MANAGING LOCALISATION AND LOCAL PLUS

23–24 APRIL, MADRID
WHAT WE WILL COVER TODAY

• Localisation — a growing trend.
• From localisation to Local Plus (localisation — how).
• Pitfalls and best practices.
• Questions.
Poll 1
How do you define a local approach?

1. Compensation delivered in local currency from local payroll.
2. Compensation and benefits equivalent to those of local national employees.
3. Compensation and benefits that are as close as possible to those of local national employees, but with additional allowances/benefits not provided to local nationals.
4. Other.
### LOCALISATION — A GROWING TREND

#### DEFINITIONS

<table>
<thead>
<tr>
<th>HOME-BASED</th>
<th>• Based on <strong>home</strong> compensation structure and aiming at the equivalent standard of living in the host location as in the home location.</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOCALISATION</td>
<td>• Process of putting foreign employees on a &quot;as local as possible&quot; compensation and benefits structure.</td>
</tr>
<tr>
<td>LOCAL</td>
<td>• Pay and benefits according to the <strong>local</strong> compensation and employment terms and conditions.</td>
</tr>
<tr>
<td>LOCAL-PLUS</td>
<td>• Pay according to the local compensation and employment terms and conditions … <strong>plus</strong> …</td>
</tr>
<tr>
<td></td>
<td>• Additional allowances/benefits elements.</td>
</tr>
</tbody>
</table>

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Rossier-Renaud, Anne, 14/04/2015
LOCALISATION — A GROWING TREND
DEFINITIONS — THE HOME-BASED
BALANCE SHEET APPROACH

<table>
<thead>
<tr>
<th>Home-Country Salary</th>
<th>Assignment — Location Costs</th>
<th>Assignment — Location Costs Paid by Company and From Salary</th>
<th>Home-Country Equivalent Purchasing Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Taxes</td>
<td>Housing</td>
<td>Incremental taxes</td>
<td>Premiums</td>
</tr>
<tr>
<td>Housing</td>
<td>Goods and Services</td>
<td>Income Taxes</td>
<td>Housing</td>
</tr>
<tr>
<td>Goods and Services</td>
<td></td>
<td>Housing allowance</td>
<td>Housing</td>
</tr>
<tr>
<td>Reserve</td>
<td></td>
<td>COLA</td>
<td>Goods and Services</td>
</tr>
<tr>
<td>Reserve</td>
<td></td>
<td></td>
<td>Reserve</td>
</tr>
<tr>
<td>Reserve</td>
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<td>Reserve</td>
</tr>
<tr>
<td>Reserve</td>
<td></td>
<td></td>
<td>Reserve</td>
</tr>
</tbody>
</table>

Assignment cost differentials
LOCALISATION — A GROWING TREND
HOW MUCH LOCAL

Local++
- Local compensation.
  + Purchasing power adjustment
  + Housing allowance
  + International school
  + International pension plan
  + International health plan
- Local employment conditions.

Local+
- Local compensation.
  + Purchasing power adjustment
  + Housing allowance
  + International school
  + As necessary and phased out.
  + Local employment conditions.

Local
- Local compensation.
- Local benefits.
- Local employment conditions.

Full Expat Package Level
Purely Local
LOCALISATION — A GROWING TRENDS
FROM PARIS TO SINGAPORE, IPE 55, M+2

RA12

EUR

Home-Based Balance Sheet | Local PLus | Local

- Net Base Salary
- COLA
- Housing
- Intl School
- Host Hypo Tax Incremental
- Hypo Tax&SS&FA
Inconsistent axis legend number format with graph on page 13, thousands delimited

Rossier-Renaud, Anne, 14/04/2015
LOCALISATION — A GROWING TREND
HOW COMPANIES ARE PAYING THEIR INTERNATIONAL ASSIGNEES

• Most common way today: Balance sheet approach = home salary + allowances (employees on limited-duration international assignments are paid using the home-based approach, enabling a similar standard of living at host location).

• Rapidly growing trend: Local-plus approach = local salary + benefits not provided to local national employees.

Balance sheet expat packages are growing. But local-plus packages are seeing even more growth.
LOCALISATION — A GROWING TREND
LOCAL AS AN ALTERNATIVE — EUROPEAN RESPONDENTS

Do you send employees on local or Local Plus terms and conditions?

- 67% of European respondents have foreigners on a Local Plus approach.
- Half reported that the number increased.
- 63% reported that they expect the number to increase.

POLL 2
WHAT APPROACH(ES) DO YOU USE?

1. We **only** use a home-based approach.

2. We **only** use a local (or Local Plus) approach.

3. We use **both** home-based and local (or Local Plus) approaches.
**LOCALISATION — A GROWING TREND**

**IN WHICH CASES DO COMPANIES OFFER LOCAL PLUS PACKAGES?**

<table>
<thead>
<tr>
<th>Case</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>For permanent transfers</td>
<td>40%</td>
</tr>
<tr>
<td>For certain assignment locations</td>
<td>38%</td>
</tr>
<tr>
<td>For internationally hired foreigners</td>
<td>38%</td>
</tr>
<tr>
<td>After a maximum duration on expat package (localisation)</td>
<td>33%</td>
</tr>
<tr>
<td>For locally hired foreigners</td>
<td>31%</td>
</tr>
<tr>
<td>For certain position levels</td>
<td>27%</td>
</tr>
</tbody>
</table>

IN WHICH CASES DO YOU OFFER LOCAL PLUS PACKAGES?

1. For permanent transfers.

2. For certain assignment locations.

3. For internationally/locally hired foreigners.

4. After a maximum duration on expat package (localisation).

5. Other?
For this question, we need multi choice answers, is this possible?
Rossier-Renaud, Anne, 14/04/2015
FROM LOCALISATION TO LOCAL PLUS
WORLDWIDE SALARY COMPARISON 2014
ANNUAL TOTAL GUARANTEED CASH (EUR)
Inconsistent axis legend number format with graph on page 7, NOT thousands delimited
Rossier-Renaud, Anne, 14/04/2015
FROM LOCALISATION TO LOCAL PLUS
TOP LOCATIONS WHERE MULTINATIONALS HAVE LOCAL PLUS (% OF RESPONDENTS)

USA
- Global: 39%
- HQ Europe: 44%

UK
- Global: 26%
- HQ Europe: 29%

Switzerland
- Global: 10%
- HQ Europe: 15%

China
- Global: 38%
- HQ Europe: 30%

UAE
- Global: 18%
- HQ Europe: 21%

Hong Kong
- Global: 18%
- HR Europe: 11%

Brazil
- Global: 5%
- HQ Europe: 9%

Singapore
- Global: 32%
- HQ Europe: 35%

## Local-Plus Package Components

**Prevalence Provision of “Plus” Elements**

<table>
<thead>
<tr>
<th>Plus Elements</th>
<th>Brazil</th>
<th>Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Utilities</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Dependents’ education</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Transportation</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Medical benefit</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Pension Plan</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>COLA/Goods and Services</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Mobility premium</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Hardship premium</td>
<td>●</td>
<td>N/A</td>
</tr>
<tr>
<td>Immigration assistance</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Tax and social security assistance</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Home leave support</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Relocation assistance</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Language training</td>
<td>●</td>
<td>●</td>
</tr>
</tbody>
</table>

- **Green Dot**: Common
- **Yellow Dot**: Less common/limited
- **Red Dot**: Never or rarely provided

Source: Mercer 2014 Local Plus Surveys

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**How do you establish the base salary for a foreigner on a local plus approach? — Singapore**

<table>
<thead>
<tr>
<th>Method</th>
<th>One-way international transfer</th>
<th>Internationally hired foreigners</th>
<th>Locally hired foreigners</th>
<th>Localised expatriates</th>
<th>International assignee of a limited long-term duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on local pay structure without adjustment</td>
<td>N = 35</td>
<td>N = 37</td>
<td>N = 23</td>
<td>N = 32</td>
<td>N = 24</td>
</tr>
<tr>
<td>Based on local pay structure with adjustments</td>
<td>51%</td>
<td>43%</td>
<td>57%</td>
<td>41%</td>
<td>21%</td>
</tr>
<tr>
<td>Home salary converted in host currency</td>
<td>20%</td>
<td>30%</td>
<td>26%</td>
<td>25%</td>
<td>21%</td>
</tr>
<tr>
<td>Case by case</td>
<td>9%</td>
<td>5%</td>
<td>4%</td>
<td>9%</td>
<td>17%</td>
</tr>
<tr>
<td>It varies</td>
<td>--</td>
<td>3%</td>
<td>--</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Source: Mercer 2014 Local Plus Surveys</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>
## Compensation Approach

### How Do You Establish the Base Salary for a Foreigner on a Local Plus Approach? — Singapore

<table>
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<tbody>
<tr>
<td></td>
<td>$N = 35$</td>
<td>$N = 37$</td>
<td>$N = 23$</td>
<td>$N = 32$</td>
<td>$N = 24$</td>
</tr>
<tr>
<td>Based on local pay structure without adjustment</td>
<td>70%</td>
<td>70%</td>
<td>70%</td>
<td>70%</td>
<td>70%</td>
</tr>
<tr>
<td>Based on a calculation to protect/equalise/compare with employee's previous (i.e. home or hiring country) net pay</td>
<td>4%</td>
<td>21%</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Based on local pay structure with adjustments</td>
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<td>4%</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Mercer 2014 Local Plus Surveys

**Note:**
- 70% of respondents indicated that compensation is determined based on local pay structure with adjustments.
- 30% of respondents indicated that compensation is determined based on a higher local compensation percentile than locals would get.
PREVALENT “PLUS” ELEMENTS
SINGAPORE ONE-TIME AND PHASED-OUT COMPONENTS

Ongoing payments
(with phase-out option)

- Housing
- Dependent education
- Transportation
- Medical benefit

One-time payments

- Relocation assistance
- Immigration assistance
- Tax and social security assistance

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## Prevalent “Plus” Elements
### Managing Transition to Pure Local Status — Singapore

<table>
<thead>
<tr>
<th>Component</th>
<th>Different from full expats</th>
<th>Phase-out schedule</th>
<th>Fixed schedule</th>
</tr>
</thead>
</table>
| **Examples** | Decrease of 10–70% of the housing budget vs. full expatriate provision.  
Full allowance for the first 6–12 months only.  
“Less expensive” category of housing. | Three years: 100%, 50%, 25%.  
Five years:  
One to three years: 100%.  
Fourth year: 60%.  
Fifth year: 30%.  
Sixth year: 0%.  
Over three years: reduced by 33%; or five years, by 20%. | Two years.  
Three years.  
Five years.  
Some can be subject to extension.  
Subject to criticality of the role. |
| **Examples** | Mix between full expatriate benefit and a decreased benefit. | Mixed practices — phase out over time OR paid as ongoing benefit.  
**Examples of phase-out:**  
Three years: 100%, 50%, 25%. | Two to three years.  
Maximum five years.  
Until the child has finished education. |
Elements Not Provided in Local Plus Packages for Foreign Employees

Summary for Singapore

Source: Mercer 2014 Local Plus Surveys

- We do not provide COLA/goods and services: 89%
- We do not provide mobility premium: 85%
- We do not provide all-inclusive allowance: 82%
- We do not provide language training: 80%
- We do not provide home leave: 74%
- We do not provide pension plan contribution benefit: 73%
WHAT COULD GO WRONG WITH A LOCAL-PLUS APPROACH?

- The local-plus approach is introduced for the wrong reasons.
- The “plus” is perceived as negotiable and/or the number of exceptions grow.
- The “plus” become permanent, making the local-plus package more costly over the long term than anticipated.
- Base salary becomes inflated.
- The specificities of each host country could threaten the consistency of the local-plus policy.
- Communication challenge: strong resistance from assignees due to negative perception of the local-plus package.
DESIGNING A LOCAL-PLUS POLICY CONSIDERATIONS

- One globally consistent policy.
- Global principles and local flexibility.
- Buyout with temporary “plus”.
- As local as possible — limited “plus” elements.
- Policy inclusions: Authorisation, cost analysis, compensation approach, benefits, visa/work permits, health insurance, tax, financial planning, etc.
- Need for a decision tree for business leaders.
- What other documentation is required?
Questions/Answers