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# A local perspective to expatriate success

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Executive Overview

***Many expatriate human resource (HR) policies, particularly in the area of compensation, remain rooted in the past because they continue to favor the expatriate over local staff and do not take into account the increasing qualifications and aspirations of these local employees. Inequitable treatment leads to low commitment and poor work performance among local staff. More importantly, inequitable treatment creates tension between local and expatriate employees and causes the local staff to be less willing to be cooperative or supportive of the expatriates with whom they have to work. Without local support, expatriates may experience greater difficulty adjusting to their new jobs and the new environment, which is a contributing factor in the failure of expatriates. To minimize these problems, HR practices of expatriating organizations should focus on providing more equitable compensation for local and expatriate employees, selecting expatriates who are truly worthy of the higher pay, and increasing the transparency of pay practices so that local employees can see the linkage between work inputs and compensation more clearly. Managers at the local organization should emphasize favorable referents for local staff, breed organizational identification among the employees, prepare the local staff for incoming expatriates, and encourage them to assist and mentor incoming expatriates. It is critical that multinational companies (MNCs) are aware that some existing HR practices have potentially unintended negative consequences and that neglecting the impact of these practices on local employees hurts the effectiveness of the organization as well as the ability of expatriates to succeed in their assignment.***

## A Local Perspective to Expatriate Success

With increasing foreign revenues, multinational companies' (MNCs) need for expatriate assignments shows little signs of slowing down. Maintaining an expatriate is a costly and often complicated process – and if the expatriate fails in his or her assignment, the expatriate exercise becomes even more costly for all involved. Losses and damages resulting from expatriate failure include loss of business and productivity, damage to other employees and relationships with customers, suppliers, and host government officials, as well as the financial and emotional costs borne by the expatriate and his or her family.[1] Given these potential costs, it is imperative that expatriate assignments are managed effectively.

A recent survey released by the U.S. National Foreign Trade Council reported failure to adjust to the foreign cultural environment as a key reason for expatriate failure.[2] MNCs' records for providing sufficient pre-departure training for expatriates and their families have been poor. Expatriates often complain that they are not well prepared for the challenges they face on the assignments. Selection practices have also frequently been criticized for emphasizing technical competence and neglecting critical success factors such as relational skills and cross-cultural competence. Therefore, in addition to providing attractive expatriate packages, many MNCs have worked to improve training and orientation programs for expatriates, and to fine-tune the selection criteria to better match identified critical success factors.

Clearly, the onus for completion of a successful assignment has been primarily on the expatriate, as well as the parent company, whose responsibility has been to engage in various activities that are deemed to facilitate the adjustment of expatriates. Whereas these efforts have been met with measured success, many MNCs have overlooked the potential of yet another important avenue to facilitate adjustment. This potential lies in the local or host country staff with whom the expatriates work closely while on assignment. Traditionally, local employees were the expatriate's subordinates, but they are increasingly the coworkers and supervisors of expatriate assignees as well. As we will discuss in the present paper, local staff could be the expatriate's best on-site trainers as expatriates wade in possibly treacherous cultural waters. In the same vein, local staff could also seriously jeopardize the expatriate's ability to carry out his or her assignment by engaging in various counterproductive behaviors at work. Yet, with few exceptions, multinationals overlook the socializing potential of local staff in aiding expatriates in their adjustment and are not cognizant of how the very practices meant to ensure the success of expatriates can also inadvertently lead to their failure.

Given the potential importance of local staff to any multinational, the present paper has three main objectives. First, we identify the HR practices in MNCs that may adversely affect the organizations' effectiveness. Certain types of expatriate HR practices, especially ethnocentric ones, can be perceived as inequitable by local staff and create unforeseen (and unwanted) effects on the local staff's work attitudes and behaviors. Lowered commitment and job satisfaction, as well as counterproductive work behaviors such as absenteeism and turnover, are potential outcomes of ethnocentric HR practices, and can ultimately hurt the effectiveness of the multinational. Second, we demonstrate how violating equity between local and expatriate employees is detrimental to expatriate adjustment. The fates of the two groups of employees are often inextricably linked – the expatriates cannot be successful if their host country counterparts are not. In fact, it seems obvious that expatriates will find it much more difficult to succeed in their assignments without the support of local staff. Unfortunately, ethnocentric HR practices do not create the conditions that would cause such support to be forthcoming. Last, we propose several alternative interventions adopted by companies that have been relatively successful at managing expatriate assignments, which multinationals should consider as means to motivate and retain local staff as well as to better harness the important socializing potential that local staff can offer to expatriates. Hence, our recommendations for the design of HR practices consider their larger effects on all employees in the organization and not merely on any particular subset of employees in the organization. Throughout, we highlight real-life issues faced by multinationals, provide real-life solutions adopted around the globe, and report relevant findings of organizational research.

**Local Employees Are Important Too**

A critical factor often considered by MNCs when making decisions about where to locate overseas subsidiaries is the availability of qualified local workers. MNCs depend on a qualified local workforce to be effective and this dependence amplifies significantly if it is the MNC's aim to completely localize its overseas subsidiaries. Siemens AG, for example, locates itself worldwide and relies heavily on local workers to achieve its goals – in the U.S. alone it employs over 60,000 Americans, and hires more than 20,000 personnel in China. New research also suggests that local managers can offer more control to the MNC than expatriates can in situations where cultural asymmetries between the headquarters country and the host country are high and the operating environment is risky.[3] Furthermore, if the market that the MNC enters is one where its existing personnel have little relevant knowledge or expertise to effectively run the local subsidiary, local human capital would be especially useful because the local managers speak the local business language and also understand the country's culture and political system better than most expatriates sent to the perform the job. Local staff are thus often better equipped than expatriates to penetrate the target market. The experience of MNCs in China, for example, has demonstrated that capable local managers and professionals are indispensable for the success of MNCs because expatriates continue to flounder in unfamiliar territory. Hence, there is little dispute that capable local employees are strategic assets to a MNC.

It is also in host countries like China that we find much discontent among local staff and resentment towards expatriates because often inept expatriates are ostensibly treated as superior relative to the locals in terms of their compensation, benefits, and developmental opportunities.[4] This is especially so when expatriates do not have a clear advantage over the local employees in terms of work qualifications, expertise, or experience. Local staff may feel that they are treated like second-class citizens when working alongside expatriates in their own country, and may resent that fact. They may also perceive expatriates as being sent to be "watchdogs" for headquarters instead of value-added resources. Clearly, this mistrust of and dissatisfaction with the expatriate and the multinational set the stage for a whole host of negative consequences for the multinational, such as lowered productivity and effectiveness and higher rates of turnover and absenteeism. When resentment is high, more extreme counterproductive work behaviors may also ensue, such as theft and sabotage. It is clear that multinationals truly cannot afford to be insensitive to the feelings and opinions of the local staff in their organization.

However, local staff have yet another important part to play. It lies in their potential significance as a valuable socializing agent and facilitator of the expatriate's role in the host unit organization. Most of us are probably able to recall that time when we first started a new job: adjusting to the new environment, new responsibilities, and new relationships were probably made easier if we had received some guidance and support from someone in the early transition stages of our job. This person (or persons) probably had more experience and greater knowledge of the job and environment we were entering into than we did. This person was also often someone holding a similar or higher post than us, who had been in the organization longer than us, and had sufficient history with the organization to understand how things worked or how best to get things done. Organizational research corroborates these experiences by showing very clearly that the stresses related to starting a new job can be assuaged by supportive relationships within the work organization (e.g., coworker, supervisor, mentor). Hence, many organizations apply this principle by adopting mentoring and buddy systems to orient new employees in domestic operations, and the effects have often been very positive. For example, Sun Microsystems Inc. in Palo Alto, California, pairs newcomers with more experienced "SunVisors," while the New York office of PriceWaterhouseCoopers uses a buddy system, as well as more senior coaches, to supplement their formal training and orientation programs. In some companies, peers and designated mentors are also put through training programs to become effective coaches, and hiring managers attend workshops on getting ready for new employees joining the unit. A U.S.-based company, National City Corp., uses a similar training program where managers are trained to communicate effectively and create supportive environments, and reports that the training is highly successful. Specifically, they report decreased turnover and absenteeism rates and higher productivity, which resulted in annual savings of over a million dollars after implementing the program.[5]

The same principles could and should be applied more widely to the context of the host unit organization where an expatriate assignee needs to learn the ropes of being a new member of the host subsidiary despite possibly having had experience in the parent company. He or she must also quickly become proficient in the performance of his or her job, while at the same time adapting to the unfamiliar surroundings and culture. MNCs like SAS Institute and Intel recognize the importance of expatriates gaining the cooperation of their local counterparts, loyalty from their subordinates, and the trust of their supervisors. Instead of placing the onus solely on the expatriate to develop effective working relationships and strong bonds with the local staff, these organizations adopt buddy systems where local peers act as ad hoc trainers for the expatriate. They also encourage and prepare the receiving managers and local teammates of the expatriate to ensure that the newcomer expatriates are assimilated quickly. Intel, for example, trains managers who are about to receive an expatriate. The training emphasizes ways to integrate and work with groups of people of other cultural backgrounds. With this training, local managers are better equipped to interact with expatriates and are less likely to find expatriates foreboding. Faced with more approachable local counterparts, expatriates are less likely to be isolated by the local staff, and have greater opportunities to learn from them and develop effective work relationships with them.

We will return later to other steps MNCs can employ to help insure that local employees contribute more fully. Before we do, however, we need to address how local staff can contribute to the adjustment and success of expatriates through the informational support, cooperation, and emotional support they provide to those expatriates.

### *Informational Support*

Expatriates face substantial uncertainty regarding their new role in the organization when they first arrive in their new location. They must figure out how things work and what the best way is to approach problems that they may encounter. Any information the expatriates gain regarding the new job, the organization, and the larger cultural environment will help them learn what to expect, how to interpret various stimuli they encounter day-to-day, and what the appropriate behavior is in a given situation. In most situations, expatriates need to have a working knowledge and good understanding of the cultural mores of the organization and the national context in order to be effective. This need is especially critical when the job is novel and challenging for the expatriate, when the culture of the organization and the country is unfamiliar, or when sources of information which the expatriate relied upon in his or her home country are not readily available.

Informational support is also important if the expatriates are sent to host subsidiaries to acquire knowledge and gain cultural competence. Such assignments are increasingly popular as MNCs recognize the importance of gaining international experience among their employees. For example, ABB (Asea Brown Boveri) rotates about 500 managers around the world to different countries every few years to develop a cadre of managers with a global outlook.[6] Similarly, expatriates who are sent to the host location to set up "greenfield" operations will also need to acquire rich local knowledge in order to find sources for raw material, human resources, potential business associates, and potential customers. This necessity has been encountered by many companies that have tried to set up shop in China and found it to be a culturally challenging environment and impossible without local "guanxi," because these social networks are also very rich informational networks. The expatriates may be left out of important decisions and information if they are unable to penetrate existing informational networks.[7]

Of course, the local employees at the host organization would have these different types of information. By virtue of being born and raised in the host country and having been members of the host organization longer than the expatriate, local staff possess the additional experience and understanding of the culture and the organization, and also have developed the necessary network of relationships that could facilitate the conduct of many of the expatriates' tasks. The local staff's advantage is even greater in new markets for the multinational where expatriates are likely to be treading in unfamiliar political, economic, and social waters. If local staff are willing to share their intimate local knowledge with the expatriates, expatriates can set up shop in the host country or learn what they were sent to learn much more successfully. Local staff also possess critical information regarding the cultural mores of the workplace.[8] For example, many Western managers in Beijing report the Chinese culture as being quite incomprehensible and they have great difficulty operating effectively in the Chinese context. Sharing insights about the cultural norms and idiosyncrasies with fledgling expatriates will help them better establish the necessary networks within the organization and facilitate their adjustment to the new organizational and national culture. Knowing what is culturally acceptable and appropriate behavior is also critical for expatriates to avoid offending local coworkers, subordinates, and supervisors. As in the case of a *Fortune* 100 company, it was reported that its expatriates across 19 worldwide locations demonstrated greater adjustment to their work and social interactions when they had access to on-site host country mentors.[9] Clearly, the informational support from local staff is integral to an expatriate's ability to succeed.

Paradoxically, informational support from local staff most critical to the successful experience of the expatriate is also likely to be more difficult to gain. Many local staff have traditionally expected to learn from expatriates, because the expatriates are often viewed to be the experts with specialized knowledge, sent to the host unit to lead local staff rather than to learn from them. When these expectations are coupled with the fact that expatriates often earn much more than the local staff, the local employees may feel resentful. This resentment may be expressed by shutting out expatriates from informational networks since they may feel that doing so, and helping expatriates out, are not really part of their job requirement. As a result, the expatriates and the organization lose a valuable source of country and organizational information. Thus, it is important that the practices of the multinational do not breed resentment, but encourage the sharing of information between local staff and expatriates.

### *Cooperation*

Expatriates sent to lead subsidiaries in various capacities will find gaining the local staff's cooperation indispensable to the performance of their job. Without the following of local subordinates and the cooperation of other local managers – neither of which expatriates should erroneously take for granted – expatriates may find their leadership role seriously frustrated and undermined. Those sent to manage local employees quickly lose credibility if they appear to have little local understanding or lack endorsement from other local staff managers. Also, if expatriates do not become part of the social network, decisions may be made without the full input and acceptance of the local employees. With the increased use of teams, expatriates who are not well integrated and accepted by their local staff colleagues are less likely to perform the job well or be satisfied with work relationships within the team. In the case of expatriates sent to transfer knowledge and expertise to local staff and train future local managers, these expatriates will not be successful if local staff are not receptive to their presence in the host organization and are unwilling to learn from them.

Poor expatriate-local relations may also lead to other counterproductive work behaviors ranging from tardiness and absenteeism to more extreme behaviors such as insubordination, withholding of vital information, and even sabotage. For example, local American executives admit that they would continue to produce data with errors because they are not willing to work around the clock to make it error free no matter what their Japanese bosses say; and local Chinese managers deliberately exclude the expatriate manager whom they view as an outsider in the making of major decisions.[10] A top manager from a Swedish-Swiss MNC recounts how Singaporean employees deliberately did not alert an expatriate manager of a bad decision because the expatriate simply "should know better." These problems could have been avoided if expatriates had been able to gain the local staff's cooperation or if the organization had ways in which to encourage and reward cooperation.

### *Emotional Support*

Whereas the importance of the spouse's emotional and moral support has been recognized in research and practice, the role of local staff as a source of emotional support for expatriates has not been widely regarded as important. However, research in newcomer adjustment finds unequivocal evidence for the importance of supportive work relationships as well. Emotional support helps a person to believe that he or she is cared for, esteemed, valued, and belongs to a network of communication and mutual obligation.[11] It includes the friendships that provide emotional reassurance, or instrumental aid in dealing with stressful situations. No doubt, being a newcomer in a new organization or a newcomer in a foreign country can be a highly stressful experience. But with the support of others in the organization, the newcomer can better make the transition to the new job and situation. We see evidence of this in a group of expatriates in Hong Kong, where expatriates' level of adjustment was significantly higher when support was available from their local coworkers than if such support was not available.[12]

According to existing research, even if actual support is not needed or sought after, the mere knowledge of the existence and availability of such support for the newcomer can be quite reassuring, and in turn can reduce the level of stress experienced by the individual. Thus, although the expatriate may never encounter the need to confide in local staff, just knowing that local staff are available and willing confidants alleviates some of the stress the expatriate faces. Furthermore, having supportive relationships in the organization can create a stronger sense of belonging for expatriates. Expatriates feel like they "fit in" with their local colleagues better and thus enjoy greater levels of work satisfaction and commitment to the host organization. The lack of such support could, on the other hand, hinder the expatriate's adjustment. Expatriates in U.S. and Europe based multinationals reported lower levels of commitment and adjustment when they felt that they were being ostracized by their local colleagues.[13] The lack of deep friendships is especially disappointing for expatriates of more relationship-oriented cultures. For example, Korean expatriates in the U.S. find their American counterparts friendly on a superficial level, but quite unwilling to develop stronger relationships. This often results in hurt feelings, disappointment, and a sense of isolation. The expatriates, in turn, become reluctant to socialize with the native-born Americans because they feel that they do not understand them and therefore seek solace through the friendships with the other expatriates.[14] The distancing of expatriate groups ultimately hurts the overall adjustment of expatriates, and also negatively affects their job performance and their ability and willingness to learn from their local counterparts.

However, just as is the case with informational support and cooperation, providing care and support to another employee is not usually specified in one's job description. Forming supportive relationships or friendships with the expatriates they work with is not required by local staff's jobs and would have to occur on their own initiative. Given suitable circumstances, local staff may be willing to go out of their way to support expatriates and help socialize them during their time of transition along the dimensions discussed. Unfortunately, several conditions are prevalent in multinational organizations that could cause local staff to be unwilling socializing agents. We discuss these factors next, and highlight how HR policies can inadvertently discourage the socializing role of local staff.

## HR Practices that Discourage the Socializing Role of Local Employees

What would determine whether local staff chose to exhibit or withhold critical socializing behaviors? Empathy is a critical driving force for an employee's decision to help a fellow coworker.[15] Employees who like and care about their coworker are more likely to provide help on their own accord, whenever help is needed by the coworker. Employees in cohesive work groups, or groups with enhanced positive relationships among members, are more likely to spontaneously help out than employees in less cohesive groups. Similarly, local staff who empathize and have positive feelings towards their expatriate coworkers will be more willing to help expatriates in the course of their work if expatriates appear to need it.

Many HR practices adopted by MNCs have the potential to indirectly hurt the establishment of cohesiveness and rapport between expatriates and local staff. Ethnocentric HR practices that favor the expatriate over local staff, whether intentionally or unintentionally, send a message to local staff that they are less valued than the expatriates. As a result, local staff are less likely to feel friendly or supportive towards expatriates who receive favorable treatment for reasons that may not always seem obvious or acceptable. The inequitable treatment also draws clear lines between local staff and expatriates, creating an intergroup mentality where local staff view expatriates as "outsiders" and expatriates remain in their exclusive expatriate cliques. The clear differentials could reinforce us-versus-them stereotypes, increase friction and frustration, and could create further misunderstandings and conflict.[16] All of these factors would make it unlikely that local staff will feel empathetic towards their expatriate counterparts or go out of their way to help them out when needed. These differentiating HR practices, which we will discuss, include compensation, selection and promotion, and training.

### *Compensation*

A potentially long-standing sore point between expatriates and local staff has been the way both parties are compensated relative to each other. Many multinational organizations seek to minimize expatriate failure by providing expatriates with enough incentives to take on and remain on the assignment until the task is completed. When expatriates are transferred to the host country organization, they expect that the relocation will not be disadvantageous to them in any way, and may in fact be beneficial to their future with the company. According to the 1997–98 North American Survey of International Assignment Policies and Practices published by Organization Resources Counselors Inc. (ORC), the most popular approach to compensating expatriates is still the "balance-sheet approach." The balance sheet approach sets salary according to the base pay and benefits of their home country, plus various allowances (e.g., cost-of-living, housing standard, hardship) and tax equalization. With the inclusion of the various allowances and benefits, the relocation usually results in a financial gain for expatriates, especially if the relocation involves moving to a host location with a higher cost of living.

Even though the balance sheet approach has several advantages, it is particularly problematic for maintaining internal equity among local staff and expatriates in the host unit organization. Expatriates who come from a country of higher standards of living are likely to have a base pay that is much higher than that of the local staff, in addition to the various allowances and incentives awarded to the expatriates for taking on the assignment. When expatriates are moved to a destination with a high cost of living such as Tokyo or London, MNCs usually make significant adjustments to the expatriates' total compensation package to allow the expatriate to maintain a standard of living comparable to that which they would have enjoyed in their home country.

Few companies attempt to replicate local peers' pay in the assignment location, and expatriates are often lavishly rewarded with various perks that are not available to the locals. Consequently, it is not unusual to find cases of differentiation where a local manager's total compensation forms only a fraction of the expatriate's pay package.[17] For example, expatriates of a German chemical company in China are paid an average of $300,000 a year, including salary, housing, education of children and other benefits, but the local managers are paid only 10–20 percent as much.[18] Such significant wage discrepancies will not be viewed as justified by the local staff if they do not view the expatriates as being more qualified and deserving of higher pay. These discrepancies can lead to strained relationships between the two groups of employees, making it unlikely that the local staff will go out of their way to help out an expatriate who may be having difficulties adjusting to the new job and environment. Worse, these discrepancies can result in resentment, leading the local staff to be unwilling to cooperate with the expatriate on any aspect of the assignment, and potentially frustrating the expatriate's efforts to be successful. Thus, the very compensation practices often put in place to help ensure expatriate success may actually jeopardize it instead.

### *Selection, Promotion, & Training*

Ethnocentric HR practices can also be found in selection, promotion, and training. In many MNCs, the staffing of top positions in overseas units continues to be reserved for individuals from the parent country company. This is especially true when headquarters believes that having a parent country expatriate at the helm has some strategic value. Frequently, for control purposes, parent companies prefer their own nationals to hold those positions whether or not they are the necessarily the best-qualified persons for the job. It becomes frustrating for local staff when they view expatriates getting choice positions while a similarly qualified local gets passed over. Singaporean managers, for example, often report being disadvantaged when competing against parent company expatriates for opportunities in training and promotion.[19] Local managers in Japanese corporations' overseas subsidiaries recognize that they would have to be exceptional to be selected over a Japanese manager for a high level post. Such ethnocentric practices often come at the expense of the promotion and development of capable local staff, further perpetuating the large wage discrepancies between local staff and expatriates and creating resentment among them.[20] Feeling like they have little future in an organization that treats them as second-class citizens, local staff display little loyalty towards the host organization and are more likely to leave when better job opportunities arise elsewhere.

### So What Has Changed?

The HR practices we have described have generally been in place for quite some time, yet they have not always resulted in the negative consequences we are suggesting in this article.[21] The reason for this is that many aspects of globalization have changed, but the HR practices have not changed accordingly. One thing that has changed is the relative competence of expatriates versus local staff.

The basis for much of the global economy has it roots in colonialism. From the earliest days of colonization, the home country was significantly more developed and had superior resources relative to the overseas host (colony) destinations. This easily led to the practice whereby managers from Western multinationals were sent to Asia, South America, and other locations to fill needs in foreign operations that could not be satisfied with local labor, and provide a source of much desired control over the foreign operations. Local staff would have been unlikely to view themselves as comparable to expatriates because of the vast differences in backgrounds, qualifications, and experience. Thus, local staff were more accepting of expatriates being managers and of the privileges they enjoyed.[22] They may also have already been quite satisfied with the relatively favorable remuneration they received compared to their previous job or their present alternatives. One study found that Chinese managers felt fairly treated by their organization because they perceived themselves to be better off compared to other locals in the same company or in other international joint ventures, even though they were worse off than the expatriates in their organization.[23] We also find this situation outside multinational organizations – in universities, for example, among professors and trainers who are sent to places such as Asia to team-teach courses where they receive much higher salaries than their local counterparts.[24]

The new reality, however, presents quite a different scenario. Popular host countries in the Asia Pacific region, such as China, India, Malaysia, and Singapore are no longer merely sources of cheap labor, but the homes of some of the most competitive workforces in the world with high work aspirations.[25] The gap between the parent and host countries in terms of level of economic development has narrowed and the local staff are often trained in many of the same institutions as the expatriates. They are increasingly similar to expatriates in qualifications, and thus are more often coworkers, rather than merely subordinates, of expatriates. These locals are progressively more fluent in English, are trained in the West or in Western managerial ideology, and on top of that have an advantage over expatriates with their intimate understanding of the local culture and practices.[26] They are also less likely to encounter the adjustment and commitment issues faced by expatriates. Accordingly, their perceptions and expectations of how they should be treated by the organization change. Many Russian managers feel that they are generally better educated and cultured than their Western peers and expect to be treated similarly to the expatriates. As a result, the acute pay discrepancies that traditionally occur are now quite unacceptable in far more situations than before.

In addition, international assignments are increasingly treated by MNCs as a key developmental activity for their personnel and future executives. Expatriates are posted overseas to gain international experience and learn new processes that are unique to the host organization.[27] This could be a form of on-the-job training for expatriate managers as they learn how to operate effectively in a different environment. Thus, these expatriates are sent to learn from the local staff. When local staff perceive expatriates as not possessing any unique or specialized skill above what they themselves possess, or may in fact know more about the task that the expatriates and end up being the person the expatriate has to lean on to perform the expatriate's job, the large wage discrepancies between them quickly become objectionable.[28] In other words, if expatriates are viewed to be less qualified than the local staff in the organization, the extra privileges awarded to them will be viewed by the local staff as unfair and unacceptable.

Interestingly, despite the changes that have been occurring, we find that cultural differences sometimes mitigate the problems we highlight in this article, i.e., the reaction to inequity is not universal. Cultures differ in their sensitivity to inequity. Fairness is defined differently by people of different cultures. Some cultures, such as many Asian and Latin cultures, prefer rewards to be allocated based on seniority or need, rather than equity.[29] The importance and value placed on various forms of rewards also differs. Monetary rewards are often not necessarily the most valued. Thus, salary differences, per se, may not be as important to local staff as significant differences in status or other benefits such as housing, medical, and transportation. In certain economies, such as that of Russia, where commodities are often more valuable than money, differentials in salaries are likely to be less undesirable and offensive than differentials in prized commodities. In collective societies, harmony may take precedence over pay equity. We often find that the assumed "same job same pay" mentality is not prevalent among local staff in the organizations of various host countries. As such, local staff's reactions to compensation differentials and differences in treatment and opportunities vary according to the cultural values that they hold and the problems that we suggest to result from differential treatment are not necessarily universal.

## What Can Organizations Do?

Thus far, we have described a situation where expatriates need the help and support of local staff, but where multinational HR policies may be working to reduce the willingness of the local staff to do so. Although there may be exceptions, as noted above, any such unwillingness on the part of local staff will certainly be unacceptable in the long run. But, even in cases where local staff are sensitive to pay differentials, there are some steps a multinational firm could take to minimize this problem. Specifically, we propose seven recommendations for MNCs to consider (see Table 1): 1) change existing compensation practices; 2) select expatriates more carefully; 3) use transparent procedures to determine pay and promotion; 4) emphasize favorable comparative referents; 5) breed organizational identification; 6) prepare local staff; and 7) use and reward local staff buddies or mentors. We will discuss each of these in greater detail.

### *Change Existing Expatriate Compensation Practices*

As noted, many multinational firms have adopted HR practices that serve to differentiate expatriates from local staff which are often inequitable from the perspective of the local staff. Clearly, if a firm minimizes the differential treatment between expatriates and local staff, the perceptions of inequity are likely to diminish. However, less than generous incentives for expatriates may deter employees from taking on overseas assignments, and thus expatriate packages are quite resistant to change. Many of the large MNCs, such as the traditional manufacturing enterprises, have become too large, complex, and entrenched in their existing practices to effect changes to compensation policies easily. Thus, even though the benefits of a more flexible approach are widely recognized, a 2000 PriceWaterhouseCoopers survey of 270 European multinational organizations reported that only 7 percent of the companies surveyed adopted such an approach. Furthermore, expatriates still tend to expect favorable compensation packages for their relocation. For example, expatriate managers of 49 Taiwanese multinationals reported that the compensation package was the most important factor in deciding whether or not to relocate internationally.[30] Without favorable remuneration, organizations will have trouble finding enough interested employees to take on overseas postings.

In time, change should become easier as expatriates come to view overseas assignment as a valuable part of their portfolio and become willing parties to the assignment even without lavish compensation packages. However, many expatriates still have concerns over their career progression while they are away on assignment, as well as having a suitable job and promising career upon repatriation.[31] The truth of the matter is, most multinationals do not guarantee a job upon return and do not counsel repatriates when they come home.[32] Hence, we find that employees sometimes view overseas assignments as a career graveyard, and that organizations are forced to provide attractive incentives to convince employees to accept long-term overseas assignments. If, however, MNCs develop better strategies for managing the careers of expatriates, including specific plans for repatriation prior to the assignment, expatriates may be

**Table 1**
**How To Improve Expatriate-Local Relations**

**At the headquarters of the organization:**

1. *Change Existing Compensation Policies* – Pay expatriates salaries more in line with local employees. But, in order to do this, the organization should:
   a. Develop better plans for repatriation to assure expatriates that they will get comparable jobs upon return.
   b. If overseas assignments are truly valued as a developmental activity, include procedures so that they can be rewarded.
-- In the end, the real question is "Will managers still accept expatriate assignments?" If the answer is "no," then the organization must consider alternatives.
2. *Select More Carefully* – Ensure that expatriates are qualified to perform the jobs expected of them at a level consistent with the pay they will receive. But this will require the organization to:
   a. Make sure that expatriate managers have social as well as technical skills needed.
   b. See if there are local employees who are equally qualified. If so, are they paid comparably?
   c. Communicate performance expectations and criteria for success clearly to the expatriate.
-- There will be fewer problems if host country nationals can see clear evidence that the expatriate is "worth" what he or she is paid.
3. *Use Transparent Pay and Promotion Policies* – Develop pay policies that are viewed as fair and that are clear to all involved. But this requires the organization to:
   a. Actually develop pay policies that can stand scrutiny by local employees as well as by home country employees.
   b. Communicate pay policies as well as the basis for expatriate compensation rates (clear statement of hardships and barriers to overcome).
-- If host country nationals come to see that the fact that they are paid less than expatriates is based on fair procedures, they will be less resentful.

**At the host country site:**

4. *Emphasize Favorable Referents* – Identify alternative referent persons for host country national comparisons instead of the expatriate manager. But this requires that the organization should:
   a. Determine that such reasonable comparison others exist and make them public.
   b. Work to make expatriates less salient as referents
-- If host country nationals can be convinced to compare their pay (and treatment) to other employees in their country, instead of expatriates, they will be more satisfied with their conditions.
5. *Breed Organizational Identification* – Build a single organizational identity instead of allowing an "us vs. them" mentality to develop. But, for this to happen, the organization must:
   a. Develop a superordinate corporate identity strong enough to overcome identification based on nationality.
   b. Insure that host country nationals have access to various organizational "symbols" such as a company car or parking spaces.
   c. Increase the number and frequency of experiences that expatriates and host country national share.
   d. Develop common goals for host country nationals and expatriates to work towards.
-- If host country nationals develop a strong corporate identity they will work harder towards company goals and be less concerned about comparisons within the company.
6. *Prepare Local Staff* – The local employees should be trained and oriented to deal with the incoming expatriates in much the same way as expatriates are often trained to deal with locals. But this would require the company to:
   a. Spend resources on training and orientation for employees who usually do not receive such attention.
-- The entire expatriate assignment process requires adjustment and consideration on the part of everyone involved, and if local employees could be trained to know more about the culture of incoming expatriates, this would make the process easier.
7. *Use and Reward Local Mentors* – Identifying mentoring expatriates as part of the local employee's job, and then rewarding such behavior will make it more likely to occur. But this would require the company to:
   a. Recognize the important role local staff play in the success of expatriates.
   b. Recognize that, normally, local staff behavior aimed at helping expatriates adjust, is exhibited on a purely voluntary basis.
   c. Actually reward local staff for behaviors that help expatriates succeed.
-- This lies at the heart of our arguments about the importance of local employees. They are critical to expatriate success, but this fact must be recognized by organizations and encouraged as well as rewarded.

more willing to forego lavish compensation packages and view assignments as a benefit by itself.

More companies have also turned to paying expatriates at host country levels (localization) or adopting more flexible approaches for compensating their employees in order to reduce their wage bills and lower pay discrepancies between expatriates and locals.[33] Many companies, such as Nokia Asia Pacific, localize their expatriate employees after a certain number of years in the host country whereby the employee takes on the same pay package as would a local employee. Companies like Deloitte & Touche, National Semiconductor, and Towers Perrin have also started on paying for performance programs, varying compensation packages based on assignment length and type, and using more sophisticated measures to calculate cost-of-living differences.[34] As a result, discrepancies between expatriates and local staff may be reduced. Also, more and more multinational companies are using short-term assignments and extended business trips, as opposed to long-term expatriate assignments, thus avoiding the need to pay excessive benefits and adjustments to the expatriate. We see this trend as being quite positive, and as having the potential to truly reduce resentment among the local staff.

Yet we recognize that there is only so much an organization can do to adjust these HR policies, especially in the short run, since most organizations must still somehow induce managers to accept overseas assignments, or at least assure them that they will not suffer as a result of those assignments. Eventually, salary localization policies and increased reliance upon short-term assignments may make it easier to adopt HR practices that treat expatriates and local staff the same. Expatriates sent overseas for developmental reasons should not necessarily expect a significant pay adjustment since the stint is usually short-term and potentially beneficial for the employee. For now, though, expatriate HR practices, especially in the area of compensation, will probably continue to favor expatriates over local staff. As such, MNCs must turn to other means to overcome the negative effects of internally inequitable expatriate compensation packages.

### *Select More Carefully*

One alternative to changing compensation practices in order to reduce problems caused by perceived inequity is to ensure that the expatriates MNCs send overseas are in fact suitably qualified to perform the job in question and deserving of any higher pay they receive. As noted, expatriates encounter resentment if they are viewed as overpaid by local staff (i.e., being equally or under qualified for the position they hold in the host unit, but at the same time being paid more than a local holding the same position). If expatriates demonstrate competence worthy of higher pay, local staff will be less dissatisfied. Many experts suggest that it is important to select expatriates who not only have the technical knowledge, but also the social and cultural skills needed to be effective in a different culture. Expatriates equipped with good communication skills will be able to integrate themselves better into the new culture and work more effectively with local staff. The European division of ICI, a British chemicals company, selects individuals who are good at getting along with colleagues at home because this is usually a good predictor of how much effort they will put in building understanding and trust with local staff.[35] Thus, adopting selection techniques that takes into consideration these "soft skills," and prepare expatriates adequately for the assignment and all the challenges that it entails is a highly pertinent measure that MNCs could take.

At the same time, MNCs should make the criteria and procedures for selecting candidates to hold high level positions in the host unit as clear as possible. Unambiguously stated criteria and procedures could reduce perceptions of nepotism. Seeking and utilizing input from local staff in making assignment decisions can be helpful for selecting the appropriate candidate, and could increase the legitimacy of the expatriate assignee in the local staff's eyes. Where suitable, other qualified local staff should also be allowed to compete for promotions alongside expatriates. This creates opportunities for local staff to gain desirable jobs within the organization and debunk any views of favoritism in the organization. Local staff who do compete for the promotion should be kept informed throughout the process. Transparency of the selection and promotion procedures is especially important if the local employee is not selected because local staff might feel that they have been unfairly rejected. In such instances, it is especially imperative that management treats the rejected applicant with much sensitivity and dignity to avoid hurt feelings or misunderstandings.

### *Use Transparent Procedures to Determine Pay*

In addition to using open and rigorous selection procedures, MNCs should also ensure that the procedures used to determine pay packages for expatriates and local staff be transparent and fair. If local staff view the procedures used to arrive at the pay packages (and selection, promotion, and training decisions) as legitimate, receive reasonable explanations and justifications for the discrepancies, and feel that their concerns and needs are treated with care and sensitivity by the organization, their dissatisfaction with any inequity may be reduced.[36] Local staff often do not realize the challenges faced and sacrifices made by expatriates. To that effect, multinational organizations should be proactive in explaining the purpose of sending expatriates and establishing and communicating clear and fair procedures to local staff. If reward discrepancies have to persist, then it is imperative that organizations make an extra effort to be sensitive to the reactions of the local staff and also to treat them with the necessary dignity and respect.

### *Emphasize Favorable Comparative Referents*

Organizations can also reduce the negative perceptions held by local staff by emphasizing the ways in which local staff are better off compared to other groups of employees. As mentioned earlier, one study found that locals in a Hong Kong joint venture were not disturbed by having lower wages than expatriates because they were cognizant of how much better off they were compared to other Chinese employed by local firms. Often, even though local staff feel disadvantaged relative to the expatriates in their organization, they may still regard their higher wages, greater autonomy, and better opportunities for career development as very attractive aspects of being employed by a MNC. Furthermore, if expatriates are a less prominent comparative referent in local staff's minds, and local staff are satisfied with other aspects of their jobs, local staff react less negatively to the inequity between themselves and the expatriates. MNCs can redirect local staff's attention away from expatriates by publishing statistics that emphasize the advantages these employees have in terms of their pay packages, investments in training and development, and other employee benefits relative to employees of other local organizations or other industry competitors. In general, MNCs have access to a large pool of resources to make more investments in their human resources, which are not matched by local enterprises. Clearly, some careful impression management goes a long way in helping multinational organizations avoid the negative consequences we have suggested.

### Breed Organizational Identification

Us-versus-them perceptions by local staff can be minimized by emphasizing the corporate identity to local staff so that expatriates are viewed less as outsiders, but fellow members of the larger, more inclusive organizational group. This process is known as "recategorization," where enhancing the prominence of an overarching identity reduces the prominence of a lower level group identity. In the case of the host unit, emphasizing organizational identity over national identity may reduce the local staff's likelihood of viewing an expatriate in the organization as someone they are competing against for organizational rewards.[37] Emphasizing the superordinate identity has another advantage of raising organizational commitment, and drawing attention away from contentious tendencies within the organization to focus on extra-organizational referents, such as the organization's competitors. In other words, intergroup comparisons can be diverted to occur across organizations (e.g., industry competitors), rather than within the organization between the local staff and the expatriates. As far as possible, organizations should minimize referring to expatriates as a separate group from local staff. Distinctions in day-to-day operations should be avoided and expatriates integrated to the local unit as much as possible so that they are perceptibly less different from the local staff. Organizational symbols, such as office space, parking spaces, common cafeterias, and informal socializing grounds act as subtle yet strong signals to local staff about how much distinction the organization makes between the two groups, and thus should be minimized.

Organizational identification can also be developed by putting both local staff and expatriates together in orientation and training programs. The shared experiences help develop a sense of cohesiveness. Examples of this type of socialization include McDonald's policy of having all restaurant managers attend Hamburger University, or joint training exercises for NATO military units. In each case, the process builds a strong corporate identity that could transcend other types of group identities (e.g., nationality) by putting employees through similar socialization experiences.

Increasing the interactions between expatriates and local staff as well as emphasizing common work goals can also breed organizational identification and minimize the perception of expatriates as outsiders. By having more frequent interactions with their expatriate colleagues, local staff have more opportunities to learn about each expatriate personally and develop more accurate understanding of the expatriates with whom they work. In this way, pre-existing stereotypes may be refuted and the locals can come view expatriates more as "one of us" rather than "one of them." Organizing expatriates and local staff in teams, working together to achieve common objectives, can help local staff and expatriates be more attuned to a common fate shared between them. When local staff perceive themselves and the expatriates to be working towards the same overarching goal(s), the prominence of the national boundaries may diminish and the perception of expatriates as part of the organization may heighten. As local staff begin to view expatriates as part of their ingroup, they will also be more likely to support and cooperate with them.

### Prepare Local Staff

MNCs should also provide both expatriates and local staff adequate training in cross-cultural communication and understanding. Being able to communicate effectively with each other is a key step in developing supportive relationships. Local staff, as well as the expatriates, need to be equipped with the necessary knowledge and skills to interact and work effectively with foreign nationals. Research suggests that large cross-cultural differences pose significant obstacles to the effective transfer of knowledge between locals and expatriates.[38] Thus, when Tellabs acquired Helsinki-based Martis Oy, all foreign executives underwent training on conducting business meetings, developing supervisory-subordinate relationships, and communicating effectively. Many Finnish engineers were also sent to headquarters to learn how to interface with their American colleagues and other employees.[39]

People make assumptions about an individual's intelligence, competence, and even social class based on how the individual speaks and carries him or herself. Cultural sensitivity training will help avoid misunderstandings, educate both local staff and expatriates on the appropriate behaviors, and dispel whatever negative stereotypes and assumptions they have about each other. In an experimental study of American host country managers confronted with Japanese managers, it was found that the extent to which the American managers' expectations of the Japanese managers' behaviors were met influenced subsequent intentions to trust them and to associate with them.[40] The researchers concluded that it is important to equip receiving local managers with realistic expectations of foreign managerial behavior in order for more positive relationships to be developed between them.

Some MNCs make the mistake of not carrying out cultural training based on the fact that the host country and the expatriates share the same language. However, even if expatriates and local staff speak the same language, misunderstandings can still occur. The director of an international provider of international assignment support programs recounts how a Texan in the UK came across to her British colleagues as arrogant and vulgar because she talked too loud and slowly, and was prematurely familiar with her colleagues both verbally and in her body language.[41] As a result, she was unable to fit in with her work group. It is important that organizations do not overlook the significance of preparing both the expatriates and the local staff for cross-cultural encounters at work.

### *Use and Reward Local Buddies or Mentors*

As noted before, there is often no formal requirement or reward for local staff to facilitate the adjustment of expatriates and thus helping expatriates out or being cooperative needs to stem from their own initiative. To avoid leaving such behaviors to chance, MNCs could provide formal incentives to local staff for displaying cooperative and supportive behaviors towards expatriates. MNCs could pair up expatriates with local staff for a period of time and reward local staff involved in socializing newcomer expatriates, or for participating in some sort of buddy program that facilitates the expatriate's entry to the host unit. In this way, local staff's socializing behaviors are formalized and rewarded, and the help that expatriates need from local staff is better ensured. MNCs should also make efforts to involve local staff in the planning and facilitation of an expatriate's transition. This not only boosts local staff morale but also improves the chances of expatriate success.[42] Getting the local staff involved in the process also increases the transparency of the policies surrounding expatriation and the local staff who themselves are interested in developing their international experience could gain from being in continuous contact with incoming expatriates. This informational exchange greatly benefits both parties.

To ensure that information is shared with expatriates, SAS Institute's regional headquarters in Heidelberg, Germany, assigns insider buddies to expatriate newcomers to help the newcomer to be self-sufficient and reach high levels of productivity as quickly as possible. These buddies are volunteers with no explicit or formal obligations. They help listen and answer simple questions expatriates may have, offer simple advice, and help point expatriates in the right direction on work and nonwork matters. Similarly, at Korean multinational semiconductor manufacturer Samsung's Texas computer memory chip factory, each incoming expatriate is paired with an American counterpart upon arriving at Austin. These "buddies" help the Korean expatriates with work and with their downtime. The locals take the Korean workers on nights out, lunch meetings, and weekend trips.[43] With the help of local staff who are willing to share information with expatriates, the expatriates enjoy greater success in their efforts to adjust to their work demands and cultural challenges.[44]

## The Local Perspective

In this paper we have discussed how HR practices designed to help and encourage expatriates can produce negative reactions by the local staff. We believe that this possibility has been largely overlooked because multinationals have tended to focus more on the expatriates than on the locals. We also believe, however, that the changing competitive landscape, the development of human capital in local markets, and the importance of cooperation and teamwork in a global economy, all point to a need to increase the attention paid to the local workforce. No global organization can hope to be truly competitive unless it fully utilizes its entire workforce. Furthermore, as we have pointed out in this paper, local staff are important, not only in their own right as potentially productive members of the organization, but also as a source of support and help for expatriate managers sent to their country.

What does this mean? It means that multinational organizations must pay attention to and gather information on the attitudes, goals and feelings of the local staff. It also means that organizations need to develop programs to increase the motivation and commitment of those local employees. Many managers of MNCs view local staff as dispensable – perhaps more so now than before. Local staff are still likely to believe that the multinational pays better and treats employees better than the alternatives, and would still be motivated and committed to the organization. However, we believe that a local perspective means that the MNC will no longer take those things for granted. Instead, the MNC will recognize that the local staff have alternatives in third-party countries, or with other MNCs, and that the organization needs to work at motivation and commitment of the local staff. Of course, this perspective would also require the MNC to consider the impact upon local staff of any proposed policy, and weigh this impact when deciding whether or not to implement these programs. We believe it is critical that MNCs adopt such a perspective in order to be successful in the future.

## Conclusions

The present paper represents a call for attention to be paid to local staff. We began by pointing out how, although local staff employees are increasingly well-trained and well-educated, many HR policies for expatriates still favor expatriates over local staff, and so do not recognize these accomplishments. We also discuss how local staff could compare their outcomes to those of the expatriates and how this could result in local staff believing they are being treated unfairly. These beliefs could then result in those local employees withholding advice and support which, while not required as part of the local employee's job, are important for the ultimate success of the expatriate.

But, as we also note, a number of global companies are coming to recognize the importance of local staff, and are implementing programs designed to improve commitment and perceptions of fairness by those local employees. We also suggest a number of other interventions and programs which might help local staff feel appreciated, fairly treated, and committed to the larger organization. Several of these suggestions mirror those implemented by some more innovative multinationals, and we discuss these examples as well.

Therefore, we end by reiterating the message that local staff is important and must be recognized as such by MNCs. We believe that many organizations are coming to recognize this and act accordingly, but we also believe that there is much more that can be done. We believe that it is increasingly clear that the effective management of local staff will be a key component of effective competition in the coming years.

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