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)

![Graph showing compensation by grade in developed and emerging markets]

Data source: Mercer Total Remuneration Surveys (TRS)

Income. These approaches aim to supplement the spendable income part of the salary (net salary minus savings and housing costs) with an allowance for the duration of the assignment as opposed to fully localising the employee and integrating him or her into the host country salary structure.

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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