

# The Expatriate Administrative Structure: Deciding What Works Best

Tricia A. Danielsen and Lynne F. Molnar



**Tricia Danielsen** is a Senior Consultant in the New York office of ORC Worldwide's International Compensation Services (ICS) practice, where her responsibilities include assisting multinationals in the development of effective international assignment programmes. She has more than 20 years' experience in the corporate and consulting environments, specializing in tax and expatriate administration. Before joining ORC, Ms Danielsen spent three-and-a-half years with Goldman Sachs & Co. as an assignment manager in the Relocation and International Assignments Group. Before this, she worked for Credit Suisse First Boston and Salomon Brothers. Ms Danielsen has a BBA in General Business and an MBA in Accounting and Taxation from Pace University in New York.

Also a Senior Consultant in ORC Worldwide's ICS practice, **Lynne Molnar** has more than 25 years' experience in international human resources management. Based in New York, she specializes in expatriate support and services, including strategic planning for expatriate management and the identification and implementation of international policies and procedures, with an emphasis on compensation, employee communication and issue resolution. Before joining ORC, Ms Molnar was at Texaco Inc. where she worked with senior management to design and establish the company's International Human Resources Service Center, which she then led, focusing on the needs of expatriates and their families. Ms Molnar graduated with a BA degree in International Relations from Briarcliff College, New York.



Managing expatriate assignments from headquarters becomes a relatively simple task when the assignee population is small or when the majority of employees are sent to the same destination under similar terms and conditions. However, as companies expand their global presence and the expatriate program becomes more complex – in terms of destination, duration, and employee category – administrative functions can, and do, become needlessly burdensome if the right structure is not in place.

A number of organizational models (e.g., centralization) offer varying degrees of effectiveness, depending on the company's service-to-the-employee philosophy. To find the optimal organizational design, HR must first review the company philosophy and specific administrative tasks involved in expatriate management. Once the structure is finalized, staff accountability – including that of expatriates – becomes a key factor in the success of the design.

## CLARIFY THE COMPANY'S SUPPORT PHILOSOPHY

The initial step is to define the expatriate support philosophy – that is, a statement of the organization's strategy as it relates to compensation, benefits, and other HR programs. This strategy provides the foundation for the design of each plan and program intended to drive performance; without it, the programs will become misaligned. In many cases, corporate HR staff charged with developing and monitoring expatriate policies and programs is also responsible – usually in

conjunction with business units – for creating this philosophy and gaining executive management approval. During that process, decision makers need to consider a number of questions.

## Employee Support

Does the company intend to provide “red carpet” treatment for all expatriate levels or should employees serve themselves through intranets and websites that allow access to necessary documentation and related information? Alternatively, is a middle path – a “hands off” approach with intermediate degrees of support – desired?

## Organization Structure

Will a traditional, hierarchical management design work better in light of the company culture or does senior management prefer a “flat” organization with teams? Would regional support work? Will each business unit make arrangements for services such as cultural orientation and language lessons and will HR oversee these programs from a central point? Will the service be the same for each assignment type and destination?

## UNDERSTAND WHAT ADMINISTRATION ENTAILS

The next step is acknowledging the key expatriate administration issues and processes that demand attention and time from HR and the business units (e.g., projecting costs, finding the best candidate, and delivering pay in various currencies). A good place to start is auditing the current administrative processes

and procedures by mapping them, thereby identifying which processes are working well and which are needing improvement or possibly even elimination. This step involves a number of considerations, as follows:

*Management of policy and processes.* How layered should the approval process be? Who is responsible for ensuring that policies meet company needs and how is policy effectiveness monitored? Will the company tolerate exceptions or expect strict adherence to policy?

*Management of vendors.* Is it cost-effective (or simply intelligent) to use external providers for certain functions? Who will be responsible for ensuring that vendors fulfill their contract terms?

*Multi-country capability and expertise.* Who is most familiar with local laws and practices? Is it necessary to create centers of expertise? If so, would they be based on knowledge of the geographic locations (e.g., culture and language) or business lines (e.g., marketing or manufacturing)? Who helps the business unit decide whether it is better to hire a local national or send an employee abroad?

*Role of HR.* Companies need to decide whether HR is a resource, policy monitor, administrator, or all three? What is each role's accountability?

*Technology.* Is the company willing to invest in technology that is infused through all processes to improve quality, quantity, and timeliness?

*Cost.* The company needs to decide its attitude toward cost, whether it is low cost only or can tolerate high cost if value is added. What is the return on investment?

In light of these factors, HR should compare current practice with the desired result – that is, where the organization wants, or needs, to go. An effective way to identify the end result is by collecting data from key leaders through interviews and focus groups, as well as from competitive practices.

When establishing the framework, HR should consider how best to implement the following processes.

## Cost Projections

A cost projection allows a company to evaluate the costs of an assignment prior to formally offering it to a particular employee. It provides an opportunity to decide not only on the budget needed, but also the most appropriate employee for the job and the optimal period in which that employee will achieve assignment goals. Cost projections typically include all assignment aspects – total compensation, anticipated annual salary increase and bonus, premiums, allowances, taxes, pre-departure relocation benefits, on-assignment benefits, repatriation relocation benefits, and taxes (with respect to both home and host countries). This information is accessible from a number of internal sources and/or third-party vendors, although many organizations outsource the tax portion or the entire cost projection to an accounting firm, since tax liability costs are often a determining factor in assignment decisions. In light of the Sarbanes–Oxley legislation passed in the United States in 2004, US employers must ensure compliance with respect to separation of accounting and auditing functions.

## Human Resources – Payroll Interface

HR are responsible for notifying the payroll department, in a timely manner, of certain compensation and personnel changes (see BOX 1 below). This process includes all accounting offices responsible for paying the various compensation elements, such as in a split-pay arrangement. HR are also responsible for communicating all adjustments to the employee, best achieved through a document that breaks out allowance amounts, highlights changes to that specific paycheck, and describes the reason(s) for the change.

## Budget

When administration is widely spread either among various HR units and/or within business units, the unit for which the employee is working typically budgets for the expatriate's cost and associated administrative support. However, if expatriate servicing is centralized in one location or region, most companies assign a budget to the service center (or centers), which, in turn, charges expenses to this budget or back to the business unit. Some companies “share services,” whereby the expatriate service center is a profit center and charges

### BOX 1

### The HR–Payroll Interface

*HR must inform Payroll about:*

- Transfers from the domestic to international payroll system (and vice versa), and between business units (for budgeting and tracking)
- Totalization agreements to avoid duplicate social security payments
- Breakdown of assignment allowances into amounts payable and withheld
- Explanation of any pay split between home and host currency

*Payroll, in turn, must:*

- Pay the employee in a timely and accurate manner, with all allowances calculated and paid and deductions made
- Collect overseas payment reports (e.g., host-office payments, social security, and host taxes)
- Co-ordinate tax payments with accounting firms
- Reconcile required documentation
- Report earnings to employee

the business units for its services. In all cases, the system allocates money for administrators' salaries, office space, supplies, equipment, and technology, as well as staff relocation, recruitment, training, and travel expenses.

### Record Maintenance

HR must be knowledgeable of country labor laws (or have access to an expert) that dictate what employee records may or may not be maintained, and set up appropriate systems to facilitate internal and external audits. In some countries, such as the United States, employees may view their records, although HR must ensure privacy and confidentiality. Common items held by the employer include the following details:

- anticipated return on investment, and tracking against this estimate,
- assignment costs by employee, geography, business unit, and policy element (e.g., education assistance),
- employee statistics by geography and business unit (e.g., home and host locations, assignment dates, nationality, marital status, dependents, and salary),
- vendor costs and agreements,
- income reporting for expatriate tax filing,
- benefit enrollments and associated use/claims,
- budget tracking against expenses, and
- policy exceptions, approvals, and associated costs.

The major challenge faced by administrators is keeping all the data current, which demands a good process for initial information gathering and subsequent updating.

### INTEGRATE CONTINUOUS IMPROVEMENT

Internal quality initiatives reach into every corner of the organization, including expatriate administration. Employees often judge HR on customer service: Did they get it right the first time and did they do it fast? While the employer is interested in customer servicing, management also wants proof that policies and programs continue to meet company needs. Improvement plans, therefore, center on providing high-quality customer service, while incorporating ways to reduce costs. An effective tool to gauge how well administrators are doing is to get periodic feedback from internal customers (employees and business units) and vendors – and obtain feedback about the vendors' performance, too.

Integral aspects of any expatriate administration structure should include continuous staff training focused on perfecting customer service behavior, internal "marketing" of the unit's administrative services, effective use of resources (e.g., finance or cross-cultural trainers), and discussion of expatriate HR issues and policies with the business units.

### EXPLORE THE POSSIBILITIES

With an understanding of the company's expectations for service delivery to expatriates and the specific functions necessary to provide that service, the next

step is exploring the infrastructure possibilities. The following systems represent the most common for in-house administration.

One HR unit in one location provides most of the support. According to our firm's '2006 Worldwide Survey of International Assignment Policies and Practices', two thirds of companies worldwide follow this approach. Note, however, that in today's staff reduction and cost containment climate, a centralized structure runs the risk of overburdening personnel if HR do not have sufficient support and resources from which to draw.

Support exists on a geographic regional basis for all operations in that region, an approach implemented by 14% of multinational organizations. This system works best when regional conditions significantly differ from other areas and headquarters, allowing a rationale for varying policy and services. It also relieves the burden of a centralized HR group who must respond to the needs of the entire expatriate population.

HR services align with, and only support, a specific business unit, as followed by 12% of organizations worldwide. This set-up may encourage policy inequity if each profit center operates independently without a central enforcer, making exceptions on an *ad hoc* basis. As with a regional structure, it divides the workload of HR into more-manageable clusters.

Home and host HR units share the responsibility across business and geographical lines, with business managers often assuming the role if a local HR representative is not present. Only 7% of survey participants worldwide follow this approach. To work effectively, communication lines between all units must be open and accountabilities clear to avoid territoriality disputes, and final responsibility for policy exceptions must be defined.

One other option – whereby services are outsourced, in whole or in part, to a specialist provider – has become increasingly common in recent years. The most popular functions to be outsourced are expatriate tax preparation and equalization, cross-cultural and language training, household shipments, home sale, school selection and curriculum evaluation, home finding, and settling-in services. When deciding whether to use a vendor, the following factors become a critical part of the decision:

- cost effectiveness, cost reduction, and economies of scale,
- a consistent, compliant, and fast service,
- some degree of self-service and flexibility,
- reinforcement of a global culture, recognizing that "one size fits all" may not meet all business needs,
- open and direct communication channels, including a dispute resolution process, and
- a supplier replacement strategy.

If a vendor is the way to go, make sure that the company will, in fact, use the services for which it is paying (see

**BOX 2****Vendor Management – Getting Value for Money**

Answers to the following should help shape the direction the company eventually takes with vendors:

- Is cost a consideration?
- What is their service approach? What reporting and communications capabilities do they offer? Are they flexible?
- How much involvement do local management and HR want?
- Does the company want one global provider or a number of local/regional providers? Who are its local network providers? Are they multilingual and multicultural? What role will the local third party play and at what additional cost?
- What service or services does the company need and/or want? Do they have capabilities for special requirements?
- How dependent or independent are assignees? What level of service does the company want to give its assignees and what are the assignee demographics?

When obtaining a proposal, ask for explicit costs, services included, any cost savings or sharing, references, performance criteria and measurements, and the duration of the contract.

**BOX 3****Typical Roles and Responsibilities**

- *Business unit.* Select employees, handle performance management and training, provide career direction, enforce disciplinary action, and determine salary
- *Corporate HR.* Develop, monitor, benchmark, and conduct internal satisfaction surveys, implement change, and address exceptions all with regard to policy
- *Expatriate administrator.* Administer established and approved policies and programs, obtain feedback as to whether they meet objectives
- *Vendors.* Adhere to contract terms and conditions
- *Employee.* Understand new job duties and responsibilities, meet performance standards, and follow procedure before, during, and at conclusion of the assignment

BOX 2). To encourage this use, inform the expatriate of the assistance the vendor will provide, and measure performance against the contract.

Once a structure is established, clearly defined roles and tasks of all who interact with the expatriate are essential to ensure not only that administrators understand and carry out their job duties, but also that they be subsequently measured for performance against accountabilities (see BOX 3). Without clear roles, expatriate needs may not be met (e.g., an employee who was never enrolled in the medical plan might incur a medical expense).

**IN THE FACE OF INCREASING CHALLENGES**

The push for establishing operations in emerging countries, as well as the increasing complexity of assignments as companies seek a balance between meeting strategic goals and expatriate needs, can often lead to administrative overload without the right support structure. Designing the best approach to expatriate administration involves considering company philosophy, organizational culture, expatriate sophistication, and global strategy. When faced with the added pressure of close scrutiny of the bottom line, HR must find a way to balance the diverse factors without its own staff suffering burnout. The right structure is one solution. Ω