

Performance And Reward Management
Prof. Susmita Mukhopadhyay
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur

Lecture - 30

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

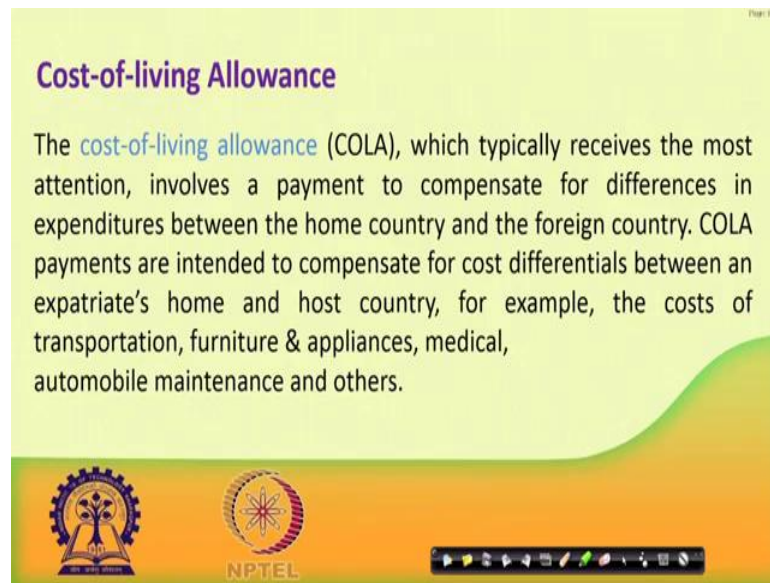
Welcome back to the topic on: Overview of reward system, understanding total, strategic and international reward. We will continue with our discussion on the international reward.

(Refer Slide Time: 00:31)



And now we will more discuss details about the different types of allowances and the approaches to international compensation and the different taxations.

(Refer Slide Time: 00:42)



Cost-of-living Allowance

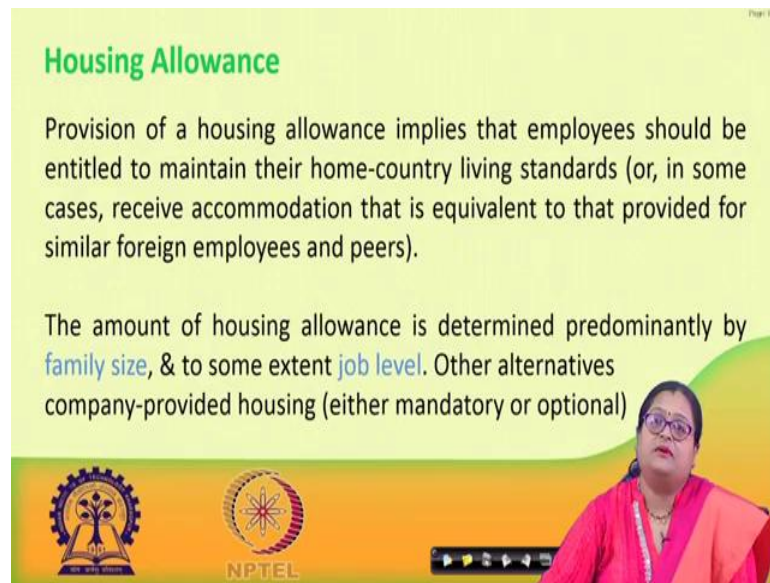
The **cost-of-living allowance** (COLA), which typically receives the most attention, involves a payment to compensate for differences in expenditures between the home country and the foreign country. COLA payments are intended to compensate for cost differentials between an expatriate's home and host country, for example, the costs of transportation, furniture & appliances, medical, automobile maintenance and others.

The slide features a green and yellow gradient background. At the bottom, there are logos for IIT Bombay (left) and NPTEL (center), along with a navigation bar (right).

So, we will start with the different kinds of allowances of which the first one is the cost of living allowance , the cost of living allowance or the COLA it which typically receives the most important attention. Is involves a payment to compensate for the differences, in the expenditures between the home country and the foreign country. So, the COLA payments are intended to compensate for cost differentials between the expatriates home and the host country.

So, for example: the cost of transportations, furniture and appliances, medical, automobile maintenance and other things.

(Refer Slide Time: 01:27)



Housing Allowance

Provision of a housing allowance implies that employees should be entitled to maintain their home-country living standards (or, in some cases, receive accommodation that is equivalent to that provided for similar foreign employees and peers).

The amount of housing allowance is determined predominantly by **family size**, & to some extent **job level**. Other alternatives company-provided housing (either mandatory or optional)

The slide features a green background with a yellow wave at the bottom. On the left, there are logos for IIT Bombay and NPTEL. On the right, a woman in a pink sari is speaking. A navigation bar is visible at the bottom center.

Housing allowances. So, provision of a housing allowance implies that employees should be entitled to maintain their home country living standards. Or in some cases receive accommodation that is equivalent to that provided for similar foreign employees and peers. So, the amount of housing allowance is determined predominantly by the family size and to some extent the job level of the employees also. The other alternatives of the company provided housing which are either mandatory or optional.

(Refer Slide Time: 02:08)



Cont..

A fixed housing allowance across a particular job level, with the expatriate 'topping up' according to personal preferences; or assessment of a portion of income, out of which actual housing costs are paid. Housing issues are often addressed on a case-by-case basis, but as a firm internationalizes, formal policies become more necessary and efficient.

The slide features a green background with a yellow wave at the bottom. On the left, there are logos for IIT Bombay and NPTEL. On the right, a woman in a pink sari is speaking. A navigation bar is visible at the bottom center.

So, fixed housing allowance across a particular job level, with the expatriate topping up according to personal preferences or assessment of a portion of the income out of which actual housing costs are paid. So, housing issues are often addressed on a case to case basis, but as a firm internalizes, internationalizes formal policies becomes more necessary and efficient. So, that again the concepts of fairness, equity, transparency, consistency, this will again come in over here while we are talking of designing for these allowances.

So, that the employee may not feel like I am getting deprived or I am getting discriminated from others. And I am not able to live properly maintain a standard of life that I used to have and to minimum level of comfort that, I used to have in my home country. And I have been discriminated against these kind of feelings should not arise and for that we think written formal policies are very very important.

(Refer Slide Time: 03:25)



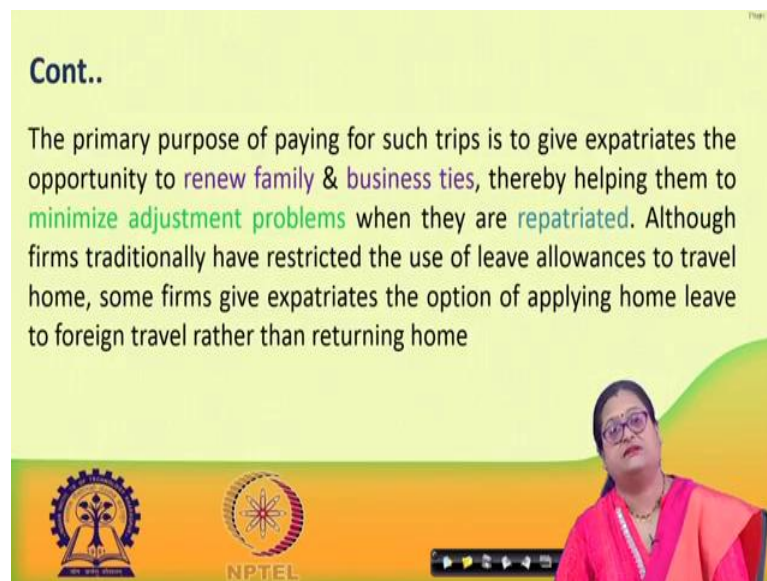
The slide features a light green background with a yellow gradient at the bottom. The title 'Home Leave Allowances' is in bold blue text. The main text reads: 'Many MNEs also have a provision for home leave allowances where employers cover the expense of one or more trips back to the home country each year.' The words 'expense' and 'trips back to the home country' are highlighted in red and green respectively. At the bottom, there are logos for IIT Bombay and NPTEL, and a video player interface with a presenter in a pink sari.

So, home leave allowances. These are again like when the person is outside away from the family. So, it may effect the mental health of the employee in terms of like, if it is a long term like when the employees away we need to some sort of mainly, if it is a long term when the employees away may lead to some sort of anxiety like how the people are there back at home and loneliness.

So, like loneliness feeling of staying alone wanting to go back to the home country. So, for this like many MNEs now have a provision for home leave allowance where

employers cover the expense of one or more trips back to the home country each year. So, that the quality of life is maintained, work life balance is maintained the mental health tranquility level is maintained for the employees. And when these are taking care of the subjective well being of the employees are taken care of then it leads to again better contribution from the employees. And, again which leads to better organizational performance.

(Refer Slide Time: 04:51)



Cont..

The primary purpose of paying for such trips is to give expatriates the opportunity to renew family & business ties, thereby helping them to minimize adjustment problems when they are repatriated. Although firms traditionally have restricted the use of leave allowances to travel home, some firms give expatriates the option of applying home leave to foreign travel rather than returning home

So, as we were discussing the primary purpose for paying such trips to give to expatriates, the opportunity to renew family and business ties, thereby helping them to minimize adjustment problems when they are repatriated, so that is also very important. Like if you go outside and you forget or lose all ties with your family members and business ties. So, what happens when once you come back its very difficult to get readjusted into the old situation.

So, there are adjustments problems, when people get repatriated. So, though although like firms traditionally have restricted the use of leave allowances to travel home some firms give expatriates, the option of applying home leave to foreign travel rather than returning home. So, it is again a choice given to employees what they really want to do for the home leave, but again this is a provision which is there which helps to make repatriation easy and getting connected remaining connected with the family and the business ties.

(Refer Slide Time: 06:15)



Education Allowances

The provision of education allowances for the children of expatriates is frequently an integral part of an international compensation policy. Allowances for education can cover items such as tuition (including language classes), application and enrolment fees, books and supplies, meals, transportation, excursions and extra-curricular activities, parent association fees, school uniforms and others.

The slide features a green and yellow background. At the bottom, there are logos for an organization (a gear with a tree) and NPTEL (National Programme on Technology Enhanced Learning). A woman in a pink sari is visible in the bottom right corner, likely the presenter.

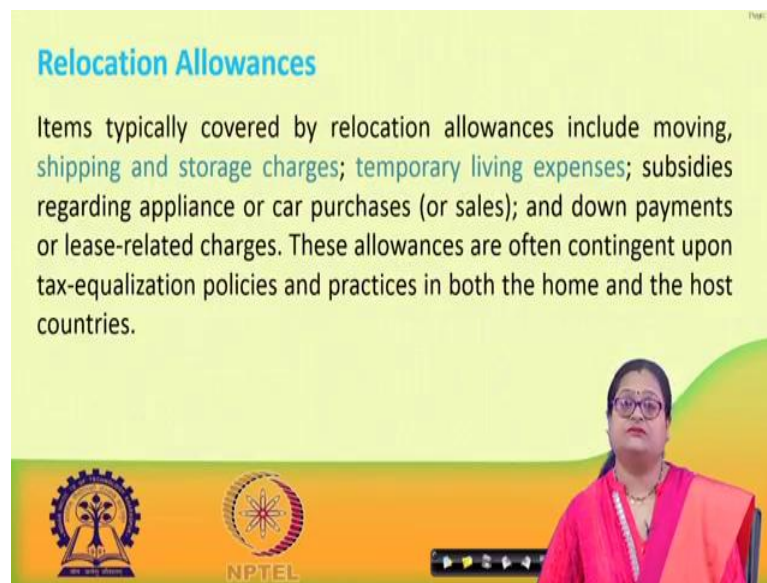
Educational allowances, so like the provision for educational allowances for the children of expatriates, is an integral part of the international compensation policy. So, education allowances can cover such items as tuition including the language classes which are very important. You have to learn the foreign language, if you have to get like if you have to answer to the queries of people if you have to get adjusted. In the local environment you have to leave your day to day life, you have to know like the language that is used in that particular place so, that you can communicate with each other.

So, in the tuition allowances covers in to like for language classes allowance for language classes, application and enrollment fees, books and supplies, meals, transportation, excursions and extracurricular activities, parent association fees, school uniforms and others. Because the whole setup is getting relocated a new beginning is happening in the life of the family of the person. The children has to adjust gets adjusted to a new situation, a new school, new admission everything has to start afresh for which maybe lot of monetary that fees the differences and the other things. Like, I mean it is to be brought for the accessories and other things.

So, this requires a lot of money. And so, and doing that with the base salary may be difficult. So, these allowances are taken as a part of is an integral part of the international compensation. And giving these allowances like, employee also feels good. Like, the organization is thinking not only of me, but the well being of my family also the

development need and the status of my children also and it is taking care of love my responsibilities. In the other role and it is helping me to play that role properly is also very important and it acts as a lot of like develops a good feeling and the employee about the organization.

(Refer Slide Time: 08:57)



Relocation Allowances

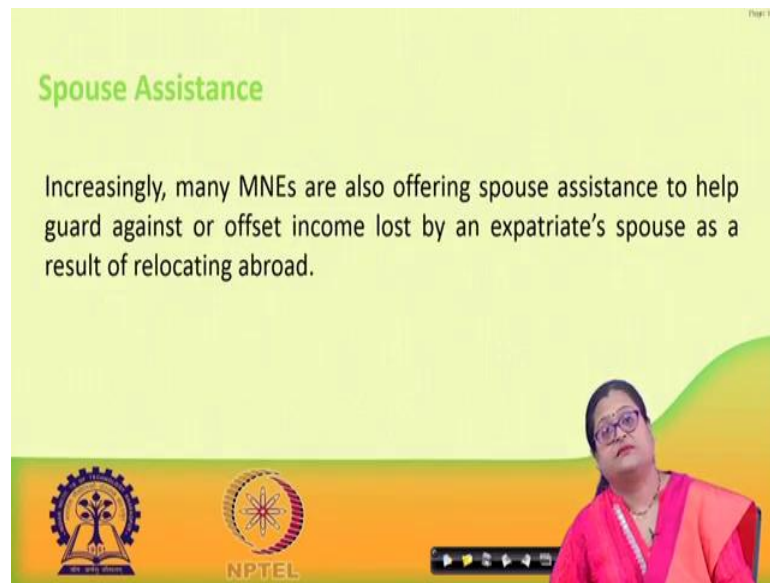
Items typically covered by relocation allowances include moving, shipping and storage charges; temporary living expenses; subsidies regarding appliance or car purchases (or sales); and down payments or lease-related charges. These allowances are often contingent upon tax-equalization policies and practices in both the home and the host countries.

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

Relocation allowance like, relocation is a great hassle for the people who are like getting transferred from one place to another because, it means moving of item shipping and storage of items. Then the temporary living expenses subsidies regarding the appliances or car purchases.

And so, the lease charges related things. So, all these like relocation has a lot of elements to be taken care of and, these relocation allowances takes care of each of the components of relocation and it makes it hassle free. So, these relocation allowances roughen contingent upon tax equalization policies and practices in both home and the host countries.

(Refer Slide Time: 09:58)



The slide features a light green background with the title "Spouse Assistance" in green text at the top left. Below the title, a paragraph of text reads: "Increasingly, many MNEs are also offering spouse assistance to help guard against or offset income lost by an expatriate's spouse as a result of relocating abroad." In the bottom right corner, a woman wearing glasses and a pink jacket is visible, appearing to be the presenter. The bottom of the slide contains logos for IIT Bombay and NPTEL, along with a navigation bar.

Spouse allowances; so, these are allowances which and many are now offering the spouse assistance, to help guard them against or offset income lost by expatriate spouse as a result of relocating abroad. We have to understand now many families are double income families, where the spouse of the expatriate it is also working. And in many cases so happens like, if the person has to relocate include we had take the spouse with him or her so that person's career is at stake does not want to leave and maybe have to suffer as a part of the career. And due to that because now the new generations many people have wants to maintain a balance between both the carrier and personal life both professional and personal life.

So, certain dissatisfactions, anxiety, family disturbances may happen like in terms of like fights between, whose career is more important your carrier or my career kind of thing. But, again like if the spouse have to move taking into consideration the broader aspect of keeping the family tie intact because that is very important to how to keep the family tie intact. So, in that case like the spouse allowance which is the assistance to help safeguard against or offset income lost by expatriates spouse in; as a result of relocation is the very welcome approach which at least tries to take care of the income loss by the spouse and also tries to given like important consideration to the spouse. And like if in many other aspects also life events also.

(Refer Slide Time: 12:09)



Approaches to International Compensation

There are two main options in the area of international compensation –

the **Going Rate Approach** (also referred to as the Market Rate Approach) and

the **Balance Sheet Approach** (sometimes known as the Build-up Approach).

The slide features a presenter in a pink sari in the bottom right corner. At the bottom, there are logos for IIT Bombay and NPTEL.

So, when we are talking of these we were the different types of allowances which are there. Now, when we are talking of the how to give those compensations, there are two main approaches in the areas of the international compensation. First is the going rate approach, which is known as the market rate approach like what others are paying what the competitors are paying how we can just make a differentiator based on that or the balance sheet approach, which is sometimes known as the build-up approach.

(Refer Slide Time: 12:56)



The Going rate approach

- Based on local market rates
- Relies on survey comparisons among:
 - Local nationals (HCNs)
 - Expatriates of same nationality
 - Expatriates of all nationalities
- Compensation based on the selected survey comparison
- Base pay and benefits may be supplemented by additional payments for low-pay countries

The slide features a presenter in a pink sari in the bottom right corner. At the bottom, there are logos for IIT Bombay and NPTEL.

So, whenever we are talking of going rate approach, it is based on local market rates, relies on a survey comparison among local nationals, expatriates of same nationality and expatriates of all nationalities. And, the compensation is based on the selected survey comparisons and base pay and benefits may be supplemented by additional payments for low pay countries.

(Refer Slide Time: 13:33)



Now, the so what we see over here when we are talking of the going rate approach it is more a based on the theory of equity where we are getting compared with the relevant others. And, what these relevance others are getting in terms of the input and the output received, inputs given and the outcome received from the firm in terms of the reward management.

That is why its comparison with others, what others of similar nature or doing the similar or the same kind of worker getting. And, what like from the our same nationality or different nationality are getting so that we want to maintain a sense of balance or equity. So, what we see is the advantage of the growing going rate approach is equality with national local nationals; simplicity, identification, with the host country and equity among different nationalities. These are important points whenever we are talking of the going rate approach.

(Refer Slide Time: 14:47)



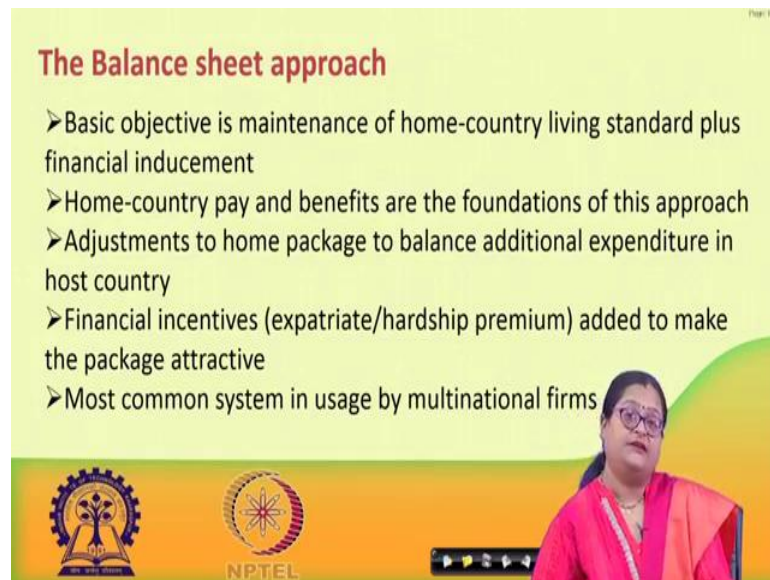
Disadvantages of Going rate approach

- Variation between assignments for same employee
- Variation between expatriates of same nationality in different countries
- Potential re-entry problems

The slide features a yellow background with a green wave at the bottom. It includes the logos of IIT Bombay and NPTEL, and a small inset video of a woman in a pink sari presenting.

However, that these advantages of going rate approach are; so, variations between the assignments for the same employee so, variations between the expatriates of same nationality in different countries and potential re entry problems. So, if you want to get into the re entry and then, how you do you start from which level and all these factors.

(Refer Slide Time: 15:19)



The Balance sheet approach

- Basic objective 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

The slide features a yellow background with a green wave at the bottom. It includes the logos of IIT Bombay and NPTEL, and a small inset video of a woman in a pink sari presenting.


On the other hand, the balance sheet approach it focuses on basic objective is maintenance of the home country living standard plus a financial inducement. So, this is very important like, if you have to leave as such as where there in the home country, then

why we are going to suffer this loss of in terms of being away from the family near; and dear ones going to an unknown place where it where the culture is maybe not known. And, trying to get to adapt to a situation which is not may be very matching with my own value system the ways that I have. Like, led my life throughout these days and I have to make a lot of adjustment to get myself acquainted to that situation and start performing well.

So, all these have really a cost factor. So, if not an extra financial inducement is given then why should I go? So, when talking of a balance sheet approach, it is a basic objective is maintenance of home country, standard living standard plus some financial inducements. So, what is done over here? The home country pay and benefits are the foundation of these approach; next adjustment to home package to balance additional expenditure in host country. So, because if you are going and you have to settle; so, different kinds of expenditures may come up.

So, adjustment to home package to balance additional expenditures in the host country; so, next is the financial incentives like the expatriate or hardship premium added to make the package attractive. And most and it is one of the most common system used by the multinational firms.

(Refer Slide Time: 17:24)



The slide is titled "Advantages of Balance sheet approach" in blue text. It lists four advantages in orange text:

- Equity
 - Between assignments
 - Between expatriates of the same nationality
- Facilitates expatriate re-entry
- Easy to communicate to employees

The slide features a green and yellow background with a white wave-like shape at the bottom. 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 Technology (IIT) logo and the NPTEL logo. A small "Page 17" is visible in the top right corner.

Now, advantages of this balance sheet approach is equity between the assignments and between expatriates of the same nationality. Because, like if they are going and they are

settling in a particular country, then what are the costs of living of that country what are the charges that are happening over there that gets added to the base pay.

So, it depending on like it is not something which is given like because I feel it should be like that, but again it is based on some logic. If you see the additional like whenever we were talking of adjustment to home package to balance expenditure, additional expenditure, in the host country and that expenditure. In the host country may differ from country to country and that is why more or less addition to the home package. So, facilities expatriate's re entry into the home country because like it is mapped with the home country salary and easy to communicate to the employees.

(Refer Slide Time: 18:45)



The slide is titled "Disadvantages of Balance sheet approach" in green text. It lists three points: "Can result in great disparities" (with sub-bullets for "Between expatriates of different nationalities" and "Between expatriates and local nationals"), and "Can be quite complex to administer". The slide features a yellow background with a green wave at the bottom. A presenter in a red sari is visible in the bottom right corner. Logos for IIT Bombay and NPTEL are at the bottom left.

Disadvantages of Balance sheet approach

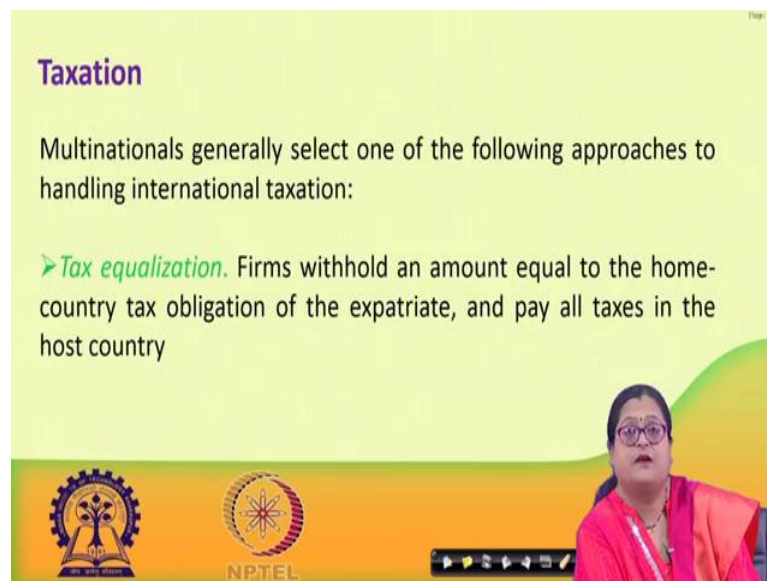
- Can result in great disparities
 - Between expatriates of different nationalities
 - Between expatriates and local nationals
- Can be quite complex to administer

Now, what are the disadvantages of balance sheet approach, is can result in great disparities between expatriates of different nationalities. Because, if it is like because it is the whole thing is based, on the base pay or of the home country; now initially if the pays are different from country to country then the whole structure gets different and a wide may be gap is created. So, it is so, because there is initially difference in the home country payment based on the different nature of the countries that you are in. And the other inputs get connected to the base home country payment, then there this could lead to greater disparity between expatriates of different nationalities and between expatriates and local nationals and it is quite difficult to administer.

So, when we find in a comparison to the going rate approach, so it is inequality with the local nationals whatever is the market rate presently over there we apply paying to you. But here, when it is like based on the home country payment it mainly to like the differences between disparities between the local nationals and the expatriates. So, both the system has its like advantages and disadvantages. Here like what we find is the advantage is like, it makes re entry expatriate's re entry easy because your salary has been mapped to the home country salary.

But, but again in this what we find like there are potential re entry problems because as compared to the market rate you have been paid your salary till now. And now, when you have to readjust back to your home country salary, that may create some disturbances and may lead to certain dissatisfaction of the employees.

(Refer Slide Time: 21:15)




The slide is titled "Taxation" in purple text. Below the title, it states: "Multinationals generally select one of the following approaches to handling international taxation:". A green arrow points to the text: "Tax equalization. Firms withhold an amount equal to the home-country tax obligation of the expatriate, and pay all taxes in the host country". At the bottom of the slide, there are logos for IIT Bombay and NPTEL, and a small video player interface with a woman's face visible in the bottom right corner.

When we talk of taxations, so there are different issues of international taxation and the MNCs have to select different options regarding the it how to handle the international taxation. So, one of the options could be tax equalization. So, firms what did they do they withhold an amount equal to the home country tax obligation of the expatriatee and, pay all taxes in the host country.

(Refer Slide Time: 21:57)

Cont..

➤ **Tax protection.** The employee pays up to the amount of taxes he or she would pay on compensation in the home country. In such a situation, the employee is entitled to any windfall received if total taxes are less in the foreign country than in the home country.



Tax protection is they employee pays to the amount of taxes he or she would pay on compensation in the home country. In such a situation the employees entitled to any windfall received if total taxes are less, in the foreign country than in the home country.

(Refer Slide Time: 22:26)

Complexity, challenges & choices in global pay Level 3

	Internal context	Pay context	External context
LEVEL 3	Visible firm-internal variables	Practices in global pay	Visible firm-external variables
Artefacts	Examples: <ul style="list-style-type: none">• Size• Organizational/ Product Life Cycle• Level of internationalization• Organizational structure	<ul style="list-style-type: none">• Pay mix• Pay level• Standardization vs. localization of pay practices	Examples: <ul style="list-style-type: none">• Industry• Local product market conditions• Local labor market conditions• Legal environment• Unions

Source: Dowling, P. (2008). *International human resource management: Managing people in a multinational context*. Cengage Learning.



So, what we see over here are the complexity and challenges in global pay level 3 are like in terms of artifacts what we find are the pay context. In the in the internal context there are visible firm internal variables like the example size, organization and product life-cycle, level of internalized nationalization and organizational structure. In the pay

context it is practices in global pay, pay mix, pay level, standardization versus localization of pay practices. And what you find in the external context visible firm external variables industry, local product market conditions, local labor markets labor market conditions, legal environment, unions these you can see arrows.

And both besides this internal context of the firm and the external context or the variables both has an effect on determining the pay context. In terms of practices in global pay what will be the pay mix what will be the pay level what will be the standardization versus localization of the pay practices?

(Refer Slide Time: 23:56)

Complexity, challenges & choices in global pay Level

LEVEL 2	Firm-internal variables reflecting norms & values Norms and values Examples: • Corporate/ business unit strategy • Corporate culture • HR Strategy • Employment relationships (long-term vs. short-term employment relationships)	Pay strategy Possible Basis for pay: • Job vs. Skill • Performance vs. Seniority • Individual vs. Group Performance • Short vs. Long Term Orientation • Risk Aversion vs. Risk Taking • Corporate vs. Division Performance • Hierarchical vs. Egalitarian • Qualitative vs. Quantitative Performance Measures • Internal vs. External Equity	Firm-external variables reflecting norms & values Examples: • Institutional forces (e.g. industrial relations system, educational systems) • Cultural norms and values	Source: Dowling, P. (2008), <i>International human resource management: Managing people in a multinational context</i> . Cengage Learning.
----------------	--	--	---	--

The slide also features the NPTEL logo and a video player interface with a presenter visible in the bottom right corner.

When we talk of like the level 2; and the norms and values what we see the pay strategies or possible basis for pay like the job versus skill, performance versus seniority, individual versus group performance, short versus long term orientation, risk aversion versus risk taking, corporate versus division performance. Hierarchical versus egalitarian performance, qualitative versus quantitative orientation, I mean performance measures internal versus external equity.

These again get tackled are getting influenced by again firm's internal variables reflecting norms and values. Like the cooperators the business unit, strategy, corporate culture, HR strategy, employment relationships which is long term versus short term, employee relationships. And also by the firm's external variables reflecting norms and values; like, the institutional forces the industrial relation system, education system,

cultural norms and values which both has an effect on determining together. Like, what will be the possible basis for pay while determining the pay strategy.

(Refer Slide Time: 25:51)



So, here what we find in level 3. The internal context and the external context also determine the pay context and the practices in the global pay what is there. And then, the norms and values at the both internal and the external level also influences the development of the pay strategy. So, what we find over here like, we were already discussing on the universalist and the contextualist aspect where we find in level 1. The mainly the firm internal perspectives like the resource based view, resource dependence theory, behavioral theory, new institutional economics are taken into consideration. And in contextualist views the firms cultural perspectives and institutional perspectives are taken into considerations.

And these are the basic explanations and the research paradigms. And these views and the ways they are connected to each other also influences the like the complexity and choices. In the level 2; and also the level 3 and what we understand like it is very important for us to have a look into both our inner strength and what we can do. How what are the resources and how people are within our behaving and what we can pay what we cannot pay.

But also it is very very important to take into consideration the external factors, the cultural perspectives and what readjustments people have to make in different cultural

contexts. How do we identify with those cultures and it is and how do we answer to the needs of the particular culture with the internal resources that we have. So, these are going to have an impact on how these we can balance these two maybe oppositely acting forces and how the pay strategy or the pay context, in between can help to like reach a balanced state, which can take into consideration being the internal factors.

But also answer to the needs of the external context is a very very crucial. Like, design, steps that we need to take in determining like what will be the nature of the pay mix? The different pay levels and whether we follow standardization or localization and in terms of strategy. Like, what will be the basis of our pay whether it is performance or seniority, whether it will be individual or group, whether it is a long term and short term orientation, whether it is risk taking or risk averse.

These are again influenced by the cultural practices also. For the same kind of job the different compensations may vary the focus may vary on the different nature of cultures that people are in. Because, egalitarian and hierarchical corporate or the divisional performance, internal equity or external equity. All these are influenced not only by the factors inside the organization, but also by the factors outside the organization.

It depends also on from which country the employees are coming to your organization and what is their belief system over there, how culture sensitive they are and how they are adapting to the new culture? So, 'n' number of variables affect your pay decisions and at the end the better we are able to balance. All these factors and adjust ourselves to the both to the local and the global needs together in a balanced way will help to define a very balanced compensation structure and strategy.

(Refer Slide Time: 29:44)



So, with this we come to the end of this discussion about the overview of the reward system and international rewards and, these are the reference which are taken from the International human resource management the book by Dowling. And, so please go through the slides any queries we would be answering in the forum. Thank you for now, meet you in the next module with the different topic.

Thank you.