



The slow recovery in the global economy, shifting workforce demographics and the organizational need to control costs are all creating an increasingly challenging environment in the expatriate talent market. As a result, multinational organizations that are based in the U.S. need to be prepared with dynamic expatriate talent-management strategies that can quickly be adapted to meet changing conditions worldwide.

To quantify and track this evolving situation, Sibson Consulting and IBIS Advisors (an independent international human resources management consulting firm) invited professionals who work for U.S.-based companies that operate abroad to participate in an *Expatriate Talent Market Trends Survey*.<sup>1</sup> This article summarizes selected survey findings and explores what multinational organizations can do to keep pace of the situation. The three issues discussed below are:

- How multinationals' needs for expatriates are changing,
- Whether the continued use of expatriates is economically viable, and
- How multinationals are exploring new approaches to getting higher returns on their expatriate investments.

### Changing Needs

Several media outlets have reported that many U.S. multinationals are beginning to repatriate their expatriates, largely as a cost-control measure. However, 65 percent of the respondents to the Sibson survey said they plan to either *increase* their expatriate workforce or *maintain* current levels. Nevertheless, Sibson believes multinationals need to examine regularly whether their expatriates occupy vital roles that create real economic value for the organization. Although most organizations probably conduct this exercise when they first deploy each expatriate, it may have been years since they have updated this information for those in the field.

The first step is to carefully analyze and align each expatriate role requirement (see the sidebar "[What is a Role Requirement?](#)" on page 3) with the organization's overall business strategy. This will involve identifying the:

- Results, metrics and experiences that are critical to executing the organization's overall business strategy,
- Capabilities and competencies that define the ideal candidate and success, and
- Clear reasoning as to why an expatriate is the best talent source for a particular role.

## What Does the Future Hold for Expatriate Talent Management?

A typical job description is not enough: the organization needs to look at the strategic business objectives that the role will drive, how much influence and control the role exercises and how the role is expected to deliver value. In addition to these “hard” skills, a growing number of multinationals also take into account the role’s “softer” requirements, including cultural sensitivity, the facility for building alliances with community and governmental entities and, of course, the ability to speak the local language.

Sibson’s research indicates that most multinationals are still willing to pay for differentiated talent, citing an anticipated return on investment (ROI) as a primary driver. Some say that expatriates are vital to their business strategy because they have specific experience, contacts, company knowledge and/or capabilities that differentiate them demonstrably from local talent and are needed in certain locations. According to Sibson’s study, operations and research and development are the top two functions in which respondents are recruiting, deploying or maintaining expatriates. Further, business/industry knowledge and strategic leadership are the top capabilities in considering expatriate candidates, and respondents do not report this changing from two years ago. (See Figure 1 below.)

**FIGURE 1: TOP FUNCTIONS FOR WHICH EXPATRIATES ARE CURRENTLY MOST OFTEN RECRUITED OR DEPLOYED (1 = RECRUITED MOST OFTEN)**

	Average Rank	
	Current	Two Years Ago
Operations	1.53	1.62
Research and Development	2.19	2.00
Legal	2.20	2.25
Finance	2.23	2.29
Sales	2.27	2.28
Marketing	2.30	2.31
Human Resources	2.54	2.53

Source: Sibson Consulting’s *Expatriate Talent Market Trends Survey*

### **Economic Viability**

Although expatriates generally cost an organization significantly more than local hires, it is important to look at the extent to which the role creates real economic value, how it affects the company’s strategic intent and what, if any, corporate objectives would be at risk if this role and the definitive expertise needed to perform it did not exist. To ensure a strong ROI, expatriate talent management must be driven by clear accountabilities, success metrics and cost-effective economics. Whether the objective is to manufacture products, enter new markets or develop innovative technologies, multinationals need to regularly review all costs associated with expatriation to ensure the value/cost ratio remains in proper balance.

Many organizations that have decided to retain their expatriates are taking steps to control costs. Eroding profit margins brought on by the global economic downturn have caused many to increase their diligence in designing and implementing expatriate packages with explicit incentives to curtail these trends. Unsurprisingly, a significant part of cost control involves expatriate compensation, which has become increasingly complicated. According to Sibson's survey, virtually all respondents who are decreasing their expatriate workforce reported doing so because of high compensation costs. Moreover, 26 percent of the respondents said they had taken recent actions or have short-term plans to decrease expatriate compensation, 67 percent said there will be no change and only 7 percent plan an increase.

A prominent number of multinationals now use a "local plus" compensation plan, which combines a local package with a one-time lump sum to cover living and tax expenses. Some have implemented deceleration clauses in their expatriate pay packages that pertain to reimbursements for rent, school, transportation and tax equalization. Others have made the transition to country currencies, locally competitive pay levels and limited assignment duration. In essence, they are taking tangible steps to "localize" their expatriates.

### **Making the Transition to Local Talent**

In many developing countries, the indigenous workforce may be more qualified than it was prior to the recent recession. Some countries are even experiencing a return of highly educated and experienced workers who, until recently, were working in the U.S. and other developed nations, further improving the local talent pool. As a result, even multinationals that are retaining expatriates are considering long-term plans to replace them with highly qualified locals. Fifty-one percent of Sibson's survey respondents said they plan to increase their investments in developing local talent as the economy improves, and they ranked replacing expatriates with local talent and shortening assignment time as the top two cost-cutting methods. (See Figure 2 on the next page.)

## **What is a Role Requirement?**

A role requirement contains six discreet and interdependent elements:

- **Accountabilities** The position is responsible for delivering specific outputs and results.
- **Metrics** Measurements of success must be clear and quantifiable at the individual and organizational level.
- **Key Relationships** The person in the role must be able to interface with stakeholders and ensure that information flows properly.
- **Decision Authority** What is the level, type and frequency of the decisions that must be made to perform the role?
- **Critical Skill Sets** The person in the role must be able to demonstrate specific key competencies and capabilities.
- **Technical Qualifications** What specific credentials, certifications or qualifications are required?

It is important to define each role requirement clearly and then measure its unique value contribution.

**FIGURE 2: TOP METHODS OF EXPATRIATE COST REDUCTION  
(1 = MOST IMPORTANT)**

	Average Rank
Replacing expatriates with local talent	1.41
Shortening assignments	1.49
Developing internal talent	1.57
New salary scale for incumbents	1.70
Increase use of variable pay	1.75

Source: Sibson Consulting's *Expatriate Talent Market Trends Survey*

Even as the use of “local plus” compensation has gained prevalence, forward-thinking multinationals are exploring new arrangements that use metrics and incentives to drive value creation. These may include tangible measures to determine the number, type and quality of local talent that is needed, increased employee engagement to alleviate unwanted turnover and accelerated expatriate replacement programs with deferred payouts based on local incumbent performance levels.

Perhaps most importantly, formalized linkages between expatriate deployment actions and company strategic workforce planning efforts are needed to define realistic career opportunities, implications and mobility options more effectively. Lack of this type of integration can cost an organization dearly over time, and can be a key driving force behind longer-than-anticipated foreign assignments.

For example, an organization may transfer an expatriate overseas to launch a new product. Although the expatriate is supposed to remain only until the product is developed and commercial — usually two to three years — in some cases these incumbents are still on the job five or six years later, long after the initial objectives have been met. Unless expatriate deployment is linked more formally to strategic workforce planning efforts, the challenges associated with containing costs and optimizing value are not likely to go away anytime soon.

### **Conclusion**

Most multinational organizations are still willing to pay for the business capabilities and experience that differentiate expatriates from local talent when they have identified a clear need. They recognize that certain functions need expatriate talent and that local talent may not always have the desired skill set to replace expatriates. Nevertheless, most of these organizations still have to control costs and improve value. Having a well-formulated and regularly updated expatriate workforce plan that is linked to the organization’s strategic business needs will help it to more fully explore the implications of using expatriates, keep up with changing needs, improve their ROI, and ultimately help these organizations make the transition to local talent when the time is right.

## What Does the Future Hold for Expatriate Talent Management?

*About the authors:*

**E. Michael Norman** is senior vice president in the Los Angeles office and leader of the Organization and Talent Practice of Sibson Consulting. He can be reached at 310.231.1754 or [mnorman@sibson.com](mailto:mnorman@sibson.com).

**James Whitbeck** is an associate consultant in the Los Angeles office of Sibson Consulting. His expertise is in the assessment and redesign of compensation and retention programs. He can be reached at 310.231.1736 or [jwhitbeck@sibson.com](mailto:jwhitbeck@sibson.com).

This article is from the February 2010 issue of *Perspectives*, Sibson Consulting's e-magazine, which is available on the following page of Sibson's Web site:  
[http://www.sibson.com/publications/perspectives/volume\\_18\\_issue\\_1/future-tm.html](http://www.sibson.com/publications/perspectives/volume_18_issue_1/future-tm.html).

Sibson Consulting, a Division of Segal, provides strategic human resources solutions to corporate and non-profit employers. Sibson's services include benefits, compensation, talent and performance management, communications, sales force effectiveness and change management. For more information, visit [www.sibson.com](http://www.sibson.com).

Copyright © 2010 by The Segal Group, Inc., the parent of The Segal Company. All rights reserved.

---

<sup>1</sup> The *Expatriate Talent Market Trends Survey* received responses from 99 respondents working in various functions: finance, human resources, legal, market operations, research and development or sales in a variety of industries. More than half of the respondents are in decision-making roles (*i.e.*, director or above). For more information, see the [Expatriate Talent Market Trends Survey](#), published in the fall of 2009.