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.
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

<table>
<thead>
<tr>
<th>Home income extremely low: Even a generous policy may result in insufficient compensation at host</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Consume local products from local market and stores (bargain)</td>
</tr>
<tr>
<td>- Items purchased are very specific to local consumption and may not be found at host, or at a premium</td>
</tr>
<tr>
<td>- May buy second hand or share ownership of bigger items</td>
</tr>
<tr>
<td>- May live with large family in family home (no housing cost) with multiple incomes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Home income (and standard of living) extremely high: Even a lean policy may result in excessive cost at host</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Consume luxury items and brands from high-end international stores</td>
</tr>
<tr>
<td>- May have easy access to multiple means of private transportation, and travel internationally to shop</td>
</tr>
<tr>
<td>- May have full-time household staff</td>
</tr>
<tr>
<td>- May provide for and live with large family and own multiple properties, all luxuriously furnished and fitted (shipment!)</td>
</tr>
</tbody>
</table>

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.

Arvind Gupta-Lawrence is a Global Mobility Consultant based in London. arvind.gupta-lawrence@mercer.com

Anne Rossier-Renaud is a Project Leader and Senior Consultant in Mercer’s Global Mobility business (Talent, Rewards & Communication). anne.rossier-renaud@mercer.com