

# Analysis of Expatriate Compensation Policies in Multinational Companies

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## ABSTRACT

Now it has become commonplace in every developing country to require the services of an expatriate to build a company. It has become very common for foreign workers (expatriates) to receive higher compensation than domestic workers. Countries have also realized that competition in the global era has arrived and cooperation between countries is needed in terms of labor.

Expatriates are certainly not easy to work in a country they are not from. Every country naturally has certain conditions for hiring expatriates. Of course the arrival of expatriates to Indonesia according to KADIN (Indonesian Chamber of Commerce) is due to the low productivity of Indonesian workers, so that several Multinational Companies are interested in recruiting expatriates to work in their companies.

The knowledge gap and capabilities in the use of technology also confirms that the competency of expatriates is more utilized in Indonesia. Not only that, the effectiveness and timeliness in the completion of work becomes a benchmark and is very influential on the targets that the company wants to achieve. With the high compensation received by expatriates, it can reach 2-3 times the compensation of domestic workers in Indonesia into a compensation policy and what indicators actually cause the high compensation of expatriates in Indonesia

**Keyword:** Compensation Policy, Expatriate Compensation, Multinational Companies

## INTRODUCTION

Human resources are one of the most important elements in a company. The global mindset of having broad and open-minded thinking is very beneficial for the company. The company can assess a problem from all aspects and all will see that the company can receive input and criticism. Thus, a broad mindset in a company can easily solve problems globally and have constructive solutions.

At present, it is common to hear that foreign workers (expatriates) get higher compensation than domestic workers. The existence of expatriates started from the enactment of industrialization and continues to increase to the present. Cross-country

recruitment policy to bring in expatriates occurs following the development and needs of the globalization era. It also demands the creation of policies that provide freedom in labor competition. The existence of the expatriate is one of the guidelines on how the company provides compensation for the expatriate.

Of course, with the quality and quantity of expatriates the main attraction of a company to employ them. The existence of a knowledge gap also reinforces the competence that expatriates are becoming more utilized in Indonesia.

## LITERATURE REVIEW Compensation

Compensation or compensation (Nasution: 2008) is anything that is received by workers as compensation for work or performance that has resulted. The aim of this compensation is how to retain workers well, treat well, and be motivated to improve overall organizational performance.

International compensation is the provision of monetary and non-monetary rewards, including basic salary, benefits, rewards, long and short-term incentives, valued by employees according to their relative contribution to the performance of multinational companies.

International compensation can also be interpreted as a comparison of international compensation and compensation in multinational companies (MNEs). Werner and Ward (2004) emphasize the complexity of international compensation practices because of the importance of differences between countries in terms of working conditions, law, culture but also a mix of different employees (expatriates, local residents, and citizens of third countries) and the introduction of exchange rate risk.

### **Expatriate**

An expatriate is a worker who works in an area that is not an area where he is a registered resident. The type of expatriate can be distinguished based on the task performed, because not all individuals who work as expatriates have the same task. The types of expats are:

- a. Volunteers who are voluntary (those who want to work abroad for a certain period because of the interests of individual career development).
- b. Traditional expatriates (are professionals and managers who are assigned to work abroad for one to three years).
- c. Expatriates for career development (stationed abroad to develop management and company skills).
- d. Global expatriates (those who move from one country to another)

## **RESEARCH METHODS**

This research uses a qualitative method with a descriptive-qualitative approach. In this study, after researchers have collected data in the form of interviews, documentation, and observations, the data will be analyzed further to form a natural-scientific conclusion that can be accepted by various groups.

The population of this study is expatriate workers in multinational companies in North Sumatra. Key informants in this study are 2 (two) expatriate workers at different multinational companies and 1 (one) domestic worker at multinational companies. The selection of key informants is based on the same level / position so as to get an equal comparison. Primary data collection is done by interview method.

The key informants are as follows:

1. Informant I (Expatriates)  
Name: Mr. M (pseudonym)  
Country of origin: Turkey  
Company: Modern Furniture  
Position: Business Manager  
Length of Work: ± 3 Years  
Expertise: Management  
Business (can speak Indonesian)
2. Informant II (Expatriates)  
Name: Mr. T (pseudonym)  
Country of origin: Japan  
Company: Engaged in the rubber industry  
Position: Manager  
Length of Work: ± 4 Years  
Expertise: Technical (can speak Indonesian)
3. Informant III (Domestic)  
Name: Mr. W (pseudonym)  
Company: Engaged in the problem solver automation  
Position: Business Manager  
Length of Work: ± 1 Year  
Expertise: Management + Industry

## **RESULT AND DISCUSSION**

A number of different options for establishing a global compensation system have been used by different multinational

companies. This includes basing global employee compensation on:

- a. Head office scale.  
A world scale is based on salary levels at the parent company with differences determined for each branch according to differences in living costs.
- b. Citizenship.  
A scale is based on the country of employee citizenship.
- c. Global.  
Establish a global basis for each position (possibly with branch differences). Then this becomes the same form of payment for the same work on a basis that covers the whole world. The global approach is usually followed only by employees above a specific position or salary classification.

Some of the most dominant approaches in determining expatriate compensation policies are the going rate / market rate, balance sheet, negotiation and localization approaches.

### **1. Establish Expatriate Policy**

Based on the results of the study, it can be found differences in the number of stipulations on compensation policies received by expatriate workers working in multinational companies in Indonesia.

Some of the statements given by expatriates define and explain that they get compensation that was previously negotiated or negotiated with the company and back to the company wants to set policies as the company wishes.

Different answers from informants explained that compensation between expatriates was different from other expatriates, both in working at the same company and different companies where the expatriates worked

### **The following excerpts from interviews with informant 1:**

"In terms of compensation, does the company impose all taxes such as income tax, land and building tax, and other taxes on you?"

"As far as I know the company only collects the rest of my income tax and for the rest I don't know that."

"Are there other foreign workers working in the same company as you? If there is, did you know the compensation? If so, is it different?"

"Yes, there are also people like me. But I don't really know how much their compensation is. What I do know is that they accept what they like so they can work here. "

"Will you tell me what the nominal range of compensation you have received from your company? (e.g. 20-30 million or other numbers) "

"That's a sensitive question. I do not know the answer. If you mean compensation, that's all I receive from my company job or basic salary.

### **The following excerpts from the interviews with informant II:**

"In your opinion, are you with the compensation you have received and the performance you have done is commensurate?"

"Yes, in my opinion it could have happened. Because we agree and we also have to do the best for the company. "

"In addition to the compensation you receive, do you know of other things that you are entitled to get from the company?"

"It's very clear that I know because it's written in our work contract."

"If I can find out the compensation you received, what is the nominal amount that you receive your basic salary every month provided by the company?"

"I receive around 100 million per month."

### **The following is an excerpt from the interview with informant III:**

"As far as you know, how long does it usually take for expatriate and company contracts to work?"

"Usually we employ them for about 3-5 years according to the negotiations with the company"

"After the contract expires, what happens to the expats? Are their contracts extended? Or even looking for new expatriate workers? "

"We do this in accordance with their performance, whether they achieve the targets set by the company. Usually these expatriates can achieve their performance well. "

"Perhaps this is the most sensitive question I will ask you. Do you know how much compensation is received by expatriates who work at your company? "

"Yes, for the expatriates themselves the salaries are different for different divisions. In our company, they mostly occupy the division manager. Because if they occupy the position of laborers or our employees automatically it is rather risky to place them there, remembering that their compensation can be quite high. For the level manager himself in the technical department alone can reach 50-70 million / month.

## 2. Expatriate Compensation Policy Analysis in Multinational Companies

Compensation policy made by the company to foreign workers (expatriates) is implemented in the negotiation policy with the expatriates themselves. The components required in the determination of the policy are:

### a. Basic salary

The base salary shows the amount of cash compensation that serves as a benchmark for other compensation elements (eg bonuses and benefits).

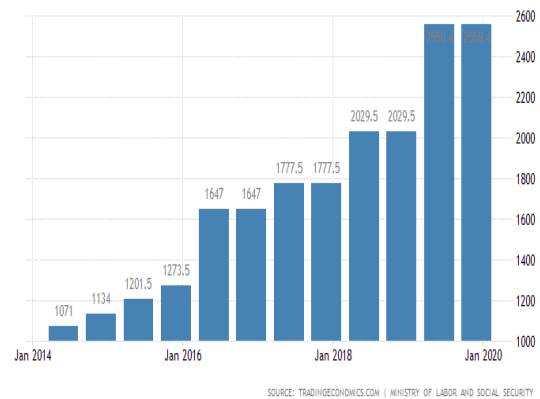
The following excerpts from interviews with informant I

"Will you tell me what the nominal range of compensation you have received from your company? (e.g. 20-30 million or other numbers) "

"That's a sensitive question. I do not know the answer. If you mean compensation, that's all I receive from my company job or basic salary. "

Based on data obtained from the [tradingeconomics.com](http://tradingeconomics.com) website, the minimum wage received by workers working in Turkey is 2558.40 lira / month.

If, workers receive such minimum wages, it can be calculated that these workers can receive as much as 6.3 million rupiah if converted to the Indonesian currency. For skilled laborers, the minimum wage is 2,830 lira (7 million rupiahs) ). For wages of unskilled laborers, the minimum wage received was 1,380 lira (3.4 million rupiah).



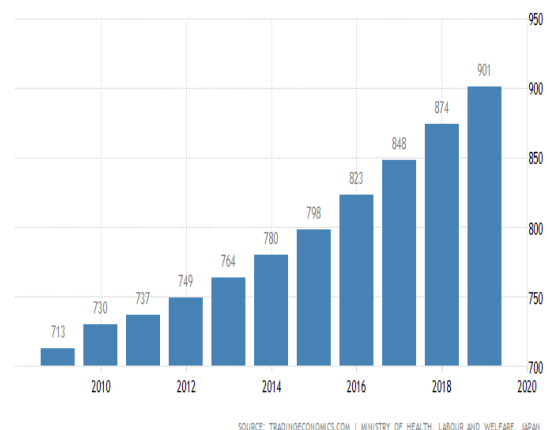
Worker's Minimum Wage Chart in Turkey

## The following excerpts from interviews with informants II

"If I can find out the compensation you received, what is the nominal amount that you receive your basic salary every month provided by the company?"

"I receive around 100 million per month."

Based on data obtained from the [tradingeconomics.com](http://tradingeconomics.com) website, the minimum wage received by workers working in Japan is 901 yen / hour. If, workers receive and are paid as much as per hour of work they do then it can be calculated that these workers can receive as much as 28 million rupiah if converted to Indonesian currency.



Worker's Minimum Wage Chart in Japan

**b. Inducement Premium Services / Foreign Difficulties**

Citizens of the parent country often receive salary premiums as an inducement for accepting foreign assignments or as compensation for any difficulties, caused by transfers.

**The following are excerpts from interviews with informant I**

"Can you work in Indonesia because of the services of foreign workers who recommend you to work in Indonesia?"

"I got a recommendation from the company I work for in my country"

**The following are excerpts from interviews with informants II**

"Can you work in Indonesia because of the services of foreign workers who recommend you to work in Indonesia?"

"I was assigned from my home company to continue the work of the company in Indonesia."

**c. Fringe Benefits**

Benefits can be very challenging for companies to build overall compensation policies, in part because of the various forms of benefits available. The cost of living allowance (COLA), which usually receives the most attention, involves payments to compensate for differences in expenditure between home and foreign countries (for example, to explain the difference in inflation).

**The following is an excerpt from the interview with informant I:**

"Did you get facilities during your work in Indonesia?"

"Yes, I get several facilities here such as home, flight tickets abroad for work, transportation, tuition fees and more".

Based on data obtained from the website [tradingeconomics.com](http://tradingeconomics.com), workers who work in Turkey if they are married then they will

get living expenses for the family. Cost of living for the family they receive is 3,190 lira / month. If, workers receive such minimum wages, then it can be calculated that these workers can receive as much as 7.8 million rupiah if converted to Indonesian currency. For unmarried workers, there is an individual living cost that they will receive 1,930 lira (4.7 million rupiah).

**The following is an excerpt from an interview with Information II**

"What facilities do you receive from the company you work for now?"

"The facilities that I have received have been included or packed together with the compensation I receive every month. So, I prepared everything myself. "

Based on data obtained from the International University of Japan website, workers who work in Japan will get a housing allowance or housing subsidy with 3 considerations as a negotiation, namely:

1. The range of costs for one-bedroom apartments with kitchens costs 60,000 - 120,000 yen.

Local employees can expect benefits of 7,000 - 25,000 yen per month.

The company will also pay the main deposit or deposit, money and so on.

The company pays all relocation fees.

2. There are 3 (three) systems owned by the company, namely:

Japanese companies and many foreign companies pay 30,000 - 50,000 years depending on family size for housing allowances per family.

The company provides direct support to workers for 50 - 70% of the total rent but does not exceed 100,000 yen per month.

The company provides dormitories to workers at a cost of less than 10,000 yen per month but usually reaches an agreement between 6,000 - 8,000 yen per month.

3. For tax reasons, the maximum amount that the company provides is 49% to be paid. If there are no subsidies available, a housing allowance that can be offered is 15,000 - 20,000 yen.

**The following is an excerpt from the interview with informant III:**

"Is it true that these expatriate workers get facilities from the company? What exactly is the big impact they have on the company?"

"We provide them with facilities so that they feel they are fit to work and are comfortable with their work. Of course we expect more from their performance, let alone industrial relations with the countries they come from, it becomes important to achieve the targets set by the company. "

**d. Rewards**

The complexity inherent in international benefits often brings more difficulty than when dealing with compensation. Pension funds are very difficult to handle country to country because national practices vary greatly. The viability of retirement plans, medical coverage, and social security benefits is very difficult to normalize.

**The following are excerpts from interviews with informant I**

"Do you know about the pension fund?"

"Yes, I know what you mean."

"After you retire, do you get a salary from the company?"

"Yes, I know, but I don't really know how much I will receive."

**The following are excerpts from interviews with informants II**

"Do you know about the pension fund?"

"Yes, I know what you mean."

"After you retire, do you get a salary from the company?"

"Yes, I know, but I don't really know how much I will receive."

Based on data obtained from the nenkin.go.jp website, workers who work in Japan will get and receive the Japan National Pension Program with the following criteria:

1. Basic pension for elderly people will be given a pension fund if they meet the requirements such as having paid a premium for 10 years or more and have

reached the age of 65 years at 780,100 yen (100 million rupiah)

2. The basic pension for the disabled will be given a pension fund of:

For level 1 handicap 975,125 yen (125 million rupiah)

For level 2 disability is 780,100 yen (100 million rupiah)

3. The basic pension for the family of the deceased will be given a pension fund of 1,004,600 yen (130 million rupiah)

**The following are excerpts from interviews with informant III**

"Is it true that these expatriate workers get retired from the company? What exactly is the big impact they have on the company?"

"The company provides retirees based on central company policy." As we are the only local workers who have served the company, of course, if we end our career with good persuasion, surely we will get a pension. "

As for some approaches that can be taken to determine the compensation of foreign workers:

**a. Balance Sheet Approach**

The basic objective is to "safeguard all expatriates" (i.e., maintain relativity to PCN colleagues, and compensation for the cost of international duties) through maintaining the standard of living of the host country, plus financial incentives to make attractive packages. This approach links the base salary for PCNs and TCNs with the salary structure of the relevant country of origin

**b. The Going Rate Approach**

With this approach, the basic salary for international transfers is related to the salary structure in the host country. Multinational companies usually obtain information from local compensation surveys and must decide whether local citizens (HCNs), expatriates of the same citizenship, or expatriates from various countries will be a point of reference in terms of standardization.

With a tariff approach, if the location is in a low-paying country, multinational companies usually add a base salary with additional benefits and payments.

### 3. Expatriate Policy Analysis Based on Government Regulations

The government has issued Law No. 13 of 2003 as a reference used by companies to determine compensation policies for workers in Indonesia, including foreign workers (ekapatriat) in Indonesia. Before the birth of Law No. 13 of 2003 concerning Manpower (UUK), the use of foreign workers in Indonesia was regulated in Law Number 3 of 1958 concerning the Placement of Foreign Workers (UUPTKA).

In the UUK, the regulation on the Use of Foreign Workers (TKA) is contained in Chapter VIII, Article 42 through Article 49. The regulation starts from the obligation of employers who use TKA to obtain written permission; has a plan for the use of TKA that contains the reasons, type of position and time period for using the TKA; the obligation to appoint Indonesian nationals as TKA assistants; until the obligation to return foreign workers to their home country after the end of the employment relationship.

With the regulation of Law No.13 of 2003, companies have a reference to what positions are prohibited (closed list) and must be considered by the employer before proposing the use of foreign workers. Besides having to obey the provisions regarding the position, it must also pay attention to applicable competency standards. Provisions regarding position and competency standard are delegated in the form of Ministerial Decree. But in practice, this delegative and attributive authority has not used rules that are in accordance with Law No.13 of 2003.

## CONCLUSION AND SUGGESTION

### Conclusion

Based on the results of the Expatriate Policy Analysis research, the following conclusions can be drawn:

- a. Provisions regarding foreign workers in Indonesia with the issuance of Law Number 13 of 2003 concerning manpower are no longer regulated in a

separate statutory regulation as in Law Number 3 of 1958 concerning the placement of foreign workers, but are part of a compilation in The new UUK. Provisions regarding the use of foreign workers are contained in Chapter VIII Article 42 to Article 49.

- b. Experts brought from abroad by government / private companies should really be skilled experts so that they can help the process of economic and technological development in Indonesia. For this reason, the process of transferring technology to migrant workers both in the managerial and professional lines must be subject to strict supervision by providing certification to these experts.
- c. Aging Workers who work in Indonesia are recommendations from companies in their home countries in order to advance and increase company productivity and targets achieved by the company.
- d. The amount of compensation received by expatriates is mostly the benefits / facilities they receive from the company because they consider their sense of leaving their home country and family to achieve the company's targets.

### Suggestion

Based on the results and discussion, there are several suggestions that can be delivered:

There is a strict supervision from the Government of the regulations that have been made on companies that employ expatriates in Indonesia.

In order to realize the companion for expatriates who will reduce their knowledge to domestic workers so it does not depend on expatriates continuously.

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