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International assignments have a key role to play in developing leaders in multinational companies. This reality should be at the heart of attracting and selecting employees for expatriate assignments. Arguably, multinational companies reach and maintain significant competitive positions only by developing amongst their leaders a deep understanding of their diverse customers, employees, and business partners across their geographic footprint.

International assignments are a great way to give leaders the opportunity to gain such insight, and yet, without leadership development, assignees risk getting many things wrong. Instead of growing themselves and their host-country colleagues, assignees can leave a trail of misunderstanding and a reputation for reinforcing hidden biases. Retaining effective assignees depends at least in part on the extent to which employers (a) show that they value assignees by preparing them before they go on assignment and welcoming them back when repatriated, and (b) reinforce international assignments as prerequisites for appointment to their most significant senior positions.
MOBILITY IS AN ESSENTIAL PART OF A GLOBAL LEADERSHIP DEVELOPMENT STRATEGY

Most successful global employers see mobility as an integral part of their strategy for developing leaders. Not only do they enhance their business by moving key players to critical positions in significant parts of their operations, they also grow leaders for broader, bigger roles. Multinational employers recognise their need for leaders who understand their markets, the preferences of customers in those markets, and the purchasing habits of those populations at large. They know they also need leaders who understand the culture and values of local employees, who themselves are able to attract and retain the best, and to motivate and inspire others to perform well. By giving key assignees an opportunity to personally and viscerally experience life in different global regions where they have operations, multinational employers equip leaders to engage authentically with people from different global blocs.

Consider the illustration below, which identifies eight recognised leadership development interventions. Of these eight interventions, two are directly associated with mobility: international assignments, which help leaders develop a global mindset; and rotational assignments, which give leaders a broad understanding of their organisation’s inner workings and of its geographic and operational activities. A third intervention, the special “action learning” project, brings together people from different backgrounds, functions, and nationalities to collaborate and, in the process, to learn what makes each other “tick.”

A 2013 Wiley research study identified four strategies deployed by four global employers to develop leaders in their marketplaces. One of those strategies, used by Turner Broadcasting International, is mobility. Through international assignments, Turner codifies and communicates what potential leaders look like. Taking a slightly different approach, JDA Software develops its future leaders through action learning project-based workshops. In these workshops, cross-national teams of high-potential employees work through strategic issues together. Future leaders learn through the process of working with each other how to work with people from varied cultures.

These two examples illustrate that both international assignments and special projects can form an integral part of the strategy for developing leaders — for raising a cadre of key employees who can use their global mindset, can interact effectively in international contexts.

Consider this need for a global mindset from a different angle. Even if employees don’t physically move abroad, workplaces in major cities around the world are increasingly internationalised and multicultural. Many workers today need to work with people from different countries even if they never leave their home nation.

Multinational employers need leaders who truly understand the impact of national origin on the workplace — leaders who can work with people with different views and practices and from different cultures.
MULTINATIONAL EMPLOYERS OPERATE ACROSS VERY DIFFERENT WORK CULTURES

Drawing on Geert Hofstede’s research into national and organisational culture, Gilles Spony developed a reconfigured “culture map” of the world, positioning different nation-states in four quadrants that differentiate culture at work. The X axis measures whether a national culture favours group vs. individual dynamics, while the Y axis measures “consideration for others” vs. “self-enhancement.” See the illustration below.

According to Spony, individuals from different national blocs differ in how they approach both relationships and their tasks at work. Take two examples: People from Anglo-Saxon nations such as Australia, Canada, the United Kingdom, and the United States tend to be more individualistic in their approach to work. They like to operate in a nonhierarchical environment and are more inclined to seek and celebrate personal rather than team achievement. By contrast, Arabic, Latin, and ex-Communist states are more likely to prefer to work in groups, within environments where there is a strong respect for hierarchy, and to accredit success to the team.

NATIONAL WORK CULTURES

Those are big differences that multinational organisations must accommodate.

Consider L’Oréal, a global leader in the beauty business. It would have been unimaginable for its chief executive, Jean-Paul Agon, to have succeeded predecessor Sir Lindsay Owen-Jones had he not understood what beauty “looks like” in different parts of the world or had he been oblivious to the danger of imposing Western ideals of beauty on, say, the African hair care market. It would also have been impossible for Agon to take the helm of such a global player had he not understood how to attract, motivate, and retain the best employees in L’Oréal’s operations around the world. As is the case for other leading global employers, L’Oréal’s success hinges on its leaders’ expert knowledge of their markets. It also hinges on their ability to engage the best in terms of employees and collaborators.

Senior leaders at global employers need to have their customers top of mind. To develop that mindset, leaders must have touched in more than a fleeting manner some of those customers in the different parts of the world where the businesses operate. They also need to have engaged with the workforce and multiple, diverse partners across their global operations to get the best out of the employees and partners in every corner of the organisation.

Therefore, leadership development is incomplete without the experience of international assignments or international project work. This is especially true for those leaders wanting to grow their operations in emerging markets.

MOBILITY WITHOUT AN ELEMENT OF LEADERSHIP DEVELOPMENT IS FLAWED

So, is mobility on its own enough to optimise leadership development? Unlikely. It is a necessary but clearly not a sufficient element.
Given cultural divergence (as highlighted by Hofstede, Spony, and others), individuals moving between work cultures must be aware of the differences they will encounter. They also need to know themselves, to know how they are likely to react to those cultural differences, and to know the impact that they will have on others in those host nations.

This goes well beyond “cultural awareness.” Individuals going on international assignments need to know their own preferences, how they lead, and how they present themselves in the context of their own cultural background. Next, they need to understand the effect their natural style and work culture has on people from different countries — how their style will be interpreted and understood. Culture clashes can be worse in emerging markets where leaders are in short supply. Sometimes, assigned managers in an emerging market are seen as “demigods,” especially if their home nation happens to be an Anglo-Saxon country. It is vital that such “organisational ambassadors” and “culture carriers” be finely attuned to what is “appropriate” behaviour in their host country to be effective in that new environment without losing their authenticity and authority.

Today’s leaders require much more than technical expertise in their business. They also need the experience and ability to engage and inspire people from different parts of the world. For an international assignment to have its optimal effect, both on the assignee and on employees and partners in the host nation, leaders need to be developed both in advance of and during international assignments. The focus of this development should be to raise their self-awareness, to help them be conscious of the effect they have on others and on the environments they create, and to increase their awareness of others and their mutual culture-specific needs.

THE CHALLENGE

Mobility and leadership development can work symbiotically to produce effective senior leaders for multinational employers. The challenge for global organisations is how to attract and prepare those with highest potential to take on international assignments.

That challenge appears less daunting when it comes to emerging and potential leaders in the developed world. The trend for some developed-world graduates to take a “gap year” after college or university suggests a predisposition for mobility. More and more high-potential employees/emerging leaders from developed nations have an appetite for working in different countries, and they are predisposed to tailoring their working styles to accommodate different environments. Such individuals will likely see international assignments as opportunities to develop their career and personal experiences. These individuals are also more likely to successfully adapt to different cultures given their travels. (Of course, it is one thing to travel through a country and quite another to work in it in a career context.)

This is not as true for potential leaders in emerging countries, due primarily to two factors:

1. Emerging markets often lack enough leaders who would satisfy the needs of multinationals expanding their operations there, so high-potential employees may see enough opportunity in their home country.

2. Employers face great difficulties in attracting graduates and experienced hires from emerging countries for international assignments due to cultural reasons.

This second point is particularly true of talent in China. A major obstacle is the importance of family — and extended family — for people of Chinese origin. For them, family isn’t just mother and father. It includes grandparents, aunts, and uncles. So, multinationals can face great difficulty
in convincing emerging leaders from China to move to other parts of the world, including to the employer's global headquarters.

A reframing of the bigger opportunity presented by international assignments must take place, and soon, if multinationals are to attract and retain the best people for international assignments. This is especially true if multinationals are to inculcate their organisational culture in local leaders from more remote offices, to prepare them for senior corporate roles across multiple regions of the world.

International assignments coupled with leadership development can equip future leaders to understand and learn about different cultures, and about themselves within different cultures. Mobility and leadership development dovetail to provide unique opportunities to enlarge assignees' global mindset, and to develop in them an appreciation of what it takes to engage customers, partners, and employees across the regions where their businesses operate.

1See www.geert-hofstede.com (accessed 3 September 2013).

2 For details on Spony’s “Profiling Model,” see www.futuretobe.net/downloads/SPM%20Brochure%202004.pdf (accessed 3 September 2013).

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INTRODUCTION
Many components make up the salary and allowances package paid to employees on assignment, but addressing the cost of living can prove to be one of the more contentious. This article discusses how this complex issue can be managed effectively.

PROTECTING ASSIGNEES’ PURCHASING POWER
Employees should neither profit nor suffer financially as a result of a temporary relocation overseas. One tried and trusted way of protecting their purchasing power during assignments of between one and five years is to pay them using a home-based balance-sheet approach: in short, they remain on the same base salary structure as their peers at home. A series of allowances is then offered, typically including goods and services and housing. Incentives may also come into play, particularly if hardship is likely to be a factor in the host country.
‘MULTINATIONAL’ VS. ‘HOME-HOST’ PHILOSOPHY
Base pay in the home country is made up of four key elements: income taxes, housing, saving, and spendable income. This latter category will be used by employees on their common daily needs, covering everything from food to household supplies, clothing, personal care, and recreation. When assignees are dispatched overseas, organisations use a “cost of living basket,” including these key items in order to measure differences in the cost of living between home and host locations.

This basket then plays an important role in working out compensation approaches for assignees, for which there are usually two principal options/approaches.

The multinational philosophy assumes that assignees will spend similarly on their “basket items” regardless of their home location. In this approach, one basket is used for all transfers. According to the home-host approach, however, people spend differently depending on their country of origin. To address these differences, a different basket is used per nationality.

The right choice for your business will depend very much on the make-up of your expatriate workforce. If your expat contingent is drawn from a range of locations, the multinational approach is most likely to be the best fit. If not, the home-host approach would make the most sense.

Each policy has three different types of index, all of which can be customised if needed. Using Mercer as an example, the indices used in our multinational and home-host approaches are as follows:

MULTINATIONAL

1. Mean to mean. This compares the average prices in an employee’s home location to the average in their host location for common items at comparable retail outlets. This index offers the best indicator of absolute price differences between locations without consideration of assignee efficiency or availability of goods in the location.

2. Efficient. This assumes the assignee has a wide variety of outlets and retail prices in the assignment location to choose from, but due to the short-term nature of the assignment may not have the same efficiency in purchasing as at home.

3. Convenience. This is based on more stores in the host location. Applicable for locations where shopping convenience is essential, or locations that lack a wide variety of alternative retail outlets. High prices in host country and therefore the biggest allowance given.

HOME-HOST

1. Efficient purchaser. This assumes the assignee is familiar with the local market and is therefore more efficient by purchasing a combination of international and local/regional brands at various outlets.

2. High-income purchaser. This is designed for high-income employees from lesser-developed or low-wage countries who, due to their increased earning power, have spending practices more typical of the expatriate or international community than of typical locals from their home country.

3. Expatriate. This is based on comparison of prices in retail outlets frequented by local nationals in the home location to prices from retail outlets frequented by expatriates in the assignment location. Appropriate for newly arrived expatriates or lesser-developed locations where local brands/outlets are inappropriate.

COST-OF-LIVING TRENDS
The 2012 Mercer Worldwide Survey of International Assignment Policies and Practices found that housing, home leave, and cost of living were the top three issues most complained about by expatriate workers. Cost of living is a consistent driver of complaints, for a number of reasons. Not only is it a complex subject — and one that changes constantly unlike hardship payments, for example, which are relatively static — but it is the one which assignees feel affects their family as they go about their daily life. They worry about it as they do their weekly shopping or refuel their car.

Almost 60% of the respondents to the 2012 Mercer survey used a medium index for traditional,
long-term assignments. The survey also found that very few companies limit the payment of cost-of-living allowances — just 15% of European companies go down this route, for example — and those that do tend to use it only for employees earning salaries upwards of US$200,000. There is a growing trend for companies to put “floors” in place, however, particularly when they are sending technical staff abroad on low salaries, to ensure that employees have enough to live on.

**COMBATING THE CHALLENGE OF CURRENCY FLUCTUATIONS**

Even though cost-of-living indices can fluctuate, whichever direction they move in, expat workers will not lose out ultimately. To illustrate, let’s look at the figures for a family moving from Boston to São Paulo, as shown in the table below. At the beginning of the assignment, the family has a spendable income of $24,000. The COL index at the time of departure is 145 and the exchange rate is 1.71 Brazilian real to the US dollar.

Six months later, the US dollar is stronger. In order that the assignee not profit from currency fluctuations, the index will decrease to compensate. However, the “host salary portion” (spendable income adjusted by COL index) in Brazilian real remains stable and even increases slightly as inflation in Brazil has been marginally higher than in Boston (1.75% vs. 1%). It is crucial that assignees see the overall picture as well as the bare facts presented in the index.

**PAY DELIVERY MODELS**

The three most popular delivery models according to the 2012 Mercer survey are described below.

**SPLIT PAY METHOD**

The most popular option in the survey has much to recommend it. In essence, organisations pay what is needed in the countries where the relevant funds are required: income taxes are taken care of in the home location, for example, which is also where savings are deposited, while the company pays for housing and goods and services in the local currency in the assignment location.

Currency fluctuations between the home and host country have no impact on the employee.

<table>
<thead>
<tr>
<th>Survey dates</th>
<th>Gross salary</th>
<th>Spendable income</th>
<th>COL index mean to mean</th>
<th>Exchange rate USD 1 = ? BRL</th>
<th>Exchange rate variation</th>
<th>Spendable income adjusted by COL index</th>
<th>Variation</th>
<th>Spendable income adjusted by COL index</th>
<th>6 month Mercer basket inflation Boston</th>
<th>6 month Mercer basket inflation São Paulo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar 2012</td>
<td>70,000</td>
<td>24,035</td>
<td>145</td>
<td>1.719 345</td>
<td>34,851</td>
<td>59,920</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sep 2012</td>
<td>70,000</td>
<td>24,035</td>
<td>125</td>
<td>2.027 000</td>
<td>17.89</td>
<td>30,044</td>
<td>-13.79</td>
<td>60,899</td>
<td>1.00</td>
<td>1.75</td>
</tr>
</tbody>
</table>
under this system, but it is important for the employer organisation to pay close attention to price movements.

Using split pay does have implications for payroll, however, and as not all terms are standard — definitions or meanings may not be the same in the host and home country, for example — sometimes problems in translation can result and will need to be dealt with.

**HOME COUNTRY CURRENCY METHOD**

This popular option is a good choice for short-term assignments and commuters. Administration levels are relatively light as no payroll transfers are required: employees are paid in their home country currency direct to their home bank accounts. Some portion of the salary will, however, need to be wired to the host country to pay for housing, spendable income and potentially also school fees.

An advantage for employees from high-salary countries is that their money is in the right place at the right time, which enables them to keep up with home financial obligations such as their mortgage, and so on. They are also able to save easily, should they wish.

There are some disadvantages, however, including issues with tax and transfer pricing. Employees will be taxed in their host country, and in some places (such as Poland and Bulgaria), tax returns need to be completed monthly; in others, tax payments cannot be wired to the relevant authorities by the home company but must be paid in person or via a host country account opened by the assignee. Both scenarios represent a considerable extra burden for assignees and organisations alike. An additional disadvantage is the need to monitor exchange rate fluctuations — the assignee transfers money to the assignment location each month for the payment of daily expenses.

**MANAGING THE COST OF LIVING IN HIGH-INFLATION LOCATIONS**

Inflation is a major cause of concern for assignees, but in fact only 11 of the 300 locations covered by Mercer experienced high price movement (that is, more than 10%) for the 12 months leading up to September 2012. (Note that we refer here to “basket” inflation, not the official rate, and that housing and school fees are not included in that basket.)

Employees are quick to spot that the inflation rates shown in internal index tables do not tally with the official rate, and they will query that. Explain your policy and reassure them that if inflation increases in their host location, the index will change to reflect those higher prices and their purchasing power will not be adversely affected.

**HOST CURRENCY METHOD**

Under this system, the full salary is paid in the local currency into a local bank account, which means that the money is where assignees need it as they buy daily consumables. It does make it harder for them to save in their home country, however: if they are not based in a “safe harbour” the systems needed to wire funds home may not be secure, which could cause anxiety. There may also be restrictions on the amounts of money that can be sent abroad. With this method, the currency fluctuations also need to be monitored.

**APPLYING NEGATIVE COL INDICES**

Organisations have wrestled with this issue for many years — the ongoing global financial downturn has also increased the impetus to cut costs — but it is clear from the 2012 Mercer survey that negative COL indices are not used routinely in developed countries as a way of reducing employee spending. In fact, employees are receiving a windfall. Emerging Asian countries are generous in this regard, as are the United States, Canada, and Australia. European companies are more likely to apply negative COL indices, however, with the notable exceptions of Spain and the UK.
CONCLUSION
There is no doubt that managing cost of living for expatriate workers is a challenge, particularly as it is affected by myriad issues such as base salary, choice of index, currency fluctuations, and price movements in both home and host cities.

As always, clear communication is the key to success. Encourage assignees to look at overall policies rather than focus on just one element, and be prepared to challenge their perceptions: if they feel their purchasing power is being impaired in some way, show them the figures that tell the true picture. To help you do that effectively, be sure to update COL indexes regularly, particularly for countries or regions with high price movements.

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It’s no secret that international assignments have evolved significantly over time — particularly the ways that employers compensate their expatriates. But that evolution is accelerating, and it’s important for multinational employers to understand the breadth of current approaches to alternative international assignment compensation. We’re seeing continuing differentiation and fine-tuning that can result in an expatriate compensation programme that rewards and motivates assignees while optimising employers’ overall compensation budgets.

Expatriation as we know it emerged in the late 1970s and early 80’s. Multinational companies were investing around the world and had lots of project-based work that required the presence of managers and executives from the headquarters country for oversight. Generally, early remuneration packages were overly generous, as employers assumed that pay packages needed to be generous to
induce employees to work abroad. There was not much planning for duration and purpose. Many policies were headquarters-centric, but some were not. Few multinational employers had a clear pay approach for their expatriates.

In the 1980s and 90’s, employers showed some motion toward consistency. They were more likely to examine assignments country by country and to consider repatriation more carefully. Employees were increasingly likely to get two- to five-year assignments motivated by a compensation strategy of “no gain, no loss” (keeping expats whole). But that approach did not work well when moving an automotive executive from a 3,000-square-foot, four-bedroom home in the Detroit suburbs to a tiny downtown Tokyo apartment. So employers, particularly in the US, settled on the balance-sheet approach as a means of rationalising pay for globally mobile employees.

THE CURRENT ENVIRONMENT — MOVING TOWARD SEGMENTATION

In 2013, as we are coming out of a global recession, employers find that they often need to move employees earlier in their careers, and they are looking at mobility by length and type of assignments. Many more nationalities are involved, including moves that would have been unusual 10 years ago, such as those from Angola to Central London (instead of the other way around). This means that different pay models are needed. To manage an increasingly diverse, fragmented population of globally mobile employees, employers need to look at segmentation, structured compensation, and structured mobility at different organisation levels.

Segmenting your expatriate workforce may require some change management on the “business” side. If you are involved with setting policies and administering them, you need to ensure that business leaders are prepared to tolerate pay differences. You may need to socialise much more cost awareness, cost modelling, strategic planning, and workforce planning.

This socialisation process works best if you can look back at prior experience when explaining what the future needs to look like. The energy and mining industries use rotational assignments, but so do some other types of employers — it helps to accommodate dual-career issues, as well as elder care problems. Particularly after an acquisition or a spinoff, it is helpful to examine the diversity of the expat population. For example, compensation needs in India are changing at mid and high levels.

As for administering global mobility programmes, there continues to be pressure to do more with less and to try to measure Return On Investment (ROI). Global mobility managers need more interface with the talent management experts within HR to optimise use of assignments. Also moving to the front burner are family and work-life balance pressures.

It’s easiest to consider alternative assignment compensation options on a continuum from home country compensation to host country compensation:

FROM HOME-BASED TO LOCAL REMUNERATION APPROACHES

<table>
<thead>
<tr>
<th>Home Salary</th>
<th>Home Plus</th>
<th>HQ Base</th>
<th>Net Salary</th>
<th>Int’l Scale</th>
<th>Hybrid/Expat “lite”</th>
<th>Host Plus</th>
<th>Host Salary</th>
</tr>
</thead>
</table>

- Home Salary
- Home Plus
- HQ Base
- Net Salary
- Int’l Scale
- Hybrid/Expat “lite”
- Host Plus
- Host Salary

FROM HOME-BASED TO LOCAL REMUNERATION APPROACHES
Home salary is salary at the point of origin. Typical expat assignments from North America would be balance-sheet based, which involves a series of allowances to address expatriate housing, cost-of-living differentials, and other allowances. The goal is to maintain the assigned employee’s basic compensation and tax treatment. Some employers withhold some funds to allow for housing cost the employee would have had at home.

Moving to the right in the figure, the HQ-based approach is used by companies with lots of non-HQ employees who are less able to support home-based pay approaches. Some employers take Indonesians, Malaysians, and Indians and put them on one HQ-based programme. This is probably the highest-cost approach. There are related alternatives where a regional hard currency/home location is selected, instead of home or HQ. For example, for a Vietnamese outbound expat, some companies might use Singapore as the Asia regional home base, instead of Vietnam (home) or the US (HQ).

The net salary approach is more location-driven, and more common in the Middle East, where there is low or no tax. The goal here is to guarantee net salary.

The international scale is more strategic and more common with companies that have a lot of movement within Europe. It creates one overall international scale and provides a good solution for employers with a lot of intra-region movement.

The hybrid/expat “lite” approach emerged about 10 years ago. It considers ways to incentivise employees to take assignments without supplying the full balance-sheet package. It reduces some allowances, removes some premiums, changes goods-and-services assumptions, and lowers housing expectations — but various employers take different approaches to what elements are “core” and which are optional.

We are starting to see more host-plus compensation. There is a lot of attention being paid to this approach, especially in developing countries within Asia. It starts with the host package and adds some allowances — particularly housing, maybe education for minor children, maybe holiday travel. This approach is definitely on the rise and is an effective tool for global mobility managers to utilise in appropriate circumstances.

The pure host approach puts expats on a local package. It is especially useful for “volunteers,” for trailing spouses taking an assignment, and for employees without a clear repatriation path; there is no need for extra allowances.

Many employers picked an approach 10–20 years ago and stuck with it. But surprisingly, many employers may use many of these approaches without knowing it, or naming them.

**RELATIVE ADOPTION PATTERNS**

The home-based balance-sheet approach (at least for our North American survey respondents) is still by far the most common, at 71%. In the past six years, North American employers are more likely than others to use the balance-sheet system, although we are seeing a gradual shift away from this strong preference. European and Asian employers are more likely to include a local or hybrid approach. Over time, we expect employers in North America to follow the same preferences as employers in other regions.

In our 2012 *Worldwide International Assignment Policy and Practices Survey*, we asked whether employers are using local or local-plus approaches. A little over one-third are not, while 42% are, and another 14% are considering it.

Host and local-plus approaches are more common for employees coming from lower-wage to higher-wage countries, and for permanent transfers and localised expats. Increasingly, we are seeing them for training/development assignments, for roles with significant incentive compensation (particularly in financial services), and for “volunteer” (employee-requested) assignments.

In Asia, two-thirds of employers are using local plus. This approach is often used when permanently transferring an expat to a host country or when localising someone already on assignment. Most employers base local-plus packages on the local pay structure without adjustment and handle payroll in the host country. The “plus” portion usually addresses housing, dependent education, international medical coverage, and limited tax issues.

**TRENDS IN ALTERNATIVE APPROACHES**

Using just a single international assignment policy approach no longer works for many employers. Implementing more than one programme...
complicates administration, obviously. It takes more time and more explanation by mobility managers. Generally, we are seeing three trends:

1. Multi-tier policies: by assignment type, by business unit, or by region.

2. More expat “lite” and local-plus packages over the past 10 to 15 years: starting with core policy and looking for ways to reduce benefits for some parts of the population, which saves money; particularly used in the Middle East (especially the United Arab Emirates).

3. Flexible pay options: employee choice or management discretion or combination — “flexpat.”

MULTI-TIER BEST PRACTICES
Multinational employers can adjust their expatriate compensation programme by assignment type, location, region, position/level, or assignment purpose. But when doing so, it is essential to be clear about the criteria that will apply in choosing a package for a particular assignment. Assignees need to know that the choice is fair and not subjective, and administrators need clarity too.

When considering a multi-tier approach, it is important to examine objectives. If it’s cost savings, the ability to recruit employees not available in the past, those objectives will inform choices. If this is not done carefully, the results may turn out to be inconsistent and may not even result in cost savings.

Here is a policy matrix showing the remuneration elements that one employer adopted to differentiate among four types of assignments (“LTIA” is a Long-Term International Assignment):

Programme administrators can tell at a glance which elements are “core” benefits, which ones do not apply, and which ones are discretionary.

Almost 60% of the respondents to the 2012 Mercer survey used a medium index for traditional, long-term assignments. The survey also found that very few companies limit the payment of cost-of-living allowances — just 15% of European companies go down this route, for example — and those that do tend to use it only for employees earning salaries upwards of US$200,000. There is a growing trend for companies to put “floors” in place, however, particularly when they are sending technical staff abroad on low salaries, to ensure that employees have enough to live on.

EXPAT “LITE” APPROACHES
As for expat “lite” best practices, establish both the criteria and the benefits that will be eliminated or reduced, with a clear value proposition to the employee. Employers will want to be careful of morale, and explain and defend the differences between tiers. This may seem obvious, but it is important to ensure that enough assignees fall into the expat “lite” bucket to justify the effort to create and administer this sort of programme.

Here are some of the factors that companies adjust for an expat “lite” programme:

- COLA (whether to apply, and if so, which one).
- Pre-departure trips (whether to allow, and if so, how many).
- Cultural/language training (online, in person, or none at all).
• Housing (modified allowance or no allowance).
• Travel (economy class).
• Taxes (employee responsible — instead of tax equalisation).
• Help with home sale and storage of belongings while away.
• Home leave (whether to allow, and if so, how much).
• Relocation (whether to allow, and if so, how much).
• Spousal allowance.
• Pet shipment (this can be surprisingly contentious).

FLEX APPROACHES
The “flex” approach is analogous to the cafeteria benefit plans popular in recent years. Expatriates get a certain number of credits that they can choose to apply to benefits that appeal to them. Obviously, some choices need to be made as to which elements are mandatory and which can be made optional and still be administered effectively. (For example, it may be seen as stingy to allow assignees to opt out of the corporate emergency leave policy.) Here is the cafeteria “menu” that one employer devised:

<table>
<thead>
<tr>
<th>Policy</th>
<th>Core/Flex Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation</td>
<td>Home country compensation guideline</td>
</tr>
<tr>
<td>Benefits</td>
<td>Home country compensation guideline</td>
</tr>
<tr>
<td>Work Authorization</td>
<td>Temporary visas/work permits; no permanent ones</td>
</tr>
<tr>
<td>Healthcare</td>
<td>International Plan</td>
</tr>
<tr>
<td>Tax Preparation</td>
<td>Core</td>
</tr>
<tr>
<td>Dependent Education</td>
<td>Core</td>
</tr>
<tr>
<td>Emergency Leave</td>
<td>Core</td>
</tr>
<tr>
<td>Home/Auto Loss on Sale</td>
<td>Optional</td>
</tr>
<tr>
<td>Cost of Living Differential</td>
<td>Optional</td>
</tr>
<tr>
<td>Tax Equalization</td>
<td>Optional – Economy Class</td>
</tr>
<tr>
<td>Home Leave</td>
<td>Optional – Economy Class</td>
</tr>
<tr>
<td>Host Country Transportation</td>
<td>Optional</td>
</tr>
<tr>
<td>Cultural Orientation</td>
<td>Optional/On-line</td>
</tr>
</tbody>
</table>

IMPLEMENTING ALTERNATE ASSIGNMENT COMPENSATION APPROACHES
The global economy keeps changing, and expatriates continue to proliferate in different types with different needs and expectations. So adapting your one-size-fits-all policy to accommodate these changes makes sense. Here are some tips for a successful implementation (or adjustment to your current set of options):

1. Audit your current programme, including the number of assignees, their home-host combinations, the duration of their assignments, and where they fit in your talent management matrix (strategic vs. volunteer). Consider which assignees are moving from more-developed to less-developed locations, and vice versa, because that can affect the type and amount of compensation adjustments you need to make.

2. Determine the all-in cost of your current approach(es) and whether you can realistically expect to realise savings by changing approaches.

3. Identify which parts of your remuneration packages generate the most requests for exceptions. Typically, this will be housing, but it could also be COLA adjustments or education allowances. Consider ways that a more transparent strategy for those elements could reduce the amount and frequency of those exception requests.

4. Determine whether your current programme is attracting and retaining the right expats for your current needs, and whether the changes you are considering will improve or degrade your ability to attract and retain the mobile workers you need in the medium term.
5. Look carefully at mobility premiums to ensure that they are necessary and are playing a useful role in your overall expatriate remuneration programme.

6. Benchmark your programme — and your proposed programme — against those already adopted by comparable multinational companies to establish good practices.

7. Articulate criteria for fitting into one approach or another as objectively as possible so both business leaders and assignment candidates understand what options are available to expats — and why. Stipulate which elements are mandatory and which are optional.

8. Get input — and buy-in (early and often) — from senior management, local management, and your expatriate population before implementing wholesale changes.

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Emerging markets are on a trajectory of relatively rapid economic growth, where GDP expansion is set to dramatically outpace that in the “developed” world in the coming decades. Emerging markets are also expected to have most of the world’s population growth, while the workforce in the developed world will be in decline. Yet the current capital flights and currency volatility in some emerging markets suggest that the development road for these countries may be a bumpy one — and remind us of the need to avoid oversimplifying.

What do these macro-level trends mean for expatriate management? Below, we explore the complex global mobility landscape in these emerging markets more closely, examine common myths about expatriation, and consider how employers should structure mobility policies in emerging markets.

DEVELOPING A NEW MOBILITY MINDSET
One of the main myths about mobility trends is the long-heralded end of the traditional expatriate. Although the idea of cutting back on full expatriation packages appears to be justified by the need to control costs, reports of their demise are greatly exaggerated. Mercer’s 2012 *Worldwide Survey of International Assignment Policies and Practices* found that most employers expected an increase in most assignment types in the coming years.
• 70% expect to increase short-term assignments.

• 55% expect to increase long-term assignments.

• 49% expect to increase developmental/training assignments (more than half of European companies — 56%).

• 48% expect to increase locally hired foreigners (these percentages were slightly higher in Europe [53%] and in the Asia Pacific region [51%]).

Beyond these figures, the mobility landscape is evolving. The prediction about the decrease in the number of traditional expatriates is true in the sense that the profile of the expatriates is changing. For an increasing number of moves that might be considered as “easy” — for example, moves within Western Europe — employers are more reluctant to offer a full expatriate package. Cheaper options, such as transfers to terms and conditions in the host location, should be considered whenever possible.

And yet, the rise of emerging markets ensures that traditional long-term assignments supported by a comprehensive benefits package are not disappearing. The ongoing search for commodities and low-cost manufacturing destinations leads companies to hardship locations. Although a costly expat package might not be justified for a move from London to New York, an employee relocating from London to Luanda, Angola, with family justifiably expects comprehensive support and significant incentives.

Furthermore, a new generation of expatriates is coming from emerging markets. The global war for talent leads to new assignment patterns and a frantic search for talent. Instead of being about relocating American managers to supervise operations in China or Brazil, the new face of expatriation is increasingly about how to find engineers with the right skills in Kazakhstan and move them to projects in Africa or relocate talent from India to support operations in Indonesia.

The concept of “global nomads” has become popular in the past 10 years, but its definition remains vague. Some companies assumed too quickly that Europeans or Americans who were on a couple of assignments for 10 years were global nomads and put them on international pay structures disconnected from their home countries. In some cases, these approaches backfired: For example, a German employee on assignment for 12 years could quickly be branded a “global nomad” while in fact he fully intends to retire in Germany. Upon return, he would be dismayed to discover that his savings in US dollars were exposed to huge exchange rate losses when converted to euros and that his fractured pension history would create issues. He might turn his frustration against his company.

In contrast, experienced assignees from emerging markets might fit the definition of global nomads better. In many cases, they have little intention of returning to their home country, where no suitable position would be available and where no pension scheme would offer them a comfortable retirement. In these cases, finding them a “virtual home” or putting them on international salary structures and pension plans is worth discussing.

The “sea turtles” — Chinese returnees, educated in the West but going back to China — might also be branded as nomads. They seek opportunities in China but are increasingly conscious of their cultural differences compared with their continental peers, so they keep a link with the West, where they often plan to send their children for education. With a mindset different from that of both local Chinese and Americans, they move back and forth across the Pacific, and their children are likely to follow their example.

Ideally, employers should replace expatriates with locals to benefit from local expertise and reduce costs. This is happening to some extent, but the global talent landscape is one of great contradiction — a mix of shortages and surpluses. In the 2012 report on “Talent Mobility Good Practices” produced by the World Economic Forum in collaboration with Mercer, the definition of talent went beyond international
assignments to encompass all forms of career, geographic, and position mobility. The biggest barriers to mobility were identified as widespread un-employability, critical skills gaps, information gaps (matching jobs to workers), and public and private constraints on mobility (such as labour laws and visa and professional credentialing restrictions).

Indeed, although millions of young professionals graduate from universities in emerging markets, their employability remains low: only 25% of Indian and less than half of Brazilian and Chinese professionals are considered employable by global standards. When looking at individuals with specific skills, such as engineers, but also many other profiles, such as managers and marketing professionals with global business acumen, the challenge is even bigger. By 2030, the United States will need to add 25 million workers and Western Europe will need to add 45 million — and a significant proportion of the new workers will have to come from emerging countries. At the same time, out of the 214 million mobile workers worldwide, 40% move between developing countries. That percentage is growing, rendering the global war for talent even fiercer and putting mobility at the heart of many employers’ strategies.

Commentators often generalise about the values and aspirations of the new generations — Generation Y, millennials — and their greater willingness to move abroad. They anticipate the dawn of a new age of enthusiastic globetrotters that would herald a welcome decrease in incentive-heavy expatriate packages. This has led some people to assume that employees would be willing to move even without generous expatriate packages, even on local terms and conditions.

Although new generations are indeed more mobile than prior ones, not all locations are equally attractive to international assignees. In fact, there is an important disconnection between where the companies need to send their employees and where those employees aspire to go. An offer of New York or London or Singapore, where there is a favourable tax regime and good standards of education and security, might prove to be much more attractive to expatriates than an assignment in remote Western China, Mozambique, or Colombia.

Indeed, emerging markets are often conspicuously absent from the list of destinations that younger workers prefer. This issue is not entirely new, and it has always been a challenge to move families to hardship locations. Still, in a context of increased mobility, where employees are willing to market themselves globally and would not hesitate to change employers to satisfy their wanderlust and career aspiration, the challenge takes a different twist. Employers need to provide incentives to attract mobile talent to less attractive emerging locations. They need to think not only about their brand and compensation and benefits when selling an assignment but also the brand and attractiveness of a location to a potential assignee.

Employers also should try to align these incentives with the different types of employees: "adventurers willing to go to difficult locations, traditional assignees willing to move if incentives.

DO YOU HAVE ONE POLICY COVERING ALL YOUR ASSIGNMENTS OR DIFFERENT POLICIES?
are right and barriers to mobility removed (family issues, dual career), and hedonists who seek a balance between career and lifestyle and have a well-defined idea of where they want to relocate.

POLICIES REVISITED

One of the early consequences of the different types of expatriates coming from and going to emerging markets was that large employers found it increasingly difficult to have only one policy covering all international assignments.

The first and most obvious type of segmentation made by companies is based on assignment duration. In the past 10 years, companies have been moving toward greater segmentation based on the types of assignments, differentiating strategic moves from less essential moves. Some have gone further into policy segmentation by using a four-quadrant model where moves are divided among strategic moves, skilled professional moves, developmental moves, and employee-initiated moves.

However, the evolution of policies might not end there.

A growing issue is whether employers are going to be geared towards intra-regional moves vs. global moves. New players from the emerging markets are especially involved in the regionalisation trend because a significant part of their assignments are within their cultural or political sphere of influence and follow their national economic interests. Good examples are Brazilian multinationals in Latin America, Turkish conglomerates in the Middle East and Central Asia, and the Chinese companies relocating employees to commodities-rich countries.

To some extent, regionalisation is accompanying globalisation as an increasing number of moves resulting from globalisation are lateral moves — that is, moves between emerging markets. This change forces companies to reassess their policies and examine whether their approaches are compatible and cost-effective in light of this new mobility pattern.

Some employers are pioneering the concept of a “first move,” under which a mobile employee is not assumed to be an expatriate until after a second move. This first move is treated as a transfer with a compensation package based on a local or local-plus approach or as one based on a reduced balance-sheet approach — that is, retaining the link with the home country but with limited allowances and benefits. Only when the employee really starts to move from country to country several times does he qualify as an expatriate entitled to a full expatriate package.

A variation of this approach is to base the provision of a full expatriate package or the inclusion in an international salary structure on career level. A junior employee on a first assignment might not qualify until reaching managerial level and embarking on multiple assignments when this employee joins the group of expatriates. (Some HR managers see this as a way to avoid “spoiling” young employees with over-generous packages early in their careers and to manage their expectations for the future.) This is especially interesting in the context of lateral moves and employees from emerging countries. For these moves, the key question is how and when assignees are to be integrated into the global workforce. Are they just remaining a resource — a low-cost one — for limited regional moves? Or do they become part of the global workforce relocated globally — and as such, might they become more mobile but also more costly employees?

This question of cost and salary levels is obviously at the heart of the challenges linked to the emerging markets.

UNDERSTANDING THE COMPLEXITIES OF PAY PRACTICES IN EMERGING MARKETS

It’s a complex picture when it comes to pay practices in emerging markets. How should employers address the pay discrepancies between low-paid workers being moved from the emerging markets to Western Europe or the
United States? In other words, an Indian employee earning US$5,000 could not be relocated to the UK without a substantial change to his remuneration package, nor would an American employee accept a job in India for such a low salary.

The initial response to this challenge was to localise the Indian manager and leave the American expat on a home-based traditional expatriate package. These approaches have limitations — the main one being that, once the Indian manager is localised, repatriation (which would entail a huge pay cut) becomes problematic. As for the highly paid American expat, the level of compensation compared with that of peers in the host location is likely to be huge, and the receiving organisation in the emerging market is likely to complain about the unnecessary costs of bringing in such a highly paid employee.

More sophisticated approaches have been developed to address these issues, such as peer allowances or Mercer’s International Spendable.

**COMPENSATION BY GRADE IN DEVELOPED AND EMERGING MARKETS**

(ANNUAL TOTAL GUARANTEED CASH, IN EUROS)

But we cannot reduce the discussion about salaries in emerging markets to a question of low salaries. One of the characteristics of emerging markets is their very steep salary curve — in other words, low salaries for low level positions but very high salaries for top managerial positions.

In addition, salary structures saw dramatic changes from 2002 to 2012 in emerging markets. There has been a substantial increase in the salary of managers in countries as diverse as the United Arab Emirates, Turkey, Brazil, and Vietnam. Top-level managers in the UAE and Brazil are now outstripping managers in traditionally high-paying countries such as Germany in terms of cash salaries.

This has significant implications for how multinational employers structure their compensation for mobility packages when moving global talent to emerging countries. This also affects employers considering moving senior executives from certain emerging countries, as they will have high salary expectations. The problem is not limited to base salary. Adding in high cost-of-living payments, housing allowances, and other expatriation benefits can result in high-cost packages for these highly paid employees from “low cost” emerging markets.

This dynamic is likely not only to reopen questions about localisation and various forms of local-plus
strategies but also to encourage employers to revisit traditional expatriate packages.

The local-plus package (generally, a host-country package with selective additional benefits for expats) is often viewed as the Holy Grail of expatriate management: a sensible compromise between the high costs of the home-based balance sheet and a strict host-country approach that would discourage mobility. And like the legendary Holy Grail, the local-plus package proves hard to define precisely.

Traditionally, the most common examples of local-plus packages are found in Gulf countries, where a majority of private-sector employees are foreigners. A local contract in a country like the UAE includes additional benefits and allowances: a local salary complemented with a housing allowance, car, and education allowance for some managers.

The second type of traditional markets for local plus are locations such as Hong Kong and Singapore, where a combination of low taxes and high base salaries facilitates the use of local packages, sometimes complemented by a contribution for housing and international school costs.

When moving into China, however, the question of local plus becomes more challenging. Although the “plus” can be defined in a traditional way as covering housing or education or pension, the base salary itself depends on the market segment: local Chinese, returnees, Westerners hired locally, etc. While the premium for being trained abroad, especially for returnees, is decreasing, the salary structures in China remain complex. The decision around expatriation, too often confined to questions around allowances and benefits, needs to include an in-depth review of base salaries.

The concept of local plus is also gaining a foothold in other emerging markets such as Brazil, where the practice is linked directly to the evolution of the salary structures in that country.

The rapid evolution of salaries in emerging markets is opening a new field of exploration for proponents of the local and local-plus approaches, but the traditional home-based approach will persist.

REVISITING THE COMPONENTS OF THE EXPATRIATE PACKAGE

Containing costs, incentivising employees to move to challenging locations, and retaining talent from emerging markets are all causing employers to reassess expatriate allowances and benefits.

HOUSING: LOCAL HOUSING VS. EXPATRIATE HOUSING

Housing is a costly component of the expatriate package. Multinational employers have been introducing ways to contain these costs either by paying only a housing differential — the marginal cost of local housing over home-country housing — or by limiting the housing budget, which can sometimes be easier to communicate than the concept of a deduction. The rise of expatriates from emerging markets and the increasing competition from multinationals from the BRIC countries might accelerate this move. The objective is not to offer substandard accommodations but simply to align housing allowances with rent for local people as opposed to considering expensive expatriate rental markets.

Reducing generous housing allowances is not possible — or even recommended — in all locations. A good practice is to measure the quality of living and link the degree of hardship to the provision of a housing allowance. For locations such as the United States and Western Europe, a local level of housing is an option, while for countries such as Nigeria or Algeria, paying the full housing costs for accommodation in a safe expatriate compound is justified.

COMPLETION BONUSES: A GOOD WAY TO COMPLEMENT MOBILITY INCENTIVES?

Employers pay completion bonuses when they want to motivate people to go to specific assignments and difficult locations. Completion bonuses are paid by 30% of organisations who have a policy, and an estimated 60% of emerging countries pay a completion bonus on an ad hoc basis. This is especially important to bridge the growing gap between desirable and hardship locations.
WHAT NOW?

In a rapidly changing world, mobility is a core component of a multinational company’s global talent strategy and not just an admin function. Mobility policies need to integrate a degree of regionalisation and facilitate regional/“lateral” moves. Moves from and within emerging markets challenge traditional expatriate compensation approaches and encourage employers to reconsider how they do balance sheets and explore new options such as local plus. Traditional expatriate allowances and benefits in particular should be reviewed in the context of emerging markets from a cultural and competitiveness perspective.

FAMILY ISSUES

Employers also need to consider how the definition of “family” can vary depending on the country and culture. For example, employees coming from India can express concern about leaving their parents in the home country. Should the “family” component of the policy also allow for assignees’ parents as well as their children? Money transfer issues can also be more important when dealing with emerging markets, either because the assignees support an extended family at home or because local regulations make these transfers difficult.

VALUE PERCEPTION: THE NEED FOR FINANCIAL EDUCATION?

The challenge with global policies is that assignees from different countries and cultures will not value the same policy components. In some cases, they may not even understand the value of what’s being offered. A good pension scheme can be viewed in some countries as a welcome supplement to a highly deficient statutory plan. Or it might be met with incredulity in cash-driven societies where long-term financial planning has always been difficult.

The concept of saving itself can be culture-bound. In some African countries, for example, there is a cultural expectation of redistributing the gains to the family and the social network. Benefits in kind such as car benefits can be a source of social prestige in some countries, while expatriates from other locations might try to maximize their savings by not using their full housing allowance and sharing accommodations. This could lead to a situation in which a very competitive expatriation package might not be sufficient to ensure employee retention — the economic value of packages is less relevant than their perceived value.

Obviously, employers need to have a degree of local flexibility in a global policy, but there is a limit to what can be achieved without breaking up these policies. A better approach, pioneered by some employers, is to invest in employee education and provide advice and information to help employees make financial and retirement choices.

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For years organisations looking to send people overseas on long-term assignments have relied on the home-based balance-sheet approach to remuneration. Over the past decade, there have been moves away from this, towards more local-based approaches. Localisations present a number of challenges and obstacles to mobility, however, and none of the alternates for long-term assignments have taken off in any meaningful way.

By making better use of the flexibility that already exists in the home-based balance sheet, we believe organisations can continue to draw on a model that is capable of evolving to meet the needs of a rapidly changing global economy and workforce.

EXISTING FLEXIBILITY

The home-based balance sheet approach has a number of inherent advantages, notably being able to maintain the link with the home country and avoiding administrative disruption to employees’ payroll history and benefits, as well as reducing the risk of employees growing dissatisfied with local conditions and leaving the organisation altogether. The method is tried and trusted, internationally consistent, and has worked well for decades.
The underlying principle is to keep the employee on the same conditions he or she was on in the home country by equalising the net pay, deducting social security benefits, and ensuring the savings capacity remains the same through the use of a cost-of-living allowance and the provision of housing allowances and various expatriate premiums. By varying the use of such levers while retaining the same home-based salary, organisations can incorporate a large degree of flexibility without having to consider new models.

A number of alternative models have been developed over recent years, some of which use more of a local-based approach. Some may be suitable for particular types of employees, such as long-haul expatriates (more than five years) or those undertaking permanent posts. Over half of companies (56%) now use more than one approach to the remuneration of assignments, deploying a range of options on the scale between home and local-based aspects.

Despite this, however, some 64% remain committed to the home-based approach, and none of the other options has proved a solid alternate for long-term assignments (see chart below).

Although the home-based-balance sheet approach remains the most popular and best-suited strategy, there is clearly a need for organisations to make better use of its inherent flexibility, particularly with long-term assignments differing according to duration, type, purpose, and location. Similarly, businesses need to understand the limits beyond which a single balance-sheet approach cannot work effectively, particularly as pay for top positions in emerging markets such as Russia or Brazil reaches — or even exceeds — levels for comparable posts in developed economies.

**Better use of the home-based approach**

In recent years, many data providers have widened their offerings to give clients the flexibility they require, through different degrees of emphasis on the various levers that come into play. Mercer, for example, offers five index types, ranging from the “Mean-to-Mean” end of the multinational approach, which uses a strict price comparison with a single international set of expenditure weights for all combinations, to the “Expatriate” index with a “home-host” approach, which assumes individuals will continue spending according to their home habits and recompenses them accordingly.

Different index types and approaches are designed for varying profiles of assignment and assignee population: indices based on the multinational approach are well-suited for a population that is easily mobile, or for intra-regional moves or between locations that do not present major economic differences, while home-host indices would be more appropriate for professionals less keen on being sent abroad or being sent to more difficult destinations, where it will be more challenging to adapt to local surroundings.

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**Remuneration approach**
Which approach do you typically use for long-term assignments?

<table>
<thead>
<tr>
<th>Approach</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home-based balance-sheet approach</td>
<td>64%</td>
</tr>
<tr>
<td>Other</td>
<td>36%</td>
</tr>
</tbody>
</table>

**Europe**

- **Home “plus”**: 9%
- **Host-based**: 7%
- **Hybrid**: 6%
- **HQ-based balance sheet**: 3%
- **Int’l compensation structure**: 3%
- **Host “plus”**: 2%
- **Higher of home- or host-based**: 2%
- **Other**: 4%

Within these extremes are various tools organisations can deploy to get the flexibility they require, all within the home-based-balance-sheet model. Different levels of housing can be used, according to the location and the seniority of the employee, while hardship premiums — payable to those moving to particular parts of the world — can be increased, scaled back, or dropped altogether depending on where an individual is going, but also where they are coming from, and what level of incentive they would actually require to take on the assignment.

Other provisions too can be reviewed, to accommodate factors such as loss of spousal income or the degree of separation from friends, family, or business associates. One increasingly popular option is to offer noncash support, such as cultural and language trainings for individuals and their families, assistance in finding schools, assistance in finding an occupation for the spouse, integrating local networks, etc. These can be cost-efficient for the business and highly valued by employees.

Beyond these basic measures, there are essentially three dimensions to help introduce meaningful segmentation into organisations’ policies, which will enable them to reassess and reallocate budget according to a well-thought-out strategy.

The length of assignment is the first and most obvious dimension of segmentation. One option would be to introduce a sliding scale for assignments based on the time spent on assignment, with regular check-in and step-downs (perhaps every two or three years), reflecting the fact that individuals have become more settled in their surroundings, and paving the way to a permanent posting on a more localised basis if applicable.

The mobility driver (whether the assignment is company or employee-initiated; business-critical, for project expertise, or developmental) is another dimension that is now well-assimilated by most companies.

There is one other dimension, though, that is often overlooked, which is the geographic and cultural shift involved. Individuals moving intra-regionally — within Europe, Asia, or the Americas, perhaps — are likely to find it easier to adjust than those moving to an altogether more remote and foreign destination. By devising a policy in this area and categorising countries into groups, organisations can develop standard policies and use the savings made within regions to subsidise those moving inter-regionally.

Despite the various tools and models available, the vast majority of organisations tend to use a single approach, which will inevitably be suitable for only a portion of their assignees. By devising a range of options for certain conditions, organisations can introduce the flexibility they need in an established framework that will ensure they are not permanently making exceptions or risking alienating talent.

ADAPTING THE MODEL TO SUIT NEW CHALLENGES

There comes a point, when dealing with extremes of income, both high and low, where using a single balance-sheet model for all long-term assignees comes under pressure, and here organisations need to take action now to ensure they have processes and policies in place that will enable them to cope with such situations.

Much of this derives from the huge variances in salary levels seen in emerging markets. While incomes at the bottom end remain very low compared with those for the rest of the world, at the high end of the market incomes have risen far higher and faster than had been envisaged.

The risk of using a single approach in the balance sheet is that low earners — who may only be able to sustain their lives due to ways of living and purchasing that could not be replicated elsewhere — moving to high-cost locations will receive packages that are woefully inadequate, while sending high earners from low-cost countries to developed markets becomes entirely cost-prohibitive.
There are solutions here adapted for each of these extreme situations, and these may be a form of flexibility that you will have to introduce into your balance-sheet model, to adapt it to a rapidly changing world.

At the lower end, the use of peer income equalisation rather than a cost-of-living comparison to generate an international spending allowance can help make the package more workable. This requires businesses to have either an internationally agreed salary structure or a system whereby they can match up positions and job codes across countries or parts of the wider group operation.

Case 1: Low-income assignee from low-cost location to high-cost location
Solution 2: Equalise to the peer spendable
The issue of very high incomes remains a challenge; fundamentally because there is little reason for such individuals to want to move, given their spending power in the home country. Organisations that are currently using high index levels should consider leaner options, such as the “Mean-to-Mean” referred to earlier, while the other solution is to cap potential packages.

Many organisations are currently struggling with this issue because they did not have a cap in place and have had to wrestle with imposing one retrospectively on very senior employees, so introducing such a policy in advance is important. This can be justified on the grounds that any extra income is unlikely to be spent on living arrangements but invested or accumulated, and is therefore not directly linked to the move. Even this is not without its challenges, however, particularly on the administrative side, and again assumes there are consistent salary grades already in place which will allow the setting of a smart cap, based on a job level, rather than using a single amount for all countries and business units.

In this instance, HR also has another conversation to consider, around whether there really is a strong business case in sending such an individual at all. Any such move would need to demonstrate a clear return on investment, especially if there is not much of a developmental argument attached to the posting.

CONCLUSION

The home-based balance sheet is a tried and tested solution for long-term assignment remuneration and offers sufficient flexibility to allow organisations to vary their policies according to the aims, location, and type of placement.

Businesses, though, need to be smart in how they use them — understanding the various models and not being afraid to alter their offering, while also taking on board the limitations of the balance-sheet model and how to overcome these, including the use of international pay grade structures and caps based on pay grade.

By engaging in such a review, organisations can ensure they are able to react to the changing needs of international assignments in a way that delivers genuine value and return on investment for the employer, while encouraging the development — and retention — of key talent along the way.

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