

Localization and Education Policy & Cost Implications

by Dr. Bill Ford

Over the years, Educational Connections has responded to corporate requests for cross-country comparisons to determine schooling options and funding policy during family relocations. A recent phenomenon has been the request for more in-depth cost comparisons by corporations now localizing their expat families. While addressing these requests, Educational Connections' review of both relocation and localization guidelines revealed important policy and cost implications.

According to Jacqui Hauser, Vice President of International Consulting Services at Cendant Mobility, localization is "growing in popularity" as an alternative to traditional expatriate assignments (International HR Journal, Summer 2003, A Business Case for Localization). She cautions, however, that while "the savings are alluring to many, many are also aware of the various compensation issues and other challenges this role brings." For globally mobile employees, localization refers to the integration of an employee into the host-country system. Historically, this approach was applied to employees setting off from their home country's operations to their host country on a permanent or indefinite basis.

Influenced by costs and family issues, the practice of localizing expatriates is becoming a key consideration of Human Resources dealing with today's global workforce. In addition to localization, non-traditional assignment alternatives, such as, short-term assignments, cross-border commuting, and extended business travel are also being explored. Although the latter alternatives may have cost and flexibility advantages, they often do not adequately address global-competency development and can result in employee burnout and problems with productivity (Australian Relocation Network Conference, March 10/11, 2003).

Employers may be considering localizing expatriates and phasing out or removing expatriate assignment terms and conditions, but are they actually doing it? According to Organization Resources Counsellors' 1998 Worldwide Survey Localization Policies & Practices for Expatriates, 29% respondents localized expatriates six years ago and another 18% planned to do so in the future. ORC Executive Vice President Geoffrey W. Latta noted that "although cost has traditionally been a driving factor in localization, two other important reasons underlie a company's decision -- the expatriate's own desire to remain abroad and corporate concern over pay equity between expatriates and local nationals".

According to a survey on localization reported one year later in the Global Relocation Trends 1999 Survey Report by Windham International (Localization as a Human Resource Management Practice), 40% of their respondents indicated that expatriates are localized after a period of time. "This is both a way to control assignment costs and a way to ensure the long term success of international operations by developing local talent." For the companies surveyed, on the average, the localization process typically began after four years and the transition took up to two and a half years to complete. When asked where localization was taking place, respondents indicated United States (54%), United Kingdom (45%), Hong Kong (15%), France (11%), and Germany (10%). Based on current trends, Corinna Saunders, a relocation consultant based in Calgary, predicts that "localization will soon replace relocation as the norm for corporate transfers between the US and Canada, followed by Australia and the UK."

Despite the growing interest in localization, only a quarter of the survey's respondents indicated that they have a formal policy in place to deal with the employee's transition to local terms and conditions. "This lack is short-sighted," says Latta. "Companies think they can deal with localization on a case-by-case basis, and then they discover that they have all sorts of different deals that can not be rationally defined." The need for a written policy is endorsed by Suzanne Bernard, Manager of the International Mobility Management Team for Bombardier, who implemented a full localization policy in July 2001. Bernard states that of their 200/250 annual corporate transfers, approximately 20/30 employees are localized after two years. She states that having an up-front written policy in place establishes clear expectations for the employee right from the start. Saunders adds, "A comprehensive localization policy needs to be carefully coordinated with overall corporate policy." For example, if the intention of the corporate transfer is to train the employee and bring back global experience then localization is not appropriate.

Whether or not a company has a policy in place, changes in their localized employees' compensation package need to be implemented in a fair and equitable manner. More than half the respondents in

the ORC survey reported that they immediately localize base pay, medical benefits, pension and the performance bonus. The majority of participants were in agreement however, that housing and education allowances need to be phased out over time, recognizing that these are two of the more sensitive areas of the expatriate package. Although Bernard views localization as "a complete phase-out package in that after a year all the differentials are gone", she agrees that education is a case sensitive issue for families.

According to the 2002 Worldwide Benchmark Study: New Approaches to Global Mobility, released by Cendant Mobility, the Society for Human Resource Management Global Forum and the National Foreign Trade Commission, companies reported that partial localization occurs -typically called "local-plus"- in which the employee transitions to a local package while continuing to receive assistance for expenses, such as, housing and education. They cite the reason for this is in many countries a corporate transferee may not have access to the same resources as a local employee, such as financing for home purchase or even access to the same housing as local employees. It has also generally been assumed that children will need to be maintained in costly private schooling that meets international and/or home country standards.

Despite the increasing use of localization, policies on employee transitions to a local package vary remarkably in the industry. Carla Joinson, a contributing editor to HR Magazine, in her article No Returns (HR Magazine, Vol. 47, No. 11, November 2002) cites companies that eliminate home leave perks 12 months after the localization process begins. Other companies reduced allowances to 75 percent the first year, 50 percent the second year and 25 percent the third year, or eliminated them totally after a year. With specific reference to education, payment of tuition for the employee's children is frequently retained at 100 percent for three or four years, and in some cases companies have agreed to pay 100 per cent of private school education until graduation as part of the localization package. As indicated, cost reduction is one of the driving forces behind localization. Saunders points out that compensation packages for expatriates are tax protected premiums (e.g., hardship, cost of living, housing allowances, etc) that can be equivalent to an employee's base salary. Add annual tuition fees of \$20,000+ (US) per child to these costs and localization becomes an attractive cost reduction alternative.

What guidelines are used to determine educational costs for an expatriate family?

When Educational Connections recently conducted school equivalency research for companies localizing expatriate families in England and Scotland, critical gaps in existing relocation policy became evident. Over the last two decades, general assumptions about schooling differences between Canada and the U.K. had resulted in the placement of employees' children in international schools offering an American style curriculum. This placement decision was a response to perceptions about lack of equivalence in curriculum and educational standards between specific Canadian provinces, England and Scotland. For example, families with pre-school children were concerned that their children would not be adequately prepared for the earlier compulsory schooling in the U.K. Families were also concerned about how their children's eventual repatriation would be impacted by differing standards and curriculum. Families with teenage children questioned the equivalence of course work in intermediate and secondary levels and the impact relocation would have on their children's preparation for and admission to post-secondary studies in their home country.

A review of funding guidelines for corporations relocating employees between English speaking countries also revealed that most relocation policies on schooling had not been updated in response to the dramatic, progressive changes which have taken place in educational systems worldwide over the last decade. For the most part, funding guidelines typically continued to recommend that an "educational allowance" (i.e., company subsidy) be provided where there is a "difference between academically equivalent pre-school expenses in the host and home locations." and if the "English-speaking public school facilities in the host location are not academically equivalent to public schools in the home location." In most of these guidelines, however, there was no definition or statement of what was meant by academically equivalent or what objectively constituted a significant schooling difference. As a consequence, the basis upon which school placements were initially made and the expectation for the continuation of a funding subsidy was largely subjective and/or had been established simply as a consequence of historical precedent.

Recent cross-country comparisons of reading, math and science achievement supported by international agencies such as the World Bank (e.g., Trends in International Mathematics and Science Study; Programme for International Student Assessment; Progress in International Reading

Literacy Study) as well as annual school evaluations now routinely conducted by Educational Ministries in most western countries have resulted in increased accountability and the upgrading of educational standards and curricula. As a consequence, researchers now have access to objective databases on educational information to determine equivalency between differing schooling options in the host country. These resources allow the more objective identification of suitable school placements both on a general and/or on a case-by-case basis. As predicted two decades ago, education is now also being shaped by globalization.

The projected cumulative costs of funding private tuition for expatriate children at international schools can be rather staggering. The identification of equivalent public and/or less costly private schooling as placement options is now a consideration when localizing an expatriate. Objective cross-country comparisons contribute to a comprehensive localization (and relocation) policy as they allow the determination of whether or not, and/or to what extent, funding for private schooling is indicated.

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