

Effectiveness of expatriate remuneration management essay



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Organisations spend insufficient time creating a well designed expatriate remuneration strategy and policy. Multinational companies have over time established a clear and effective remuneration package for expatriates.

Selecting compensation as an element of the expatriation process to illustrate the difficulties multinational companies face in utilising expatriates and how these issues might be addressed.

This report will outline an approach carrying out a research project to investigate the effectiveness of expatriate remuneration in a multinational organisation.

The report will include the aims and objectives, a brief critical review on the academic resources that the researcher will use to and the main issues of effectiveness on expatriate remuneration which will support the aims and objectives. The explanation and justification of the methodology and the methods of data analysis, ethical issues arise faced by multinational companies (MNC's), and the limitations of the research will be included in the report.

The methods used will explore the effectiveness of Expatriate remuneration throughout organisations operating on a global scale. A particular emphasis is placed on the importance and effectiveness of remuneration among expatriates in a multinational company. Practical examples are presented from Unilever, A multinational organisation. There are many different approaches to establishing a remuneration package for a multinational company it will be discuss also in the report. Companies that have successfully designed packages for expatriates have developed plans that

satisfy their own financial requirements while still remaining flexible enough to adapt to individual needs and changes in the global environment.

Figure Overview of Research Process

Source: Presentation by Bryon Erath (2008), ' Beginning your research',
Purdue University

2. Aims and Objectives:

The aim of this study is to investigate important situational factors impacting expatriate remuneration and common practices utilized in compensating expatriates. It will also examine both positive and negative arguments and to find out the effectiveness of expatriate staff remuneration in a multinational organisation and would analyze the notion that the presence of expatriates may potentially bring distinctive benefits and advantages to development work.

The research objective is to identify, through the review of the relevant literature, evidence of the effectiveness of expatriate remuneration with specific reference to multinational company like Unilever linking to challenges of International human resource management (IHRM). And to identify key factors that should be considered when developing expatriate compensation plans and to identify approaches to expatriate compensation and its linkage between remuneration, individual effectiveness and (MNC's) organizational effectiveness.

By identifying and reviewing various core themes in literature, it is hoped to take a snapshot of the importance and effectiveness of remuneration

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package developed and used by multinational company in terms of their performance management, cost & benefit analysis and Return of investment (ROI), and expatriate remuneration policies in relation to remuneration effectiveness to their expatriates.

3. Literature Review

A critical review of different sources of published documents on expatriate remuneration is reviewed and the main issues raised are highlighted in this literature review.

Expatriation is a common practice among U. S.-based multinational corporations (MNCs). However, a number of investigators have demonstrated that there is a high failure rate among expatriates because neither they nor their families are prepared to deal with the level of uncertainty associated with the process. The volume of literature on expatriate management is not surprisingly large, considering the increasing importance of the topic.

Compensation varies internationally due to differences in legally mandated benefits, tax laws, cost of living, local tradition, and culture. Employees posted abroad expect to be compensated at a level that allows them to maintain their usual standard of living, which can make compensating expatriates very costly. Includes base remuneration, benefits (e. g., health care plans), allowance (e. g., for housing, children's education, travel), incentives (Cavusgil, Knight & Riesenberger, 2008) Unilever companies develop their own employee remuneration strategies in line with national and local market practices, monitoring pay and benefits provision in the industry and beyond. Investing in people: Competitive rewards, good training

and proper support to employees are essential for Unilever's continuing success. Fundamental to this are remuneration practices which attract, reward and retain the calibre of people necessary to deliver on our consumer promise in the highly competitive markets in which we operate (Social Review, 2000). (see Appendix D: Unilever's approach to Expatriate remuneration)

One of the issues that organizations have to address when considering this failure rate is the role that compensation plays in the whole expatriate dynamic (Baruch, 2004). From an operational perspective, many organizations have adjusted or entirely revamped expatriate compensation (Phillips and Fox, 2003). Organizations quickly discovered that compensation is among the most important factors a prospective expatriate considers when accepting an overseas assignment (Baruch, 2004). In today's intensely competitive labour market attracting and retaining the best and brightest professionals is the lifeblood of any successful organization with global operations. Further, experienced expatriates are more valuable than ever as organizations continue to extend their global markets.

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

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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 corresponding benefit is nonfinancial e. g., the benefit of improved performance.

These expatriates are among the scarcest and most expensive resources of multinational companies; salaries and benefits can easily run to more than \$500, 000 a year. They also play the critical role in the process of transforming opportunities into thriving businesses by transferring (typically from the company's home base) the required institutional resources, technologies, and know-how; by building country-specific knowledge and relationships; and by developing the local talent that is the key to long-term success and profitability (Hsieh, Lavoie, and Samek, 1999).

Once the organization establishes the broad terms and conditions of the expatriate assignment typically dictated by business realities and competitive forces affecting the industry and the position, it must turn its attention to developing the remuneration package—the cash and employee benefit components. The cash component requires linking base salaries with assignment premiums, cost differential allowances (e. g., housing, employment conditions, taxes) and other expenses. Although most employee benefit issues can be handled relatively easily, handling health coverage is more complex because of certain employee relations issues, etc. (Parker, 2001). In total remuneration terms, expatriates can be expensive employees.

As the world continues to globalize, firms are required to manage an increasingly diverse workforce with expatriation being just a subset of this challenge (Deresky, 2000). As a result, expatriation has been popularly used as means by which information sharing and knowledge transfers can be undertaken (Harzing and Van Ruysseveldt, 2003). Expatriates are important for sustaining international growth because the development of new businesses requires companies to transfer their skills, and expatriates continue to be the most effective means to that end. In emerging markets, where establishing relationships, adapting to local cultures, and transferring skills and technologies all take a lot longer than they do in developed ones, the need for expatriates is particularly pressing, even when a joint venture is the chosen entry vehicle (Hsieh, Lavoie, and Samek, 1999). Coleman (2008), discussed that an expatriate assignment pay philosophy is intended to provide guidance in the consistent and equitable treatment of all expatriates and forms the basis of the organisation's expatriate pay policy. However expatriate pay is a complex area of remuneration with complex issues such as volatile exchange rates , weak and strong currencies, constantly changing differences in cost of living between countries, different tax regimes, as well as the reality that there are attractive and not so attractive countries to work and live in. This is an area where a clear philosophy and an aligned practical policy are required to ensure attraction, fairness, equity, motivation and retention. Latta (2006), argues that Expatriate compensation is likely to remain a particularly difficult issue within the HR field. Few company officials are entirely satisfied with their current policies, but few see obvious alternatives. The underlying issues of assignee supply and demand will

provide the basic parameters in determining how much freedom organizations have to change current practices.

Grainger and Nankervis (2001) pointed out, ' that new approaches to international business will require innovative approaches to international staffing, including a more inclusive understanding of the role of the international manager and professional; innovative strategies for their selection and employment conditions; a more holistic recognition of their relationships with the parent company; and importantly, flexible payments carefully calibrated with their specific skills and competencies in relation to their identified competencies'.

4. Methodology

A meta-analysis approach is carried out that brought together in number of different studies and overall conclusions are made from them. A synthesis of the literature led to the identification of numerous situational or contextual factors impacting expatriate remuneration in general. On the other hand, from the methodological point of view, it is possible to identify that two types of study empirical and conceptual was used to gather data in this research.

The review of the theoretical global relevant literature would provide an overview regarding effectiveness of expatriate remuneration and international human resource managers preparing for and going on international assignments. Research engines such as Google Scholar, EBSCO database, Emerald and Athens, Business source Elite database, online library of books and journals through Questia, published works/books by top level theorists and gurus in this field would be used. The use of secondary data, which is already collected by someone else for general or different purpose <https://assignbuster.com/effectiveness-of-expatriate-remuneration-management-essay/>

has to be used in this research and which will provide a useful background and will identify the issues that will need to be addressed to the study. Another advantage in using secondary data in this research is that it is available, and there is only need to locate the source of the data and extract the information needed and another thing is that the research can be process rapidly and in this case due to time constraints it is advisable to use this type of research.

5. 0 Data analysis

Indeed one study found that 80% of organisations studied had identified cost reduction in expatriate assignment practices (PricewaterhouseCoopers, 2002). A second study (GMAC Global Relocation Services, 2003) found that while a high percentage of companies were concerned about measuring return on investment (ROI) of international assignments Multinational groups are increasingly concerned about the costs of seconding an expatriate to their central and Eastern European operations, the escalating expenses are rarely associated simply with the remuneration which employers are required to pay their expatriates. The expense is often the result of the indirect costs of employment, such as payroll taxes, unemployment, insurance levies and social security contributions. While many of these costs also impact on local employees, the relatively high salaries which expatriates attract (and the fact that most levies are based on proportion of salary earned), make employing seconded more expensive. The costs of expatriate failure are both direct (salary, training costs, travel and relocation expenses) and indirect (damaged relations with host country organisations, loss of market shares and requests that parent country nationals be replaced with

host country nationals). It has been argued that the latter should be considered as the most significant costs by the multinationals (Scullion and Collings, 2006). The financial cost of expatriate assignments had long since represented a key measure in the evaluation of the use of expatriate employees, Absolute costs of assignments have also emerged as a key challenge in the staffing of key positions in subsidiaries of MNC's. This is because in addition to the costs associated with relocating the assignee, and often their family, expatriate assignees generally receive a premium for accepting the assignment.

5. 1 Importance and Effectiveness of Expatriate remuneration

This is an extremely complex aspect of managing international assignments, and is subject to constant change. Organisations often outsource this area of work to a consultant with specialist knowledge. It is essential that any remuneration package is logical, fair, and clearly communicated. It should enhance the attraction, retention and motivation of employees. It must facilitate the movement of employees in the most cost-effective way and it must fit in with the overall strategy and policy and values, without employees suffering any financial loss. (CIPD, 2009). 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 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 corresponding benefit is nonfinancial e. g., the benefit of improved performance.(See Figure 2)

Figure

In ' International Business: Competing in the Global Market Place 4th ed. ' (2003) observed that substantial differences exist in the remuneration of the executives of the same level in various countries. This difference in compensation maybe due to the existing compensation laws in the host country, so it comes to happen that one of the importance in knowing the implementing regulations of the headquarter countries as tied to how multinational companies will decide on how to deal with the issues of their expatriates. This and all the other benefits included in the compensation package of an expatriate, is subject to the local laws, which company must adhere to. In CIPD (2006) discussed about Exploring the reward dimension, Professor Stephen Perkins contended that the expat solution still stands up as being economically effective and, while employees are prepared to make the family and personal sacrifices necessary to pursue a global career, they do expect to be adequately financially rewarded.

Companies are looking closely at rich remuneration packages for expats and trying to move away from expensive packages, partly out of cost consideration and partly out of equity for other employees. Managing global mobility remains a complex, contentious area in which HR needs to work
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alongside the business to secure the right talent in the right place at the right price. People entering the workforce are increasingly thinking about their internal career capital rather than corporate capital, and organisations have to adjust to this way of thinking. Latta (2006) concluded that ' over the years, companies have struggled to reduce these costs. In general, the only effective means of doing so is to use fewer expatriates, but for a variety of reasons, the trend in most international companies is in the opposite direction'.

A study by Tampoe identified four key motivators for knowledge workers: (see Figure 2.) in relation to effectiveness is consider as one of the important factor/key aspect in compensating employees.

4 Key Motivators for Knowledge workers

Figure 2. Adapted from: Armstrong(2007) A Handbook of employee reward management and practice

5. 2 Expatriate Remuneration Policy

An expression commonly found in the policy documents of multinational companies run approximately thus the aim of the expatriate remuneration policy is to ensures that individuals are " neither better nor worse off" as a result of their overseas tour duty'. However, more and more companies are now increasingly unwilling to commit to such statement faced with the spiralling cost of expatriate assignments and increased focus on the real value to the company on sending employees abroad. Thus, the subject of international remuneration in the past, today it can mean a range of

situations that needs to be addressed and managed in variety of ways (Armstrong and Murlis, 2005)

Dowling et al. present five objectives a firm's remuneration system needs to satisfy. The policy should: be consistent and fair; enable the firm to attract and retain the necessary employees; facilitate the transfer of employees in a cost-effective manner; be consistent with the firm's strategy, structure and business needs; ensure that employees are motivated. The systems can relate to both extrinsic and intrinsic components of payments. In general considering the guidelines should lead to a 'fair' and constructive approach, where in situational factors will oblige companies to be flexible and creative in managing the remuneration system across borders. (See Appendix C: Perceived key Challenges in managing pay systems)

6. Ethical issues

One of the ethical issue that arise in this study, is that when designing and implementing remuneration package wherein a practice that is legal and accepted in the host country is not applicable or practice in the home-country where there are some universal moral principles that should not be violated, it does not always follow that the appropriate thing to do is adopt home-country standards. For example, U. S. laws set down strict guidelines with regard to minimum wage and working conditions. Does this mean it is ethical to apply the same guidelines in a foreign country, paying people the same as they are paid in the United States, providing the same benefits and working conditions? It is important to discuss the ethical issue in this study that in every country employment laws, standards, tax codes should be

consider, meaning as more and more MNC's operates in countries, and its ethical obligations associated with remuneration confidentiality.

7. Limitations of the research

The research brief limited investigation to a multinational organisation rather than the multinational arena. Obtaining data and information regarding expatriate remuneration from an identified multinational organisation would be difficult but also give only a narrow perspective of expatriate remuneration. Additional research will further confirm the validity and generalizability of the study.

Further limitations of this research show a lack of systematic publication in this subject area, No primary data was collected and therefore there is total reliance on secondary data. Common trends seen in the multinational organisation sectors e. g investment banking remuneration is generally high. Secondary data is not specific to the research needs and therefore specificity (finding specific information) is difficult to analyse. Secondary sources present incomplete information which may not be timely, since things can change quickly in the business world and some data used in this report may be out-dated. In secondary data it is not proprietary information. In most cases secondary research is not undertaken specifically for one company. Instead it is made available to many either for free or for a fee. Consequently, there is rarely an “ information advantage” gained by those who obtain the research.