

Global Mobility

Managing costs to maintain a successful international assignments programme in line with corporate strategy

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Introduction

During the current turbulent economic conditions the cost of International Assignment Programmes is being severely challenged. As one of the most expensive areas of HR, Global Mobility departments are facing calls from management to reduce costs and to find easier and simpler ways to address international mobility needs - the key to success of course is to reduce the costs without negatively impacting on your business strategy.

Despite employers facing difficult financial times, highly skilled individuals continue to be assigned internationally in many business sectors. In fact, the reasons for operating an International Assignments Programme have remained consistent for a number of years (as outlined in Box 1). As many of these reasons are linked directly to business strategy, the option to simply 'do away' with international assignments is not practical; they remain a core requirement for so many companies. So the question is, where is it appropriate to implement short-term cost cutting measures, without affecting your long-term business strategy?

Box 1

Key strategic reasons for operating an International Assignments Programme:

- ◆ Troubleshooting
- ◆ Project delivery/technical need
- ◆ Skills gap/transfer of skills
- ◆ Personal/Career development
- ◆ Talent management
- ◆ Imposing the company culture (e.g. following a merger or acquisition)
- ◆ Personal request of the individual employee

Managing Costs

All companies operating an International Assignments Programme need to undertake a rigorous review of their current expatriates, who they are, where they are based and whether they are critical to the business. Only once this has been done is it possible to identify potential areas for cost reduction.

It is widely accepted that the largest contributors towards the cost of running a global mobility programme are property and schooling related costs, policy allowances and the cost of relocation itself. Before you automatically target these areas, however, be aware of the importance of maintaining basic equity for your assignees. For an assignment to be successful the assignee needs to feel that the arrangements are fair. They will also expect to enjoy a standard of living equal to, or better than, that in the home country, so be careful to avoid making cuts in the wrong areas.

There are many ways to cut costs without sacrificing the benefits of international assignments for the assignee or your business strategy. A number of these cost reduction opportunities have been reported over recent months (a selection of which

are outlined in Box 2). Evolving trends include localising long-term expatriates, using commuters, multi-tiered relocation policies or reducing the number of expatriates. Each of these could be addressed in more detail, and arguably each warrants individual exploration; however here we will focus on three of the key opportunities:

- ◆ Managing the Policy
- ◆ Reviewing the Allowances and Benefits available
- ◆ Ensuring a Successful Assignment

Managing the Policy

It is the age old tale that assignees will always try to negotiate exceptions to your global mobility policy. It is generally advisable to avoid agreeing exceptions, but that is of course easier said than done. The key is establishing what reasonable exceptions to make and how to manage these into your overall policy.

Any policy changes need to be managed to enable companies to remain competitive, so they can recruit top performers and reward them appropriately, but also enable the cost of less vital/important assignments (such, as early career or developmental assignments) to be reduced. Critically the policy needs to remain fair and attractive to assignees and their families.

It is not uncommon and may be more appropriate to consider implementing varying or tiered policies based on the type of assignment on offer (whether commuter, short-term or long-term), the level/grade of the employee and the host country they are visiting. A possible solution would be to create a strong base package covering core corporate policies, with the additional variable factors, such as COLA and housing and family support, included as separate elements.

You may, of course, still receive unavoidable requests for exceptions. Whilst they should be avoided as much as possible, acknowledging certain criteria will help ensure claims remain legitimate:

- ◆ Ensure the exception remains within the intent of the policy;
- ◆ Ensure that line managers understand the cost implications of making an exception, for example additional tax costs, and the implications of setting a precedent for other assignments;
- ◆ Establish monetary limits and a chain of command on who can approve exceptions;
- ◆ Set criteria for accepting or rejecting an exception to avoid the accusation of favouritism or random decision-making.

If you find certain exceptions are occurring time and time again, it may be worth reviewing such areas to incorporate and/or change them in the overall policy.

Policies should be regularly reviewed, not just component parts, to ensure they are competitive in the external market and support the company's changing mobility needs.

Box 2

Cost reduction opportunities:

◆ **Managing the Policy**

- ◆ Diligently manage your policy and exceptions to the policy.
- ◆ Review your policy and remove/adjust overgenerous allowances and benefits.
- ◆ Consider multi-tiered policies, based on the type of assignment on offer, the assignees' circumstances and the host country.
- ◆ Review your suppliers and their service offering for potential cost efficiencies.

◆ **Reviewing the Allowances and Benefits available**

- ◆ Provide a benefits package based on a capped value, allowing the individual to pick and mix their benefits.
- ◆ Housing & Schooling:
 - ◆ Consider introducing employee contributions.
 - ◆ In countries where the education is comparable to the home country does every child need to be educated in an international school?
 - ◆ Do you need to provide support fees for transport, lunch, uniforms, school trips, music and special activities? The assignee would have shouldered these costs in the home country.
 - ◆ Introduce a 'gainsharing' incentive plan - for example for housing, the assignee could be offered a percentage of any unspent rental allowance.
 - ◆ Introduce penalty clauses for the Relocation agent if they show the assignee properties which fall outside the budget specified.
 - ◆ Consider furniture rental as an alternative to household goods removal.
- ◆ Review your COLA policy and consider implementing negative COLA and/or efficient indices. Despite widely fluctuating exchange rates, many companies only review COLA on an annual basis, some not at all during the duration of the assignment.

◆ **Recruitment & Selection**

- ◆ Introduce a robust selection and authorisation process, including a costing for each assignment - is the assignment necessary and does it benefit business strategy?
- ◆ Don't let the selected candidate think they are the only person in the frame. If you do you lose any advantages in your negotiating position.

◆ **Ensuring a Successful Assignment**

- ◆ Ensure the assignment doesn't fail – don't ignore the needs of the family.
- ◆ Ensure the repatriation process is successful. An assignee that leaves the company on return from assignment is a lost investment.

◆ **Assignment Types**

- ◆ Look at the possibility of reducing the number of expatriates in general.
- ◆ Consider local plus contracts as an alternative in certain locations.
- ◆ Review localisation guidelines - family reasons remain by far the greatest hurdle to localising international assignees. Companies that offer 'richer' expatriate packages have, not surprisingly, found it more difficult to localise compared to companies that employ foreign talent on 'leaner' terms and conditions.
- ◆ Consider short-term and commuter assignments as an alternative to long-term assignments. However be sure to investigate fully as they can pose a whole host of problems to global mobility professionals if not properly planned for.

Reviewing the Allowances and Benefits available

As a significant cost area, it is easy to see why the allowances and benefits on offer to assignees should be reviewed. We have already discussed multi-tiered policies, but there are additional savings to be had by adjusting overgenerous allowances and benefits.

Be aware that in many companies international assignments are no longer perceived as something special, and therefore don't require the same added incentives and overly rich packages they used to require to attract talent.

Are your hardship allowances and foreign service premiums too generous? Foreign service premiums (i.e. an incentive to move abroad) are no longer seen as the norm, companies that do still pay them typically either limit the eligibility (e.g. cap on salary level) or don't pay the premiums for the entire length of the assignment. Premiums tend to be around 10% of the assignee's salary, so the savings to be had here are significant.

You could look at switching to a more conservative host housing budget. Whilst companies need to take into consideration the needs of the assignee, such as proximity to international schools and security, it might not be necessary to live in the best area available. You could consider introducing the concept of 'gainsharing', whereby the assignee is able to keep a percentage of any unspent rental allowance - this will encourage them to choose a suitable, but not extravagant property. In addition you could also introduce penalty clauses for the relocation agent if they show the assignee properties which fall outside of the specified budget. You may also consider furniture rental as an alternative to household goods removal.

Many companies no longer see the need for a home sale assistance allowance. It is no longer seen as good practice to encourage the sale of the home country property and associated allowances are an expensive luxury many companies can no longer afford. Due to the current economic climate, and reduced house sale prices, many assignees are choosing to rent out their home country property rather than sell, so the costs to the assignee have less impact. If they are renting out their home country home you could consider deducting a contribution from their host country housing allowance.

Schooling may be another potential cost-saving area. In countries where the education is comparable to the home country does every children need to be educated in an international school? There may be advantages for the assignee and their family to being educated in a local independent school, such as language and cultural benefits. If they choose to select an international school/private schooling, you could consider incorporating an assignee contribution. Do you currently offer support for other fees such as for transport, lunch, uniforms, school trips, music and special activities? The assignee would have shouldered these costs in the home country, so it is reasonable to expect them to continue to do so.

There may also be potential savings to be made in the area of cost of living

allowances (COLA). With many new international assignments being aimed at developing markets, assignees are increasingly working in low-cost countries. Where costs are lower in the host than home country, you could consider switching to a more conservative or lower COLA option.

You could consider a stepped approach to COLA, from an inexperienced to an experienced shopper index - you could use a higher index when the assignee first arrives in the country and is still finding their feet and then reduce the index after an initial period to reflect increasing familiarity. You could also consider using an experienced shopper index in countries where shopping is relatively easy, and an inexperienced index in countries where the assignee could not realistically shop as efficiently as a local national.

Of course, whilst more complex to manage, there is always the option to provide a benefits suite based on a capped value allowing the individual to pick and mix their benefits and allowances.

Ensuring a Successful Assignment

Research has shown that the following attrition statistics are typical among International Assignees:

- ◆ 21% leave the company during the assignment
- ◆ 23% leave within 1 year of repatriation
- ◆ 20% leave between 1-2 years after repatriation
- ◆ Attrition rates are double the rates of other employee groups`

With statistics so high, it is critical to manage all stages of the assignment process effectively to minimise the loss of these people. Recruitment and training costs are significantly more than retention, and you will already have invested heavily in these employees, so to lose them would more than likely be a false economy.

Key to the success of any assignment is to avoid solely focussing on the needs of the assignee. Don't ignore the needs of the assignee's family. The assignee often finds the transition easier as they have the workplace as their support function and may already be familiar with the country, whereas the spouse/partner and family are often left to fend for themselves. The cost of introducing a good support programme, for example partner support, may be minimal, but may be very effective at reducing failure rates. Consider professional relocation support, assisting with job searches and introducing a mentor programme, where you introduce the partner and family to locals or other assignees and their families.

Don't forget the importance of language and cultural training, which can help make the settling in process much easier.

It is of course just as important to manage the repatriation process effectively, implementing robust repatriation procedures. In fact, some might argue that a

successful assignment without a successful repatriation can no longer be classed as a success. Assignees tend to leave soon after their return from assignment due to common reasons:

- ◆ They feel deeply undervalued (e.g. on return they may feel like a small cog in a big wheel)
- ◆ They don't feel the knowledge they have acquired is being utilised

In order to minimise failure it is important that the repatriation process begins long before repatriation takes place. Be sure to manage the assignees expectations effectively. Don't abandon the assignee once repatriated - repatriation is an extended process, which requires ongoing reviews to ensure success.

Have a proper succession plan in place to ensure their new found knowledge is utilised and valued. International assignments require significant investment, so don't lose your prize employee at the last hurdle.

In Conclusion

Whatever cost-reduction exercises you engage in you need to ensure you have the flexibility to design and apply the right type of packages to deliver your business strategy. Consider the use of different assignment types and identify areas of your current policy which you may be over-delivering on and then investigate if there is an opportunity to reduce the benefits available and consequently reduce the costs.

Disclaimer:

This article is for general information purposes only and intended to raise your awareness of the issues covered. It is not a comprehensive report on the subject area nor is it a substitute for specific professional advice.

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