

# [Expatriate turnover and retention management essay](https://assignbuster.com/expatriate-turnover-and-retention-management-essay/)

This chapter discusses the relationship between the research questions and previous peer reviewed literature by demonstrating knowledge of contemporary research findings. It sets out the tangibles to be achieved through the dissertation in the broader context by discussing the need for collaborative approach in addressing expatriate turnover in KSA.

## Expatriate turnover and retention: Global Perspective

As business establishments expand they are faced with the problem of an ever shrinking of the available skilled workforce. The demand for workers with the right combinations of qualifications, skills, experience and personal qualities is expected to increase. The ability to select the right candidate and retain them in the business establishment is crucial to a business’s sustainability and success in the coming decades.

The global worker selection is a concept that is facilitated by globalization. A globalized economy and exponential technological progress have facilitated global mobility and flexibility in the workplace and workforce. The result is that experienced and skilled individuals seek international career opportunities. Due to skilled and experienced workforce shortage in many countries and the increasing demand for inter-culturally flexible workers with more differentiated skill sets, expatriates are strategically valuable resources for business establishments (Cao, et al., In press).

While the number of expatriates has and is expected to steadily increase, business establishments have had to face fierce international business competition as well as challenges linked to the economic crisis. They consequently have had to adapt their strategies in order to reduce and control their costs. This has led them to downsize, restructure, merge or, relocate to remain competitive and to modify their approach to the way of compensating expatriates.

Expatriate workers compensation is often considered extremely costly and time consuming for the business establishments involved. This perception pressures companies to either decrease their investment in international experience and knowledge, look for alternate international worker populations, such as self-initiated expatriates or decrease the coverage and amount of their expatriate compensation packages (Milkovich & Newman, 2002)

However, compensation practices and strategy are one of the most powerful and salient means by which the business establishment can send clear messages concerning about expected attitudes and behaviours. There is a danger that the pressures that business establishments feel to reduce compensation costs may lead to changes in expatriates’ perceptions as concerns their compensation package and the whole employment relationship thereby prompting them to change their attitude toward their employer (Conway & Briner, 2005).

Research has already noted that employees have lost their job security and therefore severed their socio-emotional attachment to their employers due to compensation friction. There has been a shift in the psychological contract between employees and employers such that the exchange relationship has become much more transactional and calculative nowadays. This means that those involved in the employer-employee relationship are directed by multiple motives that include a mix of selfish and social interests. The parties pursue their interests and strive to keep their commitment. The standard today for what expatriate workers consider acceptable in their exchange relationship, between employers and employees, may have shifted such that getting more than they deserve is more satisfying than what they actually deserve (Briscoe, et al., 2009).

A consequence of this spiral of changes is that business establishments increasingly face tremendous challenges in attracting, motivating and retaining these valuable expatriate workers for sustaining their strategic development. They have to overcome the challenge of designing compensation programs that not only span the globe and support the business establishment’s strategic goals and objectives, but also guarantee consistency, equity and transferability throughout the entire working life of the workforce. Key challenges for business establishments are whether they have means of modifying the content of expatriate compensation packages to increase their costly and valuable employees’ affective commitment that are antecedent to job satisfaction and turnover attitudes so as to retain them without inferring incremental costs. Prior to this understanding, business establishments need to learn how their expatriates perceive and react to their compensation practices signalled by their package, what types of rewards the workers value most and how these affect their decisions regarding their turnover or retention.

In other words business establishments look for information about how to commit their costly expatriate workers to the business establishment. Understanding what kind of compensation elements and rewards motivate expatriates most might provide this information (Armstrong & Stephens, 2005).

Getting the right person in the right place for the right length of time to execute a job is not a simple matter, more when expatriate workers are involved. It involves an array of considerations, such as the type of assignment and its remuneration; investment in staffing and places to work; and numerous professional, cultural and family pressures that can overwhelm the hardiest executives (Economist Intelligence Unit , 2010,).

Multinational companies are increasingly recognizing the need to adhere to sound business practices to remain competitive in an increasingly flat business world. Moreover, they realize the critical and increasingly important role that expatriate employees play in managing and maintaining their global operations. This role is further complicated by the contracting global economy and labour pool (Shelton, 2009, p. 51).

Expatriate employees and their role have received a considerable attention from researchers over the past three decades (e. g., Bhuian & Al-Jabri, 1996; Carpenter et al, 2001; Yamazaki & Kayes, 2004; Takeuchi et al, 2005). Carpenter et al, (2001) argued that expatriate executives are likely to be a valuable and unique resource for multi-national corporations. However, although the management literature frequently stresses the significance of expatriate employees in the development and effective functioning organizations, there is substantial evidence indicates that expatriates often fail in their international assignments and thus returned home or dismissed early (Baruch & Altman, 2002; Lee & Beaumont, 2001)

But what is the meaning of expatriate turnover? And what is the difference between expatriate and local employees turnover?

Expatriate turnover is a broad term that has many definitions in the current literature. It has been defined as return prematurely to home or failure in an overseas assignment before the assignment contract expires (Naumann, 1992; Bhuian & Al-Jabri, 1996; Forster & Johnson, 1996). Many significant reasons for expatriate turnover are flaws in the expatriate workers’ selection procedures, the mismanagement of the relocation process and inability to adjust in to a foreign country culture (Gregersen & Black , 1992)

Business establishments regularly bring in overseas skilled workers to overcome skills shortage. While they ideally wish to retain the expatriate workers, this is not always the case. In 75 per cent of the cases the workers spouses are unable to adapt to the new environment. Given that 85 per cent of all expatriate workers are accompanied by their spouses the case of spouses’ inability to adapt is a strong one. It is recommended that to ensure expatriate workers retention practical and psychological support must be provided to their families (Wells, 2008).

Many spouses accompanying leave their careers behind them and often discover that neither their professional qualifications nor experiences correlate to job opportunities in the countries they settle in. They also lose their support networks, which include their family and established childcare arrangements, and quickly feel isolated, unhappy and anxious in the country they settle in.

Expatriate turnover in the context of this research refers not just to the spectacular failure of an assignment in the overseas location but to a range of negative outcomes that affect the worker, the organization, co-workers and other stakeholders in the host country, the worker’s family and fellow expatriates. The ramifications of expatriate retention are wide: the loss of the resources they have put into a particular assignment; the potential damage done to the business establishment’s reputation and goodwill; the negative impact on a worker of having failed to measure up to expectations in the overseas assignment, and possible ramifications for familial relationships; and the loss of a valued worker’s expertise and experience.

Both the scholarly literature and empirical evidence suggest that numerous factors impact on expatriate turnover including such issues as provision of appropriate cross-cultural training, in-country support, spousal adjustment, cultural distance and relationships with host nationals (Bennett, et al., 2000; Gudykunst, 2005; Kim, 2003; Samovar & Porter, 2003; Zakaria, 2000). In an increasingly globalized world, business establishments find themselves in competition for a highly specialised workforce of skilled workers who can perform effectively across cultures and in a variety of environments. In recent years there has been a decrease in the number of suitable candidates willing to accept an expatriate posting. Shimoni et al, (2005) discuss this phenomenon and postulate a number of reasons for it occurring. They emphasize that one of the most significant reasons is that people have become aware of the difficulties associated with relocation and are reluctant to put themselves or their families through a disruptive process (Shimoni et al, 2005).

A significant percentage of expatriate workers leave their company within one to two years of starting work where such was not the original intention of either the employer or the employee. This has significant negative consequences for both the business establishment and the expatriate. It is most commonly related to a lack of retention strategies in the relocation of expatriate workers and their dependants (MacDonald & Arthur, 2003)

Companies often place unrealistic expectations about handovers and mentoring of incoming expatriate employees once they have signed on. This can have negative implications for the incoming workers.

In many business establishments, selection of an expatriate for a job offer is an indication that a particular employee is thought of highly. An expatriate worker, couple or family usually require assistance in a variety of forms and to differing degrees of intensity. There will be the practical issues around finances and time such as allowances for removals, resettling their children in school, the readjustment issues to the workplace, family and friends and acquainting themselves with the host culture. Depending on the difficulties of adjustment or if the move is particularly difficult or traumatic, there may be psychological issues, as well as social, financial and professional ones, that require specialist professional support.

Business establishments have long recognized that benefits and compensation are key determinants of expatriates’ satisfaction and, as a result, retention. The Mercer survey bears this point out, as 86 per cent of the business establishments surveyed consider benefits provisions for expatriate workers a high business priority. Surprisingly, however, only 26 per cent of the surveyed businesses admitted to not having a policy for providing expatriate workers benefits. Moreover, 64 per cent of the surveyed business establishments have no specific procedures in place to measure the success of their expatriate benefits programs.

Findings from the Mercer survey indicate that business establishments face two-pronged challenge in as far as expatriate workers retention is concerned. First, they must track the elements of their expatriate workers programs to ensure consistent administration and quantify a solid return on investment. Second, they need to address the global economic situation by communicating clearly with expatriate workers and providing transparency with regard to their benefits and compensation that in turn promotes their retention (Shelton, 2009, p. 52).

In managing expatriate workers the business establishment must ask questions that include:

Questions on culture

Do the expatriate workers identify with the business establishment and ‘ the success of the business establishment as being of direct benefit to themselves?

Do the expatriate workers see themselves as having common interests with their work colleagues and group? Is there a strong team spirit?

Is work allocated on the basis of individual expertise rather than position in the business establishment?

Are there sufficient skills/power bases in the business establishment?

Are there appropriate leadership skills within the business establishment?

Are expatriate workers encouraged to say what they think about the business establishment?

Does your business establishment encourage innovation and creativity amongst expatriate workers?

Do expatriate workers feel a sense of personal responsibility for their work?

Is quality emphasized in all aspects of the business establishment?

Questions on the business establishment

Does the structure of your business establishment encourage effective performance?

Is the organization structure flexible in the face of changing demands?

Is the structure too complex? If so in what areas?

Do the expatriate workers have clear roles and responsibilities?

Does the organizational structure tend to push problems up rather than resolve them at the point where they occur?

Do procedures and management in the business establishment practices facilitate the accomplishment of tasks?

Questions on the expatriate workers

Do expatriate workers in the business establishment have the necessary skills and knowledge to perform their jobs in the most effective manner?

Do expatriate workers understand their jobs and how they contribute to overall business performance i. e. have clear goals and objectives?

Do expatriate workers have a customer service orientation?

Are personnel with potential spotted and developed for the future?

Are expatriate workers encouraged to perform well through the giving of recognition and feedback?

Do expatriate workers know what their expected performance standards are?

Questions on the business management system

Do organization’s systems, which include employee selection and recruitment, promotion, planning, management, information and control, encourage effective performance among expatriate workers?

Are these systems consistent across the business establishment?

Are there clear rewards for effective performance within the work group?

Does the organization review its systems frequently and ensure they mutually support each other?

In a study to analyse global expatriate workers trends, the Economist Intelligence Unit (2010, p. 3) identified a number of key issues that include:

Cultural and family pressures present the greatest difficulties in facilitating expatriate workers retention. An inability to understand local culture and cultural conflicts is one of the greatest difficulties for expatriate workers. Cultural sensitivity is thus regarded by some margin as the most important attribute for an individual seeking to work in a foreign country, and business establishments admit that it is not easy to find the right type of person in their ranks. More than half of expatriate workers do not relish the prospect of learning another language, suggesting a possible lack of commitment to their role.

The spouse’s needs have become more important than ever in expatriates workers acclimatisation. Perhaps the greatest obstacle to the success of an expatriate placement lies with the expatriate’s spouse and/or children, who may resent the sudden separation from their own career, social life, schooling and routine. The resulting strain on family relationships can often bring about a premature end to the work.

## Expatriate turnover and retention: KSA Perspective

The KSA is an emerging global business hub that represents approximately thirty billion dollars worth of annual export potential. This has acted as an incentive for business establishments that require an array of diverse workforce to base their operations in the country. Consequently, the country has become an international business focal point resulting in the country experiencing exponential increased interest from the global workforce (Bhuian, 1995). The country’s need for more of the global workforce is increased by the inexperience, less knowledge and inadequate of the indigenous workforce.

(Baker & Abou-Ismail, 1993) reported that as of 1992 approximately 7 million expatriate workers were engaged by business establishments within KSA. These expatriates are mostly employed on a contract bases and usually undergo cultural shock on getting into the country. While contractual employment is preferred by a majority of the expatriates, there major concern lies with extrinsic rewards, pay, fringe benefits, stability and security that come with their job. While the expatriates attempt to adjust to the local culture, there efforts are no free of problems as they are made aware that their adjustment directly affects their effective performance (Baker & Abou-Ismail, 1993).

Expatriate workers turnover is a concern for business establishments based in the KSA. This problem is further compounded by shortage of available, skilled and qualified indigenous Saudi citizen workers. This has resulted in a scramble for available, skilled and qualified expatriate work force. While the expatriate workers are engaged with the intention of employing them for a definite period of time, this is not always the case as a some leave before their time elapses due to ineffective work performance and dissatisfaction resulting in significant direct and indirect costs incurred by the business establishment (Yavas et al, 1990).

Past researches on the subject of expatriate turnover have identified three categories of expatriate workers turnover tendencies (Tyagi & Wotruba, 1993). These tendencies include:

Work-related attitudes (job satisfaction and organizational commitment)

Personal characteristics (age, education, and experience)

External environmental factors (organizational climate, management practices and supervisory behaviours)

It is generally accepted that while the three identified categories have a bearing on expatriate workers turnover and retention, the management of the business establishment can only control the work-related variables. The personal characteristics can, to some extent, be controlled by the expatriate employees’ selection process and can be enhanced by effective training programs. The external environment is usually difficult to change in the short run though this can be done in the long run (Tyagi & Wotruba, 1993).

Literature suggests that employee turnover tendency and job satisfaction may differ with respect to the types of employee (expatriate or domestic), the nature of the job (permanent or contractual), and the types of organizational culture (traditional-bureaucratic or supportive culture) (Banai & Reisel, 1993; Gregersen & Black , 1992). Saudi Arabia, one of the most important international markets in the developing world, provides an ideal setting for a study on expatriate employee turnover tendencies because of the attendant presence of a large expatriate community in the country.

Over the last five years, HICAP has suffered from a dramatically increase in expatriate turnover. The average annual expatriate turnover rate was 3. 2, 4. 5 8. 2, and 13 per cent respectively (Dabbas & Elvin, 2012). This is a potentially expensive problem for business establishment as replacing departed employees’ cause significant direct and indirect costs (Bhuian& Al-Jabri, 1996, p. 393). To give an example, HICAP paid around 4 million dollars as a penalty for delaying the delivery of one of the projects because of the unexpected resignation of six key members of the implementation team (Dabbas & Elvin, 2012).

Due to the relatively increasing rate of expatriate turnover, academics and scholars have expended considerable resources to study its causes. In the study of predictor variables of expatriate turnover, Naumann, (1992) identified three categories of predictor variables that precede expatriate turnover. These categories are: (1) job/task characteristics, which involves the degree of expatriate satisfaction in the job assignment; (2) Organization characteristics which includes “ Behavioural, structural, and demographic characteristics of organizations” (p. 509); (3) worker characteristics, which includes the employee demographic characteristics such as age, gender, material status …. etc.

Similarly, (Bhuian & Al-Jabri, 1996; Tyagi & Wotruba, 1993) proposed three categories of what they called expatriates turnover antecedents: (1) personnel characteristics which can be controlled through different processes such as employee selection and training processes; (2) work related characteristics that can be controlled by organizations; (3) external environmental factors which they argue that it is unchangeable and does not have a great impact on expatriates turnover.

Limited studies investigated expatriate turnover in the KSA. But why is the KSA important and why has it been selected for such research?

The KSA can be considered as an ideal environment for conducting such a study. It is one of the most important exporting markets in the world. In 2006 the KSA was considered among the top 23 global exporting countries with approximately 175 billion dollars’ worth of exports (Anon., 2008). However, according to the latest study conducted by the ministry of labour in KSA, two thirds of the employees, working in the private sector are expatriates (Anon., 2010). These expatriates and especially their families cannot adjust easily with the Saudi culture and consequently not performing effectively (Bhuian& Al-Jabri, 1996). Consequently, vast amount of losses were incurred by local organisations (Yavas et al, 1990: Dabbas & Elvin, 2012).

However many gaps and limitations were noted in previous researches which will be tackled in this research: First the above studies neglect the effect of external organizational factors on expatriate turnover. (Bhuian&Al-Jabri, 1996) argued that external environmental factors are “ usually unchangeable in the short run” thus they have excluded their effect on expatriate turnover. While (Naumann, 1992) did not consider external environmental factors as an antecedents for expatriate turnover. Second, it has been argued that workers’ characteristics did not show any significant impact on expatriate turnover. Not only this, all of the previous studies concluded that there is no or little correlation between expatriate demographic characteristics and turnover.

## Research hypotheses

Research hypotheses act as a guide in designing and conducting the research. There are two types of hypotheses in any research process; testable research hypothesis (H1) and null hypothesis (H0). The H1 is that; “ demographic characteristics, external and internal environments have an influence on expatriate turnover”.

The H0 acts as a fall back in the case that the H1 is disapproved (Johnson, 1975). The H0 is that; “ demographic characteristics, external and internal environments have no influence on expatriate turnover”.

This research study empirically analyses the expatriate demographic, organizational internal and country external variables that may lead to expatriate turnover in HICAP in order to develop a functional match for between the antecedents for expatriates’ turnover the KSA. In establishing this functional match, the dissertation looks into factors affecting expatriate turnover. The outcome can be used by both scholars and business executives in offering insights into the best way for KSA business establishments to retain expatriates as well as build a framework for future analysis.