

International Assignments Global Policy and Practice Key Trends 2002





Contents

3	Foreword
4	Introduction
8	Expatriate population growth
10	Developments in policy and practice
16	Diversity
20	Flexibility
24	International remuneration approaches
28	The way ahead
30	Participating organisations
32	Further information



Foreword

Our previous biennial surveys have been undertaken on a region by region basis. The results have proved instructive but whilst there is always a need to focus on best practice amongst the companies operating in a specific country or region we have found increasingly that our clients identify themselves with their global competitors and peers rather than those whose only link may be geography.

This is our first global survey and it enables companies to compare themselves with industry groups on a global or local basis. At the same time we have made the survey a continuous survey which can be updated on-line as policy or practice changes. In this way changing trends and best practice are easily discernible.

We would like to thank those of you who have already participated and urge those of you who have not yet done so to assist us in broadening the base of information. The value of the survey will increase in direct proportion to the number of active participants. This summary of key trends represents our analysis of the most up to date data spanning almost 70,000 mobile workers in 273 companies. I hope it provides you with a valuable insight into the world of mobile working.

*David Hopkins
Partner
Human Resource Consulting*



Introduction

Our ongoing study of international assignment global policy and practice confirms the continuing growth of employee mobility. This study refers to company sponsored employee moves rather than individuals migrating under their own initiative for work opportunities abroad.

The driving force of globalisation is resulting in a greater level of business conducted on an international basis. Technology is enabling companies to aspire to a greater global reach and thus expand their customer base. Within organisations, the role played by internationally mobile employees has always taken on a variety of guises, but there is now a growing measure of explicit recognition, for example through written policies. Greater international mobility is perceived as a positive factor in supporting a global corporate culture and fostering a working environment open to new approaches as a result of the cross-fertilisation of ideas and practices.

Empirical surveys into corporate practice provide an invaluable insight into developments in international assignment policy and practice. Information on market practice can be beneficial in determining a competitive expatriate policy. However, the circumstances in which a policy is to be employed is

critical and it is common practice to look to the practices of 'similar' organisations as a guide. Organisations establish their peer groups based on various criteria, including but not exclusively:

- size of the expatriate population
- anticipated duration of their assignments
- typical home and host country combinations for their assignees
- reasons behind international assignments, for example skills transfer, management function or career development.

It is important to adopt a holistic approach when considering the most appropriate policy and avoid the temptation of determining the validity of a particular compensation element in isolation. For example, some organisations that have dropped incentive premiums have mitigated the change by simultaneously waiving employee contributions to host country housing costs. Focusing on the practice with

“Our new integrated organisation with its pan-European functions is changing the profile of the people we need to employ. We want internationally mobile people, moving around our different locations, sharing their experience.”

HR Director, Consumer Products organisation

respect to incentive premiums alone may result in a choice that reduces the overall competitiveness of an assignment policy.

Traditional expatriate assignments can be expensive and good business practice demands that a cost-benefit analysis for each assignment be considered. The dynamics within global organisations, allowing recipient business units to question the rationale for particular assignment packages is becoming more widespread. As international employee mobility grows, organisations are responding to the need for greater discernment in establishing the business and personal drivers behind international moves. As a result, organisations are increasingly differentiating between strategic and operational moves, with specific, quantifiable business needs and those that should be encouraged, but for which there is no business case to support the expense of a full expatriate package. The drive for flexibility can also be seen in the greater use of alternative types of international assignment and in the widespread interest in flexible expatriate packages.

There is a broad spectrum of international assignments within organisations, including:

- long-term assignments
- short-term assignments
- permanent transfers

- commuter assignments
- rotator assignments
- use of contractors
- international hires
- local hire of foreign nationals.

Flexibility in the types of moves supported is required, in part, to balance the need for international mobility with the expense of expatriate moves. There is an increasing willingness on the part of some individuals, particularly younger people, to view an international placement as an experience that does not necessarily require additional financial compensation. As some organisations try to adopt a more global approach in their management structures, the link between international experience and career progression has become stronger. At the same time, many individuals view international experience as a significant benefit in itself, which makes them more ‘employable’ in the job market. This contrasts with the perception, and in some organisations the reality, that accepting an international assignment hinders overall career progression because of the ‘out of sight, out of mind’ syndrome.

Expatriate assignments are one of the most, although by no means the only, explicit approaches adopted by many organisations to international employee

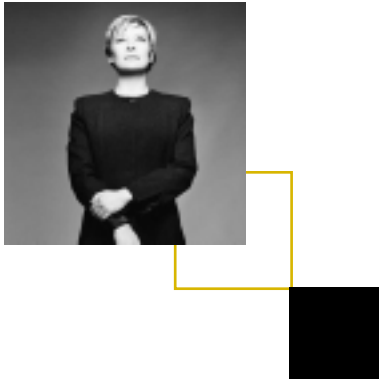
“Mobility is increasingly driven by the individual, and international assignments are filled through open-resourcing facilitated by a fluid internal labour market which has a distinctly international profile.”

Expatriate HR Manager, Oil & Gas company

“The required employee mindset is changing – flexible, willing to move and adaptable to change.”

HR Director, Consumer Products organisation

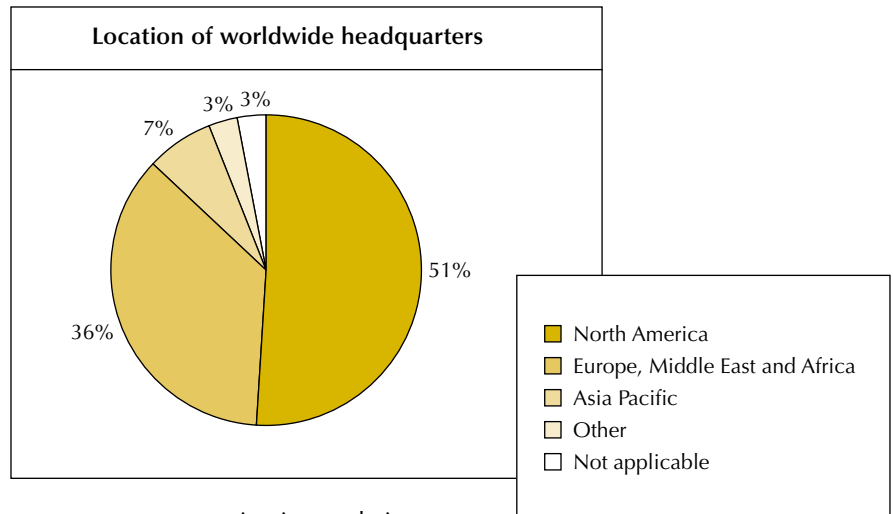
Introduction continued



mobility. PwC's international assignments survey covers policy and practice for such moves in detail. As of January 2002, 273 organisations with nearly 70,000 expatriates have participated in the survey. The full survey results are restricted to participating organisations, however we have drawn on the data to illustrate here some of the key themes in international employee mobility and draw out some analysis of current trends.

Whilst there are common issues faced by all organisations when managing their international employee mobility, detailed analysis of the survey results highlighted significant differences in approach, often influenced by both the practices of industry peers and also the geographical perspectives determined by the headquarters location. There are many factors at work in determining an organisation's international employee mobility policies and care should be taken not to oversimplify the complex segmentations in the workplace.

The size of an organisation's population, both in terms of the entire workforce and in absolute numbers, can influence the choices made with respect to expatriate policy and its administration. A small assignee population may allow for more flexibility in negotiating tailored deals for each expatriate. At the other end of the scale, large assignee numbers may lead



to a greater segmentation in type being formalised in assignment policy, for example there may be a clear distinction between career expatriates and those who repatriate home after one assignment abroad. The participating organisations in this survey are headquartered in over 17 countries, with strong participation from the US, UK and Germany. The average expatriate population size is 258, although for European companies the average was higher at 294 assignees. Population sizes differed significantly between different industry groups, with oil and gas companies reporting the largest average expatriate population (560) in contrast to manufacturing organisations which had the smallest (168). The average in financial services was 213, however

when investment banks are considered separately their typical expatriate population is almost double this at 390.

Western Europe is the top assignee location hosting 36% of all assignees, followed by North America with 19%. Just over a quarter of expatriate moves are to developing markets, such as China and Eastern Europe.

Generally, the geographical spread for North American and European organisations is fairly similar, although Africa is an exception hosting nearly one in ten European expatriates but only 1% of North American assignees. Less surprising, is the relatively high presence of oil and gas expatriates in the Middle

Geographical spread of international assignees



- Western Europe 36%*
- Central & Eastern Europe 5%*
- North America 19%*
- South America 6%*
- India 2%*
- Middle East 5%*
- South East Asia 8%*
- Japan/Korea 5%*
- China/Hong Kong 5%*
- Australasia 3%*
- Africa 5%*

East and Africa and of investment banks in the Far East, reflecting the nature of their global businesses. The host locations can have a significant impact on policy and practice. For example, the provisions required for assignees on oil rigs in developing markets are likely to differ in a number of aspects from those for investment bankers located in one of the world's financial centres. The gravitational pull of global cities such as New York, London and Singapore may reduce the need for financial incentives directly linked to mobility.



Expatriate population growth

When asked to anticipate the changes in their expatriate population over the next two years, respondents gave an overall picture of continuing growth. In all regions, there is a greater number predicting increases in both long and short-term assignment populations.

Following September 11 and the more unsettled economic outlook, many organisations have begun a period of downsizing their workforce. As yet, the impact on expatriate numbers is far from clear, although the initial feedback from businesses is that the demand for international mobility remains strong overall. It may be the case that the economic impact may take longer to filter through to international mobility. However, this economic uncertainty could actually increase the importance of such mobility as an explicit expression of an organisation's values and culture. International assignments in this context would be seen as evidence of a continuing commitment to a company's international business operations.

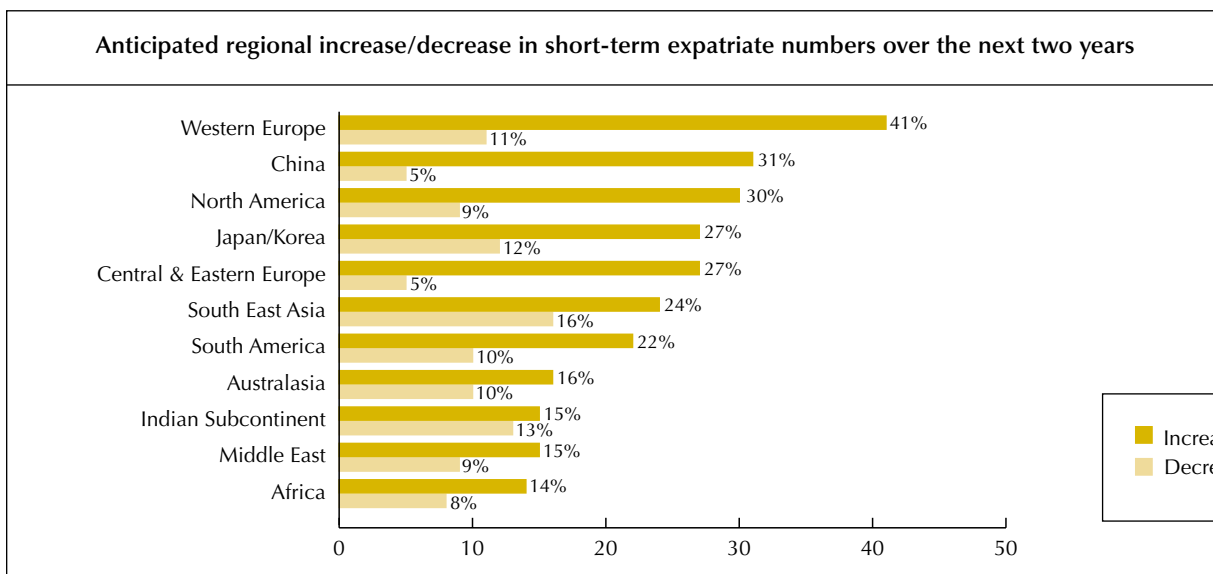
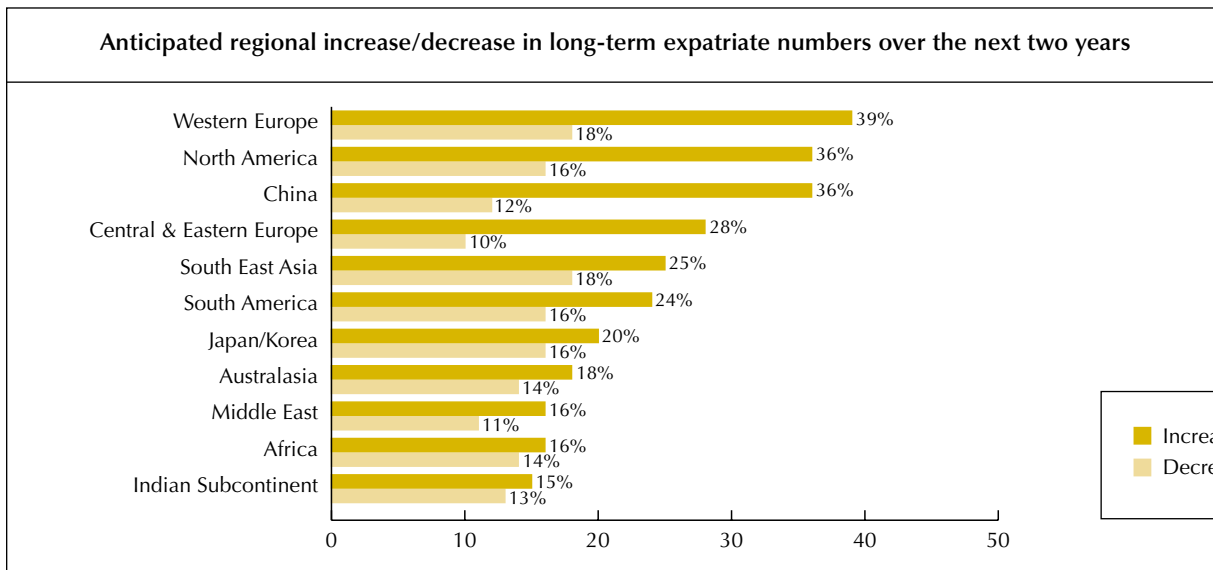
Western Europe leads the regions in anticipated growth in assignee numbers, closely followed by North America and China. Western Europe already hosts the highest proportion of assignees of any region. Corporate restructuring on pan-European rather than national lines, ongoing European economic integration and demographic changes, such as the ageing of the European workforce, have all been identified as drivers for the anticipated increase in mobility. For short-term assignments, European organisations are leading the way with half predicting growth in Western Europe and only 5% anticipating a decrease.

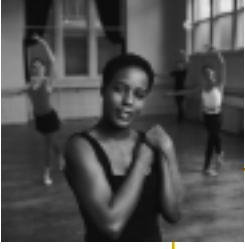
China's accession to the World Trade Organisation and the expected boost to trade as a consequence, explains in part the forecast of long and short-term assignment growth. As the world's fifth largest exporter and sixth largest importer of manufactured goods, and with well over one billion consumers, China's entry into the global trade body is likely to have a significant impact. Oil and gas

organisations, in particular, identified China as a growth area with 55% predicting an increase in long-term assignments. A higher proportion of European companies (43%) anticipate more long-term assignments in China, compared to only 28% of North American firms. Interestingly, nearly a third of organisations predict an increase in short-term assignments to China, which is often viewed as a location where the cultural preference favours business relationships built up over time. In such an environment, the relative success of short-term assignments will be highly dependent on the role and the level of engagement required with local nationals.

“A major factor is that our retail customers are centralising their buying decisions and have a European view of purchasing. They no longer want to deal with a separate sales manager in each country.”

HR Director, Consumer Products organisation





Developments in policy and practice

Participants were asked to rate the importance of a number of trends in the evolution of their organisation's international assignment policy and practice.

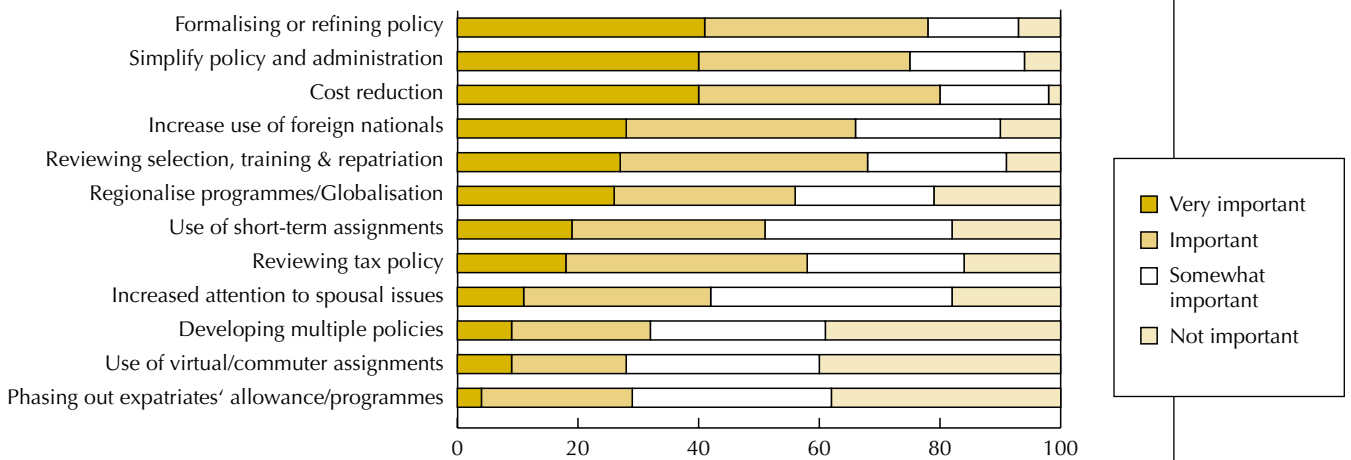
Eight out of ten organisations identified cost reduction as either 'very important' or 'important' in the evolution of international assignment practices. This is unsurprising in a global marketplace where organisations are faced with new competitors, putting profit margins under intense pressure. As the global economy continues in troubled economic waters, it is likely that the issue of cost will remain high on the agenda for businesses. However, a simplistic drive for lower costs should not obscure the benefit analysis for an international move. There is often a higher return for the business from a relatively more expensive move.

The concern for costs is reflected by the fact that over 80% of organisations run long-term assignment cost projections for budgeting purposes, although over a quarter of these do so only on a case by case basis. The cost of international assignments is such that most organisations will as a matter of course budget for them, although this is not always necessarily a straightforward exercise particularly with respect to tax costs. Interestingly, practice varies

between industries. All investment banks run cost projections in at least some circumstances, however 29% of pharmaceutical companies and 25% of manufacturing firms do not bother with cost projections at all. The focus on budgeting short-term assignment costs appears to be lower and nearly half of organisations (46%) do not run cost projections. This may be in part due to the complexity of estimating home and host country tax liabilities for such assignments.

European organisations appear to be more relaxed about assignment costs compared to their North American peers – 74% rated cost reduction as very important or important compared to 86% of North American firms. In addition, nearly one in four European companies (24%) does not run assignment cost projections compared to only 14% in North America which do not. Considering the relatively higher average size of European firms' expatriate populations, this result is somewhat surprising but may reflect their greater willingness to consider host country remuneration approaches for

What are the trends in the evolution of your company's international service policy and practice?



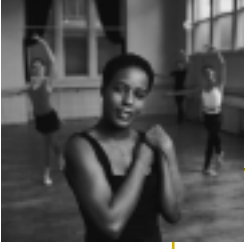
international assignments. In such cases, the costs of a local national salary package may be easier to identify without the need to run a specific cost projection.

The oil and gas sector has traditionally had relatively generous expatriate policies for what are some of the biggest assignee populations of any organisation and it is not surprising, therefore, to see them rate cost reduction even more highly than the global average. In contrast, pharmaceutical firms, which also have relatively large assignee populations, gave cost reduction a lower emphasis.

Cost is acknowledged by many organisations to be a prohibitive factor in the growth of their expatriate population. As the demand for increasing international mobility grows, traditional expatriate packages are coming under increasing pressure, particularly in an intra-regional context. At the same time, improvements in technology and communications have made alternative approaches to international working, such as short-term, commuter and virtual assignments, more feasible. These new types of assignments are beginning to move away from the full expatriate package. The growth in short-term assignments complements the significant

levels of project-based work in contemporary organisations. In a context where short-term project workers are working internationally without traditional expatriate packages, organisations may increasingly question whether such approaches are appropriate for other types of international assignments. Such alternatives are not always effective substitutes for long-term assignments. For example, there are real concerns about the viability of commuter arrangements over an extended period of time due to the build up of stress resulting from intensive travel commitments and the impact on personal relationships.

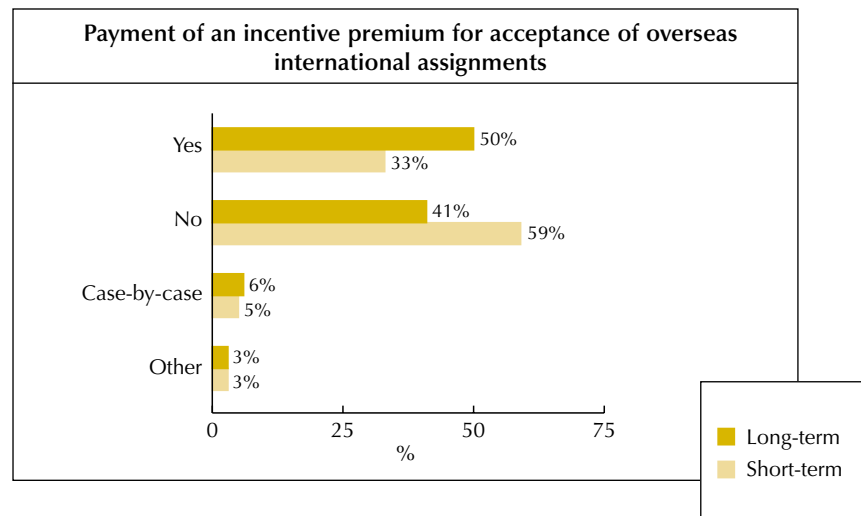
Developments in policy and practice continued



Organisations tackle cost reduction in a number of ways, including:

- reducing the financial worth of the expatriate package – examples include introducing a housing norm deduction, use of an efficient purchaser or customised cost of living index and the phasing out of incentive premiums
- using alternatives to long-term assignments – for example, many organisations encourage unaccompanied, short-term assignments where the lower host country housing rentals and the absence of school fees can have a significant impact on the overall cost
- differentiating between strategic and non-strategic assignments, providing the highest level of financial support to those expatriate moves driven by business need.

One barometer of the organisational view on the business/individual motivational balance is the use of financial mobility incentives. An incentive premium is an explicit financial incentive for an individual's international mobility. Its payment implies a need to recompense for the on-going 'inconvenience' of an international relocation or in some cases, it can be direct compensation for the detrimental impact on an individual's career progression being located away from a headquarters location.



The use of incentive premiums to promote international employee mobility varies considerably. Only 33% of financial services and 36% of pharmaceutical organisations always pay incentive premiums compared to 69% of oil and gas and 59% of manufacturing companies. It could be that the nature of the host location may make such payments more common for oil and gas companies, however there are other assignment premiums (hardship/location allowances) which are intended to address that issue. Short-term assignees are less likely to receive an incentive premium with 60% never paying one, compared to 41% of long-term assignments. Again there are industry variations with only 17% of financial

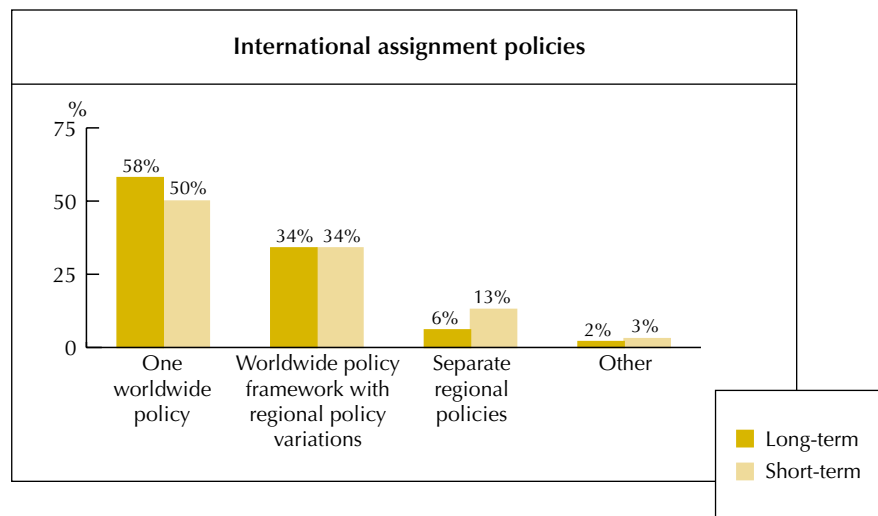
services organisations (12% of investment banks) and 37% of pharmaceutical firms paying one in at least some cases, whilst 61% of oil and gas companies would do so.

Asia Pacific organisations are relatively more likely to use incentive premiums with 78% paying them in at least some circumstances compared to 60% of European and 56% of North American organisations. As the balance shifts from compensating individuals for international mobility to recognising that international experience is a prerequisite for career advancement, organisations are questioning the need for incentive premiums. This is particularly the case for intra-regional moves.

“There is a desire to get away from the mindset of financial incentives to work abroad.”

Expatriate HR Manager, Media organisation

The importance given to formalising/refining written policies reflects the need to accommodate the practical challenges of managing international mobility within stated policy parameters. This is clearly a key challenge for many organisations and goes hand-in-hand with the need to simplify policy and administration. From an administrative viewpoint, international assignees are a relatively small, but very high maintenance, employee group. The need to offer a package, which is in line with an individual’s personal circumstances (for example, school fees and spousal support) and host location conditions (for example, tax and cost of living differentials), can be a time consuming task. The level of financial investment in what are often fast-track employees requires a high level of HR attention, although in practice the day-to-day work pressures limit the extent of any such focus. As assignee populations grow in numbers, the administrative burdens of managing traditional expatriate policies become more onerous and expensive to operate. A significant number of organisations have chosen to outsource the administration to external providers in order to be able to concentrate on the strategic issues arising from international employee mobility. Enthusiasm for outsourcing expatriate administration appears to be higher in North America



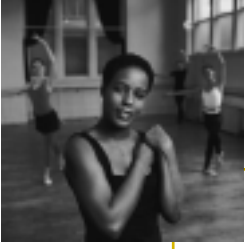
(12%) than in Europe (7%). The decision to outsource is based not solely on the administrative burden of managing significant numbers of assignees, but also to harness the benefits of technology, process efficiency and dedicated assignment administration specialists.

For long-term assignments, a single worldwide policy is adopted by 63% of European, 57% of North American and 53% of Asia Pacific organisations. Nearly one in five (18%) Asia Pacific organisations use separate regional policies compared to only 2% in Europe and 7% in North America. For short-term assignments, only a quarter of Asia Pacific organisations adopt a worldwide

policy compared to over half of both North American and European organisations. Globally, 58% of participants centralise their expatriate administration through the worldwide headquarters, whilst one in five devolve the responsibility to regional headquarters and 14% to business units. Regional differences in expatriate administration exist, with 62% of North American organisations administering their programme through the worldwide HQ compared to half of European and Asia Pacific organisations.

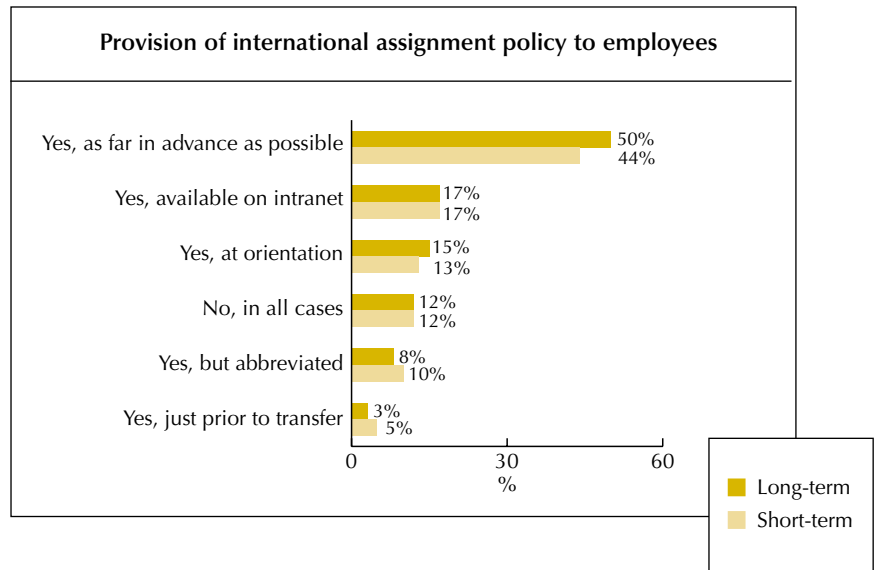
Analysed by industry group, one worldwide policy was a relatively more common phenomenon for

Developments in policy and practice continued



telecommunications companies (70% long-term and 64% short-term). Oil and gas policies are much more likely to accommodate regional variations (67% long-term and 77% short-term), whilst pharmaceutical organisations are the most likely to have separate regional policies (21% for long-term and 29% for short-term).

14% of organisations treat intra-European assignments as relocation rather than expatriation and this rises to 19% of investment banks and 23% of pharmaceutical companies. All telecommunications companies treat such assignments as expatriation, compared to 79% of all participants. North American and Asia Pacific companies are much more likely than European organisations to consider intra-European transfers as relocation (20% compared to 6%). The greater ease demonstrated by non-European organisations in viewing Europe as a single economic unit may overlook the still significant cultural and regulatory differences between European Union members. The impact on international assignment policies of the euro replacing twelve national currencies from 1 January 2002 is still subject to some debate. For assignees working in the Eurozone's twelve countries, the euro allows for a greater degree of transparency. The comparison between a finance manager's package in Rome compared to



Copenhagen will become more apparent. However, cost of living will remain a contributing factor, as it already is within a national context, as will the impact of national tax and social security rates.

Greater transparency has been a growing trend with many organisations adopting a more open policy ensuring that information is readily available to all employees, often on the company intranet. Communicating and involving employees in the development of HR policies engages the necessary commitment to succeed. This openness can give employees the opportunity to familiarise themselves with the available options if requested to work abroad and

allows for a more measured self-selection process. Only one in eight organisations do not show their assignment policies to their expatriates. The majority of organisations do share the information and 17% post the policies on their intranets. Placing assignment policies on an intranet ensures access to data that is both accurate and timely to both employees, line managers and HR professionals. The use of the intranet rises to 35% of telecommunications firms, 28% of oil and gas companies and 24% of investment banks. Investment banking is the most 'transparent' industry in this regard with all respondents providing copies of the policy in some format to their expatriates.





Diversity

As organisations attempt to deliver on their globalisation ambitions, it is increasingly recognised that assignee populations need to reflect the diversity of the global workforce. This is apparent in the increasing use of foreign nationals as a key factor in the evolution of their expatriate policy and practice.

Global Mergers and Acquisitions activity, of which BPAmoco and DaimlerChrysler are but two high profile examples, has resulted in the dilution of a dominant headquarter country in many organisations. The resulting diversity in nationalities can challenge assumptions about the role of expatriates within an organisation. International assignments, open to all employees regardless of location, can have a symbolic role in supporting an aspiration for a global corporate mindset and sends a powerful message to employees.

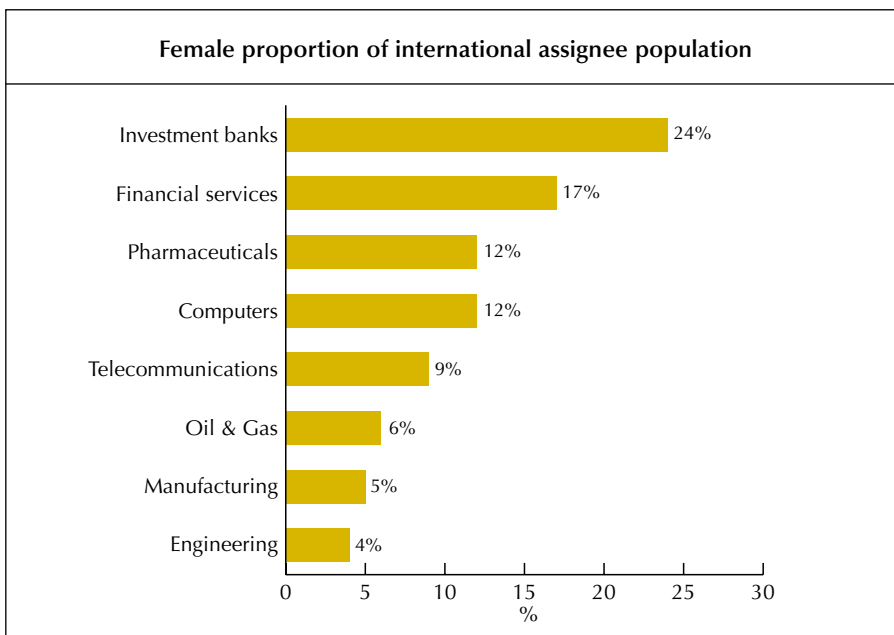
The reality for many companies, however, remains dictated by an ethnocentric approach to international mobility. In such organisations, the corporate mindset and the expatriate population is dominated by the headquarter location nationality and these expatriates often take on the role of promoters of headquarter culture and values in the local subsidiaries. Such an

approach can be resented at the subsidiary level and may prove unsustainable over time. In addition, employees outside the headquarter country may feel frustrated if excluded from the opportunities arising from international experience. In seeking to adopt a global mindset, many organisations recognise the value of drawing on all their employee talent regardless of location. Whilst this is in part to address the issues of equity for all employees in a global organisation, it is also reinforced by the practical need to look beyond the headquarter employee pool in order to source the growing numbers of international assignments.

Managing diversity in an organisation covers a number of challenges including language and cultural differences as well as age, gender, race and religion. Globally, approximately one in ten expatriates are female, which equates to over seven thousand assignees in the

“Our organisation reflects the history of growth by acquisition, with a small head office which exerts limited control over the group with business units operating autonomously. Implementing corporate policies is very difficult... To create a truly global organisation, we will have to embed a culture of cross-border mobility into the organisation’s genetic code, which will take 10 years. There is some appetite for this internationally, but not yet in practice.”

Group Management Board member, Insurance firm



“The cultural aspects of managing a global business will be one of the most difficult aspects for us in the future. We have attempted to tackle these issues by heightening awareness surrounding culture and diversity.”

*HR Director,
Technology company*

“A benefit of mobility is that it fosters the cross-fertilisation of ideas and innovation.”

*HR Director,
Manufacturing organisation*

participating companies. Women account for 11% of North American and European expatriates, but only 7% of Asia Pacific assignees.

There are big variations in the proportion of female expatriates by industry sector, as can be seen in the chart above. Investment banks lead the way with nearly a quarter of their expatriates being women, however oil and gas, manufacturing and engineering firms have a relatively poor record in comparison. However, this does not necessarily reflect an absence of

awareness of diversity issues in such organisations. One oil and gas organisation has recently questioned women employees as to why they had refused international assignment offers and as a result, has attempted to address their concerns and issues in new policies and practices.

Further research is required to determine whether these proportions of female expatriates reflect the proportion of female employees in such organisations as a whole, or at least in the roles which may require international mobility.

Diversity continued



However, the significance of the relatively low number of female expatriates is likely to come under closer scrutiny in those organisations where a more explicit link between career advancement and international experience exists. There is likely to be an increasing focus on whether current international assignment policies and practice reflect a glass ceiling for women employees. Companies should reflect on whether their selection procedures provide sufficient support and encouragement to female employees to consider international assignment opportunities. Is the relatively low proportion of female expatriates due to erroneous assumptions about their attitudes to such opportunities by line managers and expatriate administrators? If an international placement is critical to career progression, it would be unwise for an organisation to be complacent in ensuring equality of opportunity for all employees.

Although not all expatriate partners are female, historically, organisations' focus on gender issues in international assignments has been restricted to what assistance, if any, can and should be offered to an accompanying partner. Only one in five companies always help with a spouse's job hunting in the host location, 23% do so on a case by case basis and 46% provide no assistance.

Practice does vary between industry groups, with only 23% of pharmaceutical organisations never providing assistance compared to half of oil and gas companies. However, this may largely reflect the realities of the host locations with more opportunities for assistance with intra-European moves (pharmaceuticals) than in developing markets (oil and gas). It is less common for organisations to provide assistance for short-term assignments. Many organisations encourage unaccompanied short-term assignments in part to overcome the dual career barrier to mobility. The dual career issue is a significant hurdle in the management of an expatriate programme and was identified by 59% of participants in PwC's 1999/2000 European expatriate survey as one of the main reasons for assignment refusal. The opportunities for an employee resulting from an international assignment can be outweighed by detrimental impact of a career break for the partner. In such circumstances, an unaccompanied short-term assignment may be a compromise that a couple may be willing to accept. 43% of organisations highlighted an increased attention to spousal issues as an important or very important trend in the evolution of their international assignment policy and practice. The types of partner assistance offered differs in scope between organisations,

but can include:

- job hunting trips
- 'Spouse Assistance' programs (e.g. CV writing, counselling, job search)
- retaining a search firm/headhunter
- work permit assistance (e.g. legal fees, information, advice)
- tuition/training or reimbursement/payment
- compensation for loss of spousal income.

However, whilst such spousal assistance may be good from a public relations viewpoint and can be beneficial in individual cases, none of the options provide a definitive solution to the problem. This is especially the case where host country regulations restrict the ability of a partner to work. Consequently, there is a limit to what organisations can do and future progress in this area may rely more on activity at a government level. Shell, together with more than twenty leading international companies, including British Airways, GlaxoSmithKline, Schlumberger, Siemens, Unilever and PwC, has established the 'Permits Foundation'. Its objective is to promote the improvement of work permit regulations for the spouses of expatriate employees and raise government awareness of the negative impact of work permit restrictions on employee mobility.

“Getting employees to move when their spouse has a good job is a critical problem. It does restrict a lot of companies because you have so many more two-income families today. The skills of spouses with, say, legal or medical backgrounds are sometimes transferable, but the relevant boards in the US wouldn’t necessarily accept somebody who’s been certified in Europe, and vice versa – unless special examinations or other tests have been taken.”

International Benefits Executive, Insurance firm

Over half of North American organisations provide no spouse job hunting assistance compared to about one third of European and Asia Pacific firms. It may be the case that European organisations, dealing with more intra-European Union moves where there are no work permit issues, have more practical options in helping a spouse’s job search. Work permit regulations and the lack of reciprocal recognition for professional qualifications are the major restrictions on finding work for spouses and partners in many locations.

Just over half of organisations surveyed would consider a same sex partner to be covered by their expatriate policies and this rises to 86% of pharmaceutical firms and 71% of investment banks. In contrast, only 38% of manufacturing organisations adopt the same view whilst 51% restrict their definition of a partner to a married spouse only. 78% of Asia Pacific, 62% of European and only 41% of North American organisations accept same sex partners as covered by their policies. Traditional views clearly hold sway in North American firms with half of them only considering married spouses, compared to 14% of European and 11% of Asia Pacific companies adopting the same line.





Flexibility

The drive for flexibility in organisational policies and practices is partly driven by the need to source assignees from a wider and consequently more diverse employee pool. Organisations demonstrate flexibility in different ways such as deploying a range of assignment types, to meet the individual circumstances of an assignee or project and, offering flexible expatriate benefits, allowing assignees a greater choice in the make up of their overall expatriate package.

The absence of a written policy does not necessarily indicate that an organisation does not employ a particular type of assignment. However, where there is a written policy, it is a reasonable indication that such assignment types are employed within an organisation on a regular basis.

Pharmaceutical organisations are relatively more likely to have written permanent transfer (70%), developmental (50%) and commuter (40%) policies. Commuter assignments are typically used in scenarios where the assignee's home country and assignment location are geographically close. The high number of pharmaceutical commuter policies ties in with the concentration of their assignees in Western Europe – 51% of their total number. As well as pharmaceuticals, financial services firms also have a

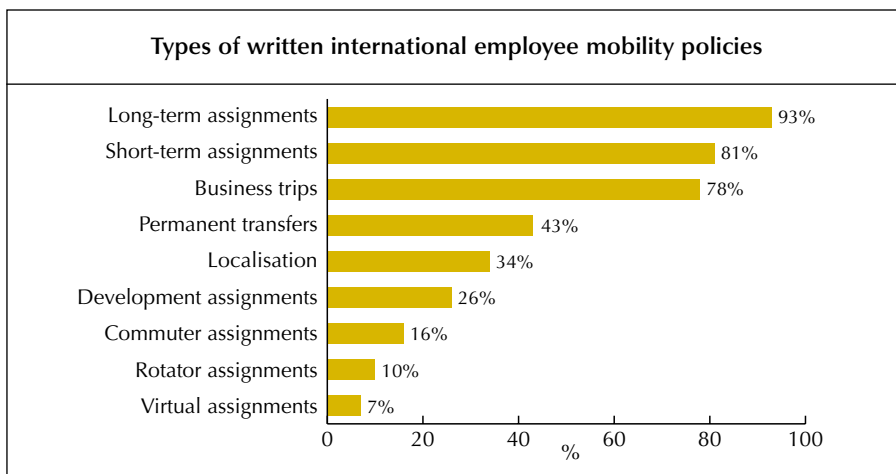
relatively high number of permanent transfer policies at 53%. With such a transfer, an employee moves on to host company terms and conditions on a permanent basis. The level of permanent transfer policies in these industries may reflect a greater need to encourage permanent international moves as part of engendering a global, or at least regional, corporate mindset.

Developmental or graduate assignment policies enable international employee mobility to take place for some employees at a lower cost. PwC's European labour mobility project* commissioned research into the attitudes of Europeans of working age and showed that a significant proportion would like to live and work in another country in the next five years. Enthusiasm was particularly high amongst younger age

*Managing mobility matters: A European perspective 2002.

“A new kind of expat – a commuting expat – is emerging. A Swedish person may work in France Monday to Friday and go home for the weekends. So that’s a type of part-time expatriate, which opens up all kinds of issues with respect to taxes.”

International Benefits Executive, Manufacturing company



“Younger recruits are looking for international opportunities.”

HR Director, Consumer Products organisation

“The bank has been eliminating the programmes for long-term expatriates for some time and encouraging short-term secondments (project work) or employment under local terms and conditions where possible... We have established and implemented standards constituting five to seven different employee packages, including a programme for junior employees.”

HR Director, Financial Services organisation

groups and it is this willingness to relocate that some organisations tap into with their graduate recruitment strategies. Under the terms and conditions of a full expatriate policy, these inexperienced employees would be unlikely to get the opportunity for an international assignment, as the costs would be prohibitive. However, a financially leaner development policy can make such moves economically viable. In essence, this is an illustration of organisations considering the balance between individual motivation (i.e. the individual’s wish to experience working overseas and their long-term career development) and the corporate business need for a particular individual to accept a specific assignment. The higher the individual motivation, the less reliant an organisation is on providing financial

inducements and/or guarantees of protection of current standard of living in its expatriate policy. European firms are much more likely than North American companies (40% to 17%) to have a written development assignment policy. This may reflect the greater willingness for younger Europeans to view an intra-European move as a domestic move on a host country package or it may reflect that the Europeans are more likely to document the practice of using a host country package.

Whilst commuter policies are as common in European organisations as they are in North American ones, there is a striking contrast for virtual assignment policies with only 1% of European organisations having one compared to 11% of their North American peers. The

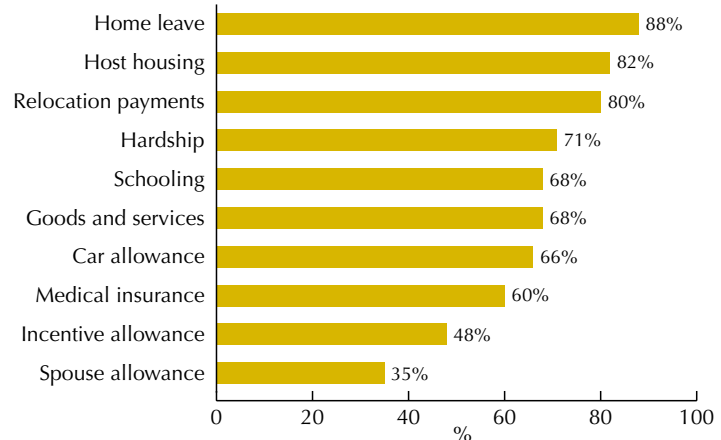
Flexibility continued



use of virtual assignments in Europe is not uncommon, particularly following corporate reorganisation along regional rather than national lines, so the absence of written policies may reflect a more ad-hoc approach to such arrangements compared to North American companies.

Flexible benefits are an alternative approach to the traditional provision of expatriate allowances and benefits. Interpretations of what is meant by flexible expatriate benefits can differ widely, as does the level of flexibility. In some companies, flexible benefits may just be the opportunity to take one or two benefits as cash, whilst other organisations have developed more sophisticated cash lump sum approaches. A value is assigned to the usual expatriate benefits, but the assignee may spend this 'allowance' as he or she likes. Interest in, and the use of, a flexible expatriate benefits approach is consistent in all regions – 25% of North American, 27% of European and 33% of Asia Pacific organisations already adopt the approach in some form. Globally, 27% of organisations have adopted such an approach and a further 14% are currently considering adopting it. The following chart lists out the typical items included by those organisations that have adopted, or are considering adopting a flexible expatriate benefits approach.

Of the 27% of companies who responded they have a more flexible policy – items included in a flexible expatriate benefits approach



The flexible approach is particularly popular in the pharmaceutical industry (36% already employing it) and with investment banks (35% currently employing it and a further 20% considering it). The cash lump sum nature of the approach ties in with the cash focus of investment banks' remuneration policies.

The attraction of expatriate flexible benefits lies in the simplicity of providing cash allowances and the empowerment of assignees to spend their remuneration package as they wish. However, the simplicity expected may actually result in additional costs and employee questions

and concerns if the elements which have flexibility are also the items most impacted by tax law and exchange rate and inflation movement. For example, paying a lump sum goods and services differential at the start of the assignment will create major issues for assignees in high inflation countries. In addition, paying housing as part of a flexible lump sum will result in much higher tax costs in locations where company leased housing is a more tax effective approach. The tax, exchange rate and inflation issues can prove to be a significant hurdles to the successful implementation of a flexible approach.

“We would like to build some flexibility into the application of the different packages based on the needs and business orientation.”

HR Director, Manufacturing company





International remuneration approaches

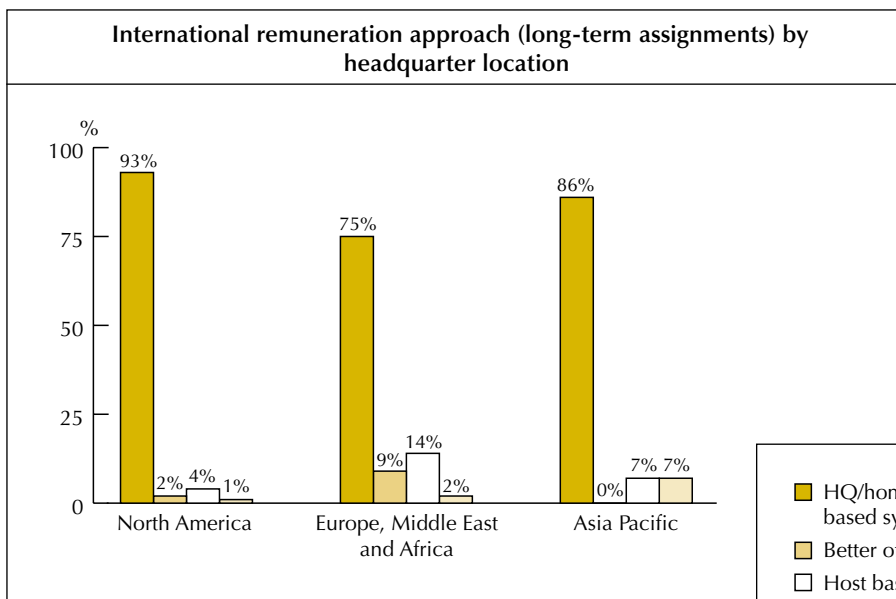
The most common approach worldwide to remunerating expatriates is the balance sheet or build up approach, linked typically to the home, but sometimes the headquarter, country. Globally, 85% of companies use a home or headquarter based remuneration approach for long-term assignees, with only 13% considering the local market rate in their determination of an expatriate's salary. However, when the results are analysed by the headquarter location some differences emerge.

Some form of the home country salary approach is the overwhelming choice of North American organisations and this no doubt reflects the fact that US nationals on assignment are invariably in locations with lower salary levels and standards of living. Whilst it remains the most likely choice, European organisations are less firmly wedded to the home country approach and a quarter, at least, consider the local market rate in determining their expatriate packages. This, in large part is due to the ability of the European organisations to provide a local market rate which still provides a similar standard of living when compared to the assignee's home location.

Where organisations have regional policies, the use of local market rates is

relatively more common, particularly in Western Europe and North America. In Western Europe, 19% of North American and 33% of European organisations use some form of local market rate and a further 3% and 8% respectively at least consider it in the determination of the expatriate package. In North America, half of the European companies use some form of the local market rate and a further 8% consider it.

Practice does vary by industry. All oil and gas participants use some form of home country salary approach and this no doubt reflects their typical assignment locations, often in developing markets where local market rates would not be acceptable to expatriates. 25% of investment banks, 22% of telecommunications companies and 21%



autonomy of country business units will be important factors in determining their ability to refuse such 'costly' assignments. The perceived pay inequity resulting from expatriate packages may be partly addressed if local nationals in the host location have the opportunity to undertake expatriate postings on similar terms. The reality is that these issues are most likely to arise in developed markets and it is in these locations that it can be argued that the standard of living between such locations is not so different as to rule out a local market rate approach. However, the perspective of expatriates from high salary countries, particularly US nationals, to such reasoning is likely to be highly sceptical.

of pharmaceutical firms at least consider the local market rate in determining their expatriate packages.

The balance sheet/build up approach originated in the US oil industry and is based on the premise that the company benefits from an international assignment more than an employee. There is an implicit assumption in the balance sheet approach that there is a need to compensate for requiring an employee to live abroad. With the balance sheet, the main benefit is that the assignee is financially 'no worse off' as a result of the assignment. However, from the company's perspective, there is an

administrative burden, which is increased if there are a number of home countries to be considered for the expatriate population. The attitude of local nationals to what they may perceive as expensive expatriate packages and the acceptability of such packages to host entities is largely influenced by the nature of the assignment. If the skill/role can be resourced adequately in the local market then there is likely to be resistance to accepting assignees on 'generous' packages by the host entity and dissatisfaction at the perceived pay inequities by local nationals. The organisational structure and the relative

Although the balance sheet remains the most common remuneration approach for international assignments, some organisations do adopt the local market rate approach which links the expatriate to the host country salary structure. However, typical expatriate benefits such as host housing and education are often still provided on top of a local salary. This is commonly adopted for transfers from low to high salary countries and a number of companies use it together with the balance sheet approach i.e. the better of home or host approach.

International remuneration approaches continued



In theory, a local market rate approach should be administratively simpler for an organisation (for example, there is no need to run and update countless balance sheet calculations) and it obviously provides some equity with local national employees. However, in practice there can be administrative difficulties if there is an intention to maintain assignees in home country benefit plans, e.g. home company pension plan. In addition, it could be seen as a barrier to mobility for assignees from high salary countries and it is highly unlikely to be a viable approach for moves from developed to developing markets.

In practice, both the balance sheet and local market rate approaches have their complexities and the choice between them is not always clearcut. This leads us to the critical question - how strategic is a particular assignment? Where it is in the company's interest for a particular individual to move (due to their skills/experience), then any financial loss to the expatriate as a result of a proposed move will probably need to be addressed (i.e. the balance sheet). If international mobility is seen as a good thing for the company, but it is not essential that a particular individual moves then there is more scope for adopting the local market rate argument in developed markets or the expatriate market rate in other locations. This raises the question of the

value the organisation attaches to mobility as a contribution to the 'greater good' and who should finance it – the home, host or headquarter business unit?

It is not uncommon for long-standing expatriate employers, particularly investment banks, to have international assignment policies that clearly differentiate between long-term assignment types. The traditional balance sheet approach is typically retained for strategic or senior employee moves, with watered down or leaner policies available for other categories of long-term assignment. The advantage of this approach is that overall assignment programme costs are managed, whilst the reality that certain moves will always require substantial financial assistance is recognised.

“The traditional career expatriate pool has been substantially reduced by two-thirds, with mobile workers increasingly employed on local or local plus terms (the latter offers some additional benefits) rather than expatriate terms.”

Expatriate HR Manager, Oil & Gas company





The way ahead

The message that international employee mobility continues to grow is again confirmed by this survey. Over the next five years we can expect this growth to be particularly strong in Western Europe, North America and China, but all global regions are anticipating higher expatriate numbers. Looking at the trends, organisations need to make sure that their business strategies are supported by sound mobility strategies and that means reexamining current practices in light of these trends and the increasing number of global assignments.

The need to move key employees around the business, regardless of national boundaries, will be increasingly vital to the success of a global organisation. Higher assignee numbers will force organisations to look beyond those employee groups from which they have traditionally recruited expatriates. This in turn will lead to an ever greater diversity in the profile of internationally mobile employees and consequently, a reassessment of traditional approaches to expatriate assignments. Diversity touches on both nationality and gender issues, amongst others. The relatively low proportion of female expatriates is likely to come under increasing scrutiny, particularly in those organisations where a clearer link between career progression and international experience is established. Such organisations will need

to be careful to ensure that their current assignment policies and practices do not favour one group over another. Proactively questioning why they have so few female expatriates should be the first step in understanding the scale of any problem.

Globalisation has led to the entry of many new companies into the international dimension and naturally enough, the policy needs and responses of organisations differ according to whether they have well-established expatriate populations. Those that have long established policy and practice in this area include some which are demonstrating a more sophisticated understanding of the potential for using a combination of approaches to manage their internationally mobile employees.

They are recognising the variety of motivations and factors, both corporate and individual, which drive international mobility. As a result, many are becoming more discerning in the use of traditional expatriate policy solutions.

Cost pressures are a significant factor in this reassessment, as assignee growth puts real strain on the premise that all expatriates require generous remuneration packages to move. Such traditional policies can actually inhibit mobility as host country business units query the need for expensive assignee packages and in some organisations, increasingly refuse to take the cost. However, an objective for many global organisations is to create an internal labour market, which draws on an international talent pool and allows them to resource efficiently, job requirements anywhere in the world. In such companies, a more balanced response, taking into account the variety of international moves, is allowing them to begin to address this conundrum.

In thinking about an organisation's future, we believe that the following questions need to be considered:

1. Does your use of different types of mobile worker fit your overall business aims and objectives and add value to your business?
2. Do you have sustainable global policies for managing your employee working internationally, for example covering recruitment and retention, remuneration and diversity?
3. Do you have a clear view about how technology will affect your future need for mobile workers, for example in enabling you to organise yourself so as to reduce your reliance on mobile workers?
4. Have you considered all potential pools of workers including the local labour force and older mobile workers, as well as how to capitalise upon the appetite for international working amongst younger age groups?
5. Have you assessed the additional cost of employing a mobile worker on expatriate terms and conditions as opposed to local terms and conditions? Have you taken any steps to reduce the additional cost?
6. Do you have a one-stop information site for employees covering potential vacancies and all aspects of international assignments? Do you provide for employees to acquire (new) language skills?
7. Are foreign employees working for your business legally?
8. When you send a mobile worker to work in another country, do you comply with local employment laws, such as maximum working hours? Have you considered employment rights in both countries?



Participating organisations

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ABB Lutech Resources Ltd
Abbey National Plc
ABN AMRO Bank N.V.
Accenture
ACCO North America
ACE International
ACI Packaging Group
Adaptec Inc.
ADC Telecommunications, Inc.
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Air International Group
Air Liquide SA
Air Products Plc
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Altell
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AMP Society
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Zusammenarbeit
DG Bank Deutsche Genossenschaftsbank
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WMC Resources
Worldbank
Worldwide Church of God
Wyeth Europa Ltd
Xerox Corporation



Further information

If you would like further information on the issues raised in this report, or would like to participate in our ongoing survey of global international assignments, please refer to the contacts below:

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