenever we are talking of parent country nationals or third country nationals or host country nationals there are lot of like when the people get tagged as this. So, there are like these are the areas where these differences may happen in the compensation received by the individual.

So, what happens is parent country nationals of an receiver salary premium as an inducement to accept a foreign assignment as well as hardship premium to compensate for challenging locations. Under such circumstances the definition of hardship eligibility for the premium amount and timing of payment must be addressed like a when a west host country's work week may be longer than that of the home country and differential payment may be made in lieu of overtime which is not normally paid to PCNs or TCNs. So, when we find like there are differences in the work week and length of the work week then these difference should be meet to the people of the parent country nationals or third country nationals in lieu of overtime.

Because it is where the culture that is differentiating and the people have to perform more because they are in that particular culture. So, the for the premium the amount and the timing of the payment must be addressed very properly.

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It is important to note, though, that these payments are more commonly paid to PCNs than TCNs. Foreign service inducements, if used, are usually made in the form of a percentage of salary, usually 5 to 40 % of base pay, but are also sometimes offered as a lump-sum incentive (i.e. as a one-off payment made at some point during an assignment). Such payments vary, depending upon the **assignment location**, **tax consequences**, and **length** of assignment.

The slide features a presenter in a red jacket and glasses in the bottom right corner. The background is a light green gradient with a yellow bar at the bottom containing logos for IIT Bombay and NPTEL.

It is also important to note that though this payments are most commonly or more commonly paid to the parent country nationals and the third country nationals. So, the foreign service inducement if used are usually made in the form of percentage of salary usually 5 to 40 percent of the base pay, but are also sometimes offered as a lump sum incentive.

So, as a one off time payment made at the same point of time during which an assignment is given such payments vary depending on the assignment location, tax consequences and the length of the assignment. So, like it is like based on so, many different factors is a lot of calculations to find out what will be the tax saving what by the employee like what you what are the monetary consequences on the organisation et cetera.

And so, it is like beneficial to both the employee and the organisation based on this common understanding there this type of payments are made like whether it is one off payment made at the same point of time during which an assignment is given or not needs to be decided by the organisation after lot of discussions and deliberations and

contextualization. Contextualising the present scenario with respect to what others are doing what is the industry trend.

And how it is going to get the feedback from other domains and how it is going to affect the policy that is been taken place these needs to be well decided and then only a mix of match could be done regarding how what type of payment should be given in what amount it is given and when it is given.

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The slide is titled "Allowances" in blue text. Below the title, it states: "Issues concerning allowances can be very challenging to a firm establishing an overall compensation policy, partly because of the various forms of allowances that exist." A list of allowances follows, each preceded by a green arrow: "Cost-of-living allowance", "Housing allowance", "Home leave allowances", "Education allowances", and "Relocation allowances". The slide features a green and yellow background with a woman in a pink sari in the bottom right corner. Logos for IIT Bombay and NPTEL are visible at the bottom left, and a navigation bar is at the bottom center.

When we talk of allowances, so, the issues of allowances are very challenging to the firm in designing the overall compensation policy because of the various firms of allowances that exist. So, one first allowance that we know is that of cost of living allowance then housing allowance, home leave allowance, education allowance, relocation allowance.

These are certain kinds of allowances given to the employees and it may vary from country to country each may vary based on the duration of the job given to the employees and whether they are on the parent countries and whether they are host country nationals or their into third country nationals. So, these are very challenging to the firm because again the how much allowance to give like and what is the allowance given if you have placed in one country as compared to the other country that may vary on the living standards of that particular place also. So, all these things needs to be taken care of like when we are designing for a global pay system.



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Page 174

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Chênevert, D., & Tremblay, M. (2011). Between universality and contingency. *International Journal of Manpower*, 32(8), 856-878.



The slide features two logos on the left: a circular emblem with a gear and a tree, and the NPTEL logo (National Programme on Technology Enhanced Learning) which includes a stylized sun or starburst design. At the bottom right, there is a small navigation bar with various icons for presentation control.

So, till here now these are the references that we have used for this discussion and we will see you with the next session of the same topic of the reward management.

Thank you.