Travelling more lightly

As companies send more employees abroad, they are offering fewer perks and finding more recruits in developing countries

FEW stereotypes are more enduring than the pampered expatriate, leading a life of luxury to compensate for the hardships of slaving away in foreign climes. Although the end of foreign postings has long been predicted, many companies are sending more people abroad than ever before. But they are trying to keep down the costs of doing so. The traditional business-class expat, usually male and Western, is steadily being replaced by an economy version who may well come from a developing country.

According to a recent study of international assignments by Mercer, a consultancy, 38% of companies surveyed have increased the number of international transfers from headquarters in the last two years. Another 47% are still sending the same number abroad. The biggest increases were among companies (both foreign and indigenous) in Asia and Latin America, regions which are home to a new wave of internationally mobile employees. In addition, 44% of all firms reported an increase in international transfers between places other than headquarters.

These international employees are living in a leaner, meaner era. Staff on foreign assignments have “gone from being special and unique, with piles of money thrown at them, to being an everyday part of the company,” says Siobhan Cummins of ORC Worldwide, a research and consulting firm. Finding enough skilled locals to take over from expatriate employees often proves harder than companies thought it would be, which adds to the demand for staff willing to work abroad.

This presents companies with a growing problem: how do you persuade employees to work abroad on leaner terms and with fewer privileges than those offered in the past? Unless someone is being groomed for a job right at the top of the company, the instances of companies dispatching a middle-aged employee and his family to a foreign country for a number of generously rewarded years and then bringing him back to continue his smooth rise up the corporate ladder are dwindling.

Nowadays, lots of employees (particularly in the West) simply refuse to go abroad. They may not want to remove children from school; or their partners may be unwilling to sacrifice their own careers. As a result, the sort of people being sent abroad, their pay, benefits and the duration of their tours of foreign duty are changing. So too is the vocabulary: increasingly, companies talk about international “assignees” or “secondees” rather than expatriates. It all sounds a bit blander, to suit these more straitened times.

HSBC Group illustrates the trends. This giant financial-services firm was founded in 1865, as Hongkong & Shanghai Banking Corporation, by a Scot living in Asia. The firm long epitomised the old-fashioned expatriate model: virtually all its top bosses were drawn from a tight-knit cadre of elite expatriates, known internally as international managers (IMs). Richly rewarded, they spent most of their careers going from one foreign position to another. Even 20 years ago, all of the IMs were men, and all were British (being Scottish was a plus). They did—and still do—carry what a human-resources official at HSBC calls “the DNA of the organisation.”

Yet HSBC’s IM programme, which peaked with about 800 expatriates, has now been scaled back. Today the company has about 380 such managers, from 33 nationalities. Half of the latest group to join were women. The change is reflected in the upper ranks of management today: the head of Asia-Pacific operations is Indian.

Although the ranks of IMs have shrunk, there has been a big expansion in other sorts of foreign postings at HSBC, which now has 284,000 employees worldwide. In addition to the IMs, about 1,600 people are on foreign assignments as secondees,
"contract executives" and short-term assignees (mostly technical staff). Each group has its own compensation and benefit packages, which are generally less generous than those for IMs.

Companies are trying hard to reduce their reliance on the traditional sort of expats, says Jeff Joeres, the chief executive of Manpower, an international employment firm. This is not only because firms want to avoid the expense of sending people abroad; companies are also increasingly aware, says Mr Joeres, that having locals in top jobs can be a boon in foreign markets. Many expats are charged with finding their replacements as quickly as they can. Promising local candidates are often sent to head office to learn the ropes before returning with the prospect of taking over an expat's job.

Tetra Pak, a packaging firm, is a case in point. It used to send an army of expatriates—once all Swedes—trotting around the globe to open and manage its factories. Now it is encouraging more local executives to step up into important roles. One way it is doing this is to build up talent and experience in local "clusters". This involves frequent transfers of employees within certain regions, such as Latin America and South-East Asia. The best performers are groomed to move farther afield.

Creative employment

Indeed, the way people move around the world is changing as companies try to come up with more creative ways of staffing their foreign operations, argues Michael Dickmann, of the Cranfield School of Management in Britain. Increasingly, he adds, employees from developing countries are being sent to developed ones rather than the other way around. Well-educated Indians, Chinese, Brazilians or Mexicans—often armed with degrees from foreign universities—are perfect candidates for many European or American firms that want them to gain experience in the head office before they take on greater responsibility in their home markets.

There are, however, risks in doing this. Peter Blake, a consultant with Mercer, says that companies should think carefully about these employees' pay and benefits. If they remain on home-country pay scales or career paths while abroad, they may well be offered, and accept, other jobs with better prospects. Some countries, such as America, have tightened visa requirements to prevent such job switching.

Many companies talk about localisation, but find it difficult to do, for several reasons. Sometimes expatriate managers are unable or unwilling to train their successors. This can be a particular problem for Japanese companies. The standard practice in Japanese multinationals has been to rely on people sent from the home office, even for mid-level technical jobs. In part, this stems from a tradition of apprentice-style training, which can mean Japanese firms "struggle to get new people up to speed quickly," says Rochelle Kopp, principal of Japan Intercultural Consulting, a training firm. Language is often an added complication in going abroad. A further difficulty is that many Japanese expatriates and their families prefer to stay in America, say, rather than return home. As a result, Japanese employees abroad tend to hand over little responsibility to their local colleagues.

Global-minded Indian companies have a culture all of their own. Take Wipro, a technology, research and consulting firm that now employs 54,000 people in 35 countries. More than 11,000 of them are outside India, and more than 90% of these are Indian, says Sanjay Joshi, chief executive of global programmes and consulting at Wipro Technologies, the company's international arm. A large portion are middle-level managers.

One of the reasons why Wipro sends so many Indians abroad, he says, is that they are familiar with its intense around-the-clock schedule. "We sprinkle Indians in new markets to help seed and set up the culture and intensity," says Mr Joshi. International postings also help to spread good business methods across the company and to attract skilled employees. "In the past, India never had world-class brands,"
he adds. “Now, a big part of our recruiting is telling people that they will get a chance to work abroad.”

Career advancement can be a powerful inducement to work abroad. HSBC, for instance, is trying to concentrate on “developmental secondment rather than parachuting people into a particular country,” says Barbara Simpson, its head of talent management and international resourcing. In Europe, a growing number of companies now require top executives to have international experience.

Young employees are being tapped more often for foreign postings, not least because the childless tend to be cheap. They have no need of a large home and no offspring to be educated. “The worst groups are those aged around 40,” says Chris Brewster, a consultant and academic at Britain’s Henley Management College. At this age, spouses’ careers and parenthood can be obstacles to moving. Many firms now look to people aged around 30—or to those over 50, when children may have grown up and partners may be more willing to move. The rule of thumb among Western companies has long been that expatriates with families abroad cost about three times their base salary.

PwC’s global accounting and auditing firm with about 145,000 employees, is among those sending staff abroad at an earlier age. This summer it plans to start a Life Experience Abroad Programme (LEAP), which it calls “a dramatic step up” in its international assignments. LEAP will be aimed at promising workers who have been at the firm for three or four years. They will be sent abroad for several years and will then return for, it is hoped, advancement up the corporate ladder. The goal is to have 5,000 LEAP staff working in 30 countries within a few years. This will roughly double the number of people PwC has in foreign postings today. The ideal candidates, the firm says, are those who show they have an interest in living abroad and who have a flair for foreign languages.

Women are also going abroad more. Mercer found that women account for 13% of expatriate employees at the companies it surveyed, up from 8% five years ago. North American firms report the highest percentage of women working abroad, followed closely by firms in the Asia-Pacific region. In Latin America, 11% of expatriates are female, up from a mere 1% only five years ago. European firms are the laggards: 10% of those working abroad are women. Many multinationals “take women out of the running at an early stage,” says Ms Kopp. “That’s a huge mistake. In macho cultures people like women, and they’re often more effective.”

The selection of people to work abroad, however, can be fairly arbitrary. Although some big firms do psychoanalytic testing and hold interviews, in most “there’s not a lot of science there at all,” says Yvonne Sonsino, a partner at Mercer. “People may just get sent because they’re willing to go.” Then again, some employees could be sent abroad just to get them out of the way.

Companies that send families have to consider how to support them. “If the family starts to unravel, the employee will at some time start to unravel too,” says Lesley Lewis, a psychologist who works with expatriate families. Depression and anger among spouses and teenagers is common. A study last year by ORC found that concerns about children and spouses’ careers were the two main reasons why employees turned down jobs abroad.

One way that employers are coping with family worries is to offer different types of foreign posting. More people are being sent on short-term, “commuter” assignments where they do not need to uproot their families (see chart). The commuting trend is particularly common in Europe: a banker from Vienna, for instance, may spend Monday to Friday working in Dresden and then fly home at the weekend.

Although salaries paid to those working abroad may have kept pace with inflation, consultants say there are typically fewer allowances offered than in the past. One technique companies use is to remove certain items from cost-of-living adjustments. Another is to reduce benefits and allowances for postings to some places. Henley’s Mr Brewster says many companies with operations in Europe now treat the continent as if it were one country. An employee who is being shifted from London to Copenhagen, say, will be treated in the same way as a colleague moving to another office in Britain. Companies are also cutting back on “hardship” allowances for certain posts. Places like Prague or Budapest may have been considered gruelling for Western families 15 years ago, but not now.

Taxing Americans

Wherever they are posted, costs are a particular worry for Americans working abroad, who bear a heavier tax burden than people from most other countries because they are still obliged to pay income tax at home. A recent change in the tax code will mean they must pay even more (see box on previous page). In many cases, companies will compensate employees for the extra tax—in effect making it costlier for them to post Americans abroad. The portability of pensions is another growing financial concern for employees who have a spell away from home.

The pressure on pay packets and perks will continue, consultants predict, as skilled employees from developing countries begin to fan out around the world. Already there are signs of this happening in eastern European countries. If someone is willing to work for the same package in Bratislava as in Ljubljana, suggests Mercer’s Ms Sonsino, it is likely that in future they will move between continents “without a premium”.

Perhaps the ultimate sign of a harsher environment is an increase in the number of people who finish a tour of duty abroad only to discover that they have no job to return to back at home. It is more common for companies to send people abroad without a guarantee of employment when they come back. Even if promises of jobs are made, mergers and acquisitions often mean that they cannot be kept. Yet despite the uncertainty and cost-cutting, a spell in a foreign land does not have to be miserable. Most people who work in another country do not seem to regret the experience. And that is unlikely to change. 

![Image of a world map](image.png)