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## **Is Your Business Overseas Over Cost?**

By: Margaret Sim & Liam Dixon

With burgeoning international trade and business development, the movement of employees from one country to another is mushrooming. Providing these expatriate employees with **compensation** and **benefits** packages that are comprehensive and enticing forces global-focused companies to dish out big bucks in exchange for what employers hope to be lucrative business opportunities. As the **investments** in expatriate programs rise, the need to measure the return on those **investments** takes on greater importance. Some who have done so have decided to embrace alternate approaches to traditional international assignments.

### **Cashing In Takes A Lot Of Cash**

Canada's export economy continues to expand as our resources and technology increasingly become in demand worldwide. Expatriate employees are crucial to the growth of Canadian companies in the global marketplace. These high-value employees – who can and do make a difference to the bottom line – have a high impact on shareholder value. The cost to send an employee to another country is usually about three to four times the salary of a comparable employee working in Canada. In fact, according to a 2003 survey conducted by Mercer Human Resource Consulting, the price tag can frequently exceed \$1 million for a three-year assignment once all relocation expenses are taken into account.

Expatriate costs can seriously impact the financial viability of new business ventures overseas. High expatriate compensation and benefit costs can raise concerns from a business perspective as well as with their equity and consistency with the company's compensation and benefit policy and practices for all its employees. Companies with expats would do well, therefore, to carefully measure the return on their investments.

### **Pinpointing The Costs**

Companies often report that their assignment costs are difficult to quantify because they are dispersed throughout different countries or business units rather than linked to a central database. While most companies have a fair idea of the costs of their international assignments, far fewer have sufficient data to be able to calculate the cost of their international assignment programs and, therefore, their ROI.

The cost factors most commonly taken into account when evaluating the expenses related to international assignments are the expatriate compensation package and relocation support costs (Chart 1). Cost factors such as the break-up or discontinuity of functioning teams in the expatriate's home country as well as administration costs are generally overlooked.

### **Measuring International Assignments**

Expatriate audits are a good place to start in evaluating these programs. An expatriate audit facilitates a global staffing strategy, human asset management (including consistency, equity, benchmarking, and value/cost analysis), cost projections and management, and compliance and financial exposure (Chart 2).

Conducting an audit allows human resource professionals to play a key role in reviewing and reforming expatriate policy and practice. It focuses on:

- Identifying the current costs and their impact on expatriate policy and practice
- The business case for a more practical expatriate environment
- The development and promotion of cohesive policies more supportive of business objectives and strategies
- Ensuring that these policies and practices meet the needs of expatriates and their families

### **Determining Return On Investment**

The elements usually weighed in the balance when determining the ROI for international assignments include the increase in business profitability and revenue; the development of local talent/competencies; whether expatriates met the stated assignment goals; the development of a pool of skilled, experienced managers; enhancement of global culture and competencies; the retention of key talent; and the increase in market share in the host country. Companies typically do not compare the return on investment with what would have been generated if they had hired local staff instead. Rather, they think in terms of 'who is the best person to fulfill the job requirements.'

Short-term and commuter assignments – generally assignments that avoid moving a whole family – are an alternative to traditional long-term assignments that can provoke career and educational disruptions. Employees are more ready to accept short-term and commuter assignments and, when this is the practical solution, the risk of assignment failure is reduced.

### **Redesigning The Expat Landscape**

Because of increased tracking of expat assignment costs and the related benefits, employers have taken steps to improve their return on investment of international assignments. For example, they have introduced measures to improve the assignee selection process as well as the clarity of the assignment objectives for their expatriates. Employers have also made advances in improving and reinforcing the follow-up process with expatriates throughout the assignment, and in improving post-assignment repatriation management.

Other less common measures for optimizing the return on investment include reducing the number of international assignments by privileging alternatives such as commuter and short-term assignments; reducing the compensation and benefits packages where it has found to be unnecessarily generous; targeting younger, less experienced individuals as candidates that otherwise have more 'lifestyle' flexibility; shortening the length of assignments; introducing a variety of assignment terms and conditions to best match the range of assignments; and encouraging intra-regional transfers, whenever possible, over inter-regional transfers.

However, since the success of overseas ventures is often highly dependent upon the qualities, motivation, and performance of expatriates, reliable market data is essential to determine if you are paying them appropriately. Any changes to the compensation and benefits for these key employees that are not supported by market data can have a material negative effect disproportionate to the money involved. An effective and ongoing communication program is required to implement any changes in support of your business objectives while, at the same time, meeting your expatriates' needs.

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