

Cost Containment: Revising Global Expatriate Policies Without Sacrificing Performance

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Introduction

Reducing costs is an imperative for all business, regardless of size. Multinationals, however, have a tightrope to tread: they are increasingly concerned about the expenditure associated with expat programs, but also need to offer packages that will attract and retain top talent. This article looks at some of the most prevalent trends in the costs associated with international assignments, and suggests some ways in which spend can be reduced, employee expectation managed, but effectiveness maintained overall.

General Trends

International assignments are becoming ever more complex: not only are they becoming more prevalent and the expatriate population more diverse, but the number of destinations is also on the rise as businesses explore emerging markets. Expanding into these regions commonly means establishing a foothold in hardship destinations, though, and that can be costly. In some cases, employers begin with a blank sheet of paper — where there is no “model” to follow, businesses have to invest time and resources in formulating packages for locations in which they may ultimately be based only briefly.

A spell overseas is now commonly viewed as an important part of top executives’ career trajectory. However, although deploying expats may bring much-needed expertise or knowledge to foreign projects, we may soon reach a tipping point beyond which doing so will no longer be economically feasible. In the five years from 2008 to 2013, the ratio of home pay and expat remuneration jumped from 1.5–4 to 1.5–6 (in some extremely challenging destinations). As prices rocket in some locations — rents in Hong Kong are roughly double those in London, for example, and are also in a very steep upward curve in some of the Middle East locations — businesses are increasingly turning to local+ packages or, indeed, international hires where possible.

In most cases, companies’ attempts to contain costs lag behind the economic cycle: by the time the relevant policies have been drawn up to address a given challenge and are approved, the situation has changed and companies are once again on the back foot. Being nimble is essential, and organizations need a toolkit of lean, concise, and adaptable policies that can offer the flexibility required by a new generation of expat workers.

Cost Saving Options

Planning

Thorough planning and careful assessment of assignment type (and assignees) should help multinationals streamline their approach. This doesn't have to be complicated: using a simple tool such as a decision tree — which allows HR teams to weigh a number of variables, including assignment duration, purpose, status (temporary or permanent), and potential dependants — can be extremely useful and ultimately help determine which candidates would be most suited to the assignment and which are the most appropriate packages for them. All too often multinationals revert to the default position of parachuting in an expensive foreign executive when a high-potential local national could be just as effective — but much less pricey.

Cost Projection and Planning

All businesses can get more from their budgets by implementing better processes and making their HR teams work “smarter”; getting things right first time is clearly the optimum outcome. That said, no specific tool is currently available to help companies administer their international assignment programs; most have to manage in a piecemeal way, and this is naturally problematic for those that have expanded globally. Recent research has shown that although just over two-thirds of European and North American companies perform detailed cost projections, a worrying number of multinationals in Asia Pacific (APAC) are still relying on rough calculations only. Conversely, according to the same survey, APAC companies are much more likely to track actual expenditure against forecasts than their European counterparts (62% of respondents versus a meagre 35%).

Reduced Duration of Assignments

Assignments are getting usually shorter and in most cases now last a maximum of three years, rather than the traditional five. If assignees are repatriated in a timely fashion at the end of a project, they can be back on the home balance sheet reasonably quickly. In an attempt to move away from standard (and resource-hungry) postings, multinationals have been investigating alternatives. Intra-regional assignments, working with third-country nationals, and even commuting are options, but, as noted above local+ assignments are increasingly popular and are expected to increase significantly by 2016.

Segmenting Policies

Segmenting packages can help contain costs while still allowing companies some discretion around their offer to those in strategic positions or with in-demand skills. For example, organizations may differentiate between developmental moves (professional level), know-how transfers (manager level), and strategic moves (executive level). The segmentation can be applied on a number of levels: whereas a more senior manager would be offered a base salary in line with the home balance sheet, the PC51 employee would be on a high local salary. Similarly, a more junior employee would not receive assistance with school fees for dependants, but the PC56 and PC62 executives would receive an allowance to facilitate national and international schooling, respectively. In a recent development, localized packages are also being segmented according to business need and seniority of position; this is likely to become more common.

That said, there seems to be limited correlation between expatriate retention rates and compensation: even when very competitive packages (upper quartile) are offered, more than 15% of staffs leave their employer within two years of returning home; the rate among staff on lower-quartile packages is around 20%. We can conclude that compensation plays a relatively minor role in employees' decision to move on; the most common push factors are actually dissatisfaction with their current job or family-related issues.

Local + Packages

Perhaps the biggest potential saving for multinationals with well-established international assignment programs lies in moving expats off a home balance-sheet package onto a local+ arrangement once they have been in that location for five years. However, the spread of such packages can be enormous — depending on the destination, a local+ package can also be higher than an expat package, as might be seen for top executives from emerging countries like Brazil. For example, if we compare the gross host-country pay for a hypothetical move of a married middle management position from London to Hong Kong, we can assume reductions of up to €80,000.

Also bear in mind that base salary ranges are broad, particularly in emerging markets; in some of the “super sectors” such as oil and gas and energy of sub-Saharan Africa, for example, they can be well over 55% of the total compensation mix.

Capping Allowances

As noted above, housing costs are running rampant in some popular expat locations and employers have been attempting to cap allowances, explaining that they are meant to be a contribution towards accommodation expenses rather a payment of the full amount. Similar moves are gaining traction with regard to health care premiums and education fees, although unsurprisingly there has been some pushback from employees. In order to avoid the early termination of overseas deployments due to employment dissatisfaction, some multinationals have been introducing completion bonuses to reward success; this trend originated in the oil and gas sector but is now becoming more common in consumer goods and pharmaceuticals firms.

Exception Management

Exception management — that is, addressing assignees' complaints — is a headache on most assignment programs and can be extremely time-consuming. In US and European companies, HR departments are usually tasked with authorizing exception requests, but among APAC companies, sign-off comes right from the top — CEOs are required to step in. Cost-of-living and housing allowances are among the most contentious issues for employees deployed overseas, but it is interesting to note that family-related issues, such as the number of home-leave trips and dependant education, are among the top three exception requests granted by European companies. The wider message here for employers is that a new generation of workers are now moving into senior positions, and for them, flexibility is key. Rigid or one-size-fits all policies will be increasingly ineffective, so corporate approaches will need to evolve. Younger workers with no family commitments may want to “trade” benefits they don't need for longer holidays, for example; those with dependants will have child-friendly benefits at the top of their wish list. Being open to your top talent's requirements will go a long way towards retaining it.

Summary

Although each organization will have its own particular challenges with its global expats, the options above provide a good framework for reducing expenditure without sacrificing performance. In aligning strategy, policy, and process, your organization should emerge leaner and more effective than ever.