

CASE 5

LOCAL AND INTERNATIONAL? MANAGING COMPLEX EMPLOYMENT EXPECTATIONS¹

By Maike Andresen²

Akiko Nishimura is upset and exhausted. She prepares a fresh juice and wants to relax a bit. It is three o'clock in the afternoon and she just came back to her apartment situated in a suburb of New Delhi. Today she had an appointment with her HR manager, Mrs Puja Malik, that lasted three hours. Akiko is more than upset about the offer the HR manager made and does not understand the world any more.

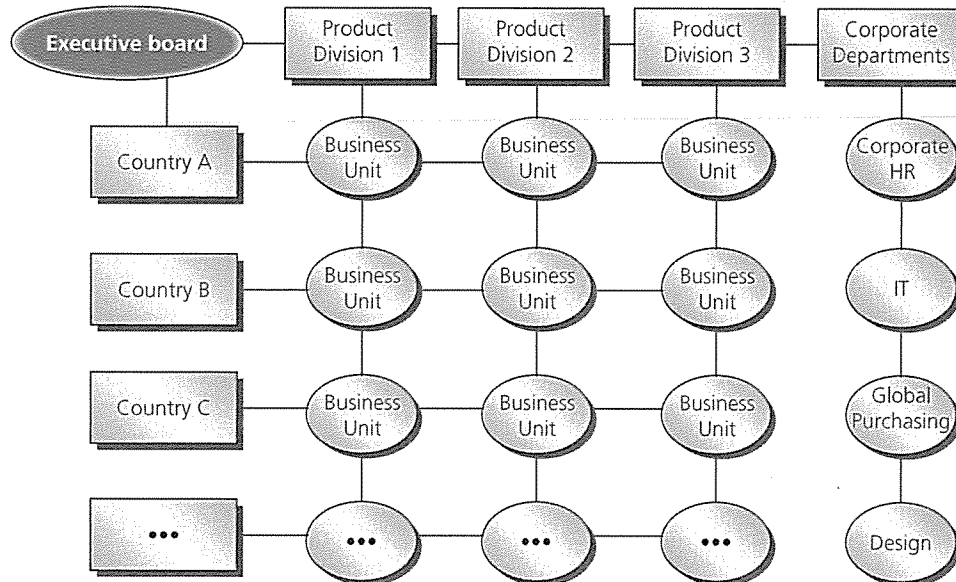
Akiko is 40 years old and was born in Tokyo. After her studies in management at the University of Tokyo and Wharton Business School in the USA she started her career with a German multinational manufacturing company in Tokyo in the controlling department. Two years ago her boss offered her to go on an expatriate assignment to New Delhi, India, in order to gain international experience and develop her talent further. Her husband Hiroshi and two daughters, at that time 12 and 10 years old, immediately agreed to change locations and followed her. Hiroshi interrupted his career as a broker in a multinational bank.

After two years in New Delhi, Hiroshi still could not find an adequate job. Although the whole family enjoyed living in India and Akiko liked her job, Hiroshi became impatient and could not stand his inactivity any more. Through a former client he got to know about a challenging job opportunity in Singapore and successfully applied for the position. Akiko shared Hiroshi's happiness and felt that she wanted to follow him to Singapore. So she contacted her HR manager, Puja Malik, a few weeks ago and started to talk to various people within the organization in her personal network, to find out what the options would be and let people know that she is looking. Yesterday, Puja Malik called her and asked for an appointment. They met today in order to talk about several opportunities and the conditions. Whereas the positions were very appealing to Akiko, the conditions were absolutely unreasonable in her perspective. After two hours Akiko became angry, but her HR manager defended the

offer with the restructuring of the company and new policies that came up. 'As you know, Akiko, the company started up as a technology venture about 120 years ago with its production located in Germany. In order to be profitable their production and sales needed to increase. Due to limitations in the home market, they expanded internationally in the 1920s starting with France and quickly followed by several other countries in each of the five continents. In the 1970s the company employed 300 000 people, with more than two-thirds of these outside Germany. Due to this extensive expansion worldwide as well as an increasingly diverse product line, the idea of controlling the entire organization from the German headquarters was seen as an impossible task. There was a need to organize into smaller, more flexible and more manageable units. Hence, the decision was made to set up a "national organization" in every country where there were active enterprises. These national organizations were supported by the international organization at headquarters. In the course of the last 20 years these national organizations grew to be very independent. The executive board saw the need to start focusing on a more user-oriented policy of globalization. In this reorganization process the product divisions gained a more prominent role in the structure. Today, you still see a clear role of both the product divisions but also the country organizations in the corporate structure.' Puja Malik points a finger at the annual report and outlines the organizational chart. (see Figure 1.)

Puja Malik continues: 'Although the company wants to act as one company, it always has to focus on the challenge to work with three quite independent sectors. Today, the company is situated in around 60 countries worldwide with more than 116 000 employees. The HR department is currently involved in a change process, moving toward offering more services from shared service centers. One reason for this is the request to be more effective and efficient in the

FIGURE 1



process especially with the vision to be “one company”.

Up to current time, when people have been moving across countries through the company, the standard has been that people mostly moved on a home-based expatriate contract. This rule also applied to Akiko when she expatriated to New Delhi. However, her HR manager recently informed her that there are new rules and that according to this new policy her expatriate contract would not be renewed when going to Singapore. Puja Malik argues: ‘I think in terms of transfer, until a few years, we were quite generous with our expat policy. So when there was a need to, let’s say, shift talent – just like you, Akiko –, or people with scarce knowledge around the globe we just gave them an expat package. But I think people in general are more open for moving around the globe, instead of going a few years and then wanting to come back. I can see that more people are looking for a career across borders. And this may not be in the form of full expat packages in our company.’

Puja Malik obviously sees the need to give a further explanation. She adds that after a long upturn period, the company also has to face the problems of the current economic crisis. This tendency is now forcing the company to rethink their strategy in regards to what they are providing for their employees who are going

abroad in order to manage the costs involved. Until recently handling international assignments mostly with expatriates seemed the right way of doing things. But the company is facing a new population, those who stay abroad for a longer term or even permanently. ‘You need to know, Akiko’, Puja Malik goes on, ‘we have employees that have been in the same country for eight years on an expat package. But they are not expats anymore! And then you have the globetrotter, those who have had three or four different expat assignments. So they have left their country for more than ten years and we don’t know when and if they are coming back. What do you do with them?’

Puja emphasizes that this change was placing the company in a position where they were forced to go through and analyze their current policies in regards to international mobility. The intention was to create a cost effective alternative for this new emerging population.

Akiko's first expatriate assignment to New Delhi

Akiko thinks back to her first move from Tokyo to New Delhi. Things were dealt with differently two years ago. She was part of the talent pool (and still is) and

received special treatment. Today this expatriate population comprises about 750 people.

The company uses expatriation for two main reasons: First, as a career assignment for talent to gain international experience and, second, as a job assignment to transfer knowledge across borders. Whereas the company wishes to have 70 per cent of expatriates in a career assignment and 30 per cent on a job assignment, it is now evenly distributed. Moreover, to be able to give an international assignment to as many employees as possible, the company has implemented a policy saying that assignments should be a maximum of three years, and that one employee should not cumulate too many different assignments. Although originally Akiko asked for an assignment of five years in order to facilitate the change of jobs for her husband, this request was turned down. She remembers that she has been told 'If you stay longer in a country, then you block the career of someone else'. Akiko agreed and signed a contract for three years.

Her expatriate package is home based. This means that she was meant to return home to Tokyo after the assignment. Akiko was kept under her home social security, health insurance and pension plan. The expatriate package comprises all the usual expatriate facilities and services. Akiko got to know that this expatriate package has additional cost for the company of about three times the base salary. That is also why the company wants to limit the extent of these expensive expatriate assignments only to critical positions.

'Akiko', Puja Malik argues, 'the company has created different types of packages for different types of international work. When you move to Singapore, the balance between the business and the employee

interest leans more in the direction of you. Hence, we offer a different contract and package to you that is called local international contract.' Akiko knows what all this is about and she gets upset. She feels that the company wants to minimize a number of costs by making some of them optional. She thinks that this is not fair as she is still growing in her career and investing a lot into the company in terms of energy and working hours while giving up her easy life in Tokyo. It was the firm's idea to send her to New Delhi! Moreover, her husband risked his career and her two daughters had to change school and lost contact with their grandparents back in Tokyo.

What is this new Local International Policy about?

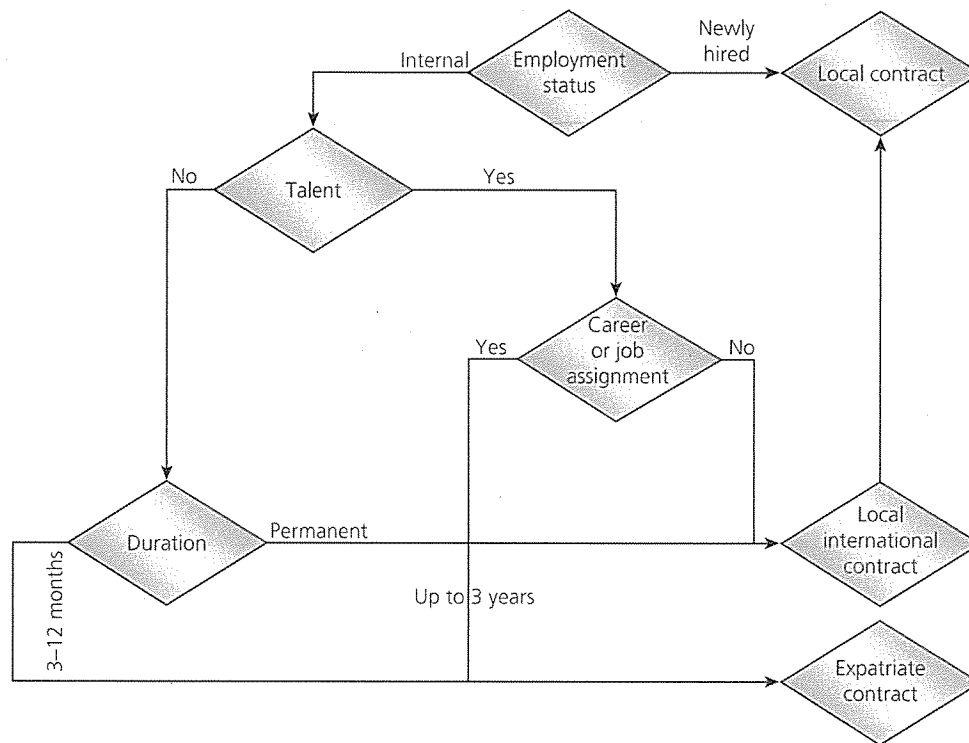
Puja Malik expands on the new policy: 'The local international policy came about last year as a response to an emerging need especially in Asia. We saw that owing to globalization there were many foreigners coming here on an expatriate assignment, and many of these foreigners also had a wish to stay. This resulted in a need for using a locally based contract, but that would still attract foreigners to travel. As a pure local contract would not be able to attract these employees, we decided to provide some extra benefits to these local international hires. The local international contract fits between an expatriate and a local package. Even though these transfers are partly employee initiated, we provide a slow landing into the new country. This means that the host country provides some kind of support.' (see Figure 2.)

FIGURE 2 The Local International Policy

Costs to be covered by the company:

- Individual host country based salary and incentives according to local scheme.
- Settling-in allowance (to cover the incidental miscellaneous expenses of a move, e.g. temporary accommodation and meals on arrival, school uniforms and books for school-age children).
- Medical check up.
- Visa and permits (based on country standards).
- Travel costs (outward journey; one home trip during first year).
- Optional: Allowance for housing and school (–50% after year 1, 0% after year 2).
- Optional: Retention bonus.
- Optional: Allowances according to local needs.

FIGURE 3



Akiko understands that the thought behind the local international package is to provide an alternative to the expatriate package for those cases where it is a permanent relocation of an international manager. As the local international package is really a locally based package, the salary is also based on the local salary system in the host country. Puja Malik adds: 'For the expat package, you know from your own experience, Akiko, that we have a balance sheet approach, where we want to ensure that the purchasing power from the home country is maintained in the host country . . . But for the local international contract, we do not want to link to the home country.' Akiko sees a major problem in that and immediately asks what would happen if an international hire moves from a high income country to a low income country and Puja Malik confirms that this would lead to a lowering of the salary although the company is aware of the fact that under these conditions it might be difficult to attract foreigners on a purely local salary.

Akiko is irritated and concludes that she would not accept a decrease in her income when going to Singapore. Still she wants to understand why all this

happens. 'Puja, apart from the salary level, what do you mean by the "slow landing" that you mentioned before?' Puja replies, 'This means that in addition to your salary, the company will give you some extra benefits such as relocation support, settling-in allowance and one home trip during the first year.' Puja points to her computer screen and shows Akiko what she can expect when moving to Singapore:

Akiko becomes aware that in contrast to her current expatriate contract no pre-assignment visit is paid for, she needs to arrange the house hunting, negotiation, school search, etc. by herself and all 'normal' costs of living, such as housing or schooling, are to be handled by herself; any financial support ends after two years when she will be on a normal local contract. 'But, Puja, why does this new rule apply to me? I am currently on an expatriate contract – why should I opt out of it now?' Akiko interjects. 'This is', replies Puja, 'due to our rules. The following elements justify a local international contract: The person in question is an internal employee who is relocated. And the person is not what the company considers a talent or a top potential employee. Your case, Akiko,

is exceptional as you are a talent or top potential but', Puja Malik emphasizes, 'your relocation to Singapore is not a career or job assignment. You know, Akiko, your position in Singapore could just as well be filled by a local employee. In addition, we expect these employees to localize.' Akiko intervenes resolutely: 'But things can change fast and I might want to make another move after three to five years if a great opportunity comes up!' Puja Malik reacts: 'Yes, but for the time being we treat it like a permanent relocation. And, finally, it is based more on your own initiative and decision to move. Look and see – this is our decision tree.' (see Figure 3.) Once again, Puja Malik points to her computer screen where she uploads the decision-making tree on assignment type.

Puja Malik stresses that these decisions are not easy to make. She illustrates that first of all, in a constantly changing environment it is of key importance for the company to keep their employees mobile. Akiko understands that in a localization process it is therefore of great importance to think ahead whether the person that is to be put on a local contract is likely to get a new assignment in another country later on in his or her career. If first a person is localized, the bonds to the new country may often be stronger as some might buy a house or send the children to local school.

'So, you see, we have our idea and rules. However', Puja Malik adds, 'I have to admit that I and some of my colleagues in other countries alter the content of the package, and thereby also the applicability, according to where one is coming from. We say that we have a local international contract, but it might not be applicable for Chinese or Indians to Singapore because these are lower salary countries. I mean, the high salary in Singapore should be able to take care of your cost of living without having to compensate it . . . The business unit in Singapore may just pay for the one way ticket and the shipment to get you there, but they will not be giving you support for the housing and education.'

It seems Puja Malik is in her element as she continues without drawing a breath: 'By the way, a major challenge with the local international contract appears to be its applicability in China! China has a lower income rate and a lower social security system than other countries. A current solution to this issue is to provide some extra support for those on a local international contract in China, like extension of education support and housing. Nevertheless, there are still some issues regarding social security which needs to be addressed. With China having much lower social

security, the risk is that we might lose possible employees as they feel they are sacrificing too much of their own security. This is also the case for pension. In some countries, foreigners are not obliged to contribute to state pension, and in others they are not allowed. Local international employees are therefore given a cash equivalent to the state pension and are encouraged to invest in a private fund. But this is a different story. In principle, we need for a more standardized practice when it comes to pension in the future . . .'

Do these new rules make sense?

Akiko zones out at this point in the extensive conversation and does not follow Puja Malik's explanations as attentively as she should do. She realizes that some of the challenges of her local international package will only be apparent after the first year when the scaling down starts and the package becomes more like a local package. At that time she will truly start to notice the difference. Before this point, the package is very similar to her current expatriate package. 'I will practically be "poorer" after the scale down of the benefits', Akiko reflects silently. 'The only way out would be to start looking for another local international assignment elsewhere to start on a full local international package again or to go on an expatriate assignment. But Hiroshi and the two girls will not like it.'

She starts to think about her family: 'The two girls will perceive the language barrier to be very scary when going to Singapore. They will need to attend the international school – at least in a transition period. The company needs to realize that it's not just about moving an employee, it's about moving a whole family!' Akiko sees the relocation of the family as the biggest hurdle for her. 'We need to feel safe, and know that we are covered if anything happens.' Akiko remembers her relocation to New Delhi two years ago. Just the practical things that needed to be taken care of when they moved seemed endless: where to live, schooling, visa, etc., all the paperwork they needed to fill out. Meanwhile they had to deal with a new language and new customs.

Akiko summarizes in her mind: 'These are very practical things that will not be organized for me when going to Singapore. I will have to do everything on my own. So that will be a big challenge and it is very time consuming, keeping me from doing my actual job!'

She realizes the difference between moving as an expatriate and moving on a local contract. Moving on expatriate conditions means that more or less everything is taken care of by the company, whereas going on a local contract you need to take care of most things yourself.

Akiko is startled out of her thoughts. 'Akiko?' Puja Malik looks directly into her eyes. 'Just let me be very honest. Of course, corporate has made it very clear that the number of people put on expat contracts has to be reduced. The background for this is to cut down the costs for these very expensive expatriates. But it is also about creating more equity with the local employees. Put yourself into the shoes of the local employees. Would you, as a local person, accept that you ceaselessly earn less than a foreigner although you do the same job?' Akiko murmurs: 'No, of course not'. She thinks that this is an interesting and important aspect.

She asks herself which contract her husband would get according to this system when going to Singapore. Akiko gazes at the decision tree on the computer screen. She realizes that as Hiroshi is changing employers and would therefore enter the company as a new employee, he would automatically get a local contract without any extras. The family's situation would be even worse! She asks herself whether this new further distinction of different types of assignments is really fair or whether it is about creating a second and third class of expatriates.

Akiko feels that she is not concentrated any more and is overloaded with information. And somehow she is also overtaxed by these implications. She does not really know what to do. She wants to finish the conversation but Puja Malik already continues. 'I think that in these localization processes it is important that the pros and cons are explained carefully to people because things are difficult to compare. You need to understand that you will maybe have to give up something, but in return get something else. For example you might face a decrease in salary in return for a more favorable pension model, social security system or lower cost of living. It takes a lot of time and needs to be explained by someone who has a deep understanding of all the aspects that are part of a package.' For a second Akiko wonders whether Puja Malik is fishing for compliments and is expecting her to admire her competence. Akiko decides not to react at all.

Puja Malik continues to lecture about the policies: 'For some it might be an attractive opportunity to organize themselves, but for others this will definitely

be something they expect the company to take care of. And of course we need to be self-critical: Even if this approach seems more simple it is unclear whether such a policy corresponds with the present culture of the company where it is an aim to take care and support people in a moving process. We need to explain to people what the consequences might be', Puja Malik repeats herself.

Akiko takes the chance to end the appointment and stresses that the most important factor with regards to the conversion in contracts has to do with communication. She feels that the loss of the benefits she will receive on a local international contract will not affect her much if she receives adequate information about what a change in contract will involve before the move. Akiko stresses that, 'It is more important to be clear on managing expectations, from both sides since the very beginning, than the actual amount in the end'. She stands up, says goodbye to her HR manager Puja Malik and leaves the office silently. She is confused and feels that she is not in the mood to continue her daily work today. Akiko decides to go back home to her apartment situated in a suburb of New Delhi and to talk to her husband Hiroshi tonight about the situation in order to get an additional perspective.

Assignments

- 1 Describe the content of a 'traditional' expatriate package, and the reasons of the company to provide such benefits! What limitations do you see in this contract when it comes to handling the company's emerging needs?
- 2 Make a SWOT analysis of the Local International policy using information from the case study.
- 3 Compare the employers' and employees' needs regarding international mobility on a local international contract. What elements would have to be included in a package if they were to answer to these needs?
- 4 To what extent do you believe the distinction between the three groups of assignment packages (expatriate contract for expatriates, local international contract for local international hires and local contract for external international new-recruits) to be fair? To this end (a) refer to equity theory and determine the referent person in each of the three cases and (b) discuss the role of procedural justice! What can the company do to

provoke positive behavioral intentions in reaction to the packages?

- 5 What does the company need to take into consideration in order to make the Local

International policy for this new international employee population be applicable on a global basis? Formalize your arguments and propose a suggestion of a policy framework.

NOTES AND REFERENCES

1. Copyright Maike Andresen 2011.
2. The case study is inspired by a project done by an international group of four students – Camille Devautour, Tobias Falck, Christina Lindner, and Jenny Karine

Sundsbo – within the framework of the, 'Master Programme in European Human Resource Management' (www.ehrm.de).