GLOBAL MOBILITY: THE NEW BUSINESS IMPERATIVE

“Companies that want to survive and thrive in today’s environment have to share information across the globe. Mobility is essential to that.”

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Despite the recent global financial and economic crisis, and the ensuing recessions in many parts of the globe, companies have not cut back on the number of employees they send on international assignments. Indeed, according to Mercer's 2010/2011 Worldwide Survey of International Assignment Policies and Practices, the number of international assignees of all levels continues to grow, and numbers have nearly doubled since 2005-2006.

The reason is simple: global mobility is not something that is 'nice to have', an add-on to a company's normal business practice; it is becoming increasingly integral to the way today's organisations do business in an ever more global world. As Carlos Mestre, head of Mercer's global mobility business, said at Mercer's 15th Expatriate Management Forum in Prague: "Companies that want to survive and thrive in today's environment have to share information across the globe. Mobility is essential to that."

However, cost is a critical consideration in mobility, as it is in every other part of the business, and it will continue to be critical for the foreseeable future as organisations adapt to a new world order where increasing competition requires us all to do more with less.

So while the recent crisis might have accelerated changes, mobility policies have in reality been evolving for some time, and the essence of the change is that companies are seeking ways to manage their limited mobility budgets more wisely. In order to reconcile the need to operate in an increasingly global market with the need to contain costs and to keep international assignees happy in a war for talent that has itself gone global, the best organisations are being much more creative in the way they manage mobility.

"Companies are seeking ways to manage their limited mobility budgets more wisely."

"Firms are increasingly linking mobility with talent management and reward strategies, which is helping them to grow a cadre of employees with an international outlook."

One of the principal tools they are using is segmentation – of both assignments and assignees – which allows them to redistribute their mobility budgets according to the jobs and individuals that deliver the greatest value. And firms are increasingly linking mobility with talent management and reward strategies, which is helping them to grow a cadre of employees with an international outlook and for whom moving from one country to another is second nature rather than something they need to be 'compensated for'.

This white paper highlights some of the key trends identified in Mercer's 2010/2011 Worldwide Survey of International Assignment Policies and Practices and reflects the discussions about the trends by global mobility experts from Mercer, its clients and academia at the Prague forum.

KEY TRENDS IN GLOBAL MOBILITY

TOP COMPANIES ARE DOING THE FOLLOWING:

- Making their limited mobility budgets go further by segmenting assignments and assignees according to their value to the business. Linking mobility with talent management and reward strategies makes assignments more effective and helps to contain costs.

- There are areas of mobility where savings can be made through a more disciplined approach, but firms are rightly wary of scrimping. International assignees are a growing and increasingly important cadre of the workforce, and keeping them motivated to perform is essential.

- Despite the growing number of non-standard assignments, soft factors – not least spouse and family issues – remain the main reason assignments fail. The best companies are paying more, not less, attention to the health, happiness and well-being of assignees and their families who are involved in shorter or commuter assignments.

THEY SHOULD ALSO BE DOING THIS:

- Thinking about mobility and talent in broader terms. True 'global citizens' are already in greater demand than traditional expatriates, but most companies don't know how to identify, find or develop them. Companies need to create virtual talent pools around the world in order to respond to change and opportunity in an increasingly unpredictable economic and business climate.

1

THE MOVE TO SEGMENTATION

Companies employing a tight segmentation approach that links the assignment and assignee much more closely with the business's needs are finding that their mobility strategies deliver a greater return on investment.

Even back in the early noughties, the historic 'one-size-fits-all' approach to expatriates was being challenged. Traditional long-term assignments of five years or more, conducted by senior executives sent out from the home country, were being supplemented with shorter assignments carried out by more junior employees. There was also a shift to more local hiring and a rising number of 'global nomads' – assignees who move from assignment to assignment without coming 'home'.

Today the picture is much more complex – not least because of the proliferation of developing and emerging economies that are not just hosting assignees from 'developed' markets but also sending their own assignees to other countries. This has also led to a rise in third-country nationals. Short-term, project-based and commuter assignments have burgeoned, and moves are increasingly used for developmental purposes – and often initiated by employees themselves. What's more, companies are 'localising' jobs more quickly these days – either by hiring a local to perform the role once it is established, or by transferring the incumbent assignee from a traditional expatriate package onto terms and conditions more reflective of the local market.

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> “Segmentation of assignment and assignees allows companies to better align their mobility strategies with the business’s needs, leading to more cost-effective assignments.”

Segmentation of assignment and assignees allows companies to better align their mobility strategies with the business’s needs, leading to more cost-effective assignments. For example, while some high-level assignees, whose roles may be business critical, will continue to command top dollar in terms of the packages they expect and receive, assignees who move as part of their career development are motivated by the learning and career development opportunities themselves, so are usually content with ‘expat-light’-type packages.

But to ensure that they people each different segment with the right individuals, companies need to work closely with talent management. It’s critical to the success of global mobility strategies, for example, to establish that people who think they are strategic really are strategic, that developmental moves are part of a well-defined development programme and that opportunistic moves are justified by a retention problem within a given part of the business. What’s more, integrating mobility and talent management helps align the needs of the organisation and the individual. As Adrian Moule, director of the global mobility centre of expertise at Tetra Pak, put it at the forum: “We really want to give the best packages to those people who are high-value and developing at the same time.”

But the more companies use international assignments to develop their global talent, the less they need to either localise or repatriate assignees – two perennially tricky aspects of expatriation. Using international assignments to develop global talent means assignees are more carefully managed within talent management frameworks, so companies are not left thinking, ‘What are we going to do with this person when they get back?’ or ‘Could we reduce costs by putting these people on local terms and conditions?’ Their assignments are part of a well-structured career development plan which both the assignee and the company understand.

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2

GLOBAL CONSISTENCY, LOCAL FLEXIBILITY

Leading organisations are seeking to manage the increasingly complex global mobility landscape by introducing policies that are globally consistent, transparent and equitable, but that allow for some degree of flexibility and tailoring to local market and individual needs.

> "International compensation structures are steadily becoming more popular."

A well-managed segmentation policy in itself delivers savings, not least by reducing the number of exceptions – the biggest cause of spiralling costs. But it's important to keep assignees motivated and engaged, so tailoring packages carefully and communicating the value of and rationale behind them is essential to successfully marrying the twin imperatives of controlling costs and fostering an increasingly global workforce.

AstraZeneca, for example, tries to reconcile global and local by means of a Total Reward strategy, which allows it to emphasise different elements of the package according to different economic, cultural and assignee requirements.

Nevertheless, the combination of fast-moving global nomads and inflation in developing economies can lead to spiralling pay, and some companies are seeking to solve the problem by setting up international compensation structures.

Tetra Pak, for example, has established a 'global employment company' called Tetra Pak Global Resources, and everyone who goes on assignment, anywhere in the world, has a contract from that company.

Their ‘HQ’ salary is a blend of the company’s top seven markets, and everyone’s base salary and target incentive are the same. They also receive an offshore pension. “That gives us a common basis for the expats, and the philosophy behind it is that they will always know what they will be earning,” says Moule. “But we then give them location allowances, cost of living adjustments and so on, on top.”

Mercer’s International Assignment Survey 2010 showed that the home country/balance sheet approach is still the most popular, but Emmanuel Rivere, a senior consultant at Mercer, said international compensation structures are steadily becoming more popular.

International compensation structures take as their basis an average of the annual gross or net base salary in a selection of countries representative of the expats’ origins, and then build on international spendable income patterns and housing norms for different positions and grades, adding allowances (cost of living, hardship and so on) on top. The resulting grid is usually expressed in one or two major currencies, the euro and the US dollar being the most common.

The advantages of the international compensation structure approach are that it is consistent, equitable, transparent and easy to administer. However, it may cost more – packages are usually a bit higher because the high salaries from countries like the US and Singapore push up the average. It is also more difficult to explain and ‘sell’ to assignees, who may be resistant to change per se or, if they are from high-paying countries, feel disadvantaged. What’s more, currency fluctuations will affect the international salary a company pays from year to year – the market salary could be lower or higher than that on the grid – so the organisation may need to build in a margin of plus or minus 20 percent in order to disadvantage neither the assignee nor the organisation.

What’s more, while pension and other benefits tend to be provided from assignees’ home country retirement and benefits plan, the number of international pension and benefits plans is also growing as companies seek to provide a globally consistent approach. This benefits in particular global nomads who have no ‘home’ country and assignees from emerging and developing markets with less developed social security systems.

International compensation structures have to take into account the wildly fluctuating exchange rates that, over recent years, have characterised not just emerging economies but also what we used to think of as ‘stable’ or ‘hard’ currencies – witness the volatile fortunes of the dollar against the euro. Nevertheless, Mercer’s survey shows that most companies split pay between home and host currency, allowing employees to cover costs at home and in their host location without incurring exchange rate penalties. Increasingly, however, companies are leaving the decision on how the pay should be split to the employee, thereby placing the responsibility for the exchange rate risk on them. This means the employee could switch money between home and host location and benefit from the exchange rate differences.

> “It’s important to keep assignees motivated and engaged, so tailoring packages carefully and communicating the value of and rationale behind them is essential.”

"You often find interesting, even surprising, correlations. Metrics makes the invisible visible in allowing you to establish clear, measurable links between your mobility programmes and your corporate objectives."

MOBILITY METRICS

Ali Kursun, a principal at Mercer and the global workforce metrics and insights leader for the information products and solutions business, outlined how using metrics can considerably improve the return on investment in mobility: "Numbers and metrics provide facts that can highlight areas of under- or over-performance and allow you to analyse trends and forecast more accurately."

But, he stressed, measurement should focus on a few critical things – for example, the retention rate of international assignees, the cost of assignments, the number of policy exceptions and the number of individuals managing the programme. You might also want to focus on your most important segment of expats – those in a critical growth market, for example.

If you wanted to look at retention, for example, you could use two criteria: the percentage of expats who don't complete the assignment and the percentage who leave the company within two years of repatriation. You can cut the data by region and by the age and size of the programme. Elements affecting retention might be provision of a completion bonus, a promotion, compensation level, how well repatriation is handled, family support and so on.

3

SOFT ISSUES CAN BE DEAL-BREAKERS

Despite the evolution of global mobility and management practice, the principal reasons assignments fail remain the same as ever – and the biggest culprit is spouse and family issues.

Ironically, many of the proliferating 'alternative' or 'non-standard' expatriate assignments – short-term, project-based, commuter and frequent flyer assignments, for example – exacerbate rather than alleviate the pressures on assignees and their families, as Marja Tahvanainen, adjunct professor of international human resource management at Aalto University School of Economics in Finland, explained. Such assignments typically last between six and 12 months, but may be shorter, and because they involve prolonged or repeated absence from home, and because assignees tend to leave their families behind, these assignments create all sorts of different stresses.

On the positive side, they give individuals a good understanding of the context of their job, broader networks, developmental and multicultural experience, and variety. They do also help to overcome some of the barriers to mobility, like partner career issues, education concerns, career concerns after the assignment finishes and fears about going to 'hostile' locations.

Yet frequent travelling is stressful for both the assignee and the partner left to manage the home front: working days are long and leave scant time for a social life or exercise; work piles up in the home office; and assignees often rely on alcohol, fast food and sleeping pills to get them through.

"Organisations need to improve the return on their investment in assignments, and a stressed or exhausted employee is never going to give of his or her best."

“The second most emotive element in overseas assignments is housing, which is a challenge for companies trying to gain a firmer grip on housing allowances.”

“Many non-standard assignments – particularly the shorter ones – tend to be managed by line managers and fall below the radar of Human Resources, so individuals don’t get the training and support that are standard for their traditional expat colleagues.”

And to compound the problem, many non-standard assignments – particularly the shorter ones – tend to be managed by line managers and fall below the radar of Human Resources, so individuals don’t get the training and support that are standard for their traditional expat colleagues, and mounting problems often go unspotted.

In some countries, including Finland, companies are legally required to guarantee a safe and healthy working environment to their employees, and as the number of non-standard assignments continues to rise this requirement is likely to be extended. In the meantime, said Tahvanainen, there are things companies can and should be doing. Some might cost a little more than companies currently spend – like allowing people to travel business class – but the additional ‘investment’ in the assignee should, arguably, generate a better return. However other things cost nothing – like being aware of the issue and improving communications between line management and HR.

Tahvanainen pointed out that companies also have to bear in mind the cost of not doing these things: “Organisations need to improve the return on their investment in assignments, and a stressed or exhausted employee is never going to give of their best.”

The second most emotive (and most expensive) element in overseas assignments, after spouse and family issues, is housing, which is a challenge for companies trying to gain a firmer grip on housing allowances – something Mercer has identified as a clear trend in mobility. Here, too companies are turning to segmentation as a solution, but they are sweetening the pill for those employees who might feel disadvantaged by increasingly offering free housing (albeit with a corresponding reduction in housing-related allowances like utilities).

Having a house that individuals are happy with increases the success of assignments because it makes employees feel valued and appreciated. But, said Narcisa Chelaru, Mercer consultant, and Marie-Laurence Sépède, expatriate accommodation manager: “Free housing is generous, so you must communicate it.”

Companies are seeking to reduce costs by offering ‘peer housing’ – in places where the locals live and where rents are in line with the local market – and ‘budget housing’ to some segments of assignees. But Mercer is also being asked to provide more ‘exclusive’ housing tables for, for example, investment bankers in such cities as London, Hong Kong and Moscow.

4

THE FUTURE OF MOBILITY

Mobility policies are evolving, with leading companies working hard to strike a sustainable balance between globalisation, talent management and cost control. But their challenge now is to think 'outside the box' in terms of how to find and develop the global talent that the organisation will increasingly need.

For all the progress being made on mobility policy and practice, companies need to think more broadly about mobility and talent, said Maury Peiperl, professor of leadership and strategic change at IMD.

Peiperl believes that many HR professionals are unaware of just how dramatic the changes in the global mobility landscape are. In a climate of increasing volatility and unpredictability (of which the recent financial crisis was a symptom), it's pointless trying to predict more than three to five years ahead, he said. You have to plan for uncertainty, which means being flexible, and that, in turn, involves looking for talent in all sorts of different places around the world and creating talent pools that may be virtual. This network of virtual talent pools allows you to be agile and responsive, even proactive, when facing change and potential opportunities. But planning for uncertainty is a challenge for many HR and mobility managers, accustomed as they are to stable structures.

> "Companies should be looking for talent in all sorts of different places around the world and creating talent pools that may be virtual."

> "There is growing demand for local executives with global skills and perspectives, and, even more so, for self-propelled, globally mobile professionals – or 'global citizens'."

> "The traditional company-sponsored expat is rapidly becoming a thing of the past."

What's more, the typical expat these days is very different from his or her counterpart 10 years ago. Peiperl believes that the traditional company-sponsored expat is rapidly becoming a thing of the past. Demand will peak this year, he thinks, to be overtaken by growing demand for local executives with global skills and perspectives, and, even more so, for self-propelled, globally mobile professionals – or 'global citizens'.

"But we don't know how to look for these global citizens," said Peiperl. "They don't fit classic HR processes, and even headhunters aren't that good at finding them." The way to identify them is through the auspices of younger employees who are adept at using social media – an approach that carries the advantage of being relatively cheap to use.

But however your organisation does it, it's important to find these people because, in contrast to the old days when an expat out of sight in some remote outpost was also largely out of mind, expatriates out in global markets today are the individuals delivering the business. They have moved from the wings to centre stage, but the way companies identify, manage, support and develop them often fails to reflect their critical strategic importance.

There are notable exceptions, of course, and Peiperl cited Nestlé as an organisation whose global strength derives from its 100-year-old practice of moving people around different countries and functions: "When they want to roll out a global initiative, they can do it very quickly because they have the depth and breadth of global connections."

Peiperl believes that 'boundary spanning' creates value for both the organisation and the individual, and that companies must therefore seek executives who have worked and are prepared to work in different markets.

Yet the concept of 'global executives' is shifting beyond traditional expatriates to embrace not just 'inpatriates' (sent from foreign locations to garner skills and experience at headquarters), third-country nationals and global nomads, but also individuals whose personal background and/or previous work experience (they may have lived elsewhere or speak different languages) fit them perfectly for handling cross-national assignments, whatever role they currently hold. And many organisations don't know who this latter group are, even though such individuals may already be working. for them.

What's more, pointed out Peiperl, there are different ways of executing global work. Spending time out of the country doesn't necessarily mean you are good at cross-cultural interaction – witness the way many expats congregate together in enclaves. The opposite also applies: there are individuals sitting in headquarters who are so well connected that they are virtual global citizens and who, without doing much travelling, add more value than some of the global travellers. The ideal, of course, is the global citizen who combines both, and companies should be focusing on finding and developing more people with the potential to be global citizens.

CONCLUSION

The entry of new emerging and developing economies into the international business arena has ushered in a dynamic new era of global mobility, characterised by a plethora of new types of assignees and assignments. Companies are adapting their mobility strategies to the increasingly international marketplace while at the same time trying to increase the return on their investment in assignments. Yet they should also be thinking about how to find, develop and deploy true 'global citizens'. Because, as individuals and organisations become more internationally minded, internationally mobile and internationally connected in the virtual as well as the real world, the concept of international assignments as we currently understand them is steadily becoming a thing of the past.

EMEA EXPATRIATE MANAGEMENT CONFERENCE

Mercer's Expatriate Management Conference – previously named the Expatriate Management Forum, is an established annual event which is now in its 16th year. The conference has generated much interest over the years and is now a leading networking and learning opportunity where HR professionals from a wide range of global organisations meet to learn and discuss the latest trends, practices and developments in managing international assignments.

Over the years, the conference agenda has developed further to cover key expatriate management topics such as understanding the current global context and its implications, identifying strategic trends, learning how to develop competitive compensation policies, exploring best practices, and understanding in-depth technical issues such as housing, expatriate benefits and health care.

The annual event is a major networking opportunity for HR professionals from across Europe, the Middle East and Africa. It allows delegates the chance to compare their expatriate management strategies and encourages participation through workshop sessions, which are designed to examine various areas of developing expatriate compensation packages and provide practical solutions for successfully managing a global workforce.

For further information on how our 2012 event will provide you with in-depth insights into global mobility, visit:

www.mercer.com/events/expatriate-conference-emea-2012

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MERCER
Aleje Jerozolimskie 94
00-807 Warsaw
Poland
Tel +48 22 434 5383
Fax + 48 22 456 4021
client.services.europe@mercer.com

www.mercer.com
www.imercer.com