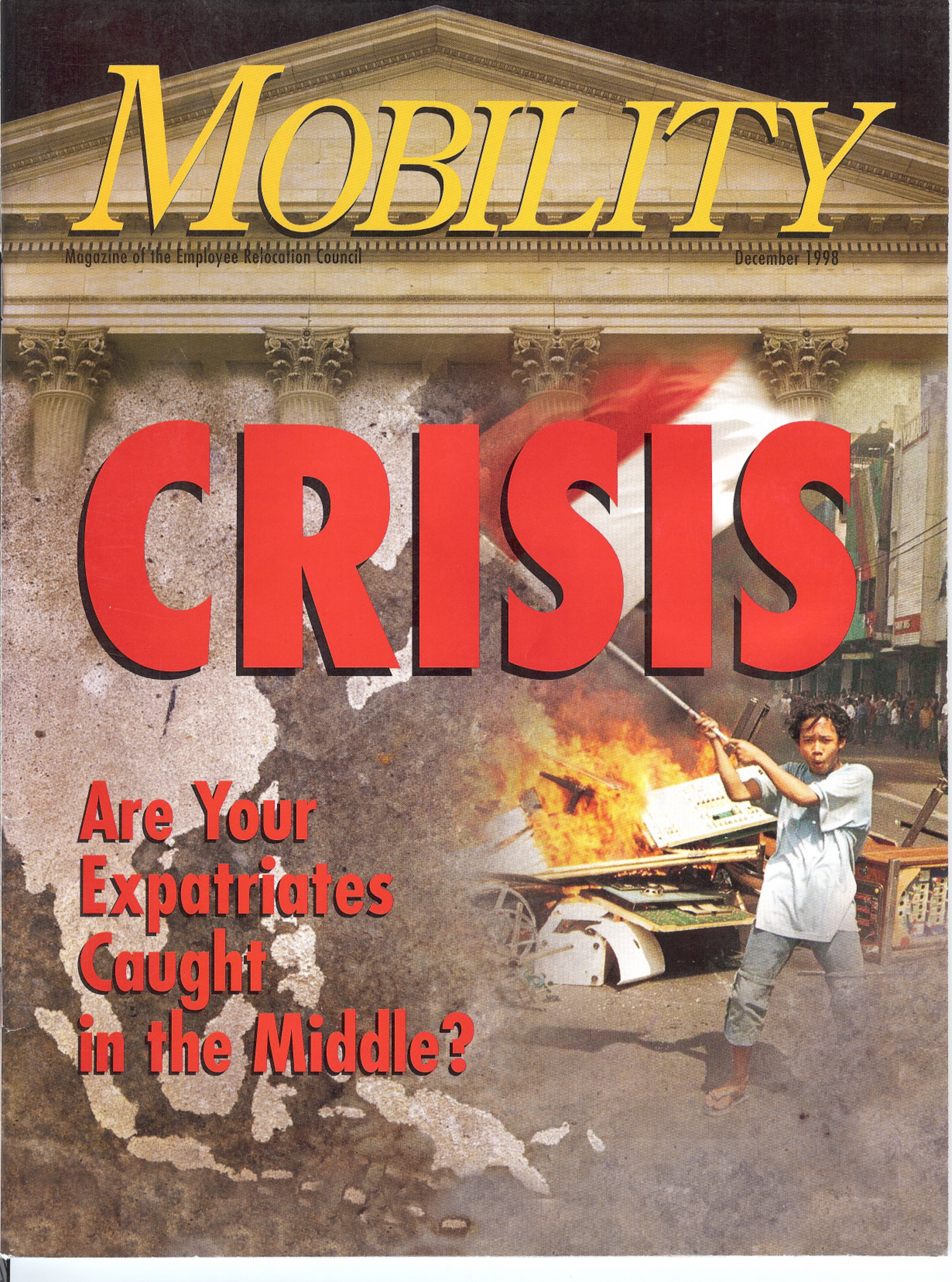

MOBILITY

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CRISIS

Are Your Expatriates Caught in the Middle?

Caught in the Middle:

POLITICAL AND ECONOMIC CRISES

and Your Expatriates

Employers of expatriates assigned in politically or economically volatile locations face important decisions about both preserving their employees' safety and providing adequate assistance.

BY MICHAEL RAY

It has become an evening ritual. We turn on the evening news and hear, interspersed among stories of scandal, that another country's economy has collapsed, rioting is rampant, and the government is expected to fall at any moment. In the last year, the same headlines have been repeated; only the names and a few details vary. The global financial crisis has spread from Thailand and Malaysia to Indonesia and Japan, and has even struck Russia and parts of Latin America. It is clear from the news accounts that economic crisis often has spurred political unrest. To those involved in international relocation, it also is clear that global financial crisis is a crisis for companies with expatriates in affected areas of the world.

International relocations and the administration of expatriate programs are challenging

Photo Illustration: Norman Grandstaff
Image of teenager with flag: Archive Photos

under the best conditions. Under conditions engendered by economic or political crises, the issues and concerns surrounding international assignments are myriad. Currency fluctuations and price instability raise the question of how to compensate expatriates fairly. Political turmoil, rioting, and loss of government control give rise to many questions surrounding how companies can assure the health and well-being of expatriates and their families while fulfilling business objectives.

Indonesia is a recent example. Beginning in the late summer of 1997 and climaxing (although not ending) with the resignation of President Suharto in May 1998, the crisis precipitated several months of extreme currency fluctuation, severe rioting and other violence, and near anarchy in parts of the country. Based on conversations with several international administrators with expatriate employees in Indonesia during the crisis, the following examines how several companies handled the situation.

A Crisis of Information

When the kind of situation that occurred in Jakarta in 1997 and 1998 arises, the crisis is, to some extent, one of information. There is insufficient information to make well-informed business decisions. One area of expatriate management severely affected by such a deficiency of information is cost-of-living allowances.

During "normal" conditions, providers of cost-of-living data rely on a variety of means to determine allowance recommendations. The basis of most of those recommendations includes some determination of prices for items ranging from toothpaste to automobile insurance and rent. The methods of determining such prices vary from provider to provider, but any reputable cost-of-living data analyst will acknowledge that determining correct allowances depends on a level of price stability that is not present during economic crises like the one in Indonesia. For cost-of-living data providers, the up-and-down nature of Indonesia's exchange rates and prices made it challenging to come up with accurate allowances, at least in the intermediate term, mainly because prices did not remain stable long enough to measure them.

"We'd like to be able to provide up-to-the-minute information for our customers, but unfortunately, the situation is sometimes so volatile that prices collected today will change by tomorrow," notes Karol Koenen, international research coordinator at Runzheimer International, Rocherster, WI.

For most companies, the best option in Indonesia was to freeze allowances.

In locations where the currency is being devaluated (or is, in fact, fluctuating) rapidly, as it did in Indonesia, the result may be price inflation. Unfortunately, the precise timing of price fluctuations and the quantitative effect on prices are unpredictable. In Indonesia, the prices of some goods fell while others rose. The prices of most goods, expressed in U.S. dollars, actually fell over time, although panic buying and shortages caused dramatic increases in the prices of some items even in dollar terms (For example, the price of kerosene, which is cooking fuel for the poor, rose.). Government reforms further complicated pricing. In Indonesia, government subsidies on gasoline were reduced, causing prices of that key commodity to rise, in real terms, 80 percent or more.

For most companies, the best option in Indonesia was to freeze allowances and pay expatriates in a hard currency. All of the administrators interviewed indicated that they normally paid 100 percent of their allowances in U.S. dollars—none paid in *rupiah* (the local currency)—and that there were no split-pay arrangements. Most of those interviewed froze their allowances early on as the crisis developed, some as early as late summer of 1997. Some of the respondents indicated that freezing allowances in U.S. dollars, when the *rupiah* was in a fairly dramatic decline, may have resulted in some overpayment to expatriates.

Those who believed that they overpaid during that period were more likely to have a policy of providing more benefits via allowances and fewer direct benefits, i.e., a company-provided home or car. Even those who believed that this represented a small windfall for expatriates also believed that they had followed the best option available at the time. Many of the respondents indicated privately that the potential overpayment might have helped compensate for the turmoil and uncertainty that their expatriates faced throughout the crisis.

Dave Ruder, manager of wage and salary administration at Kohler Company, Kohler, WI, commented that Kohler was less concerned about slight overpayments than with keeping its expatriates on track. "These are key people doing an important job; it was important to be fair, but also important to keep their mental well-being up."

To overcome this "crisis of information," all of the administrators described ways they compensated for rapidly changing conditions. All of the interviewees carefully followed the crisis through public news sources, including several Internet sites. In addition, administrators cited stepped-up communication among headquarters and local and regional offices as both necessary and particularly helpful.

Several other interviewees, including Linda Allen, international human resource manager, Black and Veatch, Kansas City, MO, mentioned that networking with peers in other firms operating in the same location and similar industries was helpful, although not always feasible. Allen observed, "More information of this type would have helped in making adjustments more timely." Many of the administrators said that having experienced expatriates both on the scene in Indonesia and at the home office was important.

Several of the administrators mentioned that it was important that the information exchange be a two-way street, with expatriates kept informed about how and why decisions were being made. This is an especially important and sensitive item to remember when considering allowances. If, for example, allowances have been frozen for any length of time and then new pricing information becomes available, the reasons for both the freeze and the subsequent change in allowances must be communicated to employees. Expatriates likely will see reductions in allowances as a "take-away." And, even though the company has tried to be fair with employees, without proper communication, reduced allowances appear unfair to expatriates, especially after allowances have been frozen at artificially high levels for any period.

Uncertainty and Safety

Although the financial aspects of economic crises are important, the more serious and troubling issue for most administrators is how to ensure the safety of their expatriates, their families, and the local nationals employed by the company. Of course, if safety were the only concern, the answer would be simple: At the first hint of trouble, evacuate everyone to a safe third country. In the real world, however, there is a need to balance the concern for safety with business objectives and commitments. All of the company administrators interviewed had evacuated some expatriates, and all were satisfied with their decision to do so. At the same time, all of the administrators described the process leading to that decision as neither simple nor obvious.

The administrators discussed various methods of risk assessment that included daily monitoring of the situation through public news sources, communication with local offices, U.S. State Department announcements, and hired security consultants. Several interviewees discussed how, in most cases, expatriates in Jakarta were substantially less concerned with their own safety than was the home office.

This may be a result of less accurate or less sensational information being available locally or expatriates developing a "higher tolerance for risk," as Dale Kiesz, controller, international division at PACCAR, Bellevue, WA, puts it. A former expatriate himself, Kiesz states, "After living abroad, with often a greater exposure to it, experienced expats seem to become inured to a level of risk that they would not be comfortable with at home." In the end, PACCAR was one company of many that mandated an evacuation for its employees, and, according to Kiesz, "Once out, expatriates were glad they had left."

"Companies need to have in place a centrally controlled evacuation policy."

For some companies, evacuation was not mandatory, but was offered as an option for employees and their families. Allen notes that the option "empowered employees to feel safe" during the crisis.

Paul Woodland, manager of the expatriate department at Nike, Beaverton, OR, says some of Nike's employees simply took their annual home leave during that time. Other companies took the opportunity to accelerate repatriations or moves that were already in progress. For those who were evacuated, Singapore and Bali (also in Indonesia) were the most common destinations, and most companies conducted business operations even during the evacuation.

Tracy Lewis, international director of human development at Principal International, Inc., Des Moines, IA, has a valuable recommendation. "Companies need to have in place a centrally controlled evacuation policy, which is audited and updated annually," he says. Because Principal International had such a policy, it was able to avoid confusion and the kind of panic that employees of a few companies experienced.

Relying on information from his expatriates, Lewis says that "almost all the Americans who panicked placed themselves in greater danger. For example, when groups of Americans showed up at the U.S. Embassy and the ambassador's residence, they had to be escorted back to their residences because both of these locations were protest sites."

Although the administrators say that safety of employees was their primary consideration, there were a variety of important factors under constant review. Several say that they were concerned about what kind of message an evacuation would send to local employees and to local firms associated with the company. Maintaining business operations and reducing costs associated with an evacuation were factors. Several administrators also were concerned about the morale of their expatriates during the crisis, although precautions had been taken to assure their safety.

These are all concerns that persist—the crisis in Indonesia is not yet over. It still is routine to open the newspaper and read about the ongoing economic woes and political uncertainty in the country, and the evening news frequently recounts information about the troubles in Indonesia as well as many other hot spots around the world. When such economic upheavals are in a country where your company has expatriates, what are you to do? There appear to be three general lessons to be learned from the successes of those interviewed.

1. Policies should be developed and critiqued well in advance of difficulties. Of course, there is no way of knowing when or where trouble will hit, so the policies should be in place and current everywhere a company has expatriates.

2. When trouble occurs, be it economic or political, information and recommendations from varied sources, including public news agencies, other firms in the location, a reliable cost-of-living data provider, and a security consultant should be sought.

3. Effective two-way communication with expatriate employees should be stepped up. Expatriates need to understand what is happening and why. The company's genuine concern for their welfare needs to be communicated along with a conveyance of company objectives.

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