

ESTIMATING FINANCIAL SAVINGS FROM INTERCULTURAL TRAINING

Cornelius Grove and Paul Seever

Experience shows that well designed intercultural training will pay for itself many times over by increasing the effectiveness, and thus the productivity, of expatriate employees such as Americans abroad and foreign nationals in the United States. But it has been difficult to quantify the benefits that can be realized from such training.

We have developed a model to address this problem. Our model arises out of theoretical principles as well as the experiences of organizations that have committed themselves to high quality intercultural training. We believe this model to be universally applicable for roughly estimating the financial savings from intercultural training.

The model is grounded in the award-winning concept of intercultural adjustment developed by Grove and Torbiörn in 1985.¹ Their work suggests that the day-to-day effectiveness of anyone working in a previously unfamiliar culture is largely a function of two variables:

APPLICABILITY: The extent to which one's habitual patterns of behavior are socially acceptable to, and interpersonally effective with, the host nationals with whom one is interacting.

CLARITY: The extent to which one positively and clearly understands the basic assumptions, enduring values, and habitual patterns of thought of the host nationals with whom one is interacting.

Applicability and Clarity, independently of each other, can increase or decrease in level as time passes. Ideally, each increases as the expatriate or foreign national employee gains experience with host nationals. The bottom-line issues for multinational companies are:

- (1) At what level of each variable does the assignment abroad begin?
- (2) How rapidly does each of the two variables increase its level?
- (3) At how high a level does each variable eventually stabilize?

Figure 1 illustrates our assumptions regarding the average employee on assignment abroad without any intercultural training. The top curve represents his or her Applicability: starting at 30%, it rises to 75% by the end of nine months, and gets close to 100% by the beginning of the third year. (Applicability at 75% means that, during 75% of the time in day-to-day activity, one carries out acceptable and effective patterns of behavior; host nationals are not embarrassed or confused and do not sense that appropriate behavior has been omitted.)

The bottom curve represents the employee's Clarity: it also starts at 30%, but it rises more slowly, attaining the 75% level after nearly three years. (Clarity at 75% means that, during 75% of the time in day-to-day activity, one attributes to the communication and behavior

Copyright 1990, Cornelius Grove and Paul Seever. All rights reserved.
For information, contact C. Grove, 442 47th Street, Brooklyn, NY 11220.

Estimating Financial Savings from Intercultural Training

of host nationals the meanings they intend; one is neither perplexed nor mistaken about their motivation, intent, or underlying values.)

The middle curve in Figure 1, "Effectiveness," is the average of the other two. In the case shown, the "Overall Effectiveness" of the employee during the life of a three-year assignment abroad is 68%, as shown by the dashed horizontal line on the graph.

Overall Effectiveness can be improved by raising the levels of Applicability and Clarity through intercultural training. Ideally, some training occurs in the home country prior to the employee's assignment abroad. But the principal training effort occurs one or two months after the employee has arrived in the host country. All training directly involves the spouse and children of the employee.

Figure 2 illustrates our assumptions about an employee on assignment abroad with intercultural training. Applicability now begins at 35% and rises more rapidly, attaining the 75% level after only six months and the 100% level by the end of the second year. Clarity also begins at 35% and rises more rapidly, attaining 75% in twenty-one months and nearing 90% by the end of the third year (instead of stabilizing at about 75%). These improvements increase Overall Effectiveness to 78%, yielding a 14% savings (14 percentage points on a base of 68).

It has been estimated that the expense of maintaining an employee on assignment in London is about \$300,000 per year. (Other cities have different estimates, some as high as \$1,000,000.) Using \$300,000 as the basis of a sample calculation, a 14% improvement in overall effectiveness over three years would be worth \$126,000.

Intercultural training for an employee and his or her family members has a price tag, of course. Pre-assignment training for the family unit might cost about \$3000; in-country training, which should be quite extensive, might cost about \$8000; and an enhanced corporate support system for expatriate and foreign national employees could average out to \$2000 per family unit. So the total training and support cost per family unit might be roughly \$13,000.

\$126,000	Estimated savings from increased Overall Effectiveness
- 13,000	Estimated cost of intercultural training and support
<u>\$113,000</u>	Estimated net savings per family unit over three years

Our model, which is based on modest assumptions regarding the extent to which intercultural training improves the Overall Effectiveness of employees outside their home environment, can be used to estimate any company's potential savings from intercultural training.

The table at the top of page 4 lists estimated increases in Overall Effectiveness as well as the Savings Rate, due to training, in the course of two- to five-year assignments in any unfamiliar culture. Using the Savings Rate Multiplier from this table and financial data available from your own company, complete the worksheet to roughly estimate your company's potential savings per family unit.

FIGURE 1
OVERSEAS EMPLOYEE EFFECTIVENESS
WITHOUT TRAINING

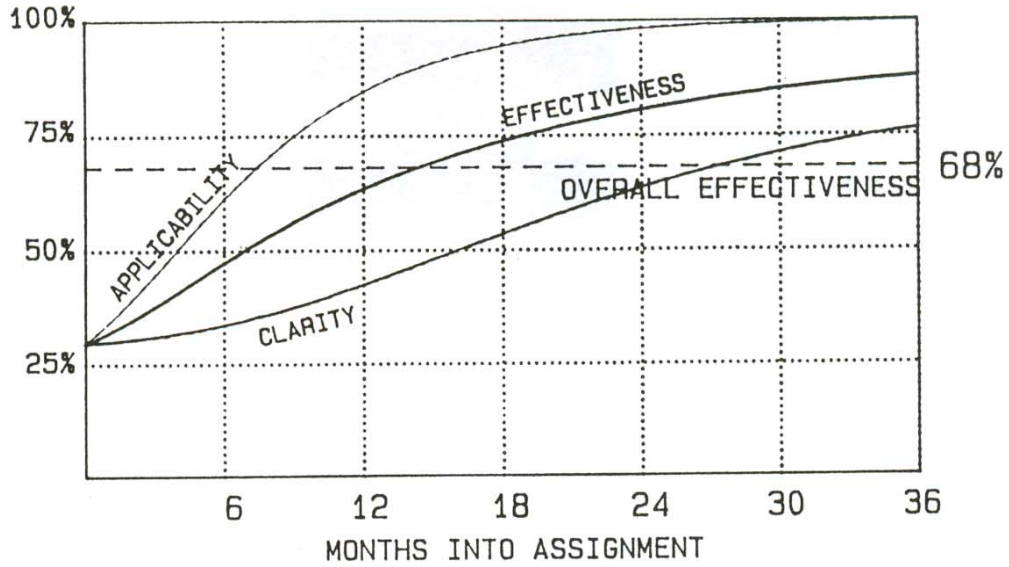
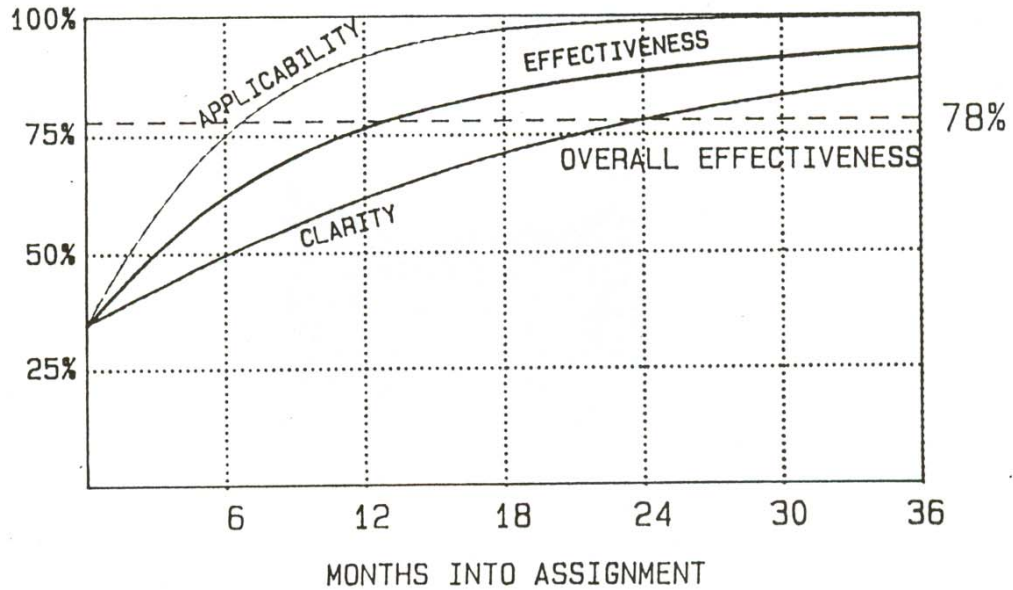


FIGURE 2
OVERSEAS EMPLOYEE EFFECTIVENESS
WITH TRAINING



Estimating Financial Savings from Intercultural Training

<u>ASSIGNMENT LENGTH</u>	<u>ESTIMATED OVERALL EFFECTIVENESS WITHOUT TRAINING</u>	<u>WITH TRAINING</u>	<u>SAVINGS RATE MULTIPLIER</u>
Two years	60% ²	71%	.19
Three years	68%	78%	.14
Four years	74%	82%	.12
Five years	77%	85%	.10

WORKSHEET FOR ESTIMATING SAVINGS DUE TO INTERCULTURAL TRAINING

Base salary	_____
Foreign service premium	_____
Goods & services differential	_____
Housing differential	_____
Relocation allowance	_____
Airfare for family	_____
Moving household goods	_____
Company car	_____
Schooling for children	_____
Annual home leave	_____
Foreign income tax	_____
Other	+ _____
Add column above for annual cost per family unit	_____
Multiply by number of years of assignment abroad	x _____
Total cost per family unit of assignment abroad	_____
Apply appropriate Savings Rate Multiplier (due to intercultural training) from table at top this page	x . _____
Savings from increased Overall Effectiveness	_____
Subtract training cost (not less than \$10,000)	- _____
ESTIMATED NET SAVINGS FROM INTERCULTURAL TRAINING	_____

1. C. Grove and I. Torbiörn, "A New Conceptualization of Intercultural Adjustment and the Goals of Training." *International Journal of Intercultural Relations*, 9 (2), 1985. Awards from ICA and SIETAR.
2. This figure, 60%, is the same as Grove's estimate, arrived at in consultation with five international business consultants. See C. Grove, "An Ounce of Prevention: Supporting International Job Transitions." *Employment Relations Today*, 17 (2), Summer 1990.