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Expatriate Localisation: To localise or not?

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Expatriate Localisation: to localise or not?

Today's speakers



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Agenda

- **Definitions and Latest Localisation Trends**
- **Local versus Expatriate Compensation Levels**
 - Comparison of compensation Levels in selected countries
 - Compendium of Expatriate Compensation in Singapore
 - Composition of expatriate compensation packages in Singapore and how they deviate (or not) from local and local + packages
- **Localisation Approach**
- **Localisation Policies**
- **Company Practices**
 - Case studies



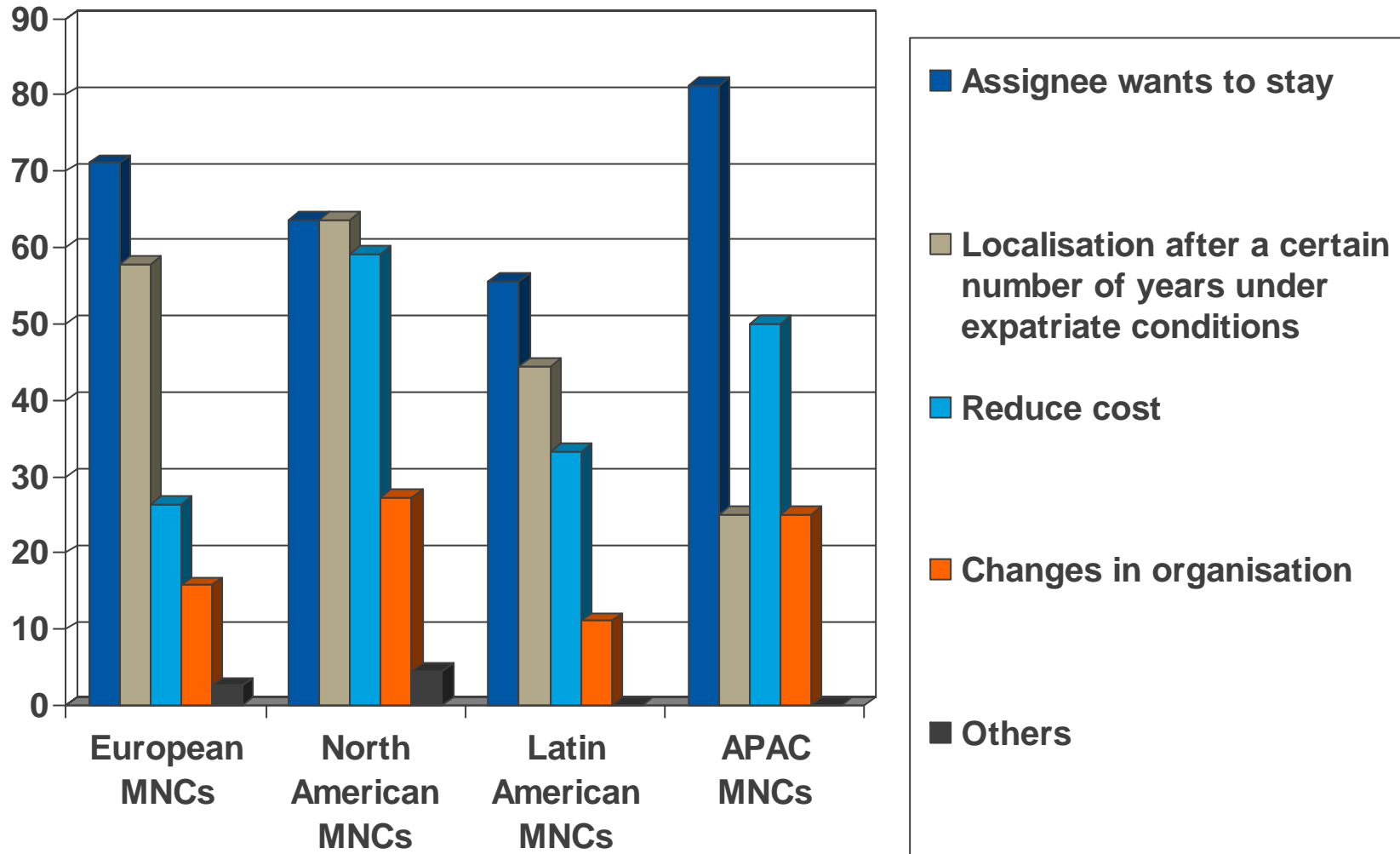
Definitions and Latest Localisation Trends

Definitions

- **Localisation** is changing compensation and benefits of an expatriate employee to closer match those provided to local employees in the same or similar job.
- Usually occurs when the employee stays in the host country beyond the original intent of the foreign assignment.
- **Local Plus condition** is based on Local compensation and employment conditions with supplementary expatriate benefits and allowances typically the housing and education allowances.

Latest Localisation Trends

Why do company localise?



International Assignment Survey 2008

Latest Localisation Trends

To localise or not?

Do companies localise their expatriates?	All Participants
Yes, selectively depending on the location	49.6%
No	22.4%
Not yet but we are thinking to localise more expatriates in the future	17.4%
Yes, always after a certain time period on overseas assignments	10.6%

How do companies localise their expatriates?	All Participants
On a case by case basis	36.9%
Currently reviewing our localisation policy	28.3%
Phasing out the expatriates allowances	18.7%
Eliminating all expatriate allowances straight away	12.0%
Eliminating some expatriate allowances straight away but maintaining key expatriates allowances	4.2%

July 2009 Survey Results with 407 total survey participants

Polling Questions

Do you still provide a job guarantee to your expatriates?

Yes

No

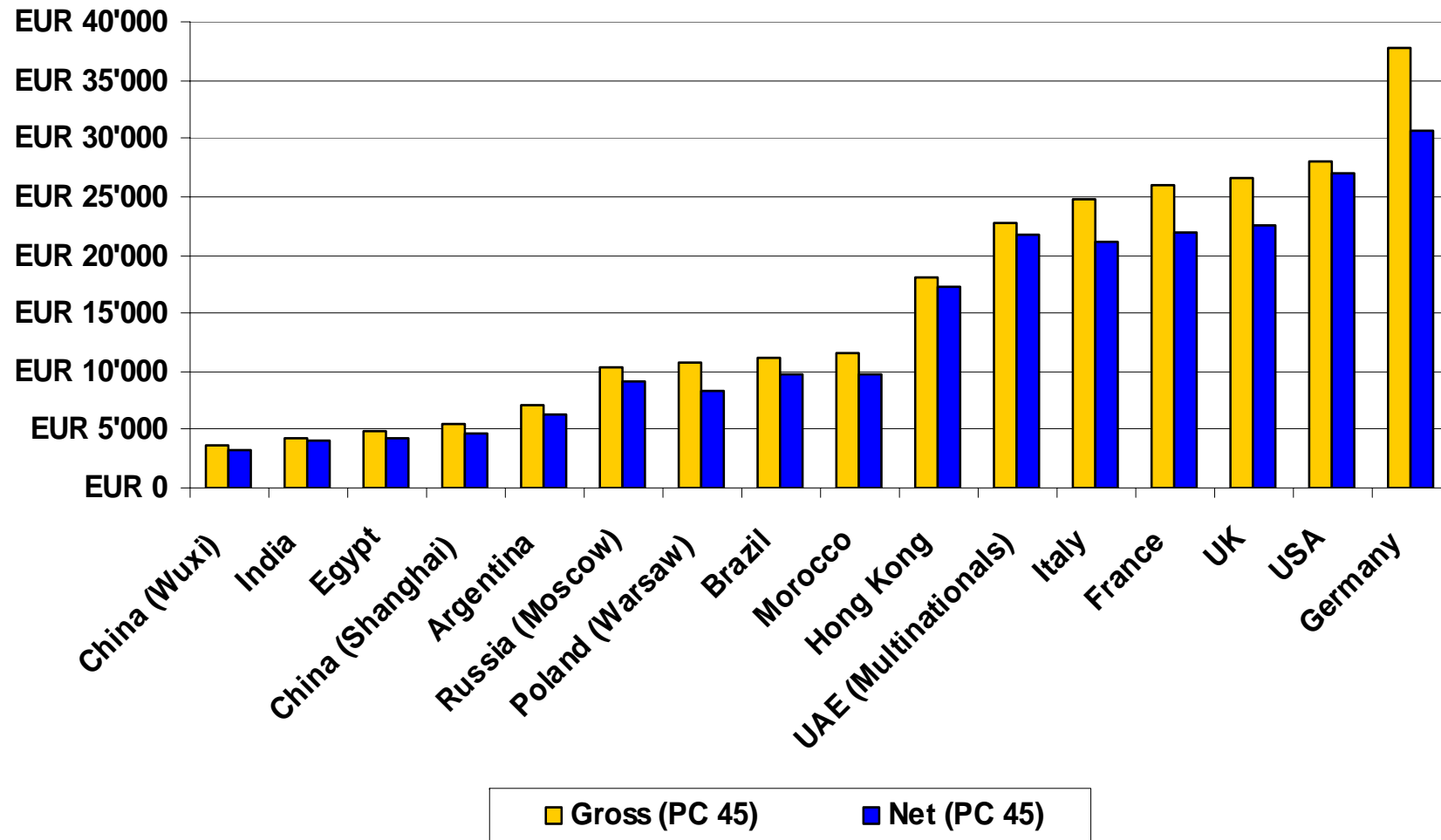
Latest Localisation Trends: What we are seeing

- **Recent** forecast was “fewer Expats in the future”
- **In reality the opposite happened even in the economic downturn**
- Majority of companies have now a written guideline for localisation
- North American companies localised much more than European companies during the last 12 months
- Increasing number of localisation due to lack of job possibility in home country
- Bonus paid for Expatriates who build up local talent
- Lump sum payments – particularly for low salary structure countries
- Total assignments costs and local salaries comparison – return on investment
- Freeze on external hires
- Increase in regional moves
- Pressure to avoid exception
- More transparency - better communication

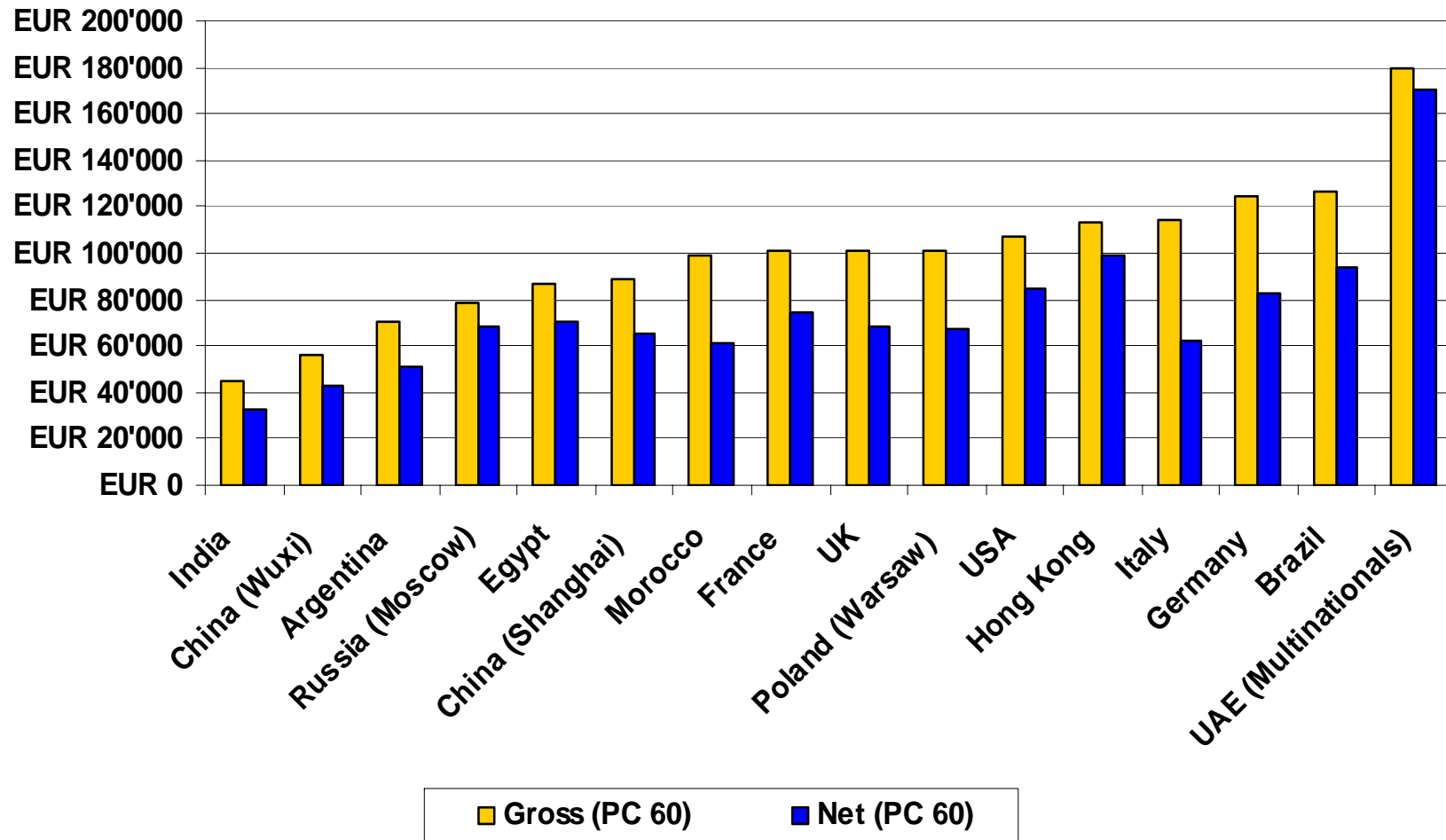


Local versus expatriate compensation levels

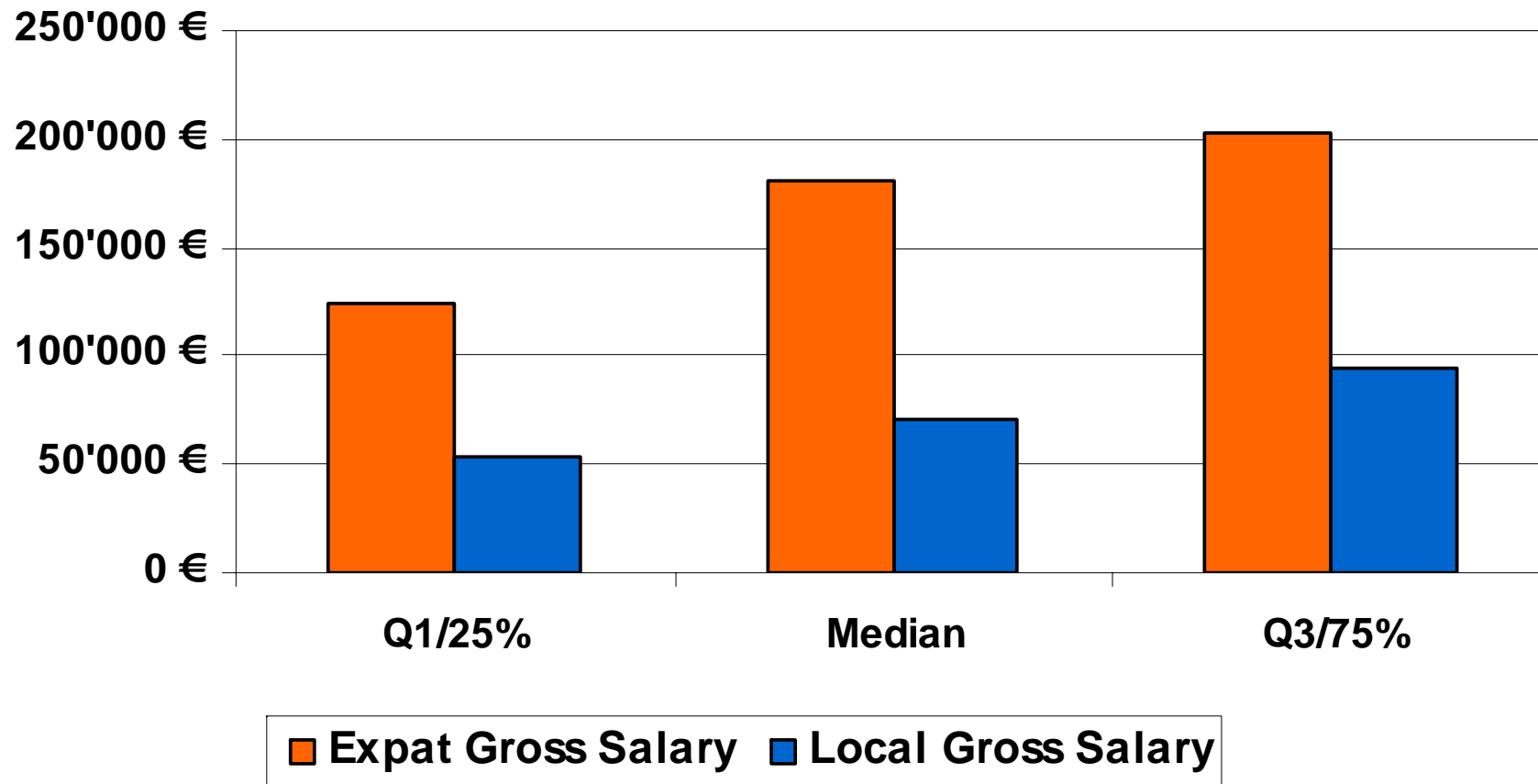
Annual gross base compensation level in selected countries, TRS 2008, Net amount based on taxes and social security, married + 2 children, PC 45



Annual gross base compensation level in selected countries, TRS 2008, Net amount based on taxes and social security, married + 2 children, PC 60

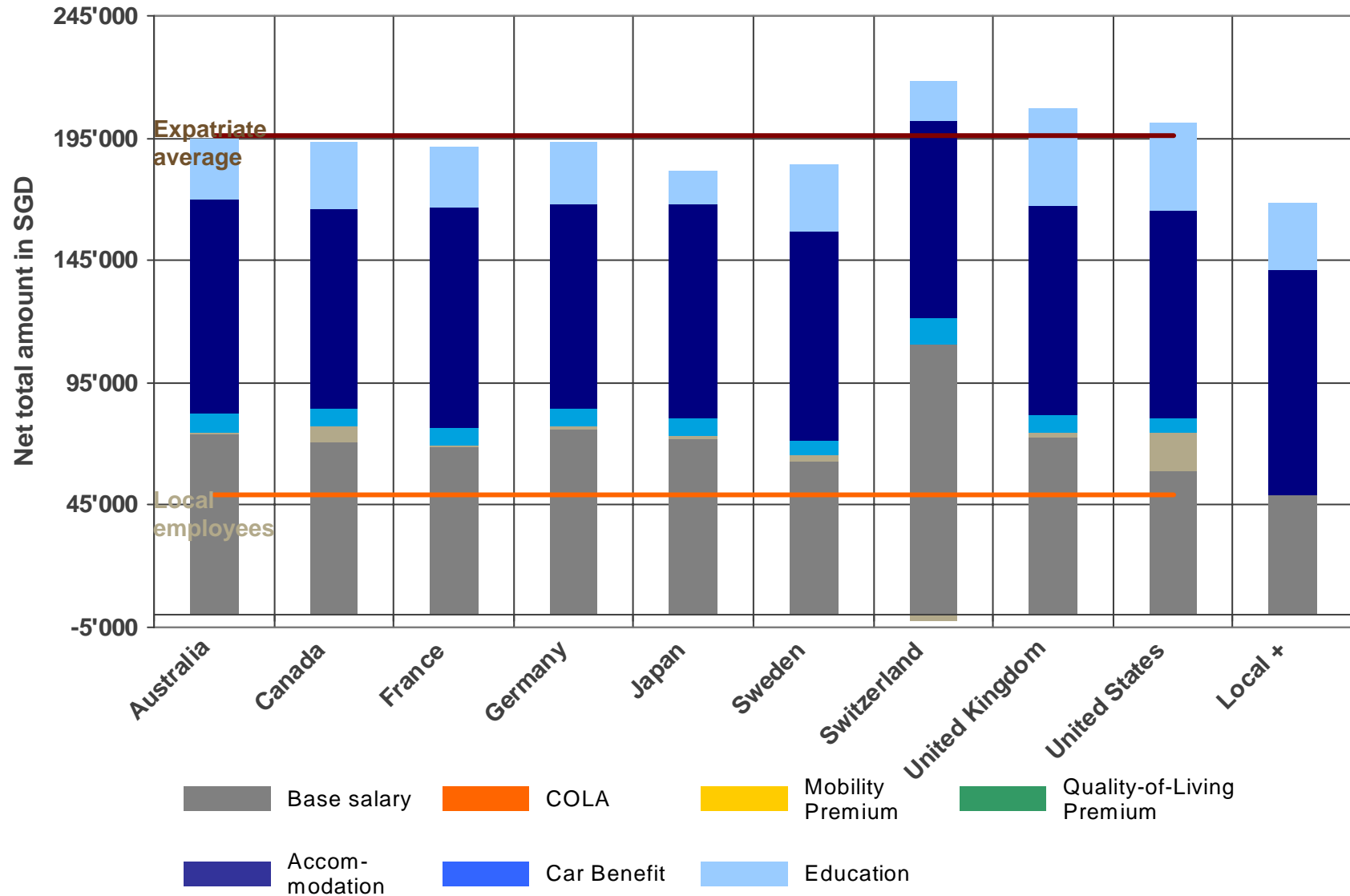


Annual gross base compensation level PC 60 in Shanghai, local versus expatriate (base: Frankfurt)



Compendium of Expatriate Compensation in Singapore

International assignment package overview by position level and policy type

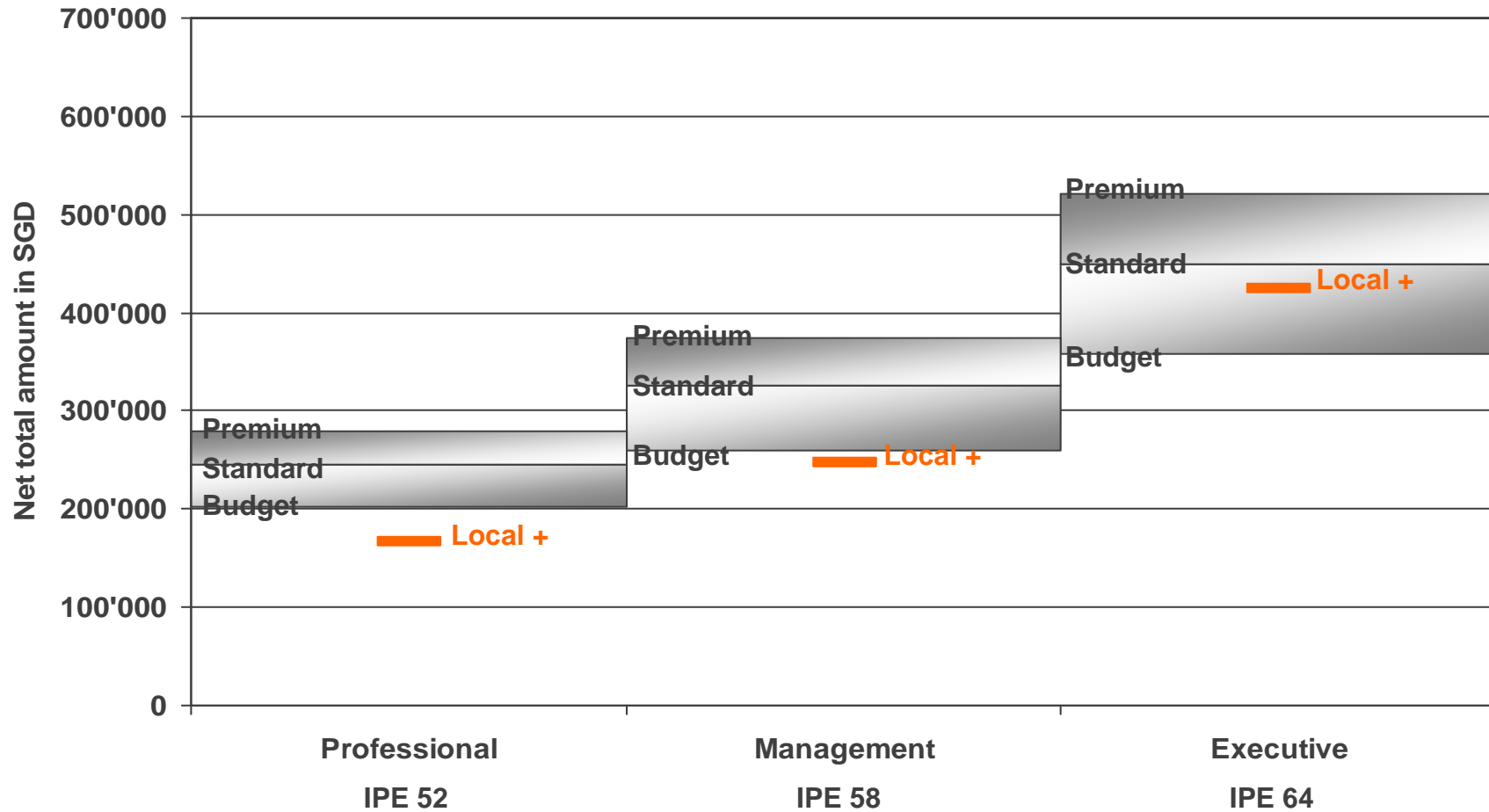


Compendium of Expatriate Compensation in Singapore

Net Expatriate Compensation Levels in Singapore

Net base salary and recurrent allowances (M+1)

German companies

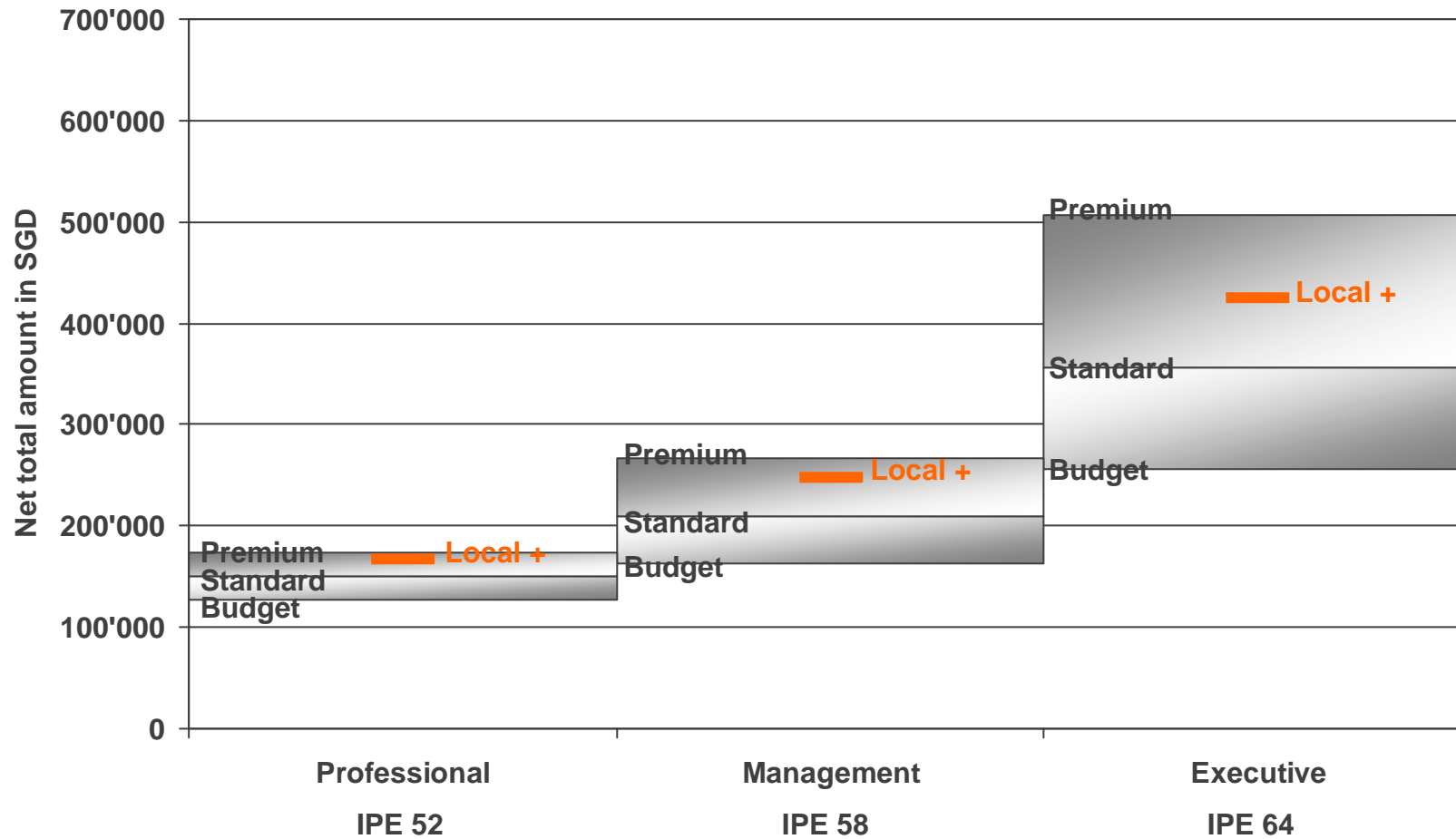


Compendium of Expatriate Compensation in Singapore

Net Expatriate Compensation Levels in Singapore

Net base salary and recurrent allowances (M+1)

Indian MNC's Companies





Localisation Approach

Localisation approach example

Expatriate compensation calculation - London GB to Shanghai CN

Annual gross base salary GBP 50'000

Equivalent job local China net compensation level GBP 16'350

Family status: Married couple with 2 children

Expatriate allowances	(GBP)	Phase out Year 1 (GBP)	Phase out Year 2 (GBP)	Phase out Year 3 (GBP)	Impact on Mobility
Cost of living allowance	193	193	-	-	High
Housing benefit	27'088	18'058	9'029	-	High
Utilities allowance	2'709	-	-	-	Low
Hardship allowance	6'250	-	-	-	Medium
Mobility premium	5'000	-	-	-	Low
Home leave	5'000	-	-	-	Low
Car benefit	12'282	-	-	-	Low
Spouse support	2'500	-	-	-	Medium
Settling-in allowance	8'333	-	-	-	Low
Education allowance	21'743	14'495	7'248	-	High
Total net value of allowances	91'098	32'747	16'277	-	
Net base salary	36'507	36'507	36'507	36'507	
Total net compensation in Shanghai	127'605	69'254	52'784	36'507	
Ratio	3.5	1.9	1.4	1.0	

Local plus approach example

Local plus compensation calculation

London GB to Shanghai CN

Family status: Married couple with 2 children

Local compensation level	(CNY)	(GBP)
China annual gross base salary	300'000	19'917
China annual net base salary	246'300	16'352
Plus additional allowances:		
Housing benefit	312'000	20'714
Education allowance	327'498	21'743
Total net compensation in Shanghai	885'798	58'809

Which approach to use? Retention & Compensation are related

- Different starting points?
 - Low to high country compensation level
 - High to low country compensation level
- Which approach to use?
 - Home Balance sheet
 - Local Plus
 - Host approach
 - Hybrid approach
- Executives / Top Talent / Skilled employees / Mobile Employees require special attention
 - Identify needs and design compensation model accordingly
- Why is retention such an issue?
 - competing for talent, short term perspective, loyalty base



Localisation Policies

Localisation Policies – according to geography and industry sector

8.4 Do you have a localisation policy?							
	All regions	Asia Pacific	Europe	Latin America	North America		
Yes	44.7	29.4	40.5	55.6	59.1		
No	55.3	70.6	59.5	44.4	40.9		
Sector							
	Chemical/ Pharma/ Healthcare	Consumer	Energy/ Engineer- ing	Financial	Industry	IT	Profes- sional Services
Yes	35.3	42.9	60.0	22.2	50.0	58.3	50.0
No	64.7	57.1	40.0	77.8	50.0	41.7	50.0

Polling Questions

Q) Do you have a written localisation policy?

Yes

No

Localisation in low paying countries

8.8a Have you localised in countries where the host compensation structure is lower than in the home country?							
	All regions	Asia Pacific	Europe	Latin America	North America		
Yes	55.6	26.7	69.4	33.3	61.9		
No	44.4	73.3	30.6	66.7	38.1		
Sector							
	Chemical/ Pharma/ Healthcare	Consumer	Energy/ Engineering	Financial	Industry	IT	Professional Services
Yes	52.9	65.0	40.0	12.5	55.6	66.7	83.3
No	47.1	35.0	60.0	87.5	44.4	33.3	16.7

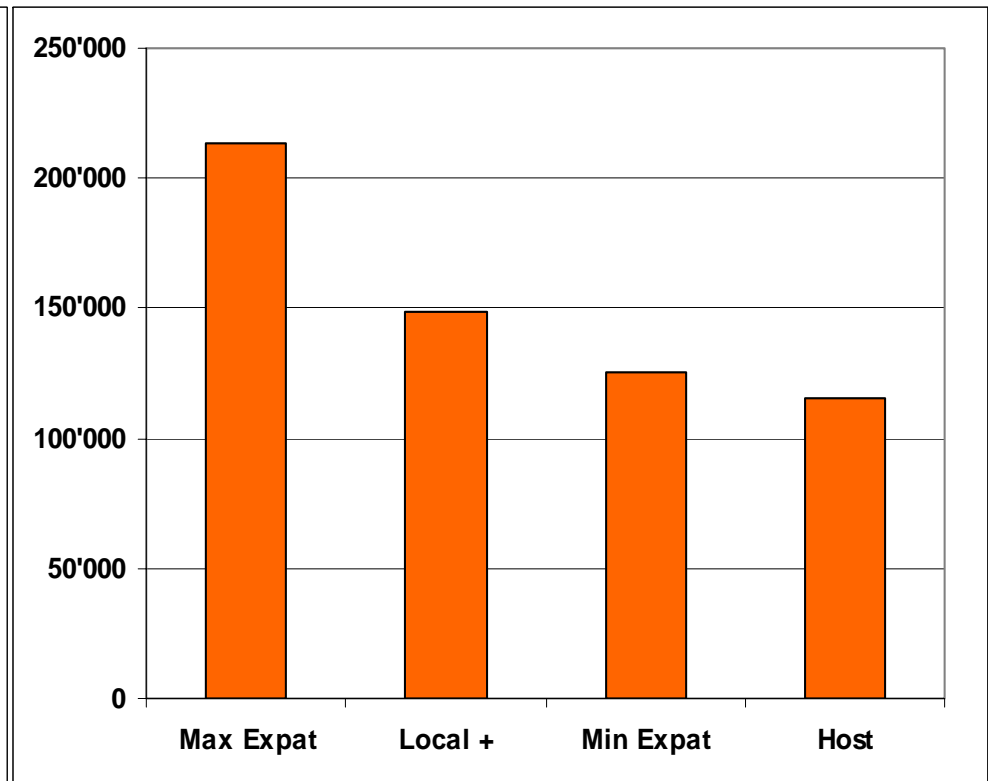
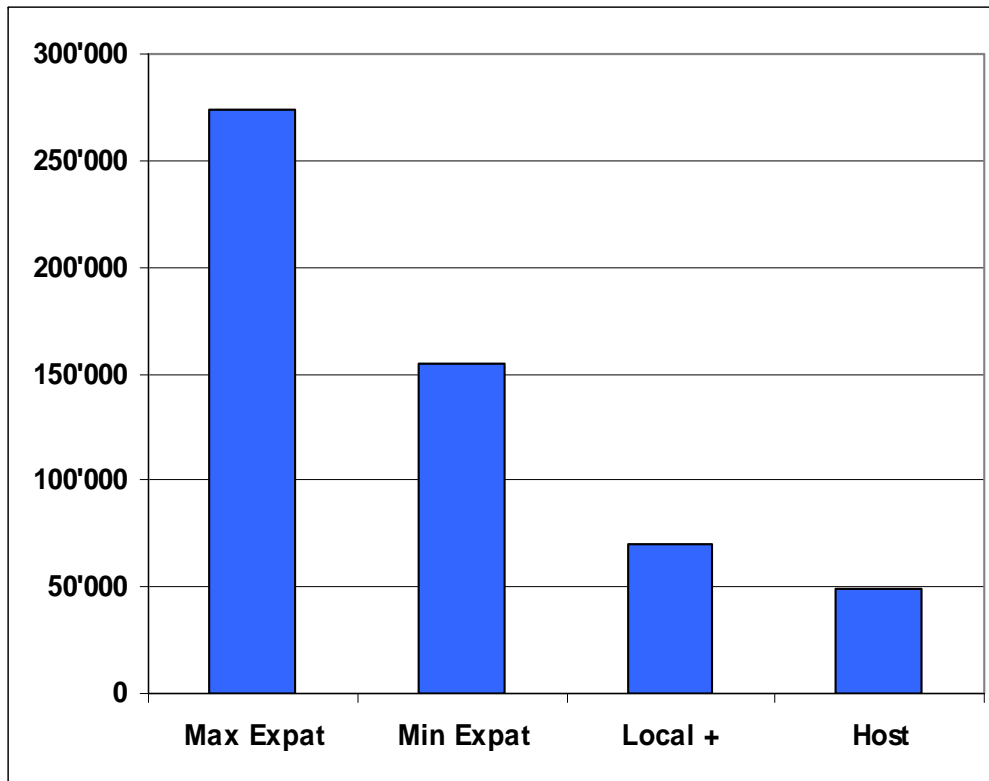
8.8b If yes, do you apply the same localisation policy as for other locations?					
	All regions	Asia Pacific	Europe	Latin America	North America
Yes, same as for any other location	50.0	33.3	46.2	100.0	53.8
No, we provide additional allowances to cover in total the difference in salary structure	2.1	0.0	3.8	0.0	0.0
No, we provide additional allowances to partially cover the difference in salary structure	6.3	16.7	3.8	0.0	7.7
No, we manage this case by case	39.6	50.0	42.3	0.0	38.5
Other	2.1	0.0	3.8	0.0	0.0

Different approaches – different results

PC 56, married + 2, in EUR

WARSAW (03/2009), Base Frankfurt

DUBAI (03/2009), Base: Frankfurt





Company Practices

Company practices

What are the alternatives?

Who wants the expatriate to stay in the host location?

Expatriate wants to stay: does the expatriate has unique skills?

Unique skills => Local plus approach, host compensation with additional allowances

No unique skills => Localised approach, expatriate package phase out to full local compensation and conditions

Company needs the expatriate to stay: does the expatriate has unique skills?

Unique skills => Hybrid compensation

No unique skills => Localised employee, expatriate package phase out to full local compensation and conditions

Company practices

Hybrid compensation level for international talent

- Home country base pay or host country base whatever is the highest
- Lump-sum allowance (housing / education)
- Tax equalisation
- Home country benefit (retirement / pension plan) if host plan not applicable
- International medical insurance coverage if host plan is not covering the same level

Company practices

Hybrid compensation level for international talent

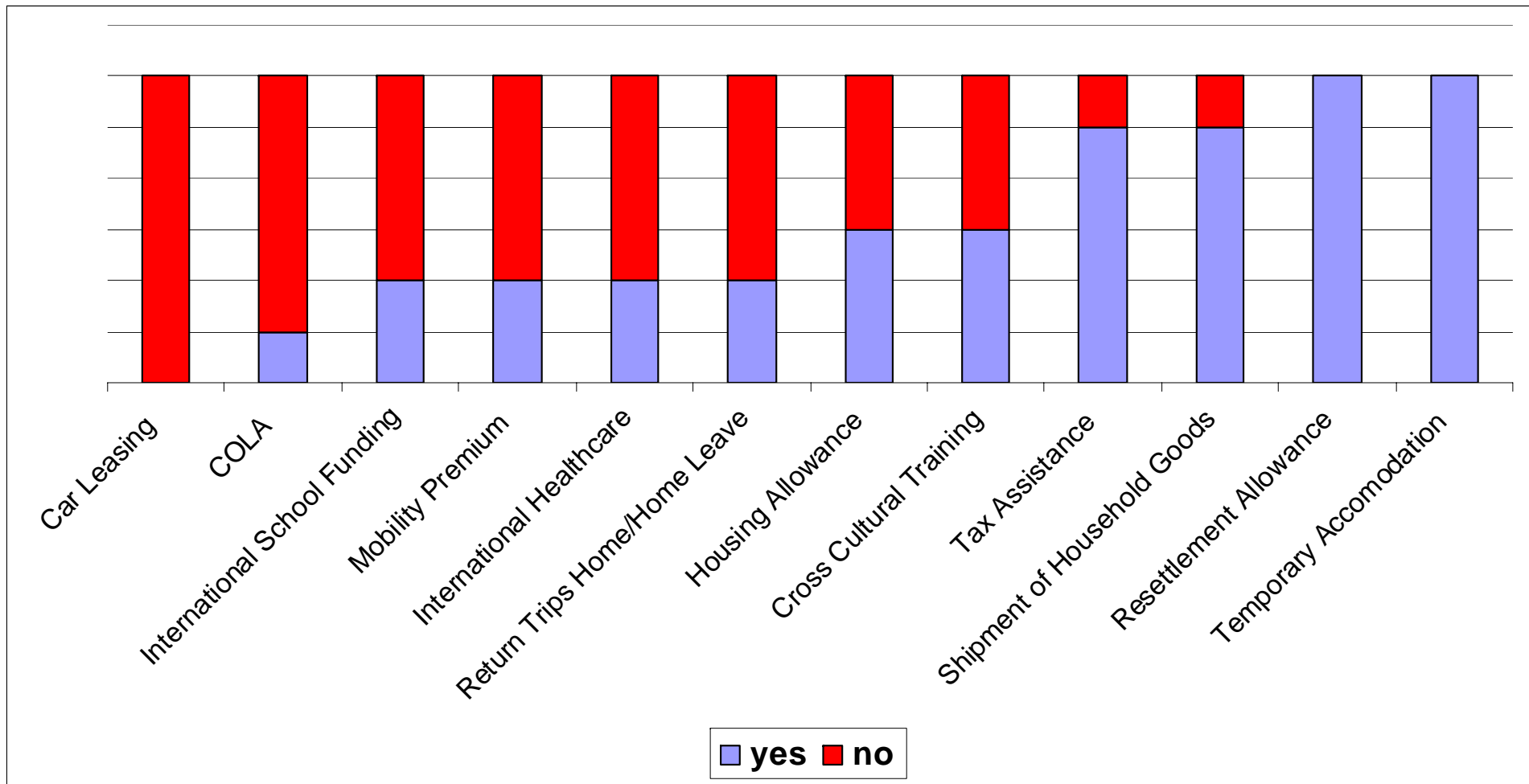
Alternatives:

- Local compensation (higher percentile level due to higher skills and experience) to guarantee equity with local peers
- Lump-sum allowances (housing & education)
- Ready to invest in key talent: career planning opportunities (promotion, bonus performance system, additional benefit coverage as incentive)



Case study

Practices for localisation to Switzerland (6 companies)



Case Study

European MNC – Localisation Policy for Entire APAC Region

Rationale for Localisation

- Large group of locally hired expatriates along with expatriates that have been on long term assignment in host country (beyond the company's normal policy) as well as future globally mobile employees within the region to fill the local market's gap
- A need to develop an effective localisation policy for attraction and retention purpose addressing current situation as well as future needs
- Cost containment was also the driving force to put in a non expatriate policy for the region

Implementation Process

- Communication and buy ins from HR local offices as well as line management
- Communication to existing expatriates in terms of the total value package
- Development of policy handbook
- Drafting of employment contract letter

Plan Design

- Local plus design package:
 - Local salary structure between median – 75th percentile
 - Variable and LTI bonus to follow global policy
 - Subsidy in terms of housing allowance (on a reduced budget scale) and educational allowance with phasing out schedule over 3 years period
 - Health and welfare benefits – follow local policy
 - Pension/retirement – follow local policy with supplementary contribution into ee's individual retirement account
- Consistent policy framework for the entire region with some degree of flexibility (from line management) particularly for educational allowance for retention purpose

Administration Management

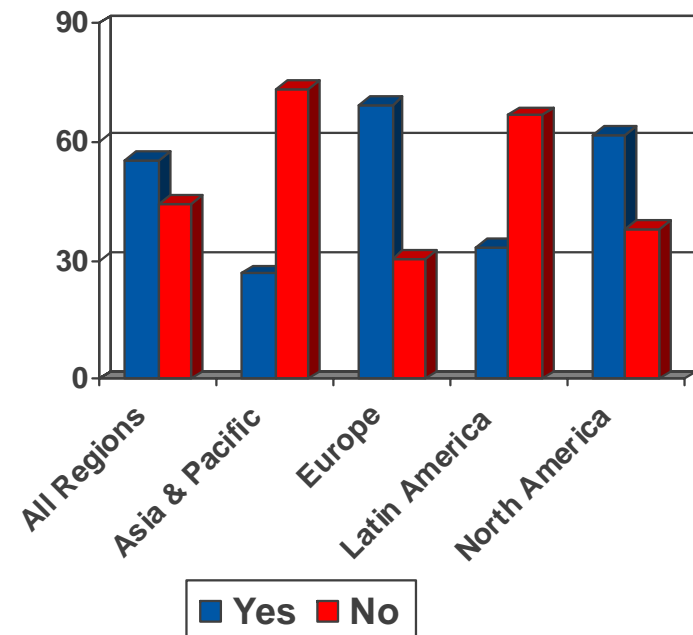
- Administer locally by the each individual HR representative following the policy framework
- For exception to the policy (i.e., educational allowance), HR is required to be involved to review and approve the final arrangement



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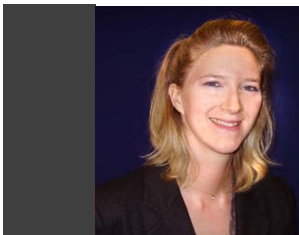
Do companies localise in countries where the most compensation structure is lower than in the home country?



Questions and contacts



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