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DEVELOPING FORMULA TO CALCULATE COMPENSATION FOR OVERSEAS EMPLOYEE

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Abstract

Human Resource Management is one important thing to be considered in an organization, especially when related to the Remuneration System or Employee's Compensation System. Because the compensation system is directly related to employee's performance and employee's satisfaction that will impact the increasing or decreasing of the company's performance. As the company prepared to become a world-class company, PT X has conducted many partnership activities with foreign company. But, there are several problems that arise related to the employees who are assigned outside the country. One them is about the compensation system and the amount of salary that the employee received. Some employees who are assigned to work abroad felt dissatisfied with the compensation system and the salary they receive from the partnership company. However, complaints from the employees cannot be handled by company because of the absence of salary calculation formula or calculation system for employees working abroad. In order to solve that problem, the company needs a formula or a salary calculation system to determining salaries for employees who are assigned overseas company. The calculation system should consider the risks such as cost of living allowance, hardship allowance, transportation allowances, housing allowances, and educational assistance that will be faced by the employees and compensate those risks. This salary calculation system is expected to be a reference for companies to calculate the minimum salary received by an employee.

Keywords : salary, overseas employee, compensation system, compensation formula, overseas employee compensation

Introduction

Employees who are assigned overseas feel unfairly treated because Company does not have a compensation system for overseas employees which associated with the compensation system in domestic. Overseas employees still feel that the salary or wages they receive are not equal to the risk they will get during working abroad. And the company could not explain or refute the complaints from employees about the issues due to the absence of a detailed calculation of payment.

So that, the Company need to develop compensation system model that can be used in different countries in which the employees placed. Then, employees who placed overseas can compared the salaries in the

countries where they are assigned and do not feel harmed.

Theoretical Foundation

Compensation Method for Expatriate

a. Build Up Salary Approach

The Salary Build-Up approach uses the current market related home salary as the base for calculating the expatriate package. Home in this case is the country where the employee permanently resides or is a citizen. The purpose of the build-up approach is to maintain internal equity between countries and to equalize the impact of differences between country tax rates.

b. Cost of Living Allowance (COLA) Approach

The Cost of Living Allowance approach uses the principle of retaining the expatriate's home salary and paying an additional separate allowance, primarily for cost of living, but also for hardship based on the differences between the home location and the host location. The purpose of the COLA is to ensure parity in the level of the purchasing power of expatriates doing the same job at the same level in different parts of the world, taking hardship, cost of living, and exchange rate differences into account by paying a cost of allowance to compensate for the differences. At the end of the assignment the COLA falls away.

This approach is typically used by global international organizations that have a large number of expatriates, who move from one international assignment to another and compete globally for skills. The expatriate's COLA is calculated by adding calculated additional amounts for the hardship, cost of living, and exchange rate differential between the home country and the host country.

Common Elements in an Expatriate Compensation Package

Typically, the compensation package for expatriate includes base salary, benefits, and allowance. Then all the salary components for expatriate will be described one by one below.

a. Base Salary

Base salary is the amount of money that an expatriate usually receives in home country. The base salary usually is paid in home currency, in local currency, or in a combination of the two. Base salary also serves as the benchmark against which bonuses and benefits are calculated.

b. Benefits

Benefits is one of compensation elements that the employee receive. These benefits compose a similar, or even larger, portion of expat compensation. But, there are a number of thorny issues surrounding expatriate benefits. There maybe, for example, some problems with providing medical coverage, social

security, and retirement benefits. The problem is about who will be responsible to all the benefits that will be the entitlements for expatriate. But nowadays, there are some regulations, whether from company policy or government policy about determining the benefits for expatriate.

c. Allowance

Expatriate employees have their own additional allowance. Allowances are an expensive feature of expatriate compensation packages. One of the most common features is a cost of living allowance. This allowance is a payment for differences between the home country and the overseas assignment. Cost of living allowance is designed to provide the expatriate with the same standard of living that he or she enjoyed in home country.

Another allowance is hardship. This allowance is designed to induce expatriates to work in a hazardous area or an area that has poor quality of life. The payments may be a lump sum or a percentage of the expatriate's base compensation. Besides, expatriates also receive housing allowance, this allowance is provided the expatriates with a residence during the assignment, and pay all associated expenses.

Educational allowances for the expatriate's children also are in tegral part of most compensation packages. These expenses cover such costs as tuition, enrollment fees, books, and school uniforms. The last is transportation allowance, this allowance is given to expatriate in order to fulfill the needs that related to cost of transportation.

Analysis

Those employees are employees who work in company that do partnership activity with the Company. As mentioned previously, some employees complained that the salary they received has no accordance with the risks they will face in the host country and they feel neglected by the Company for not working in home country.

Therefore, the Company feels the need to create a formula in order to calculate the salary for employees that placed abroad as expatriates. Expected by the calculation

formula, the complaints come from employees who are stationed overseas can be overcome by explaining that the determination of wage in the host country was adequate or not.

If inadequate, the company took measures to provide additional salary to the employees concerned on the basis of the calculation formula was developed. However, if adequate and even more, employees are not obligated to return to the company and the excess is profit to the employees concerned.

Proposed Compensation System for Overseas Employees

Proposed Approach

The author proposes to use the combination of Build-Up approach and COLA approach because the calculation will be using the salary in home country and considered factors that related to the risks that the employees will faces. The use of home country salary is to make sure that the salary that the employee receive is equal with the salary that the employee receive in host country.

This approach aims to ensure employees are not disadvantaged because of the assignment, by:

- a. Maintain living standards in home country by providing adjustment or addition to the remuneration packages in the home country to balance the additional costs in the host country, and
- b. Provide additional financial components to make the assignment interesting.

Proposed System

Compensation components are commonly given to calculate compensation for expatriate, and proposed to the company will be explain below:

- a. Cost of Living Allowance (COLA)
Cost of Living Allowance is given to keep the Purchasing Power of employees that have been assigned to work overseas. Generally, the allowance was given to the employee who works in a country that has higher purchasing power index than Indonesia. The data used to determine COLA is the cost of living index.
- b. Hardship Allowance

This allowance is intended to compensate for factors associated with difficult living conditions (decline in quality of life) in the host country, environmental conditions which quite different from the home country, and inconvenience situation to employees and families due to the assignment.

In determining these benefits there are few data and the conditions that must be considered, so the calculation will be more valid. The data used in the calculation of hardship allowance is Quality of Living Index and Countries Category Index.

Quality of Living Index (Mercer 2010)

Quality of Living is the results of interplay among the social, health, economic, and environmental condition which affect human and social condition. In order to determine the value of Quality of Life required a Quality of Living Index which is obtained based on 39 factors that are classified in 10 main categories, such as political, social, economic, housing, education, public transport, recreation and more.

However, if viewed from the side of distance, differences in culture, weather and language, the table is not appropriate. So that, company required a new index category that can include other factors as mentioned above.

Countries Category Index

Company build Category index which based on judgments from Company's Remuneration Consultan. This index value was based on differences in culture, weather, and language in the host country compared to Indonesia, and also the location of the host country or the distance from Indonesia.

a. Housing Allowance

This allowance is given if the partnership company does not provide housing during the assignment. The amount of housing allowance is determined based on the cost to rent a furnished Housing in the host country in an area with good quality. Additionally this allowance varies by marital status and job grade.

b. Transportation Allowance

Transportation allowance is given to employees to pay expenses associated with transportation costs in the host country that is generally different with the cost in the home country. The amount of Transport allowance provided monthly is based on the employee's Job Grade.

c. Educational Assistance

Given only for the type of assignment for a year and more by bring the family (Accompanied Assignment). This allowance is only granted to compensate for the difference in tuition between Home and Host Country. Educational assistance provide in the form Actual Amount (reimbursements) and costs are awarded per child based on the average cost of international schools in the Host Country.

Proposed Formula

$$TC = BS + COLA + HA + Ac + TA + EC$$

- TC is total compensation that the overseas employee will receive.
- Base Salary (BS) determined from the total compensation that the employee receive per month without bonuses in home country.
- Cost of Living Allowance (COLA) is given to keep the Purchasing Power of employees that have been assigned to work overseas.
- Hardship Allowance (HA) is intended to compensate for factors associated with difficult living conditions (decline in quality of life) in the host country, environmental conditions which quite different from the home country, and inconvenience situation to employees and families due to the assignment.
- Accomodation/Housing Allowance (Ac) is given to employees determined based on the cost to rent a furnished Housing in the host country in good quality area.
- Transportation Allowance (TA) is given to employees to pay expenses associated with transportation costs in the host country.
- Education Allowance (EA) given only for the children of the employee which only granted to compensate for the cost

difference between school in Home Country and Host Country.

Conclusion and Recommendation

This proposed formula method includes salary components such as Cost of Living Allowance, Hardship Allowance, Accommodation/Housing Allowance, Transportation Allowance, and Educational Assistance.

The result will lead the employees to feel that this calculation model already noticed the risk they will face during the assignment, and all the risks are compensated in the form of salary. For the recommendation, PT X is expected to keep up to date with related data and continues to develop the calculation model. So that, the calculation will be more perfect and suitable to be used in the company.

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