Expense Management: Containing The Direct And Indirect Costs Of Expatriate Assignments

Establishing and maintaining the success of a global enterprise clearly rests with an organisation's most valuable asset – its human capital. At the same time, economic conditions – both domestically and internationally – require companies to carefully monitor costs associated with expatriate assignments. While a recent GMAC Global Relocation Trends Survey indicates that an overwhelming number (95 percent) of multinational companies surveyed are optimistic about the economy and plan to send more employees on overseas assignments, more than half (58 percent) expect to cut back on expenses for international assignments in response to economic conditions. At companies that are reducing expenses, 29 percent of respondents indicated they are decreasing policy offerings and financial incentives for relocating employees.

In today's economy, recruiting, managing, and retaining an expatriate workforce clearly brings two conflicting business needs into play: the ability to offer an attractive package, and adhere to an essential mandate to keep expenses at an acceptable level.

To that end, multinational companies would do well to turn their attention to potential solutions to better manage assignment-related costs in order to hold the line on expenses without sacrificing their competitive edge (i.e., impacting their human capital). In fact, according to a 2008 survey conducted by Worldwide ERC® and Cartus, higher-than-expected costs was one of the most significant challenges cited by respondents (41 percent) who are also increasingly looking toward short-term and rotational assignments as cost-saving measures.

An Expense Management Primer

Expense management is the process of gathering appropriate documentation that needs to be reviewed, budgeted, tracked, and reimbursed based on a specific expatriate assignment policy. In addition to compensation and benefits, expenses can include direct costs (i.e., expenses incurred by the employee), as well as indirect costs (i.e., billed by a vendor for services provided to the employee). Keep in mind that failing to have a formal process in place to track and manage these expenses can disrupt functions across the organisation – from Accounting to Payroll and Accounts Payable to Human Resources. In addition, an organisation's failure to carefully monitor its expense management process can result in non-compliance with myriad regulations and potential fines and penalties (i.e., taxes).

> A best-of-breed global compensation solution can provide a means to collect data and compile reports to monitor a number of areas to ensure that a company is not incurring added expenses or overlooking costs that can be recouped

Establishing an expense management policy ultimately begins with identifying actual costs. In most cases, expatriate assignments comprise both hard and soft costs. Hard costs are those that are typically fixed in a budget, such as compensation, medical benefits, taxes, and travel expenses. Soft costs pose a more significant challenge since they can fluctuate as well as be unexpected, such as cost-of-living adjustments (COLAs) and family-related expenses.

However, many of these costs – both soft and hard – are "hidden" or simply not tracked – until they add up and impact the bottom line. According to a recent Global Assignment Policies and Practices survey from KPMG, only 14 percent of companies reported that their expatriate employee programmes are designed to control costs and ensure an appropriate return on investment (ROI).

The good news is that the same solutions that help manage and administer global compensation are also ideally suited to automate a range of processes that can help multinational companies get a handle on hidden expenses and unexpected costs associated with expatriate assignments—and, most importantly, preempt them from escalating.

Keeping Tabs on Hidden Costs

A best-of-breed global compensation solution can provide a means to collect data and compile reports to monitor a number of areas to ensure that a company is not incurring added expenses or overlooking costs that can be recouped.

Assignment management. It often takes a team of Human Resources (HR) and Payroll experts to manage a company's global assignment policy. These experts receive salaries and benefits as well as utilise company resources. If, for example, it takes a team of 10 to 20 people globally to manage an assignment programme, this quickly can result in a significant expense – even if only 50 percent of their time is allocated to assignment management. Enabling HR and Payroll with tools to make their assignment management responsibilities easier to perform frees up their time to address other critical functions and, ultimately, results in lower costs. These management costs should also be allocated across the assignee population to get a complete picture of the expenses associated with each assignment.

Tax equalisation. When an employee goes on an international assignment, employers often choose to assume liability for foreign taxes, which puts the assignee in a neutral position during the assignment. This ensures that he or she neither suffers financial hardship nor collects a windfall as a result of varying tax structures in different countries. Employers typically pay taxes in the home and host location and deduct a hypothetical tax from the employee's pay. The hypothetical tax is an estimate of the taxes the employee would have paid if he or she had continued working in the home country. On an annual basis, HR should work closely with Payroll and other departments to monitor and reconcile these tax payments to identify instances where employees may have been overpaid or underpaid in terms of tax equalisation.

Deposits for expenses. Some international locations require significant upfront deposits on housing and rental cars. Companies can use an automated solution to track and manage these deposits and initiate a collections process after an assignment ends rather than risk writing these funds off as a loss.

Assignment budgets. Using a technology solution to manage budgeted versus actual expenses of an assignment can help identify areas where costs are too high, or which assignment locations cost the company the most. In turn, this information can help multinational companies determine how to reduce expatriate packages on an individual or geographic basis. In addition, ongoing monitoring and tracking can serve as an advanced "warning" system to indicate when the dollar amount that was initially set aside for the assignment is being approached.

Using a technology solution to manage budgeted versus actual expenses of an assignment can help identify areas where costs are too high or which assignment locations cost the company the most

Policy exceptions. In addition to assignment budgets, companies often make policy exceptions to accommodate special needs and requests of expatriates. For example, an expatriate may request an additional trip home to attend to personal issues or unexpectedly need to come back to the home office to attend to business matters. While the trip for each employee might be minor, the costs of one exception per employee (i.e., airfare, accommodations, and related expenses) can easily add $1,000 to $2,000 to the budgeted cost of the assignment. When you multiply that amount by 75 expatriates, for example, the cost can be significant.

Often, companies fail to pay full attention to tracking and reporting these exceptions because other tasks, such as compensation distribution, consume most resources. According to a recent Survey of Global Assignment Management Practices commissioned by Primacy Relocation, 31 percent of employers indicated that they track exceptions on a per-assignment basis for budgetary purposes, 23 percent track exceptions on an overall basis in order to identify policy components that need review, and 39 percent do not track the cost or type of exceptions granted.

A company that approves all exceptions without comparing them to the employee's policy, or even reviewing these exceptions at all, can find itself managing major budget overruns. Using a technology solution to track the exceptions provides an opportunity to better manage additional requests and costs by employee and category – i.e., travel, meals, and even cost-of-living adjustments (COLAs). In addition, reports can be used to revise company policy accordingly to handle exceptions.

Finally, while each policy exception may seem minor in terms of cost, keep in mind that each could have potential tax consequences in the home and/or host countries that result in an even greater expense.

Fees paid to vendors. Multinationals can track payments to vendors for "used and unused" services related to relocation, as well as for services provided throughout the term of an assignment. These services include everything from transportation and moving costs to programmes that help the expatriate's family adjust in the country of assignment (i.e., language services and employee assistance programmes). In addition to helping better manage assignments, management can create an aggregate report on fees paid and use this information to negotiate better pricing when renewing vendor contracts.

Strategic Long-Term Value

While exact figures are unavailable, it's estimated that the cost of posting a manager in another country is three times that individual's stay-at-home pay and benefits. In light of these costs, which are expected to increase – expectedly and unexpectedly – multinational companies can use tools that capture a level of detail from previous assignments to forecast the costs and expenses of new assignments. Indeed, the cost of an expatriate assignment can vary widely based on locale and the accompanying economic conditions. Being able to collect and analyse data on direct and indirect costs can help multinational companies rework policies to better reflect the realities of an assignment to certain locations. In addition, better preparation beforehand can help keep overall assignment costs low. For example, providing cultural and language training in advance of departure (i.e., while still in the home country) can help the expatriate acclimate more quickly in the host country, potentially making that person more productive faster and reducing the amount of time that his or her presence is required in that country.

A company that approves all exceptions without comparing them to the employee's policy, or even reviewing these exceptions at all, can find itself managing major budget overruns

A global assignment policy is not about simply rotating expatriates in and out of a country. By definition, an expatriate assignment is finite in duration. The real objective is to establish a framework that allows a multinational company to systematically and cost-effectively maintain a global presence over the long-term. A process, such as the one described – one that accounts for all costs, direct and indirect – provides a means to do so. While each expatriate may incur unique costs (i.e., exceptions, COLAs), establishing and enforcing policies with the support of an automated cost-containment and reporting system will go a long way in assuring that an expatriate programme is successful—now and well into the future.

Thomas Shelton is the Founder and Chief Executive Officer of HRToolbox, Inc. (Atlanta), which provides HR professionals with a complete and efficient solution to address the challenges of managing and administering payroll, benefits, and compensation for a global workforce. For more information, e-mail twshelton@hrtoolbox.com, call 877-HRTOOLBOX, or visit www.hrtoolbox.com