Local and International

Managing Complex Employment Expectations

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Akiko Nishimura is an expatriate working abroad in New Delhi for a German multinational manufacturing company in Tokyo. This expatriate assignment led her and her family to New Delhi, where her spouse struggled to find a job after leaving his previous one in Tokyo. After two years, Akiko’s spouse was offered an opportunity to work in Singapore which led Akiko to inquire with her HR department about changing her personal assignment so that she could be with her spouse in Singapore. The conversation with the HR manager revealed new policies of which Akiko was not aware.

In prior years, international assignments were done through expatriate contracts; however, expatriates would not come home because they stayed too long or permanently relocated to the host country. There were also those who would have three to four assignments abroad back to back, which meant they were no longer considered expatriates. With the organization facing an economic crisis, new policies where implemented to cut down costs. The policies included the following:

* Assignments have a maximum of three years
* One employee may not accumulate too many different assignments (Dowling, Festing, & Engle, 2017, p. 313)

Ultimately, Akiko was informed that her move to Singapore was not in the organization’s interest, but rather her personal interest because it was not the organization’s decision; therefore, she would not be given an expatriate contract but rather a local international contract. This led to many uncertainties for Akiko as she had to understand the major differences between the two; moreover, she would need to do a cost benefit analysis to determine which decision would be best for her family. On the other hand, the HR manager and the organization are left to find a balance between maintaining and attracting talent while being cost effective (Dowling, Festing, & Engle, 2019, p. 313).

**1. Describe the content of a ‘traditional’ expatriate package, and the reasons of the company to provide such benefits. What limitations do you see in this contract when it comes to handling the company’s emerging needs?**

The traditional expatriate package explains that an expatriate receives a home-based expatriate contract. It means that an expatriate must return to the home country after 3 years when his or her contract expires, and must receive a home-based salary and incentives. Also, the expatriate receives relocation expenses, which will include all activities necessary for the initial move to the host country, such as visas, flights, hotels, work and residence permits and a one-time sum to cover any out of pocket expenses (What to expect in your Expat Compensation Package, 2019). The package will also consist of allowances such as automobile, home travel, hardship, and other benefits depending on country laws and tax assistance. All the contents of the expatriate package are provided for recruiting and selecting the best personnel for the job. Some limitations seen in the contract are the compensation inequality between the expatriate and local internationals, and the cost to float an expatriate hire. An expatriate can keep his or her current standard of living since the company used a balance sheet approach. It suggests that the firm guarantees that the expatriate’s purchasing power in the home country is the same as that of the host country. The balance sheet approach is designed to establish tax equalization policy, provide a housing allowance, maintain the expatriates’ purchasing power, and retention of benefits such as pension plans (Mercer, as cited in McNulty, 2016). The traditional expatriate package also provides relocation allowance which helps the expatriate cover his or her moving expenses. In addition, an expatriate is given assistance in terms of housing and education, visa and permits applications, and retention bonus.

The reasons that the company provides these types of benefits are for career and job assignments. The management wants its employees to “gain international experience and to transfer knowledge across borders” (Dowling et al., 2017). The firm would be able to retain its highly skilled and experienced employees, decrease employee turnover, improve employee skills, and increase employee satisfaction. The company would also be able to fill the available positions in other countries while allowing the employees to acquire global experience. Helping the employees obtain international experience would have long-term benefits for the company since they are developing global leaders. Considering that the company wants to reduce costs regarding sending employees on international assignments, it would be harder for them to lower business expenses and implement a new expatriate policy. This is due to having a large number of employees who are currently working overseas for more than three years and have not come back home yet. According to Black and Gregersen (1999), sending employees abroad costs two to three times more compared to the employees in the home country who hold the same position. One of the main issues that the organization faces with the expatriate packages is that the expatriates stay abroad for too long; as a result, they eventually permanently relocate to the host country. Another issue that the organization is facing is that expatriates take on too many assignments back to back where they never return home which puts a damper to the organization’s goals. The main goal of the organization is to be cost effective and the traditional packages do not allow this because they require the organization to provide medical check-ups, visa and permits, travel costs, allowances for housing and schools, retention bonuses, allowances for local needs, allowances to settle in, and an expat salary with incentives. For this reason, the organization is seeking to find a way to lower costs and find a solution.

**2. Make a SWOT analysis of the Local International policy using information from the case study.**

**Weaknesses**

* **Reduce employee benefits**
* Lower salary
* Expatriates receive very little support from the company
* Difficult to attract and retain expatriates
* New policies might not be effective if getting rid of top expat talent due to ‘time or limit policy’

**Threats**

* **Potential to lose top talent to competition**
* **Lack of applicability of international policy in China, China has lower income rate and social security system.**
* **Potential to lose out on pension, due to some country laws.**
* Reduce employee performance
* Decrease employee satisfaction
* High employee turnover rate

**Strengths**

* The company would be able to cut costs
* Offers extra benefits to employees in addition to base salary (slow landing)
* Pay equity (local employees)

**Opportunities**

* Ease the repatriation process
* Offer optional benefits according to local needs.

**Lorem Ipsum** is simply dummy text of the printing and typesetting industry. Lorem Ipsum has been the industry's standard dummy text ever since the 1500s,

**3. Compare the employers’ and employees’ needs regarding international mobility on a local international contract. What elements would have to be included in a package if they were to answer to these needs?**

The local international contract, as explained by Puja Malik, fits between an expatriate contract and a local package. Employees on international assignments still receive a range of benefits and some costs are also covered by the company; however, salaries might be negatively affected if the foreign subsidiary is in a low-income country because they are based on the local salary system. While the organization will cover some costs such as settling-in allowance and medical check-ups, other costs such as retention bonuses, and allowance for housing and school are considered optional.

The employers’ needs have to do with cost containment. Given that many people looked for expatriate assignments and several of these expatriates decided to stay in the host country, the company created local international contracts as a cost control strategy. The objective of this strategy is to reduce the number of expatriate contracts. The local international contract can potentially mean a salary reduction depending in which country the foreign subsidiary is located. It also aims to create equity with local employees in terms of salary and benefits.

The employees’ needs not only are related to their salary, but also to how the company provides supports to the employee and his/her family when embarking on their international assignment. Akiko explains that a pre-assignment paid visit to the host country is needed in order to look for a place to live. Taking care of affairs such as house-hunting, negotiations, getting a visa, and school searching is time consuming. Also, the expatriate and his/her family need to feel safe and supported by the company. While the company took care of most of the pre-arrival arrangements in the past, on a local international contract the employee must handle these matters.

The company knows that offering expatriates locally based contracts can potentially discourage them to take on international assignments. For that reason, other benefits are offered to foreigners in order to balance the reduction in salary that results from the low-income system of a host country. The trade-off gives expatriates benefits such as extension of education support and housing. Also, some countries offer pensions to employees and others give employees cash equivalent to the state pension; consequently, employees are encouraged to invest in a private fund (Dowling et al., 2017, p. 315). Some countries have better social security systems than the parent country. Also, low-income countries usually have lower costs of living, making the reduction in salary not so noticeable.

**4. To what extent do you believe the distinction between the three groups of assignment packages (expatriate contract for expatriates, local international contract for local international hires, and local contract for external international new recruits) to be fair? To this end, (a) refer to equity theory and determine the referent person in each of the three cases; and (b) discuss the role of procedural justice. What can the company do to provoke positive behavioral intentions in reaction to the packages?**

The difference between the expatriate contract, local international contract, and local contract are apparent. The expatriate contract allows the employee to stay overseas for three years with a superior benefits package, home-based pay, support from the company, and special treatment. On the other hand, the local international contract establishes the employee salary based on the host country. However, employees would be able to receive benefits that are equivalent to the expatriate contract during the first two years. After two years, the employees would be treated like locals and would receive a salary similar to HCNs. Lastly, the local contract is for employees who just started and are new to the company. They will not be able to receive benefits or salaries similar to the expatriate or the local international contracts. They are treated as local employees and receive a local-based salary.

According to Huseman, Hatfield, & Miles (1987), equity theory means that inequity exists if a person compares his or her output/input to others’ output/input and believes that they are unequal, and “the greater the inequity, the more distress the individual feels.”

Referent persons:

* Expatriate contract: Akiko and local employees
* Local international contract: Akiko and local employees
* Local contract: Hiroshi and local employees

The expatriate contract for expatriates (home-based contract) is favorable for the expatriates in that it provides salaries based upon the standards held in the home country with supportive aspects including cost- of living allowances, housing allowance, and education allowance, and ongoing resources from the company (Suutari & Tornikoski, 2001). Overall this package is not equitable, because the salaries for expats are often more than those of local employees that hold the same position. The local international contract for local international hires is equitable in that it provides limited financial assistance for employees that plan to permanently relocate to the host country. These employees are paid salaries based on the host country’s pay structure. Equity is also apparent in this package because it aims to reduce the salary inequalities while also reducing expat costs for the company (Suutari & Tornikoski, 2001).

Procedural justice is an exchange between the employee and employer that concerns the perceived fairness of the execution of formal policies and procedures (Chen, 2010). In this case the role of procedural justice is important because it affects the employee’s motivation to perform the job. The lack of procedural justice in this scenario has affected Akiko so much that she feels she is unable to perform her job. If employees lack the appropriate motivation it may result in expat failures due to lack of satisfaction. The procedural justice is a practice that leads to fair treatment and obtains outcome favorability when solving conflicts (Vermunt & Törnblom, 1996). The management should have a fair and consistent policy, present the same types of the package based on employees’ contracts, and must implement non-discriminatory treatment or no special treatment in order to promote positive employee behavior.

To provoke positive behavioral intentions in reaction to the package the company could communicate with transparency and consideration. The employer should provide all the options available along with clear and concise reasons behind each change implemented. The discussion associated with expat assignments can be intense and contain difficult information to process. It is important to conduct these conversations with ease and understanding to provide support for the subordinates.

**5. What does the company need to take into consideration in order to make the local international policy for this new international employee population applicable on a global basis? Formalize your arguments and propose a suggestion of a policy framework.**

When deciding to implement this policy, the company should look to see if they can exploit the skill, knowledge, and abilities of the person going to that location. The company should try to put the employee into positions that will help the company benefit the most. Then they should see if the person can be sent on another expatriate assignment or whether to use local international policies.

If there are expatriate assignments available in these locations, then employees wanting to go can be given the opportunity if they possess the necessary skills. If employees do not have the required KSAOs or the employer does not have available assignments, then they should go with the local international policy. After analyzing the full potential of the employee, the company should be looking at how to best help the employee while controlling the cost.

The local international policy should be made up of host country-based pay with allowances for the first two years. These allowances will be for housing, childcare, transportation, and food. These benefits will drop by 50 percent a year until the end of the second year when it will be gone. These gives the employees that are on the local international policy the ability to have some support until they get accustomed to their current situation. It is also recommended to have a pre-departure training as one of the benefits of the local international policy. This should include language training, role clarification, and in country support. Then the company will help the employee with information about the local customs, finding housing, relevant laws, and what to expect while he/she is in the country. This will help to alleviate the stress from the employee. Also, this will allow the employee to be focused on working and integrating into the new culture. Moreover, the employee is likely to better about taking less money and moving to a less desirable location. If they implement all this into the local international policy, then not only the employees will have a higher chance to succeed but so will the company.

One of the biggest issues the company needs to account for with this assignment is ensuring that this policy will help the employees to succeed or it could be just as bad as a failed expatriate assignment. The last thing the company wants is to lose quality talent such as Akiko because of her being unable to adapt to the new culture. If the company incorporates all of the changes that are suggested, then they will likely have a successful local international policy.

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