Sample: Marketing - Principles of Compensation

Starting a company is always a dream for many young entrepreneurs across the globe. Benefits associated with economies of scale are a thing that every CEO wants to have. While the dream holds for those who stick to it, it eludes others. Starting a company requires that an individual or group investing to be well prepared to pay high salaries to expert employees who in most cases possess key skills that are relevant towards propelling the company to success. While some companies will usually have the resources, others do have enough. An alternative strategy is usually sort after in order stay relevant. Equity compensation has been used by many small companies to attract and retain employees.

Equity compensation is defined as a cashless compensation which symbolizes ownership interest in a company. This type of employee compensation has proven to be costly and involving. Companies willing to use it must have the proper legal framework, accounting strategy, effective advice about taxation policy and general planning required for the same.

When doing equity compensation, companies provide their employees with options for stocks alongside privileges for purchasing company stocks at specially predetermined costs commonly referred to as exercise prices. However, this equity compensation depends on the time that a particular employee works for the company. This means, employees who work for the company for a long period of time get the privilege to enjoy this kind of compensation (Thatcher, 2005, para, 6). It has been discovered that this method is suitable for small and large companies as it helps their employees stick with them (Equity compensation, 2014, para, 2).

The question that most managers ask themselves is how reliable equity compensation is to companies in the short and long term. Robins (2014, para, 1-2) notes that equity compensation is a good motivator. But it is only reliable if it motivates the right behavior for the good reason, otherwise, its hidden requirements for implementation can prove costly for a company in the long run (McNeil, 2006, para, 2)

Applying equity compensation is a big headache for multinational companies. Without clear legal and accounting framework most companies make critical errors that affect the company (Schubert, Barenbaum, 2008, para, 4). Some companies chose the amount of stock to be given to employees based on percentages that other companies are using. This is wrong simply because, companies are different with respect to their age in the market, properties they own, market share and other critical areas. Decisions made about issuing large stock to employees should be arrived at by simple assessment of “reasonable” percentages (Rosen, n.d, para, 3-5).

Further, the idea of promising employees huge stock in the future based on growth prospects of the company may also not be valid. There is no certainty that the employee will stay in the company for the said future and secondly, market dynamics may render the offer irrelevant. Therefore, workers who accept equity compensations do so for mere speculations that the company will grow and market factors will remain constant or improve. So how exactly do multinational companies ensure that pay differentials between international staff does not lead to resentment and de-motivation of staff?

Pay management is of basic significance as far as industrial relations are concerned. Employment relationships in multinational companies is built around labour payment and is the noticeable focus of labour’s combined concern. It is a common observation that employees receive different pays for similar jobs across different companies, why is this so? The reason is that wages in companies are influenced by labour supply forces and labour demand in a labour market that is considered as being very competitive (Brown, Marginson and Walsh, 2001, para, 3-4). This comes with a result that at the equilibrium point, there is no single company that will want to pay its employees above it, if they do, they will run in losses. Alternatively, if they pay less than the equilibrium, they run the risk of failing to recruit and retain workers and may be driven out of the market.

There are various theories that seem to account for methods in which international payments can be effected in MNCs; the first one is the resource-based theory. Under this theory, organizations receive competitive merits by having unique human resources in the industry. This approach aims at using reward schemes to attract and retain experienced workers in their companies. The agency theory is also effective in defining how payments can be arrived at in effecting international payments in MNCs. The agency theory gives emphasis to principal-agent relatiosnhip. This relationship is designed to be between headquarters and its established subsidiaries in different parts of the world. When this relationship is created, it motivates appropriate behaviors in a manner that maintains similarity in MNCs goals across its subsidiaries. The theory is also known to offer various incentives for effective co-operation.

The biggest challenge facing MNCs is balancing the contrasting forces of evenness against localization. Multinational Companies need to try to become relevant by offering their services and paying workers their dues without causing unrest among the many employees they have. As the growth of MNCs continues, the lasting rift between global integration and the corresponding domestic response continues to prevail (Pudelko, 2007, para, 3). In a study that was conducted on different MNCs, managers in Japan and Germany offer remuneration based on performance orientation, the same applies for promotions and other kinds of compensations (Roy, 2002, para, 4-5). This is a feature that also characterizes the HRM style in America. For instance, Sony, a Japanese electronics company offers compensation to its inexperienced employees in the same way it does to locals. For older employees with more experience, the company relocates them to undertake more complex roles in other countries where they are needed. In doing so, it gives them adequate compensation in a way to motivate, encourage and appreciate their services (Lam, 2014). Employees who have attained an international cadre in the company are moved from one country to another to offer their services; in addition, they are also given handsome global salaries and multiple benefits. The same case applies for some MNCs in other countries like Volkswagen and Mercedes Benz which are headquartered in Germany.

Wai (nd, para, 30) points out that administration of salaries is concerned with making decision on how employees ought to be paid together with strategies and procedures that can be adopted in order to maintain salary structures and performance of companies. It is evident that different MNCs use different pay structures but all in all there should be uniform understanding that the structure employed has to be appropriate with the needs and requirements in different organizations. This is in terms of culture, the size and extent to which change happens (Myloni, Harzing, & Mirza, 2004, para 3-4). It needs to be elastic in response to inner and outer pressures relating to general market rates and shortages of skills. In addition, the structure should ensure that rewards are given in accordance to performance and accomplishments.

Currently, there has been a reduction in barriers to entry into international markets (Das, 1997, para, 1). Despite this, we still have many difficulties in harmonizing remuneration procedures to be in tandem with pay regulations of host countries (Almond, n.d, para, 4-5). International managers for MNCs are facing an external environment that is very dynamic, unpredictable and highly competitive. Internationalization of MNCs operations results in establishing a competitive advantage which is applicable to certain situations. Having global presence is equivalent to competence and success and in a similar manner, relocates domestic differences in markets, acknowledges economies of scale and successfully transfers knowledge across different borders (Abdullah, Boyle and Joham., n.d, para 2).

With regards to MNCs, pay structures that do not encourage demotivation among workers can be determined differently. Graded salary structures have been adopted in most companies. Here, all jobs are given salary grades after a careful evaluation of their value both internally and externally to the organization. The salary awarded to employees is usually aligned according to special ranges or bands. Usually, the jobs assigned to a particular grade are taken to be on uniform level, having similar minimum and maximum rates which match grade boundaries.

According to the theory of equity, people have a tendency of comparing rewards across companies. In some instances, this comparison can lead to perceptions of injustice. Some of the steps taken to these perceptions include; Increasing sensitivity and trustworthiness among expatriates and employing procedures that are transparent in the determination of workers' remunerations (Lam, 2014).

Salary increments in MNCs ranges from tight procedures with set and predetermined movements through a level that is directly connected to age of employees, service done in the company or job, to elastic systems where management has total control over presents, rewards and any kinds of increments without proper plans. In between these two extreme sides exists a platform of partially flexible systems. Alternatively we have scales which are fixed and rigid. In this scale, employees in MNCs moves through job groups or grades through a series of steps which are already predetermined and related to age or job done by the particular employees. These scales are not common since they are largely criticized for their inability to offer incentives to efforts by employees. Those who prefer them describe them as being impartial over different kinds of persons working in the company. Good payment structures do not encourage employment discrimination which is an unethical behavior not only in domestic businesses but also in large MNCs. Employment discrimination leads to inflexibilities in the market as well as economic inefficiencies in the concerned companies (Wu, Lawler, & Yi, 2002, para, 5).

There is also different kind of scale for MNCs which has limited flexibility. In this system, there are chances of offering double increments and even triple to high performing employees while withholding similar increments for workers with poor performance records. Semi-fixed scales give room for advancement to value bars whereby some workers may stagnate while others advance according to performance merits. All in all, there are different strategies which prove effective for multinational companies to offer pay to their employees without demotivation them.

Proper pay structures are not supposed to be biased so that managers do not use them as baits to manipulate employees in achieving success. Instead, they are motivators to workers and encourage better performance and employee retention in the company. Equity compensation as a strategy is hence preferred some companies which have clearly defined determined legal and accounting structures.

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