

innovations

in International HR

FIND THE BALANCE

Packages Too Generous?

Have too many companies gone overboard with the support programs they offer expatriate families? The cost of cross-cultural training for the whole family, lavish relocation support, renting expensive housing, providing a company BMW, and business-class home leave airfares for the whole family can add up to real money!

See Roger Herod's complete article below.

Can HR Balance Cost and Need?

Family problems are widely recognized as the prime cause of assignment failure. All too often, the first three months focus on settling down in the new location with little or no organized help for the family, which can complicate the expatriate's productivity and motivation. In fact, perfectly adequate support programs are possible without incurring excessive cost.

MANAGING COSTS WITHOUT NEGATIVELY IMPACTING THE ASSIGNMENT

Roger Herod

Given the recent downturn in the global economy and the pressures facing companies with worldwide operations, many employers continue to look for ways to reduce costs without adversely impacting employee efficiency and morale. It is not surprising that, due to the high expense of sending employees and their families across borders (particularly for 3- or 4-year assignments), organizations are placing their expatriate programs under scrutiny. But while evaluating the programs, managers need to remember that the family's ability to adapt and thrive on location is a key factor in the successful completion of an assignment. Indeed, a family's inability to adjust is widely held to be the number one cause of assignment failure.

A relocation program should to ease the disruptions that arise from foreign assignments by helping the employee move in the shortest time possible with minimal inconvenience. Most employers offer assistance in renting home-country residences, shipping or storing household goods, and providing some form of cultural orientation and settling in support. Some types of aid are also necessary when the expatriate either returns home or accepts another transfer.

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featured consultant

Roger Herod



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fast facts

Did you know that of employers do not provide pre-assignment visits?

26%

Source: Mercer's 2010/11 Worldwide Survey of International Assignment Policies and Practices

Increasingly, however, managers are looking for ways to trim expenses. Eliminating cultural training, destination services, dual-career assistance and other family support programs is a tempting way to shave costs. But there are far better ways of reducing cost without increasing the risk of the employee having to deal with a disenchanted, unhappy family. The bottom line is to support the assignee and family as much as possible – without going overboard to the detriment of the company. Setting fair and practical guidelines for some of the costliest elements of an expatriate package offers means of controlling unnecessary expenditures. Here are some of our top suggestions.

PRE-ASSIGNMENT TRIPS

Not all companies are willing to pay for pre-assignment trips for the potential expatriate and spouse/partner, arguing that it is really not necessary if the employee has already visited the assignment location on business trips. Some employers might feel it unnecessary for the family to go along – perhaps because the assignment will not be for an extended period, the culture is somewhat familiar or the expatriate’s skills are urgently needed and time is short.

However, in my view, it is critical to allow the candidate and spouse/partner to travel to the host location at company expense before accepting the assignment. These trips typically involve locating a residence, exploring school facilities, considering what to ship or store and gaining a better understanding of expatriate living. Pre-assignment trips average one week, with most lasting four to six days plus travel time. Class of travel is typically consistent with the company’s domestic or business travel policy.

It is worth investing in a destination services firm to provide orientation support during the pre-assignment trip and look at potential rental housing within pre-approved company cost guidelines. There are far too many company disaster stories where expatriates have been allowed to run loose, looking at expensive rental properties and then blackmailing the company into allowing them to lease the “Taj Mahal” or else!

Companies that encourage family participation in the pre-assignment visit enhance the chances that the candidate accepts the relocation offer. Having the family on site also reduces the potential for surprises about the host location – although nothing compares to the actual experience of living and working in a place for an extended period. Still, the family will have some idea of what to expect.

MANAGING EXPATRIATE HOUSING COSTS

As finding the right accommodations is usually a critical component of a pre-assignment trip – and housing one of the leading company expenses – employers should ensure that appropriate housing guidelines are established, communicated, and coordinated. There are almost always opportunities to achieve significant savings by implementing systematic housing policy guidelines, such as:

- Establishing and regularly updating expatriate housing rental guidelines for each location with input from outside consultants, relocation providers and local management (as illustrated in Chart 1, “Sample Housing Guidelines for Rental Allowances”).
- Being sure the assignee is aware of the guidelines before the trip, so that the family does not have unrealistic expectations of an extravagant lifestyle. If the company uses a destination services provider, ensure that the vendor agrees to company parameters to avoid showing inappropriate housing.
- Requiring approval of exception requests at a senior level – for example, by a division president or equivalent – to deter frivolous requests. Far too many companies allow local management to grant exceptions without regard for precedents being set.

ORIENTATION: SETTLING-IN ASSISTANCE

It can be tempting to assume that expatriates and their families can easily settle into the new location with some help and advice from other expatriates and local human resources. However, inadequate settling-in support at the host location is one of the top areas of dissatisfaction in every expatriate satisfaction survey we have conducted. Providing professionally organized destination services support is relatively inexpensive and can have a major impact on family morale and expatriate productivity.

Destination service providers typically offer three-to-four-day programs. Professionally delivered services are advantageous in smoothing a family’s transition. In addition to meeting the family upon arrival, the provider offers practical information about daily life in the host country with an introduction to neighborhoods and facilities. They typically assist the family in house hunting, visiting schools, providing advice on banking, transportation, security, daycare, shopping, completing host country registrations, obtaining necessary documents and permits, driver’s licenses, driving lessons, opening bank accounts and obtaining utility and telephone services.

SHIPMENTS AND STORAGE: CONTROLLING THE AMOUNTS

An important step in the moving process is to define the limits on what an expatriate can ship and store. The company often selects movers and packers, requiring the expatriate to submit, for approval, an inventory of items to be shipped. Those articles most often ineligible for shipment are pets, antiques, valuable paintings, cars, planes, boats, trailers, firearms, pianos, and large shop tools.

It is to the company's advantage to encourage employees to store unnecessary, but valuable items, rather than risking surface shipment over long distances. However, storage costs can become outrageously expensive, especially when expatriates are allowed to store huge amounts of unnecessary "junk" they will probably never use again for lengthy periods. Companies increasingly look at ways to control or reduce expatriate storage costs, either by applying weight limits (10,000 lbs. is fairly common) or time limits, such as a maximum of five years. Another alternative is to provide a cash lump sum in lieu of storage costs to incent expatriates to dispose of items they are unlikely to need again in the future.

TEMPORARY LIVING: COORDINATING THE MOVE

When the new foreign home is not available immediately upon arrival, employers must consider how much they are willing to reimburse for temporary living arrangements. While the assignee (and family) is living in temporary accommodations, companies either reimburse actual expenses or provide a living expense or per diem allowance sufficient for day-to-day costs. Typically, the limit on this component is four weeks in the home country (before departure) and the assignment country (prior to moving into permanent housing). Cost-saving opportunities include:

- Coordinating the move's timing to minimize the family's duration in temporary housing
- Moving the family after the expatriate relocates and only when permanent living accommodations are ready
- Providing per diem allowances for meals and other incidental expenses instead of reimbursing expensive restaurant costs

Chart 1. Sample Housing Guidelines for Rental Allowances* (Gland Lausanne Switzerland)

	Family Size 1-2	Family Size 3	Family Size 4	Family Size 5	Family Size 6
Tier 3	2,150-2,650	3,400-4,300	4,750-6,000	6,000-8,500	11,000-12,000
Tier 2	2,850-3,250	4,600-5,300	6,000-9,000	9,500-13,500	14,000-16,500
Tier 1	3,500-4,150	5,700-6,700	9,000-14,000	15,000-17,000	18,000-20,500
Utility cost	190-265	265-375	375-715	715-780	780-910
Property type	low-rise apartment	low-rise apartment	low-rise apartment, detached house	low-rise apartment, detached house	detached house
Availability	limited	limited	limited – scarce (for houses)	limited – scarce (for houses)	scarce
Location	town	town	town, near town	town, near town	near town

* Figures are in CHF/month; neighborhoods would also be shown.

CARS: GETTING AROUND

Employees preparing for an assignment have concerns about car (and public) transportation in their host country. Many organizations provide a company car or leased vehicle to expatriates either because of local practice within the company or to avoid having to help expatriates with the purchase and eventual sale of a personal car. According to Mercer's *Worldwide Survey of International Policies and Practices*:

- 34% of respondents always provide a car or car allowance at middle-management level or above. One-quarter extend the benefit to other expatriates.
- 13% never offer a car or car allowance to expatriates at the middle-management level or above, while 19% provide neither to other expatriates.

However, even when companies provide expatriates with a company car or leased car, most companies do not require the employee to contribute to the cost. Contributions to car expenses do not necessarily vary based on employee level. In more than half of the companies in Mercer's survey, middle managers and other expatriates do not contribute to car costs. When expatriates are asked to contribute, it is usually toward the vehicle's operational costs.

Providing a company or leased car is an expensive and very attractive benefit, especially if the expatriate did not receive a company car at home. A number of companies require expatriates to contribute between USD200 – USD300 towards the monthly cost, which is in line with the balance sheet principles. In response to a client's request, I recently briefed an expatriate on the details of a potential assignment in Germany and explained that as part of the package, the expatriate would receive a BMW 5 Series Sedan and would have to contribute USD250 per month towards the cost. The expatriate's only question was whether they would be able to choose the color!

EXPATRIATE MARKET BASKET

Very few expatriates really understand what is included in the market basket used in calculating their goods and services differential. As a result, companies should not expect gratitude if they include items in the market basket they are already reimbursing separately. Typical examples of double reimbursements are:

- Not reducing the private transportation portion of the market basket when a company car is provided
- Leaving furnishings in the market basket when the expatriate and family are living in furnished housing
- Paying directly for domestic servants and not removing the domestic service expense from the market basket

Large numbers of companies do not scrutinize the costs covered in the market basket and provide expatriates with a hidden and unnecessary bonus!

HOME LEAVE: TRAVELING BACK

From the moment of arrival in the host location, the family might wonder how soon they can go home for a visit. Most employers agree that a periodic home leave is advantageous, as it helps the family maintain personal and company ties. One home leave for every 12 months of assignment is typical, with some policies stipulating that the assignee must wait six months before taking the initial home leave. On the back end of the assignment nearing repatriation, the company might not allow a home visit if the term will end in six months – unless, of course, company policy permits a brief trip to arrange housing and education.

Home leave can involve high costs, particularly when companies provide business class fares for the entire family to return home. For example, business class return fares between the United States and Shanghai for a family of four can easily amount to USD25,000, most of which will have to be grossed up for tax purposes.

Chart 2. Home Leave Air Travel

	Senior managers	Other expatriates
Economy class	40 %	51.4 %
Economy, but upgraded for flights of substantial duration	26.9	30.7
Business class	24.7	10.2
Least expensive commercially available	7.3	7.5
First class	1.1	0.2

Source: Mercer's 2010/11 *Worldwide Survey of International Assignment Policies and Practices*.

Increasingly, companies are questioning whether it is necessary to provide business class air travel for what can be argued is a vacation trip. Indeed, 40% of companies surveyed in Mercer's *Worldwide Survey of International Policies and Practices* provide economy class airfare for all home leave trips for senior managers, and 51.4% for other expatriates. (See Chart 2, "Home Leave Air Travel.") Admittedly, traveling in coach for a 12- or 13-hour flight is not necessarily the most comfortable experience, but how many expatriates would fly business class with their families if they were footing the cost themselves?

One approach a number of companies have implemented is to provide a cash allowance in lieu of home leave airfares, typically based on full fare economy airfares, and let the family arrange the trip. It is, in fact, a popular approach among expatriates, who are frequently able to find bargain airfares and use their allowance for more than one trip.

KEY WORDS: BEING FLEXIBLE AND DIVERSIFYING

With the growing number of feasible cost-saving strategies, employers can pick and choose the methods they want to employ. Focusing on the company pay philosophy, expatriate demographics and budget parameters, organizations can decide which options work best. The decision as to which family members are eligible to participate in programs and how much the company will cover also depends on the conditions in the host location, the planned length of time overseas and other relevant factors. And remember, you get what you pay for, so be sure and find qualified destination service providers in the host location.

The bottom line for good employer-employee relationships is simple: Balance all needs where reasonable, and be cost-effective and fair.

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