

# MERCER

Consulting. Outsourcing. Investments.



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

## Mercer webcast



8th September 2009

# Expatriate Management Policies Theory vs. Practice

Ivana Gibson, Richmond, VA USA

Yvonne Traber, Geneva, Switzerland

# Expatriate Management Policies Theory vs. Practice

## Today's speakers



**Yvonne Traber**  
**Global Mobility**  
**Regional Business Leader**  
**Geneva Switzerland**  
**+41 22 869 3073**  
**yvonne.traber@mercer.com**



**Ivana Gibson**  
**Global Mobility**  
**USA Business Leader**  
**Richmond Virginia USA**  
**+1 804 539 4740**  
**ivana.gibson@mercer.com**

# Expatriate Management Policies Theory vs. Practice

## Today's agenda

---

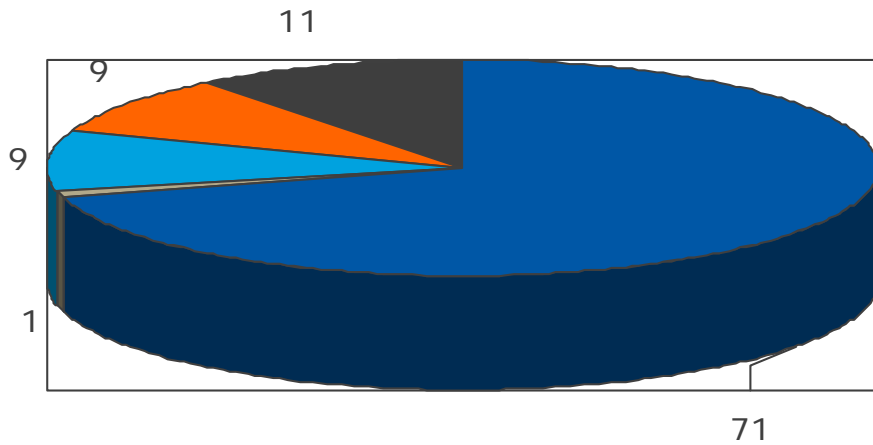
1. **Expatriate Compensation Approaches**
2. **Global Policy Benchmarking Trends & Practices  
Case Study**
3. **How to deal with “Exceptions” to your Expatriate Policies?**
4. **Mercer International Assignment Survey 2009/2010**
5. **Q&A Session**



# **1. Expatriate Compensation Approaches**

# Expatriate Compensation Approaches

All MNCs



- Home Country Approach
- Host Country Approach
- Local Plus
- Hybrid Approach
- International Structure

Home country or balance sheet approach

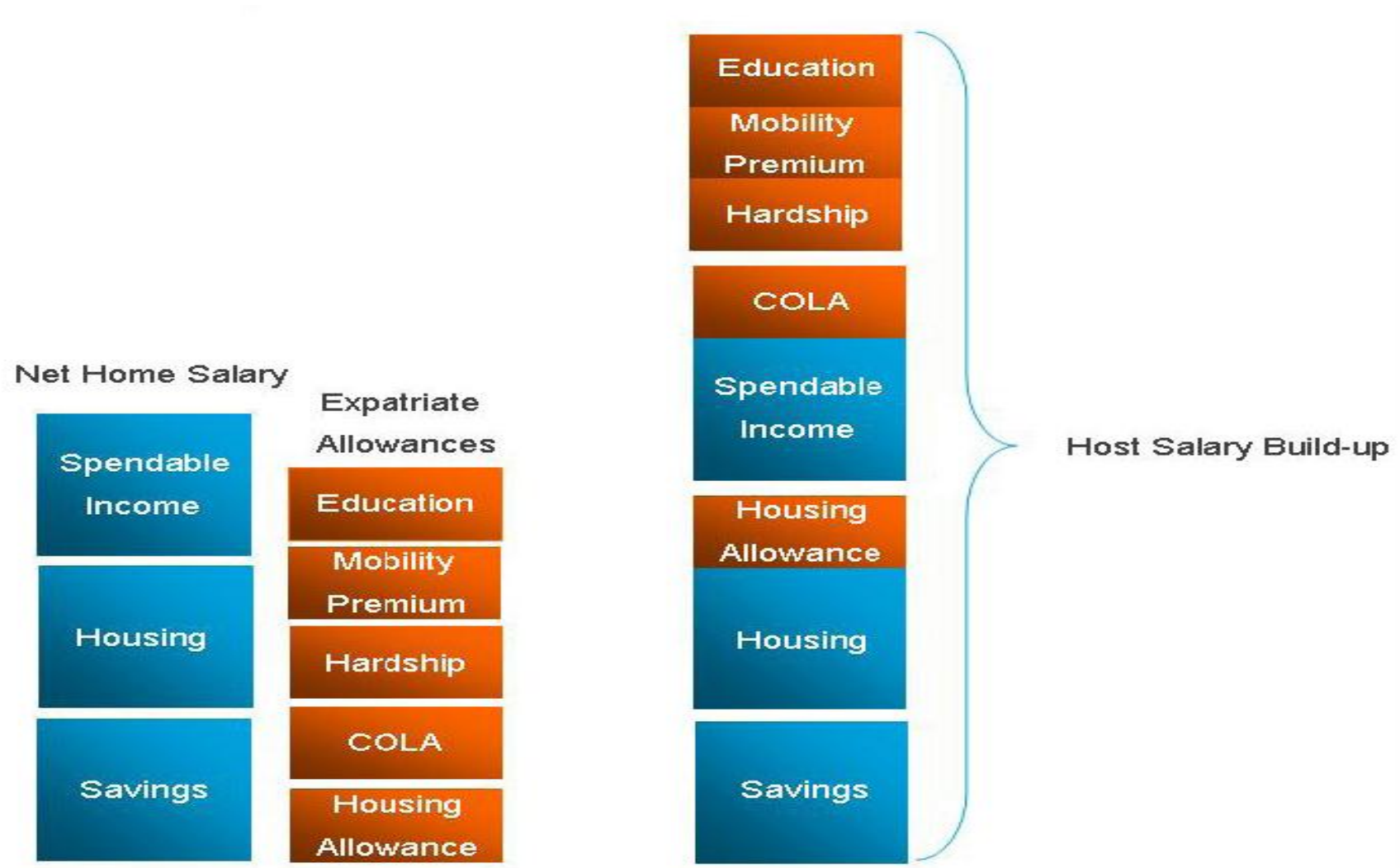
Host country approach

Local plus approach

Hybrid approach

International structure

# The balance sheet approach



# The balance sheet approach

## Cost of Living Allowance Practices

| <b>Which of the following best defines companies' Cost of living allowance (Goods and Services allowance)?</b>                                 | <b>All Participants</b> |
|--|-------------------------|
| <b>Update twice per year</b>   | <b>26.8%</b>            |
| <b>Cost of living allowance policy is currently under review</b>   | <b>22.6%</b>            |
| <b>Update once per year</b>  | <b>21.6%</b>            |
| <b>Apply some exceptions</b>   | <b>11.3%</b>            |
| <b>Fully apply the negative cost of living allowance</b>   | <b>11.1%</b>            |
| <b>Only recently started to update the cost of living allowance more regularly due to the recent volatility in currency and exchange rates</b> | <b>5.7%</b>             |
| <b>Apply a less generous cost of living index to contain costs</b>   | <b>4.7%</b>             |
| <b>Only just started to apply negative cost of living allowance</b>  | <b>2.5%</b>             |
| <b>Switching cost of living provider for a more cost effective data source</b>   | <b>1.7%</b>             |

July 2009 Mercer Survey Results with 407 total participants

## The balance sheet approach Housing Allowance Practices

| <b>Which of the following best describes companies' expatriate housing policy ?</b>                                   | <b>All Participants</b> |
|---|-------------------------|
| <b>Housing allowance defined by job levels and family size</b>  | <b>45.0%</b>            |
| <b>Housing differential allowance with a minimum contribution made by the expatriate(home housing norm deduction)</b> | <b>21.1%</b>            |
| <b>Housing allowance policy is currently under review</b>   | <b>18.9%</b>            |
| <b>Housing allowance defined by family size only</b>  | <b>16.7%</b>            |
| <b>Free housing allowance (no employee contribution required)</b>   | <b>13.8%</b>            |
| <b>Apply some exceptions</b>  | <b>13.3%</b>            |

July 2009 Mercer Survey Results with 407 total participants

## The balance sheet approach Hardship Allowance Practices

| <b>Which of the following best defines companies' hardship policy for expatriates in difficult locations?</b> | <b>All Participants</b> |
|---|-------------------------|
| <b>Hardship allowance as a percentage</b>   | <b>25.6%</b>            |
| <b>Hardship allowance as a variable amount according to home and host country combination</b>                 | <b>20.4%</b>            |
| <b>Hardship allowance policy is currently under review</b>  | <b>17.7%</b>            |
| <b>Hardship allowance as a variable amount according to host location only</b>                                | <b>16.7%</b>            |
| <b>Apply some exceptions</b>  | <b>7.1%</b>             |

July 2009 Mercer Survey Results with 407 total participants

## The balance sheet approach

---



- **Achieves worldwide consistency**
- **International transfers made simple**



- **Difficult to adapt to local circumstances**
- **Difference nationalities at different pay levels for the same job**
- **Uncompetitive in some locations**
- **Market driven from base country**

## Host country approach

---



- **Simple to administer**
- **Responsive to change**
- **Market driven at post**



- **Only appropriate in major locations**
- **Worldwide variations inhibit transfers**
- **Not equitable or consistent internationally**

## Local plus for intra-regional transfers



- **Employees are more willing to move in Asia, companies tend not to pay the full expatriate package**
- **Lower cost and lower process requirements**
- **Take the advantage of local tax and cultural aspects, typically no need for tax equalisation**  
example: Singapore and Hong Kong have low tax rate
- **Flexibility for local business purposes**

## Local plus for intra-regional transfers

---

- **Difficulties in transferring the employee to another country**
- **What about transfer to Philippines or Malaysia?**
- **Local Plus approach will no longer be competitive and attractive**
- **Companies are becoming creative with some hybrid approaches**

## Hybrid approach, “Best of” Solution

---

- **Never below local market rate**
- **Never below home living standard**
- **Maintain home reference salary for pension etc.**

## International structure

- Competitive international reference compensation structure: USA, UK, Switzerland, countries average....
- The base salary, benefits, pension and social security plan defined by position levels regardless of the origin of the employees
- Is built on a net base salary adjusted by COLA and grossed up according to local taxes
- International structure is consistent, very generous and equitable for all career expatriates and recognizes the performance and skill of the employees
- The company can source talents from all countries and guarantee attraction and retention of their career expatriates

## The most positive consequences of the international compensation structure:

- ✓ Consistency
- ✓ Equity
- ✓ Clarity
- ✓ Easy to administer
- ✓ Transparent

## The main key challenges of the international compensation structure:

- ✓ Currency fluctuations
- ✓ High Costs
- ✓ Explaining and “selling” the International Approach
- ✓ Resistance to change from managers
- ✓ Less attractive for assignees from high paying countries



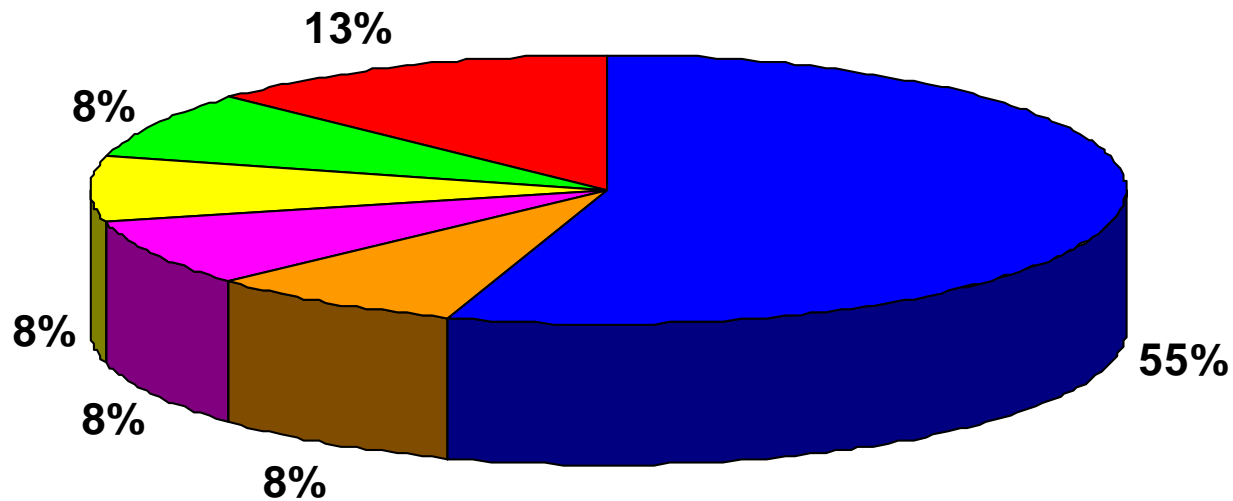
## **2. Global Policy Benchmarking Trends & Practices Case Study**

## Discuss a real life case study explaining the different compensation approaches and outcomes

---

- Global Benchmarking Study
- Focus on Hardship locations (Iraq, Algeria, Nigeria, Pakistan, China)
- Selected questions:
  - Policy
  - Compensation approach
  - Mobility premiums
  - Unaccompanied assignments
  - Completion Bonus

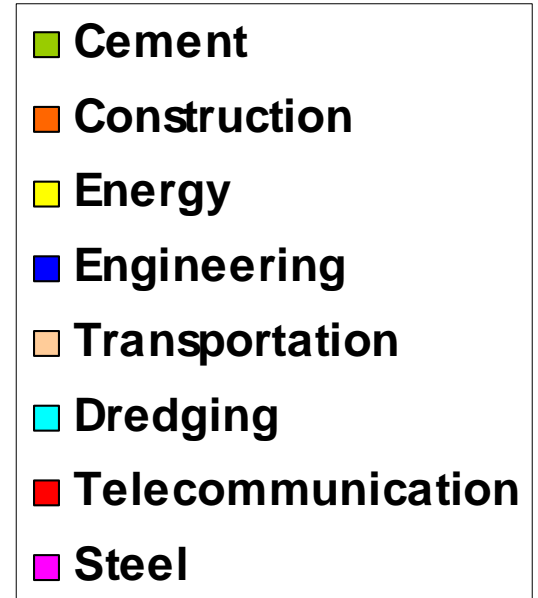
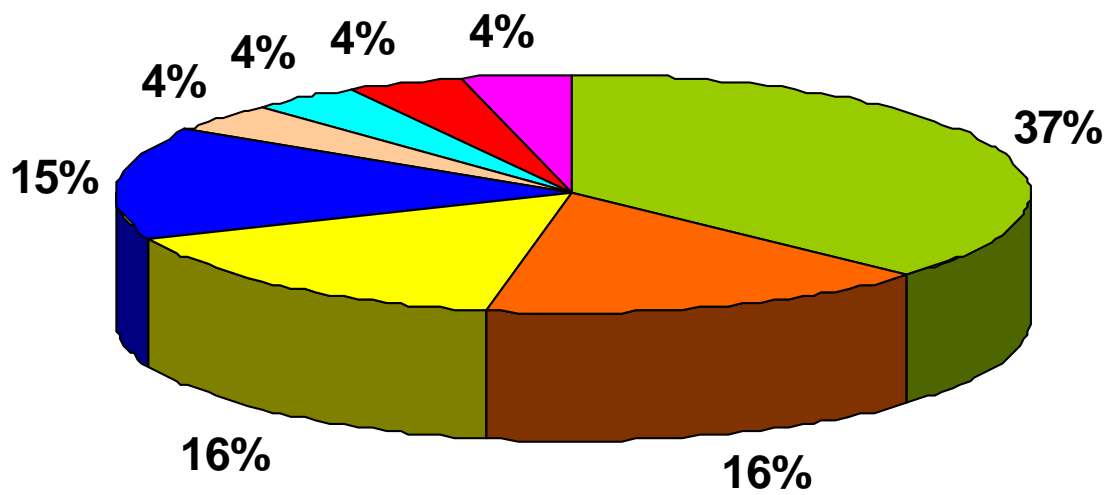
## Participating companies 24 Questionnaires completed, Origin of Headquarter



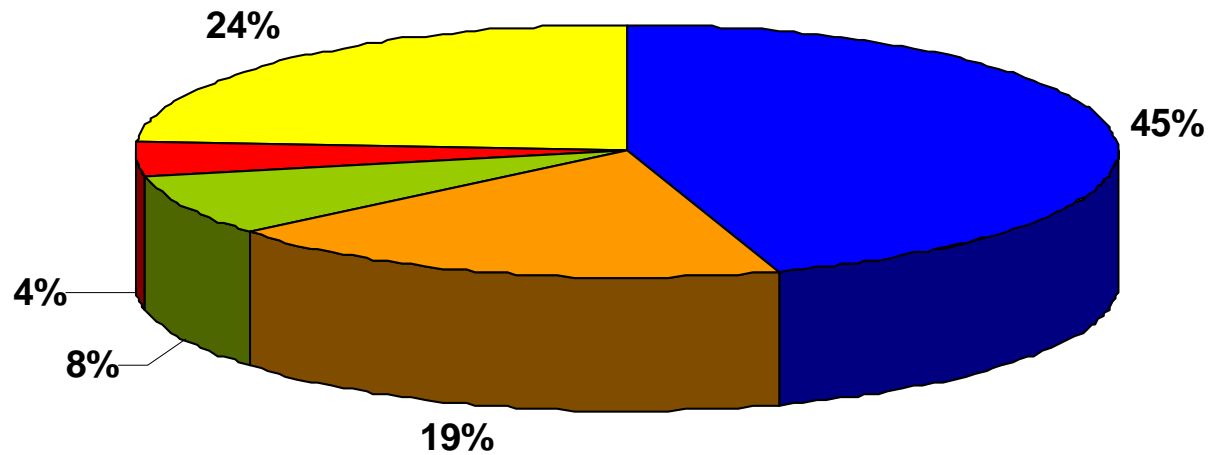
■ Europe ■ Latin America ■ North America ■ Asia ■ Middle East ■ Africa

# Profile of Companies

## Type of Industry

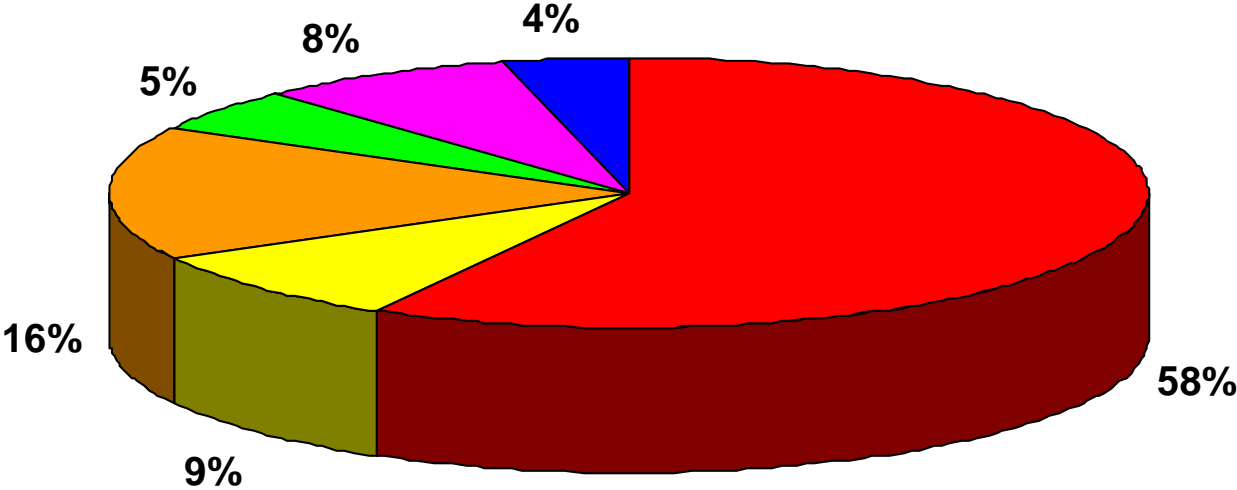


# Overview of findings – Policies



- one single policy
- policies according to duration (Long Term /Short Term)
- geography
- type of assignment
- mix of geography, job level, assignment type

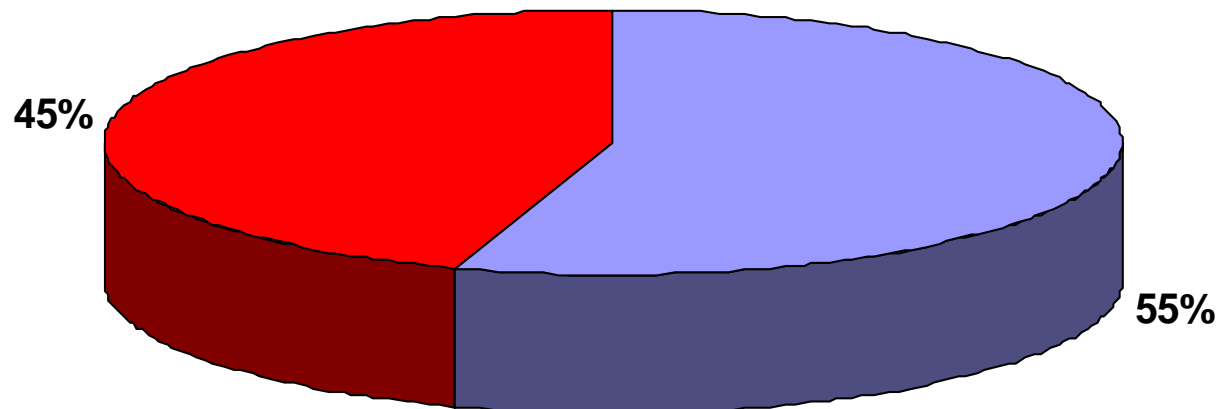
# Overview of findings – Compensation approaches



- Balance Sheet
- International Approach
- Hybrid Approach
- Multiplier system
- Per Diem
- "Personalized"

## Overview of findings – Policies

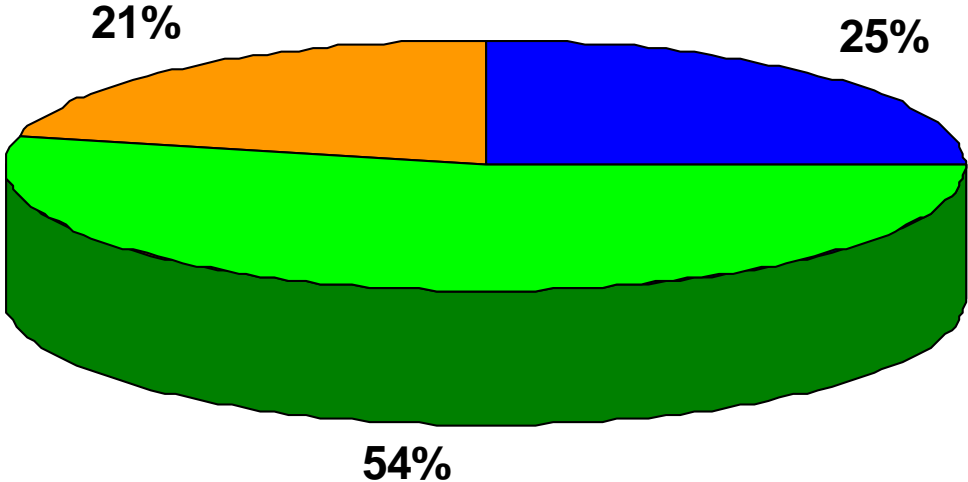
### Do you make any exceptions to your policy packages ?



■ No exceptions made

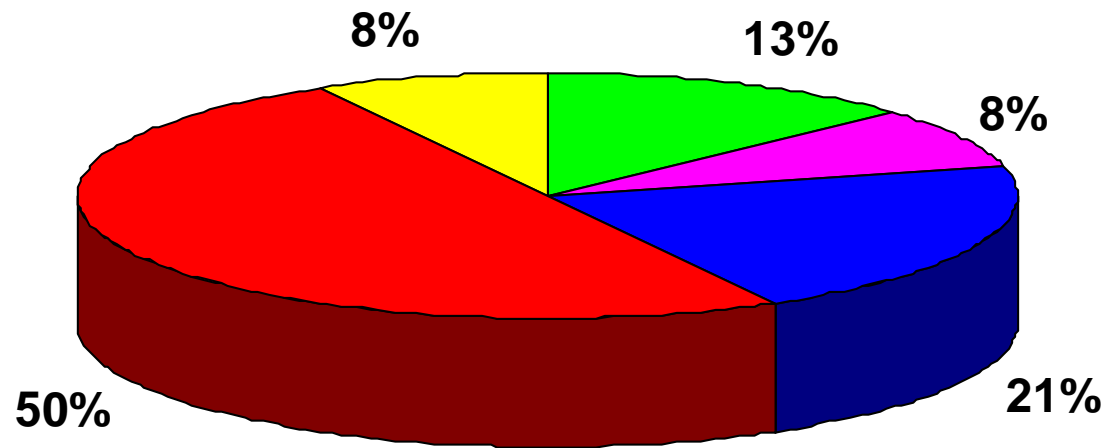
■ Exceptions made

# Overview of findings– Mobility Premium



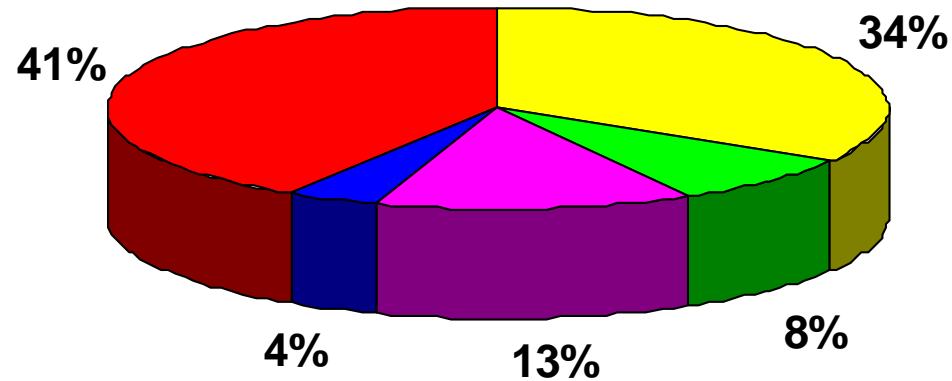
- no mobility premium paid
- yes, we pay a mobility premium
- combined mobility and hardship premium paid

## Overview of findings - Unaccompanied Assignments



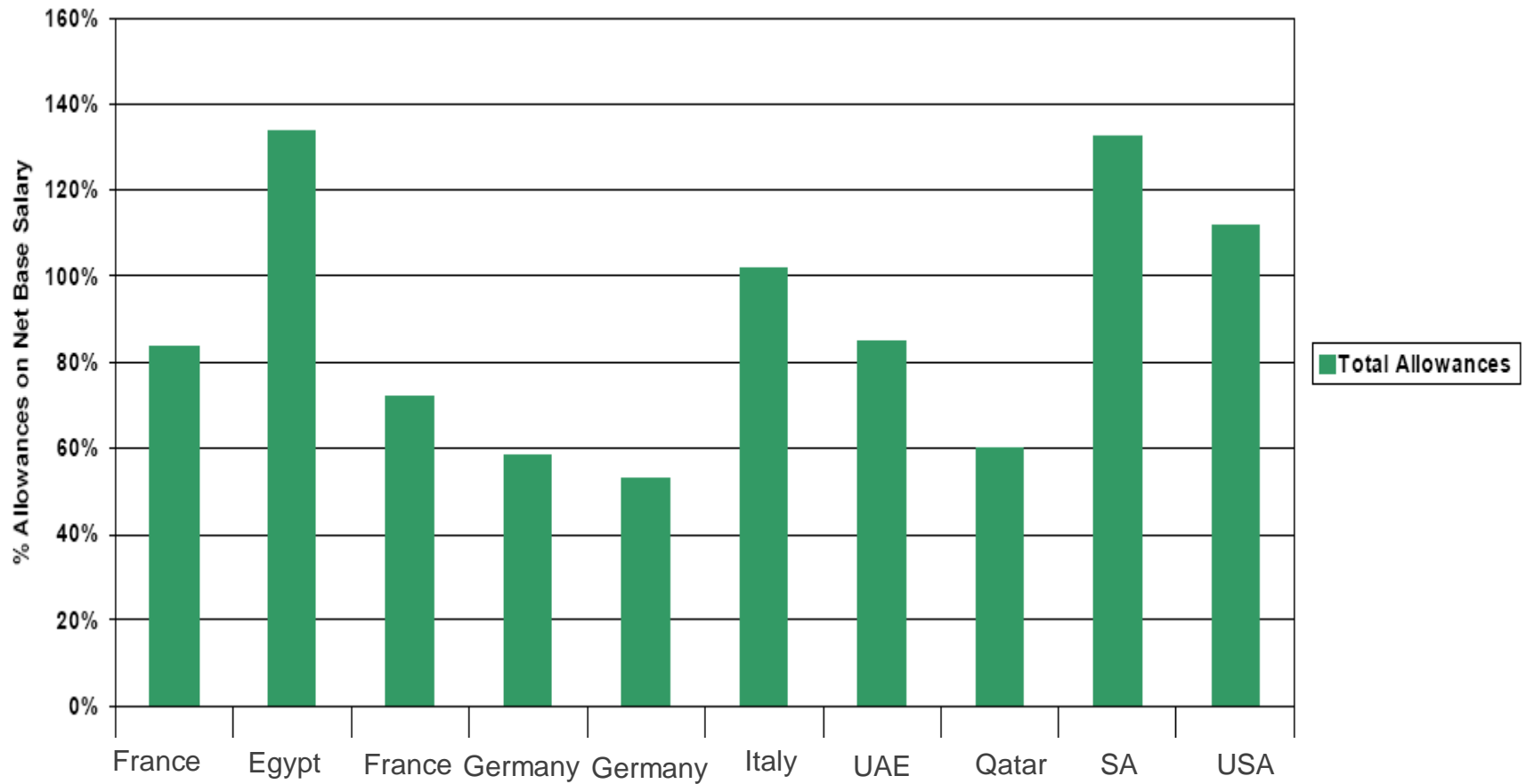
- we move family to a third location
- we do not move families anymore to third location
- we pay a separation/disturbance allowance
- rotation system
- we treat unaccompanied assignments the same way than accompanied

## Overview of findings - Completion Bonus



- completion bonus paid
- abandoned completion bonus
- job guarantee
- promotion guaranteed upon return
- no special completion bonus paid

## Sample – Total Allowances Nigeria – remote location, Management Position



## Global policy benchmarking trends and practices

- Trend to more differentiation / segmentation
- Different policies depending on position level and purpose of assignment
- Stronger differences according to industry sector
- Increase of localisations
- Increase of short term and project based assignments
- More interest for international structures (for specific population and mobile expatriates)
- Less exceptions (transparency)
- Cost awareness – more control and clearer business objectives
- Better communication / monitoring

## Major changes in reviewed policies in the last 6 months

---

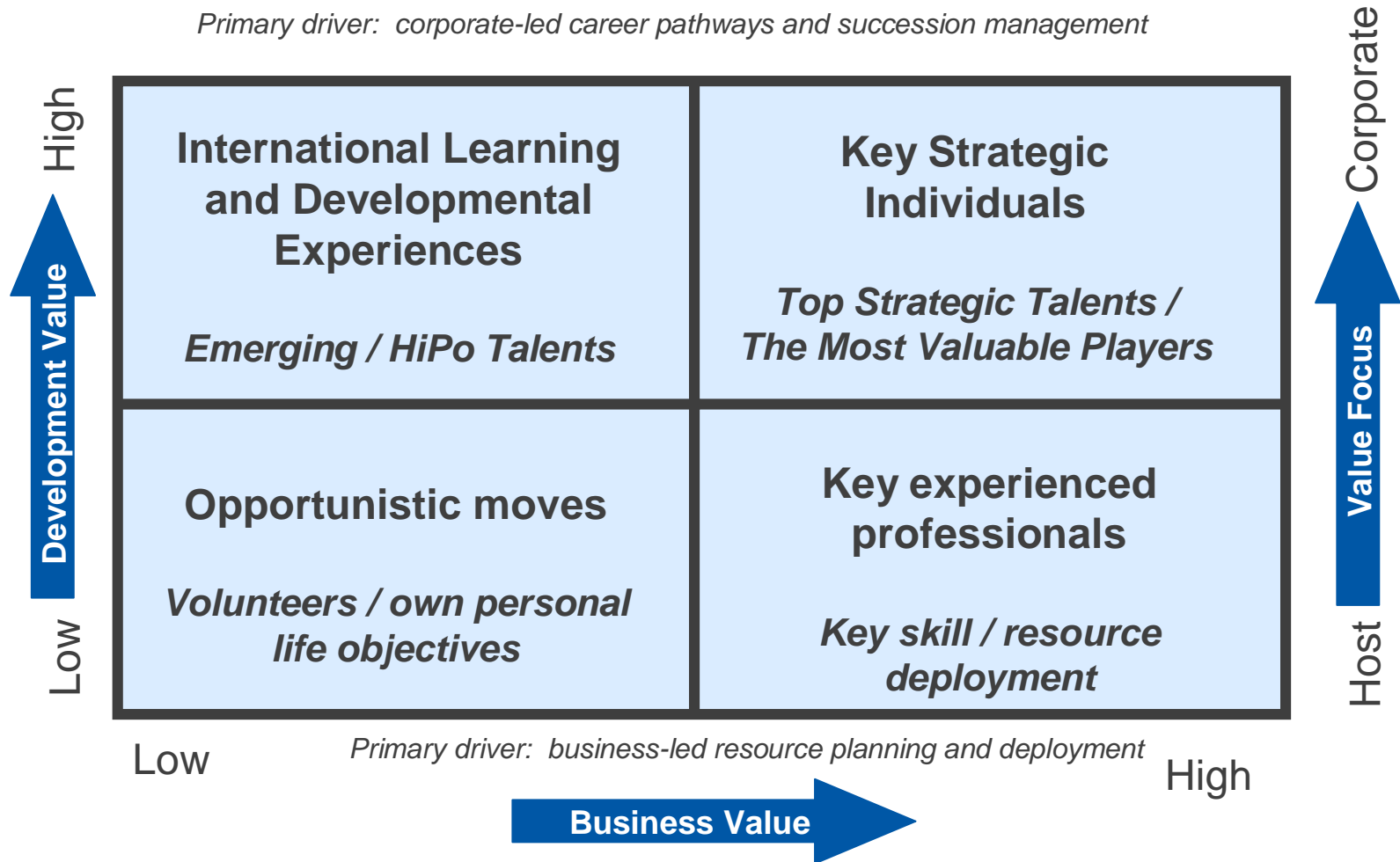
- Cost of living : Mean to Mean (negative index)
- More accurate spendable income
- More “realistic” housing budgets
- More national schools instead of international schools
- Combination of allowances (lump sums)
- Need to administer and communicate better

## Which elements are subject to cost reduction ?

Mercer Survey February & July 2009, Americas participants

- ✓ Revision of Expatriate Compensation Policy (22%)
- ✓ Localization (29%)
- ✓ Avoid Exceptions (36%)
- ✓ Less Allowances (22%)
- ✓ Reduce Long Term Assignments (32%)
- ✓ More frequent COLA revision (38%), negative COLA applied more often
- ✓ Housing (19%)
- ✓ Travel frequency and travel class (38%)

# Segmentation to determine the primary purpose of mobility and cost containment





### **3. How to deal with “Exceptions” to your Expatriate Policies?**

## How to deal with "exceptions" to your expatriate policies (1)

**37% of companies report that they make 5 to 10% policy exceptions**

**So why do companies report so many exceptions?**

- Is the current policy no more adaptable/competitive ?
- Has the workforce changed – more global ?
- Going into new locations
- Case by case solutions have become practice
- The company is very decentralized and enforcing the policy is difficult

\*Survey results June 2009 among 540 participants

## How to deal with "exceptions" to your expatriate policies (2)

### Exceptions mainly made for:

- Housing budgets
- Home leave
- Car benefits
- Localization processes
- Schooling
- Mobility premiums
- “Nitty-gritty” – difficult to administer (moving pets, family allowance, children studying in home country, nursery fees, moving a piano or a car, assistance with home sales and lump sums to cover excessive exchange rates fluctuations, bank account fees etc)

## How to deal with "exceptions" to your expatriate policies (3)

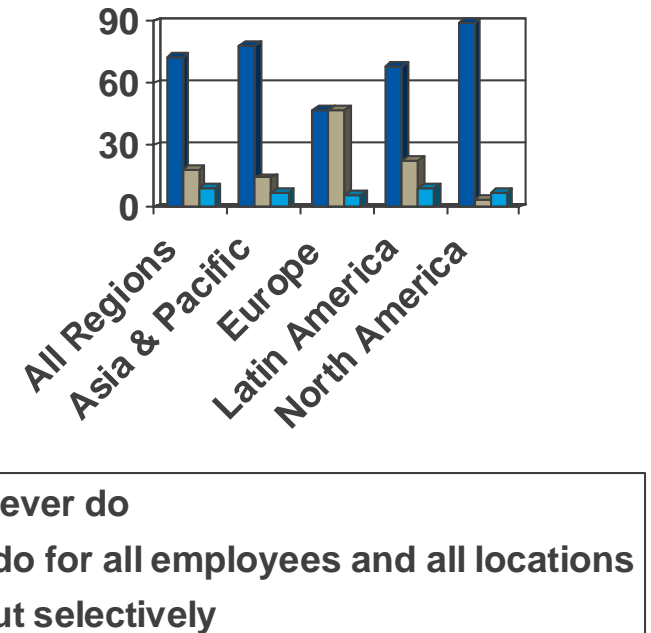
### Current economic situation

- Increased awareness of costs
- Reduction of exceptions (almost 40%)
- Need for “flexibility“ - one global policy needs region specific requirements
- Business specific requirements (special skill/profile)
- Improvement to the policy exception procedure

# Mercer International Assignment Survey 2009/2010 NOW OPEN!

- Comprehensive source of information on expatriate policies and practices.
- Analyses by region and by industry sector.
- Participants save 60% on the report cost (survey participants: USD 450 / non-participants USD 1,100).
- Report available beginning 2010.
- Contact [madeleine.berger@mercer.com](mailto:madeleine.berger@mercer.com) to obtain access to the survey.

Do you apply negative COL indices?



# Questions and contacts



Ivana Gibson  
Richmond VA USA  
+1 804 539 4740  
[Ivana.gibson@mercer.com](mailto:Ivana.gibson@mercer.com)



Yvonne Traber  
Geneva, Switzerland  
+ 41 22 869 30 73  
[Yvonne.traber@mercer.com](mailto:Yvonne.traber@mercer.com)

## Questions

Please type your questions in the Q&A section of the toolbar and we will do our best to answer as many questions as we have time for.

To submit a question while in full screen mode, use the Q&A button on the bottom right-hand side of your screen.

To submit a question while in half screen mode, use the Q&A panel on the bottom right-hand side of your screen.



CLICK HERE TO ASK A QUESTION  
TO "ALL PANELISTS"

## Survey

Please take the time to fill out the survey at the end of this web briefing so we can continue to improve. The survey will pop-up in a new window when the session ends.

[mercer.com/webbriefings](http://mercer.com/webbriefings)

View past recordings and sign up for upcoming web briefings

Don't forget to participate to  
**Mercer International Assignment  
Survey 2009/2010**

**NOW OPEN!**

Please contact

[madeleine.berger@mercer.com](mailto:madeleine.berger@mercer.com)