EXPATRIATE PAY - TRENDS, ALLOWANCES AND COMPENSATION BENCHMARKING

Presentation to S.A.R.A. Workshop

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Global Markets are Changing

By 2025 (McKinsey Global Institute)

→ 400 of the world’s largest 600 cities will be in Emerging Markets
   (1 billion new consumers)

→ 45% of Fortune 500 companies will be in Emerging Markets
   (5% in 2000)

And so is Africa:

→ Africa is booming
  □ second fastest growing region in the world over past decade
  □ poverty declining gradually

→ Africa will have the world’s largest labour force in 20 years - but less than 30% of Africans have steady jobs

→ Africa has 60% of the world’s available cropland – and could become the world’s breadbasket, creating 8 million jobs by 2020

→ But it’s cheaper to buy goods made in China than goods made at home
South Africa has Challenges to Overcome if we are to be a Player

- dysfunctional education system - gap between school leaving standards and university entrance
- skills shortages compounded by rigid and inflexible labour legislation – slowing growth, discouraging investment
- political leadership vacuum - corruption and moral decay
- socio-economic issues - socio-political (service delivery) protests now average 4-5 per day
- infrastructural issues
- “wealth” gap plus union protests promoting civil disobedience
Two Key Talent Trends

1. The global business landscape is undergoing a seismic shift

   - world economies realigning
   - changed demographics
   - impact of technology advances
   - global markets
   - new customer needs
   - intense competition

2. Talent is being “home grown” in developed markets; talent surpluses will in future come from “unlikely” regions
The Global Talent Pool  
(Oxford Economics Research, via Towers Watson)

→ “Siphoning off” of low wage / unskilled jobs from developed to developing nations over past decade

→ Over next decade developing nations will move up the skills ladder (improved access to high quality education)

→ Fastest annual talent pool growth  
  predicted in -  
  India (7.3%)  
  Brazil (5.6%)  
  Indonesia (4.9%)  
  Turkey (4.7%)  
  China (4.6%)

→ 60% of college graduates will come from these countries plus Russia and Mexico (the “E7” group)

→ China will overtake USA as the country with the largest pool of educated talent
Talent Management and Mobility

The Need

- source and develop talent that is appropriately skilled and located where it is needed
- deploy high performers within and across different (changing) markets

Current Status

- poorly educated and trained workforces in many developing markets
- ageing workforces and slowing growth rates in developed economies

- Brookfield Global Mobility Survey (2015)
  88% of respondents expect expatriate assignee population to increase (43%) or stay the same (45%)

- Mobility strategy/expatriate policy has become an integral part of Talent Management Strategy – impacting career planning & development, retention strategy, mentoring and compensation
Why a Mobility Strategy / Policy is a Key Component of Talent Management Strategy

Advantages

→ building international management experience in a global world, served by global organisations

→ career development opportunities particularly for high performing, “fast track” staff

→ filling current managerial & technical skills gaps and staffing up new business ventures

→ promotes diversity, flexibility, inclusivity and innovation
Why a Mobility Strategy / Policy is a Key Component of Talent Management Strategy - cont’d

Implementation Challenges

- splitting up families in an era in which work / life balance is important
- resolving other impacts on families / family concerns e.g. working spouses
  50% worked prior to assignment
  11% able to continue working
  (Brookfield Survey)
- managing relocation costs
- “localisation” of expatriates in a new community
- compliance issues - bureaucracy / work permit issues
- specific location concerns e.g.
  Brazil (security)
  India (regulations / bureaucracy)
  China (quality of life / environmental concerns)
  Argentina & Russia (cultural)
  Africa (corruption / security / bureaucracy / infrastructure)
“One year away from contract ending and still have no idea where or if I will end up in the company. There have been no formal discussions with me other than performance review and that was only very brief with no detail to what may be available or where resources like me may be needed.”

Survey respondent
The Survey Process

Survey Design:
- scope & depth
- data to be collected
- information to be presented

- organisation types / sizes
- industry(ies)
- geography / locations
- compensation package components
- pay curves
- policies
- sampling guidelines

Survey Design:
- questionnaires
- face to face

Data collection:
- edit parameters
- data points
- “cut off” points
- confidence levels
- weighting
- quartiles / deciles
- regression analyses

Data validation editing:
- electronic
- hard copy

Feedback / discussion:
- analysis and presentation of results

Participation:
- participation

Analysis and presentation of results:
- feedback / discussion
Defining Expatriate Compensation

“Home country” approach
home country compensation plus allowances to compensate for cost of living differentials and other conditions

“Host country” approach
compensation equivalent to that received by a local employee with comparable responsibility, supplemented by expatriate allowances

Hybrid, split or integrated systems
“normal” home country payments plus host country adjustments

Relative popularity of each in Africa

<table>
<thead>
<tr>
<th>Percentage of Organisations</th>
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</thead>
<tbody>
<tr>
<td>Home Country; 65%</td>
</tr>
<tr>
<td>Host Country; 23%</td>
</tr>
<tr>
<td>Split/Combinations; 18%</td>
</tr>
</tbody>
</table>
#1 Define pre departure home package after tax ("notional" home salary)

#2 Compute cost of living adjustment/allowance based on relocation (host country)
Surveying Expatriate Compensation - cont’d

#3 Compute relocation allowance based on host country hardship ranking

(housing / security / utilities; climate; physical conditions / pollution / disease & medical facilities; education; infrastructure & socio-economic factors; crime, politics; availability of household goods, etc.)

#4 Compute annual assignment salary

#5 Adjust for tax equalisation and host country benefits structure
## Package Make Up

<table>
<thead>
<tr>
<th>Package Make Up</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td><strong>Annual Basic Salary and spendable allowances (Cash component)</strong></td>
<td>The full-time equivalent (FTE) Annual Base Salary (typical value in home country), plus the value of any spendable allowances (cash amounts) forming part of the package less non-spendable income as defined below.</td>
</tr>
<tr>
<td><strong>Non-spendable income</strong></td>
<td>The salary component not available for monthly expenditure. For e.g. Retirement savings, medical funding, housing and car payment and any other savings.</td>
</tr>
<tr>
<td><strong>Guaranteed package</strong></td>
<td>Notional Home country guaranteed package</td>
</tr>
<tr>
<td><strong>Cost of Living Allowance</strong></td>
<td>A cash allowance paid to account for the cost of living differences between home and living in host location.</td>
</tr>
<tr>
<td><strong>Hardship / Location Allowance</strong></td>
<td>A cash allowance paid to compensate for the burden and risk of living and working in foreign countries with unusually stressful or dangerous conditions.</td>
</tr>
<tr>
<td><strong>Mobility / Expatriate allowance</strong></td>
<td>A cash allowance/lump sum/additional funding to compensate/reimburse expatriate employees for the inconveniences that arise from transferring from one foreign assignment to another or the cost of relocating. (Moving a family anywhere, especially overseas, involve costs which haven't been considered.)</td>
</tr>
<tr>
<td><strong>Other Allowances</strong></td>
<td>Any other allowances paid as part of the net assignment salary</td>
</tr>
<tr>
<td><strong>Annual Assignment Package value</strong></td>
<td>The annual value of the expatriate assignment excluding host country benefits</td>
</tr>
<tr>
<td><strong>Annual ACTUAL Performance Bonus and/or Profit-Sharing</strong></td>
<td>Any variable cash earnings, which are either discretionary, merit-based or as a result of profit-share, received during the most recent 12-month period up to the present month.</td>
</tr>
<tr>
<td><strong>Total Expatriate Package</strong></td>
<td>Includes the annual net assignment value and any variable pay.</td>
</tr>
<tr>
<td><strong>Accommodation and related benefits</strong></td>
<td>The company provides accommodation and related benefits in the host country. This can include providing accommodation, renting / leasing accommodation, settling in allowance, furnishing, utilities costs, household maintenance, etc.</td>
</tr>
<tr>
<td><strong>Vehicle / Transport allowance or benefit</strong></td>
<td>The company provides a vehicle / transport and related benefits in the host country. This can include providing a number of flights home, a vehicle, a transport allowance, renting / leasing a vehicle, providing a driver, etc.</td>
</tr>
<tr>
<td><strong>Flights / Flight Allowance/ Rest &amp; Recuperation Flights</strong></td>
<td>The company provides flights from the host country.</td>
</tr>
<tr>
<td><strong>Schooling / Education allowance</strong></td>
<td>The company provides schooling / education allowance and related benefit in the host country. This can include schooling, education assistance, child care support, etc.</td>
</tr>
<tr>
<td><strong>Destination Services</strong></td>
<td>Includes communication (Internet, satellite and mobile phones), dstv and security costs etc.</td>
</tr>
<tr>
<td><strong>Other benefits / allowances</strong></td>
<td>Any other benefits / allowances paid to the employee in the host country.</td>
</tr>
<tr>
<td><strong>Total cost of Expatriate Assignment</strong></td>
<td>Includes the annual net assignment value and the total value of the host country benefits</td>
</tr>
</tbody>
</table>
Varies significantly from country to country

Comparison of the combined average Annual Assignment Package (Net after Tax figures) for all African countries against individual countries pay-lines

Pay reported separately for:
- Expatriates
- In-Country employees
Typical Policy Issues - Examples

- Do you / should you cap allowances?
- Do you allow for exchange rate fluctuations?
- Assignee selection policy?
- Tax - responsibility and advice?
- Who pays, and how much for pre-assignment preparation?
  - medical assessment, innoculations and viruses/work permits, cultural awareness?
- Types and costs of accommodation / housing?
- Leave arrangements and home visits
- Medical cover, evacuation if necessary, insurances, etc.?
- Retirement funding – continuity?
- Education / schooling?
- Dual career (spouse / partner) issues
- Pets?