

# Reward Package Design- How Are Multinational Corporations Weathering The Storm?

**Working abroad is about going outside of your comfort zone, accepting challenges, growing personally and professionally and, in the case of internationally assigned employees, showing exceptional commitment to an employer.**

While the reward package is often designed to increase the attractiveness of international assignments, and to cushion some of the adverse effects of global moves, Multinational Companies (MNCs) systematically overestimate the importance of expatriate remuneration (Dickmann et al., 2008). Research into the motivational drivers of assignees has shown that they are most often motivated by career and developmental considerations. In addition, the thirst for adventure and the opportunity to understand and interact successfully with other cultures and the wider world are other key motivations (Caligiuri, 2013).

The RES Forum, an International HR and Global Mobility networking and information sharing group with over 1000 members in more than 500 companies based in over 40 countries around the world, surveyed its members about reward package design for international assignments in order to assess the major trends in the field of assignment remuneration. 78 large multinational companies (MNC's) took part in the survey and of those, more than half had 25,000 plus employees. Additionally, the large MNCs that responded had a substantial assignee population of traditional Long-Term International Assignments (LTIA's). This research forms the basis of the chapter, "Reward Package Design" in The RES Forum Annual Report 2016, Beyond Uniformity- A World of Opportunity, authored by Professor Michael F. Dickmann, Professor of International HRM at Cranfield University, School of Management, and a summary of the results is presented here.

## Assignment Types And Durations

The most typical assignment durations for Short-Term International Assignments (STIAs) was three to twelve months while the most typical Long-Term International Assignments (LTIA's) lasted one to three years

(55%), closely followed by LTIA's that could be up to five years (40%). Lengthy LTIA's are not obsolete and may be justified by a variety of reasons. Local Plus Assignments (LPAs) would often be permanent transfers (43%) but a sizeable number of companies restricted them to either one to five years (28%) or, up to three years only (28%). A minority of organisations indicated that they "don't offer traditional home-based LTIA packages, all of our longer-term assignments are host based". This approach is likely to be successful where mobility is at the core of the organisation's activity and career progression and where it might be seen as a 'rite of passage' (Dickmann and Cerdin, 2014). It does need an abundance of staff willing to be internationally mobile and often other contextual factors such as operations in non-hostile, non-hardship countries.

## Assignment Package Design And Construction

Franklin D. Roosevelt, the American President during the Great Depression and the Second World War, observed that "Happiness is not in the mere possession of money; it lies in the joy of achievement, in the thrill of creative effort." It is in the balancing of incentives which link to individual assignee motivation and the assignment objectives, that GM specialists can create attractive and effective

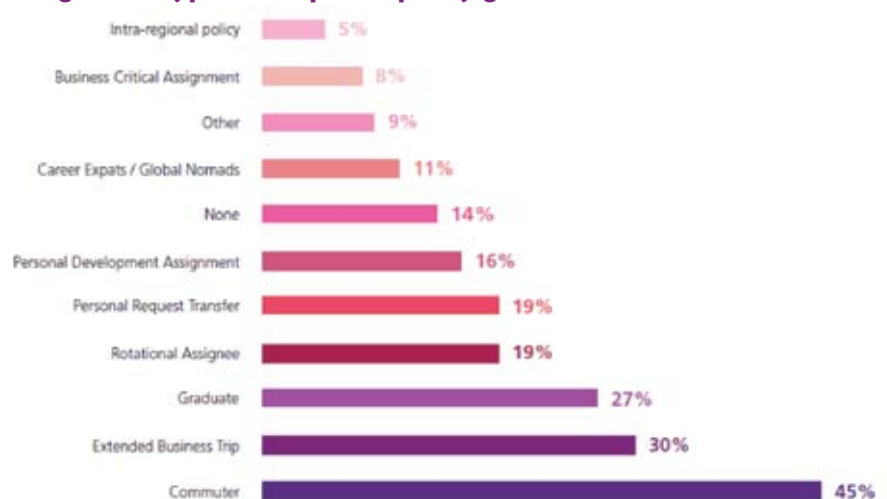
global assignment packages.

**Variety of Assignment Types.** It appears that over time the complexity and variation of GM policy and reward design has blossomed. MNCs have developed a large number of separate policy guidelines for assignment types that go beyond STIAs, LTIA's and LPAs.

MNCs have argued that they offer different packages depending on the move scenario. In a further variation, some organisations argued that they would reduce benefits for employee requested moves, although they tend to classify them according to their length. Several companies work on corporate volunteering and sustainability activities. Latest research outlines a number of different stages to corporate sustainability and humanitarian volunteering assignments and makes it clear that a strategic dimension is highly important so as to make it beneficial for both the individual and the corporation (Cardarelli et al., 2016).

**Rewards for Developmental vs. Business-Driven Assignments.** Almost half of MNCs (44%) distinguish between business driven/strategic assignments and developmental assignments. Where these are initiated by staff, the policy is less generous as the primary beneficiary may be the assignee and crucially, there is a lesser need to motivate potential candidates (Dickmann, 2015).

**Figure 1 - Does your organisation formally recognise any other assignment types via separate policy guidelines?**



Dickmann, Brewster and Sparrow, (2016) chart the human resource developments triggered by the financial crisis. In recent years organisations have become (even more) cost driven, and so it is no surprise that they normally reduce their packages for developmental assignments. In contrast, in some cases, business critical/strategic assignment support becomes more generous as the driver is more company-centred and the importance of the foreign work may be seen as higher.

Other RES Forum research (Chapter 2, RES Forum Annual Report 2016) has shown that many companies are struggling to acquire sufficient talent for international assignments. MNCs simply need to be more flexible and generous with assignments where candidates need to go into highly volatile or hostile environments characterised by hardship and danger. This is also in tune with increasingly personalised HRM for people with special skills or talent. These ‘A Player’ talents have simply more negotiation power when it comes to their contracts or assignments. (Sparrow et al., 2010; Conway and Briner, 2005). Do MNCs preserve some flexibility by linking assignment compensation to performance? In short, most companies do not. Two thirds of each of the different assignment types do not have such a link (STIAs 74%; LTIA 70%; LPA 70%). Where there is a specified link, it is to annual assignment bonuses which is an approach operated by around a quarter

of all responding companies. The remaining companies prefer to integrate assignment related goals into their normal performance appraisal and review sessions.

**Salaries and Cash Allowances for Assignment Types.** The RES Forum survey identifies a strong trend towards home-based (balance sheet) remuneration for STIAs and LTIA, while LPAs are compensated using a host market approach. At times, STIAs “simply remain on home payroll, no balance sheet”. However, this is normally paired with disruption and subsistence allowances.

With respect to LTIA reward packages, only a few MNCs (3%) used the higher of home or host salary, while 12% used a host market approach. Global salary scales remain a tiny exception for LTIA (1%). The respondents were also asked to specify which Cost of Living Allowance (COLA) index they use in order to gain a feeling for the generosity of companies. A quarter of companies used the full expat COLA index for STIAs and LTIA while no MNC used it for LPAs. The median (efficient purchaser) COLA index was the most popular. It was used in 41% of MNCs for STIAs, in 63% for LTIA and in 27% for LPAs. The basic/low COLA index was used in one in ten MNCs for STIAs and LTIA and occasionally (7%) for LPAs. Where COLA was not used, STIAs often got a per diem allowance while the LPA arrangement varied widely. To understand what the majority of organisations are doing, the following

summarises those cash allowances for each of the assignment types given that are granted by at least half of the MNCs that participated in the survey.

**STIA Allowances.** Almost three quarters of MNCs pay host housing (72%) and a substantial majority pay home leave allowances (57%). Allowances are sometimes paid directly to the suppliers, such as landlords or as per diems. They include a variety of things such as transportation allowance, utilities, medical, electricals/furniture/one-off costs.

**LTIA Allowances.** MNCs tend to be more generous with LTIA than STIA. These traditional assignees receive COLA payments (89%), host housing allowances (87%), home leave allowances (86%), education allowances (78%), hardship allowances (72%) and a mobility premium (51%). In some organisations only global nomads receive the mobility premium.

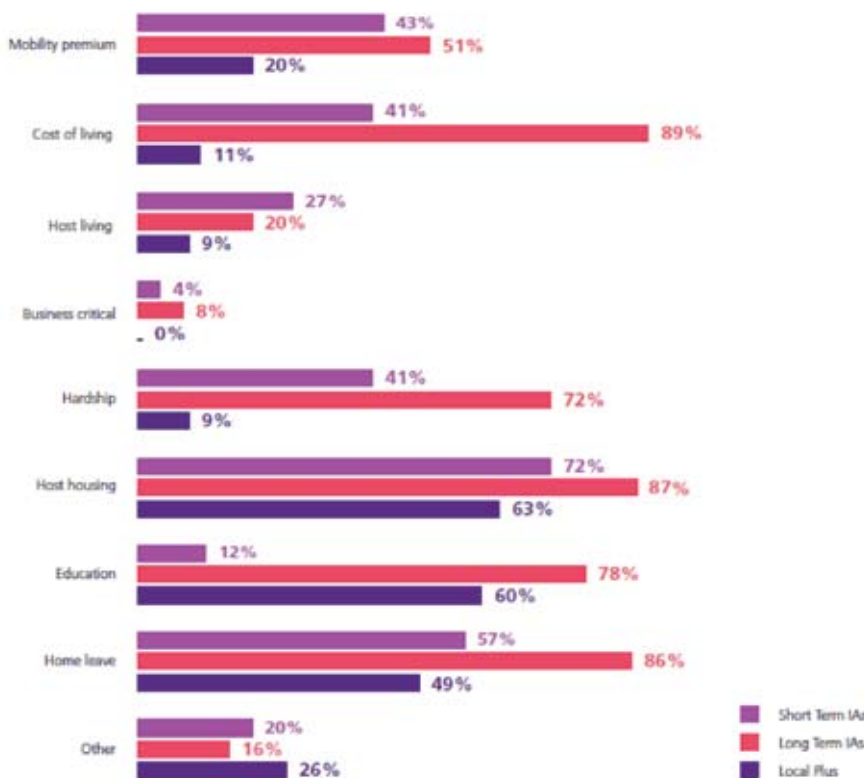
**LPA Allowances.** Given that most LPAs are on host country contracts, the cash allowances are different and expected to be less bountiful. LPAs often receive a housing allowance (63%) and the only other frequent allowance is related to education (60%). Hardship allowances, COLA and mobility premiums are rare.

**Adjustments during work abroad.** It is obviously possible that during an assignment the exchange rates can fluctuate substantially and that inflation rates can be highly different. So, do companies take these dynamics into account? The answer is normally for their LTIA, only. COLA can increase or decrease for 77% of LTIA for instance due to inflation or foreign exchange volatility. However, less than a third of STIA (29%) and only 5% of LPA would see COLA adjustments during their work abroad.

**Contribution Toward Housing Costs.** MNCs push for the reduction of assignment costs, yet surprisingly, respondents indicated that few assignees are being asked to pay for their accommodation. 91% of STIA and 69% of LTIA are not contributing towards housing costs and almost half of the LPA (46%) do not have to. Some indicated that they were reviewing this. Where assignees are asked to contribute to housing costs, the actual amounts are normally determined by the home housing norm based on external data (59% for LTIA; 43% for STIA). LPA contributions are highly variable and range from the individual paying for housing completely, to companies paying a gross allowance of market rent and the individual taking care of own tax and social security.

**Assignment Support and Family Considerations.** Respondents were also asked in what way the company support differs if an expatriate goes on an international assignment while the family remains at home. About two thirds increase home leave and flight allowance if the assignee relocates alone for the whole term

**Figure 2 - Which of the following cash allowances or support elements are payable in your organisation for each of the assignment types listed?**



of the assignment. In contrast, we know that the size of house (and number of bedrooms) increases when an expatriate is relocated with the family (Dickmann, 2014). Unsurprisingly, three quarters of MNCs reduce the housing allowance if the family remains in the home country. In addition, 45% of companies reduce the assignment allowances payable given that the family size is smaller.

Half of the responding MNCs support a temporary split family arrangement for more than a year (49%) while 16% would not support it at all. The remaining 35% support various lengths up to one year. Support differs when compared to expatriates who were split from their family for part of the duration of the assignment. The additional home leave (45%) and flight allowances (49%) were less frequently granted. In turn, assignment allowances (30%) and housing allowances (45%) were more rarely reduced. It appears that companies actively manage their allowances with respect to the specific family situation that their assignees have. This would entail granting a 'different' status once the family joined the expatriate abroad. In addition, some MNCs considered introducing a separation premium which would streamline and simplify the administration.

**Spousal/Partner Support.** Industry literature enthusiastically promotes the idea that it is important to provide support for accompanying partners and family, as this increases the satisfaction of family members, allowing the assignee to be emotionally more balanced and more proactive to focus on his/her own adjustment. However, more recently authors have indicated that behavioural and cognitive adjustments that are more closely related to performance, may improve at any rate over time as emotional well-being is on a different adjustment dimension (Haslberger et al., 2013). Nevertheless, this is about the strength of influences on performance – it is not about whether there are any positive performance effects when an assignee and their partner are emotionally well adjusted to the host country. It is still widely held that a 'happy' family and a 'happy' expatriate is likely to be good for an assignee's willingness to stay in the host location and for organisational performance.

Companies clearly distinguish their support for spouses/partners in relation to the different assignment types. Only one in ten companies provide any support for the spouses of assignees who are on STIAs (91%). In contrast, only a third of companies (33%) do not provide any support to spouses on an LTIA. One in five (20%) gives a one-time cash allowance, a third (30%) use specialist providers and one in eleven (9%) gives an annual cash allowance. LTIA and LPA partners also benefit from a range of other support such as financial payments,

language lessons and cultural training, and professional support for the partner to find local work.

**Educational Assistance.** Companies are well aware that education lies at the heart of parental interests. MNCs feel that they want to offer the children of their staff a positive deal where they perceive that local, high quality schools are not available, or where the educational systems are so different that it would disrupt the schooling of expatriates' children. Additionally, MNCs have moved to offer expatriation opportunities more to candidates who do not have a family at home or encourage less traditional ways to work abroad such as global commuting or International Business Travel.

There is a pronounced split according to assignment types with respect to the educational assistance that is offered by MNCs. STIAs do not normally benefit from any educational support (86%) while only 3% of LTIAAs have no educational support. For their LTIAAs, 43% of companies always offer international or independent schools while almost half (46%) only support their assignees' families if a state school is not available. A third of companies provide pre-school support for their LTIAAs' children. LPAs receive less support than LTIAAs. Less than one in five (18%) have the benefit of automatic financing of an international or independent school and 28% may get this if a state school is not available. For 13% the support is scaled down during an assignment. Nevertheless, schooling support remains one of the main financial assistances that LPAs receive from their organisations and is likely to be one of the key decision parameters when considering to localise. Only a small percentage of assignees have to contribute toward the educational support provided by their organisation (LTIAAs 11%; LPAs 20%). However, it is likely that the assignee's family has to pay extra costs such as school uniforms or trips.

**Resigning During an Assignment.** Generally, below a quarter of assignees resign during an assignment (Suutari and Brewster, 2003; Doherty and Dickmann, 2012). This is still a substantial percentage, and it is up to

the MNC to decide whether it claws back part of its investment.

Most claw backs seem to depend on the time since relocation for LTIAAs, and on the length of time a contract has been in place for LPAs. Overall, LPAs are most frequently forced to repay some allowances (54%). Nevertheless, a large number of MNCs are unwilling to claw back any payments, even including the assignment completion bonuses paid to STIAs and LTIAAs. Areas vary where MNCs do demand their money back and will often be decided on a case by case basis. Companies strive to make sensitive and informed decisions, often factoring in the reasons why the expatriate wants to return early or leave the company, how long the expatriate was working abroad and general contractual obligations.

## Conclusions

While GM reward experts should be conscious of the rational and emotional drivers of their expatriate population, they would be well advised to construct reward packages that clearly incentivise employees but that are all cost effective.

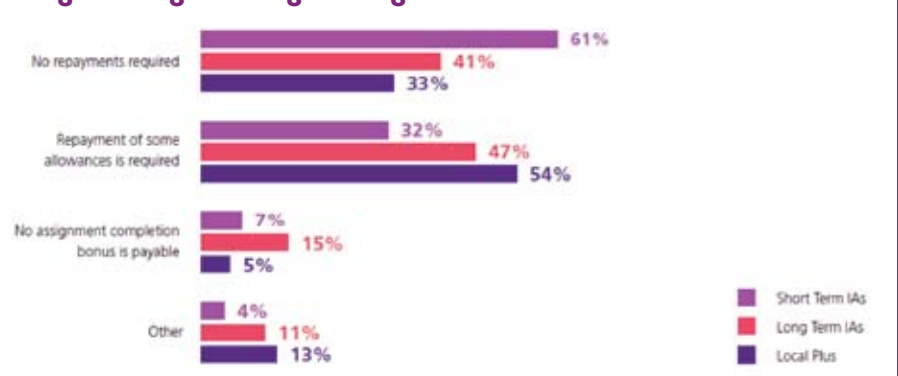
## The RES Forum Annual Report 2016- Beyond Uniformity- A World of Opportunity.

This article is authored by Professor Michael F. Dickmann, Professor of International HRM at Cranfield University, School of Management and Heather Hughes, General Manager at The RES Forum. It is based on Chapter Four of the RES Forum Annual Report, authored by Professor Michael F. Dickmann, Professor of International HRM at Cranfield University, School of Management, and produced by The RES Forum, Harmony Relocation Network and Equus Software.

To read the full report for free, in-house GM and HR professionals can register to join the RES Forum at no charge. Just click "Join" and enter your details on our website at [www.theresforum.com](http://www.theresforum.com).

Relocation Vendors and other interested parties may request a copy of the report by emailing us at - [office@theresforum.com](mailto:office@theresforum.com).

**Figure 3 - How is assignment compensation affected when an assignee resigns during an assignment?**



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## ■ Diversity, Gender Bias And The Rewards Of Being Internationally Mobile - Breaking The Glass Border....

It is essential to consider gender diversity at every level if organisations are to have a sufficient pool of female talent to choose from for international assignments. A survey for the RES Forum Annual Report found that more than 50% of organisations find it hard to find suitable female candidates for international assignments, and 40% find it hard to motivate women to accept foreign postings. What can organisations do to redress this balance? How might recent socio-economic developments such as the UK leaving the EU and the election of Donald Trump to the White House affect diversity and inclusion practices within global organisations and how can your organisation be prepared to manage the change?

*Andy Piacentini, Head of Reward at Standard Life and founding partner at the RES Forum will host an informative session exploring these issues.*

This seminar is part of the seminar programme at

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