Chapter Objectives

The previous three chapters have concentrated on the global environment and organization contexts. We now focus on the ‘managing people’ aspect. The aim is to establish the role of HRM in sustaining international business operations and growth. We first lay the foundations in covering the following:

- Issues relating to the various approaches to staffing foreign operations.
- The reasons for using international assignments: position filling, management development and organizational development.
The various types of international assignments: short-term, extended and longer-term; and non-standard arrangements: commuter, rotator, contractual, virtual and self-initiated assignments.

The role of expatriates and non-expatriates in supporting international business activities.

Then we will concentrate more closely on recruitment and selection issues, focusing especially on:

- The debate surrounding expatriate failure as a starting point.
- Selection criteria and procedures for international assignments.
- Gender in international HRM: Dual careers and the female expatriate.

INTRODUCTION

The purpose of this chapter is to expand on the role of IHRM in sustaining global growth. In this context sourcing decisions are most important. We examine the various approaches taken to staffing international operations and the allocation of human resources to the firm’s varied international operations to ensure effective strategic outcomes. The pivotal role of international assignments is outlined. We then concentrate on recruitment and selection as major influence factors on the success of global assignments.

APPROACHES TO STAFFING

There are staffing issues that internationalizing firms confront that are either not present in a domestic environment, or are complicated by the international context in which these activities take place. Take, for example, this scenario. A US MNE wishes to appoint a new finance director for its Irish subsidiary. It may decide to fill the position by selecting from finance staff available in its parent operations (that is, a PCN); or to recruit locally (a HCN); or seek a suitable candidate from one of its other foreign subsidiaries (a TCN).

The IHRM literature uses four terms to describe MNE approaches to managing and staffing their subsidiaries. These terms are taken from the seminal work of Perlmutter,1 who claimed that it was possible to identify among international executives three primary attitudes – ethnocentric, polycentric and geocentric – toward building a multinational enterprise, based on top management assumptions upon which key product, functional and geographical decisions were made. To demonstrate these three attitudes, Perlmutter used aspects of organizational design; such as decision-making, evaluation and control, information flows, and complexity of organization. He also included ‘perpetuation’, which he defined as ‘recruiting, staffing, development’. A fourth attitude – regiocentric – was added later.2 We shall consider the connection between these four categories and staffing practices, and examine the advantages and disadvantages of each approach.

Ethnocentric

In ethnocentric firms, few foreign subsidiaries have any autonomy and strategic decisions are made at headquarters. Key positions in domestic and foreign operations are held by managers from headquarters. Subsidiaries are managed by staff from the home country (PCNs). There are often sound business reasons for pursuing an ethnocentric staffing policy:

- A perceived lack of qualified host-country nationals (HCNs).
- The need to maintain good communication, coordination and control links with corporate headquarters. For firms at the early stages of internationalization, an ethnocentric approach can
reduce the perceived high risks inherent in these novel environments. When a multinational acquires a firm in another country, it may wish to initially replace local managers with PCNs to ensure that the new subsidiary complies with overall corporate objectives and policies; or because local staff may not have the required level of competence. Thus, an ethnocentric approach to a particular foreign market situation could be perfectly valid for a very experienced multinational. Having your own person, in whom you can place a degree of trust to do the right thing, can moderate the perceived high risk involved in foreign activities. This has been well described by Bonache, Brewster and Suutari as assignments as control. 3

An ethnocentric policy, however, has a number of disadvantages:4

- It limits the promotion opportunities of HCNs, which may lead to reduced productivity and increased turnover among that group.
- The adaptation of expatriate managers to host countries often takes a long time, during which PCNs often make mistakes and poor decisions.
- When PCN and HCN compensation packages are compared, the often considerable income gap in favor of PCNs may be viewed by HCNs as unjustified.
- For many expatriates a key overseas position means new status, authority, and an increase in standard of living. These changes may affect expatriates’ sensitivity to the needs and expectations of their host country subordinates which may be quite different to the perceptions of the PCN manager.

Polycentric

Using a polycentric approach involves the MNE treating each subsidiary as a distinct national entity with some decision-making autonomy. Subsidiaries are usually managed by local nationals (HCNs), who are seldom promoted to positions at headquarters, and PCNs are rarely transferred to foreign subsidiary operations. The main advantages of a polycentric policy, some of which address shortcomings of the ethnocentric policy identified above, are:

- Employing HCNs eliminates language barriers; avoids the adjustment problems of expatriate managers and their families, and removes the need for expensive cultural awareness training programs.
- Employment of HCNs allows a multinational company to take a lower profile in sensitive political situations.
- Employment of HCNs is often less expensive, even if a premium is paid to attract high-quality local applicants.
- This approach gives continuity to the management of foreign subsidiaries and avoids the turnover of key managers that, by its very nature, results from an ethnocentric approach.

A polycentric policy, however, has its own disadvantages:

- Bridging the gap between HCN subsidiary managers and PCN managers at corporate headquarters is difficult. Language barriers, conflicting national loyalties, and a range of cultural differences (for example, personal value differences and differences in attitudes to business) may isolate the corporate headquarters staff from the various foreign subsidiaries. The result may be that an MNE could become a ‘federation’ of independent national units with nominal links to corporate headquarters.
- Host-country managers have limited opportunities to gain experience outside their own country and cannot progress beyond the senior positions in their own subsidiary. Parent-country
managers also have limited opportunities to gain overseas experience. As headquarters positions are held only by PCNs, the senior corporate management group will have limited exposure to international operations and, over time, this may constrain strategic decision-making and resource allocation.

Of course, in some cases the host government may effectively dictate that key managerial positions are filled by its nationals. Alternatively, the MNE may wish to be perceived as a local company as part of a strategy of local responsiveness. Having HCNs in key, visible positions assists a localization strategy.

Geocentric

With a geocentric approach, the MNE is taking a global approach to its operations, recognizing that each part (subsidiaries and headquarters) makes a unique contribution with its unique competence. It is accompanied by a worldwide integrated business, and nationality is less important than ability. This is a major goal the European telecommunications company Vodafone would like to achieve. As a company speaker said:

We want to create an international class of managers. In our view, the right way to do it is to have people close to one another, sharing their different approaches and understanding how each different part of the company now faces specific business challenges in the same overall scenario. We want to develop a group of people who understand the challenges of being global on the one hand and are still deeply rooted in the local countries on the other. Our target is to develop an international management capability that can leverage our global scale and scope to maintain our leadership in the industry.5

There are three main advantages to this approach:

- It enables an MNE to develop an international executive team which assists in developing a global perspective and an internal pool of labor for deployment throughout the global organization.
- It overcomes the ‘federation’ drawback of the polycentric approach.
- This approach supports cooperation and resource sharing across units.

As with the other staffing approaches, there are challenges and disadvantages associated with a geocentric policy:

- Host governments want a high number of their citizens employed and may utilize immigration controls in order to increase HCN employment if enough people and adequate skills are available or require training of HCNs over a specified time period to replace foreign nationals.
- Most countries (both advanced economies and developing economies) require MNEs to provide extensive documentation if they wish to hire a foreign national instead of a local national. Providing this documentation can be time-consuming, expensive, and at times futile. Of course, the same drawback applies to an ethnocentric policy. A related issue is the difficulty of obtaining a work permit for an accompanying spouse or partner.
- A geocentric policy can be expensive to implement because of increased training and relocation costs. A related factor is the need to have a compensation structure with standardized international base pay, which may be higher than national levels in many countries.
- Large numbers of PCNs, TCNs, and HCNs need to be sent abroad in order to build and maintain the international cadre required to support a geocentric staffing policy. To successfully implement a geocentric staffing policy requires relatively long lead times and more centralized control of the
staffing process. This necessarily reduces the independence of subsidiary management in these issues, and this loss of autonomy may be resisted by subsidiaries.

Regiocentric

This approach reflects the geographic strategy and structure of the MNE. Like the geocentric approach, it utilizes a wider pool of managers but in a limited way. Staff may move outside their home countries but only within the particular geographic region. Regional managers may not be promoted to headquarters positions but enjoy a degree of regional autonomy in decision-making. For example, a US-based MNE could create three regions: Europe, the Americas, and Asia-Pacific. European staff would be transferred throughout the European region but staff transfers to the Asia-Pacific region from Europe would be rare, as would transfers from the regions to headquarters in the United States.

The advantages of using a regiocentric approach are:

- It facilitates interaction between managers transferred to regional headquarters from subsidiaries in that region and PCNs posted to the regional headquarters.
- It reflects some sensitivity to local conditions, since local subsidiaries are usually staffed almost totally by HCNs.

There are some disadvantages in a regiocentric policy:

- It can produce federalism at a regional rather than a country basis and constrain the MNE from developing a more global perspective.
- While this approach does improve career prospects at the national level, it only moves the barrier to the regional level. Talented managers may advance to jobs in regional headquarters but less frequently to positions at the MNE headquarters.

A philosophy towards staffing

In summary, based in part on top management attitudes, a multinational can pursue one of several approaches to international staffing. It may even proceed on an ad-hoc basis, rather than systematically selecting one of the four approaches discussed above. However, an ad-hoc approach is really policy by default; there is no conscious decision or evaluation of appropriate policy. The ‘policy’ is a result of corporate inertia, inexperience, or both. The major disadvantage here (apart from the obvious one of inefficient use of resources) is that the MNE’s responses are reactive rather than proactive and a consistent human resources strategy that fits the overall MNE strategy is more difficult to achieve.

Table 5.1 summarizes the advantages and disadvantages of using the three categories of staff – PCNs, HCNs and TCNs. These approaches to staffing in part reflect top management attitudes but it is important to keep in mind that the nature of international business often forces adaptation upon implementation. For example, an MNE may adopt an ethnocentric approach to all its foreign operations, but a particular host government may require the appointment of its own citizens to the key subsidiary positions so, for that market, a polycentric approach needs to be implemented. The strategic importance of the foreign market, the maturity of the operation and the degree of cultural distance between the parent and host country can influence the way in which the MNE makes key staffing decisions. In some cases an MNE may use a combination of approaches. For example, it may operate its European interests in a regiocentric manner and its Asia Pacific interests in an ethnocentric way until there is greater confidence in operating in that region of the world.
Determinants of staffing choices

Because of these operating realities, it is sometimes difficult to precisely equate managerial attitudes towards international operations with the structural forms we presented in Chapter 3. The external and internal contingencies facing an internationalizing firm influence its staffing choices. These include the following:

- **Context specificities** – the local context of the headquarters as well as of the subsidiary can be described by cultural and institutional variables (as outlined in Chapter 2). Cultural values may differ considerably between the headquarters and the host country context. For example, Tarique, Schuler and Gong see the cultural similarity between parent country and subsidiary country as a moderator in the relationship between MNE strategy and subsidiary staffing. Gong found that MNEs tend to staff cultural distant subsidiaries with PCNs which had a positive effect on labor

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**TABLE 5.1** The advantages and disadvantages of using PCNs, TCNs and HCNs

<table>
<thead>
<tr>
<th>Parent country nationals</th>
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<tbody>
<tr>
<td><strong>Advantages</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Organizational control and coordination is maintained and facilitated.</td>
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<tr>
<td>- Promising managers are given international experience.</td>
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<tr>
<td>- PCNs may be the best people for the job because of special skills and experiences.</td>
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<tr>
<td>- There is assurance that the subsidiary will comply with MNE objectives, policies, etc.</td>
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<tr>
<td><strong>Disadvantages</strong></td>
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<tr>
<td>- The promotional opportunities of HCNs are limited.</td>
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<tr>
<td>- Adaptation to host-country may take a long time.</td>
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<td>- PCNs may impose an inappropriate HQ style.</td>
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<tr>
<td>- Compensation for PCNs and HCNs may differ.</td>
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<tr>
<th>Third-country nationals</th>
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<tbody>
<tr>
<td><strong>Advantages</strong></td>
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<td></td>
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<tr>
<td>- Salary and benefit requirements may be lower than for PCNs.</td>
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<tr>
<td>- TCNs may be better informed than PCNs about the host-country environment.</td>
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<tr>
<td><strong>Disadvantages</strong></td>
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<tr>
<td>- Transfers must consider possible national animosities (e.g. India and Pakistan).</td>
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<tr>
<td>- The host government may resent hiring of TCNs.</td>
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<tr>
<td>- TCNs may not want to return to their home country after the assignment.</td>
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<thead>
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<th>Host-country nationals</th>
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<tr>
<td><strong>Advantages</strong></td>
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<td></td>
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<tr>
<td>- Language and other barriers are eliminated.</td>
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<tr>
<td>- Hiring costs are reduced and no work permit is required.</td>
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<tr>
<td>- Continuity of management improves, since HCNs stay longer in their positions.</td>
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<tr>
<td>- Government policy may dictate hiring of HCNs.</td>
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<tr>
<td>- Morale among HCNs may improve as they see future career potential.</td>
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<td></td>
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<tr>
<td><strong>Disadvantages</strong></td>
<td></td>
<td></td>
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<tr>
<td>- Control and coordination of HQ may be impeded.</td>
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<tr>
<td>- HCNs have limited career opportunity outside the subsidiary.</td>
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<td></td>
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<tr>
<td>- Hiring HCNs limits opportunities for PCNs to gain foreign experience.</td>
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<tr>
<td>- Hiring HCNs could encourage a federation of national rather than global units.</td>
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productivity. The institutional environment includes, for example, the legal environment and the education system. The latter may be directly linked to staff availability on the local labor market. Furthermore, the country-specific contextual factors in the parent country may lead to a country-of-origin effect, i.e., MNEs may try to transfer management practices from their home country to foreign locations. Another effect is the host-country-effect, which implies that subsidiaries are influenced by their local environment. As discussed in Chapter 1, the type of industry the firm is active in may have an impact as well.

- Firm specific variables – these are mainly depicted from the framework on strategic HRM in multinational enterprises introduced in Chapter 1. The most relevant variables are MNE structure and strategy, international experience, corporate governance and organizational culture which describe the MNE as a whole.

- Local unit specificities – as the staffing approach may vary with the cultural and institutional environment it may also be dependent on the specificities of the local unit. An important factor here is the establishment method of the subsidiary, i.e., whether it is a greenfield investment, a merger, an acquisition or a shared partnership. Furthermore, the strategic role of a subsidiary, its strategic importance for the MNE as a whole and the related questions of the need for control and the locus of decision-making can influence staffing decisions.

- IHRM practices – selection, training and development, compensation, and career management (including expatriation and repatriation) play an important role in the development of effective policies required to sustain a preferred staffing approach.

These four groups of factors systematically influence staffing practices. Due to situational factors, individual staffing decisions might be taken in a non-expected way. Further, it has to be acknowledged that there are interdependencies between these variables. Figure 5.1 illustrates the various determinants of staffing choices. This model may be helpful in drawing together the various contextual, organizational, and HR-related issues in determining staffing choices. For example, a firm that is maturing into a networked organization (firm specificity) will require IHRM approaches and activities that will assist its ability to develop a flexible global organization that is centrally integrated and coordinated yet locally responsive – a geocentric approach. However, a key assumption underlying the geocentric staffing philosophy is that the MNE has sufficient numbers of high-caliber staff (PCNs, TCNs and HCNs) constantly available for transfer anywhere, whenever global management needs dictate.

**FIGURE 5.1** Determinants of staffing choices

![Determinants of staffing choices diagram](image-url)
While most of the research on staffing has concentrated on movements from the headquarters to other units of the MNE, a study by Collings, McDonnell, Gunnigle and Lavelle has analyzed outward staffing flows in MNEs, i.e. flows of HCNs and TCNs working in Irish subsidiaries, to headquarters or other units of their employer. Although the numbers of outflow movements were quite small they indicate a movement from ethnocentric approaches to more global staffing perspectives in many MNEs. Many studies investigating the determinants of staffing policies have been conducted in MNEs stemming from developed countries. A study of Chinese MNEs has confirmed that Western models are generally applicable to Chinese MNEs as well. However, the author points out that the same categories sometimes have different meanings. It is interesting to note that in this study culturally determined factors such as trust and personal ethics proved to be of special importance for staffing decisions. Overall, it seems that the different determinants of staffing choices outlined above all have an important impact, although the model as a whole is yet to be empirically tested.

TRANSFERRING STAFF FOR INTERNATIONAL BUSINESS ACTIVITIES

The above discussion demonstrates the options for staffing key positions in foreign operations. We will now look at the HR consequences of these approaches, and the broader implications in terms of the reasons for using international assignments, types of international assignments, the role of expatriates and non-expatriates, and the role of inpatriates.

Importance of international assignments

Given the difficulties surrounding international assignments, it is reasonable to question why multinationals persist in using expatriates. Certainly, there are ebbs and flows associated with the number of staff moved internationally. Frequently, predictions are made that expatriates will become like dinosaurs as firms implement localization strategies, replacing expatriates with HCNs as a way of containing employment costs.

In a 2005 survey by the consulting firm PriceWaterhouseCoopers, participants reported that their use of expatriates would continue to grow in response to pressure for internationally mobile staff. The economic crisis starting in 2008 had an important impact on the expected importance of international assignments. While 68 per cent of the companies investigated by GMAC in 2008 expected a further increase in the number of international assignments only 37 per cent of these companies could report a real growth when they were asked later.

The Brookfield Report 2009 showed that this pessimistic development was an ongoing trend: 33 per cent of the companies expected an increase while 25 per cent were convinced of a decrease in the number of international assignments (the average of the years before was 60 per cent, respectively 12 per cent). In fact, in 2010 only 27 per cent of the investigated companies experienced an increase in the number of expatriate assignments. Only in 2001 was the increase in the expatriate population lower. However, a slight optimism can be identified in the 2010 survey as 44 per cent of the companies expected an increase in the number of international assignments. Currently, the response of the MNEs to the economic crisis with respect to international assignments is that 72 per cent of companies have reduced assignment expenses, 84 per cent even reported increased pressure to further reduce costs as compared to 2010. Important measures to reduce costs were ‘reduced policy offerings (29 per cent), scrutiny of policy exceptions (19 per cent), local hiring (11 per cent), and short-term assignments (9 per cent).
Reasons for international assignments

The international management and IHRM literature has consistently identified three key organizational reasons for the use of various forms of international assignments:

- **Position filling.** The organization has a need and depending on the type of position and the level involved will either employ someone locally or transfer a suitable candidate. Some studies\(^{27}\) state that the problem of availability of qualified employees has decreased and that personnel costs are more important when deciding about international assignments. However, the *Brookfield Global Relocation Trends Survey* provides evidence in 2010 that short-term position filling continues and a lack of available skills is the major reason for international assignments. In many cases the most important assignment objectives were ‘filling a managerial skills gap (22 per cent)’ and ‘filling a technical skills gap (21 per cent)’.\(^{28}\)

- **Management development.** Staff are often moved into other parts of the organization for training and development purposes and to assist in the development of common corporate values. Headquarters staff may be transferred to subsidiary operations, or subsidiary staff transferring into the parent operations, or to other subsidiary operations. Assignments may be for varying lengths of time and may involve project work as well as a trainee position. The perceived link between international experience and career development can be a motivator for staff to agree to such transfers.\(^{29}\) The *Brookfield Global Relocation Trends Survey 2010* identified ‘building management expertise’ as the third most important reason for international assignments.\(^{30}\)

- **Organization development.** Here the more strategic objectives of the operation come into play: the need for control; the transfer of knowledge, competence, procedures and practices into various locations; and to exploit global market opportunities. As a result, organizational capabilities enabling a firm to compete in global markets might be developed.\(^{31}\) This category can be illustrated by the two other reasons for international assignments mentioned by the *Brookfield Global Relocation Trends Survey 2010: ‘technology transfer (16 per cent)’, and ‘launching new endeavors (13 per cent)’.\(^{32}\)

Harzing\(^{33}\) states in her study that most of the reasons for international assignment eventually lead to organization development.\(^{34}\) In fact, international assignments are often undertaken to reach several goals simultaneously.\(^{35}\) Furthermore, a study by Tungli und Peiperl,\(^{36}\) investigating the assignments policies and measures in 136 MNEs revealed that the importance of the assignment objectives also differed by country-of-origin. For example, the development of management skills was one of the most important reasons for international assignments in German MNEs whereas MNEs from the US mainly sent managers abroad to fill local skill gaps. Japanese as well as British MNEs indicated that the development of new operations abroad was their major reason to send expatriates abroad.\(^{37}\)

Types of international assignments

Employees are transferred internationally for varying lengths of time depending on the purpose of the transfer and the nature of the task to be performed. MNEs tend to classify types according the length or duration of the assignment:

- **Short-term:** up to three months. These are usually for troubleshooting, project supervision, or a stopgap measure until a more permanent arrangement can be found.

- **Extended:** up to one year. These may involve similar activities as that for short-term assignments.

- **Long-term:** varies from one to five years, involving a clearly defined role in the receiving operation (e.g. a senior management role in a subsidiary). The long-term assignment has also been referred to as a traditional expatriate assignment.
Table 5.2 illustrates some of the differences between short-term and traditional expatriate assignments. It should be noted that definitions of short-term and long-term assignments vary and depend on organizational choices. The results of the 2010 Brookfield Report indicate that 64 per cent of the international assignments were long-term and 22 per cent short-term. Most of the research on international assignments focuses on traditional long-term assignments because these represent the highest number of international assignments. Our knowledge concerning alternative assignment types such as commuter, rotational, contractual and virtual assignments (also termed non-standard assignments) is still limited but the growth of these non-standard assignments is described in further detail in the following paragraphs.

**Commuter assignments** – special arrangements where the employee commutes from the home country on a weekly or bi-weekly basis to the place of work in another country. Cross-border workers or daily commuters are not included. Usually, the family of the assignee stays in the home country. For example, the employee may live in London but work in Moscow. Reasons for these assignments can include that a particular problem must be solved and the assigned employee due to their experience and qualifications is needed in two places at the same time or that the target country is unstable. The Brookfield Report from 2010 indicates that 35 per cent of the investigated companies have a policy for commuter assignments in place and that this type of assignment will even gain importance in the future. However, it is important to note that a non-standard assignment is not always an effective substitute for the traditional expatriate assignment: “There are real concerns about the viability of commuter arrangements over an extended period of time due to the build up of stress resulting from intensive travel commitments and the impact on personal relationships”.

**Rotational assignments** – employees commute from the home country to a place of work in another country for a short, set period followed by a break in the home country. The employee’s

<table>
<thead>
<tr>
<th>Differences between traditional and short-term assignments</th>
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<tbody>
<tr>
<td><strong>Traditional assignments</strong></td>
<td><strong>Short-term assignments</strong></td>
</tr>
<tr>
<td><strong>Purpose</strong></td>
<td><strong>Purpose</strong></td>
</tr>
<tr>
<td>• Filling positions or skills gaps</td>
<td>• Skills transfer/problem solving</td>
</tr>
<tr>
<td>• Management development</td>
<td>• Management development</td>
</tr>
<tr>
<td>• Organizational development</td>
<td>• Managerial control</td>
</tr>
<tr>
<td><strong>Duration</strong></td>
<td><strong>Duration</strong></td>
</tr>
<tr>
<td>Typically 12–36 months</td>
<td>Typically up to 6 or 12 months</td>
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<tr>
<td><strong>Family’s position</strong></td>
<td><strong>Family’s position</strong></td>
</tr>
<tr>
<td>Family joins the assignee abroad</td>
<td>Assignee is unaccompanied by the family</td>
</tr>
<tr>
<td><strong>Selection</strong></td>
<td><strong>Selection</strong></td>
</tr>
<tr>
<td>Formal procedures</td>
<td>Mostly informal, little bureaucracy</td>
</tr>
<tr>
<td><strong>Advantages</strong></td>
<td><strong>Advantages</strong></td>
</tr>
<tr>
<td>• Good relationships with colleagues</td>
<td>• Flexibility</td>
</tr>
<tr>
<td>• Constant monitoring</td>
<td>• Simplicity</td>
</tr>
<tr>
<td><strong>Disadvantages</strong></td>
<td><strong>Disadvantages</strong></td>
</tr>
<tr>
<td>• Dual-career considerations</td>
<td>• Taxation</td>
</tr>
<tr>
<td>• Expensive</td>
<td>• Side-effects (alcoholism, high divorce rate)</td>
</tr>
<tr>
<td>• Less flexibility</td>
<td>• Poor relationships with local colleagues</td>
</tr>
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<td><strong>Source:</strong> Adapted from M. Tahvanainen, D. Welch and V. Worm, ‘Implications of Short-term International Assignments’, European Management Journal, Vol. 23, No. 6 (2005), p. 669, with permission from Elsevier.</td>
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family usually remains in the home country. This arrangement is commonly used on oil rigs and with hardship locations in the global mining industry.

- **Contractual assignments** – used in situations where employees with specific skills vital to an international project are assigned for a limited duration of 6 to 12 months. Research and Development (R&D) is one area that is using multinational project teams and lends itself to short-term contractual assignments in conjunction with longer-term assignments and virtual teams.44

- **Virtual assignments** – where the employee does not relocate to a host location but manages, from home-base, various international responsibilities for a part of the organization in another country. In this case, the manager relies heavily on communication technologies such as telephone, email or video conferences. Visits to the host country are also necessary. The main reasons for using virtual assignments are similar to that of other non-standard forms of international assignments: the shortage of experienced staff prepared to accept longer term postings, the immobile family, and cost containment. Welch, Worm and Fenwick’s study into the use of virtual assignments in Australian and Danish firms suggests that while there are certain advantages to operating virtually (such as not having to relocate a family unit), there are disadvantages that may affect successful work outcomes. For example, role conflict, dual allegiance, and identification issues occur between the person in the home location and the virtual work group in the foreign location. It is not clear to whom the virtual assignee ‘belongs’ – the home location where the person physically resides for most of the time, or to the foreign unit. Another issue is how much time should be devoted to ‘virtual’ work responsibilities versus the ‘real’ work. In addition, given that much of the work is done through electronic media, the potential for cultural misunderstandings increases, and the geographical distance rules out normal group interaction. Communication is mainly through conference calls, videoconferencing, and emails, and requires good skills in using these media.

Visits between the two locations are necessary to support the working of this arrangement as not everything can be settled virtually. Face-to-face meetings are still needed. In summary, virtual assignments tend to be used for regional positions (e.g. European Marketing Manager) where the person is mainly coordinating a number of national marketing activities but is based at a regional center. Based on the results of a German/Asian case study, Holtbrügge and Schillo suggest that specific intercultural training needs to be provided for the virtual assignee as well as for the team members abroad in order to avoid intercultural misunderstandings.

- **Self-initiated assignments** – While standard expatriations are usually initiated by the organization, self-initiated assignments are initiated by the individual. Many organizations do not systematically track and manage these kinds of assignments. However, often these employees are highly interested in an international challenge, have adequate language skills, an international mindset and are quite entrepreneurial. They comprise an important resource for their employers and can increase international mobility potential in the organization.47 It is therefore important to manage them carefully and to understand their motivation to stay in the MNE, particularly upon completion of the self-initiated international assignment.48 According to a study by Cerdin and Pragneux, organization-assigned and self-initiated expatriates are relatively similar with respect to the career anchors of internationalism, challenge and their lifestyle with a preference for achieving a balance between work and personal life. They differ from each other with respect to other dimensions such as security. A recent example of university academics as self-initiated expatriates is reported by Selmer and Lauring.50

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**THE ROLES OF AN EXPATRIATE**

As mentioned above, the reasons for using expatriates are not mutually exclusive. They do however underpin expectations about the roles that staff play as a consequence of being transferred from one location to another country. These roles are delineated in Figure 5.2.
The expatriate as an agent of direct control

The use of staff transfers can be regarded as a bureaucratic control mechanism, where the primary role is that of ensuring compliance through direct supervision. Harzing found that German companies tend towards this form of control. She labels expatriates who are such agents as ‘bears’, arguing that the analogy reflects the level of dominance of this type of expatriate control. To a certain extent, using expatriates for control reflects an ethnocentric predisposition, but this can be important in ensuring subsidiary compliance, enabling strategic objectives for local operations to be achieved.

The expatriate as an agent of socialization

There is an implicit expectation that expatriates assist in the transfer of shared values and beliefs. Harzing names expatriates who transfer corporate values as ‘bumble-bees’. However, as Fenwick et al. point out, there has been little empirical investigation of the effectiveness of expatriates as agents of socialization. In fact, attempts to instill corporate values and norms ritualized in the form of certain expected behaviors often have negative results at the subsidiary level.

Expatriates as network builders

As we discussed in Chapter 3, international assignments are viewed as a way of developing social capital by fostering interpersonal linkages that can be used for informal control and communication purposes. Naturally, as employees move between various organizational units, their network of personal relationships changes, leading to Harzing’s analogy of expatriates as ‘spiders’ to describe this role. How these employees are utilized is person-dependent. People tend to nurture and protect their networks, to be very selective about the way they use their connections, and to evaluate the potential damage to key individuals in their networks if the connection was to be used inappropriately. In their study of project teams and networks, Schweiger et al. provide the following example of how international assignments assisted network development:

> I depended heavily on the contacts I had developed over the years. The time spent in international assignments was invaluable. I knew important people in several key operations. I knew how they operated and what was important to them. They also knew that I was credible and would help them when the opportunity arose.
While short-term assignments may not allow the expatriate to develop as wide a range of contacts in one location to the degree that a traditional assignment permits, over time they can increase the number and variety of networks, building channels for the transfer of ideas and competence. Duration of the assignment, therefore, will have an impact on the person’s ability to develop networks.

Expatriates as boundary spanners

**Boundary spanning** refers to activities, such as gathering information, that bridge internal and external organizational contexts. Expatriates are considered boundary spanners because they can collect host country information, act as representatives of their firms in the host country, and can influence agents. For example, attending a social function at a foreign embassy can provide the expatriate with an opportunity to network, gather market intelligence and promote the firm’s profile at a high level.

Expatriates as language nodes

Marschan-Piekkari et al. found that Finnish expatriates working for the elevator company Kone, sometimes became what they termed language nodes upon repatriation.

Transfer of competence and knowledge

International assignments do assist in knowledge sharing and competence transfer, and encourage adoption of common work practices which may strengthen elements of corporate culture. Thus, they may contribute to further developing the social capital within the MNE. Staff in various organizational units also encounter different viewpoints and perspectives that will shape their behavior and may reinforce their feeling of belonging. Goodall and Roberts relate the experience of a Chinese employee in the Chinese operation of a European oil company. Her time in the parent’s operation in Europe enabled her to appreciate how the company valued its name and reputation, and was able to better understand the company’s code of conduct and attitude towards occupational health and safety.

Overall, international assignments are seen as an effective way of accomplishing multiple objectives. In fact, one could argue that there are elements of knowledge transfer in all the roles we have identified. However, clear empirical evidence as to the effectiveness of expatriates in conducting their numerous roles is limited. Factors that may influence effectiveness include:

- The creation of an environment of openness and support for cross-fertilization of ideas and implementation of ‘best practice’.
- The need for knowledge and information to travel dyadically, that is, between the expatriate and the host location, and back to the expatriate’s home location, if the multinational is to benefit from international assignments as a mechanism for knowledge transfer.
- Despite the recognition of the importance of personal networks in knowledge and information transfer, staffing decisions are often made without regard to their effect on network relationships. In many cases there is no strategic approach applied to control for potentially negative effects.
- There is a link between the duration of the assignment and the effective transfer of knowledge. Some knowledge may be transferred quickly while other skills and knowledge (particularly where a high level of tacitness is present) may take longer.
- Much of what is transferred depends on the expatriate concerned in terms of ability to teach others and motivation to act as an agent of knowledge transfer.
The success of the knowledge transfer process depends not only on the motivation and abilities of the assignee but also on the local employees and their relationships.\(^{59}\)

A final point: Bolino and Feldman\(^{60}\) make an interesting observation that when expatriates are assigned for position filling due to a lack of appropriate local staff, these expatriates are often forced to take over some of the responsibilities of their colleagues due to differences in knowledge levels. Consequently, they argue, that expatriates often spend a lot of time on less challenging tasks to help out local co-workers, and train them. In such cases, while the expatriates may assist in skills transfer, over time their own level of competence may erode as they are not developing their own expertise. Thus, when expatriates return to their home operation, they may find that their knowledge is somewhat out of date.

THE ROLE OF NON-EXPATRIATES

The above discussion has centered on the international assignment. What has tended to be overlooked is that a considerable amount of international business involves what can be called ‘non-expatriates’: people who travel internationally but are not considered expatriates, as they do not relocate to another country. These non-expatriates have been called international business travelers\(^{61}\) – employees who spend a large proportion of their time visiting foreign markets, subsidiary units and international projects. Popular terms for these employees include ‘road warriors’, ‘globetrotters’, ‘frequent fliers’ and ‘flexpatriates’.\(^{62}\) International travel is an essential component of their work, such as international sales staff whose job is almost totally comprised of international travel; and managers whose job entails numerous visits to international operations. International sales representatives attend trade fairs, visit foreign agents and distributors, demonstrate new products to potential clients, and negotiate sales contracts. Various staff will visit foreign locations to deal with host-country government officials, alliance partners, subcontracting firms, and foreign suppliers.

Apart from the resource implications, there are issues relating to the management of international business travelers. DeFrank et al.\(^{63}\) identify the following factors as stressors:

- **Home and family issues** – such as missing important anniversaries and school events. The more frequent the travel, the greater the potential for family and marital relationships to be strained.
- **Work arrangements** – the ‘domestic’ side of the job still has to be attended to even though the person is traveling internationally. Modern communications allow work to accompany the business traveler who is often expected to remain up to date with home-office issues while away from the office.
- **Travel logistics** – airline connections, hotel accommodation, and meeting schedules.
- **Health concerns** – poor diet, lack of physical exercise, lack of sleep, coping with jetlag, and exposure to viruses and other health problems (e.g. Deep Vein Thrombosis from excessive air travel).
- **Host culture issues** – as international business is conducted in other cultural settings, the person is still expected to be able to operate in unfamiliar environments and handle cultural differences effectively. However, the limited empirical and anecdotal evidence suggests that non-expatriates do not receive the same level of cross-cultural training as expatriates – if any.

Non-expatriate business travelers also perform many of the roles of expatriates – in terms of being agents for socialization, network-builders, boundary spanners and language nodes. From the limited evidence available, however, it would seem that the management of staff using these forms of arrangements falls to the functional or line managers involved rather than the HR department as such. Possible HR strategies that could better meet the demand of flexpatriates...
have been suggested by Demel and Mayrhofer. They suggest that the specific situation of flex-
patriates should be included in job descriptions and working contracts and could be part of spe-
cific HRM policies for this target group. For example, selection criteria should go beyond
technical knowledge and cross-cultural skills and include, for example, health issues such as
physical fitness. The issue of working and traveling time must also be addressed with respect to
recognizing the need for the employee to recover from international travel (adjustment to jetlag,
changes in diet, etc.). If these concerns are taken into consideration, flexpatriates can be an even
more valuable alternative solution to international mobility.

THE ROLE OF INPATRIATES

As we have outlined in Chapter 1, inpatriates are mainly distinguished from expatriates by defi-
nition. They include international assignments of HCNs or TCNs from a foreign location to the
parent country (usually the corporate headquarters) of the MNE. Inpatriates are:

- expected to share their local contextual knowledge with HQ staff in order to facilitate effective corporate
  activities in these local markets. At the same time they are socialized in the HQ corporate culture and
  learn firm-specific routines and behaviors that enable them to master future management tasks within
  the organization. As a result, inpatriates seem to act both as knowledge senders and receivers.

Collings and Scullion have identified the following key drivers for recruiting and transferring
inpatriate managers:

- Desire to create a global core competency and a cultural diversity of strategic perspectives in the top
  management team, thus, increasing the capability of organizations to ‘think global and act local’.
- Desire to provide career opportunities for high potential employees in host countries, i.e., HCNs and
  TCNs.
- The emergence of developing markets which often represent difficult locations for expatriates in
terms of quality of life and cultural adjustment.

However, the strategy of inpatriation also underlines that the strategic importance of the head-
quarters is still predominant, indicating that the knowledge of the culture, the structure, and the
processes specific to the headquarters are still important requirements for vertical career advance-
ment. Usually, the assignment to the headquarters aims at training the manager for a top manage-
ment position back home in the foreign subsidiary. In many MNEs, an inpatriate assignment may
be a first and limited career step, reflecting a rather ethnocentric approach. Harvey and Buckley conclude that in this case ‘inpatriation may be a dangerous process’. While it might be more diffi-
cult for inpatriates than for PCNs to realize a vertical career in the headquarters they experience
the same integration and repatriation problems as expatriates during and after their international
assignment. Consequently, they may not receive the same return on investment for their interna-
tional assignment as expatriates. This can only be guaranteed if career opportunities for inpatriate
HCNs or TCNs exist within the headquarters and across the wider organization. In this case
inpatriation can be an important step in realizing a geocentric orientation within the MNE and
thus an ‘open sky’ (i.e. where career success is not dependent on an employee’s nationality) for
HCN and TCN managers. Based on a sample of 143 inpatriates in ten German multinationals
Reiche, Kraimer and Harzing have analyzed the retention of inpatriates. They found that trust
and fit with the headquarters staff as well as firm-specific learning and career prospects played an
important role in ensuring retention of inpatriate employees.

In an international comparative study Tungli und Peiperl found significant differences in the
target group of international assignments between German, British, Japanese and US MNEs.
The authors differentiate between PCNs, TCNs and inpatriates. The study found that Japanese MNEs rely almost solely on PCNs for international assignments while British MNEs seem to systematically use different groups of employees (56 per cent PCNs, 37 per cent TCNs and 7 per cent expatriates in the headquarters). The group of international assignees from German MNEs consisted of 79 per cent PCNs, 12 per cent TCNs and 9 per cent inpatriates. More research on the long-term consequences of these different practices is needed.

RECRUITMENT AND SELECTION OF INTERNATIONAL MANAGERS

Hiring and deploying people to positions where they can perform effectively is a goal of most organizations, whether domestic or international. Recruitment is defined as searching for and obtaining potential job candidates in sufficient numbers and quality so that the organization can select the most appropriate people to fill its job needs. Here, employer branding may play a crucial role, especially in emerging countries such as China or India where it may be difficult to find enough qualified personnel for foreign companies due to the strong growth rates of these economies and the fierce competition for talent in the local labor markets. Selection is the process of gathering information for the purposes of evaluating and deciding who should be employed in particular jobs. It is important to note that recruitment and selection are discrete processes and both processes need to operate effectively if the firm is to effectively manage its staffing process. For example, a firm may have an excellent selection system for evaluating candidates but if there are insufficient candidates to evaluate, then this selection system is less than effective. Both processes must operate effectively for optimal staffing decisions to be made.

Some of the major differences between domestic and international staffing are first that many firms have predispositions with regard to who should hold key positions in headquarters and subsidiaries (i.e. ethnocentric, polycentric, regiocentric and geocentric staffing orientations) and second, the constraints imposed by host governments (e.g. immigration rules with regard to work visas and the common requirement in most countries to provide evidence as to why local nationals should not be employed rather than hiring foreigners) which can severely limit the MNE’s ability to hire the right candidate. In addition, as Scullion and Collings note, most expatriates are recruited internally rather than externally, so the task of persuading managers (particularly if they are primarily working in a domestic environment) to recommend and/or agree to release their best employees for international assignments remains a key issue for international HR managers. The small number of external recruits is confirmed by data from the Global Relocation Trends Survey 2010. Here, the proportion of external hires for international positions was only 8 per cent across all firms that participated in the 2010 survey. This represented the lowest figure in the history of the report (the benchmark historical average is 12 per cent of expatriates).

Recruitment of internal hires for expatriate assignments is preferred because this reduces the risk of a poor selection decision. In an internal selection process performance appraisals, personal reports, interviews with colleagues and firm-internal career plans can be used as information sources in order to reduce uncertainty. In their study of 653 Spanish companies Bayo-Moriones and Ortín-Ángel show that the preference for internal recruitment is not only motivated by the minimization of selection risks but also by the wish to secure present and past investments in human capital. In the case of expatriate recruitment on the external labor market the selection risk is often managed by using specialized (and relatively expensive) consultants. The more traditional devices of recruitment and selection such as traditional job advertisements and executive search (also known as headhunting) can also be used (See IHRM in Action Case 5.1).
Peculiarities occur in the selection process when external service providers are assigned to undertake the search for international managers and are involved in the subsequent selection. Whereas, in the scientific literature there are hardly any discussions or ideas presented addressing this topic, in practice, headhunting is a commonly used method in order to fill international positions. According to Hewitt’s HR Outsourcing Survey which includes more than 100 US companies, these companies pursue four central aims with the transfer of most (national and international) HR activities to external service providers. Accordingly, most of the companies surveyed (65 per cent) indicated they want to reduce costs by outsourcing activities. Furthermore, access to external expertise is attractive to many companies, as well as an improved service quality and the possibility to more intensively direct internal resources to strategic human resource management. With reference to outsourcing IHRM, the survey reveals that 43 per cent of the companies revert to the expertise of external service providers for expatriate management matters and 56 per cent in repatriation issues; 3 to 4 per cent of the companies even plan to outsource these areas in the near future. Concerning recruiting, 10 per cent of the companies surveyed indicated that they already assigned their recruiting to external service providers, an additional 6 per cent definitely plan to outsource their recruiting. As there are no explicit figures available, one can only speculate, how many firms make use of outsourcing for their international employee selection as well. However, the specialization of numerous headhunting agencies and management consultancies in the area of IHRM and executive search for international managers indicates a high demand in these areas.

An example is the management consultancy ABC Asian Business Consultants from South Korea. Not only does it support companies from different branches in the search and selection of qualified managers, it also assists firms in organizing international management training or international career planning. Currently, 7 employees and 15 trainers work on international projects at the company’s offices in Korea, China, India and Germany. Every year, about 15 employee selection projects are completed by ABC Asian Business Consultants. Headhunting selection criteria and job profiles are adjusted to the needs of the recruiting company and the requirements of the vacant position. Due to the high degree of candidates’ qualifications and confidentiality of information, the selection process is very complex. First of all, potential candidates must be identified and personally contacted. Alternative forms of Human Resource Marketing (for example, activities involving internet-based platforms or social networks) are not used because of the need for confidentiality. Often, a cover story is used to identify qualified candidates, seek further information and evaluate interest. Before the first contact between the candidate and the recruiting company takes place, the candidate’s curriculum vitae is evaluated, followed by two interviews with representatives of ABC Asian Business Consultants. Interviews via software programs such as ICQ, Skype or Windows Live Messenger may be used occasionally to bridge long distances and to conduct the interviews without national or international relocation. Based on the protocols of the interviews and the application forms a short report on every candidate is compiled and a shortlist of the most qualified candidates is presented to the recruiting company. Ultimately, final interviews with the candidates are conducted by employees of the recruiting company, before a final decision on the filling of the international position is reached. The whole selection process may cover a period of several months. Occasionally, international assessment centers are organized using different methods such as individual presentations, role play or presentations to the board of directors.

Based on his past experience Dr Ulrich Hann, owner and CEO of ABC Asian Business Consultants can identify cultural differences and differences in the qualifications of candidates from diverse international backgrounds. Differences depending on the respective nationality appear, for example, in the personal contact during the selection interviews. There are also differences regarding the professional qualifications and skills of candidates. Many Indian candidates have a very high level of qualifications in natural sciences, while there is a strong demand for German candidates with a degree in mechanical engineering.
Maekelae, Björkman and Ehrnrooth\(^74\) have identified a variety of staffing archetypes (local-internal, local-external, global-internal and global external) that relate to human capital advantages. These are mainly concerned with knowledge and social capital advantages including a positive effect on interaction and trust within the organization.

**EXPATRIATE FAILURE AND SUCCESS**

Expatriate failure and success are obviously critical and related issues for global firms. Both topics have been intensively examined by IHRM researchers for decades. We will start with the more traditional focus on expatriate failure. Considering the major determinants for expatriate failure clarifies the links to expatriate success. First, there are three questions related to failure: its definition, the magnitude of the phenomenon, and the costs associated with failure.

What do we mean by expatriate failure?

The term *expatriate failure* has been defined as the premature return of an expatriate (that is, a return home before the period of assignment is completed). In such a case, an expatriate failure represents a selection error, often compounded by ineffective expatriate management policies. There has been some discussion in the literature about the usefulness of defining expatriate failure so narrowly. For example, an expatriate may be ineffective and poorly adjusted, but if not recalled, the person will not be considered a failure. Clearly, an inability to either effectively handle new responsibilities or to adjust to the country of assignment is very likely to contribute to diminished performance levels. These results may not be immediately apparent but can have long-term negative consequences in terms of subsidiary performance. However, if the expatriate remains for the duration of the assignment, to all intents and purposes, the assignment will have been considered a success.

Another significant issue is that of expatriates leaving the MNE within the first or second year after repatriation (for more details on repatriation see Chapter 7) because they feel that their newly acquired knowledge is not valued.\(^75\) Again, in this case the international assignment would be regarded as a success although it leads to the loss of a valuable employee. On the other hand, a project abroad can be completed early, which could lead to a premature return of an expatriate. According to the above-mentioned definition this would be erroneously classified as a failure. Thus, the traditional definition of premature return of an expatriate that has dominated the literature does not necessarily indicate expatriate failure. Harzing suggests that a definition of expatriate failure should include poor performance as well as repatriation problems.\(^76\) An example of research that adopts this broader definition of expatriate failure (that is, including under-performance and retention upon completion of the assignment) is a study conducted by Forster\(^77\) on 36 British firms that concluded:

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(Continued)

There are particular challenges for HR consultants in a dynamic international environment. Dr Hann notes: ‘Similar to the requirements for the candidates, the requirements and criteria for a qualified HR consultant in the international business environment are also high’. Notably, multilingualism is important to understand the needs of the customers and those of the candidates. In addition to a professional qualification, entrepreneurial thinking as well as international work experience are essential requirements to find a position in a recruiting company as an external service provider for IHRM.

Source: © Lena Knappert and Marion Festing. Based on Personal communication with Ulrich Hann, June 8, 2010.
If we accept that a broader definition of EFRs [expatriate failure rates] is warranted, then it can be argued that the actual figure of those who are “failing” on IAs [international assignments] could be somewhere between 8 per cent and 28 per cent of UK expatriates and their partners.

In the next section we look at the magnitude of expatriate failure in further detail.

What is the magnitude of the phenomenon we call expatriate failure?

The Brookfield Report 2010 provides several indicators for expatriate failure. Firms indicated that 6 per cent of expatriate assignments were regarded as failures. The survey also reported that expatriate turnover was about 17 per cent during the international assignment, 28 per cent within the first year upon repatriation, 23 per cent between the first and the second year and 22 per cent after two years. Comparing these figures to an average annual turnover rate of 13 per cent these percentages can be considered as relatively high, especially since important investments by the assigning firm are at stake. Locations with the highest expatriate failure rates were China (12 per cent), India (10 per cent) and the USA (8 per cent).78

In the following section we will report some selected results from academic studies on expatriate failure. First, the analyses show that differences in expatriate failure rates by country-of-origin of the MNE are relatively low. Second, they indicate the historical development of expatriate failure rates. We draw on data from the important work by Tung79 on expatriate failure in US, European and Japanese MNEs which initiated this discussion in the early 1980s and recent work by Tungli and Peiperl, which reports figures from Germany, Japan, Britain and the USA in 2009.80 The results of both studies are presented in Table 5.3.

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<thead>
<tr>
<th>Table 5.3</th>
<th>Expatriate Failure Rates</th>
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<tbody>
<tr>
<td><strong>Premature return rate</strong></td>
<td><strong>Western Europe 1982</strong></td>
</tr>
<tr>
<td>Less than 10%</td>
<td>97%</td>
</tr>
<tr>
<td>More than 10% but less than 20%</td>
<td>3%</td>
</tr>
<tr>
<td>Equal to or more than 20%</td>
<td>0%</td>
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</tbody>
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As Table 5.3 shows, Tung identified higher expatriate failure rates and a higher percentage of MNEs reporting more than 10 per cent failure rates in US MNEs than in European or Japanese organizations. The more recent data show that the reported figures have become more similar across the investigated countries and that premature return of expatriates still represents an ongoing challenge.81 Harzing82 has questioned the reported failure rates in the US literature, claiming there is ‘almost no empirical foundation for the existence of high failure rates when measured as premature re-entry’. More recently, Christensen and Harzing have again questioned the value of the whole concept of expatriate failure, arguing that ‘it might well be time to abandon the concept of expatriate failure altogether and instead draw on the general HR literature to analyze problems related to turnover and performance management in an expatriate context’.83
From the above discussion we can draw the following conclusions:

1. Broadening the definition of expatriate failure beyond that of premature return is warranted. Following up broad surveys with interviews with responding firms may assist in this exploration.

2. Regardless of the definition or precise amount of ‘failure’, its very presentation as a problem has broadened the issue to demonstrate the complexity of international assignments. In fact, one could argue that the so-called persistent myth of high US expatriate failure rates has been a positive element in terms of the attention that has subsequently been directed towards expatriation practices. It has certainly provoked considerable research attention into the causes of expatriate failure.

What are the costs of failure?

The costs of expatriate failure can be both direct and indirect. Direct costs include airfares and associated relocation expenses, and salary and training. The precise amount varies according to the level of the position concerned, country of destination, exchange rates, and whether the ‘failed’ manager is replaced by another expatriate. The ‘invisible’ or indirect costs are harder to quantify in money terms but can prove to be more expensive for firms. Many expatriate positions involve contact with host government officials and key clients. Failure at this level may result in loss of market share, difficulties with host-government officials, and demands that expatriates be replaced with HCNs (thus affecting the multinational’s general staffing approach). The possible effect on local staff is also an indirect cost factor, since morale and productivity could suffer. Failure also has an effect on the expatriate concerned, who may lose self-esteem, self-confidence, and prestige among peers. Future performance may be marked by decreased motivation, lack of promotional opportunities and perhaps increased productivity to compensate for the failure. Finally, the expatriate’s family relationships may be threatened. These are additional costs to organizations that are often overlooked.

Reasons for expatriate failure – and what about expatriate success?

Tung is recognized as the first researcher to investigate the reasons for expatriate failure. Although she found differences according to the country-of-origin of the MNE, important personal factors were the inability to adapt either on the part of the spouse or the manager. Other family problems, the maturity of the manager and problems coping with higher responsibilities inherent in the position abroad were also noted. The more recent comparative study by Tungli and Peiperl does not indicate any country specificities in the results. It confirms the importance of the first three reasons mentioned in the study by Tung: the inability to adapt by the family or the manager as well as other family issues. However, in addition they also find that firm-specific issues and deficient performance by the expatriate were major reasons for a premature return. In his study based on 21 interviews Lee found similar reasons for expatriate failure. However, he also found that the activities of the MNE itself and support for the expatriate and the families were major success factors for international assignments.

Finally, the Brookfield study reports that spouse/partner dissatisfaction (65 per cent), the inability to adapt (47 per cent), other family concerns (40 per cent) and poor candidate selection (39 per cent) accounted for expatriate failure. In a verbatim comment they confirm the results by Lee that IHRM has an important role in creating successful international assignments: ‘… career and talent management (before, during, and after) is the single most important factor in retaining employees after the assignment …’
SELECTION CRITERIA

We now have a fuller understanding of the phenomenon called expatriate failure, as well as the multi-faceted nature of international assignments, and why developing appropriate selection criteria has become a critical IHRM issue. It should be noted that selection is a two-way process between the individual and the organization. A prospective candidate may reject the expatriate assignment, either for individual reasons, such as family considerations, or for situational factors, such as the perceived toughness of a particular culture. It is a challenge for those responsible for selecting staff for international assignments to determine appropriate selection criteria. Figure 5.3 illustrates the factors involved in expatriate selection, both in terms of the individual and the specifics of the situation concerned. It should be noted that these factors are interrelated. We base the following discussion around Figure 5.3.

Technical ability

Naturally, an employee’s ability to perform the required tasks of a particular job is an important selection factor. Technical and managerial skills are therefore an essential criterion. Indeed, research findings consistently indicate that multinationals place heavy reliance on relevant technical skills during the expatriate selection process. Since expatriates are predominantly internal recruits, personnel evaluation records can be examined and checked with the candidate’s past and present superiors. The dilemma is that past performance may have little or no bearing on one’s ability to achieve a task in a foreign cultural environment.

Cross-cultural suitability: Competence, adjustment and other indicators

As we have already discussed, the cultural environment in which expatriates operate is an important factor for determining successful performance. Here, intercultural competence and related concepts as well as the ability to adjust to a foreign culture play important roles. However, a precondition for cross-cultural suitability are soft skills that are also important in other national positions.

**Soft skills.** Soft skills are a criterion which is underestimated by many MNEs. They are a precondition for intercultural competence. As Caligiuri, Tarique and Jacobs state, they are...
important success factors of international managers and need to be considered in addition to technical knowledge and skills. They include psychological as well as personal features, international experience and language knowledge. Furthermore, a capacity to internalize and provide training to local personnel is an often neglected issue. However, this capacity may play a vital role for the success of an international assignment due to the crucial importance of knowledge and technology transfer.93

**Intercultural competence.** Apart from the obvious technical ability and managerial skills, expatriates require cross-cultural abilities that enable the person to operate in a new environment and to guarantee the functioning of culturally diverse teams.94 This is often expressed by using the term *intercultural competence*, which is defined as ‘the ability to function effectively in another culture’.95 There appears to be a consensus that desirable attributes should include dimensions such as cultural empathy, adaptability, diplomacy, language ability, positive attitude, emotional stability, maturity, etc.96 These various issues can be related to three basic structural dimensions of intercultural competence.97 The *affective dimension* of intercultural competence reflects the emotional attitude towards a foreign culture. The *cognitive layer* relates to culture-specific knowledge.98 Most important is the *ability* dimension because this includes the actual intercultural behavior.99

**Intercultural competence and related concepts.** Closely related to *intercultural competence* is the concept of *cultural intelligence*. Ang et al.100 define cultural intelligence as ‘a specific form of intelligence focused on capabilities to grasp, reason and behave effectively in situations characterised by cultural diversity’. While it is very similar to the concept of intercultural competence in also considering perceptual, cognitive, motivational and ability elements, it focuses mainly on the cognitive dimension of this construct.101 Bücker and Poutsma102 have related the concepts of intercultural competence, intercultural sensitivity, cultural intelligence and global mindset (ability to appreciate elements of various cultures103 to ‘global management competencies’ and use this as a more comprehensive approach to describe what kind of management skills a global manager needs have.

Bird, Mendenhall, Stevens and Oddou104 see intercultural competence as one part of the terrain of *global leadership*. In their concept cross-cultural relationship skills, traits and values, the cognitive orientation and the global business expertise are the core pillars of intercultural competence. To map the terrain of global leadership they add global business competencies at the macro level including global organizing expertise and visioning. To define the term ‘global leadership’ they adopt the definition by Osland and Bird. According to them, global leadership is ‘the process of influencing the thinking, attitudes, and behaviors of a global community to work together synergistically toward a common vision and common goal’.105

**The ability to adjust to a foreign culture.** This factor has been a consistent reason given for expatriate failure – and has been the subject of considerable interest to researchers.106 The dilemma is that adjustment to a foreign culture is multifaceted, and individuals vary in terms of their reaction and coping behaviors. The concept of an adjustment cycle or curve is helpful in demonstrating the typical phases that may be encountered during cultural adjustment. The curve (sometimes referred to as the U-Curve) is based on psychological reactions to the assignment and comprises four phases.107

Phase 1 commences with reactions prior to the assignment – the expatriate may experience a range of positive and negative emotions such as excitement, anxiety, fear of the unknown or a sense of adventure. There can be an upswing of mood upon arrival in the assignment country that produces what has been referred to as the ‘honeymoon’ or ‘tourist’ phase. Then, as the novelty wears off, realities of everyday life in the foreign location begin to intrude, homesickness sets in, and a downswing may commence – a feeling that ‘the party is over’108 – which can create negative appraisals of the
situation and the location leading to a period of crisis – Phase 2. This can be a critical time, and how the individual copes with the psychological adjustment at this phase has an important impact in terms of success or failure. There is a suggestion that ‘failure as an early recall’ may be triggered at this point. Once past this crisis point, as the expatriate comes to terms with the demands of the new environment, there is a pulling up – Phase 3 – as the person begins to adjust to the new environment. This levels off over time to what has been described as healthy recovery – Phase 4.

However, when considering the above U-Curve, one should remember some critical points. The U-Curve is normative. Some people do not experience this U-Curve. Individuals will differ in their reactions to the foreign location and with respect to their international experience prior to this assignment. The time period involved varies, and there is no conclusive statistical support for the various phases. Black and Mendenhall point out that the U-Curve describes these phases but does not explain how and why people move through the various phases. There may be other critical points during the assignment – beyond Phase 4 – that may produce downturns, negative reactions and upswings (that is, a cyclical wave rather than a U-Curve). In summary, it can be stated that despite its plausibility the U-curve lacks theoretical foundation and empirical support and does not indicate what the results of cross-cultural adjustment may necessarily be.

This critique on the U-Curve adjustment and other adjustment concepts has led to important research activities and to a lot more clarity on the determinants of the adjustment process, the process itself and its outcomes. Figure 5.4 provides an overview.

Today, we differentiate between two kinds of adjustment: psychological adjustment, which is measured with respect to the psychological well-being of the expatriate; and socio-cultural adjustment, which describes the ability to interact successfully in the foreign country. Antecedents of cross-cultural adjustment include:

- Individual aspects (e.g. sex or goal orientation).
- Work related factors (e.g. role clarity, decision autonomy).
- Organizational aspects (e.g. company support).
- Non-work related factors (e.g. family issues).

**FIGURE 5.4** Overview of important adjustment variables

Adjustment modes are strategies to achieve adjustment. Depending on the focus of the study this can, for example, be strategies for coping with stress.\textsuperscript{116}

For adjustment outcomes it is often referred to the three variables identified in the popular concept by Black and Mendenhall:\textsuperscript{117}

- work adjustment;
- interaction adjustment; and
- general adjustment.

Often the outcomes also include an explicit performance\textsuperscript{118} or effectiveness dimension\textsuperscript{119} or address the issue of commitment.\textsuperscript{120}

Family Requirements

The family is a very important influence factor on the success of an international assignment, particularly the spouse.\textsuperscript{121} Despite the importance of the accompanying spouse/partner, as Shaffer and Harrison\textsuperscript{122} point out, the focus has been on the expatriate. From the multinational’s perspective, expatriate performance in the host location is the important factor. However, the interaction between expatriate, spouse/partner and family members’ various adjustment experiences is now well documented.

It should be pointed out that the spouse (or accompanying partner) often carries a heavy burden. Upon arrival in the country of assignment, the responsibility for settling the family into its new home falls on the spouse, who may have left behind a career, along with friends and social support networks (particularly relatives). In developing countries the employment of house servants is quite common but this is an aspect of international living that many Westerners from developed countries have some difficulty adjusting to. It is often not possible for the spouse/partner to work in the country of assignment due to immigration regulations and the well-being and education of the children may be an ongoing concern for the spouse.

As discussed above, apart from the accompanying partner’s career, there are other family considerations that can cause a potential expatriate to decline the international assignment. Disruption to children’s education is an important consideration, and the selected candidate may reject the offered assignment on the grounds that a move at this particular stage in his or her child’s life is inappropriate. The care of aging or invalid parents is another consideration. While these two reasons have been noted in various studies, what has been somewhat overlooked is the issue of single parents. Given increasing divorce rates, this may become a critical factor in assignment selection and acceptance where the custody of children is involved. The associated legal constraints, such as obtaining the consent of the other parent to take the child (or children) out of the home country, and visiting/access rights, may prove to be a major barrier to the international mobility of both single mothers and single fathers.

Country/Cultural requirements

As discussed in Chapter 1, international firms are usually required to demonstrate that a HCN is not available before the host government will issue the necessary work permit and entry visa for the desired PCN or TCN. In some cases, the multinational may wish to use an expatriate and has selected a candidate for the international assignment, only to find the transfer blocked by the host government. Many developed countries are changing their legislation to facilitate employment-related immigration which will make international transfers somewhat easier – for example the European Union Social Charter allows for free movement of citizens of member
countries within the EU. It is important that HR staff keep up-to-date with relevant legislative changes in the countries in which the MNE is involved.

An important related point is that generally a work permit is granted to the expatriate only. The accompanying spouse or partner may not be permitted to work in the host country. Increasingly, multinationals are finding that the inability of the spouse to work in the host country may cause the selected candidate to reject the offer of an international assignment. If the international assignment is accepted, the lack of a work permit for the accompanying spouse or partner may cause difficulties in adjustment and even contribute to long term failure. For these reasons, some multinationals provide assistance in this regard.

Further, the host country may be an important determinant. Some regions and countries are considered ‘hardship postings': remote areas away from major cities or modern facilities; or war-torn regions with high physical risk. Accompanying family members may be an additional responsibility that the multinational does not want to bear. There may be a reluctance to select females for certain Middle East or South East Asian regions and in some countries a work permit for a female expatriate will not be issued. These aspects may result in the selection of HCNs rather than expatriates.

To overcome this problem, a group of more than 20 large multinationals (including Shell, British Airways, Unilever, PricewaterhouseCoopers, and Siemens) has established an organization called ‘Permits Foundation’, in an attempt to promote the improvement of work permit regulations for spouses of expatriates. It also aims to raise government awareness of the connection between work permits and employee mobility.

**MNE Requirements**

Selection decisions are influenced by the specific situation of the MNE. For example, the MNE may consider the proportion of expatriates to local staff when making selection decisions, mainly as an outcome of its staffing philosophy. However, operations in particular countries may require the use of more PCNs and TCNs than would normally be the case, as multinationals operating in parts of Eastern Europe and China are discovering. Furthermore, the mode of operation involved needs to be considered. Selecting staff to work in an international joint venture may involve major input from the local partner, and could be heavily constrained by the negotiated agreement on selection processes.

**Language**

Language skills may be regarded as of critical importance for some expatriate positions, but lesser in others, though some would argue that knowledge of the host country’s language is an important aspect of expatriate performance, regardless of the level of position. The ability to speak the local language is an aspect often linked with cross-cultural ability. Nevertheless, mastering the local language is most often not the most important qualification with respect to languages. Another component to language in the selection decision is the role of the common corporate language. As previously discussed, many multinationals adopt a common corporate language as a way of standardizing reporting systems and procedures. This is not, perhaps, an issue for PCN selection within multinationals from the Anglo-Saxon world (Britain, the US, Canada, Australia and New Zealand) where the chosen corporate language remains the same as that of the home country. However, it becomes an expatriate selection issue for multinationals from non-English speaking countries that adopt English as the corporate language, unless the posting is to a country with a shared language. For instance, a Spanish multinational, using Spanish as the corporate language, selecting a PCN to head its new subsidiary in Mexico, does not face the same language issue as a Spanish multinational, with English as its corporate language, selecting a PCN to its US facility. For the latter, fluency in English would be required.
Lack of fluency in the corporate language, therefore, can be a selection barrier. Prospective candidates may be eliminated from the potential pool due to a lack of at least competency in the common language. Language ability therefore may limit the MNE’s ability to select the most appropriate candidate.

EXPERIATE SELECTION PROCESSES IN PRACTICE

Once the selection criteria for international positions have been defined, processes need to be put in place to measure these criteria. However, it is relatively common in many MNEs that international selection processes can be rather informal. As we indicated at the beginning of the section on selection criteria, most multinationals admit that technical and/or managerial skills are the dominant, sometimes only, criteria used. We have suggested that reliance on technical skills is mainly due to the fact that the reason for most international assignments is ‘position filling’. Of the factors outlined in Figure 5.3, technical skills are perhaps the easiest to measure. It could be argued that Figure 5.3 represents a best practice or ideal selection model that many MNEs do not in fact use.

Harris and Brewster have argued that expatriate selection, in reality, often tends to be an ad-hoc process that they describe as the ‘coffee-machine’ system. They suggest that managers chatting around the coffee-machine (or water cooler) can start the selection process through a casual conversation about a vacant expatriate position that needs to be filled. A colleague may volunteer the name of a potential expatriate – thus starting an informal shortlist of candidates. What happens next, according to Harris and Brewster, is that the MNE’s formal selection processes are then activated to legitimize the decision that has, in effect, already been taken around the coffee-machine. Harris and Brewster relate that this process is the most common form of selection process they encountered in their study of UK firms. They then derived a typology of selection systems to explain variations found in the way expatriate selection is conducted.

It is, of course, possible to find examples of formal, open selection processes in firms as well as informal or closed systems. Harris and Brewster note that the process can be influenced by the maturity of the MNE, its stage in the internationalization process, and its size or industry. The type of position involved, the role of the HR function in the process, and whether the multinational is reactive rather than proactive where international assignment selection is involved remain key factors in how selection processes work in MNEs.

Formal selection procedures

In their comparative study, Tungli and Peiperl found that in Germany, the United Kingdom and the US, structured interviews dominate the selection of expatriates in MNEs. Furthermore, recommendations and self-selection played important roles. On the contrary, in Japanese MNEs recommendations and self-selection were the most important techniques followed by tests of intercultural skills. In comparison, psychological and cognitive tests are used much less, especially in Germany and the US. The effectiveness of such tests as predictors of cultural adjustment is open to question. For example, Torbiörn comments that though desirable personality traits are specified and recommended, the tests or criteria to assess these traits are seldom convincingly validated. Likewise, Willis states that if tests are used they should be selected with care and regard for reliability and validity because, while some tests may be useful in suggesting potential problems, there appears to be little correlation between test scores and actual performance. He further adds that most of the relevant tests have been developed in the US and, therefore, may be culture-bound. The use of
such tests outside the US without careful modification adds another question mark to their reliability and validity as predictors of expatriate success.

For a long time assessment centers and interviews have been recommended to select personnel for international positions. In these cases a selection board, (i.e. a group of internationally experienced managers and IHRM specialists) could be used to interview the candidates and assess their suitability for international assignments. Thus, questions should address the specifics of the work environment of international managers. Prior international experience, the ability to adjust to a foreign environment, soft skills in an intercultural context such as intercultural communication abilities and the personality of the candidate could be the focus of these interviews.132

Besides selection practices focusing on the candidate, interviews can also be conducted with the spouse of the possible future expatriate. The comparative study by Tungli and Peiperl133 revealed no significant differences concerning this practice in Germany, the United Kingdom, the US and Japan. For example, 13.6 per cent of investigated MNEs conducting interviews with the spouse. The reason for introducing this practice can be found in our discussion of premature return of expatriates – the inability of the spouse to adjust plays an important role in premature return and a number of firms are trying to minimize this risk, which may lead to an expatriate failure. Approaches that are designed for international selection processes often focus on intercultural competence. For example, the Intercultural Development Inventory suggested by Hammer, Bennett und Wiseman134 tests sensitivity for intercultural differences based on a 50 item questionnaire. The aim is to differentiate candidates on a dimension between ethnocentrism and ethnorelativism. While ethnocentrism is associated with denial of foreign cultures, ethnorelativism is characterized by adjustment to foreign cultures and integration. Another option to measure intercultural competence would be an intercultural assessment center. This requires a clear definition of intercultural competence and every single exercise of the assessment center would have to be designed in order to measure its dimensions. Table 5.4 provides an example of such a design used by German MNEs. Normally, a group of IHRM managers and managers with international experience observes the candidates and evaluates the results. For the validity of the selection tools it is important that there is a clear and shared understanding of the indicators to evaluate whether the results of an exercise are positive or negative. This must be provided by the MNE or the consultants responsible for conducting the intercultural assessment center.135 The role play exercise outlined in IHRM in Action Case 5.2 illustrates one of these exercises and Table 5.5 shows evaluation criteria for a role play exercise.

### Table 5.4 Tasks and exercises used in an assessment center

<table>
<thead>
<tr>
<th>Exercises Features</th>
<th>Tolerance for ambiguity</th>
<th>Goal orientation</th>
<th>Interpersonal skills</th>
<th>Empathy</th>
<th>Non-judgmentalism</th>
<th>Flexibility</th>
<th>Metacommunication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presentation</td>
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<tr>
<td>Role play</td>
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<tr>
<td>Questionnaire</td>
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<tr>
<td>Group discussion</td>
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<tr>
<td>Case Study</td>
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</tbody>
</table>

### TABLE 5.5 Evaluation scheme for a role play in an intercultural assessment center

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Examples for high intercultural competence</th>
<th>Examples for low intercultural competence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tolerance for ambiguity</td>
<td>• Is patient</td>
<td>• Is impatient</td>
</tr>
<tr>
<td></td>
<td>• Shows a sense of humour</td>
<td>• Is very serious</td>
</tr>
<tr>
<td>Interpersonal skills</td>
<td>• Takes advantage of the time for a short conversation</td>
<td>• Says immediately ‘Good Bye’</td>
</tr>
<tr>
<td></td>
<td>• Speaks about himself/private issues</td>
<td>• Speaks immediately about business</td>
</tr>
<tr>
<td>Empathy</td>
<td>• Puts oneself in the place of the business partner</td>
<td>• Is only aware of his/her situation</td>
</tr>
<tr>
<td></td>
<td>• Avoids offending behavior</td>
<td>• Is offending</td>
</tr>
<tr>
<td>Non-judgementalism</td>
<td>• Assumes unintended lateness</td>
<td>• Assumes intended lateness</td>
</tr>
<tr>
<td></td>
<td>• Does not compare to home country behavior</td>
<td>• Points to the virtue of punctuality in their home country</td>
</tr>
<tr>
<td>Flexibility</td>
<td>• Changes the subject</td>
<td>• Repeats continuously</td>
</tr>
<tr>
<td></td>
<td>• Suggest a new meeting</td>
<td>• Speaks about wasted opportunities</td>
</tr>
<tr>
<td>Learning orientation</td>
<td>• Tries to clarify unclear issues</td>
<td>• Does not ask to clarify unclear issues</td>
</tr>
<tr>
<td></td>
<td>• Takes the arguments of the Mexican</td>
<td>• Does not take the point of the Mexican</td>
</tr>
</tbody>
</table>


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**IHRM in Action Case 5.2**

**Role playing: Intercultural competence**

You have been assigned to Mexico for a two year international assignment. Your task is to support the development of a new subsidiary. During the first weeks of your stay in Mexico you experience again and again that your Mexican employees as well as your suppliers and customers are never on time.

Now you are sitting in a restaurant and you are waiting for the Sales Director of one of your Mexican suppliers. Your meeting was at 12.30 but it is already 13.00 and the person you were waiting for did not show up. As you have another appointment at 13.30 you ask for the bill, still hungry! Exactly at this moment the Sales Director shows up – half an hour late.

How do you react? What reaction do you expect from your Mexican partner? Which reactions would be interculturally competent and which would not be?

DUAL CAREER COUPLES

So far, we have focused on defining profiles and selecting suitable candidates for international assignments. We will now consider an emerging constraint – the dual career couple – on the available pool of candidates, thus hindering the recruitment and selection process. The rise in dual career couples, along with the aging population and other family-related situations, combine to make more people immobile. Employees are prepared to state the grounds for refusal as ‘family concerns’. That this justification has become more acceptable reflects a significant shift in thinking about the role of non-work aspects impinging on work-related matters. The importance of the dual career couple challenge becomes clear when we look at some numbers. The Brookfield Global Relocation Trend Survey 2010 states that 50 per cent of spouses were employed before an assignment (but not during). However, only 9 per cent were employed both before and during the assignment (historical average 14 per cent). These figures may be partly caused by the difficult economic environment since 2008. However, the report also states:

Language and cultural difficulties may inhibit employment and the challenges of immigration may make potential employers unwilling to consider an expatriate spouse candidate who would need immigration support.\textsuperscript{136}

Considering these numbers it is not surprising that while the most important reason for turning down assignments reported in the Brookfield study was family concerns (83 per cent), the partner’s career (47 per cent) was the second most common response. MNEs are aware of the dual career challenge and have reacted by providing a series of resources. Important support measures include language training, educational assistance, employer-sponsored work permits, and assistance with career planning.\textsuperscript{137}

Other solutions to the challenge of dual career couples include the following:

- **Inter-firm networking** – Here the multinational attempts to place the accompanying spouse or partner in a suitable job with another multinational – sometimes in a reciprocal arrangement. To illustrate: a US MNE may enter into an agreement with a German MNE also operating in a city or a region, e.g. China, in order to find a position within their respective Chinese facilities for each other’s accompanying partner (that is, ‘you find my expatriate’s spouse a job and work visa, and I will do likewise for you’). Alternatively, a local supplier, distributor, or joint venture partner may agree to employ the accompanying spouse/partner.

- **Job-hunting assistance** – Here the MNE provides spouse/partner assistance with the employment search in the host country. This may be done through employment agency fees, career counseling, or simply work permit assistance. Some may provide a fact-finding trip to the host location before the actual assignment.

- **Intra-firm employment** – This is perhaps a logical but often a somewhat difficult solution. It means sending the couple to the same foreign facility, perhaps the same department. Not all multinationals (nor all couples) are comfortable with the idea of having a husband and wife team in the same work location and there can often be significant difficulties obtaining work visas for such arrangements.

- **On-assignment career support** – Some time ago Motorola\textsuperscript{138} provided an example of how a multinational may assist spouses to maintain and even improve career skills through what Motorola called its Dual-Career Policy. This consisted of a lump-sum payment for education expenses, professional association fees, seminar attendance, language training to upgrade work-related skills and employment agency fees. There were conditions attached, such as the spouse must have been employed before the assignment. Thus, if the spouse was unable to find suitable employment, the assignment time could be spent on career development activities.
Other examples of on-assignment assistance are providing help in establishing contacts and paying for lost spouse income. The idea is to maintain skills so that the spouse may find work upon re-entry into the home country. These attempts demonstrate that creative thinking can assist MNEs to overcome this potential barrier. It is not possible to comment with authority on how effective the above assistance schemes are in terms of overcoming the dual career barrier. However, it is clear that multinationals are attempting to address the issue and create solutions for this barrier to mobility. According to the *Brookfield Global Relocation Trend Survey 2010:*

> Spouses and partners feel strongly that their professional lives are valid concerns – both during and after international assignments. After all, 50 per cent of spouses were employed before such assignments. Consequently, they are demanding that companies assist them in maintaining their careers – especially when economic conditions make this difficult.\(^{139}\)

Besides supporting the expatriate’s spouse before, during and after the international assignment MNEs can also choose to offer non-standard assignments as described earlier in this chapter – commuter and virtual assignments seem to provide relevant options here.

**Are female expatriates different?** Our final issue in terms of selection for international assignments is related to gender. The typical expatriate still tends to be male. The *Brookfield Global Relocation Trend Survey* found in 2010 that 17 per cent of all expatriates were female (historical average in the *Brookfield Reports*: 16 per cent). However, there is a trend towards increasing numbers of female expatriates. For example, in 1984 Adler\(^ {140}\) reported a survey of international HR practices in over 600 US and Canadian companies that found only three per cent of the 13,338 expatriates identified were female. She found that female expatriates tended to be employed by companies with over 1000 employees in the banking, electronics, petroleum and publishing industries. Researchers have continued to examine why so few expatriates are female. Is it because they were unwilling to relocate? Is it attitudinal? Does it reflect a common preconception that men in some cultures, such as certain Asian countries, do not like reporting to female managers, particularly foreign women, and therefore women should not be posted overseas. This unspoken assumption may contribute to what has been referred to as ‘the glass border that supports the glass ceiling’. However, this is a view that has no strong empirical support.\(^ {141}\)

A number of studies challenge some of the attitudes regarding the suitability of females for international assignments. For example, Stroh, Varma and Valy-Durbin\(^ {142}\) found that US and Canadian women are interested in and likely to accept international assignments, though there are response variations between those with children and those without. However, the women in this study tended to believe that their firms were hesitant to ask them to accept an international assignment, though supervisors (whether male or female) did not necessarily share that belief. Further, performance of female expatriates was found initially to be affected by host country prejudice regarding the role of women in certain countries – considered as culturally tough assignment locations. However, the longer the women were on such assignments, the less they perceived that prejudice was a barrier to effectiveness. Caligiuri and Tung,\(^ {143}\) in their study of female and male expatriates in a US-based multinational found that females can perform equally as well as their male counterparts regardless of a country’s attitude toward women in managerial positions.

Taking a different approach in her study of Austrian female expatriates, Fischlmayr\(^ {144}\) used the concepts of external and self-established barriers to explore why women are under-represented in international assignments.

Through 21 interviews with HR managers and female expatriates in Austrian multinationals from various industries and positions, Fischlmayr found that attitudes of HR directors
were a major barrier to the selection of female expatriates, though self-established barriers were also very strong. Females in Austrian companies often had to specifically request an international assignment whereas their male colleagues were required to take international assignments. Further, some women regarded their age as a factor in terms of others’ perceptions and expectations about their behavior. The older the woman, the easier it was to obtain a position overseas. Fischlmayr concludes that women are partly to blame for their under-representation.

Mayrhofer and Scullion report on the experiences of male and female expatriates in the German clothing industry. They found that women were sent to a diverse range of countries, including Islamic countries. Overall, there were few differences in the experiences of both gender groups, though female expatriates placed more value on integration of spouse/family issues prior to and during the assignment than did the males in the sample. Assignment lengths in this industry tended to be shorter and involved various forms of non-standard assignments and there were generally more female managers than perhaps found in other industries. More women than men were assigned for longer assignment terms, and the authors conclude that the higher proportion of women in the industry appeared to make gender a less important issue. However, this did not apply to the top senior management positions where women were less represented. Mayrhofer and Scullion conclude that there are still barriers to female expatriates in terms of senior expatriate positions.

A further contribution comes from a study by Napier and Taylor of female expatriates from various countries working in Japan, China and Turkey. The women fell into three categories: traditional expatriates, ‘trailers’ who were spouses/partners of male expatriates, and ‘independents’ – professional women who could be called self-selected expatriates. Napier and Taylor found that gaining credibility with local clients was a major issue. Accommodating to cultural differences, maintaining a social life and a need for appropriate interpersonal skills were important factors in coping with work demands. Networks became important for both business and social contexts. Being a minority (a foreign female) meant higher visibility than they were used to and could be positive in terms of getting access to key clients and customers.

What emerges as common across the various studies on female expatriates is that assignment location, level of organization support, spouse/partner satisfaction and inter-cultural experiences are important in terms of performance. The list of moderators is similar to those we discussed in general terms earlier in this chapter. What does appear to differentiate female and male expatriates is the degree to which these moderators affect individual performance and the value placed on cultural awareness training prior to the international assignment. The dual career issue may prove to be a greater barrier for female mobility as males are more reluctant to accompany their spouse/partner.

Insch, McIntyre und Napier have developed strategies for breaking the glass ceiling before, during and after an international assignment. They consider the perspectives of both the female expatriate and the MNE. Table 5.6 depicts these strategies. Overall, the performance of female expatriates is influenced by the prejudices against female managers in the respective countries. However, this influence is perceived as less strong the longer the female managers stay abroad. Caligiuri and Cascio argue that foreign women are often evaluated according to other criteria than local women. In countries in which females tend to be rather discriminated against in working life, foreign women are seen as neutral. Caligiuri and Cascio state that it could be a success factor if female expatriates do not emphasize too much their female role and take on typical female role behavior in the foreign country. Instead they should deliberately differentiate themselves from the behavior described as typical for local women. This should lead to the perception of being seen as an expert rather than being seen as a woman and should enable a successful and equal business relationship.
This chapter has expanded on the role of staffing, recruitment and selection in international operations for sustaining international business operations. The following issues were discussed:

- We have outlined the various approaches to staffing international operations – ethnocentric, polycentric, geocentric, and regiocentric and discussed their advantages and disadvantages. In addition, we presented a model delineating factors that may determine the choice of these options: Context specificities, MNE characteristics, features of the local unit as well as IHRM practices.

- Primary reasons for using international assignments include position filling, management development and organization development. There are indicators that the importance of management development is increasing.

### TABLE 5.6 Strategies for breaking the expatriate glass ceiling

<table>
<thead>
<tr>
<th>Strategies</th>
<th>For female expatriates</th>
<th>For MNEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-assignment</td>
<td>- Self awareness</td>
<td>- Begin with a thorough review of their selection criteria for overseas assignments</td>
</tr>
<tr>
<td>strategies</td>
<td>- Understanding their own strengths, and recognize the values and emotions that one identifies with based on upbringing and culture</td>
<td>- Eliminate, through policy and training, any overt or subtle gender biases in the selection process</td>
</tr>
<tr>
<td></td>
<td>- Using those strengths and skills to the fullest advantage</td>
<td>- Train selection decision-makers to avoid the subtle gender biases in the selection process</td>
</tr>
<tr>
<td></td>
<td>- Planning one’s life as well as one’s career</td>
<td>- Trailing spouse and ‘dual-career’ issues should be discussed and provided for regardless of the manager’s gender</td>
</tr>
<tr>
<td></td>
<td>- Development of the relationships and social networks</td>
<td>- Make a more concerted effort to insert women into the relevant informal and formal organizational networks</td>
</tr>
<tr>
<td></td>
<td>- Finding and using mentors as well as corresponding with female expatriates for advice and guidance</td>
<td></td>
</tr>
<tr>
<td>On-assignment</td>
<td>- Finding and using mentors as a key to success</td>
<td>- Consider assigning female expatriates to countries where they are likely to have a greater opportunity to adjust quickly, develop, and grow, particularly earlier in their careers</td>
</tr>
<tr>
<td>strategies</td>
<td>- Develop the willingness and skill to absorb knowledge from the local settings</td>
<td>- Consider and develop possibilities for short-term assignments</td>
</tr>
<tr>
<td>Post-assignment</td>
<td>- Simply acknowledging that the likelihood of extensive use of knowledge is unlikely</td>
<td>- Continued training and mentoring</td>
</tr>
<tr>
<td>strategies</td>
<td>- Female expatriates may think and act more entrepreneurially, taking even greater responsibility for managing their careers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Psychological contract must be fulfilled when an expatriate returns e.g. pay particularly attention to the continued mentoring and training, opportunities for the expatriates to use their new expertise</td>
<td></td>
</tr>
</tbody>
</table>

Various types of international assignments can be distinguished: short, extended and long-term (traditional); and non-standard forms such as commuter, rotational, contractual, virtual and self-initiated assignments. All are presented including implications for the MNE as well as for the individual.

Roles of expatriates are complex. They can act as an agent for direct control, as an agent for socialization, as a network builder, as a boundary spanner and as a language node. These various roles of the expatriate help to explain why expatriates are utilized and illustrate why international assignments continue to be an important aspect of international business from the organization’s perspective.

We placed emphasis on the fact that non-expatriates are also critical to international business operations. International business travelers present their own challenges, such as the effect of frequent absences on family and home life, the possible negative health effects, and other stress factors. The management of such individuals though does not appear to fall within the domain of the HR department.

Another important development in IHRM is the role of inpatriates. This is a group of employees who only differ by definition from expatriates because it includes only those employees who are sent to the headquarters by foreign locations and not those who are assigned by the headquarters.

This chapter has addressed key issues affecting recruitment and selection for international assignments. We have covered:

- The debate surrounding expatriate failure and success.
- We presented important factors in the selection of expatriates. They include technical ability, cross-cultural suitability (soft skills in an international context, intercultural competence and cross-cultural adjustment), family requirements, country/cultural requirements, language and MNE requirements.
- Informal selection processes can often influence expatriate selection. More formally, interview, assessments centers, recommendation and self-selection have been discussed.
- Dual career couples were discussed as a barrier to staff mobility, and we discussed a number of techniques that MNEs are utilizing to overcome this constraint.
- The specific case of female expatriates was discussed and whether they face different issues than their male counterparts.

It is also clear that, while our appreciation of the issues surrounding expatriate recruitment and selection has deepened in the past 30 years, much remains to be explored. The field is dominated by US research on predominantly US samples of expatriates, though there has been an upsurge in interest from European academics and practitioners. Will the factors affecting the selection decision be similar for multinationals emerging from countries such as China and India? If more MNEs are to encourage subsidiary staff to consider international assignments as part of an intra-organizational network approach to management, we will need further understanding of how valid the issues and findings discussed in this chapter are for all categories of staff from different country locations. It is apparent, though, that staff selection remains critical. Finding the right people to fill positions, particularly key managers – whether PCN, TCN or HCN – can significantly influence international expansion. However, effective recruitment and selection is only the first step.
DISCUSSION QUESTIONS

1. Outline the main characteristics of the four approaches to international staffing.

2. Which factors determine the choice of a staffing approach? Would a MNE choose the same staffing approach worldwide? Place your arguments in the context of the model outlining determinants of staffing choices.

3. What are the reasons for using international assignments?

4. What is the role of inpatriates? Do inpatriates guarantee a geocentric staffing policy?

5. As a newly-appointed Project Manager of a research team, you believe that you will be able to manage the project virtually from your office in London, even though the other six members are located in Munich. This will solve your personal dilemma as your family does not want to be relocated. The project has a six-month deadline. What factors should you consider in order to make this virtual assignment effective?

6. Should multinationals be concerned about expatriate failure? If so, why?

7. What are the most important factors involved in the selection decision?

FURTHER READING


NOTES AND REFERENCES


22. The former GMAC-reports became Brookfield reports in 2009.


24. The impact of the financial crisis on international assignments has been subject to many publications. This trend is, for example, also confirmed by The Economist.


34. For recent empirical evidence on organizational assignments (and individual) goals see M. Dickmann and N. Doherty, ‘Exploring Organizational and Individual Career Goals, Interactions, and Outcomes of Developmental International Assignments’, Thunderbird International Business Review, Vol. 52, No. 4 (2010), pp. 313–324. They summarize their arguments by introducing the dimensions of knowing-how, knowing-whom and knowing-why on the organizational as well as on the individual side.


43. Ibid, p. 11.

44. A. Mendez, ‘The Coordination of Globalized R&D Activities through Project Teams Organization: An Exploratory


70. For further details see Z. Tungl and M. Peiperl, ‘Expatriate Practices in German, Japanese, U.K. and U.S. Multinational Companies: A Comparative Survey of


76. For further details see A.-W. Harzing (eds) *Composing International Staff* (London et al.: Sage, 2004).


94. For empirical evidence see, for example, the recent paper by S. Lloyd and C. Haertel, ‘Intercultural Competencies for Culturally Diverse Work Team’, *Journal of Managerial Psychology*, Vol. 25, No. 8 (2010), pp. 845–875.


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121. See also The Economist Intelligence Unit (eds) *Up or Out: Next Moves for the Modern Expatriate* (London, New York, Hong Kong, Geneva: The Economist, 2010).


123. See www.permitsfoundation.com/home.htm for the home page of the Permits Foundation.


Chapter Objectives

The aim of this chapter is to draw together the relevant literature on performance management in the international context as it relates to IHRM. The concentration is on the subsidiary context, reflecting the historical bias towards subsidiary management in the international business and performance management literature, although the focus is broadening. The approach is to identify those aspects that require a substantial modification of traditional performance management (especially appraisal criteria, the roles of various actors in the processes and processes themselves) that are imposed by international operations. We specifically address the following aspects:

- Multinational performance management at the global and local level: considering aspects such as non-comparable data, the volatility of the global environment, the effect of distance and level of subsidiary maturity.
- Performance management as part of a MNE’s control system.
- Factors associated with expatriate performance, including compensation package, task and role, headquarters’ support, host environment factors and cultural adjustment.
- Performance management of expatriates and non-expatriates, and for those on non-standard tasks and assignments such as commuter and virtual work.
- Issues related to the performance appraisal of international employees.
INTRODUCTION

The complexities of managing performance in a MNE’s various globally distributed facilities have received a great deal of professional and academic attention in the last decade. As presented in Chapters 2 and 3, diversity in cultures, production and operations, geographical dispersal and varieties of modes of operations all combine to make performance measurement and the creation of performance management processes that are simultaneously locally relevant and globally comparable a major challenge for HRM practitioners.\(^1\) Monitoring performance and ensuring conformity to agreed-upon standards are significant elements in the managerial control system of a multinational firm; and yet, as Cascio has stated, ‘the terrain of global performance management systems is largely uncharted’.\(^2\)

In this chapter, we differentiate between ‘performance management’ and ‘performance appraisal’. *Performance management* is a process that enables the MNE to evaluate and continuously improve individual, subsidiary unit and corporate performance, against clearly defined, pre-set goals and targets. Figure 6.1 illustrates the major issues, actors and decision processes related to performance management in the international context. This model will allow us to investigate the complex interaction between local and global contexts for performance and the tasks of the actors, performance criteria, purposes for, and timing of performance management as these elements relate to individual and firm outcomes. It provides a convenient starting point for our exploration of the link between the MNE’s internationalization strategies, its goals for individual units in terms of contribution to global profitability and the performance management of individual employees, whether PCN, TCN or HCN. The aspects of these relationships are critical as an individual’s performance is appraised (or evaluated) according to expectations of appropriate outcomes and behavior that contribute to organizational goal attainment.

![Figure 6.1 Perspectives, issues, actions and consequences in MNE performance management](image-url)

MULTINATIONAL PERFORMANCE MANAGEMENT

While a given firm’s general strategic position may vary (depending on, for instance, its size, industry and geographic dispersal), a multinational makes strategic choices based on economic and political imperatives. Within this context, as indicated in Figure 6.1, the MNE has specific expectations for each of its foreign subsidiaries, cooperative ventures and other forms of operation modes, in terms of market performance and contribution to total profits and competitiveness. When evaluating subsidiary performance against these expectations, however, it is important to recognize various constraints that may affect goal attainment. These include the following five constraints outlined below.

Whole versus part

First, it is important to appreciate that by its very nature, the MNE is a single entity that faces a global environment, which means that it simultaneously confronts differing national environments. Integration and control imperatives often place the multinational in the position where it decides that the good of the whole (i.e., the entire MNE) is more important than one subsidiary’s short-term profitability. An example is provided by Pucik, where a multinational establishes an operation in a particular market where its main global competitor has a dominant position. The main objective of entering the market may be to challenge the competitor’s cash flow with aggressive pricing policies. Pucik explains that:

> The balance sheet of this particular subsidiary might be continually in the red, but this strategy, by tying up the competitor’s resources, may allow substantially higher returns in another market. The difficulties in quantifying such a global strategy in terms of the usual return-on-investment objectives are obvious.

Another situation is where the MNE establishes a joint venture in a particular market in order to have a presence there, even though it has low expectations in the short term, and may provide a relatively low level of resources to the venture. Therefore, the consequences of such global decisions for subsidiary management must be taken into consideration when considering the issue of performance appraisal of the senior managers of this joint venture.

Non-comparable data

A second key constraint it that frequently the data obtained from subsidiaries may be neither easily interpretable nor reliable. The following examples illustrate this point:

> Sales in Brazil may be skyrocketing, but there are reports that the Brazilian government may impose tough new exchange controls within a year, thus making it difficult for the multinational to repatriate profits. Does this mean that the MNE is performing effectively? Is the subsidiary performing effectively? Are the senior managers of the subsidiary performing effectively?

> Sales in Peru may be booming, but headquarters management was unaware that under Peruvian accounting rules, sales on consignment are counted as firm sales. How should the headquarters accounting system handle these sales relative to sales from other subsidiaries, which do not consider sales on consignment as firm sales?

As Garland et al. explain, physical measures of performance may be easier to interpret than in the above examples, but difficulties may still arise. For instance, notions of what constitutes adequate quality control checks can vary widely from one country to another, import tariffs can distort pricing schedules, or a dock strike in one country can unexpectedly delay supply of
necessary components to a manufacturing plant in another country. Further, local labor laws may require close to full employment at plants that are producing at below capacity. These factors can make an objective appraisal of subsidiary performance problematic, which in turn complicates the task of appraising the performance of individual subsidiary managers.

Volatility in the global business environment

A third factor that can impact on the performance of a subsidiary is the occurrence of volatility and turbulence in the global business environment. This volatility may require that long-term goals be flexible in order to respond to potential market contingencies. According to Pucik, an inflexible approach may mean that subsidiaries could be pursuing strategies that no longer fit the new environment. Consider, for example, the impact on international business of major events in the past three decades or so, such as: the collapse of communist rule in the late 1980s in Eastern Europe and the former Soviet Union; the adoption of the Euro (€) as the single currency by most of the European Union countries; Chinese market reforms; the Severe Acute Respiratory Syndrome (SARS) and bird flu epidemics; the spread of international terrorism; the Gulf Wars; rising oil prices; high-profile corporate collapses; the adoption of international accounting standards (IAS); the Indian Ocean tsunami disaster in 2004, government cutbacks and austerity measures associated with the global financial crisis that began in 2008 and the Arab Spring political disturbances in 2011.

Each of these events has had profound implications for the global and local strategies of multinationals. Because subsidiaries operate under such volatility and fluctuation, they must tailor long-term goals to the specific situation in a given market. Problems arise when subsidiary managers perceive that goals and deadlines set by a distant headquarters strategy team are unrealistic and inflexible, due to a failure to take into account local conditions that change as a result of a volatile environment. Obviously, involving regional and subsidiary managers in strategic planning assists in managing this perception.

Separation by time and distance

A fourth factor that can impact on the performance of a subsidiary is the effect of separation by time and distance. Judgments concerning the congruence between the MNE and local subsidiary activities are further complicated by the physical distances involved, time-zone differences, the frequency of contact between the corporate head-office staff and subsidiary management and the cost of the reporting system. Developments in sophisticated worldwide communications systems such as increasingly advanced video-conference facilities do not fully substitute for ‘face-to-face’ contacts between subsidiary managers and corporate staff. In some areas, the telecommunications system may be underdeveloped or impacted by an unreliable power grid and it may be necessary to meet personally with a manager and their team to fully understand the problems that these local managers must deal with. For this reason, many MNE corporate managers spend a considerable amount of time traveling in order to meet expatriate and local managers in foreign locations. It is then possible for HR corporate staff, when designing performance management systems, to more accurately account for the influence of country-specific factors.

The growing use of web-based HRIS platforms are in part a response to the separations of time, distance and culture experienced by multinational firms. These strategies may be driven by the complexity and inherent uncertainty of global performance and a sense that successfully competing in the global marketplace will require increased efficiency of operations. However, the potential of these technical systems to control and coordinate activities and processes within the MNE may be limited by unspoken or ill-articulated roles, processes, practices, criteria and purposes.
Variable levels of maturity across markets: the need for relevant comparative data

A final factor influencing the performance of a subsidiary is the variable level of maturity across markets. According to Pucik,\textsuperscript{10} without the supporting infrastructure of the parent, market development in foreign subsidiaries is generally slower and more difficult to achieve than at home, where established brands can support new products and new business areas can be cross-subsidized by other divisions. As a result, more time may be needed to achieve results than is customary in a domestic market, and this fact ought to be recognized in the performance management process. Further, variations in customs and work practices between the parent country and the foreign subsidiary need to be considered. For example:

One does not fire a Mexican manager because worker productivity is half the American average. In Mexico, that would mean that this manager is working at a level three or four times as high as the average Mexican industrial plant. Here we need relevant comparative data, not absolute numbers; our harassed Mexican manager has to live with Mexican constraints, not European or American ones, and these can be very different. The way we measure worker productivity is exactly the same, but the numbers come out differently because of that environmental difference.\textsuperscript{11}

In summary, there are a number of significant constraints that must be taken into account when considering foreign subsidiary performance. Because performance measurement is primarily based on strategic factors, it affects the appraisal and success of the subsidiary’s chief executive and senior management team most directly.

CONTROL AND PERFORMANCE MANAGEMENT

Although it is not often described as such, performance management is a part of a multinational’s control system because performance targets are a part of formal control. Through formal control mechanisms and communication through the feedback and appraisal aspects, performance management also contributes to shaping corporate culture, both formally and informally\textsuperscript{12} thereby acting as an informal control mechanism as well as part of the bureaucratic control system. Employees are rewarded for adopting appropriate work behaviors and this in turn reinforces normative control. Figure 6.2 illustrates the performance-behavior-outcomes

\textbf{FIGURE 6.2} MNE control and performance
linkage. It is through formal and informal control mechanisms that the MNE achieves the consistency, coordination and compliance of desired behavior and outcomes to implement its global strategy. These behaviors and outcomes are expected at all levels and areas – at headquarters as well as in subsidiary operations.

In a sense, by adopting a performance management approach, MNEs are drawing on a number of human resource management activities to realize performance goals set during the performance appraisal process. Its proponents argue, somewhat convincingly, that effective performance management is beneficial to both the individual and the firm. Strong goal setting and appraisal are key elements of an individual performance management system that also may include training and development, and performance-related pay.\textsuperscript{13}

**PERFORMANCE MANAGEMENT OF INTERNATIONAL EMPLOYEES**

Having considered the broader context, we now turn our attention to individual performance management. Consistent with our general approach, we use the term ‘expatriate’ to cover PCNs, TCNs and those HCNs on assignment to headquarters. We also address performance management issues relating to those on non-standard and short-term assignments (such as commuter and virtual) and non-expatriates (e.g. international business travelers). Given the broad scope, and the fact that often issues are common to both expatriates and non-expatriates, we use the term ‘international employees’ when all these various groups are involved.

As discussed in Chapter 5, international assignments vary in terms of the duration and scope of physical relocation required. That is, from traditional expatriate assignments when expatriates and, usually, their family members relocate; to virtual assignments, where no physical relocation by employees or their families is required. When attempting to manage the performance of staff working across the multinational, it is essential to consider all these variables in relation to the nature of the international assignment. The following sections also identify some performance management issues associated with both expatriate and non-expatriate international assignments.

**Expatriate performance management**

As noted in Chapter 5, expatriation remains a key dimension of multinational enterprise and performance. When attempting to determine expatriate performance, it is important to consider the impact of the following variables and their interrelationship:

- The compensation package.
- The task – the assignment task variables and role of the expatriate.
- Headquarters’ support.
- The environment in which performance occurs – the subsidiary or foreign facility.
- Cultural adjustment – of the individual and the accompanying family members.

Figure 6.3 depicts these variables and forms the basis upon which we will explore the nature of the international assignment, how performance is managed, the criteria for assessment and the other elements that comprise an effective performance management system.

**Compensation package.** We will examine the issues surrounding compensation in Chapter 8. However, it is essential that we recognize the importance of remuneration and reward in the
performance equation. Perceived financial benefits, along with the progression potential associated with an overseas assignment, are often important motives for accepting the posting. If these expectations are not realized during the assignment, the level of motivation and commitment is likely to decrease, thus affecting performance.

**Task.** As outlined earlier, expatriates are assigned to foreign operations to fulfill specific tasks. Hays\(^\text{14}\) identified four such tasks:

- **The chief executive officer**, or subsidiary manager, who oversees and directs the entire foreign operation.
- **The structure reproducer** carries the assignment of building or reproducing in a foreign subsidiary a structure similar to that which he or she knows from another part of the company. He or she could be building a marketing framework, implementing an accounting and financial reporting system, or establishing a production plant, for example.
- **The troubleshooter** is the individual who is sent to a foreign subsidiary to analyze and solve a particular operational problem.
- **The operative** is the individual whose assignment is to perform functional job tasks in an existing operational structure, in generally lower level, supervisory positions.

Interesting presentations on executive performance management have recently been provided as part of a wider discussion of ‘corporate governance’. Issues of performance criteria (an over-reliance on ‘shareholder value’ models of executive performance) and the evolving roles, responsibilities and institutional safeguards to assure a complete, accurate and unbiased assessment of top level managers are widely cited for this critical task group.\(^\text{15}\)

In a recent review of cross-cultural performance management systems, Caligiuri identifies four basic types of international assignments: ‘technical assignments’ – short-term knowledge transference activities, said to make up 5 to 10 per cent of expatriate assignments; ‘developmental assignments’ – focusing on in-country performance and the acquisition of local or regional understanding by the assignee, said to make up 5 to 10 per cent of assignments; ‘strategic assignments’ – high-profile activities that focus on developing a balanced global perspective, said to make up 10 to 15 per cent of assignments; and ‘functional assignments’ – described as more enduring assignments with local employees that involve the two-way transfer of existing processes and practices, said to make up between 55 and 80 per cent of assignments.\(^\text{16}\) Accurately assessing performance in the tasks inherent in technical and functional assignments may well involve a limited number of sources and focus on more concrete output criteria (projects completed, contracts signed, etc.).
Assessing progress in developmental and strategic assignments, given their more complex, subjective tasks, are likely to involve a wider variety of local and global participants and perspectives.\textsuperscript{17}

Task variables are generally considered to be more under a multinational’s control than environmental factors. Because of this relative control, task variables can be better assessed and more easily changed, depending, of course, on the level of position, and the nature of the task assignment. Along with the specifics of the task, the multinational, like any other organization, determines the role that accompanies each task position. A role is the organized set of behaviors that are assigned to a particular position. Although an individual may affect how a role is interpreted and performed, the role itself is predetermined.\textsuperscript{18} For the expatriate (role recipient), the parent company (role sender) predetermines his or her role in the foreign assignment, and role expectations may be clearly communicated to the expatriate before departure. Black and Porter\textsuperscript{19} found that American expatriates working in Hong Kong exhibited similar managerial behavior to those remaining in the US. In their discussion of this finding, these authors suggest that the US multinationals involved in this study communicated role expectations by omitting to provide cross-cultural training before departure. In the absence of incentives to modify their role behavior when abroad, it is not surprising that the expatriates concerned performed as they did. This study reminds us that the transmission of expatriate role conception is culturally bound. As Torblö\textsuperscript{20}n explains:

\begin{quote}
The content of the managerial role, as perceived by both the individual manager and the parent company, is affected by organizational norms, in terms of parent-company expectations of the manager, and by the set of cultural norms that the manager holds in relation to other cultural and organizational norms that may be represented by other role senders. Organizational and cultural norms thus interactively determine the role content of the manager.
\end{quote}

The difficulty this presents for the expatriate manager is that the role is defined in one country, but performed in another. That is, the cultural norms regarding the set of behaviors that define ‘a manager in the US’ may not be the same as those considered appropriate for a manager’s role in an important emerging economy such as Indonesia.

Communication of role conception from the multinational to the expatriate is indicated by the straight arrows in Figures 6.4 and 6.5. Role conception is also communicated to the role recipient by host-country stakeholders (e.g., subsidiary employees, host-government officials, customers, suppliers, etc.) as shown by the dashed arrows. This, however, crosses a cultural boundary. Role behavior provides the feedback loop, again at two levels: the parent and the host-country stakeholders. Trying to perform to differing expectations may cause role conflict. If PCN managers adapt their role behavior according to the role conception communicated in the host environment, it may conflict with that predetermined at headquarters. Janssens\textsuperscript{21} study of expatriate

\begin{figure}[h]
\centering
\includegraphics[width=0.8\textwidth]{figure6_4.png}
\caption{PCN role conception}
\end{figure}

performance indicated that role conflict is likely to result in situations where the international manager has an understanding of the host-country culture and realizes that the use of headquarters’ procedures or actions may lead to ineffective management. She postulates that the higher the degree of intercultural interaction, the more problems the expatriate has with role conflict.

From the perspective of headquarters, commitment to the parent is perceived as important, given the part that the PCN plays in transferring know-how and ‘the preferred way of doing things’ into the subsidiary. This helps to explain the preference for using headquarters’ standards in expatriate performance appraisal as a control mechanism. If the PCN is perceived to identify too closely with host-subsidiary concerns (the term ‘going native’ has, in the past, often been used to describe this perception), he or she may be recalled. Some MNEs will restrict the length of stay to no more than three years to contain the possibility of PCN identification with local concerns. Because of the importance given to the parent as role sender in performance appraisal, a PCN may elect to ignore role communication sent from the host-country stakeholders if they consider that performance appraisal is determined by how role behavior conforms to headquarters’ expectations. After all, the expatriate’s career is with the parent firm, not the host subsidiary.

Some empirical support for such a view comes from work by Gregersen and Black in their study of US expatriate retention and dual commitments (to the parent and the local organizations). They found, at the correlational level, commitment to the parent and to the local operation were both positively related to intent to stay. However, ‘regression analysis indicated that when controlling for certain demographic and attitudinal variables, commitment to the parent company appears to be slightly more relevant to expatriates’ intention to stay’. Role conflict was found to affect commitment to the parent company, but was unrelated to commitment to the host company. Another intervening variable may be that of role autonomy. For example, job discretion emerged as an important aspect from a survey of 115 US expatriates working in various countries by Birdseye and Hill. They found that: ‘Foreign work methods may be more structured than their American counterparts (perhaps more procedures and protocols) and that individuals have less discretion in how they approach tasks and problems’. These authors conclude that individuals are likely to blame this lack of discretion on the organization, the job and the location – in that order. A similar finding emerged from an earlier study of US domestic and international relocation by Feldman and Tompson. The degree of change in job duties was positively related to adjustment, while the degree of change in the organization was negatively related to adjustment. Thus, role conflict and role autonomy appear to be important elements in job satisfaction and task performance.
Role clarity emerged as an important variable in a meta-analysis of expatriate adjustment and performance. Integrating studies on expatriate adjustment, the authors\textsuperscript{26} found that:

\begin{quote}
role clarity and work adjustment was the second largest effect \ldots suggesting that the uncertainty regarding objectives, goals and role requirements is the strongest stressor in expatriates’ overseas work environments. In addition, role clarity also has a moderate potential to spill over and minimize non-work difficulties.
\end{quote}

Role expectations are likely to be more complex for the TCN than the PCN, as the role is defined by and performed in two different countries. That is, role conception crosses two cultural boundaries, as shown in Figure 6.5. Parent and host-country role senders may have differing expectations of role behavior that, in turn, are different to the accepted managerial behavior defined by the prevailing norms in the TCN’s own country. For example, a US manager working for a Dutch multinational posted as a TCN in Indonesia may face added difficulties. The American’s role behavior may be deemed inappropriate by both the parent (Dutch multinational) and the host nationals (Indonesians). As Torbiörn\textsuperscript{27} points out:

\begin{quote}
The task of the PCN manager could be described as one of realizing the expectations of a psychologically close, but physically distant stakeholder [parent] in an environment containing other role senders [host-country stakeholders] who are psychologically distant, but physically close \ldots The TCN manager must try to meet the expectations of role senders who are all psychologically distant in a context that is also psychologically distant.
\end{quote}

However, as you may recall from our discussion of the rationale for using TCNs, often the country of assignment is perceived by headquarters as culturally close and this may be an important factor which influences the decision to use a TCN (e.g., a German multinational decides to transfer a Canadian into the USA rather than a German). As there are very few studies that specifically examine TCN performance management issues,\textsuperscript{28} we can only assume that many of the aspects relating to PCNs discussed above will apply to the TCN situation. An American manager working in Indonesia, for instance, whether as a PCN or TCN, may encounter lack of job discretion – with perhaps the same effect in terms of performance – depending on the strength of other intervening variables. For example, differing role senders may exacerbate the situation through conflicting role expectations.

The preceding discussion demonstrates the importance of considering the role that accompanies each task position. Given that task performance is a core component of expatriate appraisal, it is also necessary to recognize that it does not occur in isolation. Many individuals and firms rank job ability as the primary ingredient relating to their expected probability of success in the international assignment, as discussed in Chapter 5. Certain types of tasks, however, require significantly more interaction with host-country stakeholders. Thus, the task variables should not be evaluated in isolation from the subsidiary environment context.

Another factor relating to task variables that warrants consideration is the similarity of the job the individual is assigned abroad to the job that they held domestically. Some types of tasks require an individual to operate within a given structure, while other tasks demand the creation of the structure. Individuals vary greatly in their ability to conceive and implement a system and their tolerance for lack of structure and ambiguity. Some MNEs have experienced failure abroad because they assumed that an individual could be effective in setting up a structure, such as a marketing system, based on evidence of good performance within the existing marketing structure in the domestic corporation.\textsuperscript{29}

**Headquarters’ support.** The expatriate assignment differs from a domestic relocation as it involves the transfer of the individual (and possibly accompanying family members) into a foreign environment, outside their normal cultural comfort zones. The individual’s primary
motivation for accepting the assignment may be career or financially orientated, but this is often mixed with a genuine feeling of loyalty and commitment to the sending organization. As mentioned previously, the process of adjustment to the foreign location typically produces, to varying degrees, a range of emotional and psychological reactions to unfamiliar situations encountered over the period of the stay in the host country. The level of headquarters’ support provided to the individual and the family is an important performance variable.

**Host environment.** The environment has an impact on any job, but it becomes of primary importance with regard to expatriate management. According to Gregersen *et al.*, the international context – with its differing societal, legal, economic, technical and physical demands – can be a major determinant of expatriate performance. Consequently, expatriate performance should be placed within its international as well as its organizational context. Therefore, the five major constraints identified above in terms of multinational strategy and goal setting for the subsidiary are important considerations for expatriate performance management.

The type of operation to which the expatriate is assigned is important. For instance, it may be relatively easier to perform in a wholly owned subsidiary than in a joint venture with a state-owned enterprise in China. Conflicting goals between the parent companies are a common problem within international joint ventures and can make the expatriate’s job more difficult. An expatriate IJV manager may have difficulty trying to serve two masters and experience a high level of uncertainty regarding the effect of differing goal expectations for the IJV upon their performance appraisal. Similarly, the stage of the international business will influence the success of the expatriate. An expatriate overseeing the establishment of a new facility in a foreign country, especially in a developing or emerging market, will face different challenges and constraints to an expatriate manager who is posted into an established operation.

**Cultural adjustment.** The process of cultural adjustment may be a critical determinant of expatriate job performance. Indeed, much of the literature reviewed in our discussion of the cause of expatriate ‘failure’ covers the process of adjustment. It is likely that expatriates and their families will have some difficulty adjusting to a new environment, and this will impact on the manager’s work performance. The dilemma is that adjustment to a foreign culture is multifaceted, and individuals vary in terms of their reaction and coping behaviors. Determining the relevance of adjustment to the new environment when assessing expatriate work performance may be problematical.

The five variables – compensation package, task, headquarters’ support, host environment and cultural adjustment – reviewed above, and shown in Figure 6.3, are not mutually exclusive, but interact in a way that has significant implications for the appraisal of international employees’ performance. Designers and users of performance management systems need to be conscious of, and responsive to, the impact of these variables.

**A cross-cultural context for performance management**

As noted in Figure 6.1, corporate and local strategies and role expectations create much of the potential for complexity and conflict in the definitions underlying criteria, processes and standards that make up performance management. Regional and national institutional, regulatory and historical contexts can impact the character of the criteria selected, task definitions, the timing and even the purposes of performance management. We present three examples of the relationship between national context and firm level practices. Chinese performance management systems have been described as personalized, network driven, focused on pay decision consequences, often implicit or under-spoken, and largely historical and critical in nature.

In France, legal and cultural factors combine to create a performance management system characterized by administrators with a high level of legal expertise – even though France’s labor laws allow some flexibility in assessing performance, within a merit-based, and
non-discriminatory framework. It is seen as a system linked to motivation and developing intellectual capital via coaching and competency-based assessments, with tasks often facilitated by the acceptance of advanced forms of technology. Centralization in processes, implicit or non-transparent procedures, a propensity to have more or less favorable impressions of individuals based on the prestige of their previous university-corporate-governmental experiences, and a strong link between assessment and hierarchical remuneration may be seen to result from widely held cultural norms and values within certain segments of French society. As with any national assessment, care must be taken not to over-generalize. Practices in France vary by size of the firm – with larger firms being more open to a wider variety of performance management practices and criteria than smaller firms – as well as by industry, level of internationalization and occupational level of employee.

By contrast, and with the same caveats against overgeneralization, performance management in Germany must adjust to a much more precisely delineated set of legal and institutional factors. A strong tradition of collective bargaining – be it on the plant, firm or industry level – plant level codetermination and a centuries-old tradition of vocational training all contribute to performance management systems characterized by a high level of worker input via works councils, consensus building processes and activities, a long-term career focus, valuing flexibility in task capability to enhance long-term job security and a high value placed on specialized technical knowledge. Processes tend to be more consensual, explicit, ongoing and informal in a day-today setting, yet roles, standards, criteria, purposes, schedules and consequences are explicitly formalized and regulated via codetermination. Performance-based pay, as a consequence or outcome of the performance management system has been much slower to gain widespread acceptance among German firms. This may be due to the use of short-term performance criteria often applied to trigger British and US models of performance-based pay. German firms tend to focus on linking performance management results to drive long-term training and development activities.

Performance management of non-expatriates

In Chapter 5, non-expatriates (i.e. the international business traveler, or ‘frequent flyer’) were described as employees whose work involved international travel but who are not considered international assignees because they do not relocate to another country. Performance management issues may also impact upon the performance of another group: commuters. This is a form of non-standard assignment outlined in Chapter 5 where the person does not completely relocate but commutes between their home country and their office in another country. An example would be an executive who considers ‘home’ to be a suburb of London, but who, from Monday morning to Friday night, lives and works in Germany while the family remains in London. In Chapter 5, we also discussed the trend towards the use of virtual assignments to overcome staff immobility. Instead of moving into the host environment, the person manages the international position from the home country using a combination of regular communication link-ups and frequent trips to the foreign location.

As yet, little is really known about the implications of such international business travel, whether as part of a non-standard assignment, or as a component of a specific job, on individual performance. However, it is possible to suggest some performance management challenges:

- How to determine performance criteria and goals related to the effective conduct of non-standard assignments, especially virtual assignees. As indicated in Figure 6.1, agreement on performance criteria is an important component of the performance management process. This requires the link between each employee’s performance and the achievement of the MNE’s strategic goals and objectives to be clearly established and understood. However, as the role conceptions in Figures 6.4 and 6.5 show, shared conceptions of roles and expectations are complicated by the number of cultures and organizational contexts involved. With virtual assignees, monitoring and evaluating a physically and geographically distant group of employees is problematical. It is "management by
remote control’. In addition, the virtual assignee may be faced with dual goals – that of the domestically located job and the virtual work group. Therefore, the perennial challenge of effectively communicating the strategic links between the assignee’s performance and organizational strategy is likely to be magnified. 37

- An understanding of the criteria for performance is generally advocated as a highly participative process between supervisor and employee. 38 As with the traditional expatriate assignment, work conducted through non-standard assignments and international travel is still conducted across cultural and national boundaries, and thereby subject to cultural differences in norms about acceptable or preferred levels of participation.

- Isolating the international dimensions of job performance might not be as straightforward as in traditional expatriate assignments. It may depend on the level of difficulty inherent in the performance criteria set and how individual performance levels are determined.

- Outstanding performance, under-performance or failure in non-expatriate and non-standard assignments will challenge the performance appraisal process.

- As we shall explore in a later section of this chapter, regular feedback on progress towards those performance goals is most usually provided through the performance appraisal activity. Performance feedback for assignees will only be relevant if it reflects the international contexts in which they are performed. 39 Those enduring concerns of who conducts performance appraisals, how and based on what performance data, may be intensified when it involves increasing numbers of others outside head office with whom the assignee is working.

- One key function of performance appraisal feedback is that it provides opportunities to improve performance by identifying performance gaps that might be eliminated with training and development. Cross-cultural awareness and competence training will still be relevant for non-expatriates. However, detailed analysis and study of other pre-departure and ongoing training that might be required for non-expatriate assignments is yet to be conducted.

- Employee expectations about rewards for performance and as elements of their working conditions, together with motivation are important aspects of individual performance. In MNEs, the management of links between performance and rewards is already complex, due to the specialized local knowledge required across multiple employment and legal environments. The challenges for IHRM are to determine what to reward when dealing with non-expatriate assignments, and the way compensation for each type of international assignment fits with the multinational’s global compensation strategy.

- The impact of non-standard assignments on host-country national co-workers should also be considered – particularly in terms of the impact on these staff of international business travelers and commuters who ‘drop in, drop out’.

PERFORMANCE APPRAISAL OF INTERNATIONAL EMPLOYEES

Now that we have an understanding of the variables likely to influence performance, including the nature of the international assignment being performed, we can discuss the criteria by which performance is to be appraised (or evaluated – the terms are used interchangeably in the relevant literature). We note that the focus on expatriate management is also reflected in the literature about the performance appraisal of international staff, and much of the following discussion reflects that emphasis. However, aspects of expatriate performance appraisal are also relevant to the appraisal of non-expatriates and these, along with the aspects that distinguish between the two categories of international staff, will be highlighted.
As shown in Figure 6.1, individual performance management involves a set of decisions on the dimensions and level of performance criteria, task and role definitions, and the timing of the formal and informal aspects of the appraisal. Traditionally, it comprises a formal process of goal setting, performance appraisal and feedback. Data from this process is often used to determine pay and promotion, and training and development requirements. MNE goals influence the individual’s salient task set, against which job goals and standards are established and measured. There are differences in the way this process is handled within MNEs. For example, in Germany and Sweden it is common for employees to have input into job goal setting, whereas in other countries such as the USA, job goals tend to be assigned. In addition, the type and length of assignment appears to influence how performance management is handled. For example, a study of Finnish firms revealed that those on short-term assignments were treated the same as any other employee in the company, and there was more flexibility in the timing of the performance review for those assigned to projects.

Performance criteria

The global firm’s ability to measure an employee’s individual contribution to performance and to assess the aggregate contribution of human capital to strategic progress is a complex and timely topic in organizational studies. Goals tend to be translated into performance appraisal criteria so specificity and measurability issues are important aspects, and we need to recognize that hard, soft and contextual goals are often used as the basis for performance criteria. Hard goals are objective, quantifiable and can be directly measured – such as return-on-investment (ROI), market share, etc. Soft goals tend to be relationship or trait-based, such as leadership style or interpersonal skills. Contextual goals attempt to take into consideration factors that result from the situation in which performance occurs. For example, MNEs commonly use arbitrary transfer pricing and other financial tools for transactions between subsidiaries to minimize foreign-exchange risk exposure and tax expenditures. Another consideration is that all financial figures are generally subject to the problem of currency conversion, including sales and cash positions. Further complications could arise because some host governments (usually emerging economies) may decide to place restrictions on repatriation of profits and currency conversion. The nature of the international monetary system and local accounting differences may also preclude an accurate measurement of results. The dilemma this poses is that the use of transfer pricing and other financial tools is necessary because of the complexity of the international environment. Multinationals cannot allow subsidiaries to become autonomous in financial management terms, and place controls on subsidiary managers. Thus, the financial results recorded for any particular subsidiary do not always accurately reflect its contribution to the achievements of the MNE as a whole. Therefore, such results should not be used as a primary input in performance appraisal. For this reason, a performance management approach is now advocated, rather than traditional performance appraisal, as it allows clarification of goals and expectations of performance against those goals.

Janssens suggests that performance appraisal of subsidiary managers against hard criteria is often supplemented by frequent visits by headquarters staff and meetings with senior managers from the parent company. Soft criteria can be used to complement hard goals, and take into account areas that are difficult to quantify such as leadership skills, but their appraisal is somewhat subjective and, in the context of both expatriate and non-expatriate assignments, more complicated due to cultural exchanges and clashes. However, relying on hard criteria such as financial data to evaluate how well a manager operates a foreign subsidiary does not consider the way results are obtained and the behaviors used to obtain these results. Concern with questionable ethical practices led to the enactment of the US Foreign Corrupt Practices Act (FCPA), which may prompt an increased use of behavioral as well as results data to appraise the performance of managers in foreign subsidiaries. However, an appraisal system that uses hard, soft and contextual criteria builds upon the strengths of each while minimizing their
disadvantages. Using multiple criteria wherever possible is therefore recommended in the relevant literature. In addition, job analysis must, as Harvey suggests, generate criteria that adequately capture the nature of international work as opposed to the domestic context, in order to provide valid appraisal information.

Who conducts the performance appraisal?

Another issue is who conducts the performance appraisal. Typically, employees are appraised by their immediate superiors, and this can pose problems for subsidiary chief executive officers (or senior managers). They work in countries geographically distant, yet are evaluated by superiors back at headquarters who are not in a position to see on a day-to-day basis how the expatriate performs in the particular situation. Consequently, subsidiary managers tend to be assessed according to subsidiary performance, with a reliance on hard criteria similar to that applied to heads of domestic units or divisions. Of course, there is a danger that a subsidiary manager will take decisions and implement local strategies that favor short-term performance to the detriment of longer-term organizational goals.

Appraisal of other employees is likely to be conducted by the subsidiary’s CEO, or the immediate host-country supervisor, depending upon the nature and level of the position concerned. With regard to expatriate performance appraisal, host-country managers may have a clearer picture of expatriate performance and can take into consideration contextual criteria. However, they may have culturally bound biases (e.g. about role behavior) and lack an appreciation of the impact of the expatriate’s performance in the broader organizational context. As the IHRM in Action Case 6.1 illustrates, some expatriates may prefer to have parent-company evaluators given that their future career progression may depend on how the appraisal data is utilized back at headquarters. This may be especially so in cases where foreign operations are relatively less important than, say, domestic US operations. Others may prefer a host-country appraisal if they perceive it as a more accurate reflection of their performance.

Multiple raters are sometimes used in the domestic context – e.g. the 360-degree feedback process. It has been argued that, given the cross-cultural complexity of the foreign assignment, a team of evaluators should be used for performance appraisal. For example, Gregersen et al. found that most firms (81 per cent) in their survey of HR directors in 58 US multinationals used more than one rater when assessing expatriate performance. The immediate superior (in either the home or host country), the expatriate as self-rater, and the HR manager (either home or host-country based) were commonly used as multiple evaluators of US expatriate performance. The 2010 Brookfield Global Relocation Trends Survey Report found that 35 per cent of respondents reported using performance reviews in the host country, 27 per cent used reviews in both host and home countries and 10 per cent used performance reviews in the home country. For the virtual assignment situation, the use of multiple appraisers would most likely be the most accurate way to determine performance. However, the availability of knowledgeable, trained raters may constrain the approach taken in the international context.

Standardized or customized performance appraisal forms

Domestic firms commonly design performance appraisal forms for each job category, particularly those using a traditional performance appraisal approach rather than performance management. Such standardization assists in the collection of accurate performance data on which HR decisions can be made, and allows for cross-employee comparisons. The question often posed is should these standardized forms be adapted when used for appraising international managers? As Gregersen et al. argue:
In principle, performance appraisal systems are designed carefully and often presumed to be static. Valid reasons exist for maintaining standard, traditionally used appraisals (e.g., when the system has been tested, has identified baselines, and reduces future development costs). These reasons are valid as long as the context of the performance does not change. In the expatriate setting, however, the performance context does change, and sometimes it changes dramatically. Given a global context, previous testing and established baselines grounded in domestic situations can become meaningless. Despite this, they found that in their sample of US firms, 76 per cent used the same standardized appraisal forms for expatriate appraisal. Employees who relocate within the multinational and non-expatriate assignees who also cross cultural boundaries in their performance context do not always feel headquarters-based appraisal forms allow for consideration of the critical success factors of their performance like cross-cultural competence.

Frequency of appraisal

In practice, formal appraisal is commonly on a yearly basis, and this appears to extend to international performance systems, even though the domestic-oriented literature on this topic recommends an ongoing combination of formal and informal performance appraisal and feedback. For example, the majority of the US companies in the Gregersen et al. study referred to above reported annual appraisal practices. It is interesting to note that the US companies using annual appraisal systems were more likely to use standard appraisal forms and hard criteria. In their
discussion of this finding, Gregersen et al. comment that replicating domestic practices requires less effort in collecting and interpreting the data, and that the preference for following the domestic system might reflect lack of international experience within the companies in the sample. It is important to note that only 28 per cent of the HR respondents in their study reported having actually been on an international assignment themselves, so it is reasonable to assume that they might not be fully aware of the need to take contextual criteria into consideration, or see a need for the customization of their expatriate performance systems.

Performance feedback

An important aspect of an effective performance management system is the provision of timely feedback of the appraisal process. One of the problems with annual appraisal is that employees do not receive the consistent frequent feedback considered critical in order to maintain or improve their performance. The performance literature also suggests that regular feedback is an important aspect in terms of meeting targets and revising goals, as well as assisting in motivation of work effort. The difficulty for the expatriate who is being evaluated by a geographically distant manager is that timely, appropriate feedback is only viable against hard criteria.

For virtual assignees, this is further complicated when geographic dispersion dictates reliance on email communication. Interpersonal relations and an effective choice of communication medium are two factors influencing virtual workgroup relations. Milliman et al. reported two critical incidents involving miscommunication between managers working on a virtual assignment in the USA and Malaysia. Email feedback about his Malaysian counterpart’s good performance provided to the Malaysian by the American head of the project generated a cycle of cross-cultural conflict. This threatened the virtual team’s performance when the Malaysian sought to transfer out of the team. Adopting an organizational learning approach, the researchers analyzed the miscommunication and its consequences. They concluded that the two managers concerned had different views about what constituted ‘the primary source of job performance, how performance feedback is provided, what role the subordinate will have in communicating with a superior, how conflict is handled, and what communication styles are expected’. The approach used to analyze these incidents provides a useful IHRM starting point for developing effective cross-cultural performance feedback communication skills.

Appraisal of HCN employees

The discussion so far has omitted the issue of appraising the performance of HCN employees. To a certain extent, this reflects the limited research on the topic in the context of IHRM, though there is a growing body of literature on comparative HRM practices. What is important to mention here is that the practice of performance appraisal itself confronts the issue of cultural applicability. Performance appraisal in different nations can be interpreted as a signal of distrust or even an insult. In Japan, for instance, it is important to avoid direct confrontation to ‘save face’, and this custom affects the way in which performance appraisal is conducted. A Japanese manager cannot directly point out a work-related problem or error committed by a subordinate:

Instead, he is likely to start discussing with the subordinate the strong points of that person’s work, continuing with a discussion about the work on a relatively general level. Then he might continue to explain the consequences of the type of mistake committed by the subordinate, still without directly pointing out the actual mistake or the individual employee. From all this, the subordinate is supposed to understand his mistake and propose how to improve his work.
One way to overcome the dilemma of cultural adaptation is to use host-country nationals to assist in devising a suitable system for appraising subsidiary employees and to advise on the conduct of the appraisal. At times, the need for local responsiveness may affect the multinational’s ability to effectively implement a standardized approach to performance management at all levels within the global operation.\(^{60}\)

As we discussed in relation to PCNs and TCNs, the level of position involved is an important consideration. Should a multinational appoint a HCN as its subsidiary manager, much of what we covered in terms of goals (particularly hard goals) and performance measures could be expected to apply to the HCN. In terms of task performance and potential role conflict, as can be seen from Figure 6.6, Torbiörn\(^{61}\) recognizes that HCN managers face particular role concerns that are different from those of PCN and TCN managers. The HCN manager is expected to perform a role that is conceptualized by a psychologically and physically distant parent company, but enacted in an environment with other role senders who are both psychologically and physically close.

**FIGURE 6.6** HCN role conception

Parent-company role conception is communicated to the HCN, but it crosses the cultural boundary, as does feedback expressed as the HCN’s role behavior (the straight arrows in Figure 6.6). Input from ‘host-country’ role senders, though, does not cross a cultural boundary. The HCN receives role expectations and enacts role behaviors in his or her own cultural environment. For subsidiary staff below the top management level, one would expect that the performance management system be localized to take into consideration local behavioral norms of work behavior. Torbiörn’s model depicts only HCN managerial role conception and communication.

Conflict may arise in cases where HCNs report to a PCN expatriate manager who also conducts their performance appraisal. In a way, this is the reverse of the discussion surrounding local managers appraising the performance of expatriates in terms of cultural bias. The difference, of course, is the impact that parent-company standards have on the performance management system and the degree to which localization is permitted in a standardized approach.\(^{62}\) It may not be culturally sensitive to use appraisal techniques such as 360-degree feedback, for instance. In practice, US multinationals have often used the same appraisal form for HCNs as for their domestic employees. Sometimes the forms are translated from English; sometimes they...
are not. Both approaches have drawbacks. As discussed above, while some MNEs are developing information systems to assist in performance appraisal, the widespread use of computer-generated data is hampered by the legal constraints imposed by some host governments or by concerns about personal privacy.

One aspect that is overlooked in the limited literature on this topic is the potential for role conflict for those HCNs transferred into the parent’s operations. For that period, the HCN may be evaluated according to role behavior expectations communicated by role senders that are physically close but psychologically distant, in an environment that is also psychologically distant. The HCN is then transferred, usually back into his or her home country, and may experience difficulties in readjusting role behavior.

In relation to performance appraisal generally, it seems that the process remains problematic, irrespective of cultural impacts. For example, a study by Gerringer et al. reported a common finding across ten countries/regions, which was the failure of performance appraisal to fulfil its development purpose. The study formed part of the Best Practices in International HRM project – a multiple-year, multiple-researcher, multi-national project. The ten countries/regions were Australia, Canada, China, Indonesia, Japan, Korea, Latin America, Mexico, Taiwan and the USA. The researchers noted: ‘It appears that the potential of appraisal is not fully realized in current practice, not only (as widely believed) in the US, but also in most other countries’.

Reviews on global performance management describe a more widespread use of performance management systems by multinational firms. Formal reviews tend to be annual or biannual, online systems are still in the minority (20 per cent of responding firms), but one-third of the firms stated they had plans to move to online systems. Objective and subjective criteria are used, and training based on the results of the performance management process is growing. Systems capabilities related to consistency within the far-flung system in the firm, integrating performance management into other HR activities (such as succession planning and compensation) and linking performance management to strategic planning while incorporating the leadership of senior management are seen as critical if performance management is to contribute to the control of MNEs.

The criticality of balancing global (parent) processes, practices, roles and norms with local or regional equivalents is of ongoing interest to students of global performance management. Investigating the impact of high context cultures on selecting and valuing implicit, explicit-subjective or explicit-objective forms of performance criteria is the theme of some research in this area. Preliminary research has begun on operationalizing these kinds of dimensions and gathering cross-cultural empirical data – most certainly a non-trivial task.

Research is also ongoing in contrasting the standardized system of global performance management as envisioned at MNE headquarters and the locally or regionally customized ‘systems-in-use’ as holistically practiced on site. The effects of legal and regulatory contexts on the aforementioned processes, practices and norms, and the widening range of tasks and assignments required of employees in MNEs all combine to make performance management a complex, yet critical area of human resource management.

**SUMMARY**

Technical competence is a necessary but not sufficient condition for successful international performance. Cross-cultural interpersonal skills, sensitivity to foreign norms and values, and ease of adaptation to unfamiliar environments are just a few of the managerial characteristics most multinationals seek when selecting international managers. The added challenge is the effective management and appraisal of performance across all of the MNE’s operations. In this chapter we have explored:

- The basic components of a performance management system that is conscious of and responds to the organizational, national and international elements.
Multinational performance aspects: whole (global) versus part (subsidiary); non-comparable data; the volatility of the global environment; the effect of distance; and the level of maturity. Performance management as a control mechanism was briefly discussed.

Factors associated with expatriate performance: the compensation package; task and role; level of headquarters support; host-environment factors; and cultural adjustment.

The performance management of non-expatriates and those on non-standard assignments. We used the virtual assignment as an illustration of some of the aspects that need to be considered in these non-traditional assignment types.

The issues relating to the performance appraisal of international employees.

Appraisal of HCN managers and employees in subsidiary operations.

Broadening out the discussion to the multinational level, and addressing performance management and appraisal concerns related to non-expatriates and those on non-standard assignments has been useful to remind us that there are many dimensions to international business operations that need to be considered when designing an effective performance management system in the multinational context.
DISCUSSION QUESTIONS

1. In the section on the volatility of the global environment, several world events were listed that have had profound implications for the global and local strategies of MNEs. Select a recent world event, identify the specific HR implications that may arise from this, and devise policies as to how these may be handled.

2. Discuss the major factors associated with appraisal of expatriate managerial performance.

3. One of the dangers of performance appraisal is that, because the focus is so much on a particular individual, the teamwork aspect gets lost. In an international location, it is perhaps desirable to focus more on how the PCN has settled in and is operating as part of a team rather than as an individual.

4. Why is it important to include hard, soft and contextual goals when assessing managerial performance?

5. In what ways would the role of a manager working in a non-standard international assignment arrangement differ from that of a typical expatriate manager?

FURTHER READING


NOTES AND REFERENCES


6. Ibid.
8. Ibid.
17. For more on how the purposes and roles inherent in assignments may impact upon the characteristics of performance management systems see Engle, Dowling and Festing, ‘State of Origin’.
28. For example, in one of the few articles on this topic, Chadwick looks at the TCN assignment in general and does not specifically address performance. Rather, the focus is on fair treatment and equity regarding compensation. See W. Chadwick, ‘TCN Expatriate Manager Policies’, in J. Selmer (ed.) Expatriate Management: New Ideas for International Business (Westport, CT: Quorum Books, 1995).


44. Jarsissens, ‘Evaluating International Managers’ Performance’.


46. K. F. Brickley, Corporate Criminal Liability: A Treatise on the Criminal Liability of Corporations, Their Officers and Agents, Cumulative supplement (Deerfield, IL: Clark Boardman Callaghan, 1992). Enacted in 1977, the FCPA addresses the problem of questionable foreign payments by US multinationals and their managers. The act was amended by Congress in 1988 to include substantial increases in the authorized criminal fines for organizations and new civil sanctions for individuals violating the FCPA. See http://www.justice.gov/criminal/fraud/cfpa/ (as accessed on October 28, 2010) for details, amendments, interpretations and worksheets.

47. Tahvanainen, Expatriate Performance Management; and Gregersen, Hite and Black, ‘Expatriate Performance Appraisal in U.S. Multinational Firms’.


49. Tahvanainen, Expatriate Performance Management.


54. It should be noted that these authors take a traditional performance appraisal approach, rather than utilize the newer performance management literature that we discuss in this chapter. It may be that the goal setting stressed in the performance management literature will assist standardization.


61. Torbiörn, ‘The Structure of Managerial Roles in Cross-Cultural Settings’.


Chapter Objectives

Training aims to improve employees’ current work skills and behavior, whereas development aims to increase abilities in relation to some future position or job. In this chapter, we examine how the international assignment is a vehicle for both training and development, as reflected in the reasons why international assignments continue to play a strategic role in international business operations. The role of training in preparing and supporting personnel on international assignments is also considered. We examine the following issues:

- The role of training in supporting expatriate adjustment and on-assignment performance.
- Components of effective pre-departure training programs such as cultural awareness, preliminary visits and language skills. Relocation assistance and training for trainers are also addressed.
- The effectiveness of pre-departure training.
- The developmental aspect of international assignments.
- Training and developing international management teams.
- Trends in international training and development.
Reflecting the general literature on this topic, the focus of the chapter is on the traditional, expatriate assignment. However, where possible we will draw out training and development aspects relating to short-term assignments, non-standard assignments and international business travelers.

The chapter concludes with what could be called the post-assignment stage and its wider impact on the careers of employees who have been on an international assignment. Re-entry raises issues for both the expatriate and the MNE, some of which may be connected to events that occurred during the international assignment. We examine:

- The process of re-entry or repatriation.
- Job-related issues.
- Social factors, including family factors that affect re-entry and work adjustment.
- MNE responses to repatriate concerns.
- Staff availability and career issues.
- Return on investment (ROI) and knowledge transfer.
- Designing a repatriation program.
- Broader international career issues.

INTRODUCTION

In order to compete successfully in a global market, more firms are focusing on the role of human resources as a critical part of their core competence and source of competitive advantage. As Kamoche comments: ‘the human resource refers to the accumulated stock of knowledge, skills, and abilities that the individuals possess, which the firm has built up over time into an identifiable expertise’. Training and development activities are part of the way in which the MNE builds its stock of human resources – its human capital. An indication of the importance of this is the increasing number of MNEs that have established their own ‘universities’ or ‘schools’. Motorola, McDonald’s, Oracle, and Disney universities are good examples of these in-house training centers. Several European, Japanese and Korean firms have similar arrangements (e.g. the Lufthansa School of Business).

The international assignment in itself is an important training and development tool:

- Expatriates are trainers, as part of the transfer of knowledge and competence between the various units – a major rationale for the use of international assignments. Whether implicitly or explicitly stated, they are expected to assist the MNE train and develop HCNs – that is, train their replacements.
- Expatriates are also expected to ensure that systems and processes are adopted, and inevitably they will be engaged in showing how these systems and processes work, as well as monitoring the effective performance of HCNs.
- One of the reasons for international assignments is management development. A move into another area internationally – job rotation – is a useful way for employees to gain a broader perspective. It assists in developing capable people who form the required pool of global operators, as discussed in earlier chapters.
Therefore, the way in which an MNE anticipates and provides suitable training for international assignments is an important first step. This is reflected in the growth of interest in, and provision of, pre-departure training to prepare expatriates and accompanying family members for their international assignment.

Figure 7.1 is a schematic representation of the international training and development process. It shows the link between international recruitment and selection, and training and development activities. Most expatriates are *internal hires*, selected from within the MNE’s existing operations. However, as indicated by the dotted arrow in Figure 7.1, some expatriates may be hired externally for an international assignment. We will now consider the various elements related to expatriate training and development in the context of managing and supporting international assignments.

**FIGURE 7.1** International training and development

![Diagram of international training and development process]

### The role of expatriate training

Given that the primary selection criterion for most MNEs is technical ability of existing employees, it is not surprising to find that most of the literature on expatriate training is devoted to expatriate pre-departure training activities that are mainly concerned with developing cultural awareness. Therefore, once an employee has been selected for an expatriate position, pre-departure training is considered to be the next critical step in attempting to ensure the expatriate’s effectiveness and success abroad, particularly where the destination country is considered culturally tough. In Figure 7.1 pre-departure training is indicated as a subset of general training. Effective cultural training, it is advocated, assists individuals to adjust more rapidly to the new culture. As Earley points out, a major objective of intercultural training is to help people cope with unexpected events in a new culture.

The limited, predominately US-based, research into this area reveals that a large number of US multinationals have been reluctant to provide even a basic level of pre-departure training, though this is now changing. Particular interest in the area began with Tung’s study on expatriation practices, including the use of pre-departure training programs. Her results showed that US multinationals tended to use training programs for expatriates less frequently than European and Japanese firms (32 per cent compared with 69 per cent and 57 per cent, respectively). The US attitude to the provision of pre-departure training appeared to persist through the 1980s. For example, a 1984 study of one thousand US multinationals found that only 25 per cent offered extensive pre-departure training programs, while a 1989 study of US firms found that only 13 per cent of respondents indicated that they would offer expatriates a pre-departure program. Among the various reasons cited by firms in these studies was that top management did not believe pre-departure training was necessary or effective. So, while the potential benefits of cultural awareness training are widely acknowledged, such training was downgraded or not offered by a large number of US multinationals. A 1997 survey of European firms (including subsidiaries of non-European multinationals) found that only 13 per cent of responding firms always provided expatriates with access to cultural awareness courses, though a further 47 per cent provided briefings for culturally ‘challenging’ postings (compared with 21 per cent in a 1995 survey).
MNEs appear to be more positive about the provision of training over the last few years, possibly in part due to the growth in numbers of providers of pre-departure training that multinationals can access. Today we see different patterns emerging. For example, in 2011 Brookfield reports from a sample of 118 MNEs that 74 per cent provided cross-cultural training (CCT), with 43 per cent offering preparation on some assignments and 31 per cent on all assignments (see source at Table 7.1). Furthermore, where cross-cultural preparation is offered only on some assignments, 46 per cent make it available based on host location, 29 per cent based on the type of assignment and 25 per cent based on other criteria. Here we see that type of assignment and intended location have considerable influence on when cross-cultural training is offered.

Previously, multinational firms placed less priority on providing pre-departure training for the spouse and family. However, perhaps due to increasing recognition of the interaction between expatriate performance and family adjustment, more multinationals are now extending their pre-departure training programs to include the spouse/partner and children. This is reflected in the Brookfield data above, and in another survey – the Mercer HR 2010 International Assignments Survey. The latter reports that provision of pre-departure training for accompanying spouses and partners continues to increase, with two-thirds of MNEs providing language training to the spouse and 55 per cent providing cross-cultural training. ORC12 reports similar findings, with 38 per cent providing cross-cultural training to all family members, 19 per cent to the expatriate and spouse only and 11 per cent to the expatriate only. However, as Table 7.1 shows, the percentage of firms that make CCT optional remains very high (74 per cent in 2011) so it is possible that many expatriates still receive very little training. In a review of CCT, Littrell and Salas suggest that a lack of synthesis in the area of CCT research has made it difficult for managers to implement CCT. Their review provides a number of research-based guidelines as to how MNEs can enhance the success of their CCT programs.13

It is also important to note that the provision of pre-departure training appears to vary across industries: Mercer14 reports that chemical, pharmaceutical, healthcare and consumer firms are overall the most generous in terms of pre-assignment support, while IT firms are the least generous. For example, 56 per cent of chemical, pharmaceutical, healthcare and consumer firms provide language training to assignees’ children but only 14 per cent of IT companies do.

### COMPONENTS OF EFFECTIVE PRE-DEPARTURE TRAINING PROGRAMS

Studies indicate that the essential components of pre-departure training programs that contribute to a smooth transition to a foreign location include: cultural awareness training, preliminary
visits, language instruction, assistance with practical day-to-day matters and security briefings. We will look at each of these in turn.

**Cultural awareness programs**

It is generally accepted that, to be effective, the expatriate employee must adapt to and not feel isolated from the host country. A well-designed, cultural awareness training program can be extremely beneficial, as it seeks to foster an appreciation of the host country's culture so that expatriates can behave accordingly, or at least develop appropriate coping patterns. Without an understanding (or at least an acceptance) of the host-country culture in such a situation, the expatriate is likely to face some difficulty during the international assignment. Therefore, cultural awareness training remains the most common form of pre-departure training.

The components of cultural awareness programs vary according to country of assignment, duration, purpose of the transfer, and the provider of such programs. As part of her study of expatriate management, Tung identified five categories of pre-departure training, based on different learning processes, type of job, country of assignment and the time available. These were: area studies programs that include environmental briefing and cultural orientation; culture assimilators (a training device whereby various cultural encounters can be discussed and analyzed); language training; sensitivity training; and **field experiences**. To understand possible variations in expatriate training, Tung proposed a contingency framework for deciding the nature and level of rigor of training. The two determining factors were the degree of interaction required in the host culture and the similarity between the individual’s native culture and the new culture. The related training elements in her framework involved the content of the training and the rigor of the training. Essentially, Tung argued that:

- If the expected interaction between the individual and members of the host culture was low, and the degree of dissimilarity between the individual’s native culture and the host culture was low, then training should focus on task- and job-related issues rather than culture-related issues. The level of rigor necessary for effective training should be relatively low.
- If there was a high level of expected interaction with host nationals and a large dissimilarity between the cultures, then training should focus on cross-cultural skill development as well as on the new task. The level of rigor for such training should be moderate to high.

Tung’s model specifies criteria for making training method decisions – such as degree of expected interaction and cultural similarity. One limitation of the model is that it does not assist the user to determine which specific training methods to use or what might constitute more or less rigorous training.

More than a decade later, Tung revisited her earlier work and reported that her original recommendations held, though with some changes:

- Training should be more orientated to life-long learning than ‘one-shot’ programs with an area-specific focus.
- There should be more emphasis on provision of foreign language training.
- There should be emphasis on the levels of communication competence, not just verbal communication, so the person becomes bicultural and bilingual, which enables an easier transition between one culture and another.
- Cross-cultural training assists in managing diversity.
- The preview of the expatriate position should be realistic, as this facilitates effective performance.
Mendenhall and Oddou extended Tung’s model and this was refined subsequently by Mendenhall, Dunbar and Oddou who proposed three key dimensions in their cross-cultural training model:

1. training methods;
2. levels of training rigor;
3. duration of the training relative to degree of interaction and culture novelty.

This model provides excellent guidelines for managers to determine an appropriate program. For example, if the expected level of interaction is low and the degree of similarity between the individual’s home culture and the host culture is high, the length of the training could probably be less than a week to provide the appropriate level of training rigor. Training methods would emphasize an information-giving approach. Examples of such an approach would be:

- area or cultural briefings;
- lectures, movies, or books;
- use of interpreters;
- ‘survival-level’ language training.

If the individual is to work in a foreign location for a period of 2 to 12 months and is expected to have some interaction with members of the host culture, the level of training rigor should be higher and the length of training longer (at least 1–4+ weeks). Training methods would emphasize an affective approach. Examples of such an approach would be:

- Role-playing.
- Critical incidents.
- Culture assimilator training.
- Case studies.
- Stress reduction training.
- Moderate language training.

If the individual is going to a fairly novel and different host culture and the expected degree of interaction is high, the level of cross-cultural training rigor should be high and training should be for two months or longer. Depending on the level of fluency required for language training, some training programs may extend up to a year. Training methods would emphasize an immersion approach. Examples of such an approach would be:

- Assessment center.
- Field experiences.
- Simulations.
- **Sensitivity training.**
  - Intercultural web-based workshop.
  - Extensive language training.

One obvious practical limitation of Black and Mendenhall’s model is that there may be insufficient time for an expatriate to undertake cross-cultural training, which is often given as a reason
why MNEs do not provide pre-departure training or why the uptake for such training is low. It would therefore be difficult to develop appropriate pre-departure training programs in such cases. Other contextual and situational factors – such as, cultural toughness, length of assignment and the nature/type of the job – may have a bearing on the content, method and processes involved in the cultural awareness training program. More importantly, monitoring and feedback should be recognized as important components of individual skill development, particularly as adjustment and performance are the desired outcomes of cultural awareness training.

### Preliminary visits

One technique that can be very useful in orienting international employees is to send them on a **preliminary visit** to the host country. A well-planned visit for the candidate and spouse provides a preview that allows them to assess their suitability for and interest in the assignment. Such a visit also serves to introduce expatriate candidates to the business context in the host location and helps encourage more informed pre-departure preparation. It is essential to note that such a visit must be relevant to the intended position that the international employee will be taking up and not simply a ‘tourist’ experience. When used as part of a pre-departure training program, visits to the host location can assist in the initial adjustment process (for details on expatriate adjustment see Chapter 5).

ORC,\(^{21}\) in its survey of 916 MNEs, reported that three-quarters provide a pre-assignment trip to expatriates to allow them to become familiar with the new location, secure housing, child education and other such items that are necessary for a successful transition to the host country: 49 per cent offer a preliminary visit to the expatriate and spouse, 20 per cent for all family members, and 6 per cent for the expatriate only. Furthermore, the majority of firms typically provide four to six days for such a trip, with all actual expenses for hotel, transportation, meals, and miscellaneous expenses reimbursed.

Obviously, the prospective assignee may reject the assignment on the basis of the preliminary visit. As one firm in a 1997 European study\(^ {22}\) is reported to have admitted: ‘We do not provide pre-assignment visits where conditions are so poor that nobody would want to go’. Most firms that utilize preliminary visits, though, weigh the cost of a preliminary visit against premature recall and under-performance risks. A potential problem arises if the aim of the preliminary visit is twofold – part of the selection decision and part of pre-departure training. For example, the MNE could be sending mixed signals to the prospective assignee if it offers the preliminary visit as part of the selection process but upon arrival in the proposed country of assignment, the prospective assignee is expected to make decisions regarding suitable housing and schools. Such treatment could be interpreted as accepting the preliminary visit equals accepting the assignment, thus negating its role in the decision-making process.

Where MNEs use the preliminary visit to allow the assignee (and spouse) to make a more informed decision about accepting the overseas assignment, it should be used solely for that purpose. Combined with cultural awareness training, the preliminary visit is a useful component of a pre-departure program. Exposure to the expatriate community (if one exists in the proposed host location) can also be a positive outcome. Brewster and Pickard\(^ {23}\) found that an expatriate community has an influence on expatriate adjustment.

### Language training

Language training is a seemingly obvious, desirable component of a pre-departure program. However, it is consistently ranked below that of the desirability for cultural awareness training. In trying to understand why language skills are given a lower priority we should consider the following aspects related to language ability that needs to be recognized.
The role of English as the language of world business. It is generally accepted that English is the language of world business, though the form of English is more ‘international English’ than that spoken by native speakers of English. India is an attractive location for foreign call centers due, in part, to the availability of a large local English-speaking population from which to recruit employees. The willingness of Chinese nationals to acquire English fluency is confirming the dominance of English. Multinationals from the Anglo-Saxon or English-speaking countries such as Britain, the USA, Canada, Australia and New Zealand often use the dominant role of English as a reason for not considering language ability in the selection process, and for not stressing language training as part of pre-departure programs. Tung reports that a 12 country study of almost 3000 executives found that respondents from the USA the UK, Canada and Australia – all English-speaking countries – deemed language skills as unimportant. This is in contrast to executives from Europe, Asia and South America, however, who considered knowledge of a foreign language as critical to success.

A similar attitude emerged from a study of US multinationals’ foreign language needs. Fixman found that foreign language skills were seldom included as part of cross-cultural understanding, and that language problems were largely viewed as mechanical and manageable problems that could easily be solved. As Pucik comments, an exclusive reliance on English diminishes the MNE’s linguistic capacity. The resultant lack of language competence has strategic and operational implications as it limits the multinational’s ability to monitor competitors and process important information. For example, translation services, particularly those external to the firm, cannot make strategic inferences and firm-specific interpretations of language specific data. Fixman raises the question of protecting important technology in international joint venture activities: ‘It would seem that the less one understands of a partner’s language, the less likely one is to detect theft of technology’. Perhaps more importantly, as Wright and Wright in their study of British firms point out, to accept English as the de facto language of international business gives the advantage to the other person:

The other speaker controls what is communicated and what is understood. The monolingual English speaker has less room to maneuver, no possibility of finding out more than he is given. His position forces him to be reactive rather than proactive in the relationship. What he says and understands is filtered through the other speaker’s competence, over which he has no control.

Disregarding the importance of foreign language skills may reflect a degree of ethnocentrism. A study by Hall and Gudykunst has shown that the lower the level of perceived ethnocentrism in an MNE, the more training it provides in cultural awareness and language training. It also reflects a degree of perhaps unconscious arrogance on the part of expatriates from English-speaking countries. However, more firms are including language training as evidenced by recent surveys. For example, the ORC Worldwide 2008 survey revealed that provision of language training to spouses, partners and children, as part of pre-departure training programs, had markedly increased. A total of 84 per cent of the responding firms provided language training to expatriates, of which 44 per cent provided it to all family members, 30 per cent to expatriates and partners only, and 10 per cent only to expatriates. In fact, it was the most common form of spousal assistance while on assignment with 60 per cent of responding firms indicating provision of language training as part of their spousal assistance package.

Host-Country language skills and adjustment. Clearly, the ability to speak a foreign language can improve the expatriate’s effectiveness and negotiating ability, as well as improve the adjustment of family members. As Baliga and Baker point out, it can improve managers’ access to information regarding the host country’s economy, government and market. Of course, the degree of fluency required may depend on the level and nature of the position that the expatriate holds in the foreign operation, the amount of interaction with external stakeholders such as government officials, clients, trade officials, as well as with host-country nationals.
In a survey of 400 expatriates by Tung,\textsuperscript{32} the importance of language skills was identified as a critical component in assignment performance. Respondents indicated that ability to speak the local language, regardless of how different the culture was to their home country, was as important as cultural awareness in their ability to adapt and perform on assignment. Knowledge of the host-country language can assist expatriates and family members gain access to new social support structures outside of work and the expatriate community. For example, McNulty\textsuperscript{33} found that learning the host country language was rated by 71 per cent of spouses as an important adjustment activity during international assignments, with one spouse suggesting that ‘language proficiency is power’.

Language skills are therefore important in terms of task performance and cultural adjustment. Its continued omission from pre-departure training can be partly explained by the length of time it takes to acquire even a rudimentary level of language competence. Hiring language competent staff to enlarge the language pool from which potential expatriates may be drawn is one answer, but its success depends on up-to-date information being kept on all employees, and frequent language auditing to see whether language skills are maintained.\textsuperscript{34}

**Knowledge of the corporate language.** As previously mentioned, multinationals tend to adopt (either deliberately or by default) a common company language to facilitate reporting and other control mechanisms. Given its place in international business, quite often English becomes the common language within these multinationals. Expatriates can become language nodes, performing as communication conduits between subsidiary and headquarters, due to their ability to speak the corporate language. It also can give added power to their position in the subsidiary, as expatriates – particularly PCNs – often have access to information that those not fluent in the corporate language are denied. An expatriate fluent in the parent-company language and the language of the host subsidiary can perform a gate-keeping role, whatever the formal position the expatriate may hold.

Most MNEs use staff transfers as part of a corporate training program, with HCN recruits spending time at corporate headquarters as inpatriates (see Chapter 5). These training programs will normally be conducted in the corporate language. Fluency in the corporate language is, therefore, usually a prerequisite for international training assignments and may constrain the ability of subsidiary employees to attend and benefit from such training. An exception to this pattern would be an example where key new line managers from important emerging markets may be trained in their own language at the corporate headquarters – a practice which the McDonald’s Corporation follows at its corporate training facility in Chicago.\textsuperscript{35} Pre-departure training programs often may need to include both the language of the host country and the corporate language.

**Practical assistance**

Another component of a pre-departure training program is that of providing information that assists in relocation. Practical assistance makes an important contribution toward the adaptation of the expatriate and his or her family to their new environment. McNulty, Hutchings and De Cieri,\textsuperscript{36} in a study of 31 expatriates based in Asia, found that being left to fend for oneself resulted in a short-term negative impact on overall return on investment, as well as a perceived breach of the psychological contract. One important problem identified in their study was poor HR support such as a lack of mobility expertise and a poor attitude towards international assignees among locally-trained (host-country) HR staff. Human Resources support was found to matter most in the first weeks or months because most stressors were related to settling in rather than the new job. Also problematic for expatriates was not having a central area or person to go to for advice and information; seeking help from a dozen or more different departments was considered time consuming and inefficient, and a distraction from doing their job adequately.
Practical assistance includes all manner of support both before and during an assignment. For example, pre-departure practical support can include preparing official papers/visas, shipping assignee’s goods to the host country, shipping additional baggage by air, interim accommodation in the home and host country, additional moving allowances to help cover incidental and out-of-pocket expenses otherwise not reimbursed or covered in the policy (e.g., connection and installation of appliances and utilities, purchase of small electrical appliances, replacement of non-fitting furniture or clothes), furniture storage in the home country, and consultations with a tax adviser and a relocation agent. On-assignment practical support can include on-going language training, administrative support in filling in tax and official administration forms, assistance in opening a bank account, and finding and negotiating a housing lease. On-assignment practical support to help expatriates socially integrate is also needed but less common according to the Mercer 2010 survey, with only 12 per cent of companies introducing assignees to other expatriates living in the host location, 10 per cent providing membership to a sport/fitness club, and 5 per cent to a private/social club.

Many multinationals now take advantage of relocation specialists to provide this practical assistance, for example, in finding suitable accommodation and schools. Usually, during the assignment, host-country HR staff will organize any further orientation programs and language training. However, as McNulty et al. show, it is important that corporate HRM staff act as a liaison to the sending line manager as well as the HR department in the foreign location to ensure that adequate practical assistance is provided.

Security briefings

A relatively new type of pre-departure training is security briefings. This has become necessary as expatriates increasingly relocate to locations where personal safety may be a concern, and therefore presents increased and unfamiliar threats to their health, safety and security. Risks and threats to expatriates range from hostile political environments (terrorism, kidnapping, hijacking, coup, war), natural disasters, exposure to disease (pandemics), travel accidents and other common travel problems (scheduling delays, passport problems). ORC reports that 21 per cent of companies now provide security briefings to expatriates dependent on the location of their assignment, with 43 per cent having established formal programs or broad guidelines for security and 63 per cent having either a formal or informal program in the case of emergencies. Security plans include evacuation procedures, assignment tracking systems, ongoing security briefings and continuous improvements in overall security in all at-risk locations. In 19 per cent of participating companies, ORC reported that expatriates had been repatriated from locations deemed unsafe. In these instances, particularly for medical evacuations, 64 per cent of companies used an emergency evacuation service (e.g. SOS International), while 15 per cent covered the costs on an ad-hoc basis. In the event of death or serious illness in the expatriate’s family, 41 per cent of companies pay the full cost of travel to the home country for the entire family. Interestingly, ORC found that in companies where expatriates were assigned to dangerous locations, the overwhelming majority (71 per cent) did not pay a danger pay allowance. Just 15 per cent offered this allowance, and a further 14 per cent handled it on a case-by-case basis.

Training for the training role

Expatriates are often used for training because of a lack of suitably trained staff in the host location. Consequently, expatriates often find themselves training HCNs as their replacements. The obvious question is how are expatriates prepared for this training role? There is little research on this question. We do know from the cross-cultural management literature that there are differences in the way people approach tasks and problems, and that this can have an impact on the learning process. The ability to transfer knowledge and skills in a culturally sensitive
manner perhaps should be an integral part of pre-departure training programs – particularly if training is part of the expatriate’s role in the host country.

One way that MNEs could improve the quality and content of the training offered to expatriates in their role of training HCNs as their replacements would be to better utilize the knowledge transfer process when expatriates are repatriated. A paper by Lazarova and Tarique has examined this issue and argues that effective knowledge transfer occurs when there is a fit between individual readiness to transfer knowledge and organizational receptivity to knowledge. Specifically they propose that:

Organizations should try to match the level of intensity of their knowledge transfer mechanisms to the type of knowledge gained abroad. Thus, highly intense extraction tools (e.g. assigning repatriates to strategic teams) should be used to acquire international knowledge with high tacitness and high specificity . . . Such knowledge would be transferred most effectively through rich mechanisms involving frequent communication between the repatriate and other organizational members. Organizations can use low intensity extraction tools (e.g. presentations, intranet) to acquire explicit international knowledge (e.g. information on banking laws and regulations in a particular foreign market).

TCN and HCN expatriate training

Anecdotal evidence suggests that in some firms pre-departure training may not be provided to TCNs being transferred to another subsidiary, and for HCNs (inpatriates) transferred into the parent country operations. Where it is provided, it may not be to the extent of that available to PCNs. This omission could create perceptions of inequitable treatment in situations where PCNs and TCNs work in the same foreign location, and affect adjustment to the international assignment. Not considering the need for HCNs transferred to the parent organization reflects an ethnocentric attitude.

There may be a link between the amount of training, particularly cross-cultural, and assignment length. HCNs transferred to either headquarters or to another subsidiary are often short-term, project-based assignments or for management development purposes. As such, they may not be regarded as ‘genuine’ expatriate postings, thus falling outside the ambit of the HR function. In order to design and implement TCN and HCN pre-departure training, local management, particularly those in the HR department, need to be conscious of the demands of an international assignment – just as we have discussed in terms of corporate/headquarters HR staff. There perhaps needs also to be recognition and encouragement of this from headquarters, and monitoring to ensure that sufficient subsidiary resources are allocated for such training.

Provision of training for non-traditional expatriate assignments

In theory, all staff should be provided with the necessary level of pre-departure training given the demands of the international assignment. Cultural adjustment is inherent in international staff transfers. Pre-departure training should also be provided for employees on short-term assignments, on non-standard assignments such as commuting, and to international business travelers. However, there is a paucity of information regarding pre-departure training for non-standard assignments.

Short-term and non-standard assignments.

Given the generally low level of provision of pre-departure training to traditional expatriates, it is not surprising to find that those on short-term and non-standard assignments receive little or no preparation before departure. The oversight may be due to lack of time, which is a standard reason for non-provision of pre-departure training.
This may be why multinationals are increasingly using modern technology to overcome time and resource constraints. For example, Brookfield reports that 32 per cent of companies now use media-based or web-based alternatives to face-to-face cross-cultural training, of which:

- 28 per cent used media or web-based programs as additional forms of support for in-person programs;
- 28 per cent used it for portability (anytime, anywhere);
- 17 per cent as stand-alone alternatives;
- 9 per cent for time efficiency;
- 6 per cent for cost reasons.

**International business travelers**

Non-expatriates tend to be a forgotten group, yet for many firms they may comprise the largest contingent of employees involved in international business. International business travelers are flying into and out of foreign operations performing a myriad of tasks, including training. For example, explaining new product development, or service, or process, to HCN employees that will involve demonstrations, seminar presentations and other methods of information dissemination. Such internal MNE interaction usually will involve the use of the corporate language. Therefore, non-expatriates need to be aware that HCNs will differ in their level of competence. It is easy to equate intelligence with language fluency: perceiving lack of fluency as a sign of stupidity. Internal MNE briefings and training sessions will need to take into account local variances in how people conduct themselves in formal situations and approach the ‘classroom’ situation.

International business travelers may be providing new product information to foreign agents or distributors. These activities naturally involve cross-cultural interaction. Competence in the local language or at least an ability to work with and through interpreters may be required. The same applies to those conducting negotiations with host government officials, prospective clients, suppliers and subcontractors. All these activities are strategically important yet there is little in the literature regarding the provision of training for these roles. From the limited, mainly anecdotal, information available, it would seem that non-expatriates learn on the job, and gradually acquire the knowledge and skills to function effectively in various countries and situations. For a review of the international business traveler literature see Welch and Worm.

**THE EFFECTIVENESS OF PRE-DEPARTURE TRAINING**

The objective of pre-departure training is to assist the expatriate to adjust to the demands of living and working in a foreign location. The question is how effective is such training and what components have been considered to be essential by those who have been provided pre-departure training?

The Brookfield surveys ask firms to indicate the value of cross-cultural preparation for expatriate success as shown in Table 7.2. For the 2011 survey, 79 per cent of companies report cross-cultural training as being of ‘good’ or ‘great value’ for expatriate success, with only 2 per cent indicating it has little or no value, and 19 per cent reporting a neutral value. However, it should be noted that information on how the responding firms evaluated their training was not provided – a common problem with many surveys of training utilization.

Several academic studies have attempted to assess the effectiveness of pre-departure training. Eschbach, Parker and Stoeberl report the results of a study of 79 US
repatriates. They measured cognitive, affective and experiential cross-cultural training and language training, provided by the company or self-initiated. The amount and type of training, based on the models of Tung and Black et al. described earlier in this chapter, was included. Expatriates with integrated cross-cultural training exhibited cultural proficiency earlier, and appeared to have greater job satisfaction, than those with lesser training. Repatriates commented that there was a need for accurate, up-to-date cultural and language training for expatriates and spouses and many considered that preliminary visits should be used.

The second study was a meta-analysis of the cross-cultural training literature.\textsuperscript{47} The conclusion reached was that the effectiveness of cross-cultural training was somewhat weaker than expected due to:

- Limited data as few organizations systematically evaluate or validate the effectiveness of their training programs or make them available to the public.
- The use of a mixture of different training methods, making evaluation of which method is most effective difficult to isolate.
- The large diversity in cultures that expatriates face.
- The interaction between individual differences between expatriates and the work environment they face. What works for one person may not work for another. Thus, the effects of cross-cultural training can be as diverse as the countries to which expatriates are assigned.

The authors add that traditional training methods may underestimate the complexity of international business life, where expatriate managers are required to perform complex jobs across multiple cultural contexts, sometimes on the same day or even within the hour. Training programs that capture this reality are difficult to find and many existing cross-cultural training programs have yet to prove their utility.\textsuperscript{48}

### DEVELOPING STAFF THROUGH INTERNATIONAL ASSIGNMENTS

International assignments have long been recognized as an important mechanism for developing international expertise (see Chapter 5). The expected outcomes are:

- **Management development.** Individuals gain international experience, which assists in career progression, while the multinational gains through having a pool of experienced international operators on which to draw for future international assignments.

### TABLE 7.2 Perceived value of cross-cultural preparation of expatriates

<table>
<thead>
<tr>
<th>Value rating</th>
<th>Brookfield 2011</th>
<th>Brookfield 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of great value</td>
<td>25%</td>
<td>19%</td>
</tr>
<tr>
<td>Of high value</td>
<td>64%</td>
<td>60%</td>
</tr>
<tr>
<td>Of neutral value</td>
<td>11%</td>
<td>19%</td>
</tr>
<tr>
<td>Of poor value</td>
<td>0%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Brookfield Global Relocation Trends, 2009 and 2011. LLC. All rights reserved.
Organizational development. International assignments also provide a MNE with a way of accumulating a stock of knowledge, skills and abilities upon which it can base its future growth. A global mindset is an important side benefit, as key personnel take a broader view. Further, as discussed previously, expatriates are agents of direct control and socialization and assist in the transfer of knowledge and competence.

We shall now consider these outcomes, first from the perspective of the individual, and then from the multinational’s viewpoint.

Individual development

An international assignment can be compared to job rotation, a management development tool that seeks to provide certain employees with opportunities to enhance their abilities by exposing them to a range of jobs, tasks and challenges. It is therefore not surprising to find an implicit assumption that an international assignment almost always has management development potential. Along with expected financial gain, perceived career advancement is often a primary motive for accepting international assignments. This is particularly the case in small population advanced economies (e.g. Austria, The Netherlands, Australia, Finland, Sweden and New Zealand) where the relatively small local economy is not big enough to generate growth and international activities provide the opportunity for ongoing revenue growth. In such a situation, employees (particularly younger employees who are motivated to build their careers) understand that international experience is often an essential requirement for further career advancement. A recent review by Kerr, McNulty and Thorn outlining how Australians and New Zealanders pursue global careers reports that expatriates from these countries not only pursue company-assigned opportunities, but increasingly pursue self-initiated opportunities as well.

Overall, there is a paucity of research that demonstrates a link between an international assignment and career advancement. There remains a need for research that establishes career paths as a direct consequence of international assignments. There are two possible explanations for this lack of interest in the career outcomes of international assignments:

- MNEs and researchers have been somewhat preoccupied with the process of expatriation from the organization’s perspective. It is important to understand the roles played by the various IHRM activities so that proper management and support for expatriates can be provided to reduce under-performance and improve cost-effectiveness.
- Surveys consistently report that expatriates consider career progression as a primary motive for accepting international assignments. Such a consistency of response – that is, career advancement as a reason for accepting an overseas assignment – has masked the issue of whether these career expectations are, indeed, met. In other words, we know why people accept international assignments, but we do not have a clear picture of when and how these expectations are met, and the consequences to both the individual and the multinational if the expected career outcomes are not met. McNulty, Hutchings, and De Cieri provide some recent evidence that Asia-based expatriates are somewhat dissatisfied with their career progression as a result of undertaking international assignments, showing that changing patterns of mobility in the Asia Pacific region has contributed to a decrease in loyalty and commitment, with implications for MNEs in terms of expatriate retention and overall corporate ROI.

Developing international teams

Expatriates may gain individual management development from the international assignment, as we have previously discussed. The international assignment often is the ‘training ground’ for the international cadre in Figure 7.2. For MNEs, this term usually refers to a group of high
potential employees who have been selected for specialized management training to enable the MNE to continue to expand its international operations. International teams can be formed from those who have had international experience, though the international assignment itself may be an assignment to an international team, or to form an international team. It is frequently argued that multinationals, especially in networked organizations, would benefit from using international teams as:

- A mechanism for fostering innovation, organizational learning and the transfer of knowledge.
- A means of breaking down functional and national boundaries, enhancing horizontal communication and information flows.
- A method for encouraging diverse inputs into decisions, problem solving and strategic assessments.
- An opportunity for developing a global perspective.
- A technique for developing shared values, thus assisting in the use of informal, normative control through socialization.

Research and development and international projects are common situations where teamwork is utilized and forms the basis of much of the literature on multinational teams, a sub-set of which is the virtual team, where members are geographically dispersed (see Figure 7.2). To a certain extent, international assignments achieve teambuilding by exposing employees to various parts of the global organization. Consequently, expatriates develop local networks that often persist after completion of the assignment. These predominantly informal networks can later be activated for work situations, such as providing membership of project teams. Not everyone will wish to become part of an international cadre, but to create an effective global pool of international operators, many MNEs are conscious that they need to provide international experience to many levels of managers, regardless of nationality. A small cadre comprised only of PCNs may defeat the purpose of having a team of experienced employees who are capable of operating in multiple environments on various types of tasks and jobs. For example, Peterson found that Western-based multinationals operating in Central and Eastern Europe were increasing the use of TCN and HCN expatriate transfers as a way of widening the ‘corporate talent pool’.
While the international assignment plays an important role in both management and organizational development, its effectiveness depends on the individuals concerned, the type of multinational and contextual factors. For example, Caligiuri and Di Santo argue that certain personality characteristics that have been identified as expatriate predictors of success cannot be developed through international assignments. In other words, individual characteristics such as dogmatic or authoritarian tendencies are not likely to be altered through an expatriate experience. However, Caligiuri and Di Santo do suggest that individuals can learn to be more sensitive to the challenges of working in another country – that is, to become more culturally aware. This knowledge and experience would prove valuable when working in an international team comprised of colleagues from other countries.

The MNE needs to be able to provide the resources and support for those working in international teams such as R&D projects. Managers supervising international teams, for example, will need to understand processes such as group dynamics, especially how national cultures affect group functioning. Those who have previous experience of international assignments and teams will be better placed than those who have not. Perhaps this is why some MNEs are placing greater stress on the need for international experience and are prepared to use expatriates despite the cost and difficulties often associated with international assignments. For reviews of the literature on developing international teams see Gibbs, Maznevski et al. and Caligiuri and Tarique.

TRENDS IN INTERNATIONAL TRAINING AND DEVELOPMENT

There are a number of emerging and continuing trends in international training and development. First, although the pressure from globalization continues to push MNEs towards a convergent approach to training and development, there is a continuing pressure from many countries (particularly developing countries) for localization of training and development initiatives of which MNEs must be mindful. Al-Dosary and Rahman have reviewed the benefits and problems associated with localization of training and development. Second, there is a growing realization that although globalization is having a major impact on business processes and associated training and development efforts in MNEs, there is evidence that for competence development and learning, it is still necessary to consider the impact and importance of the national context and institutions on such efforts (see Geppert). Third, there is increasing awareness of the important role of non-governmental organizations (NGOs) in international training and development (see Chang, and Brewster and Lee for reviews). Fourth, with the rise of China as an economic superpower, there is increasing interest in all aspects of training and development with a focus on China (see Wang et al., Zhao, Zhang et al., Zhu, and Wang and Wang for reviews). Finally, there is a realization in the training and development literature that the field must address global, comparative and national level contexts for training and development, just as the international HRM field is beginning to do so (see Metcalfe and Rees for a review).

RE-ENTRY AND CAREER ISSUES

It is evident from the material covered in this book that there have been considerable advances in our understanding and knowledge of the issues surrounding the management and support of expatriates in terms of recruitment and selection, pre-departure training and compensation. As Figure 7.3 indicates, the expatriation process also includes repatriation: the activity of bringing the expatriate back to the home country. While it is now more widely recognized by managers and academics that repatriation needs careful managing, attention to this aspect of international
assignments has been somewhat belated. In the past, the unpredictable and incremental nature of globalization led to reactive assignments, and re-entry to the firm was left unspoken or dealt with informally on an *ad-hoc* basis. As more expatriates completed their assignments, firms were faced with organizing these returns in a more planned pattern that allowed for a more strategic and complete use of the repatriate’s newfound experiences and insights, while at the same time easing the return to their home country and firm.\(^6\)

**FIGURE 7.3** Expatriation includes repatriation

Re-entry into the home country presents new challenges. The repatriate is coping with what has been termed *re-entry shock*, or reverse *culture shock*. While people frequently expect life in a new country to be different, they may be less prepared for the experience of returning home to present problems of adjustment. As a consequence, it can be a surprising and traumatic experience for some\(^6\) – perhaps more difficult than what was encountered in the foreign location. From the MNE’s perspective, repatriation is frequently considered as the final stage in the expatriation process (as indicated in Figure 7.4), but it is important to note that the MNE’s ability to attract future expatriates is affected by the manner in which it handles repatriation.\(^6\)

**FIGURE 7.4** Repatriation activities and practices

In this section, we focus on the key factors associated with re-entry including how the repatriation process is handled by the individual and the receiving work unit as well as family adjustment. We will also explore how repatriation affects the successful ‘closure’ of the foreign assignment, its impact on future career paths within the MNE, and the effect on staff mobility. The reasons for the international assignment and its outcomes are assessed – that is, how the MNE recoups its investment in human capital, and the process of knowledge and competence transfer upon
re-entry. It should be noted that what is written about the re-entry process centers on the traditional expatriate assignment, based predominantly on experiences of repatriated PCNs.

THE REPATRIATION PROCESS

Typically, on completion of the international assignment the MNE brings the expatriate back to the home country, though not all international assignments end with a transfer home. Some expatriates may agree to become part of the multinational’s international team of managers (as indicated by the dotted arrow in Figure 7.3) and thus have consecutive overseas assignments. In the event that one of these consecutive assignments involves the expatriate returning to the home-country operations, it will be treated as ‘just another posting’ rather than re-entry or repatriation. For example, William Jones is moved from his home base in the US parent operations to Japan for two years. He then spends four years in China, followed by one year in headquarters in the USA before moving on to another position in the British operations. That one-year period spent at headquarters is not treated as re-entry back into the home-country operations. In contrast, Mary Smith has spent three years working in China and is repatriated back to the USA into a defined position at headquarters.

As outlined in Figure 7.4, repatriation can be seen to encompass three phases. First, before the global assignment, MNEs may act to assign home sponsors or mentors and hold them responsible for keeping the expatriate in touch with changing conditions in the home country. Ideally, such sponsors might have relevant expatriate assignments as part of their own work history. Web-based indices of relevant national, regional, industrial or firm websites may be provided. These ongoing communication protocols may be formal or informal. Mercer reports that 22 per cent of companies have put in place a mentoring program to assist assignees in the expatriation and repatriation process. But for over half of these, the mentor system is applied only in specific cases and not to the entire assignee population. By initially creating this network of personal and media links the expatriate may be able to keep up with the changes in the home country, work unit, the larger firm as well as changes in the local or regional community while on assignment. This more systematic updating may contribute to more realistic expectations on the part of the expatriate, reducing culture shock upon return.

Second, during the assignment, ‘home leave’, work-related information exchanges, sponsor communications and a systematic pre-return orientation process can all facilitate realistic expectations and ease the return. Allowing for periodic returns to the home country will help the expatriate and her/his family to reconnect with firm employees, family and friends and catch up with changing business, economic and political conditions. Some MNEs allow their expatriates to use their holidays to visit more exotic, once-in-a-lifetime locations closer to the host country. In some cases, this is not a wise policy for the employer as by doing this, some expatriates lose their perspective of how things may be changing in their home country and may develop a somewhat ‘rose-colored’ view of life back at home. The first author has over a number of years been given numerous examples by managers with international experience of expatriate families spending their holidays in other locations rather than returning to their home country and subsequently developing a rather unrealistic view of life in their home country which led to difficulties when the reality of subsequent repatriation resulted in adjustment difficulties. For this reason, ORC reports that 58 per cent of MNEs enforce a policy whereby expatriates are required to take home leave in their home country.

Work-related information exchanges are part of any expatriate assignment. Through these regular and ongoing task-related communications, a considerable amount of information about changes in home personnel, power politics, strategic developments and less work-related updates can be passed on to the expatriate. These activities may become more intense in the months or weeks immediately prior to the return. Upon return, a series of immediately practical and more long-term activities combine during what is normally a very restricted time frame.
MNEs can be less effective in their use of expatriates by either being too vague and unfocused about repatriates, or they can try to be too efficient by expecting the returning expatriate to jump back into the home assignment before the issues and processes related to return are resolved – literally before their ‘bags are unpacked’. Immediate practical issues upon return include housing and schools for children. Returning expatriates need to be assigned office space and given an orientation to the new job assignment and local work group. On a broader scale, the repatriate must reconnect with the local social network of the MNE and personal and career dynamics may have to be adjusted in new and potentially unpredictable ways. Changes and adjustments for societal, firm and job dynamics on the personal, family, job, organizational and career levels are involved in this final stage.

Note the two stages of culture shock represented at the bottom in Figure 7.4. An overemphasis on the home focus, at the expense of a focus on the host assignment can lead to problems with performance while on assignment and premature return. At the same time, an overemphasis on host activities, at the expense of some awareness of changes at home can lead to a second culture shock upon return. The goal of any set of expatriation/repatriation practices should result in the successful integration of home and host experiences. Achieving this more balanced set of transitions is not always easy. For example, Harzing has conducted a comprehensive survey of 287 subsidiaries of nearly 100 different multinationals and reported that 52 per cent of sampled firms experienced repatriate re-entry problems. IHRM in Action, Case 7.1 provides an example of some of these problems.

Re-entry and repatriation problems

The problems outlined above and in the IHRM in Action Case 7.1 may lead to staff turnover, with repatriates opting to leave the organization. The GMAC-Global Relocation Services global surveys (referred to in previous chapters) provide valuable data on repatriate turnover. Firms in the 2011 survey indicated that the average annual turnover for all employees was 8 per cent [page 56 of report] – lower than the historical average of 12 per cent. For expatriate attrition, respondents reported the following results for 2011:

- 22 per cent of expatriates left the company during an assignment (historical average 21 per cent);
- 28 per cent left within one year of returning from an assignment (historical average 31 per cent);
- 24 per cent left between the first and second year of returning from an assignment (historical average 24 per cent);
- 26 per cent left after two years of returning from an assignment (historical average 24 per cent).

Overall, in 2011, 4 per cent of international assignments resulted in failure. The leading causes of assignment failure cited by respondent firms were:

- Spouse/partner dissatisfaction (18 per cent).
- Poor candidate choice (16 per cent).
- Poor job performance (13 per cent).
- Inability to adapt (12 per cent).
- Other family concerns (8 per cent).

In terms of annual change in expatriate attrition rate, 67 per cent of firms reported no change, 19 per cent an increase and 14 per cent a decrease (the historical averages are 71 per cent, 16 per cent and 13 per cent for these categories).
When asked to rate the effectiveness of ways to reduce expatriate turnover (in order of high, medium or low effectiveness), Brookfield (formerly GMAC Global Relocation Services) survey respondent firms cited five methods:

- Opportunity to use experience (35 per cent).
- Position choices upon return (22 per cent).
- Recognition (16 per cent).

IHRM in Action Case 7.1

Repatriation and loss prevention at ISCAM

On his last day of work at ISCAM, Wayne Bullova wrote up his letter of resignation, took the five weeks of vacation he was due and walked through the February snow across the downtown Denver street to open his own safety and security consulting firm. Only three years earlier, Wayne had jumped at the chance to take the assignment as Loss Prevention and Safety Director at ISCAM’s new regional center in Peru. As a global mining engineering firm with decades of international activities, ISCAM had done a very good job of preparing Wayne and his family for the differences between Lima and Denver. The children had quickly adjusted to the American school, surprisingly his Mexican born wife had enjoyed being involved in both the expatriate community and the local Peruvian church group associated with the Cathedral, and Wayne had immediately enjoyed the increased responsibilities and centrality of his new role. As an ex-US Army Ranger Captain, his security role did provide occasional adrenalin rushes as he responded to Sendero Luminoso activities in mine sites around Huaneayo, but the evident success of the counterterrorism and security protocols he developed were gratifying.

His return to Denver, some six months ago, was a different matter. He knew that things would be different at home after the corporate restructuring that occurred a year into his expatriate assignment. His long-time mentor and friend, Herman Balkin, had taken a reportedly very generous early retirement package after a long-simmering executive power struggle unpredictably came to a head. Several restructuring ‘aftershocks’ relocated many of his colleagues outside of Colorado. During his assignment in Peru Wayne was more and more frustrated as his informal corporate intelligence network dissolved and the role of his liaison was passed around among a series of increasingly junior, and to his mind clueless, executives.

The assignment he was promised by the company president was ‘rethought’ and when he returned six months ago he spent the better part of a month trying to get an office and understand his new job. Everyone he talked to had a different perspective on what he was being asked to do. He felt claustrophobic, and to make matters worse, the new counter-terrorism and security protocols he had developed and used, with great success, in Peru were either systematically ignored or so modified by his supervisors that they were unrecognizable.

At a Bronco’s football game he shared his growing frustrations with Balkin. On the home front, the new house they had purchased upon return – having sold their home at the advice of the HR director at the time of the international assignment – was expensive, hard to heat and placed them in a city school district that the children were having problems with. He had looked at private schools, but the tuitions were astronomical and his salary was not much more than it had been three years ago. His wife had started to complain about Denver winters again. At work, Wayne felt as if he had returned to a totally different world. Balkin asked if ISCAM had asked Wayne to renew his executive non-competition agreement. Wayne replied that ISCAM had not. ‘Well, there you go’, said Balkin, ‘Let’s do what we have talked about for years. With your technical expertise and my industry contacts, we can work for ourselves – at least we will know who our bosses are and what the job is’.

Source: Fictionalized synthesis from several interviews.
Given the reasons why international assignments are used, the direct and indirect costs involved, and the various roles that are assigned to expatriates, it seems important to understand why re-entry is problematic yet of seemingly lesser importance to researchers and managers than other stages of the international assignment. To this end, we now examine factors that may contribute to re-entry problems, considering the process first from the individual’s perspective, and then the MNE’s viewpoint.

INDIVIDUAL REACTIONS TO RE-ENTRY

As with cross-cultural adjustment, the re-entry process is a complex interaction of several factors. It is possible to group the major factors that have been identified as moderators of re-entry readjustment into two categories – job-related factors and social factors – as depicted in Figure 7.5, which we now discuss.

Job-related factors

These factors center around future employment prospects as a consequence of the international assignment, the value being placed on the person’s international experience, coping with new role demands and the loss of status and financial benefits upon re-entry. We shall examine these factors in turn.

Career anxiety. When surveyed, expatriates consistently list two motivators for accepting an international assignment: career advancement and financial gain. The Brookfield 2010 Survey
asked about the value of international experience to an employee’s career and respondents gave
the following responses:

- 33 per cent of respondents said that expats were promoted faster;
- 28 per cent believed that expats obtained positions in the firm more easily;
- 28 per cent of respondents noted that expats changed employers more often.

It is not surprising then that a prime factor in re-entry is career anxiety. This can emerge prior
to the physical relocation, even before Phase 1 in Figure 7.5, and can affect productivity during
the last few months of the international assignment as the person contemplates the re-entry
process. So, what prompts career anxiety? The causes range across the following and are often
interrelated:

- **No post-assignment guarantee of employment.** This is becoming the reality for perhaps the majority
  of employees on international assignments. The Brookfield 2010 Survey asked respondents if their
  firm required a clear statement about what the expatriate would do following an assignment. Only
  12 per cent of respondents indicated that they did. 75 Studies that break down general trends into
  regions and countries reveal some differences. The Tung-Arthur Andersen 1997 survey of 49 North
  American firms reported that the majority (almost 60 per cent) did not guarantee a position at home
  upon successful completion of the overseas assignment. 76 In her study of international HR
  practices in German and UK firms, Marx 77 found that the majority of German firms offered a
  guaranteed job upon return from the foreign assignment, whereas the majority of UK firms admitted
  that they were not able to offer jobs upon repatriation. Marx suggests that Continental European
  firms may have to provide such guarantees in order to attract expatriates. Given this lack of job
  security, it is not surprising that career anxiety commences prior to homecoming, and acts as a
  readjustment moderator upon re-entry if career outcomes are not realized.

- **A fear that the period overseas has caused a loss of visibility and isolation** – as captured in the
  phrase: ‘out of sight, out of mind’. 78 This fear can commence at any stage during an assignment
  and not just as the end of the posting draws near. A range of factors may influence this process:
  (1) the amount of contact that the person has had with the home organization; (2) the seniority of
  the position; and (3) whether the expatriate knows in advance what re-entry position they will take
  up when they return to their home country. The following expatriate explains this challenge well:

  One very senior partner out in the region once joked ‘the moment you get off the plane everybody
  starts thinking about what are they going to do when they go back’. I remember laughing that off
  thinking I just got here, that doesn’t make any sense at all. And then after a while I went ‘Oh I get it’.
  You really do constantly think about how does this all fit into the bigger picture . . . [so] I think what is
  explicitly missing is there is no advanced career planning that would include the repatriation compo-
  nent prior to your deployment. There is no mid-term and certainly no long-term thinking around that.
  And where it needs to start is pre-trip . . . to start thinking to take advantage of the skills and network
  that the individual will be able to bring back. 79

- **Lack of information** may increase the level of anxiety leaving the person with a decided impression
  that the firm has not planned adequately, or that a mediocre or makeshift job awaits. 80 If there is no
  post-assignment job guarantee, the anxiety level may be understandably high.

- **Changes in the home workplace.** Anxiety can be exacerbated by informal communication from
  home-based colleagues about organizational changes. It may be that the MNE is in the process of a
  major restructuring, the aftermath of a merger or acquisition, or sale of divisions or business units.
  These changes are often accompanied by job shedding. Knowledge of such changes and potential
  or real job loss may add to the level of anxiety – particularly if the expatriate does not have a
  guaranteed job upon repatriation.
Another issue here is that restructuring can affect the host-country operations – such as closure of a plant, dissolving of a joint venture or merging of operations post-acquisition. This may leave the expatriate stranded, or force an early, unplanned repatriation. If similar changes are also occurring in the home country, then availability of suitable positions may be reduced. One repatriate who was placed in such a position explains:

*The division I worked for was reorganized, and the subsidiary I worked for was placed under stringent cost-cutting guidelines, which forced me to return earlier than anticipated. My re-entry was very cold, with little support in finding a job since previous management had been fired.*

All of these factors combine to suggest that expatriates can be deeply affected by career anxiety. In a recent study examining expatriates’ views relating to the perceived benefits gained at the individual level from international assignments, McNulty *et al.* found that 87 per cent of expatriates in an Asia Pacific study perceived career enhancement as increasing their marketability to other employers and not just their own. These views were largely based on inadequate career planning provided by MNEs. Specific benefits from international assignments included:

*‘being more visible; it should open up doors to the future’, ‘exhibiting a broader mindset which should make me better suited for advancement’ and ‘giving me loads of experience to bring back to [my home country].’*

**Work adjustment.** Black, Gregersen and Mendenhall argue that work adjustment has an important impact on a person’s intent to stay with the organization (see also Chapter 5). Career anxiety is one moderating factor, but other factors may also lead to readjustment problems:

*The employment relationship.* An individual’s career expectations may be based on clear messages sent by top management to the effect that an international assignment is a condition for career progression. That is, verbal or written statements such as: ‘We are an international company and we need internationally oriented people who have worked in our overseas facilities’. These pronouncements can be made in the context of the need for a global orientation or mindset where a definite link is made between international experience and global managers.

Perceptions regarding expected career outcomes also are influenced by comments made by HR or line managers during the recruitment and selection stage. For example, the line manager may suggest to a younger employee: ‘You should volunteer for that international assignment. It would be a smart career move at this stage in your life’. If others have been promoted upon repatriation, it may be perceived to be the ‘norm’, thus reinforcing the perception that international assignments lead to promotion upon re-entry.

For these reasons, the person believes promotion should follow based on successful performance while abroad and if the re-entry position does not eventuate within a reasonable time frame, then career anxiety is justified. A study by Lazarova and Caligiuri of 58 repatriates from four North American-based companies found that repatriation support practices are positively related to perceptions of organizational support, and these affect repatriates’ intention to stay or leave the organization. The psychological contract is a moderator of re-entry readjustment as well as on-assignment adjustment and performance. The repatriate may believe that the performance overseas warrants promotion: that signals were given by the organization that effective performance in the international assignment would result in career advancement. When the expected promotion does not eventuate, the repatriate may feel there is no option but to exit the organization. It is important to note that the psychological contract concerns perceptions and expectations, complicated by the fact that the MNE representative making statements about career outcomes prior to the international assignment is not necessarily the person who is responsible for re-entry decisions about job placement and promotion.
Re-entry position. It would seem for some that promotion is a primary issue as the following comment from a repatriate reveals:86

Get a promotion before the return! You are forgotten while overseas, and you start all over on the return. The promotions go to people who have been in a position for extended periods; nothing done overseas counts in this company.

Fears surrounding future employment and career development can materialize. Peers are promoted ahead of the repatriated manager, and the repatriate sometimes is placed in a position that is, in effect, a demotion. The situation may be exacerbated if the repatriate had held a senior position in the foreign location and now finds himself (or herself) at a less senior level. As a consequence, the re-entry position is frequently judged by whether it matches the repatriate’s career expectation, particularly when the international assignment has caused considerable family disruption; such as a forced break in the career of the accompanying partner, or difficulties experienced with the education of the children involved. Put simply, the repatriate wants the ‘end to justify the means’, so that the family unit is fully compensated for the sacrifices it has made in expectation of career advancement.

Suutari and Brewster, in their study of Finnish expatriates, report that most repatriates left only after they felt that they had given the firm sufficient time to find more suitable positions. These authors identified an ‘external pull factor’: external recruiters were actively ‘head-hunting’ repatriates either during the assignment or upon return.87 A question put to responding firms in the GMAC GRS surveys concerned the career impact of international experience. Firms were asked to compare the careers of expatriates with those of employees without international experience. Table 7.3 provides the following results:

It seems clear from the results in Table 7.3 that the value to employees of remaining with their firm after an international assignment is not particularly compelling, but it may well be that employees believe that their international experience may increase their marketability to other employers. Stroh88 found that the best predictors of repatriate turnover were whether the company had a career development plan; and whether the company was undergoing turbulence, such as downsizing. She argues that lower rates of repatriate turnover are more likely in organizations that planned for the repatriation of their employees and provided career development planning for them.

Devaluing the overseas experience. Career progression is important but to be promoted upon re-entry signifies that international experience is important and valued by the organization. However, the re-entry position may be a less challenging job with reduced responsibility and status than that held either during the international assignment, or prior to the period overseas, in ‘holding’ positions such as a task force or project team, or in temporary positions engaged in duties that do not appear to exploit their newly gained international expertise.89 For some, the return position is frequently a lateral move rather than a promotion.90 The positions do not seem to be related, nor draw upon, experiences and skills the person may have acquired during the international assignment – that is, giving the impression that such experience is devalued.

**TABLE 7.3** Career impacts of international assignments

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<th>2011 survey</th>
<th>2005 survey</th>
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<tr>
<td>Expatriates were promoted faster</td>
<td>33 per cent</td>
<td>37 per cent</td>
<td>34 per cent</td>
</tr>
<tr>
<td>Expatriates obtained new positions in the company more easily</td>
<td>38 per cent</td>
<td>36 per cent</td>
<td>35 per cent</td>
</tr>
<tr>
<td>Expatriates changed employers more often</td>
<td>18 per cent</td>
<td>24 per cent</td>
<td>23 per cent</td>
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Coping with new role demands. Along with career issues, a mismatch of expectations can affect the repatriate’s perception of the role associated with a new position. A role is the organized set of behaviors that are assigned to a particular position. Although an individual may affect how a role is interpreted and performed, the role itself is predetermined, usually defined in the job description. Effective role behavior is an interaction between the concept of the role, the interpretation of expectations, the person’s ambitions and the norms inherent in the role. Re-adjustment problems may occur because, although the repatriate is attempting to function back in the home country, his or her role conception remains influenced by the experience of the foreign assignment. Torbiörn contends that as long as the repatriate’s ‘identity and basic values are still bound up in the culture of the home country, the strain of adjusting to conditions at home will be slight’. However, while the repatriate may retain the role conception, and the cultural norms regarding behavior appropriate to that role, the foreign subsidiary’s influence may linger, and what is communicated to the home company, in the form of role behavior, may not fully conform to the home firm’s expectations.

Social factors

The familiar surrounds of the home environment may ease the transition, or at least the cultural adjustment will not be as demanding as that confronted in the foreign country. However, the international experience can distance the repatriate, and his or her family, socially and psychologically. If the expatriate position gave the person a higher profile, involving interaction with the local national social and economic elite, the return home may bring with it some measure of social disappointment. The financial loss of the compensation premium, housing subsidy and related benefits may also exacerbate these feelings.

Family adjustment. It must be stressed here that, where spouses, partners and children are involved, each family member is experiencing his or her own readjustment problems. For some returnees, re-entry is a shock. It is as if they had pressed the ‘pause’ button as they flew out of the country, and expected life at home to remain in the ‘freeze frame’. Re-entry reminds them that life is not static. Others may have, as a coping behavior in the foreign location, glamorized life back home, and now have to come to terms with reality; to accept the negative as well as the positive aspects of home. For example, the foreign country may have appeared more expensive in relative terms, but upon repatriation, the family is confronted with a higher level of inflation in the home country than was previously the case. Conversely, life at home may now seem dull and unexciting in contrast, and the family unit may begin to glamorize the life they left behind in the foreign location. These reactions can be compounded if the family income has been reduced upon repatriation. Of course, the income level depends on whether spouses/partners worked while in the foreign location, and how quickly they find suitable jobs upon repatriation.

Social networks. In the past, impressions generated about changes in the home country may have depended on how effectively the family was able to keep up to date with events back home. In the 21st century this is much less of a problem as the coverage by satellite television news channels such as CNN and BBC World, wide-spread access to the internet, email, social media, mobile phone technology, the low cost of communication via Skype and global-oriented newspapers such as the International Herald Tribune, make it significantly easier for expatriates to follow events in their home country and stay in touch with their extended family. This in turn assists with re-establishing social networks which can be difficult, especially if the family has been repatriated to a different state or town in the home country.

Children may also find re-entry difficult. Coming back to school, attempting to regain acceptance into peer groups and being out-of-touch with current sport and fashion can cause some difficulties. One can speculate that the more difficult the re-entry process for the children, the greater the ‘spill-over’ effect for the repatriate.
Effect on partner’s career. Partners encounter difficulties in re-entering the workforce, particularly if the partner has not been able to work outside the home prior to, or during, the foreign assignment, but now desires to find outside employment; either as part of a re-entry coping strategy, or due to altered family circumstances. Negative experiences during the job search may affect the partner’s self-worth, compounding the readjustment process and even causing tension in the relationship. For those who held positions prior to the overseas assignment, difficulties in re-entering the workforce may depend on occupation, length of time abroad, unemployment levels in the home country and personal characteristics such as age and gender.

There is limited research into the effects of the foreign assignment and repatriation upon the partner’s career, and many questions surrounding this issue remain unexplored:

- Do new employers consider the value of the time overseas to ‘compensate’ for the forced career disruption?
- Have those partners who were able to work during the foreign assignment found employment in career-related jobs, and been able to progress upon repatriation?
- What effect does not working during an assignment have on partners’ self-esteem and confidence to re-enter the workforce upon repatriation? McNulty found that expatriate partners were quite distressed during assignments when they were unable to work, often leading to serious consequences:

  I know for a fact a number of the female partners of my husband’s male colleagues who have all relocated here have had serious problems adjusting due to their inability to work and make friends in this location. Many wish to return home, others are really stressed, and two are potential suicide cases . . . should I not be able to obtain work after a reasonable amount of time, I will seriously consider breaking the contract because I can think of a half dozen expat wives who are on anti-depressants because of it and I won’t be joining them.

- Do male ‘trailing’ partners face different challenges upon repatriation than do females? In one of the few reported studies into dual-career expatriates, Harvey found a difference between female expatriate managers’ expectations prior to and after expatriation, exposing the need for support for the male trailing partner. The overseas assignment was the focus of Harvey’s study, but one could assume that the same results would hold true upon repatriation. More recently, Linehan and Scullion looked at the repatriation process of female expatriates working in various European companies but did not consider the career aspect of the accompanying spouse/partner.

Readjustment of the expatriate, whether male-led or female-led, may be linked with concerns about the effect that the foreign assignment might have on the partner’s career. Given that dual-career couples are on the increase, and that more females expect overseas assignments, the issue of the partner’s career is likely to become a major factor determining staff availability for future overseas assignments. Yet ORC reported that while pre-assignment and on-assignment assistance to spouses was relatively good, the likelihood of multiple types of support was smaller upon repatriation. Our analysis has revealed how various factors influence re-entry and readjustment at the individual level. These moderating factors can combine in hard to predict ways, creating a volatile situation that may lead to the repatriate’s unforeseen and debilitating exit from the multinational.

RESPONSES BY THE MNE

The above sections have considered the re-entry and career issues from the perspective of the individual repatriate. We shall now examine the issues from the viewpoint of the multinational
enterprise. Early studies into the issue of repatriation indicated that it was somewhat neglected by MNEs. For example, Mendenhall, Dunbar and Oddou concluded that US human resource professionals may be unaware of the challenges facing repatriated managers. Commenting on the results of his 1989 study Harvey noted that: ‘Even though many executives have experienced difficulties upon repatriation, [US] multinationals have seemingly not addressed the issues related to repatriation with the same level of interest as preparing executives for expatriation’.

However, it appears that there has been some recent progress on this issue. For example, the Brookfield data shows that in 2011, 95 per cent of responding firms held re-entry discussions, compared with a historical average of 92 per cent. The timing and formality of these re-entry discussions varies. For example, 23 per cent of respondents discussed repatriation before leaving on the assignment, 25 per cent did so at least six months before return and 47 per cent discussed repatriation less than six months before assignment completion. The Brookfield surveys do not report on spousal or family involvement in reentry discussions, but these aspects were raised in the ORC Worldwide 2005 report on dual-careers which reported job search assistance, résumé preparation and career counseling as the most common forms of assistance. However, the report does not indicate if this was negotiated before or during the international assignment or upon re-entry, and if it was part of a re-entry discussion.

Managing the process of repatriation should be of concern to MNEs that desire to maximize the benefits of international assignments and create a large internal labor market. A well-designed repatriation process is important in achieving these objectives, for three main reasons: staff availability, return on investment and knowledge transfer. These are now discussed.

### Staff availability and career expectations

The way a multinational enterprise handles repatriation has an impact on staff availability for current and future needs, as indicated in Figure 7.6. Re-entry positions signal the importance given to international experience. If the repatriate is promoted or given a position that obviously capitalizes on international experience, other managers interpret this as evidence that international assignments are a positive career move. On the other hand, if a MNE does not reward expatriate performance, tolerates a high turnover among repatriates, or is seen to terminate a repatriate’s employment upon re-entry, then it is likely that younger managers will conclude that acceptance of an international assignment is a relatively high-risk decision in terms of future career progression within the organization. The MNE’s ability to attract high-caliber staff for international assignments is thereby lessened, and this can have a negative effect on the firm’s international activities in the long term.
Recently, there has been some discussion in the management literature about international assignments and *boundaryless careers*. The term ‘boundaryless career’ appears to have been coined in recognition of shifts occurring in the employment relationship, particularly in Western countries. The traditional hierarchical career path, with definable stages (such as junior, middle and senior manager), assumed long-term employment within one organization – the so-called job-for-life where one climbed the corporate ladder. Employees now tend to switch jobs more frequently, either voluntarily or involuntarily due to economic changes or organizational restructuring. ‘The *boundaryless careerist* ... is the highly qualified mobile professional who builds his or her career competencies and labor market value through transfers across boundaries’.102

Careers are becoming discontinuous in the sense that individuals move between organizations and may have periods of contract work, self-employment or unemployment interspersed with more traditional employment arrangements. International assignments, particularly for career expatriates or global managers, are sometimes regarded as boundaryless in that the assignment places the person in another organization, most commonly a subsidiary or an international joint venture. Accompanying this view is the notion that the individual rather than the organization is responsible for career management: the term *protean* (after the Greek god Proteus who could change into any form)103 is sometimes used to reflect the idea of a self-directed career with continuous learning.

Multinationals are reinforcing the notion of protean and boundaryless careers when they do not guarantee repatriate positions upon re-entry. As Stahl et al.104 found in their large study of 494 German managers posted to 59 countries: ‘the vast majority of expatriates viewed their international assignment as an opportunity for skill development and future career advancement, even though it may not be with their current company, [which] supports the notion of boundaryless careers’. The McNulty et al. study cited earlier displays similar findings in their study of 31 Asia-based expatriates, where 87 per cent perceived that undertaking an international assignment would benefit their long-term career prospects but not necessarily their continued employment with their firm. In such cases, commitment and loyalty to the organization is instead replaced by commitment and loyalty to one’s career, i.e., a ‘free agent’ mentality. Such a change may restrict the ability of the organization to retain high-caliber individuals to successfully complete international assignments, thus affecting the quality as well as the quantity of suitable candidates and the development of a cadre of global operators.

Similar results were found in a study of German and Singaporean expatriates. Both of these groups reported concerns with their firms’ ability to facilitate their careers upon return from international assignments, provide further opportunities to use the new knowledge and skills they had gained during their international assignments, or provide them with new positions having the responsibility, autonomy and compensation at levels that met their expectations. They did feel as if these international assignments enhanced their opportunities among other possible employers and facilitated the development of their own intercultural and professional or managerial skills.105

In some instances MNEs may choose to select *international itinerants*, that is, ‘professional managers who over their careers are employed for their ability, by at least two business organizations that are not related to each other, in at least two different countries’,106 instead of selecting in-house candidates who will have to be repatriated to the MNE. By selecting these individuals in lieu of internal candidates, overall costs may be reduced, ongoing support costs can be managed, and – germane to our discussion – repatriation activities can be eliminated. The two main disadvantages of using of these types of assignees relate to a lack of in-depth firm knowledge by the itinerants and problems the MNE may have in selecting and controlling itinerants.107

Much of the literature on boundaryless careers has focused on domestic business, particularly in the United States. Some researchers suggest that expatriate careers still correspond very much to the traditional model of the organizational career, especially in the case of a global corporate philosophy that places some emphasis on the development of global leaders.108 Festing and Müller109 found in a study of 168 alumni of a European business school that in cases where
international assignments had an important strategic value for the MNE and were accompanied by a high level of IHRM activity, expatriates had rather traditional career expectations aiming at a long-term employment relationship with their employer. In these cases the retention rates of international managers after the international assignment were high. This indicates that the organizational context at least partly influences the emergence of expatriate career patterns and confirms the relationships outlined in Figure 7.5, i.e. that IHRM measures such as repatriation programs influence the outcomes in terms of the employment relationship in general and specifically employee retention rates and commitment.

How actively an MNE manages an international assignee’s career may vary substantially, with decisions made on the basis of strategy or simply reaction to circumstances. Career management is conceptualized in an analysis of 194 UK-based firms by Baruch and Peiper as being more or less sophisticated and with more or less involvement by the firm in an employee’s career. ‘Basic’ and ‘formal’ practices, comprised of less sophisticated career practices and low levels of involvement, are characterized by practices such as common career paths, written personal career planning, job posting and lateral moves. More sophisticated practices with higher levels of firm involvement in an employee’s career are described as ‘multidirectional’ and ‘active planning’ forms of career management. These models are characterized by practices such as in-depth career counseling, succession planning, a strong link between performance management systems and career planning, peer appraisals and upward appraisal processes. Surprisingly little is known about the factors that determine how much time, energy and effort returning expatriates and executives in MNEs will put into career practices designed to maintain existing work relationships, as opposed to simply accepting repatriation turnover as an inevitable cost of doing business globally.

**Return on investment (ROI)**

Expatriates are expensive, especially expatriates from first-world advanced economies. Where possible, multinationals try to localize positions through the employment of HCNs, but not all positions can or should be localized. Similarly, MNEs are increasingly using local-plus compensation for PCNs or TCNs as a way to reduce costs. One alternative, which more MNEs are utilizing or experimenting with, is a short-term or non-standard assignment to replace the traditional expatriate assignment. Cost containment is the driver here along with staff immobility. For example, 79 per cent of firms in a 2005 global survey by Price-WaterhouseCoopers identified cost reduction as important or very important in the evolution of international assignment practices, and the Brookfield surveys continue to indicate that cost containment drives assignment trends.

However, faced with the business reality that expatriates will always be with us, the question is how to ensure the organization reaps the benefits of international assignments regardless of duration and form. Black and Gregersen calculated that a US multinational spends around one million dollars on each expatriate over the duration of a foreign assignment. They argue that, if approximately one in four repatriates exits the firm within a year of repatriation: ‘It represents a substantial financial and human capital loss to the firm, especially if the skills, knowledge, and experience that the individual gains are important to the firm and scarce in the internal or external labor markets’.

Getting a return on this investment would appear to be an important objective, but not easy to achieve. First, there is a matter of definition. Respondents in the Brookfield surveys have shown wavering agreement as to how ROI should be defined – e.g., ‘accomplishing the assignment objectives at the expected cost’ – with agreement ranging from 96 per cent in 2002 to 10 per cent in 2004, and 70 per cent in 2011. In one of the few articles that considered ROI on international assignments, McNulty and Tharenou recognize that a meaningful definition should include a cost-benefit analysis of financial and non-financial data, measured against the purpose of the assignment. Identifying direct costs is relatively easy as relocation expenses, an itemized compensation package and other international assignee entitlements are accessible. The indirect,
intangible, non-financial costs are more problematical. These include the non-direct costs of expat- riate failure or under-performance and the opportunity cost of not using a HCN.

Placing monetary value on the benefits of the international assignment is also a challenge as the intangibles (e.g. knowledge and skills transfer, management development and relationship/network building) are somewhat invisible, often tacit and person-bound. It is difficult to measure intellectual, social and human capital gains – improvements in the stock of knowledge and competence that result from a successful repatriation process. ROI analysis also focuses on the international assignment period, and can be an exercise to justify cost reduction measures (such as replacing expatriates with HCNs) rather than considering gains that accrue to the organization through repatriated staff.

Although firms participating in the Brookfield surveys tracked assignment costs, only 25 per cent of respondents in the 2011 survey compared estimated with actual costs, the lowest in the history of the 16-year report. Difficulties encountered in attempts to measure ROI were:

- Not being sure how to measure ROI (50 per cent).
- Lack of importance of ROI to organizational goals (not required) (16 per cent).
- No time to measure (14 per cent).

More importantly, when asked to rate their firm’s international assignments in terms of ROI, no firm rated ROI as excellent or very good, with 67 per cent rating it as good and 33 per cent as fair. As Brookfield stated: ‘This was the lowest self-rating of ROI for international assignments in the history of the report’.

Further, employees will perform their own ROI calculations (what McNulty et al. call individual ROI) based on perceived and actual costs and benefits, and these calculations will influence their willingness to accept an international assignment (or repeat the experience) either with their current firm or another employer. Aligning corporate objectives with individual expectations is not an easy task, and compounds attempts to balance costs and benefits for both parties.

Knowledge transfer

A common theme in current international business that is stressed by managers is the need for cross-fertilization of ideas and practices that assist in developing and maintaining competitive advantage. International assignments are a primary method of achieving this objective. As the Economist Intelligence Unit 2010 report concludes:

*If globalization is seen as inexorable then companies, to a greater or lesser extent, will need a globally mobile workforce tasked with administering their far-flung but rapidly growing operations... but getting the right people in the right place for the right length of time to execute that international strategy is no simple matter. The expatriate experience provides a valuable insight into globalization’s big trends, while touching many of the business operational dilemmas that companies encounter when investing abroad.*

Given the roles played by expatriates, along with their cost, it is reasonable to expect that MNEs would endeavor to retain key staff and to extract and build upon their international experience. However, as we have seen in our examination of re-entry and career issues, a relatively high turnover of repatriate staff seems acceptable, confirming what one Brookfield respondent stated in an early report: ‘There is a high level of investment with a low value on the experience’. More telling is the continuing trend not to guarantee post-assignment positions so that the organization has greater flexibility over employment levels. We can draw several conclusions regarding repatriate attrition rates. First, despite the rhetoric, knowledge transfer is treated as a one-way activity. Expatriates are sent on international assignments and effectiveness is determined on the performance of their ascribed
roles and work responsibilities. Any transfer of knowledge and competence occurs in the host location and remains there. Expatriates return to their home base and are reassigned or resign.

Recent surveys reinforce this view. There is no mention about an international assignment being part of transferring knowledge and competence around the organization, or even as a two-way process. The point here is that while performing their tasks in the host location, expatriates develop skills and gain experience, knowledge and network relationships that can then be used upon repatriation in some way or another. For example, a project manager working in Russia can report, on re-entry to his UK home base, technical problems encountered and solutions that were developed to overcome these problems, thus sharing the experience. However, not all of the knowledge about that project is explicit. Much will remain tacit and person-bound. What is codified and made explicit often is retained within the project team, even though some of the information and knowledge could be applicable to other projects or types of business concerning Russia, such as important contacts, management styles and some technical solutions. In addition, international assignments vary in terms of purpose, duration, location and nature and these differences affect the acquisition and transfer of knowledge and skills.

HCNs transferred to headquarters for developmental reasons, for example, may benefit through such exposure but the experience will remain person-bound if the home unit does not allow the repatriated HCN opportunities to share knowledge and information. Contacts at headquarters can be used for personal advantage. A similar case can be made for TCNs transferred from another subsidiary. The aims of cross-fertilization of ideas and best practices given to justify cross-border movement of staff require the right environment to facilitate sharing of information and knowledge. The ‘not-invented-here’ mindset (or xenophobia) can operate to devalue repatriate contributions.

What knowledge and skills are acquired through a typical international assignment? A study of 19 Austrian repatriates provides some answers. Based on in-depth interviews, Fink et al. classified repatriate knowledge into five categories:

- **Market specific knowledge.** Local system (political, social, economic), local language and local customs.
- **Personal skills.** Inter-cultural knowledge, self-confidence (that is, ability to make quick decisions), flexibility, tolerance.
- **Job-related management skills.** Communication, project management, problem solving.
- **Network knowledge.** Meeting diverse people – clients, suppliers, subsidiary personnel, other expatriates.
- **General management capacity.** An enlarged job description, broader job responsibilities, exposure to other parts of the organization.

The range of knowledge and skills listed comprise both tacit and explicit knowledge. The authors consider that the first four categories are useful for the sending organization, while the last (general management capacity) is most beneficial to the individual. Fink et al. conclude that repatriate knowledge may be useful in enhancing a firm’s competitiveness, but acknowledge the difficulties in capitalizing on this, particularly if repatriates exit before such knowledge has been transferred. They also point out that the size of the firm, and its stage in the internationalization process, is a critical factor. The Austrian firms in their sample were SMEs that did not have need for a large number of ‘general managers’ and thus were unable to meet repatriate expectations based on their newly acquired skills and knowledge.

The trend towards not providing a post-assignment position guarantee suggests that multinationals accept loss of experience, knowledge and competence; that repatriates effectively forced to leave the organization will take with them what could be vital and valuable, allowing competing
firms to reap the benefits of a substantial investment in human capital. Those who remain in the organization may not be motivated to share.\textsuperscript{120} Perhaps this seemingly downgrading of the repatriate experience is partly due to the fact that many firms are unaware of the benefits of the international assignment to both the firm and the individual as ROI calculations, clearly linked to the nature and purpose of the assignment, are not performed. As Downes and Thomas\textsuperscript{121} found, MNEs that valued international experience were rewarded by loyal employees who contributed to the intellectual capital base of their firms. Unfortunately, the finding that repatriates become an under-utilized resource has been a consistent result in studies and surveys examining repatriation.\textsuperscript{122}

Blakeney, Oddou and Osland recommend that HR practitioners in multinational firms take a wider, more systemic view of the expatriate-repatriate cycle, and focus on: (1) identifying the critical, implicitly held knowledge assets inherent in expatriation/repatriation, and (2) reducing the sources of resistance to knowledge transfer inherent in the motivation and capabilities of the repatriate as well as the structural and cultural impediments inherent in the receiving unit at home. This can be done by building trust and enhancing the shared sense of social identity between the repatriate and the receiving unit.\textsuperscript{123} Practically speaking, HR practices that combine a unified expatriation/repatriation cycle that explicitly emphasizes knowledge transference in each stage of the process (i.e., in selection, pre-departure and in-country training, mentoring or coaching, designing the international assignment, re-entry training, returnee job assignment and selection as well as the training of the returnee’s own manager) would clearly assist in the successful transfer of knowledge. More formal activities, including seminars by repatriates as post-assignment ‘action learning’ exercises and the development of knowledge disseminating teams and databases made up to index the expertise of repatriates, can facilitate progress.\textsuperscript{124}

Empirical research by Tung points out the potential for patterns of international careers, in this case careers in MNEs moving back and forth between China and North America, to contribute to outward foreign direct investment strategies for MNEs.\textsuperscript{125} These human capital flows are only now being documented and a rudimentary understanding of the complex relationships between government policies, cultural solidarity in the face of diasporas, and personal career ambition is beginning to emerge.

DESIGNING A REPATRIATION PROGRAM

While there is no simple, quick solution, preparing the repatriate and family for re-entry appears to have some value. The potential for mismatch of expectations regarding the future may be addressed as part of re-entry training before the return, and discussed during re-entry counseling sessions (sometimes referred to as debriefing) between the receiving organization in the home country and the repatriate. In common parlance, such sessions would enable both parties to ‘take a reality check’. What should be covered in formal repatriation programs? Table 7.4 is an amalgam of the lists suggested by respondents in the various surveys referred to above.

**TABLE 7.4 Topics covered by a repatriation program**

- Preparation, physical relocation and transition information (what the MNE will help with).
- Financial and tax assistance (including benefit and tax changes; loss of overseas allowance).
- Re-entry position and career path assistance.
- Reverse culture shock (including family disorientation).
- School systems and children’s education, and adaptation.
- Workplace changes (such as corporate culture, structure, decentralization).
- Stress management, communication-related training.
- Establishing networking opportunities.
- Help in forming new social contacts.
Some MNEs assign the expatriate a mentor (also referred to as a sponsor). The mentor is usually in a more senior position than the expatriate, from the sending work unit, and often knows the expatriate personally. The rationale behind the use of a mentor is to alleviate the ‘out-of-sight, out-of-mind’ feeling discussed earlier through the provision of information (such as, workplace changes) on a regular basis, so that the expatriate is more prepared for conditions faced upon re-entry. A mentor should also ensure that the expatriate is not forgotten when important decisions are made regarding positions and promotions. Linehan and Scullion\textsuperscript{126} found that 40 of the 50 females in their study had experienced mentoring relationships, and believed that their management positions were partially due to that relationship. The mentors provided contact and support from the home organization that also facilitated re-entry and reduced the ‘out-of-sight, out-of-mind’ syndrome. Their experiences led them to adopt mentoring roles in their new domestic positions.

It is reasonable to suggest that the practice of mentoring, to be effective, has to be managed. For example, what happens when the mentor retires or leaves the firm? Who monitors the mentor’s performance? Recent surveys have not specifically covered the practice of mentoring, but 22 per cent of responding firms in the 2008 ORC survey indicated they used mentors. Firms in a 1997/98 Price Waterhouse survey\textsuperscript{127} defined mentoring duties to include:

- Maintaining contact with the expatriate throughout the assignment.
- Ensuring expatriates are kept up to date with developments in the home country.
- Ensuring expatriates are retained in existing management development programs.
- Being responsible for assisting expatriates with the repatriation process, including assisting them to obtain a repatriation position.

It may be that having a mentor assists the expatriate to adjust during the foreign assignment but, by itself, does not necessarily help re-entry. Stroh\textsuperscript{128} concludes that her study: ‘did not show that having a mentoring program would make an independent contribution to the repatriate retention rate’, but there was a suggested link between assignment of a mentor, career development and repatriate retention. In other words, an effective mentor is likely to alert the firm with regard to the imminent return of the repatriate and this influences the provision of a suitable re-entry position; or the mentor role is part of a managed repatriation program.

Caligiuri and Lazarova\textsuperscript{129} recommend a number of proactive strategies to maximize the likelihood that the professional, financial and emotional issues faced by repatriates and their families will be dealt with and repatriates will be able to return with an integrated and balanced set of experiences which will be available to the MNE (see the right-hand box of Figure 7.4). These proactive strategies include:

- Managing expectations via pre-departure briefings on what can be expected during the assignment and upon return.
- Multiple career planning sessions focusing on career objectives and performance indicators, carried out by HR managers or a purpose-built team of past repatriates and relevant executives.
- Written repatriate agreements when feasible to clarify the types of assignments available upon return.
- Mentoring programs that continue on into the repatriate’s post-assignment career. This practice may act to notify the firm of any post-assignment dissonance and reduce turnover.
- Extended home visits to keep up with social, family and organizational changes.
- Reorientation programs to provide the repatriate with a briefing on changes in strategy, policies and organization.
Personalized reorientation by the MNE so the repatriate and her/his family may deal with the emotionally-charged issues of social readjustment, schools, family dynamics and lifestyle changes inherent in return.

Personalized financial and tax advice as well as access to interim financial benefits such as short-term loans.

Providing some kind of an adjustment period upon return that may or may not include a vacation or reduced workload.

Visible and concrete expressions of the repatriate’s value to the firm (in the form of promotion, public ceremonies or a completion bonus) will be required to seal and reinforce this new, more globally encompassing relationship between the MNE and the repatriate.

In terms of empirical evidence of practices, ORC\textsuperscript{130} reports that less than one-third of respondents provide expatriates three to six months advanced notice prior to repatriation, with just under half not offering guarantees of a job on repatriation. Yet, 44 per cent of companies felt that the company handled the repatriation process either very well or well. This is despite Brookfield reporting in 2011\textsuperscript{131} that only 14 per cent of companies had a formal repatriation strategy in place that was linked to career management and retention. Additionally, the most important repatriation issue facing companies was reported by ORC as career planning for returning assignees; for Japanese companies the number one issue is succession planning for the assignee’s job abroad. The least important issue varies by region: in Asia–Pacific it is cultural readjustment of the expatriate and family; in EMEA (Europe, the Middle East and Africa) and the Americas it is the expatriate’s loss of technical knowledge during the assignment, and in Japan it is retaining assignees after repatriation. To help the expatriate with repatriation, 66 per cent of ORC respondents offer at least some kind of assistance – primarily networking and home leave visits during the assignment – but there is no evidence that this assistance produces the desired outcomes.

While recognition of the importance of repatriation programs is increasing, and MNEs are experimenting with other measures such as mentors, other avenues could be explored, such as using repatriates as an important information source. Inviting repatriates to assist in developing repatriation programs may contribute to relevant and effective policies. It may also have a desirable side-effect upon readjustment, simply by giving participating repatriates a sense that they are not an under-utilized resource, and that the MNE recognizes they can make a valuable contribution to the expatriation process. It is, naturally, important that wherever possible the multinational ensures equity of treatment between PCN, TCN and HCN expatriates.

SUMMARY

This chapter has concentrated on the issues relating to training and developing expatriates for international assignments and the repatriation process. With regard to training and development we have discussed:

- The role of expatriate training in supporting adjustment and on-assignment performance.
- The components of effective pre-departure training programs such as cultural awareness, preliminary visits, language skills, relocation assistance and training for trainers.
- How cultural awareness training appears to assist in adjustment and performance and therefore should be made available to all categories of staff selected for overseas postings, regardless of duration and location.
- The need for language training for the host country and in the relevant corporate language.
The impact that an international assignment may have on an individual’s career.

The international assignment as an important way of training international operators and developing the international ‘cadre’. In this sense, an international assignment is both training (gaining international experience and competence) and managerial and organizational development.

With regard to the repatriation process we have discussed:

- The overall process of repatriation. With re-entry, the broader socio-cultural context of the home country takes a backstage position – unlike in the expatriation adjustment phase, where the foreign culture can be overwhelming. For the majority of repatriates, coming home to the familiar culture may assist in readjustment.

- Given the more profound effect that job-related factors appear to have, re-entry shock is perhaps a more accurate term to describe the readjustment process experienced upon repatriation.

- Career issues upon re-entry are of particular importance to repatriates. Factors that affect career anxiety are: no post-assignment guarantee of employment; fear that the period overseas had caused a loss of visibility; changes in the home workplace that affect re-entry positions; and the employment relationship.

- The re-entry position is an important indicator of future career progression and the value placed on international experience. Coping with new role demands is another factor in readjustment, along with loss of status and pay.

- Social factors can include loss of social standing and the accompanying loss of the expatriate lifestyle. Family readjustment is also important. A specific aspect is the effect of the international assignment upon the spouse/partner’s career, such as being re-employed and having international experience recognized.

- MNE responses to repatriates’ concerns focus on re-entry procedures. Issues covered include how repatriation affected staff availability, whether companies were measuring and obtaining a return on investment through international assignments, and the contribution of repatriates to knowledge transfer. The concepts of protean and boundaryless careers were introduced in terms of the international assignment and career outcomes.

- Designing effective repatriation programs, including the use of mentors and available forms of technology.

- Viewing repatriation as part of the expatriation process, as suggested in Figure 7.4, should remind those responsible for expatriation management of the need to prepare repatriates for re-entry and to recognize the value of the international experience to both parties.
DISCUSSION QUESTIONS

1. Summarize the key challenges faced in training expatriate managers.

2. Assume you are the HR director for a SME that has begun to use international assignments. You are considering using an external consulting firm to provide pre-departure training for employees, as you do not have the resources to provide this ‘in-house’. What components will you need covered? How will you measure the effectiveness of the pre-departure training program provided by this external consultant?

3. How does an international assignment assist in developing a ‘cadre’ of international operators? Why is it necessary to have such a “cadre”?

4. Why do some MNEs appear reluctant to provide basic pre-departure training?

5. What factors contribute to re-entry shock?

6. What are the objectives of a good mentoring system for international assignees?

7. Placing value on the international assignment assists repatriate retention. Discuss this statement.

8. Why is it important to measure return on investment for international assignments? Which indicators can be used?

FURTHER READING


NOTES AND REFERENCES


formal training programs to give reasons for omitting these programs. Again, differences were found between the three regions. The US companies cited a trend toward employment of local nationals (45 per cent); the temporary nature of such assignments (28 per cent); the doubtful effectiveness of such training programs (20 per cent); and lack of time (4 per cent). The reasons given by European multinationals were the temporary nature of such assignments (30 per cent); lack of time (30 per cent); a trend toward employment of local nationals (20 per cent); and the doubtful effectiveness of such programs. Responses from the Japanese companies were lack of time (63 per cent) and doubtful effectiveness of such programs (37 per cent).


35. The first author had the opportunity a number of years ago to visit McDonald’s Hamburger University in Chicago and observe training for new store managers from a number of developing markets such as countries from Eastern Europe and Russia. The training facility was able to conduct a number of simultaneous training programs with full simultaneous translation into the native language of the participants.


38. Relocation specialist companies include Cartus, Brockfield and Pricoa-Prudential, among others.


44. An exception is an article by R. DeFrank, R. Konopaske and J. M. Ivanovitch, ‘Executive Travel Stress: Perils of the Road Warrior’, Academy of Management Executive, Vol. 14, No. 2 (2000), pp. 55–71. However, the authors only devote one paragraph to host culture issues.


70. Stroh, et al., International Assignments, pp. 215–16.


75. Brookfield 2010 Survey, p. 49.

CHAPTER 7 INTERNATIONAL TRAINING, DEVELOPMENT AND CAREERS

77. M. Bolino and D. Feldman, ‘Increasing the Skill Utilization...’
86. Stroh, Gregersen and Black, ‘Closing the Gap’, p. 119.
101. Harvey, ‘The Other Side of Foreign Assignments’.


107. Ibid.


118. GMAC Survey 2002, p. 56.


122. See for example, R. Tung and Arthur Andersen, Exploring International Assignees’ Viewpoints; Price Waterhouse Europe, ‘International Assignments: European Policy and Practice’; Lazarova and Caligiuri, ‘Retaining Repatriates’.


124. As reported by Blakeney et al., ‘Repatriate Assets’. Colgate-Palmotive developed a database of repatriate skills, as ‘the company saw the value of having information on each manager’s knowledge/experience with particular cultures and disseminating knowledge about local markets throughout its global operations’, p. 194. For a more in-depth discussion of potential relationships between knowledge mapping processes, career development and strategic activities in transnational firms, see A. Engle, P Dowling and M. Mendenhall, ‘Transnational Trajectories: Emergent Strategies of Globalization and a New Context for Strategic HRM in MNEs’ (working paper, 2007).


126. Linehan and Scullion, ‘Repatriation of European Female Corporate Executives’.


Chapter Objectives

In the introductory chapter we described international HR managers as grappling with complex issues. International managers must: (1) manage more activities from a broader perspective, (2) be more involved in the lives of their far-flung employees, (3) balance the needs of PCNs, HCNs and TCNs, (4) control exposure to financial and political risks, and (5) be increasingly aware of and responsive to host country and regional influences. All of these issues and concerns are highlighted in stark contrast in a discussion of compensation issues. In this chapter we:

- Examine the complexities that arise when firms move from compensation at the domestic level to compensation in an international context.
- Detail the key components of an international compensation program.
- Outline the two main approaches to international compensation (Going Rate and Balance Sheet Approach) and the advantages and disadvantages of each approach.
- Introduce a third emerging approach to international compensation: Local Plus.
- Examine the special problem areas of taxation, valid international living cost data and the problem of managing TCN compensation.
- Examine recent developments and global compensation issues.
INTRODUCTION

Global compensation practices have recently moved far beyond the original domain of expatriate pay. Compensation is increasingly seen as: a mechanism to develop and reinforce a global corporate culture, a primary source of corporate control, explicitly linking performance outcomes with associated costs, and the nexus of increasingly strident, sophisticated and public discourses on central issues of corporate governance in an international context.

Increased complexities in global pay include the growing use of outsourced activities and subsequent labor pricing needs, balancing centralization and decentralization of incentives, benefits and pensions, given the technical capabilities of web-based human resource information systems (HRIS), and balancing the need for more accurate and detailed performance metrics on international assignees with the realities of a cost-sensitive environment resulting from maturing global competitiveness.

Increasingly, domestic pay practices of long standing have been questioned as firms move into the global arena. These overt challenges to deeply held national and corporate values and pay systems include challenges to the universal applicability of incentive pay programs and what some critics view as out of control executive compensation programs, often driven by US-based multinational pay systems. Critiques of US-based MNE pay for executives have recently expanded to include challenges to the effectiveness of legal and institutional forms of corporate governance and the roles, responsibilities and pay practices of corporate boards, compensation committees and the use of executive pay consultants.

Greater choice, the growing ability to systematically identify and implement heretofore novel or unrecognized pay practices, may be seen to result from increases in the transparency of pay practices around the world due to increased global media attention and reach, changes in corporate reporting regulations, the sheer number of assignments across borders, as well as the impact of the World Wide Web. It remains to be seen if this increased choice will translate into a predictable set of global pay practices.

These complexities, challenges and choices facing managers involved in global compensation decisions do not change two primary areas of focus. These individuals must manage highly complex and turbulent local details while concurrently building and maintaining a unified, strategic pattern of compensation policies, practices and values.

For MNEs to successfully manage compensation and benefits requires knowledge of employment and taxation law, customs, environment and employment practices of many foreign countries; familiarity with currency fluctuations and the effect of inflation on compensation; and an understanding of why and when special allowances must be supplied and which allowances are necessary in what countries – all within the context of shifting political, economic and social conditions. The level of local knowledge needed in many of these areas requires specialist advice and many multinationals retain the services of consulting firms that may offer a broad range of services or provide highly specialized services relevant to HRM in a multinational context.

Because of its complexity and expense, much of the discussion in this chapter addresses PCN compensation. However, issues relevant to TCNs and HCNs are also described because they are becoming more important to the success of many MNEs. Indeed, expatriate compensation – long the preoccupation of global HR executives – is increasingly seen more as a component of a more balanced, albeit complex, system of worldwide pay. National and regional differences in the meaning, practice and tradition of pay remain significant sources of variation in the international firm. Yet these contextual sources of complexity must be balanced with strategic intent and administrative economy. Rather than seeing pay as an ethnocentric extension of an essentially domestic strategy, pay systems are increasingly becoming truly global – with truly global objectives.
Objectives of international compensation

When developing international compensation policies, an MNE seeks to satisfy several objectives. First, the policy should be consistent with the overall strategy, structure and business needs of the multinational. Second, the policy must work to attract and retain staff in the areas where the MNE has the greatest needs and opportunities. Thus, the policy must be competitive and recognize factors such as incentive for foreign service, tax equalization and reimbursement for reasonable costs. Third, the policy should facilitate the transfer of international employees in the most cost-effective manner for the firm. Fourth, the policy must give due consideration to equity and ease of administration.

The international employee will also have a number of objectives that need to be achieved from the firm’s compensation policy. First, the employee will expect the policy to offer financial protection in terms of benefits, social security and living costs in the foreign location. Second, the employee will expect a foreign assignment to offer opportunities for financial advancement through income and/or savings. Third, the employee will expect issues such as the cost of housing, education of children, and home leave to be addressed in the policy.

If we contrast the objectives of the MNE and the employee, we of course see the potential for many complexities and possible problems, as some of these objectives cannot be maximized on both sides. The ‘war stories’ about problems in international compensation that we see in HR practitioner magazines is testimony to these complexities and problems. McNulty et al. also allude to these problems in their studies of expatriation, particularly in the Asia Pacific region.16

However, if we take away the specialist jargon and allow for the international context, are the competing objectives of the firm and the employee fundamentally different from that which exists in a domestic environment? We think not. We agree with the broad thrust of an influential article by Milkovich and Bloom17 which argues that firms must rethink the traditional view that local conditions dominate international compensation strategy. This is again another application of the ongoing balancing act between global standardization and local customization. We will return to these issues at the end of the chapter after we have covered some of the technical aspects and complexities of compensation in an international context.

KEY COMPONENTS OF AN INTERNATIONAL COMPENSATION PROGRAM FOR EXPATRIATES

The area of international compensation is complex primarily because multinationals must cater to three categories of employees: PCNs, TCNs and HCNs. In this section, we discuss key components of international compensation as follows.

Base salary

The term base salary acquires a somewhat different meaning when employees go abroad. In a domestic context, base salary denotes the amount of cash compensation serving as a benchmark for other compensation elements (such as bonuses and benefits). For expatriates, it is the primary component of a package of allowances, many of which are directly related to base salary (e.g. foreign service premium, cost-of-living allowance, housing allowance) as well as the basis for in-service benefits and pension contributions. It may be paid in home or local country currency or a combination of both. The base salary is the foundation block for international compensation whether the employee is a PCN or TCN. Major differences can occur in the employee’s package depending on whether the base salary is linked to the home country of the PCN or TCN, or whether an international rate is paid. (We will return to this issue later in the chapter.)
Foreign service inducement and hardship premium

Parent-country nationals often receive a salary premium as an inducement to accept a foreign assignment, as well as a hardship premium to compensate for challenging locations. Under such circumstances, the definition of hardship, eligibility for the premium, and amount and timing of payment must be addressed. For example, where a host country’s work week may be longer than that of the home country, a differential payment may be made in lieu of overtime, which is not normally paid to PCNs or TCNs. In cases in which hardship is determined, US firms often refer to the US Department of State’s Hardship Post Differentials Guidelines to determine an appropriate level of payment. As a number of researchers in this field have noted over many decades, making international comparisons of the cost of living is problematic. It is important to note, though, that these payments are more commonly paid to PCNs than TCNs.

Foreign service inducements, if used, are usually made in the form of a percentage of salary, usually 5 to 40 per cent of base pay, but are also sometimes offered as a lump-sum incentive (i.e. as a one-off payment made at some point during an assignment). Such payments vary, depending upon the assignment location, tax consequences, and length of assignment.

Allowances

Issues concerning allowances can be very challenging to a firm establishing an overall compensation policy, partly because of the various forms of allowances that exist. In this section we will discuss the six most common allowances.

Cost-of-living allowance. The cost-of-living allowance (COLA), which typically receives the most attention, involves a payment to compensate for differences in expenditures between the home country and the foreign country. COLA payments are intended to compensate for cost differentials between an expatriate’s home and host country, for example, the costs of transportation, furniture and appliances, medical, alcohol and tobacco, automobile maintenance and domestic help. Family size is the predominant method for determining COLA payments, with increments provided for each child. Often this allowance is difficult to determine, so companies may use the services of organizations such as Mercer (a US-based firm) or ECA International (based in Britain). These firms specialize in providing COLA information on a global basis, regularly updated, to their clients. The COLA may also include payments for housing and utilities, and discretionary items. Various COLA indices exist, which, for example, allow an American to live like an American in Paris or which presume that the American will adapt to the assignment location by adjusting to the local life style and international living costs.

Housing allowance. The provision of a housing allowance implies that employees should be entitled to maintain their home-country living standards (or, in some cases, receive accommodation that is equivalent to that provided for similar foreign employees and peers). The amount of housing allowance is determined predominantly by family size, and to some extent job level. Other alternatives include company-provided housing (either mandatory or optional); a fixed housing allowance across a particular job level, with the expatriate ‘topping up’ according to personal preferences; or assessment of a portion of income, out of which actual housing costs are paid. Housing issues are often addressed on a case-by-case basis, but as a firm internationalizes, formal policies become more necessary and efficient. Financial assistance and/or protection in connection with the leasing of an expatriate’s former residence is offered by many MNEs, but less so for selling a house as many MNEs encourage their employees to retain a presence in their home country real estate market. Those in the banking and finance industry tend to be the most generous, offering assistance in sale and leasing, payment of closing costs, payment of leasing management fees, rent protection and equity protection. Generally, TCNs tend to receive these benefits less frequently than PCNs.
Home leave allowances. Many MNEs also have a provision for home leave allowances where employers cover the expense of one or more trips back to the home country each year. The primary purpose of paying for such trips is to give expatriates the opportunity to renew family and business ties, thereby helping them to minimize adjustment problems when they are repatriated. Although firms traditionally have restricted the use of leave allowances to travel home, some firms give expatriates the option of applying home leave to foreign travel rather than returning home. Firms allowing use of home leave allowances for foreign travel need to be aware that expatriate employees with limited international experience who opt for foreign travel rather than returning home may become more homesick than other expatriates who return home for a ‘reality check’ with fellow employees and friends. Without the benefit of returning home to mix with employees and friends it is possible to idealize what they remember of their experience at work and home and fail to come to a measured judgment of what is good and bad in both their host and home environments. Overall, it would seem prudent for MNEs to take the view that home leave allowances should normally be used for the purpose they are provided – to give employees and their families the opportunity to renew family and business ties, thereby increasing the probability of reduced adjustment problems when they are repatriated.

Education allowances. The provision of education allowances for the children of expatriates is frequently an integral part of an international compensation policy. Allowances for education can cover items such as tuition (including language classes), application and enrolment fees, books and supplies, meals, transportation, excursions and extra-curricular activities, parent association fees, school uniforms and, if applicable, room and board. Although school uniforms are not common in the USA, it is common practice (and in many countries compulsory) for school children to wear uniforms, particularly in international schools. PCNs and TCNs usually receive similar treatment concerning educational expenses, but the level of education provided for and the adequacy of local public schools versus international schools may present problems for multinationals. International schools (e.g. United World College of South East Asia, British International School Shanghai) are far more expensive than local public schools but are preferred by many expatriates because these schools follow the home-country curriculum and cater to a globally diverse student body more capable of supporting ‘third culture kids’. The cost of local and international schools for dependent children from kindergarten through to high school are typically covered by the employer ORC reports that 95 per cent of MNEs contribute to the educational expenses of expatriate children. However, there may be restrictions depending on the age of children (pre-school, day care and university are typically not covered), availability of school places, and their fees. In a number of countries attendance at schools in the host location may be seen as unsuitable and the MNE may cover (or contribute towards) the costs of children attending a private boarding school elsewhere (e.g. the costs of room and board as well as other transportation costs to cover parental visits and school holiday travel). The costs of attendance at a university may also be provided for by multinationals, when deemed necessary, but this is rare.

Relocation allowances. Items typically covered by relocation allowances include moving, shipping and storage charges; temporary living expenses; subsidies regarding appliance or car purchases (or sales); and down payments or lease-related charges. Allowances regarding perquisites (cars, drivers, club memberships, servants and so on) may also need to be considered (usually for more senior positions, but this varies according to location). These allowances are often contingent upon tax-equalization policies and practices in both the home and the host countries. For example, in most Western countries a driver is considered a luxury, only available to very senior managers. In developing economies a driver is economical in terms of cost, effectiveness and safety. Apart from the expectation that managers use drivers, parking is frequently chaotic in developing countries (especially in large cities) and the driver also performs the function of a parking attendant. In some developing countries it is quite common for the police to
arrest drivers involved in traffic accidents and leave them in detention while responsibility and damages are assessed. Such a risk is unacceptable to many MNEs which do not allow their expatriate employees to drive at all in specific developing countries and provide local drivers for both the expatriate and spouse.

**Spouse assistance.** Increasingly, many MNEs are also offering **spouse assistance** to help guard against or offset income lost by an expatriate’s spouse as a result of relocating abroad. Payments, on average, are capped at US$7000 per family but vary according to region. Although some MNEs may pay a one-time allowance to make up for a spouse’s lost income (averaging US$11,000 per family according to ORC), US multinationals are beginning to focus on providing spouses with employment opportunities abroad, either by offering job-search assistance, career counseling, cultural orientation, resume/CV preparation, work permit assistance and language tuition, or in more unusual cases employment in the MNE’s foreign business (subject of course to a work visa being approved by the host country government for this purpose).

To summarize, MNEs generally pay allowances in order to encourage employees to take international assignments and to keep employees ‘whole’ (i.e. relatively comparable) to home standards. We will present more about this concept later in the chapter.

**Benefits**

The complexity inherent in international benefits often brings more difficulties than when dealing with compensation. Expatriate ‘benefits’ includes health care, pension plans/social security, life insurance, child allowances and profit sharing/stock option plans.

Pension plans are very difficult to deal with country-to-country as national practices vary considerably. Transportability of pension plans/social security and medical coverage benefits are very difficult to normalize. Therefore, MNEs need to address many issues when considering benefits, including:

- Whether or not to maintain expatriates in home-country programs, particularly if the multinational does not receive a tax deduction for it.
- Whether MNEs have the option of enrolling expatriates in host-country benefit programs and/or making up any difference in coverage.
- Whether expatriates should receive home-country or are eligible to receive host-country social security benefits.

Most US PCNs typically remain under their home-country benefit plan, with the exception of medical benefits: more than half of the MNEs surveyed by ORC assign their expatriates to an international healthcare plan. In some countries, expatriates cannot opt out of local social security programs. In such circumstances, the firm normally pays for these additional costs. European PCNs and TCNs enjoy portable social security benefits within the European Union. Laws governing private benefit practices differ from country to country, and firm practices also vary. Not surprisingly, multinationals have generally done a good job of planning for the retirement needs of their PCN employees, but this is generally less the case for TCNs. There are many reasons for this: TCNs may have little or no home-country social security coverage; they may have spent many years in countries that do not permit currency transfers of accrued benefit payments; or they may spend their final year or two of employment in a country where final average salary is in a currency that relates unfavorably to their home-country currency. How their benefits are calculated and what type of retirement plan applies to them may make the difference between a comfortable retirement in a country of their choice or a forced and financially less comfortable retirement elsewhere.
In addition to the already discussed benefits, multinationals also provide vacations and special leave. Included as part of the employee’s regular vacation, annual home leave usually provides airfares for families to return to their home countries. Rest and rehabilitation leave is also frequently available if the conditions of the host country are clearly below the standards of the home country. Typically, rest and rehabilitation leave provides the employee’s family with paid airfares to a more comfortable location near the host country. In addition to rest and rehabilitation leave, emergency provisions are available in case of a death or illness in the family. Employees in hardship locations generally receive additional leave expense payments and rest and rehabilitation periods.

APPROACHES TO INTERNATIONAL COMPENSATION OF EXPATRIATES

There are two main options in the area of international compensation – the Going Rate Approach (also referred to as the Market Rate Approach) and the Balance Sheet Approach (sometimes known as the Build-up Approach). In this section we describe each approach and discuss the advantages and disadvantages inherent in each approach.27

The going rate approach

The key characteristics of this approach are summarized in Table 8.1. With this approach, the base salary for the international transfer is linked to the salary structure in the host country. The multinational usually obtains information from local compensation surveys and must decide whether local nationals (HCNs), expatriates of the same nationality or expatriates of all nationalities will be the reference point in terms of benchmarking. For example, a Japanese bank operating in New York would need to decide whether its reference point would be local US salaries, other Japanese competitors in New York, or all foreign banks operating in New York. With the Going Rate Approach, if the location is in a low-pay county, the multinational usually supplements base pay with additional benefits and payments.

<table>
<thead>
<tr>
<th>TABLE 8.1 Going rate approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Based on local market rates</td>
</tr>
<tr>
<td>• Relies on survey comparisons among:</td>
</tr>
<tr>
<td>• Local nationals (HCNs)</td>
</tr>
<tr>
<td>• Expatriates of same nationality</td>
</tr>
<tr>
<td>• Expatriates of all nationalities</td>
</tr>
<tr>
<td>• Compensation based on the selected survey comparison</td>
</tr>
<tr>
<td>• Base pay and benefits may be supplemented by additional payments for low-pay countries</td>
</tr>
</tbody>
</table>

There are advantages and disadvantages of the Going Rate Approach, summarized in Table 8.2. The advantages are: there is equality with local nationals (very effective in attracting PCNs or TCNs to a location that pays higher salaries than those received in the home country); the approach is simple and easy for expatriates to understand; expatriates are able to identify with the host country; and there is often equity among expatriates of different nationalities.
The disadvantages of the Going Rate Approach include: First, there can be variation between assignments for the same employee. This is most obvious when we compare an assignment in an advanced economy with one in a developing country, but also between assignments in various advanced economies where differences in managerial salaries and the effect of local taxation can significantly influence an employee’s compensation level using the Going Rate Approach. Not surprisingly, individual employees are very sensitive to this issue. Second, there can be variation between expatriates of the same nationality in different locations. A strict interpretation of the Going Rate Approach can lead to rivalry for assignments to locations that are financially attractive and little interest in locations considered financially unattractive. Finally, the Going Rate Approach can pose problems upon repatriation when the employee’s salary reverts to a home-country level that is below that of the host-country. This is not only a problem for firms in developing countries, but also for MNEs from many countries where local managerial salaries are well below that of the USA, which has long been the world market leader in managerial salaries, although the gap between US and some European salaries has been narrowing.28

The balance sheet approach

The key characteristics of this approach (which is the most widely used approach for international compensation) are summarized in Table 8.3. The basic objective is to ‘keep the expatriate whole’ (that is, maintaining relativity to PCN colleagues and compensating for the costs of an international assignment29) through maintenance of home-country living standard plus a financial inducement to make the package attractive. This approach links the base salary for expatriates to the salary structure of the relevant home country. For example, a US executive taking up an international position would have his or her compensation package built upon the US base-salary level rather than that applicable to the host country. The key assumption of this approach is that foreign assignees should not suffer a material loss due to their transfer, and this is accomplished through the utilization of what is generally referred to as the Balance Sheet Approach. According to Reynolds:

\[ \text{The balance sheet approach to international compensation is a system designed to equalize the purchasing power of employees at comparable position levels living overseas and in the home-country and to provide incentives to offset qualitative differences between assignment locations.}^{30} \]

<table>
<thead>
<tr>
<th>TABLE 8.3</th>
<th>The balance sheet approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Basic objective is maintenance of home-country living standard plus financial inducement</td>
<td></td>
</tr>
<tr>
<td>• Home-country pay and benefits are the foundations of this approach</td>
<td></td>
</tr>
<tr>
<td>• Adjustments to home package to balance additional expenditure in host country</td>
<td></td>
</tr>
<tr>
<td>• Financial incentives (expatriate/hardship premium) added to make the package attractive</td>
<td></td>
</tr>
<tr>
<td>• Most common system in usage by multinational firms</td>
<td></td>
</tr>
</tbody>
</table>
There are four major categories of outlays incurred by expatriates that are incorporated in the Balance Sheet Approach:

1. **Goods and services** – home-country outlays for items such as food, personal care, clothing, household furnishings, recreation, transportation and medical care.

2. **Housing** – the major costs associated with housing in the host country.

3. **Income taxes** – parent-country and host-country income taxes.

4. **Reserve** – contributions to savings, payments for benefits, pension contributions, investments, education expenses, social security taxes, etc.

Where costs associated with the host-country assignment exceed equivalent costs in the parent country, these costs are met by both the MNE and the expatriate to ensure that parent-country equivalent purchasing power is achieved.

Table 8.4 shows a typical spreadsheet for an expatriate assignment using the Balance Sheet Approach. In this example, an Australian expatriate is assigned to a hypothetical country called New Euphoria which has a Cost-of-Living-Index of 150 relative to Australia and an exchange rate of 1.5 relative to the Australian dollar. In addition to a foreign service premium, a hardship allowance is also payable for this location. Housing is provided by the MNE, and a notional cost for this is recognized by a 7 per cent deduction from the package, along with a notional tax deduction (we discuss taxation later in the chapter). The expatriate can see from this spreadsheet what components are offered in the package and how the package will be split between Australian currency and New Euphoria currency.

**TABLE 8.4 Expatriate compensation worksheet**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount A$ PA</th>
<th>Paid in Australian dollars A$ PA</th>
<th>Paid in local currency NES$ PA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base salary</td>
<td>200 000</td>
<td>100 000</td>
<td>150 000</td>
</tr>
<tr>
<td>Cost of living allowance</td>
<td>50 000</td>
<td></td>
<td>75 000</td>
</tr>
<tr>
<td>Overseas service premium (20%)</td>
<td>40 000</td>
<td>40 000</td>
<td></td>
</tr>
<tr>
<td>Hardship allowance (20%)</td>
<td>40 000</td>
<td>40 000</td>
<td></td>
</tr>
<tr>
<td>Housing deduction (7%)</td>
<td>-14 000</td>
<td>-14 000</td>
<td></td>
</tr>
<tr>
<td>Tax deduction</td>
<td>-97 000</td>
<td>-97 000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>219 000</td>
<td>69 000</td>
<td>225 000</td>
</tr>
</tbody>
</table>

There are advantages and disadvantages of the Balance Sheet Approach, summarized in Table 8.5. There are three main advantages. First, the Balance Sheet Approach provides equity between all foreign assignments and between expatriates of the same nationality. Second, repatriation of expatriates is facilitated by this emphasis on equity with the parent country as expatriate compensation remains anchored to the compensation system in the parent country. Third, this approach is easy to communicate, as Table 8.4 illustrates.
There are two main disadvantages of the Balance Sheet Approach. First, this approach can result in considerable disparities—both between expatriates of different nationalities and between PCNs and HCNs. Problems arise when international staff are paid different amounts for performing the same (or very similar) job in the same host location, according to their different home base salary. For example, in the Singapore regional headquarters of a US bank, a US PCN and a New Zealand TCN may perform the same (or similar) banking duties but the American will receive a higher salary than the New Zealander because of the differences in US and New Zealand base-salary levels. As noted above, differences in base-salary levels can also cause difficulties between expatriates and HCNs. Traditionally, this has referred to the problem of highly paid PCNs being resented by local HCN employees because these ‘foreigners’ are perceived as being excessively compensated (and because they are blocking career opportunities for locals).

However, feelings of resentment and inequity can also run in the other direction. For instance, as indicated above, the USA has the highest level of managerial compensation in the world. Thus, a multinational that establishes a subsidiary in the USA (or acquires a US business) may find that if it uses a Balance Sheet Approach, its expatriates may be substantially underpaid compared to local American employees. While the logic of the balance sheet states that being tied to the home country assists in repatriation because the expatriate identifies with the home country, research in equity theory suggests that employees do not always assess compensation issues in a detached way.

The issue of base salary differences is also a concern for US employees working for foreign firms operating in the USA. Many non-US multinationals are reluctant to pay high US salaries to US employees who are offered international assignments (as HCNs into the firm’s home-country operations, or as TCNs in a regional subsidiary). US employees are equally reluctant to accept the lower salaries paid in the firm’s home country. Thus, the Balance Sheet Approach can produce disparities and may also act as a barrier to staff acceptance of international assignments. A second problem with the Balance Sheet Approach is that while this approach is both elegant and simple as a concept, it can become quite complex to administer. Complexities particularly arise in the areas of tightly integrated private and government fund transfers (e.g. taxes and pensions).

A third emerging approach to international compensation: ‘Local Plus’

Over the past decade, a third approach to international compensation, summarized in Table 8.6, and called Local Plus has begun to emerge, particularly in the Asia Pacific region. A Local Plus approach is one in which expatriate employees are paid according to the prevailing salary levels, structure, and administration guidelines of the host location, plus provided ‘expatriate-type’ benefits such as assistance with transportation, housing, and dependents’ education in recognition of the employee’s ‘foreign’ status. Benefits may be paid in-kind (directly by the MNE) or as add-ons to local salary levels at a grossed-up rate to account for host taxes. Local Plus

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Equity</td>
<td>• Can result in great disparities</td>
</tr>
<tr>
<td>• Between assignments</td>
<td>• Between expatriates of different</td>
</tr>
<tr>
<td>• Between expatriates of the</td>
<td>nationalities</td>
</tr>
<tr>
<td>same nationality</td>
<td>• Between expatriates and local</td>
</tr>
<tr>
<td>• Facilitates expatriate re-entry</td>
<td>nationals</td>
</tr>
<tr>
<td>• Easy to communicate to</td>
<td>• Can be quite complex to</td>
</tr>
<tr>
<td>employees</td>
<td>administer</td>
</tr>
</tbody>
</table>

TABLE 8.5 Advantages and disadvantages of the balance sheet approach
compensation does not typically include tax equalization, COLA, mobility premiums, hardship allowances, familiarization visits, home leave, cross-cultural training and other pre-departure programs, or spouse assistance. Pension benefits are optional depending on the nature of the assignment and whether the transfer is temporary or permanent.

The driving force behind a Local Plus approach for many MNEs is to reduce their international assignment costs. Developing low-cost alternative salary packages, such as Local Plus, is one way to achieve this. With many companies also seeing an increase in the number of developmental assignees, many expatriates (especially junior and middle management staff) are often willing to accept a reduced package such as Local Plus in return for the international experience that will enhance their future careers. Typically, Local Plus is used for long-term assignments, permanent transfers, intra-regional transfers (e.g. such as in Asia Pacific), and for assignments from low to high wage locations.

In many respects, Local Plus compensation is a hybrid version of both the Balance Sheet (home based) and Going Rate (host based) Approaches, often containing the optimum benefits of both. As such, it is a compensation approach that can frequently solve some of the problems encountered in more traditional compensation approaches and therefore has some unique benefits. For example, because the expatriate benefits of a Local Plus package are not ‘fixed’ as in the Balance Sheet Approach, there is considerable flexibility to tailor each ‘plus’ component (i.e. add or a remove a benefit) according to a variety of individual and corporate objectives. This is advantageous for a number of reasons. First, if we take the Balance Sheet Approach, this is based on the notion that expatriate employees can identify a ‘home’ country, but with more expatriates undertaking multiple assignments, often back to back, and frequently over a decade or more (some with no intention to return or retire there), identifying ‘home’ is becoming increasingly difficult. Using a Balance Sheet approach under these circumstances does not make sense, but a Local Plus approach does. Second, companies that recruit employees from locations where it has no presence (e.g. TCNs) and therefore no payroll facilities will find it very difficult to administer either a home or host based approach. Again, a Local Plus approach will solve this problem by offering ‘plus’ benefits based on what is appropriate given the employee’s experience and skills rather than where they come from or where they are going to.

The benefits of the Local Plus approach can be seen in the increasing use of this type of compensation in Asia Pacific. AIRINC reports that companies headquartered in Asia are more likely to have a formal Local Plus policy in place, and have more assignees on a Local Plus policy, than in any other region in the world. This may be due in large part to Asia’s economic growth over the past decade that is fuelling the demand for a more globalized workforce, as such, MNEs must entice hundreds of thousands of expatriates to the region while also facilitating the transfer of international employees in the most cost-effective manner.

Although the benefits of Local Plus compensation are numerous, there are also some disadvantages for firms that use the approach. In a recent study of expatriates’ views about international assignments across five regions, McNulty and colleagues found that Local Plus compensation tends to shift the power balance in the employment relationship in expatriates’ favor. This is because, by its nature, Local Plus compensation has a more normalizing effect on how expatriates live in a host-country in comparison to expatriates’ on more generous salary packages. It means that the lifestyle of expatriates on Local Plus compensation is generally more closely aligned with the lifestyle and socio-economic habits of locals in the host-country, i.e., the disparity in purchasing power between themselves and HCNs is marginal given that the choices they make about their standard of living (where to live, which schools to attend) are determined less by the MNE. As a result of their greater sacrifice and being forced to rely less on the organization to support some of their fundamental employment needs, which is often not compensated for in other non-financial ways (e.g. through improved career management support), Local Plus compensation can impact on expatriates’ job embeddedness in terms of commitment and loyalty. In sum, Local Plus compensation tends to decrease the ties that bind expatriates to their firm.

The shift in power in the employment relationship in favor of expatriates can have significant implications for MNEs. The most significant problem is expatriate retention. For instance, if
Local Plus compensation is ideally suited to expatriates’ willing to accept a reduced salary package in exchange for the opportunity to acquire valuable international skills, it is necessary to also consider that once these skills have been acquired, employees marketability on the international labor market will likely increase. As Local Plus expatriates are less reliant on firms to fund their expatriate lifestyle, and because they are living a largely ‘local’ lifestyle to begin with, their willingness to consider other job offers that may afford them even an incremental increase in their current salary is higher. This may be because they feel ‘pushed’ to find better employment opportunities, or because they have (or are developing) a self-initiated career orientation (i.e., pursuing a protean, global or boundaryless career – as discussed in chapter 7) that prompted them to initially accept a local-plus package. Either way, there is an increased risk of losing expatriates to competitors, particularly during an international assignment, which can have a devastating effort on MNEs broader global staffing objectives. See Table 8.6 for a comparison of some long-term assignment options we have discussed.

**TABLE 8.6 Compensation approaches and strategies for long-term international assignments**

<table>
<thead>
<tr>
<th>Policy Name</th>
<th>Strategy</th>
<th>Description of Policy</th>
<th>Purpose Used For</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full International</td>
<td>Development</td>
<td>• based on balance sheet (home) approach&lt;br&gt;• ‘full bells and whistles’, i.e. generous remuneration (including bonus and incentives) and benefits (including cost of living allowance, housing, education, spousal allowance, car, home leave, and club memberships)&lt;br&gt;• designed to ensure employee’s lifestyle not disadvantaged as result of international relocation</td>
<td>• targeted at executives for career development or on international track who possess universal skills and considered high potential&lt;br&gt;• often used for ‘cadre’ approach to develop careers of elite group of high performers whose permanent mobility is long-term strategic goal&lt;br&gt;• mainly used for retention purposes where goal is to repatriate to corporate headquarters or business group headquarters&lt;br&gt;• used sparingly and as reward for key individuals</td>
</tr>
<tr>
<td>Expat Lite</td>
<td>Skills/Secondment</td>
<td>• based on reduced balance sheet (home) approach&lt;br&gt;• reduced version of ‘full bells and whistles’, i.e. generous remuneration with/without bonus and incentives, and inclusion of some benefits (e.g. housing, education, car, home leave) but not others (e.g. club memberships, spousal allowance, cost of living)</td>
<td>• expatriates with deep technical skills or competencies needed in another location&lt;br&gt;• specific goal is to transfer skills and knowledge for duration of assignment only (no more than 2 years)&lt;br&gt;• expatriate relocates for fixed period and repatriates with no intention to relocate again unless a specific skill need arises&lt;br&gt;• often used to service clients in location where local skills not available</td>
</tr>
</tbody>
</table>
Taxation

Taxation is probably the one aspect of international compensation that causes the most concern to HR practitioners and expatriates because taxation generally evokes emotional responses. No one enjoys paying taxes, and this issue can be very time consuming for both the MNE and the expatriate. To illustrate the potential problems, an assignment abroad for a US expatriate may result in being taxed in the country of assignment and in the USA. This dual tax cost, combined with all of the other expatriate costs, makes some US multinationals think twice about making use of expatriates. It is important to note that Section 911 of the US Internal Revenue Service Code contains provisions permitting a substantial deduction on foreign-earned income, but US expatriates must file with the IRS and usually also with the host-country tax office during their period of foreign service. This requirement is more onerous than for citizens of some other OECD countries who are not required to declare their total global income to their home-country taxation authority.

---

<table>
<thead>
<tr>
<th>Policy Name</th>
<th>Strategy</th>
<th>Description of Policy</th>
<th>Purpose Used For</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Plus</td>
<td>Cost savings</td>
<td>• based on going rate (host) approach</td>
<td>• combination of developmental and skills/secondment expatriates, but generally targeted at middle management executives who are specialized, functional people, or broad business managers and/or generalists who move between variety of different positions (and locations) throughout their career</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• provides some benefits of developmental policy but on greatly reduced basis</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• expatriates often localized with some additional benefits provided to sustain retention</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• no ongoing allowances (e.g., cost of living)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• initial allowances typically phased out over period of assignment (100% benefit year one, 50% benefit year two, 20% benefit year three)</td>
<td></td>
</tr>
<tr>
<td>Localization</td>
<td>Cost savings,</td>
<td>• based on going rate (host) approach</td>
<td>• typically offered to managers initiating relocation or indicating willingness to relocate</td>
</tr>
<tr>
<td></td>
<td>functional</td>
<td>• initial allowances from any of above strategies phased out over period of assignment (100% benefit year one, 50% benefit year two, 20% benefit year three) to achieve full ‘local’ remuneration</td>
<td></td>
</tr>
<tr>
<td></td>
<td>turnover &amp;</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>retention</td>
<td></td>
<td></td>
</tr>
<tr>
<td>One-Way</td>
<td>Self-initiated</td>
<td>• based on going rate (host) approach</td>
<td>• self-initiated/employee-initiated relocation</td>
</tr>
<tr>
<td>International</td>
<td>transfers</td>
<td>• one way relocation package to host-destination</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• salary, incentives and benefits paid from local payroll</td>
<td></td>
</tr>
</tbody>
</table>

Source: Table 8.6 was created by the author team specifically for this textbook.

Taxation
Multinationals generally select one of the following approaches to handling international taxation:

- **Tax equalization.** Firms withhold an amount equal to the home-country tax obligation of the expatriate, and pay all taxes in the host country.

- **Tax protection.** The employee pays up to the amount of taxes he or she would pay on compensation in the home country. In such a situation, the employee is entitled to any windfall received if total taxes are less in the foreign country than in the home country. In her classic review of global compensation, Stuart adds two other approaches: (1) *ad hoc* (each expatriate is handled differently, depending upon the individual package agreed to with the MNE); and (2) *laissez-faire* (employees are ‘on their own’ in conforming to host-country and home-country taxation laws and practices). However, neither of these approaches are recommended and we shall focus on tax equalization and tax protection, as these are the most common approaches.

Tax equalization is by far the more common taxation policy used by multinationals. Thus, for an expatriate, tax payments equal to the liability of a home-country taxpayer with the same income and family status are imposed on the employee’s salary and bonus. Any additional premiums or allowances are paid by the firm, tax-free to the employee. As multinationals operate in more and more countries, they are subject to widely discrepant income tax rates. For example, if we look at selected maximum federal marginal tax rates (see Table 8.7) the ‘top five’ highest taxation countries are The Netherlands, Belgium, Germany, Australia and Italy. The USA is significantly below the rates for these five countries.

### TABLE 8.7 Maximum marginal federal tax rates

<table>
<thead>
<tr>
<th>Country</th>
<th>Maximum marginal rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>45.00</td>
</tr>
<tr>
<td>Belgium</td>
<td>50.00</td>
</tr>
<tr>
<td>Canada</td>
<td>29.00</td>
</tr>
<tr>
<td>Chile</td>
<td>40.00</td>
</tr>
<tr>
<td>Denmark</td>
<td>26.48</td>
</tr>
<tr>
<td>France</td>
<td>40.00</td>
</tr>
<tr>
<td>Germany</td>
<td>45.00</td>
</tr>
<tr>
<td>Italy</td>
<td>43.00</td>
</tr>
<tr>
<td>Japan</td>
<td>40.00</td>
</tr>
<tr>
<td>Korea</td>
<td>35.00</td>
</tr>
<tr>
<td>Mexico</td>
<td>28.00</td>
</tr>
<tr>
<td>Netherlands</td>
<td>52.00</td>
</tr>
<tr>
<td>New Zealand</td>
<td>39.00</td>
</tr>
<tr>
<td>Poland</td>
<td>40.00</td>
</tr>
<tr>
<td>Spain</td>
<td>27.13</td>
</tr>
<tr>
<td>Sweden</td>
<td>25.00</td>
</tr>
<tr>
<td>Switzerland</td>
<td>11.50</td>
</tr>
<tr>
<td>Turkey</td>
<td>35.00</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>40.00</td>
</tr>
<tr>
<td>United States</td>
<td>35.00</td>
</tr>
</tbody>
</table>

Source: Adapted from the Organization for Economic Cooperation and Development (OECD). Table 1.1 “Personal Income Tax Rates, 2008”. Reproduced with permission.
Many MNEs have responded to this complexity and diversity across countries by retaining the services of international accounting firms to provide advice and prepare host-country and home-country tax returns for their expatriates. Increasingly, multinationals are also outsourcing the provisions of further aspects of the total expatriate compensation packages including a variety of destination services in lieu of providing payment in a package. When multinationals plan compensation packages, they need to consider to what extent specific practices can be modified in each country to provide the most tax-effective, appropriate rewards for PCNs, HCNs and TCNs within the framework of the overall compensation policy of the MNE.

As one international HRM manager noted some years ago, the difficulties in international compensation ‘are not compensation so much as benefits’. Pension plans are very difficult to compare or equalize across nations, as cultural practices vary considerably. Transportability of pension plans, medical coverage and social security benefits are very difficult to normalize. This observation remains relevant today and MNEs need to actively monitor a range of issues when considering benefits, including:

- Whether or not to maintain expatriates in home-country programs, particularly if the MNE does not receive a tax deduction for it.
- Whether MNEs have the option of enrolling expatriates in host-country benefit programs and/or making up any difference in coverage.
- Whether host-country legislation regarding termination affects benefit entitlement.
- Whether expatriates should receive home-country or host-country social security benefits.
- Whether benefits should be maintained on a home-country or host-country basis, who is responsible for the cost, whether other benefits should be used to offset any shortfall in coverage, and whether home-country benefit programs should be exported to local nationals in foreign countries.

Differences in national sovereignty are also at work in the area of mandated public and private pension schemes, what many nations refer to as ‘social security’ programs. Table 8.8 highlights the differences in mandated degree of contribution (ranging from a low of 0 per cent to a high of over 60 per cent) as well as the mix of employer-employee contribution.

For many international firms, expatriate assignments are likely to increase in distance, number and duration over an employee’s career, and more and more firms may create cadres of permanent international assignees – called ‘globals’ by some firms. The inherent complexity and dynamism of culturally embedded and politically volatile national tax and pension processes promise to tax the resources, time and attention of international human resource managers for the foreseeable future. Seamless networks of global firms, their specialist consultants and local and regional public and private interests are a goal rather than a reality.

International living costs data

Obtaining up-to-date information on international living costs is a constant issue for multinationals. As we noted at the beginning of this chapter, the level of local knowledge required in many areas of IHRM requires specialist advice. Consequently, many MNEs retain the services of consulting firms that may offer a broad range of services or provide highly specialized services relevant to HRM in a multinational context. With regard to international living costs, a number of consulting firms offer regular surveys calculating a cost-of-living index that can be updated in terms of currency exchange rates. A recent survey of living costs in selected cities ranked the ten most expensive cities (including rent) as New York, Oslo, Geneva, Zurich, Tokyo, Dubai, Copenhagen, Singapore, Toronto and London. The first US city in the index was New York,
ranked as the most expensive city including rent costs, but only the sixth most expensive city if you exclude rent costs. The least expensive city was Mumbai in India (formerly known as Bombay). Price differentials between Eastern and Western Europe closed in 2009 to an average of 26 per cent higher prices in Western Europe.

MNEs using the balance sheet approach must constantly update compensation packages with new data on living costs which is an ongoing administrative requirement. This is a very important issue to expatriate employees and forms the basis of many complaints if updating substantially lags behind any rise in living costs. Multinationals must also be able to respond to unexpected events such as the currency and stock market crash that suddenly unfolded in a number of Asian countries in late 1997. Some countries such as Indonesia faced a devaluation of their currency (the Rupiah) by over 50 per cent against the US dollar in a matter of weeks. This event had a dramatic impact on prices, the cost of living and the cost of servicing debt for Indonesian firms with loans denominated in a foreign currency such as the US dollar.

There is also much debate about what should be in the ‘basket of goods’ which consulting firms use as the basis for calculating living costs around the world. For example, the Swiss Bank UBS uses the ‘Big Mac Index’ to measure living costs around the world. According to Table 8.9, it takes almost three hours for the average worker in Nairobi to earn enough for a Big Mac. In Los Angeles, Chicago and Hong Kong, the global burger can be bought for less than 15 minutes’ effort.

<table>
<thead>
<tr>
<th>Country</th>
<th>Employer contribution rate (%)</th>
<th>Employee contribution rate (%)</th>
<th>Total contribution rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Belgium</td>
<td>34.47</td>
<td>13.07</td>
<td>47.54</td>
</tr>
<tr>
<td>Canada</td>
<td>7.37</td>
<td>6.68</td>
<td>14.05</td>
</tr>
<tr>
<td>Chile</td>
<td>0</td>
<td>7.00</td>
<td>7.00</td>
</tr>
<tr>
<td>France</td>
<td>40.8**</td>
<td>21.46**</td>
<td>62.26</td>
</tr>
<tr>
<td>Germany</td>
<td>19.56</td>
<td>20.71</td>
<td>40.27</td>
</tr>
<tr>
<td>Italy</td>
<td>32.08**</td>
<td>10.49**</td>
<td>42.57**</td>
</tr>
<tr>
<td>Japan</td>
<td>12.605</td>
<td>12.175</td>
<td>24.78</td>
</tr>
<tr>
<td>Korea</td>
<td>9.81</td>
<td>4.50</td>
<td>14.31</td>
</tr>
<tr>
<td>Mexico</td>
<td>7.64**</td>
<td>1.65**</td>
<td>9.29**</td>
</tr>
<tr>
<td>Netherlands</td>
<td>11.88</td>
<td>31.15</td>
<td>43.03</td>
</tr>
<tr>
<td>Poland</td>
<td>18.43</td>
<td>13.71</td>
<td>32.14</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.00*</td>
<td>0.00*</td>
<td>0.00*</td>
</tr>
<tr>
<td>Spain</td>
<td>29.95</td>
<td>6.35</td>
<td>36.3</td>
</tr>
<tr>
<td>Sweden</td>
<td>31.42</td>
<td>7.00</td>
<td>38.42</td>
</tr>
<tr>
<td>Switzerland</td>
<td>11.05</td>
<td>11.05</td>
<td>23.00</td>
</tr>
<tr>
<td>Turkey</td>
<td>16.50</td>
<td>15.00</td>
<td>31.50</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>12.80</td>
<td>11.00</td>
<td>23.80</td>
</tr>
<tr>
<td>United States</td>
<td>13.85</td>
<td>6.20</td>
<td>20.05</td>
</tr>
</tbody>
</table>

*When the contributions are at zero, they are funded out of the General Tax Revenue and range from zero to very high values.

**Varies idiosyncratically.

Source: Adapted from the Organization for Economic Cooperation and Development (OECD). Table 3.1 and 3.2 “Social Security Contribution Tables, 2009.” Reproduced with permission.
TABLE 8.9 Range of working times required to buy one Big Mac

<table>
<thead>
<tr>
<th>City</th>
<th>1 Big Mac in min</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chicago, Tokyo, Toronto</td>
<td>12</td>
</tr>
<tr>
<td>London, Los Angeles, Miami</td>
<td>13</td>
</tr>
<tr>
<td>Hong Kong, New York, Sydney</td>
<td>14</td>
</tr>
<tr>
<td>Dublin, Frankfurt, Luxembourg, Montreal, Zurich</td>
<td>15</td>
</tr>
<tr>
<td>Copenhagen, Geneva, Vienna</td>
<td>17</td>
</tr>
<tr>
<td>Dubai, Nicosia</td>
<td>18</td>
</tr>
<tr>
<td>Amsterdam, Auckland, Berlin, Brussels</td>
<td>19</td>
</tr>
<tr>
<td>Lyon, Munich, Paris, Stockholm, Taipei</td>
<td>20</td>
</tr>
<tr>
<td>Barcelona, Moscow, Oslo</td>
<td>21</td>
</tr>
<tr>
<td>Lisbon</td>
<td>23</td>
</tr>
<tr>
<td>Tel Aviv</td>
<td>24</td>
</tr>
<tr>
<td>Manama</td>
<td>25</td>
</tr>
<tr>
<td>Johannesburg</td>
<td>26</td>
</tr>
<tr>
<td>Helsinki, Madrid, Milan, Rome, Seoul</td>
<td>27</td>
</tr>
<tr>
<td>Athens, Shanghai, Tallinn</td>
<td>30</td>
</tr>
<tr>
<td>Warsaw, Doha</td>
<td>31</td>
</tr>
<tr>
<td>Ljubljana</td>
<td>34</td>
</tr>
<tr>
<td>Singapore</td>
<td>36</td>
</tr>
<tr>
<td>Prague</td>
<td>38</td>
</tr>
<tr>
<td>Sao Paulo</td>
<td>40</td>
</tr>
<tr>
<td>Kuala Lumpur, Vilnius</td>
<td>41</td>
</tr>
<tr>
<td>Bucharest, Riga</td>
<td>42</td>
</tr>
<tr>
<td>Beijing</td>
<td>44</td>
</tr>
<tr>
<td>Bangkok, Kiev</td>
<td>45</td>
</tr>
<tr>
<td>Istanbul</td>
<td>48</td>
</tr>
<tr>
<td>Delhi</td>
<td>49</td>
</tr>
<tr>
<td>Rio de Janeiro</td>
<td>51</td>
</tr>
<tr>
<td>Sofia</td>
<td>56</td>
</tr>
<tr>
<td>Buenos Aires</td>
<td>57</td>
</tr>
<tr>
<td>Bogota, Lima</td>
<td>58</td>
</tr>
<tr>
<td>Budapest</td>
<td>59</td>
</tr>
<tr>
<td>Mumbai</td>
<td>61</td>
</tr>
<tr>
<td>Bratislava</td>
<td>62</td>
</tr>
<tr>
<td>Santiago de Chile</td>
<td>69</td>
</tr>
<tr>
<td>Cairo</td>
<td>82</td>
</tr>
<tr>
<td>Manila</td>
<td>88</td>
</tr>
<tr>
<td>Caracas</td>
<td>126</td>
</tr>
<tr>
<td>Mexico City</td>
<td>129</td>
</tr>
<tr>
<td>Jakarta</td>
<td>136</td>
</tr>
<tr>
<td>Nairobi</td>
<td>158</td>
</tr>
</tbody>
</table>

Notes: Price of one Big Mac divided by weighted average hourly pay across 14 professions
Source: UBS, Prices and Earning 2009 | 48
It is also possible to take a wider view and focus on *business costs* rather than living costs for expatriates, because the multinational firm is interested in the overall cost of doing business in a particular country as well as the more micro issue of expatriate living costs. *The Economist* Intelligence Unit\(^4\) calculates such indices, which measure the relative costs of doing business in different economies by compiling statistics relating to wages, costs for expatriate staff, air travel and subsistence, corporation taxes, perceived corruption levels, office and industrial rents and road transport. Generally the developed countries tend to rank as more expensive than developing countries because their wage costs are higher.

**Differentiating between PCNs and TCNs**

As we have indicated, one of the outcomes of the balance sheet approach is to produce differentiation between expatriate employees of different nationalities because of the use of nationality to determine the relevant home-country base salary. In effect, this is a differentiation between PCNs and TCNs. Many TCNs have a great deal of international experience because they often move from country to country in the employ of one multinational (or several) headquartered in a country other than their own (for example, an Indian banker may work in the Singapore branch of a US bank). As Reynolds\(^5\) long ago observed, there is no doubt that paying TCNs according to their home-country base salary can be less expensive than paying all expatriates on a PCN scale – particularly if the multinational is headquartered in a country which has both high managerial salaries and a strong currency. However, justifying these differences to TCNs can be difficult. Clearly, many MNEs take the view that a significant reduction in expenses outweighs the difficulty of justifying any negative pay differentials. However, as MNEs expand and international revenue becomes more significant, TCN employees often become more valuable. A focus on retaining talented TCNs often requires rethinking the existing approach to compensating TCNs.

As a starting point, multinationals need to match their compensation policies with their staffing policies and general HR philosophy. If, for example, an MNE has an ethnocentric staffing policy, its compensation policy should be one of keeping the expatriate *whole* (that is, maintaining relativity to PCN colleagues plus compensating for the costs of international service). If, however, the staffing policy follows a geocentric approach (that is, staffing a position with the ‘best person’, regardless of nationality), there may be no clear ‘home’ for the TCN, and the multinational will need to consider establishing a system of *international base pay* for key managers, regardless of nationality, that is paid in a major reserve currency such as the US dollar or the Euro. This system allows MNEs to deal with considerable variations in base salaries for managers.

**TENTATIVE CONCLUSIONS: PATTERNS IN COMPLEXITY, CHALLENGES AND CHOICES**

While so far, some of this chapter has concentrated on expatriate compensation we will now draw conclusions for the larger group of (international) managers in MNEs. As outlined at the opening of the chapter, international compensation administration may be more complex than its domestic counterpart, but is only slowly and fitfully evolving from a dominant domestic state of origin.\(^5\) Domestic pay patterns – that is norms and assumptions, *pay strategies* and practices, as well as pay forms and administration – are increasingly challenged as executives in MNEs are exposed to alternative pay forms, varying legal and institutional contexts and the rapidly changing realities of global competitiveness.
Recent developments in the study of global pay issues may be seen to operate at three distinct vertical levels: the basic level of cultural values and assumptions; the intermediate level of pay strategy, practices and systems design; and the surface (artifact) level of pay administration and form. On a second, horizontal level, firms must individually determine how to strike a balance between traditional, internally based models and explanations of pay and those more externally focused models and explanations of pay that comprise a global challenge to the status quo. Globalizing firms must individually choose between internally and externally focused assumptions, strategies and practices. This combined choice is the complex ‘context’ of pay for any given multinational. Pay context is the pivotal center column in Figure 8.1.

On the level of basic explanations, firms can choose to emphasize firm-specific theories of job worth (such as resource-based views of the firm, behavioral theory or new institutional economics models) or they may emphasize firm external theories of job worth (such as cultural and institutional perspectives). These theories may be implicit and not articulated by pay practitioners, and yet these assumptions may indirectly drive all other pay processes. On the more explicit, and more widely investigated, level of norms and values, pay strategy may be seen as some combination of internal, corporate norms (derived from and consistent

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**FIGURE 8.1** Complexity, challenges and choices in global pay.

<table>
<thead>
<tr>
<th>Internal context</th>
<th>Pay context</th>
<th>External context</th>
</tr>
</thead>
</table>
| **LEVEL 3** Artefacts | Practices in global pay | **Visible firm-external variables** | **Examples:**
| | | | • Industry
| | | **Firm-internal variables** | **Examples:**
| | | • Size | • Local product market conditions
| | | • Organizational/Product Life Cycle | • Local labor market conditions
| | | • Level of internationalization | • Legal environment
| | | • Organizational structure | • Unions
| **LEVEL 2** Norms and values | Pay strategy | **Firm-external variables reflecting norms & values** | **Examples:**
| | **Possible Basis for pay:** | • Cultural perspectives
| | • Job vs. Skill | • Institutional perspective
| | • Performance vs. Seniority | • Educational systems
| | • Individual vs. Group Performance | • Cultural norms and values
| | • Short vs. Long Term Orientation | •
| | • Risk Aversion vs. Risk Taking | **Internal context**
| | • Corporate vs. Division Performance | **Examples:**
| | • Hierarchical vs. Egalitarian | • Resource-based view
| | • Qualitative vs. Quantitative Performance Measures | • Resource Dependence Theory
| | • Internal vs. External Equity | • Behavioral Theory
| **LEVEL 1** Basic explanations | **Research paradigms** | **Contextualist** |
| **Mainly firm-internal perspectives** | **Universalist** | **Examples:**
| **Examples:** | | • Cultural perspectives
| • Resource-based view | | • Institutional perspective
| • Resource Dependence Theory | | • New Institutional Economics
| • Behavioral Theory | | •
| | | •
with pay strategy, IHRM strategy and traditional employment relationships – practiced ‘psychological contracts’) and external, environmental norms (derived from labor unions, educational systems, and local or regional institutional sources) that may vary significantly by geographic region.

Pay strategy may be defined in terms of a series of interlocking strategic choices on: basis of pay (job versus skill, performance versus seniority),\(^58\) unit of aggregation (paying individuals, groups, organizations, short- versus long-term orientation to pay),\(^59\) patterns of variation in pay (variability or risk in pay, hierarchical versus egalitarian pay orientation),\(^60\) and an overall focus on internal equity – as captured by job evaluation systems – as opposed to external equity – as captured by market surveys.\(^61\) ‘Universal’ pay systems may be preferred by corporate pay planners rather than having to deal with myriad ‘local’ systems. Ease of administration and the standardization of practices are attractive and can contribute to simplicity in global assignments, resolving disputes related to perceived inequities or policy inconsistencies, etc. However, local or regional ‘host contexts’ and/or MNE strategy may influence senior managers to compromise these global preferences and strategically align pay practices more or less in conformance with local or regional requirements.\(^62\) Strategic necessity and contextual requirements may incrementally grudgingly ‘move’ pay practices away from a universalized and toward a more localized character.\(^63\)

It should be noted that in the center column of Figure 8.1, under ‘possible basis for pay’, a number of levels of analysis have emerged to supplement or augment traditional job-based pay. Firms may provide an individual employee with personal ‘choice’ in pay and pay for his/her skills or competencies.\(^64\) Alternately, a firm may pay at the traditional job level, realizing that even standard jobs may vary tremendously across geographic regions. Firms may also pay at the task group or plant level of aggregation.\(^65\) Finally, firms may provide ‘customized’ pay at the national level, or provide standardized ‘core’ pay for all employees in the global firm.\(^66\) Increasingly, we may combine pay packages across these vertical levels of analysis and pay for a combination of personal, job, group, national or corporate purposes.\(^67\) These composite pay systems are more complex, but they are also more flexible and responsive to diverse employee demands and changing global business conditions.

MNEs face global challenges to executive compensation practices and forms of corporate governance.\(^68\) These challenges may be seen as an ongoing debate between advocates of pay systems that value competitive individualism and result in ‘hierarchical’ pay systems with large pay differentials for executives, market sensitive professions and other ‘critical’ employee groups\(^69\) and the advocates of pay systems that value cooperative collectivism and result in more ‘egalitarian’ pay systems with smaller pay differentials and more shared group or firm-wide reward practices.\(^70\) Increasingly, multinationals that violate corporate or local norms in one location in order to respond to local norms in a second location do so at their own risk.\(^71\)

At the final level of pay form and administration (artifacts) MNEs may determine that pay practices such as pay mix (between base pay, the nature and extent of benefits, use of long-term and short-term incentives, etc.), overall level of pay, and the degree to which pay is standardized across all units or customized to local conditions should be the result of internal or external influences.\(^72\) Firm specific realities (such as operating in a monopolistic industry, a low degree of internationalization, and simple organizational design) may mitigate for standardized pay practices. Conversely, strongly held local values, institutions and regulations, an advanced level of internationalization and decentralized organizational designs may mitigate for more flexible, localized pay practices.\(^73\)
SUMMARY

In this chapter, we have examined the complexities that arise when firms move from compensation at the domestic level to compensation in an international context. It is evident from our review that compensation policy becomes a much less precise process than is the case in the domestic HR context. To demonstrate this complexity, we have:

- Detailed the key components of an international compensation program.
- Outlined the two main approaches to international compensation (the Going Rate and the Balance Sheet) and introduced a third new approach to compensation – Local Plus – and explained components as well as its advantages and disadvantages.
- Outlined special problem areas such as taxation, obtaining valid international living costs data and the problems of managing TCN compensation.
- Presented a model of global pay that highlights the complexity and yet familiarity of pay practices in the global context. It is this combination of pay decisions based on strategic global standardization and sensitivity to changing local and regional conditions that characterizes the state of international pay practices.
- Posited that a strategic yet sensitive balance can only be achieved by creating and maintaining professional networks, comprised of home office and local affiliate HR practitioners, outsourcing selected activities through specialist consultants, and a close cooperation with local and regional governments and other key local institutions.
DISCUSSION QUESTIONS

1. What should be the main objectives for a multinational with regard to its compensation policies?

2. Describe the main differences in the Going Rate and Balance Sheet Approaches to international compensation.

3. What are the key differences in salary compensation for PCNs and TCNs? Do these differences matter?

4. Describe Local Plus compensation and explain the major challenges MNEs face when using the approach.

5. What are the main points that MNEs must consider when deciding how to provide benefits?

6. Why is it important for MNEs to understand the compensation practices of other countries?

7. Explain how balancing the interests of global and local, occupational and functional perspectives might play out in a compensation decision scenario.

FURTHER READING


NOTES AND REFERENCES


11. For example, specialized firms such as P-E International in Britain provide a survey of Worldwide Living Costs while Price Waterhouse offers a worldwide consulting service called ‘Global Human Resource Solutions’, which covers a broad range of international HR issues. Also see Mercer’s widely used ‘Expatriate Calculator’ at www.imercer.com/default.aspx?page=home&contentId=1082.


20. To view the web page of ECA International, see http://www.eca-international.com/

21. Ibid.

22. Boarding schools are relatively common in Britain, former British colonies and a number of European countries. See for example, the Association of Boarding Schools, www.boardingschools.com/about-tabs.


24. It is common in Asia and many developing countries in other regions for expatriates and local business people to employ maids and cooks in their houses. As stated in an earlier note when discussing employment of drivers, it may be expected that an expatriate would employ servants and to not do so would be judged negatively as this would be depriving local people of employment. Not surprisingly, this is one benefit which expatriate spouses miss when they return to their home country.


27. The material in the tables describing the two main approaches to international compensation is based on various sources – the research and consulting experience of the first author and various discussions on this topic with a range of HR managers and consultants in Australia and the USA.


34. AIRINC (2011) ‘Mobility Outlook Survey’, New York, AIRINC.


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39. ibid.; tax equalization can become a potential area of familial contention and more complex when dual career families seek tandem international assignments, as presented by G. Aldred in ‘Dual Career Support: Strategies for Designing and Providing Career Support for International Assignee Partners’, GMAC Strategic Advisor, 2, 6, February 2006, pp. 1–4 (www.gmacglobalrelocation.com). No fewer than 78 per cent of surveyed MNEs applied a tax equalization policy according to the Brookfield Survey 2010.


41. ibid.


44. Organization for Economic Co-operation and Development.


47. See http://UBS.com.


49. See www.eiu.com/index.asp for The Economist Intelligence Unit website.


69. Milkovich, Newman and Gerhart, Compensation, pp. 71–9, 81–3. Also see R. Greene, Rewarding Performance: Guiding Principles; Custom Strategies (New York: Routledge, 2010), particularly the discussion on Chapter 10 on global rewards and national and regional cultural clusters and norms, a discussion based on Fons Trompenaars’ Managing People Across Cultures (Chichester, UK: John Wiley and Sons, 2004) research on the patterns to values and preferences of various regions of the world.

70. Ibid.

71. Post hoc home country executive financial liabilities for questionable activities that may or may not have been locally de rigueur are an interesting application of this greater question of values across very different cultures. See M. Bartirorno, ‘Siemen’s CEO Loscheer looks to the Future’, Business Week, October 19, 2009, pp. 17–18. For a well written introduction to the issue of convergence or divergence in pay practices that may be associated with increasing transparency in pay practices around the world, see C. Fay, ‘The Global Convergence of Compensation Practices’, In L. Gomez-Mejia and S. Werner (eds) Global Compensation: Foundations and Perspectives (New York: Routledge, 2008), pp. 131–141.
