

Executive summary



As a result of the current economic conditions, many Asian companies are facing unprecedented challenges to their businesses. At the sharp end of these challenges is often the human capital that has helped the companies develop so far, so fast over the past few years. However, the need to critically review business plans, including human capital requirements, is real. Inevitably, this will have widespread implications for the cross-border movement of human capital to support the changing business needs in Asia.

PwC International Assignment Services (Hong Kong) Limited has carried out a survey to obtain an understanding of the key trends of cross-border movements in Asia, with a particular focus on moves from Hong Kong to China. The survey has focused on the policies and practices in assignment management, as well as the challenges companies face in managing, attracting, retaining and rewarding their mobile workforce. Approximately 100 Hong Kong-based companies responded to our survey and below are our key findings.

Minimal increase in cross border movements expected

Companies have been more conservative in terms of their cross border movements in Asia during the economic downturn. Only approximately 20% of the respondents still expect an increase in cross-border movements into and out of Hong Kong in the next two years, whereas more than 40% expect a decreasing trend. This is different from the results obtained by our Singapore counterparts who conducted a similar survey for Singapore-based companies in mid 2008. Although the economy was already showing signs of slowing down at that time the scale of the slow down was not known and the majority of respondents remained “cautiously optimistic” of a continued increase in cross-border movements into and out of Singapore.

China is still the focus – more Hong Kong outbound movements to China

Hong Kong has widely been seen by foreign investors as a gateway to one of the most rapidly growing economies in the world – China. It is therefore not surprising that 53% of the respondents have chosen Hong Kong to be their Asia regional headquarters.

It is also no surprise that a vast majority of the respondents (77%) indicate that Mainland China is one of their top 3 assignment locations in Asia, ahead of Hong Kong (67%). In response to the great demand for talent in China, many of our respondents continue to relocate employees from Hong Kong to

China. In particular, almost 80% of them do not expect such a trend to decrease in the next two years, even in light of the current economic downturn.

About 60% of the respondents indicate that HKSAR citizens comprise more than three-quarters of their cross-border Hong Kong to China assignee population. These individuals usually assume middle management roles and are expected to act as a bridge between senior management in headquarters and the local staff due to their global/regional exposure and Chinese cultural background.

Companies find rewarding these outbound employees a challenge. Although hardship allowances are seldom provided these days, many companies are still paying these individuals a premium for them to take up assignments in China. 41% of the respondents in particular indicate that these Hong Kong outbound employees will be paid at least 25% more than their local counterparts, giving rise to potential pay equity issues.

Shanghai, Beijing and Guangzhou are the top 3 assignment locations in China amongst our survey respondents. In particular, 73% of them selected Shanghai as one of their top 3 choices. Nevertheless, looking at China as an assignment destination, it is still common for companies to have “commuters” who reside in Hong Kong but travel to China to work every day. More than 25% of the respondents indicate that at least 10% of their Hong Kong employees fall under this cross-border commuter category, and 23% of these companies expect an increase in the trend over the next two years.

Increasing trend in localisation

Management of assignment costs has become a critical issue for multinational companies during the current economic environment. This is illustrated by the fact that 55% of our respondents anticipate an increase in the number of localised employees over the next two years.

However, it is challenging to strike a balance between recruiting/retaining key international talent and containing human capital costs. It is also difficult to localise expatriate employees by simply offering them a purely “local” compensation package. Our respondents have suggested the following key challenges and solutions:

- **Buy-out or transition of expatriate benefits** – in order to enable a streamlined localisation process, some companies pay a lump-sum to the localised employees to “buy-out” certain of their existing expatriate benefits, whereas others provide a transition period during which such expatriate benefits will be gradually phased-out. This is particularly common for housing, home leave and child education benefits.
- **Taxation** – our survey indicates that over 70% of the companies offer tax equalisation/protection benefits to their expatriate employees. It is therefore a crucial concern for most expatriate employees if this benefit ceases which usually means that they will handle the tax return preparation as well as manage their personal tax affairs themselves. There may also be ambiguity in relation to

the tax equalisation positions for certain benefits (e.g. bonus, equity) delivered during both the expatriate and localisation periods. As such, companies will often continue engaging a service provider to handle personal tax affairs of localised employees, at least during the transition year. Upfront communication prior to localisation is also important so as to avoid disputes.

- **Long-term career plans of the localised employees** – after the employees are localised they will become “permanent” employees in Hong Kong. As such, they may be concerned about their long-term prospects within the organisation, especially with regards to future secondment opportunities and repatriation options. Companies should develop a long-term career plan for these employees so that their expectations can be properly managed.

Managing the mobility of short-term business travellers is a key challenge

The economy nowadays has become more mobile and hence it is more common to have short-term assignees and “frequent travellers” in multinational companies. However, 52% of our survey respondents do not have a formal mechanism to keep track and monitor the travel days of these mobile employees, and only 40% of them indicated that they are aware of their employees’ movements to other locations on business trips.

This is a critical issue that companies should look into, as failure to monitor the travel

patterns of these mobile employees may result in tax, regulatory and immigration exposures. In particular, Hong Kong does not have an extensive double tax treaty network. These employees’ presence in other jurisdictions may lead to unexpected personal tax costs. More importantly, the company may be impacted by personal establishment exposures triggered off by the employee in the different jurisdictions they travel to due to their frequent travel and nature of duties carried out. Tax authorities in general are more sophisticated nowadays at detecting non-compliance and, from our experience, are becoming increasingly proactive at pursuing potential aspects of non-compliance.

Management of equity compensation has become more challenging due to the rapidly changing macro environment

The rapid changes in accounting standards and tax regulations have made it difficult for HR to effectively manage equity compensation for the mobile workforce. Most companies also centralise the management of their equity compensation plans at headquarters and local HR here in the region very often do not have the full picture of equity compensation for the assignees they manage. This can potentially lead to non-compliance exposures especially for employees who may have been granted equity awards in different locations, e.g. in the year of transfer or repatriation. To minimise such risks, there should be processes in place to facilitate communication between headquarters and local HR.

“Total compensation” is also a compensation methodology which has become more popular nowadays. This usually includes regular compensation such as salary and cash incentive bonus, as well as deferred compensation such as share awards and share options. Employees will often have a certain degree of flexibility to choose their desired compensation structures. HR very often finds it a challenge to manage these increasingly sophisticated compensation plans and many survey respondents have indicated a need for assistance from specialists.

Effective assignment management becomes a more critical concern for Human Resources (HR) personnel

It is challenging to manage a significant mobile workforce population especially in the current economic downturn, when companies have to manage the associated assignment costs and reward their key talents effectively.

Although 77% of the respondents adopt a centralised assignment management approach, many of them have found the need to adopt regional variations to their worldwide policy framework in order to suit the regional/local environment.

Regular policy review is also necessary to ensure effective assignment management. Nearly 50% of the companies surveyed review their policies to ensure they meet the business needs and remain competitive against the market norms, with more than 30% of the companies surveyed having done so within the last 12 months.

Companies benchmark their assignment policies against market norms especially for certain “expensive” assignment allowance items such as housing and child education benefits. Although assignment cost is a critical concern to most companies, particularly at the current time, they should also look carefully at the return on investment generated by their assignees. Interestingly, only 16% of the companies surveyed have metrics in place to demonstrate the return on investment for cross-border moves. It is not just enough for companies to know how much money they have spent on an assignee, but it is also important to have an idea of how much he/she can contribute to the organisation, so as to effectively utilize mobile resources.

The survey data shows clearly that the HR function here in Asia has developed more autonomy over the years and has moved from implementing directives from headquarters to becoming partners and advisors to the business leaders here in Asia. Only 7% of the survey respondents said that they were never consulted as key stakeholders in formulating their assignment policies which is encouraging.



Table of contents

Foreword	1
Executive summary	2-5
Overview of survey methodology and participants	9-13
Key trends of cross border movements in Asia	14-21
Hong Kong outbound employees to China	22-29
Policy development and practices	30-35
Localisation – benefits and challenges	36-42
Equity compensation	43-47
International mobility trends in China	48-51
Glossary of terms	52-55
Appendix	58-78
Listing of participating companies	79-80
Contacts	81