

CHAPTER 2

INTERNATIONAL HUMAN RESOURCE MANAGEMENT

2.1 INTRODUCTION

Managers are responsible for acquiring, developing, protecting, and utilising the resources that an organisation needs to be efficient and effective. One of the most important resources in all organisations is human resources – the people involved in the production and distribution of goods and services. Human resources (HR) include all members of an organisation, ranging from top managers to entry-level employees. Human resource management (HRM) includes all the activities that managers engage in to attract and retain employees and to ensure that they perform at a high level and contribute to the accomplishment of organisational goals (Jones, George & Hill, 2000:348-349). According to Griffin & Pustay (2002:575), international HR managers, however, face challenges beyond those confronting their counterparts in purely domestic companies. Specifically, differences in cultures, levels of economic development and legal systems among the countries in which a firm operates may force it to customise its hiring, firing, training and compensation programmes on a country-by-country basis. Particularly troublesome problems develop when conflicts arise between the culture and laws of the home country and those of the host country. The international firm must also determine where various employees should come from – the home country, the host country, or third countries – and faces more complex training and development challenges. Finally, because working conditions and the cost of living may vary dramatically by country, international HR managers must often tailor compensation systems to meet the needs of the host country's labour markets.

Hill (2003:606-607) agrees with Griffin & Pustay (2002:575), stating that the strategic role of HRM is complex enough in a purely domestic firm, but that it is more complex in an international business, where staffing, management development, performance evaluation and compensation activities are complicated by profound differences between countries in labour markets, culture, legal system, economic systems and the like; for example:

- Compensation practices may vary from country to country depending on prevailing management customs.
- Labour laws may prohibit union organisation in one country and mandate it in another.
- Equal employment legislation may be strongly pursued in one country and not in another.

If it is to build a cadre of managers capable of managing a multinational enterprise (MNE), the HRM function must deal with a host of issues. It must decide how to staff key management posts in the company, how to develop managers so that they are familiar with the nuances of doing business in different countries and how to compensate people in different nations. HRM must also deal with a host of issues related to expatriate managers (an expatriate manager is a citizen of one country who is working abroad in one of the firm's subsidiaries). It must decide whom to send on expatriate postings, be clear about why it is doing it, compensate expatriates appropriately and make sure that they are adequately debriefed and reoriented once they return home (Hill, 2003:607).

Briscoe & Schuler (2004:20) broadly defines the field of international human resource management (IHRM) as understanding, researching, applying and revising all human resource activities in their internal and external contexts as they impact the process of managing human resources in enterprises throughout the global environment to enhance the experience of multiple stakeholders, including investors, customers, employees, partners, suppliers, the environment and society.

2.2 THE STRATEGIC IMPORTANCE OF HUMAN RESOURCES

According to McWilliams, Van Fleet & Wright (2001), one of the keys to successful competition in the global market is the effective deployment of human resources to achieve a competitive advantage. Recent research (McWilliams et al, 2001; Peteraf, 1993:180; Barney, 1991:105-112), in the strategic management area has focused on the role of heterogeneous firm resources in achieving and sustaining competitive advantage. This emerging paradigm is called the resource-based view of the firm and has become increasingly popular for explaining why firms differ in performance. According to this view, the internal resources of the firm are responsible for competitive advantage and are the source of sustained competitive advantage. While it has been demonstrated that resources in and of themselves contribute positive returns to organisations, it is the interaction of resources and strategy that seems to form the basis of sustainable competitive advantage. For a resource to be the source of sustainable competitive advantage, it must create value (V) for the firm, it must be rare (R), it must be inimitable (I), and it must be non-substitutable (S) (McWilliams et al, 2001; Barney, 1991:105-106).

Human resources (defined as the total pool of human capital under the control of the firm) have the highest probability (among all resources) of being the source of sustained competitive advantage for the firm. This is because human resources are more likely than other resources to be inimitable and non-substitutable, as well as being valuable and rare (McWilliams et al, 2001).

2.2.1 Human resources as valuable

According to the resource-based view, a resource must first be valuable in order to provide a source of sustainable competitive advantage (McWilliams et al, 2001; Amit & Schoemaker, 1993:37-39; Barney, 1991:106). Firm-specific human capital theory provides an explanation of the conditions under which human capital can create value for the firm (McWilliams et al, 2001; Hashimoto, 1981:475-481). According to this theory, when the demand for labour is heterogeneous (that is, when the jobs of firms differ and these jobs require different skills) and the supply of labour is heterogeneous (that is, individuals differ in both the type and level of their skills), then human capital can create value for the firm. The demand for labour is more heterogeneous across countries than it is within countries, due to differences in capital availability, labour practices, and social and cultural norms relating to work. Labour supply is also more heterogeneous across countries than within countries, due to differences in such things as nutrition, sanitation, health care, training and educational opportunities. Therefore, there is more opportunity for creating value through human resources as competition becomes more global.

Empirical evidence also supports the idea that the demand for and supply of labour are heterogeneous, at least with regard to the skill levels of individuals. Virtually all of the work with regard to personnel selection, training, and utility analysis has demonstrated that more highly skilled individuals outperform lower skilled individuals and that these performance differences provide value to firms (McWilliams et al, 2001). Human resources must have power, information, knowledge and rewards to be a source of competitive advantage. More skilled individuals are more likely to possess these (McWilliams et al, 2001).

2.2.2 Human resources as rare

A resource must also be rare if it is to be a source of sustainable competitive advantage. Because human skills are normally distributed in the population, human resources with high skill levels are, by definition, rare. That is, only a relatively small proportion of individuals in

any human resource pool will have high skill levels. To the extent that jobs require skills that allow for variance in individual contributions, and that human resources vary in quality, job-relevant skills will be rare. Thus, to the extent that jobs require skills that allow for variance in individual contributions, firms with high average skill levels relative to their competitors possess a rare resource. In addition, firms that, because of their international operations, can draw from more than one labour pool have a greater potential for developing this valuable and rare resource. Therefore, firms that, because of their international operations, can draw from more than one labour pool have a greater potential for developing a human-resource-based sustainable competitive advantage than do domestic firms that can draw from only one labour pool (McWilliams et al, 2001; Barney, 1991:106-107).

2.2.3 Human resources as inimitable

Unless a resource is difficult to imitate, it cannot be the source of a sustainable competitive advantage. Resources will be more difficult to imitate in the presence of causal ambiguity and social complexity (McWilliams et al, 2001; Barney, 1991:107-111). Causal ambiguity exists when the link between a firm's resources and its competitive advantage is imperfectly understood (McWilliams et al, 2001; Reed & DeFillippi, 1990:90 & 92). In the case of human resources, if competing firms cannot identify the human resources that are responsible for the competitive advantage, or the way in which the human resources create the competitive advantage, they cannot imitate the advantage. Human resources often lead to causal ambiguity because of team production. With team production, it is difficult to isolate and identify the particular human resource (individual) that produces the superior performance of the team (McWilliams et al, 2001).

Social complexity may arise from transaction-specific relationships, and the competitive advantage these relationships create may be due to transaction-specific human capital, i.e., human capital, such as knowledge, that is of value only in the focal transaction. It is possible that relationships between key personnel such as sales representatives and buying agents will develop over time and become part of a network that includes a larger group of personnel such as design and marketing staff, production and distribution workers, and management, as well as final customers. A very complex social situation may result and this may constitute a competitive advantage for the firm. Although the relationship may be too complex to dissect, it is reasonable to speculate that the value of the relationship may be due to transaction-specific human capital, that is, the knowledge and trust that are developed over time by the

focal personnel and have value only in the focal relationship. Human resources and social complexity are intrinsically linked because social complexity, by definition, must result from human interaction (McWilliams et al, 2001).

Firms involved in global markets may find that causal ambiguity and social complexity may be particularly important barriers to imitation. Differences in customs and norms of behaviour may make it impossible for outsiders to understand, and therefore imitate, a competitive advantage based on human resources. Additionally, religious, cultural and political alliances may create strong webs of social complexity that make imitation of an advantage virtually impossible. On the other hand, differences in religion, culture, and politics may prevent the creation of relationships that could, otherwise, lead to a competitive advantage. Thus, causal ambiguity and social complexity strongly influence the inimitability of human resources, especially in a global marketplace (McWilliams et al, 2001).

2.2.4 Human resources as non-substitutable

A resource must also pass the test of having no good substitute if it is to be the source of a sustainable competitive advantage. This raises the question of whether or not other resources, such as technology, have the potential for off-setting any competitive advantage obtained from human resources. Good substitutes are unlikely, because human resources are one of the few firm resources which have the potential to be transferable across a variety of technologies, products and markets and not become obsolete. Many human capital resources are quite generalisable; for example, general human capital resources such as learning capability are transferable across a wide variety of technologies, products, and markets. In addition, if a firm has obtained individuals with a high level of learning capability, then constant training in state-of-the-art technological skills ensures that the resource does not become obsolete (McWilliams et al, 2001; Barney, 1991:111-112).

Therefore, it is argued that, while it might be possible to substitute other resources in the short term, it is highly unlikely that such substitution would eliminate the advantage of the human resources for long. This stems from the fact that, to the extent that the resource offsetting the advantage of human resources is not, in and of itself, rare, inimitable, and non-substitutable, then it will be imitated and human resources will once again constitute a competitive advantage (McWilliams et al, 2001).

2.3 SOURCES OF PERSONNEL

Internationally there are four sources of personnel that an MNE can use when sourcing personnel: home country nationals; host country nationals; third country nationals; and inpatriates (Ball et al, 2004:598-600; Rugman & Hodgetts, 2003:329; Hodgetts & Luthans, 2003:445-449; Phatak, Bhagat & Kashlak, 2005:477).

2.3.1 Home country nationals

Home country nationals are personnel who reside abroad but are citizens of the parent country of the MNE. These individuals are typically called expatriates; an example is a US manager assigned to head an R&D department in Tokyo for IBM Japan (Rugman & Hodgetts, 2003:329). The term “headquarters nationals” is also sometimes used to describe this source of personnel (Hodgetts & Luthans, 2003:445). According to Ball et al (2004:598), most MNEs utilise citizens of their own country, called home country nationals, in many foreign management and technical positions, even though at first such personnel are usually not knowledgeable about the host country culture and language. Many such expatriates have adapted, learned the language and become thoroughly accepted in the host country. Of course, it would not be necessary for the host country citizen to adapt, but for a variety of reasons MNE headquarters frequently needs or wants its own nationals in executive or technical positions abroad.

2.3.2 Host country nationals

According to Rugman & Hodgetts (2003:329), host country nationals are local people hired by the MNE; an example is a British manager working for the Ford Motor Company in London. According to Ball et al (2004:600), when host country nationals are employed, there is no problem of them being unfamiliar with local customs, cultures, and language. Furthermore, the original costs of employing them are generally lower (compared with the cost of employing home country nationals), although considerable training costs are sometimes necessary. If there is a strong feeling of nationalism in the host country, using nationals as managers can make the subsidiary seem less foreign.

2.3.3 Third country nationals

Third country nationals are citizens of countries other than the one in which the MNE is headquartered or the one in which they are assigned to work by the multinational; an example is a French manager working for Sony in the USA (Rugman & Hodgetts, 2003:329).

According to Ball et al (2004:600), the disadvantages often encountered when using employees from the home or host country can sometimes be avoided by sending third country nationals to fill management posts. A Chilean going to Argentina would have little cultural or language difficulty, but MNE headquarters should be careful not to rely too heavily on similarities in language as a guide to similarities in other aspects of culture. Mexicans, for example, would have to make considerable adjustments if they were transferred to Argentina, and they would find a move to Spain even more difficult. This is because the Mexican culture is far less European than that of either Argentina or Chile. Although the latter two cultures are certainly not identical, they do have many similarities. A fair generalisation is that after an executive has adapted once to a new culture and language, a second or succeeding adaptation is easier.

2.3.4 Inpatriates

In recent years a new term has emerged in international management – inpatriates. An inpatriate is an individual from a host country or a third country national assigned to work in the home country. Even Japanese MNEs are now beginning to rely on inpatriates to help them meet their international challenges. The growing use of inpatriates is helping MNEs better develop their global core competencies. As a result, today a new breed of multilingual, multi-experienced, so-called global manager or transnational manager is truly emerging (Hodgetts & Luthans, 2003:449; Briscoe & Schuler, 2004:252-253).

2.4 SELECTION

Selection is the process of choosing qualified applicants from the available candidates and ensuring that the skills, knowledge, and abilities of the selected employees match the requirements of the position (Phatak, Bhagat & Kashlak, 2005:476-477). According to Briscoe & Schuler (2004:236), the selection decision is important. It needs to receive full management attention and support. Errors in selection can have a major negative impact on the success of overseas operations.

2.4.1 Selection criteria

According to Hill (2003:615) the major problem in many firms is that HR managers tend to equate domestic performance with overseas performance potential. Domestic performance and overseas performance potential are not the same thing. An executive who performs well in a domestic setting may not be able to adapt to managing in a different cultural setting.

According to Briscoe & Schuler (2004:236), it is most important that potential expatriates be seen as able to perform both the specific tasks to which they will be assigned as well as to perform well in a different cultural environment. Thus, the first consideration for MNEs is to fully understand the requirements in both technical and cultural terms of the jobs to which expatriates will be assigned as well as of the country of assignment. According to Deresky (2002a:396), the selection of personnel for international assignments is a complex process. The criteria for selection are based on the same success factors as in the domestic setting, but additional criteria must be considered, related to the specific circumstances of each international position. Unfortunately, many personnel directors have a long-standing, integrated practice of selecting potential expatriates simply on the basis of their domestic track record and their technical expertise. Too often overlooked is the need to ascertain whether potential expatriates have the necessary cross-cultural awareness and interpersonal skills for the position. It is also important to assess whether the candidate's personal and family situation is such that the family is likely to adapt to the local culture.

Hill (2003:615-616) identified four dimensions that help predict success in a foreign posting. These dimensions are:

- **Self-orientation.** The attributes of this dimension strengthen the expatriate's self-esteem, self-confidence, and mental well-being. Expatriates with high self-esteem, self-confidence and mental well-being are more likely to succeed in foreign postings. Such individuals are able to adapt their interests in food, sport and music; have interests outside of work that could be pursued (e.g. hobbies); and are technically competent.
- **Others-orientation.** The attributes of this dimension enhance the expatriate's ability to interact effectively with host-country nationals. The more effectively the expatriate interacts with host-country nationals, the more likely he or she is to succeed. Two factors seem to be particularly important here; relationship development and willingness to communicate. Relationship development refers to the ability to develop long-lasting friendships with host-country nationals. Willingness to communicate refers to the expatriate's willingness to use the host-country language. Although language fluency helps, an expatriate need not be fluent to show willingness to communicate. Making the effort to use the language is what is important. Such gestures tend to be rewarded with greater cooperation by host-country nationals.
- **Perceptual ability.** This is the ability to understand why people of other countries behave the way they do; that is, the ability to empathise. This dimension seems critical for

managing host-country nationals. Expatriate managers who lack this ability tend to treat foreign nationals as if they were home-country nationals. As a result, they may experience significant management problems and considerable frustration. Well-adjusted expatriates tend to be non-judgemental and non-evaluative in interpreting the behaviour of host-country nationals and are willing to be flexible in their management style, adjusting it as cultural conditions warrant.

- **Cultural toughness.** This dimension refers to the fact that how well an expatriate adjusts to a particular posting tends to be related to the country of assignment. Some countries are much tougher postings than others because their cultures are more unfamiliar and uncomfortable. For example, many Americans regard Great Britain as a relatively easy foreign posting, as the two cultures have much in common. But Americans find postings in non-Western cultures, such as India, South-east Asia and the Middle East, to be much tougher. The reasons are many, including lower health-care and housing standards, inhospitable climate, lack of Western entertainment and language difficulties. Also, many cultures are extremely male dominated and may prove particularly difficult for female Western managers.

Hill's view (2003:615-616) is supported by Briscoe & Schuler (2004:236-237) when stating that selection for international transfer are most successful when based on factors such as the following:

- The maturity of the candidate
- The ability to handle foreign languages
- Possession of a favourable outlook on the international assignment by the expatriate and his or her family
- Possessing appropriate personal characteristics (excellent health, desire for assignment, adaptability)

According to Hodgetts & Luthans (2003:450), making an effective selection decision for an international assignment can prove to be a major problem. Typically, this decision is based on international selection criteria, which are factors used to choose international managers. These selections are influenced by the MNE's experience and often are culturally based. Sometimes as many as a dozen criteria are used, although most MNEs give serious consideration to only five or six. Table 2.1 reports the importance of some of these criteria as

ranked by Australian managers, expatriate managers and Asian managers from 60 leading Australian, New Zealand, British and USA MNEs with operations in South Asia (Hodgetts & Luthans, 2003:450; Stone, 1991:10; Arthur & Bennett, 1995: 109-111).

Table 2.1: Rank of criteria in expatriate selection

	Australian Managers n=47	Expatriate Managers n=52	Asian Managers n=15
1. Ability to adapt	1	1	2
2. Technical competency	2	3	1
3. Spouse and family adaptability	3	2	4
4. Human related skill	4	4	3
5. Desire to serve overseas	5	5	5
6. Previous overseas experience	6	7	7
7. Understanding of host country culture	7	6	6
8. Academic qualification	8	8	8
9. Knowledge of language of country	9	9	9
10. Understanding of home country culture	10	10	10

Source: Hodgetts & Luthans (2003:450)

As can be seen from the information in the table, criteria such as academic qualification, knowledge of language of the country and understanding of the home country culture were rated lowest of the ten criteria, while the ability to adapt was rated by the Australian managers and expatriate managers as the most important selection criterion. Asian managers ranked technical competency as the most important selection criterion, supporting an earlier statement by Deresky (2002a:396).

According to Hodgetts & Luthans (2003:450-451), some selection criteria are given a great deal of weight; others, at best only lip-service. A company sending people overseas for the first time will often have a much longer list of criteria than will an experienced MNE that has developed a short list. In one study (Hodgetts & Luthans, 2003:450-451), for example, it was found that personnel sent overseas by MNEs could be grouped into four categories – chief executive officer, functional head, trouble-shooter, and operative – and each category had its

own criteria for selection. Chief executive officers had to be good communicators, and they had to have management talent, maturity, emotional stability, and the ability to adapt to new environmental settings. Functional heads had to be mature and have emotional stability and technical knowledge about their job. Trouble-shooters had to have technical knowledge of their business and be able to exercise initiative and creativity. Operatives had to be mature, emotionally stable, and respectful of the laws and people in the country. In short, the nature of the job determined the selection factors. Typically, both technical and human criteria are considered. Firms that fail to consider both often find that their rate of failure is quite high (Hodgetts & Luthans, 2003:450-451).

The following section examines some of the most commonly used selection criteria for overseas assignments in more depth.

- **Adaptability to cultural changes**

Overseas managers must be able to adapt to change. They also need a degree of cultural toughness. Research shows that many managers are exhilarated at the beginning of their international assignment. After a few months, however, a form of culture shock creeps in and they begin to encounter frustration and feel confused in their new environment. One analysis showed that many of the most effective international managers suffer this culture shock (Hodgetts & Luthans, 2003:451; Ratiu, 1983; Briscoe & Schuler, 2004:239-240). This may be a good sign, because it shows that the expatriate manager is becoming involved in the new culture and not just isolating himself or herself from the environment. As this initial and trying period comes to an end, an expatriate's satisfaction with conditions tends to increase. After the first two years, most people become more satisfied with their overseas assignment than when they first arrived. Research shows that men tend to adjust a little faster than women, although both sexes exhibit a greater deal of similarity in terms of their degree of satisfaction with overseas assignments. In addition, people over 35 years of age tend to have slightly higher levels of satisfaction after the first year; but managers under 35 have higher satisfaction during the next three to four years. Organisations examine a number of characteristics in determining whether an individual is sufficiently adaptable. Examples include (Hodgetts & Luthans, 2003: 451):

- Work experience with cultures other than one's own
- Previous overseas travel
- Knowledge of foreign languages (fluency generally is not necessary)

- Recent immigration background or heritage
- The ability to integrate with different people, cultures and types of business organisation
- The ability to sense developments in the host country and accurately evaluate them
- The ability to solve problems within different frameworks and from different perspectives
- Sensitivity to the fine points of differences of culture, politics, religion and ethics, in addition to individual differences
- Flexibility in managing operations on a continuous basis despite lack of assistance and gaps in information

According to Hodgetts & Luthans (2003:452; Selmer, 1999:41-51), recent research conducted among expatriates in China found that those who were best able to deal with their new situation had developed coping strategies characterised by sociocultural and psychological adjustments, including:

- Feeling comfortable that their work challenges can be met
- Being able to adjust to their new living conditions
- Learning how to interact well with host country nationals outside of work
- Feeling reasonably happy and being able to enjoy one's day-to-day activities

It was also found that greater contact with host nationals helped with cross-cultural adjustment when the person also possessed the personality trait of openness, and that sociability was directly related to effective adjustment (Hodgetts & Luthans, 2003:452).

- **Independence and self-reliance**

In many overseas assignments, managers must carry out responsibilities and functions at levels higher than those to which they are accustomed. At the same time, managers have fewer people to call on for assistance and guidance. At company headquarters, a large staff of technical advisors may be available to provide assistance and guidance. In foreign assignments, managers must often be more self-reliant. One analysis reported that some of the determinants of independence and self-reliance include prior field experience (domestic or foreign), special project or task force experience, a hobby or avocation that requires a high degree of self-reliance and a record of extracurricular college activities or community service activities (Hodgetts & Luthans, 2003:452; Blue & Haynes, 1977:63).

- **Physical and emotional health**

Most organisations require that their overseas managers have good physical and emotional health. Some examples are fairly obvious. An employee with a heart condition would be rejected from an international assignment; likewise, an individual with a nervous disorder would not be considered. The psychological ability of individuals to withstand culture shock would also be considered, as would the current marital status, as this affects the individual's ability to cope in a foreign environment (Hodgetts & Luthans, 2003:452-453).

- **Age, experience and education**

Most MNEs strive for a balance between age and experience. There is evidence that younger managers are more eager for international assignments. These managers tend to be more worldly and have a greater appreciation of other cultures than older managers do. By the same token, however, younger people often are the least developed in terms of management experience and technical skills; they lack real-world experience. To gain the desired balance, many firms send both young and seasoned personnel to the same overseas post so that each can learn from the other (Hodgetts & Luthans, 2003:453; Blue & Haynes, 1977:64-65).

Some MNEs believe that a college degree, preferably a graduate degree, is important for international managers. However, there is no universal agreement on this point. Multinationals that sell highly technical products tend to prefer people with science degrees. Other MNEs feel that a good education helps to develop logical thinking, creative ideas, and a broad perspective of the world, so these firms prefer individuals with a liberal arts education. However, the best overall combination seems to be an undergraduate degree coupled with an MBA from a recognised business school (Rugman & Hodgetts, 2003:331-332; Hodgetts & Luthans, 2003:453).

- **Language training**

One recognised weakness of many MNEs is that they do not give sufficient attention to the importance of language training. English is the primary language of international business and most expatriates from all countries can converse in English. Those who can speak only English are at a distinct disadvantage when doing business in non-English-speaking countries. One study asked 1100 Swedish expatriates how satisfied they were

with knowledge of the other language. These Swedish managers expressed particular dissatisfaction with their understanding of Japanese and Middle Eastern languages. In other words, language can be a very critical factor, and international experts have referred to learning the language as a most effective indirect method of learning about a country, as well as the value system and customs of its people (Hodgetts & Luthans, 2003:453; Blue & Haynes, 1977:65-66). Traditionally, managers from the USA have done very poorly in the language area; for example, a survey of 1500 top managers worldwide faulted expatriates from the USA for minimising the value of learning foreign languages. Executives in Japan, Western Europe, and South America, however, place a high priority on speaking more than one language (Hodgetts & Luthans, 2003:453).

- **Motivation for foreign assignment**

Although individuals being sent overseas should have a desire to work abroad, this usually is not sufficient motivation. International management experts contend that the candidate also must believe in the importance of the job and even have something of an element of idealism or a sense of mission. Applicants who are unhappy with their current situation at home and are looking to get away seldom make effective overseas managers (Hodgetts & Luthans, 2003:453; Briscoe & Schuler, 2004:240).

Some experts believe that a desire for adventure or a pioneering spirit is an acceptable reason for wanting to go overseas. Other motivations that often are cited include the desire to increase one's chances of promotion and the opportunity to improve one's economic status. Many MNEs in the USA regard international experience as being critical for promotion to the upper ranks. In addition, thanks to the supplemental wage and benefits package, managers in the USA sometimes find that they can make, and especially save, more money than if they remained in the USA (Hodgetts & Luthans, 2003:454).

Fontaine (1997:638) identifies six factors – or clusters – of reasons given by assignees for why they go abroad in contexts such as business and foreign study. In a sense each factor constitutes a type of traveller, although, of course, any given assignee will usually be characterised by more than one of these types. These factors are:

- **A job-motivated traveller.** Job-motivated travellers go abroad for career benefits such as higher salaries, promotions, training, education, or business or professional contacts.
- **A rest and recreational traveller.** Recreational travellers go abroad for the entertainment, sports, hobbies or recreational activities.
- **An explorer.** Explorers go abroad to see and experience different people – their appearance, values, life-style and culture.
- **A presence seeker.** Presence seekers go abroad because when abroad their experiences are real and vivid; they seem aware of everything happening around them every minute.
- **A collector.** Collectors concentrate on bringing things back home – clothes, paintings, slides and stories of adventure, and friendships.
- **A family traveller.** Family travellers go abroad to be with family members who are also abroad or to accompany friends or co-workers.

As noted above, in reality any given assignee is not usually just one type of traveller, but is rather some combination of types. That combination constitutes his or her motivation profile. According to Fontaine (1997:638), recent data indicate that the motivation profile of the average international assignee is strongest in explorer, rest and recreation, and presence seeking. While job-oriented issues are certainly important to these assignees, they do not appear to be the ones most significant in assignees' self report of why they go abroad on assignments. When there is a mismatch between an assignee's motivational profile and the activities and experiences actually encountered, ecoshock, with its associated physiological, psychological, and social consequences, can occur. Without active intervention the mismatch between the motivation to go abroad and the activities and experiences encountered is likely to continue to erode the motivation to stay.

- **Spouses and dependants or work-family issues**

Spouses and dependants are another important consideration when a person is to be chosen for an overseas assignment. If the family is not happy, the manager often performs poorly and either the employment may be terminated or he or she may simply decide to leave the organisation. In a study conducted among 324 expatriates in 46 countries it was found that the amount of organisational support that an expatriate feels he or she is receiving, and the interplay between this person's work and family domain, have

a direct and unique influence on the individual’s intentions regarding staying with or leaving the enterprise (Hodgetts & Luthans, 2003:454; Shaffer, Harrison, Gilley & Luk, 2001:99). For this reason, some firms interview both the spouse and the manager before deciding whether to approve the assignment. This can be a very important decision on the part of the firm because it focuses on the importance of the family as an issue. In a survey conducted on over 400 expatriates, it was found that people had very firm views in this area regarding what they would and would not do. Table 2.2 shows how expatriates responded to selected work-family issues on a scale that ranges from 1 (strongly disagree) to 5 (strongly agree).

Table 2.2: Work-family issues

Work-family issues	Rating
I am willing to forego an important function at home if it conflicts with an important job-related function.	3.37
I would accept an international assignment even if it means that my spouse/partner has to make career sacrifices.	3.07
I place my career above my family.	2.21
I would accept an international assignment even if my family objected to the assignment.	1.83
I would accept an international assignment even if my family would not be able to relocate with me.	1.69

Source: Hodgetts & Luthans (2003:454)

As the information in the table indicates, family issues do play a major role in an expatriate’s decision to accept an international assignment or not. One popular approach in appraising the family’s suitability for an overseas assignment is called adaptability screening. This process evaluates how well the family is likely to stand up to the rigours and stress of overseas life. The company will look for a number of aspects in this screening, including (Hodgetts & Luthans, 2003:454):

- How closely knit the family is
- How well it can withstand stress
- How it can adjust to a new culture and climate

The reason the family criterion receives much attention is that MNEs have learned that an unhappy executive will be unproductive on the job and the individual will want to be transferred home long before the tour of duty is complete (Hodgetts & Luthans, 2003:454).

Harvey (1995:226), in his investigation of a classification of dual-career families and how their degree of career involvement influences decisions to relocate overseas, found a low degree of impact on domestic relocations from non-working trailing spouses, although 54 percent of his sample respondents indicated that a spouse attending college posed more of a potential problem than the traditional in-home spouse. Harvey also found that in both the dual-income/dual-career categories, nearly 50 percent of the personnel administrators surveyed indicated that the trailing spouse might have a significant impact on even domestic relocations.

- **Leadership ability**

Leadership can be defined from a management perspective as influencing and directing the behaviour of individuals and groups in such a way that they work willingly to pursue the goals of the organisation (Smit & de J Cronje, 2002:279). Determining whether a person who is an effective leader in the home country will be equally effective in the overseas environment can be difficult. In determining whether an applicant has the desired leadership ability, many firms look for specific characteristics, such as maturity, emotional stability, the ability to communicate well, independence, initiative, creativity and good health. If these characteristics are present and the person has been an effective leader in the home country, MNEs assume that the individual will also do well overseas (Hodgetts & Luthans, 2003:455; Rugman & Hodgetts, 2003:332).

2.4.2 Selection procedures

Besides considering the selection criteria discussed so far, MNEs use a number of selection procedures. The two most common are tests and interviews. Some international firms use one; a smaller percentage employs both. Recently, theoretical models containing the variables that are important for adjusting to an overseas assignment have been developed. These adjustment models can help contribute to more effective selection of expatriates (Hodgetts & Luthans, 2003:456).

2.4.2.1 Testing procedures

Some evidence suggests that although some firms use testing, it is not very popular. An early study found that almost 80 percent of the 127 foreign operations managers who were surveyed reported that their companies used no tests in the selection process. This contrasts with the more widespread testing these firms use when selecting domestic managers (Hodgetts & Luthans, 2003:456; Baker & Ivancevich, 1971:40).

2.4.2.2 Interviewing procedures

According to Hodgetts & Luthans (2003:457; Briscoe & Schuler, 2004:241), many firms use interviews to screen people for overseas assignments. It is generally agreed that extensive interviews of candidates and their spouses by senior executives still ultimately provide the best method of selection (Hodgetts & Luthans, 2003:457). In research surveys, 52 percent of MNEs surveyed in the USA reported that in the case of managerial candidates, MNEs conducted interviews with both the manager and his or her spouse, and 47 percent conducted interviews with the candidate alone. In the case of technically orientated positions, 40 percent of the firms interviewed both the candidate and the spouse, and 59 percent conducted interviews with the candidate alone. German MNEs followed a pattern similar to that of the USA companies. In the case of management positions, 41 percent interviewed both the candidate and the spouse, and 59 percent interviewed the candidate only; for technically oriented positions, these percentages were 62 and 39, respectively. These figures suggest that in management-type positions, which involve more extensive contact with the local community than technically oriented positions, the adaptability of the spouse to living in a foreign environment was perceived as important for successful performance abroad. However, even for technically orientated positions, a sizeable proportion of the firms did conduct interviews with both candidate and spouse. This lends support to the contention that MNEs are becoming increasingly cognisant of the importance of this factor to effective performance abroad (Hodgetts & Luthans, 2003:457; Tung, 1982:64-65).

In addition, a growing number of MNEs are modifying the approaches they use in conducting their interviews. Many MNEs have found that in interviewing Chinese job applicants in the People's Republic of China it is useful to employ both expatriate and local interviewers. The expatriate is there to ensure that attention is focused on the key selection criteria, so that those who are offered jobs will indeed have the abilities, skills and training to do the work. The local person is there because this individual knows the local culture and customs and can

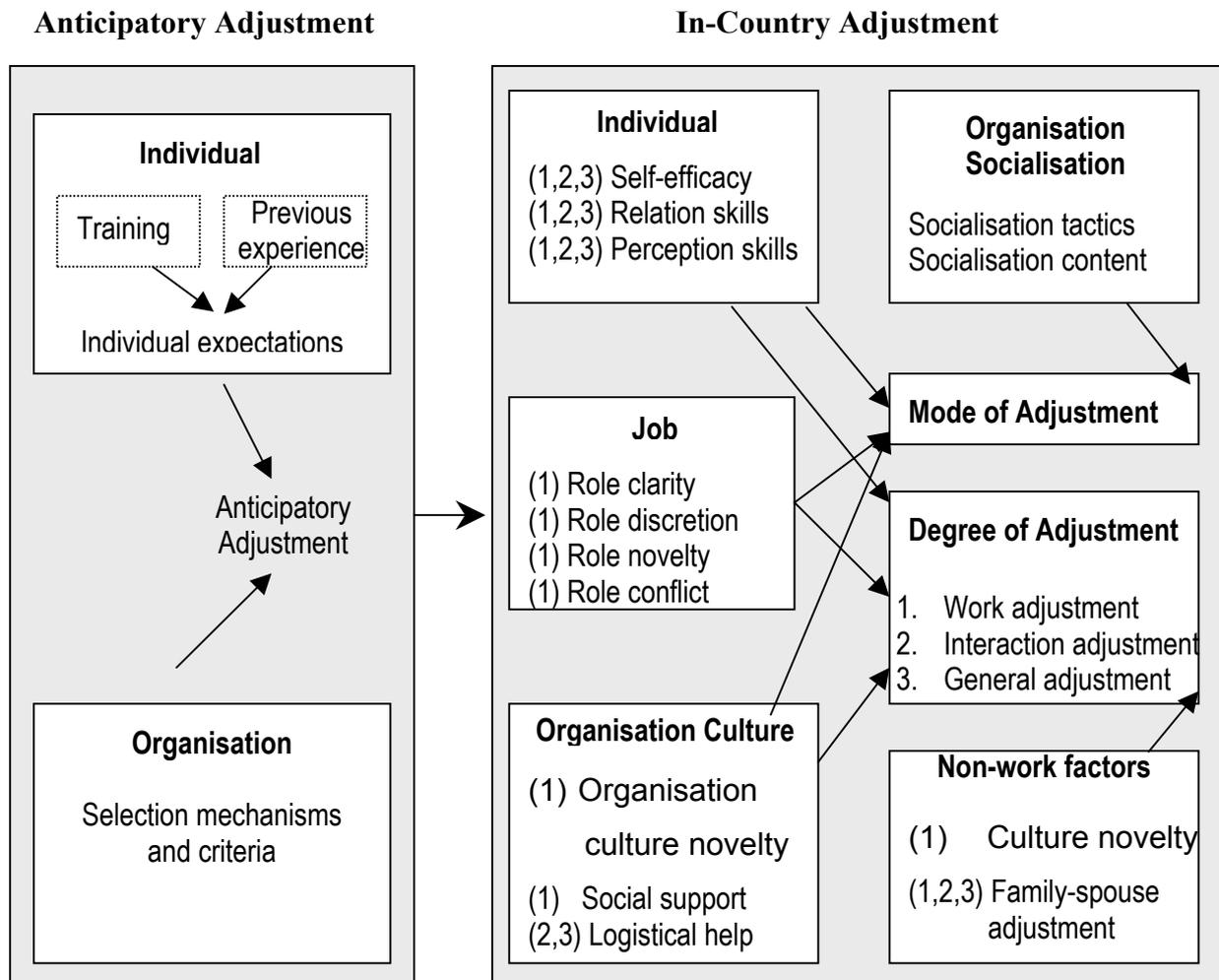
provide insights regarding the applicant's responses and other behaviour that might go unnoticed by the expatriate. So together the two are able to identify those candidates most likely to do the best job (Hodgetts & Luthans, 2003:457; Bjorkman & Lu, 1999: 20).

2.4.2.3 An adjustment model

In recent years, international HR management scholars have developed theoretical models that help to explain the factors involved in effectively adjusting to overseas assignments (Hodgetts & Luthans, 2003:457; Black, Mendenhall & Oddou, 1991:303). These adjustment models help to identify the theoretical underpinning of effective selection of expatriates. Figure 2.1 provides an example of one such adjustment model (Hodgetts & Luthans, 2003:457; Bonache, Brewster & Suutari, 2001:9-13). As shown, there are two major types of adjustments that an expatriate must make when going on an overseas assignment. One is the anticipatory adjustment. This is carried out before the expatriate leaves for the assignment. The other is an in-country adjustment, which takes place on site.

The anticipatory adjustment is influenced by a number of important factors. One individual factor is the predeparture training that is provided. This often takes the form of cross-cultural seminars or workshops and it is designed to acquaint expatriates with the culture and work life of the country to which they will be posted. Another individual factor affecting anticipatory adjustment is the previous experience that the expatriate may have had with the assigned country or those with similar cultures. These two individual factors, training and previous experience, help to determine the accuracy of the expatriate's expectations. The organisational input into anticipatory adjustment is most directly related and concerned with the selection process. Traditionally, MNEs relied on only one important selection criterion for overseas assignments: technical competence. Obviously technical competence is important, but it is only one of a number of skills that will be needed. If the MNE concentrates only on technical competence as a selection criterion, then it is not properly preparing the expatriate manager for successful adjustment to overseas assignments. Expatriates are going to go abroad believing that they are prepared to deal with the challenges awaiting them, and they will be wrong (Hodgetts & Luthans, 2003:457-458).

Figure 2.1: A theoretic model for explaining international adjustment of expatriates



Source: (Hodgetts & Luthans, 2003:458; Black, Mendenhall & Oddou, 1991:303)

Once the expatriate is on site, a number of factors will influence his or her ability to adjust effectively. One factor includes the expatriate's ability to maintain a positive outlook in the face of a high-pressure situation, to interact well with host nationals and to perceive and evaluate the host country's cultural values and norms correctly. A second factor is the job itself, as reflected by the clarity of the role the expatriate plays in the host management team, the authority the expatriate has to make decisions, the newness of the work-related challenges and the amount of role conflict that exists. A third factor is the organisational culture and how easily the expatriate can adjust to it. A fourth input is non-work factors, such as the toughness with which the expatriate faces a whole new cultural experience and how well his or her family can adjust to the rigours of the new assignment. A fifth and final factor identified in the adjustment model is the expatriate's ability to develop effective socialisation

tactics and to understand “what’s what” in the host organisation (Hodgetts & Luthans, 2003:458).

These anticipatory and in-country factors will influence the expatriate’s mode and degree of adjustment to an overseas assignment. As indicated in Figure 2.1, these factors cover a wide continuum of considerations. They can help to explain why effective selection of expatriates is multifaceted and can be very difficult and challenging. On the other hand, if all works out well the individual can become a very important part of the organisation’s overseas operation (Hodgetts & Luthans, 2003:458-459).

2.4.2.4 Genetically modified recruitment

According to Ball et al (2004:602), HR professionals are accused of overdependence on personality or intelligence tests in the selection process. They add that it is perfectly natural for people to adopt different types of behaviour for different circumstances and that such tests do not predict job performance very usefully. These days drugs can be used to alter your personality. Prozac, for example, can improve self-esteem, and Ritalin may aid the ability to concentrate. These drugs have side-effects, but advances in genomic technology could enable pharmaceutical companies to overcome such problems by tailoring drugs to genetic profiles.

2.5 TRAINING AND DEVELOPMENT

The HR managers of MNEs must provide training and development for their home and host country managers to help them perform more effectively (Griffin & Pustay, 2002:587). According to Mead (2005:397), training takes place before and during the expatriate assignment, and serves general functions of preparing the expatriate to both:

- Work in the local culture
- Live in the local culture

Griffin & Pustay (2002:587) define training and development as follows:

- **Training** is instruction directed at enhancing specific job-related skills and abilities; for example, training programmes might be designed to help employees learn to speak a foreign language, to use new equipment or to implement new manufacturing procedures. Special acculturation training is important for employees who are given international assignments.

- **Development** is general education concerned with preparing managers for new assignments and/or higher-level positions; for example, a development programme could be aimed at helping managers improve their ability to make decisions or to motivate subordinates to work harder.

As the topic of training and development will be discussed in greater depth in Chapter 4, this discussion will suffice for now.

2.6 COMPENSATION

The significance of an appropriate compensation and benefits package to attract, retain and motivate international employees cannot be over-emphasised. Compensation is a crucial link between strategy and its successful implementation – there must be a fit between compensation and the goals for which the firm wants managers to aim. Not to feel exploited, MNE employees need to perceive equity and goodwill in their compensation and benefits, whether they are home country nationals, host country nationals or third country nationals. The premature return of expatriates or the unwillingness of managers to take overseas assignments can often be traced to their knowledge that the assignment will be detrimental to them financially and usually to their career progression (Deresky, 2002a:405). Szalai (1998) adds that the formulation of the proper international benefits programme is a difficult task, as it involves adherence to legal requirements and consideration of the cultural traditions of the host country, while conforming to the corporate philosophies and strategies of the parent company. The plan designers must find the appropriate balance between the local country's requirements and those of the mother organisation.

According to Hill (2003:620-621), substantial differences exist in the compensation of executives at the same level in various countries. The results of a survey undertaken in 2000 are summarised in Table 2.3. This survey looked at average compensation for four positions across 26 countries. The figures for CEOs and HR directors include both base compensation and performance-related pay bonuses, but do not include stock options. The figure for accountants and manufacturing employees refers only to base pay. As can be seen, wide variations exist across countries.

Table 2.3: National differences in compensation

	CEO	HR Director	Accountant	Mfg. Employee
Argentina	\$860 704	\$326 874	\$63 948	\$17 884
Australia	\$646 316	\$235 316	\$57 129	\$29 703
Belgium	\$655 390	\$286 222	\$63 883	\$34 336
Brazil	\$597 454	\$287 683	\$44 605	\$10 480
Canada	\$742 228	\$188 070	\$44 866	\$36 289
China (Shanghai)	\$93 393	\$58 278	\$14 552	\$3 021
France	\$540 260	\$224 112	\$69 554	\$34 741
Germany	\$421 622	\$189 785	\$61 375	\$36 934
Hong Kong	\$635 186	\$211 321	\$56 711	\$16 691
Italy	\$567 685	\$254 138	\$59 388	\$29 469
Japan	\$545 233	\$235 536	\$59 107	\$51 997
Malaysia	\$350 558	\$130 771	\$24 522	\$7 453
Mexico	\$648 695	\$239 028	\$41 582	\$14 302
Netherlands	\$621 153	\$217 142	\$48 838	\$27 892
New Zealand	\$258 114	\$111 803	\$38 382	\$15 931
Singapore	\$621 871	\$239 367	\$51 733	\$16 912
South Africa	\$406 263	\$179 268	\$43 234	\$7 974
South Korea	\$194 421	\$109 637	\$41 365	\$17 904
Spain	\$399 423	\$196 305	\$56 332	\$22 746
Sweden	\$440 265	\$166 312	\$43 438	\$32 564
Switzerland	\$448 422	\$175 008	\$66 121	\$41 104
Taiwan	\$179 486	\$102 491	\$30 652	\$11 924
Thailand	\$145 173	\$98 120	\$19 175	\$6 293
United Kingdom	\$719 665	\$268 302	\$107 839	\$28 874
United States	\$1403 899	\$306 181	\$66 377	\$44 680
Venezuela	\$609 097	\$272 212	\$41 192	\$11 221

Source: Hill (2003:621)

The average compensation for a CEO in the USA was \$1,4 million, compared with \$545 260 in Japan and \$406 263 in South Africa. These figures underestimate the true difference, because many executives from the USA earn considerable sums of money from stock options and grants (Hill, 2003:621; Longworth, 1998:C1). In 1996 stock option grants were used in only 10 of the 26 countries in the survey. By 2000, however, this figure had risen to 19 out of

26, suggesting that the compensation packages used in the USA that include stock option grants are becoming more frequent (Hill, 2003:621).

This difference in compensation raises a perplexing question for an international business: should the firm pay executives in different countries according to the prevailing standards in each country, or should it equalise pay on a global basis (Hill, 2003:621-622)?

The method favoured by the majority of MNEs in the USA has been to pay a base salary equal to that paid to a domestic counterpart and then, in the belief that no one should be worse off for accepting foreign employment, to add a variety of allowances and bonuses (Ball et al 2004:609; Briscoe & Schuler, 2004:311).

2.6.1 Salaries

Base salary is the amount of cash compensation that an individual receives in the home country. This salary is typically the benchmark against which bonuses and benefits are calculated. Survey research reveals that the salaries of expatriates are tied to their home country, so a German manager working for a MNE from the USA and assigned to Spain will have a base salary tied to the salary structure in Germany. This salary is usually paid in the home currency, local currency, or a combination of the two (Rugman & Hodgetts, 2003:337; Hill, 2003: 623).

2.6.2 Allowances

Allowances are payments made to compensate expatriates for the extra costs they must incur to live as well abroad as they did in the home country. The most common allowances are for housing, cost of living, tax differentials, education and moving (Ball, 2006:555; Phatak, Bhagat & Kashlak, 2005:486).

2.6.2.1 Housing allowances

Housing allowances are designed to permit executives to live in houses as good as those they had at home (Ball et al. 2004:610). In locations where housing is very expensive (e.g. London, Tokyo), this allowance can be substantial – as much as 10 to 30 percent of the expatriate's total compensation package (Hill, 2003:624).

2.6.2.2 Cost-of-living allowances

Cost-of-living allowances are based on differences in the prices paid for food, utilities, transportation, entertainment, clothing, personal services and medical expenses overseas compared with the prices paid for these items in the headquarters' city. In order to determine the difference in the cost of living, many MNEs take their own survey or use data from the United Nations, the World Bank, the International Monetary Fund or private consulting firms (Ball et al, 2004:610; Czinkota, Ronkainen & Moffett, 2003:490). Table 2.4 summarises cost-of-living differences for a number of international business centres.

Table 2.4: Annual cost-of-living in selected locations worldwide, 2000

Location	Annual cost-of-living	Index
Seoul, Korea	\$155 485	272.3
Tokyo, Japan	\$155 296	271.9
Moscow, Russia	\$113 883	199.4
London, England	\$97 262	170.3
Geneva, Switzerland	\$74 176	129.9
Mexico City, Mexico	\$71 071	124.5
Los Angeles, California	\$63 921	111.9
Rome, Italy	\$61 310	107.4
Sydney, Australia	\$60 181	105.4
Atlanta, Georgia	\$57 107	100.0
Munich, Germany	\$55 516	97.2
Helsinki, Finland	\$55 334	96.9
Melbourne, Australia	\$49 342	86.4
Montreal, Canada	\$48 780	85.4
Barcelona, Spain	\$45 103	79.0

Source: Griffin & Pustay (2002:591)

The information in Table 2.4 is for a family of two from the USA with a base salary of \$75 000. Total annual costs are based on a combination of housing, transportation, goods and services. The total also includes a certain amount set aside for investments and savings. Taxes are not included because actual taxes will vary greatly depending upon the tax planning techniques used. Housing costs are based on home or apartment rental and include utilities

and renters' insurance. Transportation costs include both public commutation and private vehicle ownership and operating costs. Goods and services include the total amount paid (including sales tax) for food-at-home, food-away-from-home, tobacco and alcohol, household operations, clothing, domestic services, medical care and recreation (Griffin & Pustay, 2003:591; Czinkota, Ronkainen & Moffett, 2003:490; Briscoe & Schuler, 2004:316). As can be seen there is a great difference between the cost of living in Seoul, Korea, the most expensive city in the table, and Barcelona, Spain, the least expensive city. It is exactly for these differences in cost-of-living that the cost of living allowance makes provision.

2.6.2.3 Allowances for tax differentials

Unless a host country has a reciprocal tax treaty with the expatriate's home country, the expatriate may have to pay income tax to both the home- and host-country governments. When a reciprocal tax treaty is not in force, the firm typically pays the expatriate's income tax in the host country. In addition, firms normally make up the difference when a higher income tax rate in a host country reduces an expatriate's take-home pay (Hill, 2003:624; Ball, 2006:556; Phatak, Bhagat & Kashlak, 2005:487).

2.6.2.4 Education allowances

Expatriates are naturally concerned that their children receive an education at least equal to that they would get in their home countries, and many want their children taught in their native language. Primary and secondary schools with teachers from most industrialised home countries are available in many cities around the world, but these are private schools and therefore charge tuition. MNEs either pay the tuition or, if there are enough expatriate children, operate their own school (Ball et al, 2004:610-611; Hill, 2003:624; Phatak, Bhagat & Kashlak, 2005:486).

2.6.2.5 Moving and orientation allowances

Companies generally pay the total costs of transferring their employees overseas. These costs include transporting the family, moving household effects and maintaining the family in a hotel on a full expense account until the household effects arrive. Some firms find it less expensive to send the household effects by air rather than by ship, because the reduction in hotel expenses more than compensates for the higher cost of air freight. It has also been found that moving into a house sooner raises the employee's morale (Ball et al, 2004:611).

Companies may also pay for some orientation of the employees and their families. Companies frequently pay for language instruction, and some will provide the family with guidance on the intricacies of everyday living, such as shopping, hiring domestic help and sending children to school (Ball et al, 2004:611; Phatak, Bhagat & Kashlak, 2005:486; Rugman & Hodgetts, 2003:338).

2.6.3 Bonuses

Bonuses (or premiums), unlike allowances, are paid by firms in recognition of the fact that expatriates and their families undergo some hardship and inconveniences and make sacrifices while living abroad. Bonuses include overseas premiums, contract termination payments and home leave reimbursement (Ball et al, 2004:611).

2.6.3.1 Overseas premiums

Overseas premiums are additional payments to expatriates and are generally established as a percentage of the base salary. They range from 10 to 25 percent. If the living conditions are extremely disagreeable, the company may pay larger premiums for hardship posts (Ball et al, 2004:611; Griffin & Pustay, 2003:590). Briscoe & Schuler (2004:317) provides an example of what corporations provide for hardship pay as a percentage of base pay added to expatriate compensation for assignments to the Middle East: United Arab Emirates (12.5 percent), Bahrain (20 percent), Egypt (20 percent), Saudi Arabia (25 percent), and Israel (42.5 percent).

2.6.3.2 Contract termination payments

These payments are made as inducements to employees to stay on their jobs and complete the periods of their overseas contract. The payments are made at the end of the contract periods only if the employees have worked out their contract. Such bonuses are used in the construction and petroleum industries and by other firms that have contracts requiring work abroad for a specific period of time or for a specific project. They may also be used if the foreign post is a hardship one or a not particularly desirable one (Ball et al, 2004:612).

2.6.3.3 Home leave

MNEs that post home country – and sometimes third country – nationals in foreign countries make it a practice to pay for periodic trips back to the home country by such employees and their families. The reasons for this are twofold. One, companies do not want employees and their families to lose touch with the home country and its culture. Two, companies want to

have employees spend at least a few days at company headquarters to renew relationships with headquarters' personnel and catch up with new company policies and practices. Some firms grant three-month home leave after an employee has been abroad about three years, but it is a more common practice to give two to four weeks' leave each year. All transportation costs are paid to and from the executive's home town and all expenses are paid during the executive's stay at company headquarters (Ball et al, 2004:612; Briscoe & Schuler, 2004:317).

2.6.4 Health benefits

One of the components covered under the cost-of-living allowance is medical expenses. But, according to Frazee (1998:19), a 1996-1997 survey shows that although expatriates place the highest importance on health care of all assignment services, only 65 percent of expatriates surveyed are satisfied with the health-care services they received. One third of the time, expatriates' most pressing concern is that health care is being handled poorly. This is not a situation the company wants to be in. It is bad for assignments, and it is bad for business. Traditionally, there have been three choices for handling expatriate benefits (Frazee, 1998:19). Consider a scenario in which an individual from the United Kingdom (UK) works for an MNE from the USA and is being sent to Australia.

- **Home-country approach.** The employee is maintained, as much as possible, in the UK benefits programme. Everything from health care to life insurance is kept in the UK.
- **Host-country approach.** This system is similar to the home-country approach except that everything shifts to Australia. The person essentially is given the same medical benefits as an Australian national working locally in Australia.
- **Headquarters-country approach.** In this case, the UK employee being transferred is given the benefits plan from the USA. If it is impossible to put the employee in a particular plan, a mirror plan is offered.

These approaches, however, carry some serious – and in many cases, avoidable – stumbling blocks. Some of the biggest are (Frazee, 1998:19-20):

- **Language and currency.** This problem applies whether the MNE is working with a home-country plan or a headquarters-country plan. Let's say an expatriate in Hong Kong receives medical treatment. The claim, written in Chinese and itemised in Hong Kong currency, is sent to a French insurer unfamiliar with dealing with this kind of paperwork.

It can be a nightmare to get the documents translated and the currency converted, drawing out the reimbursement process for months, if not years.

- **Pre-existing conditions.** What happens if an expatriate from the USA is localised into the Australian medical system for three years (host-country approach), and during that time develops a health condition? When he or she returns home, this person may have trouble going back into the benefits programme in the USA without being classified as an individual with a pre-existing condition. The employee has not switched firms, but he or she may be handicapped by the label simply because the insurers in the USA and overseas are different.
- **A family member stays behind.** If an expatriate is transferred without his or her spouse, or leaves behind a child in college, the company may have a hard time keeping everyone insured; for example, there are some policies in the USA that are hesitant to cover people not on the local payroll. If a US employee transfers to Australia and adopts an Australian insurer, the family member in the USA may not be able to stay on the insurer's plan in the USA.
- **Cost.** Another key concern, especially for expatriates in a USA headquarters-based plan, is cost. Some USA companies have noticed, for example, that when sending a UK employee to Australia, whatever insurer they use in either of those two countries, the cost will not be more than a fraction of what it would be with a US plan.
- **Consistency.** The company needs to consider where it wants equity. If it has expatriates in Australia from the UK, does it want the expatriates to have the same benefits as their Australian peers, or to have the same benefits as their UK colleagues? One can unwittingly create friction when employees working side by side have significantly different benefits packages.
- **Human resource time and attention.** When people are transferred from the UK to Australia for the first time, HR has to work out what to do with them. Later, if another UK family is sent to Australia, HR will know what to expect. But if the next transfer is from France to Australia, then HR has to research the options once again.

The so-called special expatriate plan is an approach to solving many of the problems of the other methods by creating a single programme for all international assignees. It solves the administrative difficulties of dealing with different languages and different currencies. If a Hong Kong-based employee has medical treatment in Australia, the person can probably

expect to get his or her money back – and even an explanation of benefits in Chinese – within 10 to 15 days. This is a drastic improvement on the months or even years it may take with traditional methods. Insurers offering special expatriate plans, such as Cigna and Aetna, have processes in place to handle the language translation. It may be done internally or through outsourcing. They also understand that employees should not have to take the risk of currency fluctuation, so they process claims using rates applicable on the date the employee paid the bill. These insurers also offer flexibility, building in waivers for pre-existing exclusion clauses. This same flexibility exists when it comes to deductions and co-insurance premiums, and special expatriate plan providers will work with the firm to develop a programme that meets the expectations of the expatriates regardless of their nationality. This includes understanding local medical practices and covering procedures that usually would be excluded under other programmes. In the Netherlands, for example, it is common to use a midwife during childbirth. A special expatriate plan would be more likely to cover this procedure for families who are more comfortable with this while they live on assignment somewhere else. These plans are also fairly flexible regarding who can participate in them. In some cases they are used for local nationals in management positions. This allows the company to improve their benefits package without having to make arrangements for more expensive individual policies (Frazee, 1998:20).

There are, however, some cases in which the traditional methods are still the better option. This is especially true if a company is sending expatriates from the headquarters country and it rarely does the reverse – bring people in. In this case, things may already be as simple as possible. The same holds true for a company with only one or two global locations. If processes are already standardised, this new approach may not be helpful to the MNE (Frazee, 1998:23).

As with all components of the expatriate package, it is important to re-evaluate the status quo. The MNE's current way of handling benefits may seem to be working well on the surface, but it is doing the organisation a great disservice if it frustrates and burdens HR. An MNE may learn that an updated benefits programme is all that it needs to recruit and retain top expatriate candidates (Frazee, 1998:23).

In most large firms, even though responsibility for employees health and safety resides in the HR department, the HR manager responsible for international HR in the headquarters of an

MNE does not often deal with health and safety issues among foreign subsidiaries or joint ventures. Responsibility for health and safety issues is normally left to the local subsidiary or international joint venture HR manager within the constraints of local customs, culture, and regulations. Attention to these concerns varies dramatically from country to country (Briscoe & Schuler (2004:375)

2.6.5 Compensation of third country nationals

Although some companies have different compensation plans for third country nationals, there is a trend towards treating them the same as home country expatriates. In either event, there are areas in which problems can arise (Ball et al, 2004:613). Briscoe & Schuler (2004:333) supports this view when stating that the stage of the MNE's evolution or development makes a big difference in how it handles compensation of all its global employees. If it is still in stage 1 (export) or 2 (sales subsidiaries), it will differentiate between PCN, HCN, and TCN employees and most IHRM attention from headquarters will be given to compensation packages for expatriates (PCNs). Later when in stage 3 (international), 4 (multinational), or 5 (global), i.e., becoming more global in emphasis and attention, the compensation package will be more likely to be designed for all employees worldwide.

A possible problem area is the home leave bonus. The two purposes of home leave are to prevent expatriates from losing touch with their native culture and to have them visit the MNE headquarters. A third country national must visit two countries instead of only one to achieve both purposes, and the additional costs can be substantial. Compare the cost of sending an Australian employee home from Mexico with that required to send an American from Mexico to Dallas. Regardless of problems, the use of third country nationals is growing in popularity. As businesses race to enlarge their ranks of qualified international managers, third country nationals are in greater demand (Ball et al, 2004:613).

2.6.6 International status

Merely being from another country does not automatically qualify an employee for all the benefits mentioned. A subsidiary may hire home country nationals or third country nationals and pay them the same as it pays host country employees. However, management have found that although an American, for example, may agree initially to take a job and be paid on the local scale, sooner or later bad feelings and friction will develop as that person sees fellow

Americans enjoying international status perquisites to which he or she is not entitled. Sometimes firms promote host country employees to international status even without transferring them abroad. This is a means of rewarding valuable people and preventing them from leaving the company for better jobs elsewhere. Thus, international status means being paid some or all of the allowances and bonuses discussed, and there can be other sorts of payments as individual circumstances and people's imaginations combine to create them (Ball et al, 2004:613).

2.6.7 Different approaches to compensation

In formulating the compensation package, a number of approaches can be used, each of which will now be discussed in greater depth.

- **The balance sheet approach.** This approach equalises purchasing power across countries so employees can enjoy the same living standards in their foreign posting that they enjoy at home (Hill, 2003:623; Hodgetts & Luthans, 2003:463; Briscoe & Schuler, 2004:311).
- **Negotiation.** Negotiation involves working out a special, ad hoc arrangement that is acceptable to both company and the expatriate (Hodgetts & Luthans, 2003:463; Briscoe & Schuler, 2004:312).
- **Localisation.** Localisation involves paying the expatriate a salary that is comparable to those of local nationals. This approach is most commonly used with individuals early in their careers and those who are being given a long-term overseas assignment (Hodgetts & Luthans, 2003:463; Briscoe & Schuler, 2004:320-321).
- **Lump sum method.** This method involves giving the expatriate a predetermined amount of money and letting the individual make his or her own decision regarding how to spend it (Hodgetts & Luthans, 2003:463; Briscoe & Schuler, 2004:321).
- **The cafeteria approach.** This approach entails giving expatriates a series of options and then letting them decide how to spend the available funds, for example, if expatriates have children, they may opt for private schooling; if expatriates have no children, they may choose a chauffeur-driven car or an upscale apartment (Hodgetts & Luthans, 2003:463; Briscoe & Schuler, 2004:321).
- **Regional system.** Under this system the MNE sets a compensation system for all expatriates who are assigned to a particular region. Therefore, everyone going to Europe falls under one particular system, and everyone being assigned to South America is

covered by a different system (Hodgetts & Luthans, 2003:463; Briscoe & Schuler, 2004:321).

The most important thing to remember about global compensation is that the package must be cost effective and fair. If it meets these two characteristics, it will probably be acceptable to all parties. MNEs are also beginning to evaluate more carefully the cost of sending people overseas as well as to review the expense of maintaining executive talent in the international arena. Research shows that the cost of hiring senior level managers is extremely high, and that in most cases these individuals received a substantial salary raise when they moved into their new positions. Moreover, as the demand for talented executives increases, the salaries of international managers will continue to rise. This is one reason why many MNEs are now hiring people for specific locations and leaving these individuals in place for extended periods of time. This strategy is less costly than continually moving managers from one geographic location to another (Rugman & Hodgetts, 2003:349-350; Hodgetts & Luthans, 2003:463).

2.6.8 Examples of compensation policies

The following executive compensation policies serve as an example of the types of compensation policy an MNE can adopt (Hill, 2003:622):

- Hewlett-Packard (HP) transfers about 600 people a year across national borders. Although most of these transferees are on one- to two-year assignments, up to 25 percent are on indefinite assignments. HP ties the pay of short-term transferees to pay scales in their home country, but long-term HP transferees are quickly switched to the pay scale of their host country and paid according to prevailing local standards. To employees moving from high-pay countries such as Germany to lower-pay countries such as Spain, HP offers temporary bridging payments to ease the adjustment.
- The Minnesota Mining and Manufacturing Co. (3M) has a completely different type of programme for longer-term expatriates. The company developed the programme because it drastically altered its international organisation. In Europe, for example, 3M used to organise its operations on a country-by-country basis. However, 3M then established European-wide divisions, so many 3M executives who might have spent their careers in one country are now being asked to move, perhaps permanently, to another country. The 3M programme compares net salaries in both the old and new country by subtracting the major costs, such as taxes and housing, from the gross pay. The transferred executive then gets whichever pay packet is highest. Thus, when 3M transfer a German executive to

France, the German remains on her home-country pay scale. But a British employee transferring to Germany, where salaries are higher, can expect to be switched to the German pay scale. Although the policy considers local housing costs, it doesn't compensate for higher housing costs through a special payment, as many traditional expatriate pay policies did. Any housing subsidy that resulted could last for the rest of the executive's career following a transfer and this would be very expensive.

- The large oil company Phillips Petroleum has adopted yet another policy. At Phillips, the policy used to be that when a third-country national, such as a British citizen, was transferred abroad (for example, from Britain to Kuwait), he would be paid in US dollars and his salary would be raised to a level equivalent to that of someone in the USA doing a similar job. This was a very expensive policy, given the generally high level of pay prevailing in the USA. Now Phillips has a "Third-country nationals program". Under this programme, the transferred employee is given generous housing allowances and educational assistance for his children. However, his salary is now pegged to the level prevailing in his home country.

2.7 PERFORMANCE APPRAISAL

Performance appraisal is the process of assessing how effectively people are performing their jobs. The purposes of performance appraisal are to provide feedback to individuals on how well they are doing; to provide a basis for rewarding top performers; to identify areas in which additional training and development may be needed; and to identify problem areas that may call for a change in assignment. Performance appraisals of an international business's top managers must be based on the firm's clear understanding of its goals for its foreign operations. A successful subsidiary in a mature and stable foreign market will have different goals from a start-up operation in a growing but unstable market. Thus, a firm assigning two new managers to head up these different subsidiaries must understand that it cannot expect the same outcome from each of them. Similarly, managers of foreign subsidiaries that serve as cost centres must be judged by different standards from those used for managers of profit centres (Griffin & Pustay, 2002:589). According to Scullion & Linehan (2005:96), no matter how effectively goals are set for employee performance, goal-setting alone is not enough to ensure successful performance management systems. In addition, the employee's performance has to be evaluated against the goals set and the feedback given to him or her.

In assessing a manager's actual performance, the firm may consider sales, profit margin, market share growth, or any other measures or indicators it deems important. If a subsidiary has been having problems, performance may be more appropriately assessed in terms of how well the manager has helped to solve those problems; for example, reducing net losses or halting a decline in market share might be considered good performance, at least in the short term. Expected and actual performance must be compared, and differences must be addressed. This step needs to have a strong diagnostic component: Why and how has the manager's performance been acceptable or unacceptable? Are any problems attributable to the manager's lack of skill? Are some problems attributable to unforeseen circumstances? Is the home office accountable for some of the problems that may have arisen, perhaps because the manager was inadequately trained (Griffin & Pustay, 2002:589-590; Briscoe & Schuler, 2004:361)?

Circumstances will dictate how frequently performance appraisals occur. In a domestic firm they may occur as often as every quarter. Geographical factors, however, can limit the frequency with which international performance appraisals can occur. Generally, international managers are expected to submit reports on performance-based results to headquarters regularly. As long as these reports fall within acceptable parameters, the firm is likely to conduct a formal performance appraisal on perhaps an annual basis. However, if standard reports reveal a problem, performance appraisals may be done more often in an effort to get things back on track (Griffin & Pustay, 2002:590).

According to Scullion & Linehan (2005:96), the most popular practice is for employees to be appraised by their immediate supervisor. There are, however, alternatives. Employees can evaluate themselves, which is referred to as self-evaluation. Also, the employees' peers are potential evaluators. The theoretical argument in favour of peer evaluation is that because peers often work in close proximity, they have ample opportunity to observe each other's behaviour. This is particularly useful when teamwork and participation are key aspects of the employee's performance. Furthermore, outside evaluators, such as those representing upper management, internal customers or external customers, can act as evaluators. However, in order for them to be able to make appropriate evaluations, it is required that outside evaluators base their evaluations on direct observations of the employee in the work situation.

According to Hill (2003:620; Briscoe & Schuler, 2004:361; Janssens, 1994:870), unintentional bias makes it difficult to evaluate the performance of expatriate managers objectively. In most cases, two groups evaluate the performance of expatriate managers – host-nation managers and home-office managers – and both are subject to bias. The host-nation managers may be biased by their own cultural frame of reference and expectations. When a manager from the USA introduced participative decision making while working in an Indian subsidiary the manager subsequently received a negative evaluation from host-country managers, because in India the strong social stratification means managers are seen as experts who should not have to ask subordinates for help. The local employees apparently viewed the US manager's attempt at participative management as an indication that he was incompetent and did not know his job.

Home-country managers' appraisals may be biased by distance and by their own lack of experience of working abroad. Home office managers are often not aware of what is going on in a foreign operation. Accordingly, they tend to rely on hard data in evaluating an expatriate's performance, such as the subunit's productivity, profitability, or market share. Such criteria may reflect factors outside the expatriate manager's control (e.g., adverse changes in exchange rates, economic downturns). Also, hard data do not take into account many less-visible "soft" variables that are also important, such as an expatriate's ability to develop cross-cultural awareness and to work productively with local managers. Due to such biases, many expatriate managers believe that headquarters management evaluates them unfairly and does not fully appreciate the value of their skills and experience. This could be one reason why many expatriates believe a foreign posting does not benefit their careers. In one study of personnel managers in MNEs from the USA, 56 percent of the managers surveyed stated that a foreign assignment was either detrimental or immaterial to one's career (Hill, 2003:620).

According to Hill (2003:620), several things can reduce bias in the performance appraisal process. First, most expatriates appear to believe more weight should be given to an on-site manager's appraisal than to an off-site manager's appraisal. Due to proximity, an on-site manager is more likely to evaluate the soft variables that are important aspects of an expatriate's performance. The evaluation may be especially valid when the on-site manager is of the same nationality as the expatriate, since cultural bias should be alleviated. In practice, home-office managers often write performance evaluations after receiving input

from on-site managers. When this is the case, most experts recommend that a former expatriate who served in the same location should be involved in the appraisal to help reduce bias. Finally, when the policy is for foreign on-site managers to write performance evaluations, home-office managers should be consulted before an on-site manager completes a formal termination evaluation. This gives the home-office manager the opportunity to balance what could be a very hostile evaluation based on a cultural misunderstanding.

2.8 REPATRIATION

Poor repatriation (the reintegration of expatriate personnel into the home country organisation) represents a serious HR management problem and a potentially large barrier to successful globalisation. Poor repatriation is costly, reduces the effective utilisation of human resources, often leads to loss of talented personnel (Allen & Alvarez, 1998:30; Black & Gregersen, 1991:672), and probably represents the number one reason for employees' hesitancy to accept overseas assignments (Allen & Alvarez, 1998:30; Feldman, 1991:507-522).

A largely overlooked but critically important issue in the training and developing of expatriate managers is to prepare them for re-entry into the home-country organisation (Hill, 2003:617; Grant, 1997:166). Repatriation should be seen as the final link in an integrated, circular process that connects good selection and cross-cultural training of expatriate managers with completion of their term abroad and reintegration into their national organisation. However, instead of coming home to share their knowledge and encourage other high-performing managers to take the same international career track, expatriates too often face a different scenario. Often when they return home after a stint abroad – where they have typically been autonomous, well compensated and celebrated as a big fish in a little pond – they face an organisation that doesn't know what they have done for the last few years, doesn't know how to use their new knowledge and doesn't particularly care. In the worst cases, re-entering employees have to scrounge for jobs, or firms will create standby positions that don't use the expatriate's skills and capabilities and fail to make the most of the business investment the firm has made in that individual (Hill, 2003:618; Briscoe & Schuler, 2004:251).

Research illustrates the extent of this problem. According to one study of repatriated employees, 60 to 70 percent didn't know what their position would be when they returned home. Moreover, 60 percent said their organisation was vague about repatriation, about their

new role and about their future career progression within the company, while 77 percent of those surveyed took jobs at a lower level in their home organisation than in their international assignment. It is small wonder then that 15 percent of returning expatriates leave their firms within a year of arriving home, while 40 percent leave within three years (Hill, 2003:618-619; Grant, 1997:166; Welds, 1991:113; Black, 1991:17). According to Griffin & Pustay (2002:586; Beamish et al, 2000:194), one quarter of all repatriated employees leave their employer within a year after returning home.

Beamish et al (2000:194) add that the international assignment may be an important vehicle for developing global managers; achieving strategic management control; coordinating and integrating the global organisation and learning about international markets and competitors, as well as the foreign social, political and economic situations. However, this idealised goal of becoming a global, learning organisation will be reached only if the right people are selected for foreign assignments, trained properly, repatriated with care, valued for their experience and are used in a way that takes advantage of their unique background.

Many MNEs experience significant costs because of poor repatriation practices (Allen & Alvarez, 1998:30; Black, 1991:17). These can be summarised in terms of three problem areas as described below (Allen & Alvarez, 1998:30-31):

- **Loss of key personnel.** Too often, companies lose their best and brightest repatriates soon after their return from an overseas assignment. One study reported an attrition rate of 25 percent for its repatriates within the first two years of their return. The cost of losing a single repatriate employee has been estimated to be as high as \$1,2 million (Allen & Alvarez, 1998:30). With the cost of each international assignment typically ranging from two to five times the annual salary, companies lose a potentially large developmental investment as well as a high-potential employee each time a repatriate leaves.
- **Under utilisation of key personnel.** The high cost of an expatriate assignment is partially squandered when repatriates are randomly placed in assignments that do not fully utilise their talents or leverage their newly acquired overseas experience. Even if the employee remains with the company, the company and the individual are precluded from realising the benefits of the international assignment (Allen & Alvarez, 1998:31; Welds, 1991:113). Even where the initial assignment is appropriate, unless expatriates' career development is tracked over time, the company may well lose much of the investment it has made in these individuals. As returned expatriates are integrated into the general

organisation, care must be taken that their special international expertise is fully recognised and valued as promotion decisions are made. Lack of overseas experience at the senior level is a strong indication that little value is placed on international assignments.

- **Inability to recruit key personnel into overseas positions.** Poor repatriation has given the offer of an overseas assignment the “kiss of death” (Allen & Alvarez, 1998:31; Black, 1991:17). Savvy employees watching what happens to repatriates may choose to avoid a career route that has had disastrous implications for the careers of other employees (Allen & Alvarez, 1998:31; Black, 1991:17). Successful recruitment of high-potential employees can only take place when repatriation is carried out more effectively and overseas assignments are perceived by employees as opportunities for career enhancement instead of career derailment (Allen & Alvarez, 1998:31; Black, 1991:17; Scullion & Linehan, 2005:37).

According to Allen & Alvarez (1998:31-33), executives reported a variety of issues that contributed to repatriation problems. Some of these problems arose from a tendency to sharply divide domestic and overseas operations into separate and rather unrelated businesses. Other problems resulted from the historical tendency of many companies to treat the international side of their business as secondarily important. Past tendencies have created a number of organisational practices that are widely perceived by executives as contributing to continued poor repatriation. The most commonly mentioned are described below.

- Employees sent abroad have too often been mediocre performers. In the past companies tended to send mediocre employees abroad. At least three major explanations can be given for this practice. First, because, overseas operations were given secondary strategic importance in many companies, the best employees were retained in the home country operation. Second, companies used international assignments as a convenient means of removing problem employees from the home country operation – at least temporarily. Third, because of the perceived riskiness of overseas assignments for one’s career, many high-potential employees refused to take overseas assignments, which forced their company to assign less-qualified personnel to international posts (Allen & Alvarez, 1998:32; Scullion & Linehan, 2005:37; Black, 1991:17). The lack-lustre track record established by these mediocre employees before and perhaps during their international assignment made it more difficult to place them in desirable positions upon their return.

That, in turn, contributed to the impression that an overseas assignment would be unlikely to help an employee's career.

- Overseas assignments often result in an “Out of sight, out of mind” situation for expatriates (Allen & Alvarez, 1998:32; Briscoe & Schuler, 2004:251). Because of the separation in many companies between home country and overseas operation, an official handover often occurs as an employee leaves a position in the home country and moves into the international side of the operation. This creates an administrative as well as physical distance from the home country operation. Administratively, HR jurisdiction for the employee is often transferred from a domestic HR function to an international HR function. The employee may even be removed from the domestic HR planning system while overseas – even though the assignment is known to be temporary. All HR support is provided by the international HR group until the employee returns and is formally handed back to the domestic HR function. Because expatriates are physically removed from the home country operation, they report being out of regular contact with the home country staff. They are removed from formal and informal communication channels that keep them in touch and give them visibility with home country colleagues and potential future supervisors. When jobs become open, expatriates are unlikely to be considered as candidates and are unlikely to know about the existence of such openings as long as they remain in the field (Allen & Alvarez, 1998:32; Feldman & Thomas, 1991:274).
- Limited job opportunities exist for repatriates. Repatriates frequently report being informed that although the company values them and would like to place them in a better job, no such jobs are available at the precise time of their return. In recent research it has been found that 40 percent of repatriates experienced this difficulty (Allen & Alvarez, 1998:32; Oddou, 1991:306; Scullion & Linehan, 2005:37). Therefore, the first job assignment the expatriate receives is often inappropriate for his or her level of capability. Lack of good job options occurs for several reasons (Allen & Alvarez, 1998:32-33):
 - Short planning horizons. Because overseas employees are “out of sight and out of mind,” planning for their return often does not begin until very close to the return itself. Therefore, choice of positions is limited to a few random jobs that happen to be open at the time of return.
 - Organisational restructuring. In many companies, employees are expected to return to the same division in which they were working at the time they were recruited for the overseas assignment. As a result, job possibilities are often restricted to the few available in that division, rather than potentially more desirable jobs that might be

open in other parts of the company. Expatriates who fall victim to poor placement may well conclude that they can find better jobs outside the company. Ironically, the international experience provided by their international assignment will probably make them more marketable and facilitate their departure.

- Fulfilling overseas job responsibilities can result in “burnt bridges” between the expatriate and potential future bosses in the home country organisation. Competing priorities between headquarters’ needs in the home country and local needs in the host country often place expatriates in a very difficult position in the middle. As expatriates work on behalf of the host country organisation they have been assigned to serve, they often come into conflict with headquarters’ managers who may have no overseas experience and thus little context in which to understand the conflict. As a result, home country managers may perceive the expatriate as insubordinate and a rebel who is undesirable as a future employee. The result of these conflicts may be a difficult re-entry for the expatriate, as future potential bosses at headquarters misinterpret the spirit of conflict-rich interaction between the field and headquarters (Allen & Alvarez, 1998:33).
- Newly returned repatriates often experience a hostile reception from their home country colleagues. Expatriates and their families make significant sacrifices to complete international assignments, and return home with the expectation that their international experience will be valued and considered a valuable contribution to the company. Once back home, however, many repatriates report disappointment with the reception they receive from fellow colleagues. The repatriate has probably just returned from one of the most challenging and broadening experiences of his or her career. Yet, in addition to receiving a possibly disappointing job assignment, the repatriate often discovers that the organisation does not value ideas and perspectives from the international field. In some cases the repatriate may be offered patronising and remedial assistance, while in other cases the response may be more blatantly hostile (Allen & Alvarez, 1998:33).
- Repatriation problems are probable symptoms of broader HR problems. The problems outlined above are not inevitable consequences of an international assignment, but rather symptoms of ineffective HR management policies, characterised by a short-term orientation in some cases and lack of involvement and responsibility in others (Allen & Alvarez, 1998:33).

This leads us to the question; how can MNEs do a better job of selecting candidates for international assignments, plan their development and succession, retain the best performers

and build a global talent pool in today's rapidly globalising marketplace? Swaak (1997:29-30) offers the following solutions:

- Involve senior managers in formulating a global succession planning process. Top management's involvement, commitment and direction are key to the successful implementation of any meaningful repatriation process. In one large electronics company in California in the USA, senior management has formulated a succession planning policy and stipulated that all key positions at the firm will be filled by individuals who have completed at least one foreign assignment. The selection and succession policies at the firm are quite elaborate. In them the company identifies three types of expatriate assignments: management development, business development, and technical. A management development assignment is a short-term assignment (typically two years) designed to expose the expatriate to foreign business practices. A business development assignment usually requires the expatriate to assist in a start-up venture in a foreign country for three years or so. Lastly, a technical assignment is one in which the expatriate travels to the foreign site in order to share his or her unique technical knowledge with the overseas office. Expatriates and their families are carefully interviewed and selected for one or other assignment. Once the individuals have been selected, their progress is meticulously monitored by a global performance management system that includes the expatriate's supervisor, peers, subordinates, mentor and internal and external customers. At the end of the international assignment, high-performing management development expatriates become part of the firm's global talent pool and then receive meaningful assignments at other locations. The reassignment of these individuals is carefully orchestrated and managed according to the succession planning process formulated by senior management (Swaak, 1997:29).
- Make selection part of the management development process. Candidates for overseas assignments should be selected for their long-term potential to the company, not just to fill a position for the short term (Swaak, 1997:29).
- Use properly trained mentors. Mentors help in many corporate activities, but they are especially valuable in expatriate situations. Often, they are used to maintain contact with the expatriate and to assist him or her with reassignment planning. The best mentors are people who have clout – such as high positions – in the organisation, people who have been expatriates themselves, people willing to put time into the mentoring process and people who have a clear understanding of the importance of creating a global talent pool for the company. At one large East Coast consumer products company in the USA,

mentors provide valuable advice to expatriates on how to develop their careers and re-enter the organisation after their overseas assignments. According to the firm, mentors must take on the following responsibilities related to the expatriate's career development:

- Schedule informal pre-departure interviews with the expatriate and his or her family.
- Provide ideas for training and development.
- Regularly keep contact with the expatriate and his or her supervisor.
- Participate in the expatriate's performance review.
- Provide home country input (about restructuring plans and the like) to the expatriate.
- Be available to the expatriate when he or she is on home leave or business trips.
- Notify the expatriate, HR and appropriate line managers of any job openings back home.
- Actively plan and implement a smooth reintegration of the expatriate into his or her home base.

The company's objective in providing such elaborate mentoring services is to create a formal communication network involving the expatriate, the mentors and corporate human resources. Such a network helps to ensure that the overseas assignments are successful, that expatriate talent is properly identified, developed and utilised and that management talent is made available to business units around the world (Swaak, 1997:30; Briscoe & Schuler, 2004:251; Rugman & Hodgetts, 2003:334; Fedman, 1991:173-174).

- Involve the expatriate in his or her own career planning process (Swaak, 1997:30; Feldman & Thomas, 1992:275-278). Career planning for expatriates is most successful when all levels of the company are involved in it – senior managers, unit managers and the expatriates themselves. One midsized financial services firm in the Midwestern USA achieves this. Its CEO regularly issues directives about the importance of overseas assignments for career enhancement at the company. Senior managers discuss the importance of international assignments with candidates being recruited from colleges and universities around the world. The expatriates themselves are actively involved in self-nomination and are encouraged to apply for overseas assignments that are openly listed on the company's electronic bulletin board. Candidates also have the opportunity to discuss their career plans with HRM. In addition, subsidiary managers are asked to take on the following tasks related to expatriate career planning (Swaak, 1997:30):
 - Identify or recruit two or three global talents a year.
 - Develop a multicultural staff.
 - Develop talented people early in their careers.

- Share talent with others in the firm and make it available for expatriate assignments.
- Get personally involved in the selection and development process.
- Treat expatriates as investments. Expatriates are expensive, sometimes costing three to four times base salary, and when they leave the organisation, that money is lost. The organisation should therefore think of the expatriate as an investment and take steps to protect that investment. It should have sound repatriation practices to ensure that expatriates don't become demoralised at the end of their assignments and leave the company (Swaak, 1997:30; Scullion & Linehan, 2005:142).

According to Allen & Alvarez (1998:29), there are two courses of action companies can take to increase repatriation success rates: organisation strategies and personal strategies.

2.8.1 Organisation strategies for effective repatriation

When an employee is approached about accepting an international assignment, three basic questions must be addressed before many will agree to go (Allen & Alvarez, 1998:34):

- “Will I get a good job when I return? Will my career be enhanced?”
- “Will my newly acquired skills and perspective be valued and well utilised in the home organisation?”
- “If I do my best to serve my assigned affiliate, will I burn bridges with potential future bosses back home because of the frequent conflict arising between the affiliate and headquarters?”

The ability to successfully address these questions depends, to a large extent, upon the effectiveness of a company's repatriation programme. Companies must be able to assure employees considering an international position that acceptance of an overseas assignment is likely to benefit their careers. This assurance will only carry weight as a strong repatriation track record is developed and employees witness two trends in their company (Allen & Alvarez, 1998:34; Scullion & Linehan, 2005:37):

- First, they will need to see first-hand evidence that expatriates are treated with respect upon their return, that they receive challenging assignments that utilise their newly acquired skills, and that their perspective is valued as they offer their international experience to the home country operation.

- Second, employees will be watching what happens to expatriates over time. How does their career trajectory compare with those of otherwise comparable employees who did not go overseas? When a significant number of the company's senior managers have international experience, the company will be sending an effective signal to all employees that international experience counts.

According to Allen & Alvarez (1998:34-37), the following ideas can be used by organisations to improve their repatriation success rates:

2.8.1.1 Select highly qualified employees for international assignments

Ensuring that high-quality expatriates are sent into the field is the first step towards improving a company's repatriation success rate. Employees with an outstanding track record prior to their expatriate assignment will usually be easier to place in premier positions upon their return. At the same time, sending top employees abroad will quickly attract other outstanding employees into international assignments as long as successful repatriation is visibly occurring (Allen & Alvarez, 1998:34).

When outstanding employees are sent abroad, the cost of an expatriate assignment is invested in an individual who is likely to rise quickly in the organisation. Selection of such individuals for international assignments increases the likelihood that international experience will effectively permeate the senior echelons of the company (Allen & Alvarez, 1998:34).

2.8.1.2 Assign a formal sponsor for each expatriate

Sponsors support each expatriate while in the field and assist in their successful return. Sponsors should be assigned before departure in order to allow sufficient time to establish a rapport between the two parties. A formal sponsor can act as mentor to the expatriate while he or she is in the field by watching out for his or her interests, and serving as an advisor and confidant. The mentor can communicate career interests of the expatriate to the home organisation as well as identify career opportunities that can be passed along to the expatriate while in the field (Allen & Alvarez, 1998:34; Briscoe & Schuler, 2004:251; Rugman & Hodgetts, 2003:334).

The expatriate's mentor and the HR department are two of the most important vehicles for matching an expatriate with available, good job opportunities in preparation for return. As

both advocates, familiar with the expatriate's skill mix and preferences, scan the home organisation, job possibilities can be passed on to the expatriate on a timely basis. Mentors in companies with Internet or other electronic job postings can make sure that expatriates are tied into those systems as well (Allen & Alvarez, 1998:35).

To ensure consistency, a screening and training programme for mentors should be carried out. Key characteristics associated with successful mentors include personal international experience, sufficient influence or clout (Allen & Alvarez, 1998:35; Swaak, 1997:30) to act as an advocate for the expatriate – particularly during their repatriation - and energy and dedication to remaining in close contact with the expatriate throughout the field assignment and after his or her return.

2.8.1.3 Link overseas assignments to long-term career plans

Long before an employee is asked to take an international assignment, the general HR planning system can encourage high-potential employees and others to build into their long-term career plan the goal of acquiring first-hand international experience. Such a plan enables employees to look ahead to the experience, giving them a chance to gain cross-cultural and language skills and prepare their family for the overseas relocation long before it happens. This approach can reinforce the importance of international experience as a career building block and reduce the shock of such an assignment when it occurs (Allen & Alvarez, 1998:35).

When an international assignment is offered, the expatriate can be given a preview of the type of jobs he or she might be offered upon return. Specific commitments to the expatriate lead to at least two possible outcomes (Allen & Alvarez, 1998:35).

- First, the employee is more likely to accept the overseas position and experience less uncertainty and stress about his or her return to the home country.
- Second, having issued a guarantee, the company will be more likely to plan ahead and take the necessary steps to provide for the smooth repatriation of the employee.

2.8.1.4 Retain expatriates in the home country HR planning system

Retaining the expatriate in the home country HR planning system can reduce the “out of sight, out of mind” problem. Since most international assignments are temporary, it is likely that an expatriate's next job move will be back into the home country organisation. From an HR planning standpoint, his or her status as an expatriate is not significantly different from that of

the domestic employee who has just accepted a new job domestically that will be kept for two years. But unless the expatriate is retained in the HR planning system, he or she will be entirely excluded from job screens, while the domestic employee will probably be included. Appearance on job screens even before a planned return can help maintain the visibility that many expatriates fear losing while in the field (Allen & Alvarez, 1998:35).

2.8.1.5 Increase the size and flexibility of the re-entry time window

Unlike most domestic assignments, many international assignments come with a fixed end-time. In some cases, this may be necessary to accommodate school schedules and assure employees that they will return to the home country in a timely fashion. The downside, however, is that a fixed return date tends to limit job opportunities that can be considered. Job choices are limited to those available at the fixed point of return. A more open time frame of perhaps three months to one year for an expatriate's return will increase the likelihood that an appropriate position can be found for the expatriate. The open time frame will give the expatriate the flexibility and freedom to explore job possibilities with selectivity, waiting for an attractive option to appear. While the certainty of a specific re-entry time may be comforting, the flexibility to exercise greater choice over the return time and position he or she accepts may be welcomed by both employee and family (Allen & Alvarez, 1998:35-36).

2.8.1.6 Transcend divisional boundaries

Organisations can also increase repatriation options for employees by allowing the possibility of cross-divisional moves. The sending division may feel temporarily hurt by this approach as it loses the service of a valued employee for an even greater period of time than the period of the international assignment. However, the company as a whole can continue to benefit from the effective retention and utilisation of a valued employee, who may at some point return to the original division (Allen & Alvarez, 1998:36).

2.8.1.7 Implement a “holding pattern” and make it count

Even after employing advanced career planning methods and attempting to build more flexibility in the placement process, occasional placement problems may occur. Under these circumstances, the creation of a temporary holding job either in the home or host country can provide a bridge for an expatriate until a suitable position is found. Repatriates can, for instance, be placed temporarily in consulting capacities within the company or assigned to a special project. This option must be implemented with care. Most HR professionals express

the concern that a holding pattern may become indefinite and lead to the subsequent departure of the employee from the firm. Others suggest that the image of the employee will be harmed as others see them shuffled off onto the side. This issue can be addressed through the establishment of a strict time frame and a very clear set of objectives associated with the temporary assignment. The assignment must involve a real, substantial, value-added contribution to the company that will, in and of itself, offer an opportunity for the employee to maintain visibility and credibility within the organisation. If these criteria cannot be met, the holding position may be seen as an institutionalised “purgatory”. When used on an occasional and careful basis, however, the holding position may provide a time window that allows an employee to be placed in a much more desirable position (Allen & Alvarez, 1998:36).

2.8.1.8 Foster an appreciative home country environment

As noted earlier, returned expatriates report that their international experience is often ignored or they are even ostracised as they encounter a hostile reception upon their return to the home country. A more receptive environment cannot be dictated by senior management, but several approaches can help the organisation better value and utilise expatriate background. Widespread belief exists that nothing could foster cross-cultural capabilities and a global mindset more effectively than international travel. A negative reception is generally encountered from those home country employees who lack significant overseas exposure. Employees who have themselves been overseas are more likely to appreciate others with similar experiences (Allen & Alvarez, 1998:36).

While such travel is costly, a few companies have made international travel opportunities widely available to employees. One company provided international travel opportunities to 70 percent of the 6000 employees in its manufacturing operations in the USA (Allen & Alvarez, 1998:36).

2.8.1.9 Create a repatriate directory

A repatriate directory and network can be established in order to maintain contact with former expatriates, facilitating ongoing follow-up as the repatriation process continues. A database can also help to track other important information on international assignments, such as average length of stay, percentage of completed assignments, location of early terminations, reasons for early terminations, length of stay with organisation after return, and career

movement of repatriates (Allen & Alvarez, 1998:36; Chowanec & Newstrom, 1991:6). At the same time, the database can help the company to utilise former expatriates for special assignments that require their unique expertise (Allen & Alvarez, 1998:36).

2.8.1.10 Utilise repatriates to train future expatriates

Training and preparation of new expatriates is an important function that repatriates and their families can be called upon to perform. Repatriates can offer first-hand experience and empathetic advice to prospective international assignees and their families as well as to newly returned repatriates. Several expatriates noted that it was important to screen the repatriates and their families before assigning them to this preparation role. Excessive negativity could scare away prospective expatriates or set up expectations that tainted the field experience from the outset. Ideally, expatriates should be chosen for their ability to convey a realistic, but enthusiastic, account of the experience in the field (Allen & Alvarez, 1998:36-37; Shay & Tracey, 1997:35).

By singling out repatriates for special activities that call upon their international experience, companies can send a clear signal to their repatriates that they are valued and appreciated (Allen & Alvarez, 1998:37).

2.8.2 Personal expatriate strategies for effective repatriation

The organisation-level strategies suggested would take some time to implement even where companies approach them in an urgent and systematic manner. Because of this, companies need to develop a specific component in their corporate expatriate preparation programme that emphasises repatriation survival skills for employees being sent overseas. Such personal skills can increase the likelihood of successful repatriation even if the HR system is not yet sufficiently developed. The skills such a programme provides would offer backup for employees in companies with effective repatriation programmes and could make the difference between a successful or failed return for employees in the many companies that have not yet developed such programmes (Allen & Alvarez, 1998:37). The following are examples of survival skills that can help expatriates to take entrepreneurial responsibility for their own successful return (Allen & Alvarez, 1998:37-38).

2.8.2.1 Remain in close touch with sponsors and HR managers

The sponsor and HR managers (both international and domestic) may serve as significant sources of help during repatriation for most expatriates. The expatriate should attempt to develop and maintain a close rapport with each and keep them up to date on changing circumstances, ensuring that they remain abreast of the activities in which the expatriate is engaged and the type of position he or she would like to fill upon return (Allen & Alvarez, 1998:37; Briscoe & Schuler, 2004:251; Rugman & Hodgetts, 2003:334).

2.8.2.2 Develop close relations with other informal sponsors

Expatriates often find that their sponsors change while they are in the field. This occurs because of a changed assignment for the sponsor or perhaps because the sponsor has left the company (voluntarily or otherwise). Because of this, it may be useful for expatriates to develop close relations with informal sponsors who might adopt them if the primary sponsor is no longer available. In addition, the several informal sponsors can extend the expatriate's job search network, enhancing the odds that an appropriate job will be found at the time of his or her return (Allen & Alvarez, 1998:37).

2.8.2.3 Develop rapport with managers who supervise attractive positions

Expatriates often wait to be asked to be interviewed for the positions they might fill as jobs open. A more proactive approach involves the identification of jobs (filled or open) that would be desirable positions to fill at the time of repatriation. During headquarters visits the expatriate can call upon managers who supervise these positions to get to know these individuals and to inform them about his or her own skills and capabilities. By doing so, the expatriate ensures that the supervisor is aware of his or her interest in filling such a position in the future and increases the odds he or she will be invited to apply for the position when it becomes open. Because some present bosses may view such proactive job-hunting efforts negatively, it may be desirable for the expatriate to negotiate in advance an agreement that he or she will begin a job search well before the end of the overseas assignment (Allen & Alvarez, 1998:37; Richardson & Rullo, 1992).

2.8.2.4 Maintain visibility

Loss of visibility is one of the most commonly expressed fears of employees at all levels as they contemplate the possibility of being assigned to an area far from headquarters. Several steps can be taken to maintain visibility while in the field. With modern technologies such as

fax, phone, voice mail, and e-mail widely adopted in many companies, it is much easier to keep in touch with fellow headquarters staff than it has been in the past. The key is to maintain regular contact for the purpose of rapport maintenance and the education of people about the expatriate's accomplishments in the field, as well as remaining up to date with developments in the home country. The most effective visibility strategy is personal visits to the headquarters, where face-to-face contact can be re-established on a fairly frequent basis (Allen & Alvarez, 1998:37-38; Rugman & Hodgetts, 2003:334).

2.8.2.5 Visit headquarters frequently during the assignment

One of the best ways to maintain visibility and avoid the “out of sight, out of mind” situation is to take advantage of home country trips, making frequent visits to the headquarters to renew contacts with key staff. Sponsors, HR managers, and the supervisors of positions to which the expatriate would like to be assigned – as well as friends and colleagues at all levels – can be visited during these trips to maintain and further develop relationships that will be useful when the expatriate later returns from the assignment (Allen & Alvarez, 1998:38; Rugman & Hodgetts, 2003:334).

2.8.2.6 Don't leave your fate in the hands of the HR system

Regardless of the quality of the HR planning system and the international policies and practices that are part of it, expatriates should be encouraged to take a proactive interest in their own career development. Expatriates who have the luxury of an effective overall HR system will be in a position to interact with it more effectively. Those without such a benefit will be in a position to proactively take responsibility for their own career advancement as they seek to leverage the powerful experience of an expatriate assignment (Allen & Alvarez, 1998:38; Briscoe & Schuler, 2004:252).

2.9 SUMMARY

One of the most important resources in all organisations is human resources – the people involved in the production and distribution of goods and services. The strategic role of human resource management is complex enough in a purely domestic firm, but it is even more complex in an international business, where staffing, management development, performance evaluation, and compensation activities are complicated by profound differences between countries in labour markets, culture, legal system, economic systems, and the like. Internationally there are four sources of personnel that an MNE can use when sourcing

personnel: home country nationals; host country nationals; third country nationals; and inpatriates. It was, however, determined that the major problem in many firms when selecting employees for international assignments is that HR managers tend to equate domestic performance with overseas performance potential. Domestic performance and overseas performance potential are not the same thing. An executive who performs well in a domestic setting may not be able to adapt to managing in a different cultural setting. For this reason it is recommended that when selecting an employee for an international assignment the following criteria should be used:

- Adaptability to cultural changes
- Independence and self-reliance
- Physical and emotional health
- Age, experience and education
- Language training
- Motivation for the foreign assignment
- Spouses and dependents or work family issues
- Leadership ability

After selecting the employee the MNE wants to send on an international assignment, the focus should shift to the compensation of the expatriate. Compensation is a crucial link between strategy and its successful implementation – there must be a fit between compensation and the goals for which the firm wants managers to aim. When considering different approaches to compensation, MNEs should consider: the balance sheet approach; negotiation; localisation; the lump sum method; the cafeteria approach; or the regional system.

Once the expatriate is on the international assignment it is important to appraise his or her performance. In order to avoid any biases in the performance appraisal it was suggested that more weight should be given to an on-site manager's appraisal. However, when the policy is for foreign on-site managers to write performance appraisals, home-office managers should be consulted before an on-site manager completes a final termination evaluation. This gives the home-office manager the opportunity to balance what could be a very hostile evaluation based on a cultural misunderstanding.

Lastly it was identified that poor repatriation (the reintegration of expatriate personnel into the home country organisation) represents a serious HR management problem and a potentially large barrier to successful globalisation. Poor repatriation is costly; it reduces the effective utilisation of human resources, often leads to loss of talented personnel and probably represents the number one reason for employees' hesitancy to accept overseas assignments. It was suggested that MNEs use strategies such as the selection of high quality employees for international assignments, assigning a formal sponsor for each expatriate or linking international assignments to long-term career plans, to mention but a few. On a personal level it was suggested that the expatriate can use strategies such as remaining in close touch with sponsors and HR managers, maintaining visibility or developing close relations with several other informal sponsors, in order to ensure more effective repatriation.

Whether an MNE will be using expatriates, and the extent to which the MNE will make use of expatriates, will all depend on the staffing policy used by the MNE. The staffing policy being used will in turn be influenced by the international strategy used by the MNE. The following chapter will focus on the different staffing policies available to an MNE, and the latest trends and changes in staffing policies.