45

Employing Novel Compensation Approaches to Compete for Expatriate Talent

Yvonne McNulty
Singapore Institute of Management University

Expatriate compensation is often regarded as a key and strategic component of effective international assignment management, yet as the fierce competition for foreign talent increases, compensating expatriates is undoubtedly becoming more and more complex. A survey by Ernst & Young, for example, found that 67 percent of mobility managers reported "compensation packages" as the biggest area where international assignee expectations are not met.[1] This may be due in part to fluctuating exchange rates, inflation, challenging locations in emerging markets, variable income tax rates, and a range of new compensation practices being introduced. Yet research suggests that expatriates do not seek or accept international assignments purely for financial reasons.[2] Indeed, there is compelling evidence that expatriates have many nonfinancial reasons for engaging in global mobility, with career enhancement and progression, seeking a personal or family adventure, and fulfilling a lifelong dream among them. Why, then, is expatriate compensation such a challenge?

This chapter examines new approaches to expatriate compensation in the battle to win external talent and retain internal talent, including the opportunity costs associated with these new approaches to assignee remuneration. I will look closely at changes in the assignee profile in terms of the types of employees who are willing to engage in global mobility, increases in turnover when expatriates leave their job during an assignment and join a competitor, and an increasing number of *third-country nationals* and *self-initiated expatriates* who are willing to accept localized employment, thereby reducing organizations' reliance on *parent-country nationals* (terms that are explained at the end of this chapter).[3] Key takeaways from this chapter include (1) the top issues that create problems in expatriate compensation, (2) an overview of new types of expatriate compensation, including local plus and localization, (3) the opportunity costs associated with new expatriate compensation approaches, and (4) how to link expatriate compensation to talent management.

Key Issues in Expatriate Compensation

A successful compensation strategy involves keeping expatriates motivated while maintaining a competitive advantage through the meeting of an organization's corporate goals and budgets. Although this seems achievable in theory, in practice, there are many challenges with expatriate compensation that cause problems for organizations. The most prevalent is compensation disparity between expatriates and local employees, which has been identified as a key determinant of dissatisfaction and lower morale among local employees who work directly with international assignees.[4]

A second challenge is that expatriate compensation using the balance-sheet approach is expensive relative to the fact that a very small proportion of a company's overall total employee workforce (e.g., perhaps 5 percent of employees in total) may be incurring 60 or 70 percent of total salary costs. For example, over and above base salary, balance-sheet packages include cost-of-living allowances (COLAs), hardship premiums, relocation bonuses, lifestyle allowances (e.g., housing, schooling, car), and other perquisites (e.g., country club memberships, home leave, home-country storage costs, and home sale reimbursement). To be fair, for many years, this was a major reason why expatriates agreed to go: few people are willing to uproot their lives, families, established networks, and familiarity of home simply to "break even" in terms of home-country salary. There is also the tax-equalization expense when assignees relocate from low-tax to high-tax countries. Given that there are an unlimited number of home- and host-country combinations, the administrative burden on global mobility staff to transact the functional aspects of expatriate compensation can be onerous, leaving little time for new strategic initiatives such as return on investment (ROI) or talent management.

Another challenge is that the heightened competition for foreign talent has not driven assignee salaries up, as one would logically expect, but actually has driven salaries down. Consider, for example, that in years gone by, companies have used "rich" compensation packages to create a "home away from home" as an incentive for employees to relocate (predominantly the balance-sheet or full-package approach), but with the availability of more employees willing to relocate abroad to gain valuable international experience, particularly younger employees, there has been a steady decline in the need for full-package approaches, especially in Asia, where reduced packages are becoming the norm.[5]

Lastly, perhaps the biggest challenge in expatriate compensation is not only that the balance-sheet approach is becoming an outdated and overly expensive model, but it is also ineffective for moving companies' global competitive advantage to where it should be. Consider, for example, that the balance-sheet approach is based on a repatriation model that insists on maintaining a link to expatriates' home country or headquarters despite the fact that many expatriates may never return there. As a result, if compensation is strategically geared toward an expatriate who will one day return to his or her home country, it is not then capable of effectively supporting the high demand for career expatriates whose continual movement across borders—often over decades—helps to facilitate true global staffing. A further disadvantage for the career expatriate is that the balance-sheet approach also does not enable expatriates to fully acculturate to local norms and customs.

New Types of Expatriate Compensation

There are a number of approaches to expatriate compensation, as illustrated in Table 45.1, some of which are well established. The focus in this chapter is on the third and fourth categories of package, *local plus* and *localization*, which have emerged as viable and popular alternatives to the traditional balance-sheet approach.

Local plus is an approach in which expatriate employees are paid according to the salary levels, structure, and administration guidelines of the host location, as well as being provided, in recognition of the employee's foreign status, with special expatriate benefits such as transportation, housing, and the costs of dependents' education. It is worth noting that not all expatriates on local plus receive the full range of additional benefits, these being at the discretion of the employing organization and largely determined by the location of the assignment (e.g., hardship versus nonhardship location), among other factors.[6] *Localization*, however, is an approach in which assignees are paid according to the salary levels, structure, and administration guidelines of the host location where they are being sent or are already living and working. Localization involves the removal or absence of an assignee's expatriate status from a policy standpoint, including benefits and allowances. In practical terms, it means that ties back to the home country from where an assignee has come or from where they may have originally been remunerated are severed, and the assignee becomes a "local" in the host country.[7] It almost always involves replacing a salary package (e.g., base salary, incentives, allowances, perquisites, social security, and retirement plans) with compensation comparable with that offered to locally hired employees.

Local plus and localization are offered in one of two ways. When it is *delayed*, an expatriate commences an international assignment on a balance-sheet approach and then, after a period of between three and five years, transitions to local plus or is fully localized directed by either the employer or employee. Some assignees relocate, for example, with full knowledge that local plus will be offered or localization will occur after two years in the host country, as predetermined in their contract, whereas other assignees may not be transitioned to local plus or localized until completion of the initial or subsequent extension(s) of the assignment, which may be 5 to 7, or even 10, years after it first began. Transitioning to a reduced compensation package usually involves a phasing-out period during which special expatriate benefits (e.g., transportation, housing, healthcare, and the costs of dependents' education) are reduced over a wind-back period (e.g., 50 percent phased out in year 1 and 50 percent in year 2). For fully localized assignees, it is essential for them to resign from their home-country office and be formally hired by the host-country office of the same company for accounting purposes. This is also a typical requirement for local-plus assignees but not always enacted.

Reduced compensation also can be offered immediately at the onset of an assignment, typically in the form of a *permanent* or *one-way transfer*. In this scenario, employees know from the outset that they will be on local plus or fully localized, which removes the company's obligation to repatriate or reassign them elsewhere.

Companies typically use reduced-compensation approaches as a cost-cutting measure in terms of maximizing both talent management *and* cost containment. A recent study found that reduced expatriate compensation is used when the assignment has a combination of (1) a permanent position in the host country, (2) the assignment location is in the same region as an employee's home country, (3) there is not likely to be a suitable role in the home country for an employee to return to, and (4) cost reduction is a priority.[8]

Policy Name	Strategy	Description of Policy	Purpose
Balance sheet (full package, home based)	Development	• Full bells and whistles, i.e., generous remuneration (including bonus and incentives) and benefits (including tax equalization, look-see trip, COLA, housing, education, spousal allowance, car, home leave, club memberships) • Designed to ensure employee lifestyle in comparison with home; not disadvantaged by relocating • Based on notion that there is a home country from where the expatriate originates	• Targeted at executives for career development who possess universal skills and are considered high potential • Used for "cadre" approach to develop careers of elite group of high performers whose permanent mobility is a long-term strategic goal • Used for retention purposes where goal is to repatriate to corporate headquarters or business-group headquarters • Used sparingly as reward for key individuals • Complex to administer with many home-country–host-country combinations
Balance sheet (light package, home based)	Skills/secondment	• Reduced version of full package, 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, COLA)	• Expatriates with deep technical skills or competencies • Specific goal is to transfer skills and knowledge for duration of assignment only (no more than two years) • Expatriate relocates for fixed period and repatriates with no intention to relocate again unless a specific skill need arises • Used to service clients in locations where local skills are not available

Table 45.1 Overview of Compensation Strategies for International Assignments

Policy Name	Strategy	Description of Policy	Purpose
Local plus (host based)	Cost savings	• Provides some benefits of developmental strategy but on greatly reduced basis • Expatriates often localized with some additional benefits provided to sustain retention • No ongoing allowances (e.g., COLA) • Initial allowances typically phased out over period of assignment (50 percent benefit year 2, 20 percent benefit year 3)	• 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 a variety of different positions (and locations) throughout their career • Typically offered to managers initiating relocation or indicating willingness to relocate
Localization (host based)	Cost savings, functional retention	• Initial allowances from any of above phased out over period of assignment (50 percent benefit year 2, 20 percent benefit year 3) to achieve full "local" remuneration	• Offered to managers initiating relocation and long-term assignees exceeding term of contract (i.e., beyond initial assignment) but who wish to remain in location or firm does not wish to repatriate
Permanent transfer (host based)	Self-initiated transfers	• One-way relocation package to host destination • Salary, incentives, and benefits from local payroll	• Self-initiated/employee-initiated relocation

Source: Y. McNulty and K. Inkson, *Managing Expatriates: A Return on Investment Approach*. Business Expert Press, New York, 2013.

Table 45.1 Overview of Compensation Strategies for International Assignments (*continued*)

A recent assignment trend directly related to reduced compensation is the increase in *permanent transfers* resulting in the localization of expatriates. Brookfield, for example, found that more than one-third of the 123 participating firms in its survey used permanent transfers, which are viewed as a cost-effective alternative to the traditional (balance-sheet) international assignment.[9] A survey by Cartus identified skills shortages in host-country locations as an additional reason for using permanent transfers.[10] A *permanent transfer* is one in which an employee resigns from his or her home-country office and is hired by the host-country office of the same company but for which there is no return (repatriation) to the home country and no guarantee of company-sponsored reassignment elsewhere.[11] Permanent transfers are "one-way moves" directed by the company in which employees operate as a "local" in the host country. When a permanent transfer is used, host-country compensation and benefits are applied, with relatively few, if any, typical expatriate package benefits made available over the long term.[12] In some instances, a local-plus compensation package may be offered to a permanent transferee during an initial transfer period of up to two years to facilitate his or her transition. Importantly, employees undertaking a permanent transfer are still considered expatriates, given their nonimmigrant status and lack of citizenship (passport) of the host country. The prevalence of permanent-transfer opportunities among companies is to be expected and is consistent with cost-containment efforts. Reports by KPMG and ORC Worldwide, for example, show that more than three-quarters of companies have some form of permanent-transfer and localization policy in place.[13] Indeed, Brookfield found that half the firms in its survey were switching employees to localized conditions, with a marked increased in permanent-transfer and localization activity overall.[14]

Reduced compensation also can be used as a proxy retrenchment tool for expatriates whose performance in the host location no longer warrants the expense that the balance-sheet approach demands. Additionally, reduced compensation helps to minimize perceived inequities between expatriates working with local staff, many of whom perform similar roles but whose salary and benefits often vary significantly. Reduced compensation, especially localization, can further facilitate a company's strategy of local responsiveness, particularly when there is a need to demonstrate long-term commitment to a particular host country or region. It is worth noting, however, that reduced-compensation practices are not always driven by companies. Employees are increasingly seeking out permanent transfers as a step toward fulfilling their own career development abroad, even though doing so may not increase the financial rewards they receive as substantially as their full-package colleagues.[15]

The upside of these new approaches to expatriate compensation is that while the traditional reasons for needing expatriates (e.g., skills transfer, career development) remain, more partially and fully localized assignees now have a level of managerial talent that they can compete for jobs with full-package expatriates. This reduces global mobility costs for companies, widens the talent pool and sourcing opportunities, and provides employees with more job opportunities on the international labor market. In sum, new compensation approaches such as local plus and localization offer an alternative, less-expensive solution to global staffing, buoyed by the availability of more and more employees willing to accept partially or fully localized terms and conditions in exchange for valuable international experience.

Opportunity Costs of Expatriate Compensation

Although reduced-compensation approaches offer many benefits to companies, the question remains whether they enable organizations to achieve their long-term strategic goals regarding talent management and knowledge sharing. Surprisingly, very little is known about the implications arising from new forms of expatriate compensation despite the prevalence with which they are being used. What we do know, in practice, is that local plus and localization create many problems not just for companies but also for assignees. This section examines some of these problems and how they can be overcome.[16]

Expect and Manage Reduced Assignee Loyalty

Whereas generous compensation packages tend to bind expatriates to their company, local plus and localization put expatriates on a level playing field akin to their domestic counterparts in the host country, meaning that job movement in and out of the organization can be facilitated with greater ease. In other words, the opportunity cost of local plus and localization is reduced loyalty among assignees because the financial sacrifices required to leave their employer and join a competitor are significantly reduced. Reduced compensation therefore facilitates less job commitment and higher levels of risk taking by assignees because there are fewer perks (e.g., allowances and benefits) they need to give up when seeking alternative employment. Because money is no longer the defining factor, the opportunity cost of reduced compensation becomes crystal clear: although it brings very direct benefits to companies via cost savings, among expatriates, it often leads to increased tension and frustration and reduced job satisfaction and commitment. Companies therefore may save money by adopting local-plus and localization practices, but they also risk losing high-potential global staff to competitors. Hence short-term financial return-on-investment (ROI) gains can be undermined by long-term strategic losses in talent.

Fix Process Untidiness

There are likely to be different implications for assignees localized from the outset of an assignment or those who are partially or fully localized within a two-year time frame but who knew from the outset that some form of localization would occur versus those assignees who do not initially undertake an international assignment with local plus or localization in mind. In the latter case, assignees will no longer have access to allowances and incentives when their compensation is reduced, ultimately resulting in unplanned lost income and financial disadvantages. A recent study found that this then affects assignees' psychological contract, leading to resentment, thoughts of leaving, and decreases in engagement.[17] What is meant by this?

Expatriates' psychological contract fulfillment is linked to perceptions about the obligations and promises owed to them by their organization.[18] This is the "currency" or "content" of the psychological contract, the "things that matter," and they generally fall into two categories: (1) *economic* currency in benefits such as tax equalization, bonuses, paid home leave, housing and education costs, and medical insurance and, (2) *development* currency in the form of, for example, increased levels of job autonomy and challenge and mobility opportunities (including reassignment) that can help assignees to build an international or global career. When companies reduce expatriate compensation, they are shrinking the psychological contract pie by asking assignees to redefine their sense of worth, perhaps their lifestyle, and probably their commitment to the organization.

Although it is true that some assignees welcome the opportunity to engage in international work experience irrespective of the compensation offered (i.e., balance sheet, local plus, localization), there are just as many assignees who accept reduced compensation as a means of staying employed and/or staying abroad because they perceive that there is no alternative, particularly for assignees whose reduced compensation is unplanned. However, although many expatriates accept reduced compensation, a recent study found that there is widespread dissatisfaction with the process by which it is enacted.[19] The most significant issue raised is that companies change compensation contracts *during* an assignment rather than waiting until the end of the assignment (e.g., by withdrawing or reducing a housing allowance, school allowance, or home leave), thereby leaving many expatriates feeling that they are backed into a corner financially. Others resent that once they are established as career expatriates, senior management then "moves the goal posts" by reducing compensation packages at the point of reassignment or assignment extension, knowing that assignees have few alternative employment opportunities in their home country. Doing so creates a heightened sense of unjustified loss, not necessarily because assignees are unhappy with their salary package but rather with the process. Denise Rousseau, author of *I-deals: Idiosyncratic Deals Employees Bargain for Themselves*, gets right to the point when she says that "changing the deal while keeping the people" is one of the greatest challenges in today's employment landscape.[20] The best way to alleviate tension relating to reduced compensation is to engage in a much closer dialogue with assignees and to ensure absolute transparency about the process.

Manage the Inevitable Organizational Hierarchy Localization frequently creates an *organizational hierarchy or hierarchical pecking order* whereby companies treat assignees differently on the basis of those considered expatriates versus those considered local from a policy standpoint. Traditional balance-sheet expatriates, for example, typically represent the elite class of international assignees being of higher strategic value, whereas partially or fully localized assignees are often viewed as lower-order expatriates stuck beneath a type of expatriate glass ceiling—a limbo status of being neither a traditional expatriate nor a true local employee. This glass ceiling frequently presents strategic and operational restrictions to assignees in terms of career advancement, therefore resulting in reduced morale. Indeed, assignees who perceive that they are not sufficiently supported or valued by a company, in comparison with other types of expatriates, are at risk of looking for job opportunities with competitors because they are working in a business environment in which there are lucrative career opportunities available elsewhere. In fact, a recent study of expatriates found that 89 percent of respondents perceived an international assignment to be of benefit not only to their current employer but to also increase their external marketability to other international employers.[21] The fact remains, however, that although localized assignees are viewed and treated differently by companies in terms of their status and compensation, they are still expatriates and still likely to face the same adjustment challenges as balance-sheet expatriates, albeit without the same level of support. This is so because, like balance-sheet expatriates, partially or fully localized assignees are not citizens of the host country.

Linking Compensation to Talent Management

Are the various new approaches to expatriate compensation the "magic bullet" many companies perceive it to be? The latest research suggests that the use of "cheaper" assignments that seem appealing to many companies also can lead to unintended outcomes in terms of unforeseen opportunity costs (e.g., loss of critical talent) arising from "shortsighted decisions."[22] Furthermore, if expatriation is so critical to an organization's competitive advantage, why is it so difficult to link global mobility to global talent management? In their ground-breaking article about the seven myths of global talent management, Dana Minbaeva and David Collings show that the connection between global mobility activities and talent-pool acquisition remains weak: many companies continue to engage in global mobility without linking it to developing future global leaders or to meeting their assignees' career-development expectations.[23] Nonetheless, it is these same companies that espouse the hiring of global staff as broadening their organization's understanding of global markets and helping it to develop a global mind-set. What, then, can companies do to overcome the problems that new compensation approaches create in relation to effective talent management?

One way to overcome the disconnect is to align and integrate expatriate compensation with broader talent-management initiatives. This requires transitioning from *expatriate* to *global* compensation. The shift in terminology reflects a shift in mind-set, first, that although expatriates clearly perform in an international context, many are nonetheless employed in jobs similar to those of their local counterparts or in jobs that locals also can do at some point in the future. Additionally, local employees often relocate domestically for much the same reasons as expatriates do internationally (e.g., for career development and promotion), yet even when the standard of living of local is affected, they are not compensated for it like expatriates. The distinction, then, is to focus less on *expatriate status* as the defining criteria for compensation and more on the international nature of the job. Essentially, global employees engaged in international work require global compensation. This suggests that global compensation needs to move away from remunerating assignees to instead remunerating *international employees*. How can this be done?

Expatriate compensation works best when it avoids being based on an assignee's home-country status but instead on the role that the assignee performs. This is so because it is the *worth of the position* that should be aligned with strategic objectives, not whether an employee has assignee status. Furthermore, it is the role that expatriates perform that ideally should dictate whether they are compensated according to local, regional, or global wage and salary considerations. In this way, a global compensation approach enables companies to find the most appropriate candidate and then compensate him or her accordingly not because of who he or she is but according to what he or she is expected to achieve. A global compensation approach, then, is more equitable because it is performance based, thereby eliminating overpaying and perceived unfairness. In reality, global compensation is much simpler to administer than a balance-sheet approach because it represents an extension of most organizations' already existing domestic (home-country) pay-for-performance model.[24]

Although a global compensation approach will, in some instances, also reduce expatriates' compensation when partially or fully localized approaches are used, one advantage is that it allows organizations to expand their global talent pool by targeting candidates eager to pursue international and global careers, that is, candidates who are willing to expatriate not just because of the compensation being offered but often *in spite of it*. This includes career and self-initiated expatriates for whom many have already acquired the intercultural competencies, cultural intelligence, and language abilities necessary to succeed in an international role and who also have the necessary desire, skills, and attitudes. A global compensation approach therefore resembles less the traditional and same-across-the-board balance-sheet approach that has been the mainstay of expatriation for decades and moves instead toward a more innovative and strategic approach that is customized according to regional or local concerns and to the demand, location, cost, and other strategic and operational concerns of the organization.

A further advantage of a global compensation approach is that it is inherently more flexible than the balance-sheet approach because, being based on pay for performance, it can continue even after an assignee repatriates or decides to relinquish his or her expatriate status. Unlike the balance-sheet approach, which can only be used for employees deployed abroad, global compensation is not necessarily location or status specific but can be leveraged over the long term to facilitate the retention of employees—global or otherwise—as a means of ensuring a better ROI from global mobility and talent-management programs. For example, an employee who expatriates, relocates back to the home country, and expatriates again as part of his or her overall career progression need not change compensation status during each move if a global compensation approach is used. This alleviates not only a heavy transactional burden on the global mobility department in terms of administering pay and benefits for each subsequent change in host or home location but also contributes to and fosters a type of "dynamic global career" that is likely to become a normal part of global talent management over the next two decades.[25]

Policy Best Practice for Expatriate Compensation

One of the main problems associated with the balance-sheet approach is the compensation disparity between traditional full-package expatriates versus partially and fully localized expatriates despite the fact that many may be doing the same job. All are expatriates, none are true locals, yet the former are nearly always paid according to home-country standards and the latter on local terms and conditions with few, if any, home-country links. Consider though, that if partially or fully localized assignees can do the same job for half the cost, then a radical shakeup in expatriate compensation is overdue to ensure that a small link to the headquarters or home-country standard of living is maintained, but a larger emphasis is placed on the local market context that expatriates are sent to support.

From this perspective, local-plus and localization practices represent more cost-effective means by which companies can manage various types of expatriate staff while simultaneously attempting to meet their organizational objectives. In advocating for reduced-compensation approaches, though, it is important that expatriates are not treated like local host-country or domestic employees: clearly, assignees incur more substantial expenses and greater disruption to their lives than employees who choose not to work abroad. As such, they should be compensated accordingly and subjected to a different set of policies, but only insofar as the compensation approach remains appropriate to the job that expatriates actually do rather than the status they hold because of their home-country ties. When deploying local plus or localization, consider the following guidelines:

- When reducing compensation, enter into discussions early, and put all agreed items in writing via an assignment letter, letter of understanding, policy document, or formal contract.
- Provide solutions to address assignee's concerns about retirement plans and healthcare coverage, typically two of the biggest challenges when compensation is reduced. One way to handle social security, health and life insurance, and employer-provided pension plans is to enroll the employee in the local plan immediately.
- Be mindful to consider requests to continue the payment of international school fees for children. This is often a highly emotional issue for assignees because the local school system may not be a viable alternative because of language barriers or curriculum challenges.

In addition to formal policy elements, it is important to recognize that reducing expatriates' compensation requires careful management, aside from only financial considerations, in terms of how assignees can adjust to their new status and are integrated among a local workforce permanently. Consider the following:

- Local plus and localization frequently imply a one-way transfer with little or no opportunity for repatriation. In practical terms, it is important to facilitate realistic expectations among assignees as to the potential career paths likely to arise from their now-permanent stay in the host country.
- Mentoring specifically related to acculturation into the host culture seems essential on the basis that local-plus and localized assignees are not "true" locals despite their status as localized assignees.
- There is a need to recognize the vital role to be played by local employees in helping partially and fully localized assignees to adjust.

Conclusion: Is It Just About the Money?

Decades of research about expatriates have assumed that the fundamental driver for assignees to accept international assignments has been the financial gain, mostly as a result of the substantial benefits and allowances they receive over and above their base salary. To be fair, for many years, this was indeed a major reason why expatriates agreed to go: few people are willing to uproot their lives, families, established networks, and familiarity of home simply to "break even" in terms of home-country salary. The latest research shows, however, that the five top criteria for expatriates when making the decision to accept an international assignment go beyond only financial reasons.[26] Although base salary (71 percent) and a location bonus (to incentivize the move; 32 percent) are important, so too is accompanying partner support to assist in adjustment and the dual-career issue (finding employment; 60 percent), reintegration guarantees for an expatriate's career (58 percent), and the quality of schooling for children (whether fully or partially funded by the company; 41 percent).

Clearly, money *does* matter to some extent: expatriates, like everyone else, need to earn their keep, pay their bills, and support their families. Expatriation—and global mobility in general—is often a fast-track way to earn more money more quickly to meet this need and sometimes to save money as well, making mobility attractive to many employees, at least in the short term. Employees close to retirement may be especially focused on money, particularly maintaining home-country retirement plans, yet this aspect of remuneration remains one of the most challenging aspects particularly for career expatriates; only 12 percent of companies in a Mercer survey had established international pension plans to ensure long-term expatriates their continuity of benefits.[27] But money is not everything. As noted earlier, "job guarantees" on return to the home country, "partner support," and "children's schooling" are also ranked as important criteria. This tells us a lot about modern expatriation, wherein we are witnessing a change in the drivers that motivate expatriates to go abroad, with corresponding changes in companies' strategies to attract the right people into global employment and to keep them employed over the long term.

For more and more expatriates, compensation, then, is a "means to an end"—it matters only to a point. Most organizations are therefore mistaken in their belief that financial gain is expatriates' overriding motivation when they go abroad. In fact, a recent study found that financial gain becomes most important to expatriates only when a sudden change in remuneration causes them undue hardship or they are close to retirement.[28] Furthermore, traditional balance-sheet approaches to assignee compensation cannot be used to

45_Berger_ch45.indd 513 23/03/15 11:54 pm

the same extent as they have in the past to motivate expatriates to perform and to remain with an organization. In accepting this new reality about compensation, it is not the type of compensation that matters most to expatriates but the *process* by which compensating them takes place and how they are subsequently treated because if the financial ties that bind them to their organizations are lessened by local plus or cut altogether by localization, then using only money to retain them seems somewhat futile. This is particularly true when competitor organizations can match or exceed an assignee's existing remuneration package as a means of poaching him or her.

The point here is that it is not *just* about the money. In fact, for some millennial expatriates as well as those climbing the ladder to middle management, it is often *never* about the money. To fully link global mobility with talent management, companies need to deploy compensation approaches that engage and motivate their expatriates. This is where the psychological contract can have real power in terms of (1) when and how reductions in expatriate salary are communicated, (2) when changes in benefits are likely to occur, and (3) the alternatives that are offered to offset the inevitable financial shortfall in relation to the assignee's financial obligations and responsibilities as family breadwinner. There is something else here to consider: the power of the psychological contract is determined not by how much money is spent or thrown at a problem but rather by the intent behind the action or behavior. It costs companies nothing to treat their assignees well by communicating with them openly and thereby fostering harmonious and committed relationships through mutual respect and understanding.

Glossary

Assignee An employee of an organization who voluntarily chooses to be sent from his or her country of origin and/or permanent residence to a foreign country to work temporarily but does not take up citizenship of that country; see *expatriate.*

Balance-sheet approach A compensation approach that links the base salary of an expatriate to the salary structure of his or her nominated home country with the intention of "keeping him or her whole," i.e., not disadvantaging him or her compared with living standards in the home country; often referred to as *full package.*

Career expatriates Reassigned expatriates who spend most of their careers in assignments in countries other than that of their citizenship or of the headquarters country of their employer.

Cost-of-living allowance (COLA) Payment by a company to compensate an expatriate for differences in daily living expenses between his or her nominated home and host country. Examples include the cost of transportation, groceries, furniture and appliances, medical care, and domestic help.

Expatriate An employee of an organization who voluntarily chooses to be sent from his or her country of origin and/or permanent residence to a foreign country to work temporarily but does not take up citizenship of that country.

Global staffing The critical issues faced by multinational corporations with regard to the employment of home-, host-, and third-country nationals who are required to fill positions in their headquarters and subsidiary operations.

Hardship premium A salary premium (typically calculated as a percentage of base salary) offered by companies to induce employees to accept an international assignment to a challenging or undesirable location in terms of physical, cultural, social, or other conditions, e.g., China, Russia, or South Korea.

Home country/parent country Country of origin from where an expatriate has been recruited prior to undertaking an international assignment; the home country may or may not be the headquarters country of the organization, just as it may or may not be the country of citizenship of the expatriate.

Home leave A provision whereby employers cover the expense of one or more trips back to the home country for expatriates and their family members.

Home sale reimbursement Monies reimbursed to expatriates by their company for part of the loss incurred from the sale of their home when electing to sell their primary residence in the home country as a result of relocating abroad.

Host country Country to which an expatriate is temporarily assigned but for which he or she usually does not have citizenship.

Host-country nationals (HCNs) Mostly nonexpatriate employees residing in the host location as citizens of that country.

Housing allowance A monetary provision whereby employers provide expatriates with a specified monthly sum to cover all or part of their rental accommodation costs in the host location; the monthly sum is typically determined by family size and job level and paid directly to the expatriate or the landlord.

International assignment The project or temporary role in another country to which an expatriate is dispatched by his or her employing organization in service of corporate goals, typically for a period of one to five years.

International labor market Defined as the total global supply of the labor force (the number of people in a particular country or area who are able and willing to work) that interacts with the world of commercial activity (*capital flows*) where goods and services are bought and sold; relies on an exchange of information between employers and job seekers about wage rates, conditions of employment, level of competition, and job location and represents the invisible factors of production associated with human capital (people) that contribute to corporate and national performance. Companies and countries compete on the international labor market to attract the best and brightest highly skilled labor and knowledge workers.

Millennials A term used to describe individuals who are members of generation Y, i.e., those born between 1982 and 2000.

Parent-country nationals (PCNs) Citizens of the headquarters-country location of a company, from which they are then sent abroad.

Permanent transferee An employee who resigns from his or her home-country office and is hired by the host-country office of the same multinational corporation at the time of relocation but for which there is no return to the home country and no promise or guarantee of repatriation or reassignment elsewhere; employees are expected to operate as a local in the host country. Also known as *one-way moves*.

Perquisites A payment, benefit, privilege, or advantage over and above regular income, salary, or wages paid to expatriates as a special right or privilege arising from their position.

Psychological contract An indirect, unwritten, and often unspoken agreement between an employer and employee.

Reassignment or **sequential expatriation** An international assignment that is undertaken at the immediate conclusion of a prior international assignment.

Repatriation The reintegration of an expatriate into his or her original home operation from whence he or she undertook his or her (first or only) international assignment.

Self-initiated expatriate (SIE) Qualified people who move to new countries of their own volition, without company support, and seek to "see the world" or develop their careers there.

Talent management The strategic management of people identified as having the potential for high performance as a critical component of an organization's business success, including their recruitment, selection, identification, development, and retention.

Tax equalization A compensation approach for calculating an expatriate's share of his or her worldwide tax burden by striving to ensure that he or she is financially no worse or better off than he or she would have been had an assignment not been undertaken and he or she had remained in his or her nominated home country.

Third-country nationals (TCNs) Also referred to as *foreign local hires*, TCNs originate from neither the home country where corporate headquarters is located nor the host country where they are employed but a third country where they have lived either temporarily or permanently before agreeing to move to the host country.

NOTES

1. Ernst & Young, "Global Mobility Effectiveness Survey," London, 2010.
2. Y. McNulty, "Are Self-Initiated Expatriates Born or Made? Exploring the Relationship between SIE Orientation and Individual ROI," in V. Vaiman and A. Haslberger (eds.), *Talent Management of Self-Initiated Expatriates: A Neglected Source of Global Talent*. Palgrave-Macmillan, London, 2013, pp. 30–58.
3. Y. McNulty and K. Inkson, *Managing Expatriates: A Return on Investment Approach*. Business Expert Press, New York, 2013.
4. K. Leung, Z. Wang, and A. Hong, "Moderating Effects on the Compensation Gap between Locals and Expatriates in China: A Multi-level Analysis." *Journal of International Management* 17(1):54–67, 2011.
5. F. Diez and K. Vierra, "Why Companies in Asia Are Changing Their Approach to Pay," WorldatWork, Scottsdale, AZ, 2013; ORC Worldwide, "Survey on Local-Plus Packages in Hong Kong and Singapore," New York, 2008.
6. P. Stanley, "Local-Plus Packages for Expatriates in Asia: A Viable Alternative." *International HR Journal* 3:9–11, 2009.
7. It is important to note here that there has been some confusion about the exact meaning of the term *localization* in reference to expatriation. Some articles refer to localization as the "extent to which jobs originally held by expatriates are filled by local employees who are competent to perform the job" (Selmer, 2003, p. 43) or "displacing expatriate managers with local talent" (Fryxell, Butler, and Choi, 2004, p. 269). These definitions assume that "local employees" are nationals of the host country, where localization is linked to their career development (i.e., they are offered a job that an expatriate used to do). Technically, this is not correct given that *localization* as defined and practiced among mobility consulting firms determines "local employees" as constituting *both* nationals of the host country *and* localized expatriates. Localization is not, therefore, the replacing of expatriates with nationals of the host country but the transitioning of assignees onto local terms and conditions who then join the "local employee" workforce. See G. Fryxell, J. Butler, and A. Choi, "Successful Localization Programs in China: An Important Element in

Strategy Implementation." *Journal of World Business* 39(3):268–282, 2004; and J. Selmer, "Staff Localization and Organizational Characteristics: Western Business Expatriates in China." *Asia Pacific Business Review* 10(1):43–57, 2003.
8. E. Tait, H. De Cieri, and Y. McNulty, "The Opportunity Cost of Saving Money: An Exploratory Study of Permanent Transfers and Localization of Expatriates in Singapore." *International Studies of Management and Organization* 44(3), 2014.
9. Brookfield Global Relocation Services, "Global Relocation Trends Survey Report," Woodridge, IL, 2012.
10. Cartus, "Global Mobility Policy and Practices Survey: Navigating a Challenging Landscape," Wilmington, NC, 2010.
11. J. Yates, "Putting Down Roots: How Localization Can Help Reduce Expatriate Program Costs." *Mobility*, October:92–97, 2011.
12. ORC Worldwide, "Survey of Localization Policies and Practices," New York, 2004.
13. KPMG, "International Assignment Policies and Practices Survey," New York, 2003; ORC Worldwide, "Survey of Localization Policies and Practices," New York, 2004.
14. Brookfield Global Relocation Services, "Global Relocation Trends Survey Report," Woodridge, IL, 2012.
15. D. Collings, H. Scullion, and M. Morley, "Changing Patterns of Global Staffing in the Multinational Enterprise: Challenges to the Conventional Expatriate Assignment and Emerging Alternatives." *Journal of World Business* 42(2):198–213, 2007.
16. See also Y. McNulty and G. Aldred, "Local Plus: Winning the Compensation Battle but Losing the Talent War." *Strategic Advisor* 4(9):1–5, 2013.
17. Y. McNulty, H. De Cieri, and K. Hutchings, "Expatriate Return on Investment in Asia Pacific: An Empirical Study of Individual ROI versus Corporate ROI." *Journal of World Business* 48(2):209–221, 2013.
18. A *psychological contract* is an indirect, unwritten, and often unspoken agreement between an employer and employee. It is subjective, defined by the individual within the context of his or her employment, and idiosyncratic, or unique to each employee. The psychological contract represents an exchange agreement: organizations have expectations regarding performance outcomes and other actions from their employees, and employees have reciprocal expectations from employers regarding such things as support, communication, and equity.
19. Y. McNulty and K. Inkson, *Managing Expatriates: A Return on Investment Approach*. Business Expert Press, New York, 2013.
20. D. Rousseau, *I-deals: Idiosyncratic Deals Employees Bargain for Themselves.* ME Sharpe, Armonk, NY, 2005.
21. Y. McNulty, H. De Cieri, and K. Hutchings, "Expatriate Return on Investment in Asia Pacific: An Empirical Study of Individual ROI versus Corporate ROI." *Journal of World Business* 48(2):209–221, 2013.
22. Y. McNulty and K. Inkson, *Managing Expatriates: A Return on Investment Approach*. Business Expert Press, New York, 2013; E. Tait, H. De Cieri, and Y. McNulty, "The Opportunity Cost of Saving Money: An Exploratory Study of Permanent Transfers and Localization of Expatriates in Singapore." *International Studies of Management and Organization* 44(3), 2014.
23. D. Minbaeva and D. Collings, "Seven Myths of Global Talent Management." *International Journal of Human Resource Management* 24(9):1762–1776, 2013.
24. A. Salimaki and R. Heneman, "Pay for Performance for Global Employees," in L. Gomez-Majia and S. Werner (eds.), *Global Compensation: Foundations and Perspectives*. Routledge, Milton Park, UK, 2008, pp. 158–168.

25. Y. McNulty and C. Vance, "Dynamic Global Careers: An Internal/External Model for Understanding International Career Self-Management," EURAM Conference, Valencia, Spain, European Academy of Management, 2014.
26. D. Warneke and M. Schneider, "Expatriate Compensation Packages: What Do Employees Prefer?" *Cross Cultural Management: An International Journal* 18(2):236–256, 2011.
27. R. Herod, *Benefits Challenges and Trends for Expatriates and Internationally Mobile Employees.* Mercer, Geneva, 2012.
28. Y. McNulty and K. Inkson, *Managing Expatriates: A Return on Investment Approach*. Business Expert Press, New York, 2013.