

## EXPATRIATE EXPENSE

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*There's no doubt that expatriate remuneration is a costly item on any company's expense account. CSI's **Andrew White** looks at strategies for reducing unnecessary costs and increasing the value of expatriate placements.*

The use of expatriates has grown in conjunction with globalisation and the subsequent extension of company operations beyond traditional domestic borders. In order to be internationally competitive, firms have had to rethink the way they transfer knowledge (such as company cultural values, management practices and operational expertise) into overseas locations. It therefore makes good sense to utilise expatriates who can carry this essential knowledge across borders into operations outside the parent country, particularly if they are at a 'start up' phase.

While there are several advantages to using expatriates on international assignments, including career development and providing the parent company with a greater understanding of local market conditions, extended use of these expensive staff, especially in sensitive local countries, will not prove as effective in the long term. They should instead be utilised as a means for empowering local managers.

Why are expatriates so expensive? Consider what is involved in setting an expatriate up in a foreign country. Firstly, there needs to be some kind of selection process which, in addition to technical competence, should consider cultural awareness and sensitivity, the incumbent's family situation and language skills. Once selected, the incumbent should have sufficient pre-

departure training to further guarantee meaningful integration and success for both the individual and the company.

There are several components of pre-departure training programs that will "contribute to a smooth transition to a foreign post, including: cultural awareness training; preliminary visits; language instruction; and assistance with practical, day-to-day matters" (Dowling et al, 1999). Cultural awareness programs help the employee adapt to the host country by fostering an appreciation of the local culture. While most countries accept English as the language of 'world business', the ability to communicate effectively in the host country's tongue can improve the expatriate's access to information, negotiation skills, and cultural adjustment.

Selection and training become very important when one considers the failure rates of expatriates, which are typically around 10% (Price Waterhouse, 1997), being higher for US parent companies and lower for European parent companies. The main reason that expatriates fail on assignment is that while being technically quite competent, parent country nationals (PCNs) often lack sufficient cultural awareness and sensitivity.

Beyond cultural problems, two of the most important factors contributing to the failure of expatriate assignments are the inability of the manager's spouse to adjust to a different physical or cultural environment and other family-related problems. And although the impact of family on international assignments is becoming more common knowledge in both organisations and literature, there is little being done about it. A study of spouse adjustment to expatriate success (Black and Stephens, 1989) reported that only 30 percent of organisations in their study seek the spouse's opinion concerning an international assignment.

The final 'expat expense' is compensation and benefits. The rule of thumb is that they will typically receive 3 times their remuneration from their parent country. Companies have become quite creative in the range of benefits and allowances provided to expatriates to encourage them in a new country. Some of the more typical items include: tax equalisation; motor vehicle; cost of living allowance (COLA); accommodation; school fees; large variable pay components; stock options; and a generous base salary.

Based on these three considerations (selection, training and remuneration), careful use should be made of these expensive staff. The implementation of expatriate programs should

incorporate a strategy for the empowering of local management, which in turn will alleviate many long-term costs.

*If you would like more information about executive and or international remuneration, please contact Andrew White on (02) 9415 3455 or email [awhite@classalinfo.com.au](mailto:awhite@classalinfo.com.au).*

*CSi routinely sources global remuneration data for clients to assist Australian executives being placed overseas and international executives being assigned to Australia.*

#### FURTHER READING

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### Note:

CSi are Australia's remuneration specialists. We can provide information or advice about all remuneration issues, from executive pay to global pay practices.

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