Compensation as an Impetus to Foreign Assignments in Indian IT sector

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Abstract: *Offshore employees (expatriates) working abroad are an important part of any organizational workforce, working and competing globally. The compensation parameters of expats are very different from that of other employees. The purpose of this paper is to understand what are the factors other than money that motivate employees to take up foreign assignments. For the purpose of this analysis we have taken 5 IT companies namely TCS, Wipro, Cognizant, Capgemini and IBM. To narrow down our research further we have taken only software engineers who are sent away as expatriates. This paper gives a proper understanding as to which companies invest on what component to structure their compensation in such a way that it motivates employees to choose them if they want to work on foreign assignments. It also gives us an understanding on what are the components that employees give most importance to and how companies can work on improving those aspects to come up with the most cost effective compensation structure.*

Keywords: Compensation, Expatriate, Motivation, IT, India.

INTRODUCTION

With the increasing growth in business across countries post LPG, India has seen a rapid growth in employees going abroad for foreign assignments in the IT sector especially in the last 2 decades. This has led to a rising demand for expatriate talent. Expatriates in this case are all employees who move out of their home country due to foreign assignments or organization transfers and stay there for at least 6 months. It has become important for IT companies to communicate internally and across borders through a physical presence and encourage interests of their clients abroad. For this reason expatriates are playing a vital role in being the face of the country in the international scene.

With the rapid growth in IT sector we see a haphazard trend of dissatisfaction and restlessness related to the work life balance in the millennials. We are turning into a generation who is very adjusting and quiet ready to take up new challenges but at the same time we like to work in autonomy.

Sending employees abroad comes with a huge cost to the company. From an organization's point of view the cost of expatriation is seen as very high and thus they are under a constant pressure to bring it down. There are various motivating factors that an employee looks into before taking up a project like - Cost of living Index, Promotion Opportunities, quality of assignments, relocation allowance, ease of cultural integration etc. Global rewards and recognitions are important for the organizations, especially in the IT sector and compensation of expatriates is a very most significant part of those practices. The focus of this paper is to identify the factors other than compensation that are the most relevant in motivating employees in the Indian IT sector to take up foreign assignments.

LITERATURE REVIEW

The literature available thus far on expatriation tends to reflect the perspective of the organization and the difference between self-initiated and organization assigned expatriation[1] with less focus being on the individual's perspective about factors that influence their decisions and their motives for accepting expatriate assignments[2]. In addition most of the literature seems to make the assumption that organizational interests are consistent with individuals' motives for expatriate assignments. This assumption has been under increasing scrutiny.

Most of the employees sent abroad for foreign assignments come back on the same designation. A few of them get a raise on their salary but only of 5% or so. There are views that the compensation packages is what actually drives the skilled employee base to accept foreign assignments, which is argued by Bonache& Fernandez (1997) who believe that monetary incentives is what encourages expats to accept projects.

All the pre existing data on repatriation suggests that most companies have not yet come with a stable compensation structure for employees who come back from abroad. This also indicates that a vast number of software engineers working in the IT sector try to look for better opportunities once they are in another country. This paper will try to focus on the motivating factors that companies provide to their employees in order to reduce attrition but at the same time be cost efficient.

Unfortunately, a large proportion of expatriates fail to complete their assignments satisfactorily[3], which is a consequence of the fact that many expatriates experience difficulties in adjustment, lack of social and organisational support, and a gap between reality and expectations. All of these can be led back to the motivation of the expatriate[4].

Thekeytounderstandingaforeignassignmentasasetof characteristicsisprovidedby adopting Lancaster's (1966) approach to modeling the utility deriving from a consumer good. In essence, Lancaster (1991) argued that the multiple characteristics of a good (rather than the good as such) give rise to utility. This approach can also help to understand choice among abstract alternatives (Pudney, 1989). In particular, job choice depends on job satisfaction, which in turn depends on the package of the wage and non-wage characteristics of the job[5].

Organisations use expatriate assignments for a multitude of reasons which include the ability to maintain subsidiary control, skills and knowledge transfer, and management development[6]. Technical competence is a key attribute required for these assignments which makes skilled professionals with the necessary technical skills marketable, especially if the skill required is scarce.

DISCUSSION

a. Compensation and Benefits: The right mix

Through this research we are going to find the important components of a compensation structure, both monetary and non-monetary which influence an employee to take up a foreign assignment. Following are few components compared between the home and host countries:
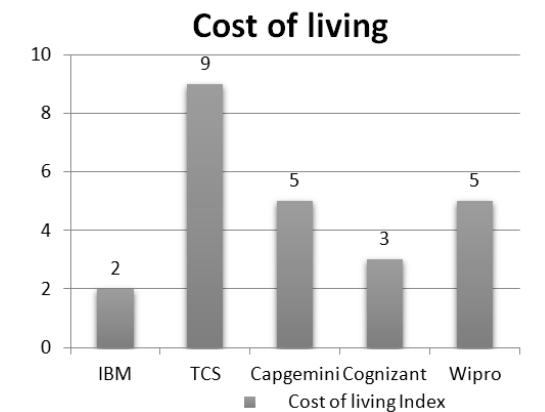
Cost of living

Cost of Living – Most companies use cost of living as a major determinant in fixing payment of expatriates. In this framework, if the cost of living in the host country is higher than home country, then the existing basic Spay will result in a lower standard of living. According to our study employees in TCS, Capgemini and Wipro are mostly motivated to take up foreign projects on the basis of the cost of living index.

The cost of living adjustment for an expatriate, who is located in a developing country, may be less than what is associated. It has been observed that the highest cost of living is in countries like Switzerland, Norway, Japan and Singapore where most IT professionals from India are sent, and the least in countries like Poland, Sri Lanka and Egypt[7].

Let's take the example of Arnav, who is an expatriate who has been to US for a 2 year project. He is a software engineer and works for a renowned IT firm in Pune. So before he left India he had to go about understanding what are the factors which will be the most dominant when he chooses his area of residence and considers what aspects he would have to give up from his living style in India so that Aryan's cost of living in US comes low.

Base salary and bonuses –Many well established companies like IBM believe in paying a lower basic but giving more in monetary and non monetary benefits. Even then there are companies like Capgemini and Cognizant who pay a high basic but may compensate the same in conveyance or relocation allowance. While deciding the basic pay for expatriates the home country does a pilot study of the local salary level for software engineers. It also happens in many cases that salaries of expatriates are paid partly in home-currency and partly in host currency. Paying bonus to expatriates can be complicated and hence companies pay a lot of attention during their performance appraisal.

Initially, when Arnav found out about his compensation details, he realized that he is hardly getting a raise of 5% with this project but his accommodation and food expenses in the US were taken care of by the company. Hence, in his case his basic salary remained the same but he just got some added benefits which made it worthwhile.

Healthcare– Only about 70% of international assignments are actually paid the desired attention to healthcare services and designing of this as a benefit. Some companies are actually using new methods in this arena by contacting insurance agencies in the host country that offer comprehensive annual renewable health insurance tailored to the needs of expatriates. Employees believe that a strong healthcare policy helps them to lead their life abroad confidently and without any kind of stress.

Quality of assignments – According to our survey in almost all the 5 companies the major reason that motivated employees to go abroad is the quality of projects they got to do. For this component the

highest number of respondents who supported this data was from Capgemini, followed by TCS.

The current workforce is constantly trying to do something creative and innovative so especially in the IT sector where there is immense scope for innovation a lot of employees look for meaningful work which sends them abroad.

Better Quality Assignments
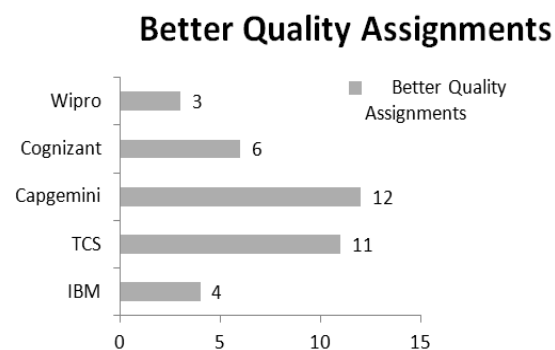
Arnav, who had done his masters in IT engineering from IIT Delhi was always on the lookout for new challenges and experiences. So the main reason why he had taken up this project was because it was a break from his monotonous work style. As mentioned before more than the salary, the quality of the assignment he was working on mattered more to him.

Incidental benefits –Social policies providing benefits such as medical care, and retirement and disability pensions[8] vary widely across countries making the management pretty complex and their transportability very difficult to normalize. Policies also need to ensure that they are not taxed by both the host and home country.

Arnav was being paid in US Dollars because of which he was liable to pay his taxes in the US. Medical facilities in the US are one of the best as compared to the rest of the world. So this came as a golden opportunity for Arnav to get his lower back checked, which had been troubling him since quite a few years.

Accommodation Allowance - A housing allowance represents one of the most costly elements of expatriate compensation package. Organizations tend to ensure that expatriates live as well as their foreign peers or that their housing and utilities are comparable to what they back home. Housing costs vary substantially by location. Two respondents, who had worked in Tokyo and London, claimed that they are notoriously expensive places to live.Realizing that sufficient housing is a crucial element for the success of expatriate adjustment, many organizations continue to assist the expatriate by both locating and subsidizing housing.

All in all, Arnav was very happy with his experience in th US and he claims that he got more than what he wished for. Even though he didn't immediately get promoted after coming back, he waited for a year and helped his team implement the project in India. Arnav was eventually promoted to Junior Project Manager.
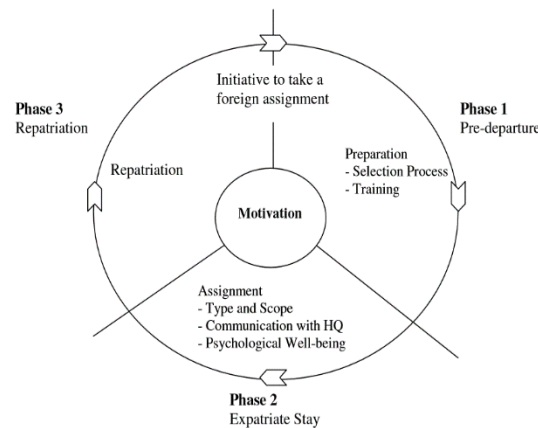
REPATRIATION

The last stage of the expatriation process for an employee who has worked in a foreign subsidiary of a company is going back to the home country and reintegration to the activity of the main subsidiary. The main stages of repatriation process include the following: preparation, relocation, and adjustment. The fact that the process of coming back to the home country is usually related not only to the positive, but also to the negative aspects that normally emerge due to the expatriates or their families' difficult reintegration into the working or socio-cultural environment. In order to successfully finish the expatriation process, it is important to consider the employee and his/her family's comeback, organize purposeful comeback training, and, even when the expatriate is back, it is

important to take care of his/her and his/her family's wellbeing and justify their career expectations, thus, aiming for mutual satisfaction, successful business continuity, effective application of the employee's international experience to the

local activity and avoid possible failures and damages. This shows that organizations should pay a sufficient amount of attention not only to those employees who are leaving, but also to those who have come back to the home countr.

Figure 1 - The Expatriate Cycle (Adapted from Adler, 2008, fig. 10-1, p. 276)

INFERENCES OF THE STUDY

The data collected was from 50 employees and 10 employers. The inferences drawn are both from the questionnaire and one-on-one interactions with the respondents.

- It is observed that TCS, Capgemini and Cognizant prefer graduates in comparison to post graduates for sending to foreign projects whereas Wipro is catering for both graduates and post graduates at the same time.

- Since Pune is a tier 2 city the standard HRA here should be 40% but TCS and Wipro provides 50% HRA to all their

employees whereas Cognizant, Capgemini and IBM follows the standard 40% HRA for their employees.

- On the basis of the responses Cognizant

and IBM are the two companies which pay the basic salary in the host currency irrespective of the country. TCS, Wipro and Capgemini in some cases also paid the salary in the Indian Currency.

- We also inferred that Cognizant and Capgeminiprovides the maximum hike in CTC after repatriation for the same job position but IBM is the least and TCS and Wipro raises the CTC by 30.7% and 22.22% respectively.

- Since our study was on compensation as an impetus, it can be concluded that if an employee who wants high non-monetary benefit s/he will choose IBM over any other company. But if s/he wants more moneythenCapgemini is the best option.

- Almost all the companies except IBM were able to keep their employees satisfied before, after and during the foreign project. This is one factor which pullsdown the overall ranking of IBM.

When employees are not satisfied with their new package there is a high possibility of attrition.

CONCLUSIONS & RECOMMENDATIONS

The analysis of the expatriation process shows that this process is typical not only of positive, but also of various problematic properties, and one of the most difficult stages of international assignment is adjustment to different working, living, and environment conditions. Since employees are looking forward to higher and faster growth opportunities while joining any organization, companies should focus more on the career planning and aligning individual expectations with the organization's goals.

Measuring the motivation factors for employees and quantifying them help companies to tailor packages to the typical preferences of groups of employees, thus working on administrative and bringing down costs without frustrating potential and actual expatriates. Many of the companies are not following the standards like paying the conveyance allowance on which taxation exemption has been extended to Rs.1600 per month, medical allowance etc. They should start following the standard payments otherwise employee retention would be difficult.

TCS has got the concept right when it comes to work life balance. It is comparatively less in terms of take home salary. Hence, it should work on that aspect to become the overall market leader. However, the employees of TCS seem to be highly satisfied which is a good sign that it is retaining its talent. Whilst there are a few differences with regard to some of the factors, they do not differ significantly and the overall motivating factors between the 5 companies appear to be quite similar.

This paper was proposed to augment our understanding to expatriate compensation and using these recommendations will help the companies to prepare strategies for the expatriate:

(i) HR needs to formulate some of the standard pay policies which will help the organization to prepare an attractive compensation packages for expatriates;

(ii) Management should also provide the flexibility required to experiment and try different components with less challenges and fear of failure.

LIMITATIONS

Some of the initial difficulties that we came across while conducting the survey was the lack of respondents. Since the topic is related to compensation which is a very sensitive matter especially in India, most of the respondents were hesitant to share any kind of information. The scope of this research is limited only to software engineers in the IT sector with less than 5 years of experience whereas most expats are in the managerial position with an average work experience of 15-20 years. This research paper only has a comparative analysis of 5 companies as mentioned prior.

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