

# TO BE, OR NOT TO BE, LOCAL-PLUS

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“Local-plus is an approach in which expatriate employees are paid according to the salary levels, structure, and administration guidelines of the host location, as well as being provided, in recognition of the employee’s foreign status, with special expatriate benefits such as transportation, housing, and the costs of dependents’ education. It is worth noting that not all expatriates on local-plus receive the full range of additional benefits, these being at the discretion of the employing organization and largely determined by the location of the assignment (e.g. hardship versus non-hardship location), among other factors.”

A successful compensation strategy involves keeping expatriates motivated while maintaining a competitive advantage by achieving a company’s corporate goals and budgets. While in theory this seems achievable, in practice there are many challenges with expatriate compensation that cause problems for companies. Many are in a battle to win external talent, and to retain internal talent. At the same time, cost pressures to reduce the expense of international assignments is increasing. The balance-sheet approach is expensive relative to the fact that a very small proportion of a company’s overall total employee workforce (e.g., perhaps 5 percent of employees in total) may be incurring 60 or 70 percent of total salary costs. Not surprisingly, for many years this was a major reason why expatriates agreed to go. There is also the tax equalization expense when assignees relocate from low tax to high tax countries.

But with an increasing number of home- and host-country combinations, administering the balance sheet can be a burden on global mobility staff. Further, it distracts the global mobility department from focusing on new strategic initiatives such as ‘return on investment’ (ROI) or ‘talent management.’ Unsurprisingly, **local-plus compensation** has been touted as an effective ‘middle ground’ compensation approach that reduces the costs of the balance sheet without the risk of losing talented expatriates through localization. But is local-plus the solution it claims to be?



### Does Local-Plus Work?

Without a doubt, local-plus has some clear advantages.

1. Because more employees are *asking* for international assignment experience, fewer financial incentives are needed to entice them to go. This is especially the case in Asia where reduced packages such as local-plus represent nearly half of those offered to expatriates.<sup>2</sup>
2. Local-plus compensation facilitates better global talent management because it is not linked to repatriation. This means that, unlike the balance-sheet approach which maintains a link to expatriates' home-country or headquarters (despite that many expatriates may never return there), the lack of ties to 'home' that host-based local-plus affords enables expatriates to re-assign to other locations with greater ease of mobility.
3. Local-plus is ideal when recruiting local foreign hires. A recent study found, for example, that reduced expatriate compensation is used when a job has a combination of: (a) a permanent position in the host-country; (b) the assignment location is in the same region as an employee's home-country; (c) there is not likely to be a suitable role in another location for an employee to relocate to; and (d) cost reduction is a priority.<sup>3</sup>
4. Local-plus can be used as a proxy retrenchment tool for expatriates whose performance in the host-location no longer warrants the expense that the balance-sheet approach demands.
5. Reducing assignee compensation via local-plus helps to minimize perceived inequities between expatriates working with local staff, many of whom perform similar roles but whose salary and benefits often vary significantly.
6. Local-plus can further facilitate a company's strategy of local responsiveness particularly when there is a need to demonstrate long-term commitment to a particular host-country or region.

The upside of local-plus compensation is that it reduces global mobility costs for companies, widens talent pool and sourcing opportunities, and provides employees with more job opportunities on the international labor market.

### Why Local-Plus Sometimes Doesn't Work

While the balance sheet is expensive, it also binds expatriates to their company because of the increased financial gains they acquire above and beyond what they once earned in their home-country. Although local-plus saves companies money, there is an undeniable opportunity cost that is also incurred. Because it only includes one or two additional salary 'perks' such as schooling or housing, the financial gain to assignees is less and there are fewer sacrifices an expatriate would need to make if they left their company to join a competitor. Local-plus, then, pits expatriates on a level playing field with local employees in the host-country, meaning that changes in job roles across companies can occur more easily for those on local-plus compared to those on full packages.

A further challenge with local-plus is 'process untidiness.' A recent study found, for example, that introducing local-plus compensation to assignees part way through an assignment without any prior notice left many of them feeling they had been abandoned and taken advantage of by their companies, to their own detriment. This means that when assignees do not initially undertake an international assignment with local-plus in mind, their eventual lack of access to allowances and incentives coupled with unplanned income losses leads to resentment, thoughts of leaving, and decreases in expatriate engagement.<sup>4</sup> Conversely, when local-plus is offered from the outset of an assignment, or within a two-year timeframe but that assignees know from the outset that some form of localization will occur, they tend to stay with their employees for a longer period of time and display higher levels of engagement. In this sense, how local-plus is introduced and communicated to assignees ('the process by which it is enacted') can determine the opportunity costs companies are likely to incur.

Poor enactment of local-plus can lead to many problems. While it is true that some assignees welcome the opportunity to engage in international work experiences irrespective of the compensation offered (balance-sheet, local-plus, localization), there are just as many assignees accepting local-plus as a means of staying employed and/or staying abroad because they perceive there is no alternative. Not surprisingly, the major complaint made by full-package assignees about local-plus is that it is too often introduced *during* an assignment which leaves many of them feeling they are backed into a corner financially.<sup>5</sup> Others resent that once they are established as career expatriates, senior management then "moves the goal posts" by reducing compensation packages at the point of re-assignment or assignment extension, knowing that assignees have few alternative employment opportunities in their home-country.

The problem with local-plus, then, is that it often creates a heightened sense of unjustified loss, not necessarily because assignees are unhappy with their salary package, but instead with the process. Denise Rousseau, author of *I-deals: Idiosyncratic Deals Employees Bargain For Themselves*, gets right to the point when she says that "changing the deal while keeping the people" is one of the greatest challenges in today's employment landscape.<sup>6</sup> The best way to alleviate tension relating to reduced compensation is to engage in a much closer dialogue with assignees and to ensure absolute transparency about the process.

A further challenge with local-plus is that it creates an "organizational hierarchy" or hierarchical "pecking order" wherein companies treat assignees differently on the basis of those considered (full package) "expatriates" versus those considered (local-plus) "locals" from a policy standpoint. Traditional balance-sheet expatriates, for example, typically represent the elite class of international assignees being of higher strategic value, while local-plus assignees are often viewed as lower-order expatriates stuck beneath a type of expatriate glass ceiling - a limbo status of being neither a traditional expatriate nor a true local employee. This glass ceiling frequently presents strategic and operational restrictions to assignees in terms of career advancement, often resulting in reduced morale. Indeed, assignees that perceive they are not sufficiently supported or 'valued' by a company in comparison to other types of expatriates are at risk of looking for job opportunities with competitors because they are working in a business environment where there are lucrative career opportunities available elsewhere.

### The Pensions Conundrum for Local-Plus

One of the biggest challenges with local-plus is addressing an assignee's concerns around retirement provisions: it may not be possible to provide one approach to retirement provisions that suits all of a company's local-plus locations. For example, while some locations will have state-sponsored local pension plans, foreign nationals are often not eligible to participate. However, even where assignees are eligible to participate, the pension plan may not be as generous as the home-country plan to which the assignee currently belongs. The assignee may therefore be reluctant to join the local state sponsored scheme and, where participation in the state sponsored scheme is mandatory, may request that a supplementary plan is put in place so that their retirement benefits can be topped up.

For most assignees on a local-plus package it is important to remember that maintaining the same level of retirement benefits as in their home country is going to be a key priority. Some of the following solutions may prove effective:



- A.** Have the assignee join a local company-sponsored plan. Keep in mind, however, that there are many locations, particularly in Asia, where company-sponsored plans are not common-place, so implementing a plan only for local-plus assignees may seem contradictory to the local-plus philosophy.
- B.** If a company-sponsored plan is not available, then remaining on the home-country plan or participating in another company-sponsored plan may be suitable alternatives. It is worth noting that these plans may contain limitations on plan participants in relation to nationality and/or location. There may also be wider and unintended consequences; for example, care needs to be taken when assigning employees to EU countries as there are specific rules on how pension plans need to be funded.
- C.** Setting up an international pension plan (IPP) is another option and can be used not only for career expatriates but also for those on local-plus packages. The advantage of using an IPP is that it can help mitigate the thorny issue of fragmented benefits.

In addition to the above, there are also the tax consequences to consider. The availability of tax relief on contributions may be limited and may be determined by the level of contributions. Tax relief may simply not be available. The assignee is therefore likely to request additional compensation to cover the increase costs of their retirement provisions.

Exchange rate and exchange control issues also need to be considered particularly where the assignee's contributions are made in a different currency from their salary payments and especially where the currencies are volatile. These issues may also arise once the pension is drawn.

### Linking Local-Plus to Talent Management

Is local-plus the magic bullet many companies perceive it to be? The latest research suggests that the use of “cheaper” assignments that seem appealing to many companies can also lead to unintended outcomes in terms of unforeseen opportunity costs (such as the loss of critical talent) arising from “shortsighted decisions”.<sup>7</sup> Further, if expatriation is so critical to an organization’s competitive advantage, why is it so difficult to link global mobility to global talent management? In their ground-breaking article about the seven myths of global talent management, Dana Minbaeva and David Collings show that the connection between global mobility activities and talent pool acquisition remains weak: many companies continue to engage in global mobility without linking it to developing future global leaders or to meeting their assignees’ career development expectations.<sup>8</sup> Nonetheless, it is these same companies that espouse the hiring of global staff as broadening their organization’s understanding of global markets, and helping it to develop a global mindset. What, then, can companies do to overcome the problems that local-plus creates in relation to effective talent management?

- **Align and integrate expatriate compensation with broader talent management initiatives.** This requires transitioning from “expatriate” to “global” compensation. The shift in terminology reflects a shift in mindset, firstly, that while expatriates clearly perform in an international context, many are nonetheless employed in jobs similar to those of their local counterparts, or in jobs that locals can also do at some point in the future. Additionally, local employees often relocate domestically for much the same reasons as expatriates do internationally (e.g. for career development and promotion), yet even when locals’ standard of living is impacted, they are not compensated for it like expatriates. The distinction, then, is to focus less on “expatriate status” as the defining criteria for compensation, and more on the international nature of the job. Essentially, global employees engaged in international work require global compensation. This suggests that global compensation needs to move away from remunerating assignees to instead remunerating *international employees*. How can this be done?
- **Expatriate compensation works best when it is not based on an assignee’s home-country status, but instead on the role that the assignee performs.** This can then negate the need for an employee to have ‘assignee’ status because it is the role that expatriates perform that should ideally dictate whether they are compensated according to local, regional or global wage and salary considerations. In this way, a global compensation approach enables companies to find the most appropriate candidate and then compensate them accordingly, not because of who they are, but according to what they are expected to achieve. A global compensation approach, then, is more equitable because it is performance-based, thereby eliminating overpaying and perceived unfairness. In reality, global compensation is much simpler to administer than a balance-sheet approach because it represents an extension of most organizations’ already existing domestic (home-country) pay-for-performance model.<sup>9</sup>

- **A global compensation approach allows organizations to expand their global talent pool by targeting candidates eager to pursue international and global careers.** That is, targeting candidates who are willing to expatriate. It is inherently more flexible than the balance sheet because, being based on pay-for-performance, it can continue even after an assignee repatriates or decides to relinquish their “expatriate” status. Global compensation is not necessarily location or status-specific, but can be leveraged over the long-term to facilitate the retention of employees – global or otherwise – as a means of ensuring a better ROI from global mobility and talent management programs. For example, an employee who expatriates, relocates back to the home-country, and expatriates again as part of their overall career progression, need not change compensation status during each move if a global compensation approach that uses local-plus is administered. This alleviates not only a heavy transactional burden on the global mobility department in terms of pay and benefits for each subsequent change in host- or home-location, but also contributes to, and fosters, a type of ‘dynamic global career’ that is likely to become a normal part of global talent management over the next two decades.<sup>10</sup>



### Policy “Best Practice” for Local-Plus

Local-plus represents a more cost-effective means by which companies can manage various types of expatriate staff, while simultaneously attempting to meet their organizational objectives. But in advocating for reduced compensation approaches, it is important that expatriates are not treated like local host-country or domestic employees: clearly, assignees incur more substantial expenses and greater disruption to their lives than employees who choose not to work abroad. As such, they should be compensated accordingly and subjected to a different set of policies, but only insofar as the compensation approach remains appropriate to the job that expatriates actually do, rather than the status they hold because of their home-country ties. When deploying local-plus or localization, consider the following guidelines:

- When introducing local-plus, enter into discussions early and put all agreed items in writing via an assignment letter, letter of understanding, policy document, or formal contract.
- Provide solutions to address assignee’s concerns about retirement plans and health care coverage, typically two of the biggest challenges when compensation is reduced. One way to handle social security, health and life insurance, and employer-provided pension plans is to enroll the employee in the local plan immediately.
- Be mindful to consider requests to continue the payment of international school fees for children. This is often a highly emotional issue for assignees as the local school system may not be a viable alternative due to language barriers or curriculum challenges.

In addition to formal policy elements, it is important to recognize that introducing local-plus requires careful management aside from only financial considerations, in terms of how assignees can adjust to their new status and are integrated among a local workforce permanently. Consider the following:

- Local-plus frequently implies a one-way transfer with little or no opportunity for repatriation. In practical terms, it is important to facilitate realistic expectations among assignees as to the potential career paths likely to arise from their semi-permanent stay in the host-country.
- Mentoring specifically related to acculturation into the host culture seems essential, on the basis that local-plus assignees are not “true locals” despite their status as “semi-localized assignees”.
- There is a need to recognize the vital role to be played by local employees in helping local-plus assignees to adjust.

### A Final Word

Clearly, money *does* matter to some extent: expatriates, like everyone else, need to pay their bills. Expatriation – and global mobility in general – is often an advantageous way to earn a high-wage living, making mobility attractive to many. Employees close to retirement may be especially focused on money, particularly maintaining home-country retirement plans, yet this aspect of remuneration remains one of the most challenging issues particularly for career expatriates; only 12 percent of companies in a Mercer survey had established international pension plans to ensure long-term expatriates their continuity of benefits.<sup>11</sup>

But money is not everything. For more and more expatriates, compensation is simply a “means to an end” – it matters only to a point. Most organizations are therefore mistaken in their belief that financial gain is expatriates’ overriding motivation when they go abroad. In fact, a recent study found that financial gain becomes most important to expatriates only when a sudden change in remuneration causes them undue hardship or they are close to retirement.<sup>12</sup> Furthermore, traditional balance-sheet approaches to assignee compensation cannot be used to the same extent as they have in the past to motivate expatriates to perform and to remain with an organization.

In accepting this new reality about compensation, it is not then the type of compensation that matters most to expatriates, but the *process* by which compensating them takes place and how they are subsequently treated, because if the financial ties that bind them to their organizations is lessened by local-plus, then using only money to retain them seems somewhat futile. This is particularly true when competitor organizations can match or exceed an assignees existing remuneration package as a means of poaching them.

### How The Package Is Changing

	Local-Plus	Balance Sheet
Visa and work permit applications	✓	✓
Relocation of household goods	✓	✓
Temporary housing (average 15 to 30 days)	✓	✓
Temporary living expenses	✓	✓
Pre-assignment visit	✓	✓
Housing/rent allowance	✓ / ✗	✓
Tax briefings and tax preparation assistance	✓	✓
School fees (full or partial)	✓ / ✗	✓
Home leave flights and expenses	✗	✓
Club membership	✗	✓
Tax equalisation	✗	✓
Car allowance	✗	✓
Utilities reimbursement	✗	✓
Retirement benefits	✓ (host-based)	✓ (home-based)
Medical and dental coverage	✓ (host-based)	✓ (international)
Cost of living allowance	✗	✓
Mobility premium (bonus for relocating)	✗	✓
Hardship/danger allowance	✗	✓
Storage of household goods in home country	✗	✓
Repatriation costs	✗	✓
Spouse allowance (reimbursement for loss of second income, education/course assistance)	✗	✓

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