 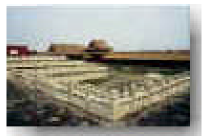   

Risk Assessment

It was recently noted, that the cost of an international assignment is now in the region of $US1.4 million. The Australian Government estimates the cost to Australian corporations of failure of overseas assignments to range between $400 and $800 thousand (AUD) per assignment.

Those numbers sound high; let's take a broad-brush estimate and see how they work out.

Starting with a salary of $200k and related expenses at 30% or $60K per annum, this amounts to $520k for a typical two-year assignment. Adding travel for the executive and his/her family at four trips per year at $5k each adds another 80k. Accommodation at $5k per month for two years ($120k) plus cost of living adjustments at say another $100k, brings the cost to $820,000.

Figure in relocation costs at $80k, including allowances for replaced furniture, etc, and 10% or so for contingencies and the cost reaches US$1,000,000. That's a significant investment.

Our crude estimate may be out either way, but the cost is substantial. Whatever the real cost to your company might potentially be, is a number that your finance staff can calculate, but quite frankly it is far too large to ignore and far too large an investment to fail to manage effectively.

Risk Analysis

OK, so we have a rough idea of what might be at risk in terms of direct costs, but what about the indirect costs? By that we mean that if assignees fail to achieve the objectives for which they were sent overseas, the real cost could be many multiples of that million dollars.

Example 1: Engineer is sent to China to fix a problem in a manufacturing process which is costing $100,000/day in lost productivity. If he fails, that $3,650,000 is still lost each year.

Example 2: CFO is sent to Australia to take on the role of President of the well-running subsidiary Downunder as a training ground for his next promotion. During his tenure, he manages to create hostility between management and the work force resulting in reduced morale, decrease in quality and loss of market share at a crucial time in that market. Cost impact? $50 million in reduced bottom line contribution over the time it took to correct the problem and regain position in the market.

Example 3: The corporation has been under pressure from Wall Street to improve its numbers and internal analysis identifies Europe as the key area for non-performance. An aggressive sales team with ambitious targets is sent to Europe to shake up the market. Outcome: Loss of key long term customers and further deterioration in fiscal performance. How? The aggressive approach alienated established European clients who changed to an alternate supplier who appeared to better understand their needs.

Example 4: Highly competent, accomplished, outgoing young woman in marketing is sent to the Middle East to introduce a new brand image to the local market. She has little understanding of the culture and not only does she fail to understand the concerns of the local management team that the new image may be offensive to some influential sectors of that community, but she is then arrested for drinking alcohol at a local bar. The cost? Too nasty to think about.

In the increasingly complex global marketplace, companies have to reduce the risk of failure in international business.

Risk Management

A study at Melbourne University in 2003, identified several key aspects of overseas assignment failure and the causes. Earlier studies have also pointed to the causes and costs of failure on overseas assignments.

Good Risk Management practices include risk assessment from the perspective of the magnitude of a potential event and the probability of that event. It also includes taking action to minimize risk by implementing strategies targeted at reducing risk.

For international assignments, the cost is somewhere around one million dollars and possibly much higher, and the probability of failure is somewhere between 30 percent and 60 percent depending on the criteria used to measure failure.

That level of risk is too high to be ignored or left to chance. Language training alone is not enough and managing the physical relocation process is not sufficient to guarantee success.

Being effective in a foreign country requires an understanding of the people and their culture and how that impacts their way of dealing with others and doing business.

How can the risk best be minimized? One answer is to contact a consulting firm that really understands your needs. Look for one with a focus on success. Pre-departure training is not a benefit that goes with position, it is absolutely essential as a part of an international risk management approach.

The firm you choose, should offer pre-departure, re-entry, and doing business abroad programs. They should also have in-country support. Their programs should be tailored for staff working overseas, about to be transferred overseas, visiting on sales trips or just working with overseas suppliers, customers or affiliated companies abroad.

Programs should be tailored to suit your situations and locations.

EMD is an international consulting firm that can help you assess the risk of failed overseas connections, and address issues as diverse as language, security, religion and local customs.

EMD assignments have included the auto Industry, food manufacturers, white goods, and paper producers with personnel moving to or from Australia, Finland, China, USA, Mexico, Switzerland, Canada, Ireland, New Zealand and the UK. Our staff have practical experience in sales, technical and management, and have lived and worked in multiple cultures. We also have an extensive network of industry and country experts.

Contact ***EMD*** for details on how we can assist you achieve success in the international arena.

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