

Managing the expatriate experience essay



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The high costs of recruitment and placing of expatriate managers as well as their critical requirement in overseas operations make it imperative for all organisations to ensure that expatriate managers firstly do not leave their assignments and secondly are motivated to put in all efforts needed to meet corporate objectives. While various factors are relevant in the determination of the success or failure of overseas staff one factor that is dependent upon internal policy but plays a key role in attracting, retaining and motivating managers in overseas locations is the issue of their remuneration and compensation. Compensation of expatriates is considered to be key to retaining superior talent and by extension to the performance of organisations in foreign locations.

While designing compensation packages designed to recruit and retain the best available talent organisations need to consider that packages given to new entrants, while being attractive enough to obtain talent are also equitable to existing employees, at home and overseas. Obviously the most important factor affecting the fixation of compensation is the cost of living in the host country and while executives would want to be effectively compensated for any increase in cost of living in foreign locations they would also like to keep the savings generated if posted to cheaper locations.

Corporations also generally follow this principle and the cost of living is computed with the use of a number of factors that include consideration of prices of a basket of products and the use of Purchasing Power Parity (PPP). Three other very important considerations in the computation of expatriate compensation involve healthcare, accommodation and children's education. These three factors are of utmost importance for most managers and relate

to fulfilment of basic needs. Most managers feel that while expatriate assignments improve their prospects for progress within the corporation, they also need, in addition to the specific and unique demands of overseas responsibilities, significant sacrifices by way of forced separation from familiar locales, developed social circles, and existing friends and families.

Managements thus tend to ensure that the children can be educated at good international schools, healthcare benefits are as good as in the home country and the housing provided is comparable if not better to what the managers have been used to. This is not very difficult in most cases except when managers are located in cities like Tokyo or Hong Kong where real estate prices are at stratospheric heights. By and large however, better housing is available at lesser costs in the emerging and growing economies than in the USA and Europe and higher housing costs in a few expensive cities is offset by savings on housing elsewhere. The most commonly used mode of fixing expatriate compensation is through the adoption of the “ balance sheet approach”.

The balance sheet approach works towards ensuring that expatriates are compensated adequately to ensure that they can maintain a lifestyle equivalent to what they enjoy at home and come out of the assignment a “ no profit no loss position.” While this approach maintains equity between peers working at home and abroad it also has the potential of causing some dissatisfaction to the expatriate staff as employees may feel that they are not being rewarded adequately for having to give up the comfortable environs of working at home. There are a couple of other approaches to compensating expatriate employees, one of which the “ destination

approach” is beginning to gain some currency. Under this approach compensation is linked to the cost of living in the “ destinations” or rather the location, the local compensation policies of competitors and salaries paid to local staff. Very obviously in most cases this involves a drastic curtailment of expatriate compensation and is unsuitable for senior positions. At the most it could be a viable proposition for employees who wish to travel and work abroad to get exposure and experience even at the cost of losing out on remuneration.

The “ International Headquarters” approach uses a different logic and compensates managers of different nationalities working in the same location at the same rates, thus removing feelings of inequity between the different managers. While this approach has the benefit of fostering manager loyalty it is somewhat difficult to administer and could result in higher pay packages being given to the local managers than that being paid by competitors in the local market. The criticality of expatriate assignments stems from a number of factors. In the first instance expatriate managers perform extremely important functions that have a direct bearing on corporate performance. Secondly they cost a great deal of money to the company because of the numerous costs involving recruitment, training, orientation, travel, relocation, housing, schooling and healthcare apart from direct compensation to the expatriate.

Lastly, expatriate managers today are often required to work aggressively in the new frontiers of business in East Europe, India, China and East Asia where failure could lead to loss of time and unique opportunities that could prove to be much more expensive than the specific costs associated with

positioning expatriate managers in foreign locations. It is thus vitally important for organisations not to look at expatriate problems as mere HR failures and adopt a multidisciplinary approach to comprehensively manage the expatriation process. The process of expatriation can be described very simply in sequential steps that comprise of ascertaining the requirement, recruiting or locating the right person, providing the selected person with required training and orientation, arranging for his or her comfortable relocation and seamless fitment in the assignment, monitoring and coordinating with the manager to ensure meeting of personal and corporate objectives and ultimate repatriation to the home base or transfer to another foreign location. The significant volume of expatriate failures is currently exercising the collective mind of business leaders at MNC headquarters and a number of research studies have been executed on the subject. This is but normal considering the cost, the criticality and the number of variables involved in the issue.

The number of factors that need to be considered in carrying out successful expatriate initiatives is substantial and obviously starts with the delineation of the reasons necessitating expatriate placements. Anne-Wil Harzing (1991) in a well researched article on “ An analysis of the functions of international transfer of managers in MNCs” makes the point that international placements are primarily due to three reasons, e. g. position filling, management development and coordination and control. Position filling (PF) refers to placing of specialist expatriates either for knowledge transfer or where local expertise is not available. Trouble shooting operations will also come under the PF category.

Management development (MD) is another objective of international transfers and placement and serves to develop the managerial competence of the expatriate and local managers, thus contributing to the strengthening of the managerial competence of the company and the increase of its competitive edge. The third objective termed as coordination and control (CC) is rather omnibus in nature. It includes coordination between the parent and subsidiary organisations, the achievement of uniform management practices and homogenisation of staff in overseas operations, as well as instilling focus, dedication and organisational loyalty in tune with corporate philosophy. The incidence of managers sent out on PF, MD and CC operations varies between organisations and sometimes between companies belonging to different countries, for example significant culture divides between two nations may lead to more stress on CC than on MD, in tune with the needs of the organisation. A clear focus on the reasons for sending managers on international assignments lays the groundwork for deciding upon the right kind of persons who need to be chosen, and in briefing them exhaustively with the expectations of the company.

The recruitment of the correct person and fixation of compensation is the next logical step in planning the expatriate experience and needs very careful thought and selection to ensure correct fitment both at the personal and corporate level. Expatriates who possess clear mental models of the host country cultural environment and those who are open to confronting differences in all aspects of operational and personal life make ideal candidates. While the technical and managerial expertise of the selected managers is undoubtedly important experts feel that cross cultural training

before the commencement of expatriate assignments proves to be of immense help.