

Expatriate Compensation: A commandment to achieve engagement in your expats

By

Krishna Priya G.M

Ph.D. Research Scholar, Department of Business Administration, Annamalai University

Dr. K. Saravanan

Assistant Professor, Department of Business Administration, Annamalai University

Abstract

It has been determined that expatriate compensation is a difficult problem to address, and as a result, expats' engagement and their compensation policies do have a direct relationship. On the other hand, empirical research on expatriate pay packages and their drivers has been limited and offers little guidance for compensation-related decisions. In light of this, the study's primary purpose is to assess the expatriate pay packages of Indian expats in light of the stated factors of expatriate compensation. The second purpose is to evaluate the factors that determine the remuneration packages for expatriates. In order to determine this, the researcher gathered information from 54 Indian expats employed overseas. The results indicate that there exists a positive relationship between compensation management and expatriate engagement.

Keywords: IHRM, Expatriate, Compensation, Expatriate engagement

Introduction

Increasingly, expatriates are influencing numerous workplace conflicts. A difference in remuneration exists between expatriates and local workers as a consequence of the compensation policy, which contributes to problems with expats. Unfair pay by employers to workers is one of the most controversial aspects of compensation legislation. According to (Absah, Karina, Sembiring, Octo, et al., 2020), there are many reasons why expatriate pay policies are much higher than those for domestic workers. Expats' sacrifices, currency rates, changes in lifestyle and culture, variations in expectations and facilities, and the number of organisational requirements for expatriates must all be taken into account when determining pay. The results of the study conducted by (Absah, Karina, Sembiring, Octo, et al., 2020) indicate that satisfying an expatriate's expectations is the most difficult aspect of creating an assignee's compensation structure and that strong communication over pay is essential "from the outset" of the expatriation process.

Expat compensation packages are broken into three categories to facilitate comprehension (Hall; Angela T., 2021)

- 1) Full Expat Package: Employees with highly specialised skills in their profession may be qualified for the Full Expat package, which often includes a variety of perks to provide a comfortable lifestyle in any country.
- 2) Expat Lite: An Expat Lite package will include a subset of the benefits included in the Full Expat package.
- 3) Local Hire: This does not give any additional advantages beyond those granted to a citizen of the host country. An expat may specify these benefits via direct and diplomatic talks.

Companies want their workers to be happy and productive in their host nation, so they often do all possible to aid them.

While we examine the organisational viewpoint of compensation management, expatriates are always expected to get their desired wage while abroad. (Duarte et al., 2021) There is both practical and theoretical relevance in examining each expatriate's expectations.

In actuality, it enhances an organization's ability to customise its offers to prospective applicants. Theoretically, it improves our knowledge of how candidates communicate their compensation expectations in high-uncertainty settings, such as postings in developing countries.

Literature Review

(DeGraff, n.d.) Business requires paying for expatriate assistance. As expatriate assignments rise in quantity and variety, controlling costs gets harder. Michael G. Reiff, Royal Dutch Shell's Executive Vice President of Remuneration & Benefits, claims that at the ILR School in professor Lisa Nishii's comparative HR management class.

Mr. Reiff travelled from The Hague, Netherlands, to talk on how the world's biggest energy firm rewards its more than 8,000 expatriate staff.

Shell's expatriate compensation policies and procedures include:

- Employees are incentivized to work in difficult places with higher location allowances. Mr. Reiff said many Shell Exploration & Production roles are in "God-forsaken" locations and demand a wage premium.
- Expatriate earnings accommodate the same host living conditions for everyone to be equal with host-country workers.
- An expatriate's home-country taxes are withheld from salary; the firm pays host-country taxes. U.S. federal taxes follow workers worldwide.
- U.S. workers overseas are paid through a U.S.-based Shell subsidiary, so federal benefits like Social Security continue to accumulate.
- Expatriate incentives like housing assume the employee is married with two children to ease system administration and forecasting. • Expatriates are expected to keep a dwelling in their home country in case of an emergency evacuation.

This strategy has saved Shell money, although expatriate postings still cost three times as much as host-country posts. Mr. Reiff concluded that an equal, worldwide, and transparent approach is required to manage expatriates efficiently. International assignments will be more successful and profitable if Shell and other corporations embrace and enhance a single-system approach to expatriate remuneration.

(Warneke & Schneider, 2011) Heterogeneous employee preferences may hinder firms' expatriate compensation efforts. This research outlines an empirical technique to educate businesses about workers' foreign assignment preferences. Utility theory and conjoint measurement are used. Employees benefit from job circumstances, career chances, and living situations, according to the argument. Employees see value related to their country's current quo. Conjoint analysis measures preferences. German and Spanish staff in one organisation were given a US assignment situation to exemplify the process. Measured preferences were

connected to the home country's institutional and cultural context (societal effect). Future research should cover more nations. These studies may include institutional and cultural distance. Based on these results, global policies and procedures on expatriate pay packages may be established to better balance uniformity and the demands of a diversified global workforce. The study gives a first systematic model of the preferences that govern an employee's choice to accept or refuse an overseas assignment and explains how these preferences may be quantified.

(Absah, Karina, Sembiring, & Francisco, 2020) The determination of compensation policies still poses a negative problem, notably the company's unsportsmanlike behaviour. Compensation policies have a significant impact on performance and may serve as a form of work incentive for employees. Offering adequate remuneration is one approach to boost worker performance, motivation, and job satisfaction. The presence of expatriates began with the implementation of industrialisation and has continued to grow to the present. The growth and demands of the globalisation period drive cross-country recruiting policies to bring in expatriates. It also calls for the development of measures that promote labour competitive freedom. Of course, the quality and quantity of expatriates are the key draws for a firm to hire them. The disparity in understanding also improves the ability that expats are increasingly using in Indonesia. Capability in the use of technology necessitates the hiring of foreign personnel by businesses.

(Maley et al., 2020) claim expatriation is expensive. This study proposes reducing down MNC expatriate programmes during recessions. Scaling down the expatriate programme shouldn't be a last resort. Remuneration and expat plans should correspond with business objectives, firm structure, and culture. Economy shouldn't reduce expatriate programme. Eliminating this talent development programme will harm pipeline and retention. Before making big judgments, analyse thoroughly.

Leaders must identify crucial roles for the company's growth. Improved communication will help comprehend the company's needs and difficulties. Relational advantages are as significant as monetary rewards, therefore include the prospective assignee in dialogues is critical for maintaining high-quality social relationships. Flex-patriate programmes allow international commuting and regular travel to replace long-term assignments. This reduces expats' hassles and unnecessary costs while relocating with their family. The MNC can grow its network without expatriate charges. This method allows international assignments within budget and at unforeseen periods. As a flex-patriot, assignees' full salary package is unchanged, ensuring relational returns and professional progress.

From the literature, we can conclude that it's important to define compensation practices/policies and ensure expatriates know their pay scale. This thesis analyses expat pay as a framework variable.

Methodology

Objective of the study

To study the relationship between compensation practices and expatriate engagement.

Hypothesis

H_a: There is no significance relationship between expatriate engagement and compensation practices.

Design of the study:

The research is of descriptive in nature; the research was confined to convenience sampling method; expats who are presently functioning in the host nation of the selected I.T. companies are considered to be universe for this study.

Sample Size:

With the help of previous literatures, the researcher confined the sample size to be 60. With carefully framed questionnaire by the researcher, the data collection process started. And while analysing the data, 6 samples were found to be error and those samples were excluded. So, the final sample is 54. Checking the reliability, the result came up with 0.871 which is good enough to proceed further.

Analysis

With our data analysed in SPSS, it is known that, 24.1% of expatriate are highly satisfied with the compensation management of their organization. 64.8% are having moderate thoughts about their compensation practices while 11.1% of expatriates are dissatisfied about their compensation. With respect to the expatriate engagement, 50.3% of expatriates are feeling that, they are able engage better with their organization while 29.2% of expatriates are feeling moderate about their engagement towards the organization and 20.5% of the expatriates are not having the feel of getting engaged with their organization.

Expatriate engagement Vs. Organizational Performance

Whether compensation management has an influence in expatriate engagement? A linear regression model is developed as follows:

$$Y = A + BX_1$$

Where Y = Expatriate engagement; X₁ – Compensation management

Table 1: *Regression model summary*

Model Summary^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.954 ^a	.911	.909	.338	2.061

a. Predictors: (Constant), Compensation_Management
b. Dependent Variable: Expatriate_Engagement

Table 1 contains a summary of the multiple regression model as well as data on the overall fit. The adjusted R² for the model is 0.909, whereas the R² itself is 0.911 Due to the fact that the Durbin-Watson d value is 2.061, which is situated in between the two significant values of 1.5 and 2.5, it is presumed that the multiple linear regression data do not include any first order autocorrelation.

Table 2:

ANOVA^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	60.541	1	60.541	529.993	.000 ^b
	Residual	5.940	52	.114		
	Total	66.481	53			

a. Dependent Variable: Expatriate_Engagement
b. Predictors: (Constant), Compensation_Management

Table 3:

	Model	Coefficients ^a			t	Sig.
		Unstandardized		Standardized		
		B	Std. Error	Coefficients Beta		
1	(Constant)	.034	.157		.215	.830
	Compensation_Management	1.107	.043	.954	23.022	.000

a. Dependent Variable: Expatriate_Engagement

Table 2 shows ANOVA results. The F-test values are significant at 0.05 level and it indicates that the model is a good fit for the data. The F-test has the null hypothesis that there is no linear relationship between the variables. Since the p value is 0.000, it is proved that there exists a linear relationship between the variables in this model.

Table 3 shows the coefficients and significance test values. Compensation management plays a significant role in the Expatriate engagement is the result shown from the result.

Hence, the predicted linear regression model is given as: $Y = 0.034 + 1.107X_1$;
 Where Y = Expatriate engagement; X_1 – Compensation management

From the linear model fit, it is obvious that, there exist a linear relationship between Expatriate engagement and compensation management.

Correlation analysis

In the table 1, it is shown that the r value is 0.954 which means there is 95.4% a positive relationship between the compensation management and expatriate engagement.

Findings and suggestions

When the percentages are being computed, it is found that very few numbers say 24.1 percentage of expatriates are alone satisfied with the pay whereas the others are tens to have a moderate to dissatisfied level. The organizations should make the policies of the compensation clear to the expatriates, make the necessary arrangements for them so as to overcome the logistics cost and to balance the cost-of-living shock. While the engagement of expats' is considered, half-to-half of the expatriates are feeling that they engage better in their organization. While, the researcher analysing the previous literatures, those suggested that it was the time to rectify the compensation practices so that more engaging expats can be found for the organization.

It is found that, there exists a highly positive relationship between compensation management and expatriate engagement which means, if the compensation management, its policies are clear and good, the expatriate tend to have more engagement towards the organization. Also, with the analysis, we found that there exists a linear relationship between compensation and engagement in expats i.e., when compensation increases, the engagement increases too.

Limitations and conclusion of the study

Since the sample units are expatriates, the researcher had to restrict herself by having to collect a convenience sampling as collecting the data in person is of scarce with money and

time. The compensation management is a subject that needed to be handled in a subtle way which creates a very sensitive impact if mislead. With the information collected by the researcher, it is clear that, if the compensation practices are good, the engagement of expatriates are good. With better engaging expatriates, an international organization may achieve laurels.

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Appendix

Questionnaire for Compensation management:

Questions	SA	A	N	D	SD
My company provides me a package to cope up the travelling expenses, cost of living and other expenses while working on-site					
My CTC has increased after being on-site					
Because of my increased monetary benefits, I am motivated to do my job to the best					
Because of my increased monetary benefits, I got/get job satisfaction					
Because of my increased monetary benefits, I feel that my job is secured					