The Hidden Worker

The Reality of Stealth Expatriates

A growing issue is surfacing today within the global mobility arena: the phenomenon of the stealth expatriate, an employee who works in another country without being part of the company’s official expatriate program and often without HR’s knowledge. (This may include long-term or short-term assignees, business travelers or commuters.) The trend is increasingly putting companies at risk for inconsistency, lack of support to employees, and, above all, noncompliance in key areas such as tax and immigration. As the pace of global business quickens and continues to change the nature of international assignments, the number of stealth expatriates will most likely continue to rise in organizations, along with their exposure in these key areas.

To explore the scope of the trend and the issues it is raising for organizations, employees and global mobility practitioners, Cendant Mobility along with the Worldwide ERC and the Chartered Institute of Personnel and Development (CIPD) in the UK surveyed companies throughout the world. A total of 216 international HR practitioners completed the online survey with 63% of the respondents’ companies headquartered in the Americas; 35% within Europe, Middle East and Africa (EMEA); and 2% within the Asia Pacific (APAC) region. Besides quantifying this trend, this report also gives practitioners insight into their peers’ responses and solutions to these unofficial assignments.

Stealth Expatriates Exposed

A very large majority of respondents have experienced the stealth expatriate issue firsthand. A robust 78% either suspect or can confirm that they have stealth expatriates in their organization, with business travelers and short-term assignees the most common, followed by business commuters and then, as the most minor of the mix, localized transferees and long-term assignees. Significantly, despite the high levels of experience with stealth expatriates, an overwhelming majority (83%) indicate that their organizations do not have systems in place to track them.

Do you have stealth expatriates in your organization?

- Suspect 40%
- Confirm 38%
- No, but concerned about the future 10%
- No, and not concerned about the future 9%
- Don’t know 3%
When asked how organizations discover stealth expatriates, “chance” leads the list (45%), with other avenues including tax and immigration provider (17%), special projects designed to identify these employees (15%) and the travel booking department (10%).

Adding to the mystique of the stealth expatriate, more than one-third (38%) don’t know whether there has been an increase or decrease in the number of expatriates within their organization, although more than a quarter (27%) cite an increase and only a few (11%) see a decrease. The EMEA region has the most instances of stealth expatriates, with the Asia Pacific region the next most common location indicated.

The Consequences Appear

Tax penalties (36%) leads the list as the area with the most potential for cost impacts arising from stealth expatriates, with visa/work permit issues (28%) and temporary housing (10%) in second and third places. Tax liabilities (29%) and visa/work permit issues (24%) are the leading negative ramifications organizations face with employees working outside the expatriate program, according to respondents. The inability to track workers (19%) and overall cost impacts (10%) also appear as consequences.

The Reasons Unfold

Not understanding when to use official assignment programs is the number-one reason respondents felt the stealth expatriate phenomenon is occurring in their organization. Productivity is a factor, too, with responses that note the stealth expatriate approach is perceived to be either less costly (19%) or faster (17%) than going through HR departments. The impact of open borders within the European Union, which tend to encourage stealth assignments, is fourth (11%). The use of alternative assignments is also indicated (10%), while 7% of the responses point to a lack of process for involving HR as the driving reason behind the stealth expatriate phenomenon. Very few (4%) feel that the trend is a direct result of initiatives reducing assignee headcount.

Major Routes to Uncovering Stealth Expatriates

By chance 45%
Through tax & immigration provider 17%
Through special projects to inventory employees 15%
Through travel booking department 10%

83% of respondents indicated that their organizations did not have systems in place to track stealth assignments.

High Potential Areas for Cost Impact

Tax penalties 36%
Work permit/Visa penalties 28%
Impact on employee/family satisfaction 11%
Temporary housing 10%
Long-term housing 7%
Transportation 3%

Tax liabilities and visa debacles are the leading negative consequences of having stealth expatriates.

Reasons Behind the Trend

Lack of understanding about assignment programs 25%
Perceived to be less costly 19%
Perceived to be faster/more efficient 17%
Open borders with EU 11%
Increase in alternative assignment types 10%
No process to require HR involvement 7%
Result of initiatives reducing assignee headcount 4%
Further Thoughts

Here are a handful of qualitative replies to open-ended questions.

Q: How do stealth expatriates originate?

- Employees filling in for short-term staffing needs.
- Business trips turning into assignments without HR's knowledge.
- Employees on virtual project teams and flexible work plans are relocating to other countries but remaining on home-country payroll.
- Hiring managers focusing on host-country expenses (housing, per diem) and failing to check with HR regarding immigration, tax, and other issues.

Q: What are the ramifications?

The ramifications were numerous, and included: burnout from excessive travel, unequal treatment due to differing packages, employee dissatisfaction, lack of reporting and controls, tax issues, and immigration issues.

- Employee working within several countries accumulated separate pensions, which amounted to less than if the employee had stayed in one plan.
- Assignees unhappy after realizing they could have received premiums and uplifts as well as R&R leave.
- Some relocations not covered under policy and comparatively have very generous packages – not treating all of our international assignees equally.
- Lack of reporting and controls means true cost of the assignment is often hidden.
- Multiple business trips exceeding the total number of days or the salary limitation within the country.
- 15+ year expat who now doesn’t have enough social security credits to receive benefits in the U.S.
- Employee localized as a cost saving leading to a large settlement in outstanding pension contributions.
- Employee who regularly commuted internationally without proper visa detained by immigration officials.

Q: What approaches are companies using to address the issue?

The most common theme – better communication and more education of managers, assignees and leadership. Among the strategies and methods being used:

- Enhance internal web site to identify potential risks of stealth assignments.
- Getting more involved in the planning stages of international programs.
- Putting a traveler and commuter policy in place to cover the stealth expatriates.
- Educating the country representatives on potential exposure to the business.
- Engaged travel vendor who advises each traveller on visa requirements of business trips.
- Travel system pop-up email to HR when trips planned are too long or occurring at the same destination.
- Starting to track and review expense reports.
- Considering tracking via travel services provider.
- Hitting the offending department with the costs.

Very few companies were able to estimate how much stealth expatriates were costing their organizations. Conversely, they were aware of the difficulties in implementing tracking or process solutions to the issue. When asked the impediments to developing these, the number one-response was cost and time to implement.
Summary

Clearly, the stealth expatriate trend is creating issues for HR departments, organizations, and employees themselves. This Pulse Survey points to three main areas where the findings are particularly thought provoking.

First, we have a clear indication that many organizations and employees may be exposed in the areas of tax and visa compliance due to the increasing phenomenon. Whether these consequences may be intensifying due to countries securing their borders more efficiently or collecting tax dollars more diligently, these ramifications have an effect in real cost terms. Employees are paying the costs, not only through impacts on their personal lives but also, in many cases, in personal tax penalties and interest on wages out of their own pockets. As companies tighten their tracking and corporate governance procedures, stealth expatriates may be discovered more often.

Second, the trends point to an opportunity for HR to position itself more strategically as practitioners gain additional knowledge and control over this new employee population. Obviously, the hard costs occasioned by compliance issues are not the only impacts organizations and their employees face. An assessment of the "soft" impacts in terms of employee support services and career development needs to be factored in when evaluating the overall costs of stealth expatriates to an organization. In seeking a balance between assignment support and business goals, HR practitioners stand to gain on several fronts: increased ROI from successful assignments and employee knowledge capture, legal and operational protection for the business, and added strategic value for the HR function itself.

Third, and perhaps most importantly, the stealth expatriate phenomenon points to the fact that as global business demands evolve, the workforce evolves in turn, moving faster and in a more focused manner toward a global workplace that is both more flexible and more demanding than many may have imagined. As companies become more knowledgeable about these impacts – from the hard costs tied to tax and visa compliance to the "softer" costs involved with employee and family dissatisfaction and organizational productivity – they can more effectively develop their strategies to address the issue.