

Expatriation, expenses, advantages and disadvantages



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Expatriation, the practice of sending home country managers to other country locations, is a popular, albeit expensive practice among multinational corporations. Expatriates are charged with facilitating the bidirectional flow of knowledge and resources between company headquarters and overseas subsidiaries. Typically, the company expects its expatriate managers to infuse company philosophy into the local subsidiary, as well as to impose policies and procedures consistent with headquarter operations. They are often responsible for the movement of financial resources, whether this be physical capital or the ability to tap local debt and equity markets. They bring with them managerial as well as technical expertise, functional capabilities, or the training necessary to develop these among the local personnel, and structural and control systems. Among these are appraisal systems and motivational tools and incentives.

Either while on assignment or upon repatriation, the expatriate should be able to share information with the parent company regarding local infrastructure, such as roads, housing conditions, and transportation systems. In addition, knowledge regarding the political climate, negotiating techniques, host government concerns, and consumer preferences is passed on to the parent. Finally, expatriates should learn a great deal about business practices specific to the regions where they have been assigned, including holidays and observances, accepted business attire, and the appropriate ways to communicate and socialize with co-workers and locals in general.

Background:

Given the rapid rise in the internationalization of markets, competition, and technology, expatriates—and in particular long-term expatriates—can provide much of the value-creation opportunities global firms are seeking. But as the numbers of assignments increases, along with their annual cost by some estimates, two-to-four times the individual's base salary, there is need to assure such assignments are being effectively utilized in achieving Company's strategic goals.

Only 57 percent of the global firms responding to a 2005 survey by GMAC Relocation Services perceived their return on investment (ROI) in expatriates to be “good” or “excellent,” with only 43 percent indicating they had specific programs in place to improve it. Other surveys show that up to 85 percent of managers do not even attempt to demonstrate the ROI of long-term international assignments, nor do they measure it. Thus, expatriate ROI appears to be, not only rarely calculated among global firms but also not widely used as a tool to reduce expatriate costs, despite a growing economic environment of global uncertainty, cost cutting, and risk.

Introduction:

This report is designed to investigate effectiveness of expatriate remuneration in a multinational organization. For this purpose I have chosen ICI, as this company is operating in many European as well as Asian countries and still in continuation of expanding its operations.

Goals for the expatriates in ICI, with the study carried to analyse the effectiveness in achieving those targets are featured in this small study. This

study will examine how the expats are remunerated and what bases are used in doing so, furthermore basis opted for rewards system. Others matters considered alongside are considerations for the costs of family residency, insurances, children's education, properties, and other expenses; including incentives. Gains and nuisances of the expats are issued for the consideration from expats points of view.

Moreover explanation of the research methodology coupled with justification for the research is complied in. Due to the nature of the topic, secondary sources of information are used as the primary sources were difficult and time consuming.

ICI has many expatriates around the world in various countries of different continents, which includes Asia, Europe- as required by its diverse operations. Sending expatriates on long term assignments is complicated as it triggers diverse needs (i. e. social needs, ethical issues, religions, family commitments and backgrounds, etc). Therefore on one side selecting, enticing, and retaining expatriate staff for long duration of their foreign assignment and on the other designing rewards system for such complex and diverse roles adds difficulties for the organization.

Aim and Objectives:

This study aims to investigate the effectiveness of expatriate remuneration at ICI. In order to achieve this aim, the following objectives have been set:

- * Develop a model for measuring expatriate remuneration.
- * To assess the current expatriate remuneration for ICI.

- * To conduct fieldwork and collect data on the effectiveness, ethics, etc.
- * Analyse the results of the fieldwork and present the results of the investigation.

Model for measuring Expatriates Remuneration

A large studies conducted by the researchers concluded that only 51 out of many global firms participating in the study desired to obtain an acceptable ROI from their expatriates.

ROI determinations should also include nonfinancial costs and benefits in order to capture the long-term, post assignment benefits— such as skills transfer, global leadership capabilities, succession readiness, and other talent management objectives.

McNulty and Tharenou have defined expatriate ROI as “ a calculation in which the financial and nonfinancial benefits to the firm are compared with the financial and nonfinancial costs of the international assignment, as appropriate to the assignment’s purpose.” This definition implies two important conditions:

- * Managers must know the intent for using expatriates—how the purpose of an international assignment is linked to a firm’s overall global strategy—in order to then track the benefits and costs.
 - * Managers must include both tangibles and intangibles when calculating and comparing costs and benefits. Accurate rates of return are then more likely to be determined when the benefits are compared with the costs, even if a cost is financial (e. g., the cost of cross-cultural training) and the
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corresponding benefit is nonfinancial (e. g., the benefit of improved performance).

In turn, these conditions imply a robust system for creating, approving, documenting, tracking, and evaluating international assignments.

Assessment the current expatriate remuneration for ICI

During the course of my study I focused my study plan on remuneration of 10 Individuals designated as expatriates with a responsibility of transferring ICI system IT-based skills to other subsidiaries/ offices located across the regions.

The individuals selected were salaried Approx. around £ 4, 000 per month during course of their normal office routine work. When and as employee designated as expat, a separate remuneration model was designed for each keeping in view the following

- * Working hours

- * Job specifications

- * Number of travels/locations to different sites

- * Period for which the expat assigned for the special assignment

The model devised without considering as exception circumstances is illustrated below

* If the expat tenure for the special assignment is for a period covering more than 2 years, the expat is allowed to take his family (wife and children) along, at his discretion. The salary package of the said expat will be 180% of his gross salary during this tenure.

* If the expat tenure for the special assignment is for a period less than 2 years, the expat is not allowed to take his family at CO's expense. However he will be allowed to claim return air tickets thrice a year with 20 days paid leaves and will be remunerated at 140% of his original gross salary.

* All the medical and other facilities entitled to the employees during routine office duty shall remain and other expenditure related to the business such as travelling, out of pocket expenses shall be reimbursed to the employees.

Problems faced by expatriates while implementing head office system/ rules

* Expatriates were charged with either learning the host language or communicating through gestures or other non-verbal methods, or they may invoke the services of translators or interpreters

* Psychological types of strains, including the negative psychological reactions of anxiety, anger, and frustration when not been able to deliver or transfer knowledge due to national/ regional differences.

* Relationship between sociability and cross-cultural adjustment makes them feel alienated.

* Understanding of the values and norms of the local nationals was hard to follow and observe.

- Patience was required to build the relationships and the trust.

Fieldwork and Ethics Issues

Meeting the Senior Manager Finance Manager during their valuable busy working hours and requesting them to give some guideline by providing knowledge about the Expats and the remuneration model designed for the assignments.

Moreover during discussion session with the managers, I insisted on asking more details and insights that were not available documented, for which the senior manager was hesitant of doing so, as in their opinion certain information was very sensitive and arise tax sensitive issues.

The analysis also involved use of company's IT resources like internet, desktop and other ancillary equipments.

Moreover in gathering information about my research/field work I had to make certain quality compromises, as the information was not readily available and the management was hesitant over concerns regarding its secrecy.

Following is the data gathered and analysed of the employees during their services as expats.

Name of the Employee/Expat

ID #

Gross Salary

Special Assignment Allotment

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Salary for m/o Dec ' 09

Medical

Travel plus Misc

Total

John Desusa

345

3, 500

140%

4, 900

100

450

5, 450

Ali Kirmani

6576

3, 000

140%

4, 200

1, 110

367

5, 677

Patric Mandela

356

4, 000

140%

5, 600

521

1, 200

7, 321

Keith Ronaldo

6787

5, 000

140%

7, 000

124

290

7, 414

John Ferry

754

4, 000

180%

7, 200

413

300

7, 913

Harban Bhaveja

7564

4, 500

180%

8, 100

20

394

8, 514

Research Methodology:

Data are analysed through primary and secondary data research. This is where financial value i. e. quantitative data or the brand image i. e. qualitative data for ICI will be inspected in those countries where expats are doing the work. This will be done by individual countries' examination of customer base and/or business base; depending on what expats have been sent for and what is meant to be achieved there. Knowledge of all countries is brought together for expats as well as all costs incurred; are part of this study. It has complete similarities and differences within this duration of expatriation. These include currency evaluation's differences in other countries and the amount that has been spent in those countries is worth the effort. However, this should mean that the expats are giving identical efficiency level as they would have while being in the UK in the away country depending on the targets being given. In most cases, ICI gives a smaller pay due to the economy being down. However, still pays well even after slump where GBP is strong.

Data Collection Methods:

Due to the nature of the topic, both primary and secondary sources equally provided appropriate and valuable information. Although using the former source was difficult and time consuming.

Primary Source

An interview was held with Mr. Zawan Navade – Senior Finance Manager ICI.

The primary purpose of this interview was to assess the potential benefits

expats providing to the Organisation with the cost being incurred.

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Moreover, a meeting was arranged with the Human Resource Manager to gain information regarding the design of the remuneration packages related to the potential benefits to the entity.

Secondary Sources

These consisted of the following

- * Payroll Sheets
- * Documented Reward system
- * Special assignment contracts

Limitations:

Financial data by itself may not be sufficient for the purpose of my research work, therefore expert input from Company's senior executives was required but most of the information in my research report is secondary as I was not able to directly approach the companies executive all the time and have limited use of their valuable time due to their tight official schedules and their reservations.