

## Effectively Managing Expatriate Assignments with HRM Policies and Practices

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### Abstract

**Human resource policies** are systems of codified decisions, established by an organization, to support administrative personnel functions, performance management, employee relations and resource planning. The establishment of policies can help an organization demonstrate, both internally and externally, that it meets requirements for diversity, ethics and training as well as its commitments in relation to regulation and corporate governance of its employees. HR policies can also be very effective at supporting and building the desired organizational culture. Human resource management policies are vital for organizations that are serious about resolving personnel issues and finding hr solutions. HRM policies are intended to help maximize the effectiveness of your Human Resources function.

### I. WHY RELIANCE ON EXPATRIATES INCREASES

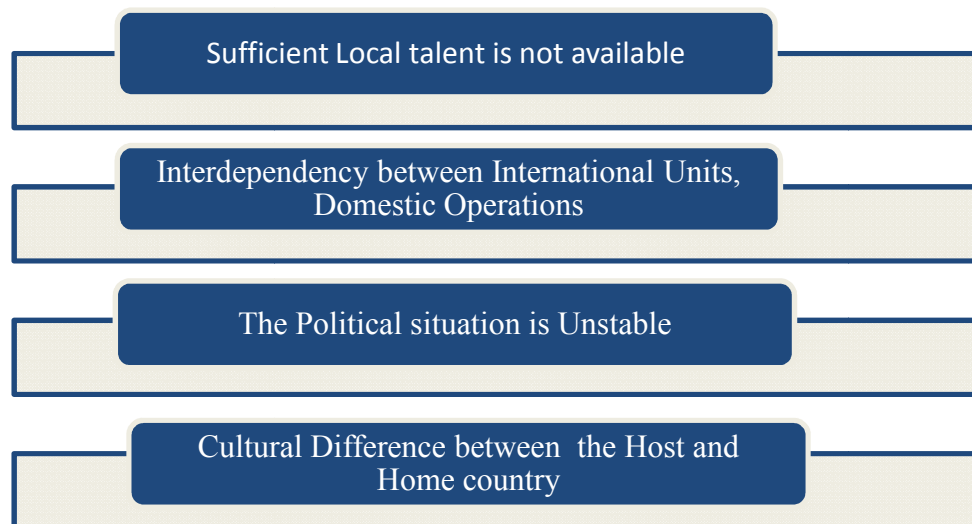


FIG - Why Reliance on Expatriates Increases

#### 1. Sufficient local talent is not available

This is the most likely to occur in firms operating in developing countries. For instance, top managers of Falcombridge and Alcoa companies are almost always expatriates.

#### 2. International units and Domestic operations are highly Interdependence

For example, IBM, Hewlett-Packard, and Xerox have specialized manufacturing facilities in different parts of the United States and the world. The outputs of these different facilities must be closely monitored and integrated to produce highly sophisticated products such as computers, medical equipment, and photocopying machines. Linking production processes generally calls for greater reliance on expatriate managers and specialists, who can bridge the gaps and tie the units of the organization together. Technology has dramatically reduced the need for expatriates to link the International units of the firm to the home office.

#### 3. The Political situation is Unstable

Corporations tend to rely on expatriates for top management position when the risk of government intervention in the business is high, when actual or potential turmoil within the country is serious, when the threat of terrorism exists, and when there has been a recent history of social upheaval in the country. Although expatriate top managers may increase tension between nationalistic groups and a foreign firm, they do provide some assurance to the home office that its interests are well represented locally. Expatriates are also less susceptible to the demands of local political forces.

#### 4. There are significant cultural differences between the host country and the home country.

The more dissimilar the cultures, the more important it is to appoint expatriates who can serve as interpreters or go-betweens. Because this boundary-spinning role demands much cross-cultural

sensitivity, the MNC needs to select and carefully train individuals suitable for these positions. This may require considerable career planning.

## **II. THE ROLE OF EXPATRIATES**

From the HR-literature we know that expatriates are divided into three types: PCNs (Parent Country Nationals); HCNs (Host Country Nationals); and TCNs (Third Country Nationals). As we in this paper assume that there is no need to define these types of expatriates, we will instead focus on the different roles of these expatriates by point of departure in the following four general approaches to international staffing

**1) Ethnocentric Approach:** Because of a lack of qualified HCNs, PCNs occupy all key positions in the foreign operation, which means that the subsidiary is highly dependent on the headquarters' decisions. Some drawbacks from this approach could be limited promotion opportunities for HCNs, income gaps between PCNs and HCNs, and that PCNs cannot be involved in local matters.

**2) Polycentric Approach:** In this approach HCNs occupy positions in the foreign subsidiary. Some transfers of HCNs to headquarters also take place. The approach eliminates the language barriers, and typically HCNs are less expensive. Some drawbacks from this approach could be communication problems between headquarter and subsidiary and limited career opportunities for HCNs as they cannot be promoted to headquarter.

**3) Geocentric Approach:** In this approach the best people are selected for key positions regardless of their nationality. Nationality is not taken into account and a worldwide integration of employees takes place. In this approach an international team of managers is developed. Some drawbacks from this approach may be related to situations, where host governments prefer employment of locals because of i.e. labor issues.

**4) Regiocentric Approach:** Here a company's international business is divided into international geographic regions (i.e. the European Union). The staff can only transfer within these regions.

In order to understand in the roles of expatriates, we then combine the above four approaches of international staffing with the earlier mentioned Electric Theory. In doing so, we then finally are able to suggest the major roles of expatriates as

**1) Securing transfer of technology/filling positions,** as companies send the expatriates abroad in order to transfer their technology to the foreign subsidiary. I.e. in countries where qualified people are not available, companies send the PCNs to fill out the positions. This is mostly used by multinational and international firms.

**2) Securing the headquarter control,** where the companies can exercise this control by using the PCNs in their foreign subsidiaries. In such situations firms try to incorporate the headquarters' culture into the foreign operations, which in some cases may create cultural problems. Especially MNCs tend to demand administrative and financial control in their foreign operations.

**3) Opportunity for international experience/ management development,** as several firms find international experience highly important before promoting their employees. Foreign transfers are here important in order to learn foreign cultures and environments. In such situations qualified HCNs are available but managers are still transferred to foreign subsidiaries to acquire knowledge and skills.

**4) Securing organizational development,** which also is called the "Geocentric approach". This role is performed only by the best people at the best places without nationality barriers. Transfers can take place from headquarter to subsidiary, from subsidiary to headquarter, or from subsidiary to subsidiary. Nationality of employees does not matter in this situation, as the objective of this staffing strategy is to get to know about different cultures, create international networks, decentralization, and interaction between managers of different nationalities. In general, this strategy is mostly followed by larger global companies.

## **III. THE CHALLENGES OF EXPATRIATE ASSIGNMENTS**

Six factors account for most failures, although their relative importance varies by firm. These are career blockage, culture shock, lack of cross-cultural training, an overemphasis on technical qualifications, a tendency to use international assignment as a way to get rid of problem employees, and family problems.

- **Career Blockage**

Initially, many employees see the opportunity to work and travel abroad as exciting. But once the initial rush wears off, many feel that the home office has forgotten them and that their career has been sidetracked while their counterparts at home are climbing the corporate ladder.

Although, U.S. companies give themselves high marks for career planning for their expatriate employees, most of their employees do not, according to a survey by the Society for Human Resource Management (SHRM) conducted in the 1990s. Only 14 percent of the 209 expatriate managers who completed the society's questionnaire said their firm's career planning for them was sufficient.

- **Culture Shock**

Many people who take international assignments cannot adjust to a different cultural environment, a phenomenon called culture shock. Instead of learning to work within the new culture, the expatriate tries to impose the home office's or home country's values on the host country's employees. This practice may trigger cultural clashes and misunderstandings that escalate until the expatriate decides to

return home to more familiar surroundings-perhaps leaving a mess behind.

Firms can help employees avoid culture shock by using selection tools to choose the employees with the highest degree of cultural sensitivity and who know the local language

- **Lack of Predeparture Cross-Cultural Training**

Surprisingly, only about one-third of MNCs provide any cross-cultural training to expatriates, and those that do tend to offer rather cursory programs. Often the expatriates and his or her family literally pack their bags and travel to their destination with only a U.S. passport and whatever information they could cull from magazines, tourist brochures, and the library.

- **Overemphasis on Technical Qualifications**

The person chosen to go abroad may have impressive credentials and an excellent reputation in the home office for getting things done. Unfortunately, the same traits that led to success at home can be disastrous in another country.

- **Getting Rid of a Troublesome Employees**

International assignment may seem to be a convenient way of dealing with managers who are having problems in the home office. By sending these managers abroad, the organization is able to resolve difficult interpersonal situations or political conflicts at the home office, but at significant cost to its international operations.

- **Family Problems**

More than half of all early returns can be attributed to family problems. It is surprising that most firms do not anticipate these problems and develop programs to prevent them. Indeed, few companies consider the feelings of employees' families on international assignments. The expectations of dual-career couples are another cause of failure in expatriate assignment.

- **Loss of Status**

Returning expatriates often experience a substantial loss of prestige, power, independence, and authority. This status reversal affects as many as three-fourths of repatriated employees. A recent survey shows that disappointment upon return is so profound that 77 percent of returning expatriates would prefer to accept an international position with another employer than a domestic position with their current company.

#### **IV. EFFECTIVELY MANAGING EXPATRIATE ASSIGNMENTS WITH HRM POLICIES AND PRACTICES**

Companies can minimize the chances of failure by creating a sensible set of HRM policies and practices that get to the root of the problems. In this section, we look at how selection, training, career development, and compensation policies can help companies avoid these problems.

- ❖ **Selection**

The choice of an employee for an international assignment is a critical decision. Because most expatriates work under minimal supervision in a distant location, mistakes in selection are likely to go unnoticed until it is too late. To choose the best employee for the job, management should:

- Emphasize cultural sensitivity as a selection criterion
- Screen candidates' spouses and families
- Explore the possibility of hiring foreign-born employees who can serve as "expatriates" at a future date.
- Require previous international experience

- ❖ **Training**

Cross-cultural training sensitizes candidates for international assignment to the local culture, customs, language, tax laws, and government. Ideally, the training process should begin nine to twelve months in advance of the international assignment. A recent survey indicates that 57% of companies provide one day's worth of cross-cultural preparation; 32% provide it for the expatriate employee's entire family; and 22% for only the expatriate employee and spouse. Surprisingly, only 41% of firms mandated participation in cross-cultural preparation.

- ❖ **Career Development**

The expatriate's motivation to perform well on an international assignment, to remain in the post for the duration of the assignment, and to be a high performer upon returning to the home office will depend to a large extent on the career development opportunities offered by the employer. At a minimum, successful career planning for expatriates requires the firm to do three things:

- Position the international assignment as a step toward advancement within the firm
- Provide support for expatriates
- Provide career support for spouse.

- ❖ **Compensation**

Firms can use compensation packages to enhance the effectiveness of expatriate assignments. However,

compensation policies can create conflict if local compare their pay packages to the expatriate's and conclude that they are being treated unfairly. Planning compensation for expatriates requires management to follow three important guidelines:

- Provide the expatriate with a disposable income that is equivalent to what he or she would receive at home
- Provide an explicit "add-on" incentive for accepting an international assignment
- Avoid having expatriates fill the same jobs held by locals or lower-ranking jobs.

❖ **Women and International Assignments**

According to a study by catalyst, an international consulting firm, there are three misconceptions about women's ability and willingness to handle international assignments:

1. Companies assume that women are not as internationally mobile as men, yet 80% of women have never turned down an expatriate assignment offered to them, whereas only 71% of men have never turned down expatriate assignments.
2. Companies assume that women encounter more work-life conflict working on a global schedule. However, nearly half of both women and men report they find work-life-balance difficult
3. Most companies believe clients outside the United States are not as comfortable doing business with women as they are with men. In fact, 76% of expatriate women said being a woman had a positive or neutral impact on their effectiveness overseas.

There are some ways by which women can overcome key barriers to getting selected for the global business arena.

1. Select female expatriates who demonstrate the technical or managerial skills for the position.
2. Select female expatriates who possess a greater perceptual orientation (e.g., openness)
3. Train female expatriates on the norms, values, and traditions the host nationals possess regarding women.
4. Offer mechanisms to improve the likelihood that the children of female expatriates will adjust well cross- culturally.
5. Western female expatriates should not attempt to "blend in" with host national women.
6. Ensure that female expatriates fill jobs with high position power.

## V. HOW DO COMPANIES COMPENSATE THEIR EXPATRIATES?

When designing a compensation package, companies usually choose among the following six approaches

**a) Negotiation:** When firms first start sending expatriates abroad (and while they still have only few expatriates), the common approach to determine compensation and benefits for those expatriates is to negotiate a separate compensation package for each individual expatriate. This approach is build up around each expatriate, and because of the inexperience of the company of sending expatriates, it can be a difficult task to find the right balance of compensation. In such cases, the expatriates are often overcompensated, and it can lead to inconsistencies between many expatriates and the firm.

**b) Localization:** It is a relatively new approach used to address problems of high cost and perceived inequality among staff in foreign subsidiaries. The expatriates are paid comparably to local nationals, which can make it relatively simple to administer. However, since expatriates come from different standards of living than they experience in the foreign country, special supplements may still have to be negotiated.

**c) Lump sum:** To avoid intrusion into expatriate's life-styled decisions, the lump sum approach can be used. Here the firm determines a total salary for the expatriate, and then lets the expatriate determine how to spend it.

**d) Cafeteria:** This approach is increasingly used by highly salaried expatriate executives to provide a set of choices of benefits. This enables the expatriate to gain benefits such as a company car, insurance, company-provided housing, and the like that do not increase the expatriate's income for tax purposes.

**e) Regional systems:** For expatriates who make commitment to job assignments within a particular region of the world, some firms are developing a regional compensation and benefits systems to maintain equity within that region.

**f) Balance sheet:** As this approach is followed by most companies when their international business expands to the point where the firm has a larger number of expatriates, we have chosen to dwell on this approach for a moment. The balance sheet approach is primarily used when the MNCs are sending expatriates from the parent firm to its foreign subsidiaries. It is particularly used for experienced senior and mid-level expatriates and keeps them whole compared to their home country peers while encouraging and facilitating their movement abroad and return home at the end of their assignment.

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