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**COMPENSATION MANAGEMENT IN  
INTERNATIONAL HUMAN RESOURCE  
MANAGEMENT**

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# Compensation Management in International Human Resource Management

Dinesh Kumar

Research Scholar, Sai Nath University, Ranchi, Jharkhand

**Abstract – In this paper we discussed about one of the key components of IHRM is the compensation administration in MNCs. Today, compensation and employee benefits contribute to the total costs. Compensation is strategically reported and monitored at the broad – levels and with the investors to assess the health of the organization.**

**Keywords: Compensation Management, Human Resource, International**

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## INTRODUCTION

One of the nexus parts of IHRM is the compensation management in MNCs. Today, compensation and worker profits give to 40-50% of the sum expenses. Compensation is deliberately reported and screened at the expansive – levels and with the speculators to evaluate the strength of the conglomeration. What is compensation administration? Adequate and powerful procedure of administering the profit – money related and non-money related compensates of the workers in a conglomeration dependent upon their exhibition towards organizational objective is called compensation administration.

Compensation plans of organizations are strategically designed when rewards are linked to activities, attributes and work outcomes that support the organization's strategic direction and strategic goals (Howard & Dougherty, 2004). Properly designed and deployed sales compensation plans drive superior performance of the sales people, thereby achieving and even surpassing sales targets of organization without crossing compensation budgets (Conlin, 2008).

Indian IT division is a learning based industry. Major assets of IT industry are immaterial (i.e. human capital). Human capital has in length been recognized as a basic asset in most firms and stands for the learning, aptitudes and competencies of people (Coleman, 1988). Transaction in human capital altogether builds the valuation of the firm over a long term.

## OBJECTIVES OF COMPENSATION:

Compensation decisions are strategic decisions and play a key role in achieving performance and sustainable competitive advantages for national as well as international firms. Therefore the key objectives are:

- Attract employees who are qualified, experienced and interested in international assignments.
- Facilitate the movement of expatriate's from one subsidiary to another, from home to subsidiary, and back from subsidiary to home.
- Provide a consistent and reasonable relationship between the pay levels of employees at headquarters, domestic affiliates and foreign subsidiaries.
- Be cost effective by reducing unnecessary expenses.
- Should be easily understood and easy to administer.

## THEORIES OF COMPENSATION:

There are (generally) 4 theories in the context of international compensation:

1. Contingency theory.
2. Resource – based theory.
3. The Agency theory and

4. Equity theory
  1. Contingency theory (most popular): Expats compensation should be based on particular contingencies or situation prevailing in a host country. The compensation Phil, in every organization is normally de centralized and allows units to localize the compensation structure
  2. Resources based theory: Human resource is the greatest asset of the MNCs in its competitive advantage needs good pay and salary band for cont. motivation. The organizations follow this theory, remain market – sensitive and are constantly reviewing compensation to retain their position in the hiring and retaining the talents
  3. The Agency Theory: This theory focused on the divergent interests and goals of organization’s stakeholders and the way those employees compensation can be used to align these interests & goals. According to this theory, there exists a principle – agency relationship between the MNCs HQ and its Subsidiaries for Expats Compensation.
  4. Equity Theory: Equity theory suggests that there should be a fair balance between an expatriate’s contribution to an MNC and what he / she receives as compensation. Of late, the equity principle is sought to be compromised with a new approach to compensation – “Person based rather job centric”.
- Coleman, J. S., Social capital in the creation of human capital. American Journal of Sociology, 94: 95-120, 1988.
  - <http://xisppm.files.wordpress.com/2012/02/cha p-7-compensation-management2.pdf>

**CONCLUSION:**

In this paper we found that Compensation polishes in diverse nations: The on the whole compensation bundle regularly fluctuates from nation to nation because of lawfully ordered profits, imposes, typical cost for basic items, societies and worker desires. Competitive global world is extremely dependent on highly skilled and technologically adept workers. Employee benefits continue to be an integral part of the human resource and compensation management functions of an organization.

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