

# Managing international assignments in China during the downturn



The first half of 2009 has seen companies having to grapple with a global economic crisis of unprecedented proportions. This has forced many companies to revisit both their business and human capital strategies.

In the third quarter of 2008, PwC International Assignment Services (“IAS”) conducted a survey which focused on “Key Trends of Cross-Border Moves in Asia”. 112 China based companies participated in this survey. To ascertain the extent to which some of the key trends identified in 2008 may have changed in the first half of 2009, PwC IAS conducted a spot survey in May 2009.

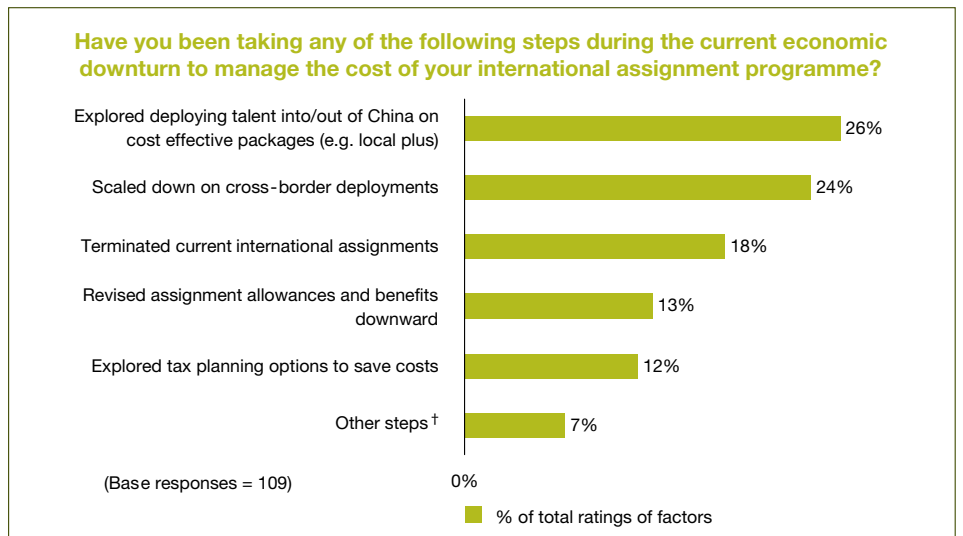
The spot survey focused on cost management initiatives, localisation of foreign talent in China and the impact the economic crisis has had on cross-border movement of talent into China, in particular cross-border Hong Kong to China moves.

70 China based companies from across all industries participated in this survey. We hope you will find the highlights of the survey of interest. Please do not hesitate to contact Stacy Kwok of PwC IAS at [stacy.kwok@cn.pwc.com](mailto:stacy.kwok@cn.pwc.com) or Rebecca Lai of PwC IAS at [rebecca.lai@cn.pwc.com](mailto:rebecca.lai@cn.pwc.com) should you like to discuss any of the topics addressed in greater detail.

## What are companies in China doing to manage the cost of their international assignment programmes during the current economic downturn?

During the first half of 2009, companies have clearly been pursuing short term cost saving measures. For example, 26% of survey respondents have explored deploying talent into and out of China on more cost effective packages, e.g. local plus. The increased application of local plus terms confirms the trend identified in the earlier survey conducted in the third quarter of 2008.

24% of survey respondents have also indicated that they have scaled down on cross-border deployments to manage costs. Cross-border moves of skilled talent from Hong Kong to China in particular, which was growing at an increasing rate in 2008, has slowed down. In fact, only 17% of survey respondents indicated an increase in the number of cross-border moves from Hong Kong to China during the last six months as opposed to 36% of respondents in our previous survey.



<sup>†</sup>Other steps cited include freezing headcount, early repatriation and adjusting company's tax policy

## What can be done to manage the costs of international assignments?



### Short term measures

Companies should consider reviewing existing assignment benefits and allowances to ensure that they are reflective of current market norms. Only 13% of survey respondents for example have revised assignment allowances and benefits downward during the last six months.

Potential savings may also be achieved by exploring tax planning options available in the delivery of assignment compensation and benefits. The survey data shows that only 12% of survey respondents have actively explored tax planning options in the last six months.

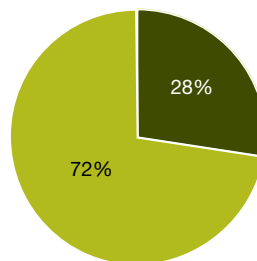
With the current economic downturn, tax authorities around the world are becoming more aggressive and vigilant in tax administration and collection. The China tax authorities are no exception to the rule. As non-compliance can be costly from both a reputational and financial cost standpoint, companies should confirm that they have comprehensive processes in place to ensure tax and regulatory compliance of their mobile workforce.

An area of high risk which is often overlooked is the tracking of travel days for mobile employees and frequent business travellers. This group is often at risk of triggering tax and immigration compliance requirements in various countries yet over 70% of companies surveyed do not have a formal mechanism in place to monitor the movements of this group of mobile employees. Failure to monitor the movements could result in unexpected exposures in the corporate and personal tax regimes as well as unnecessary tax penalties.

### Long term measures

The economic downturn has made many companies reassess their business strategies in this region. The Chinese economy has in recent years experienced unprecedented growth which has put significant pressure on the HR policies, processes and systems in place. Companies should take the opportunity during this downturn to review their existing assignment policies and processes to ensure alignment with the needs of the business. The policies and processes defined should be able to support the deployment needs of the business when the economy turns around.

#### Do you use technology to track/monitor the travel days of your mobile employees, including frequent business traveller?



■ Yes

■ No

(Base responses = 69)

Note: Mobile employees are defined as employees who are either an international assignee or local plus employee working in a foreign country.

## Balancing costs with dependency on skilled foreign talent

Whilst managing costs may be high on the agenda of many China based companies, many also recognise their dependency on foreign talent due to the lack of skilled resources in China. In a bid to manage the costs of foreign talent, localisation is increasingly being pursued by many companies.

### Key factors driving localisation

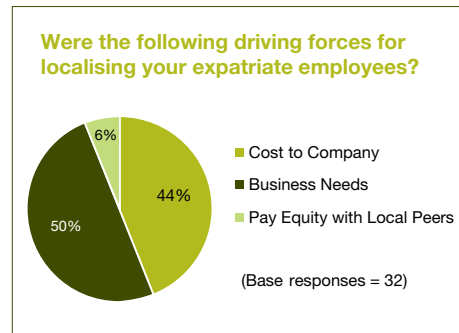
“Business Needs” and “Cost to Company” were ranked as key factors driving localisation. Maintaining “Pay Equity with Local Peers” on the other hand was not ranked highly. This is reflective of companies acknowledging that a premium is required to attract and retain the skilled foreign talent they require.

In the longer term, pay inequity between local and foreign talent will pose a challenge in relation to retention and motivation of local talent. HR in China will also be faced with managing diverse and inconsistent compensation structures.

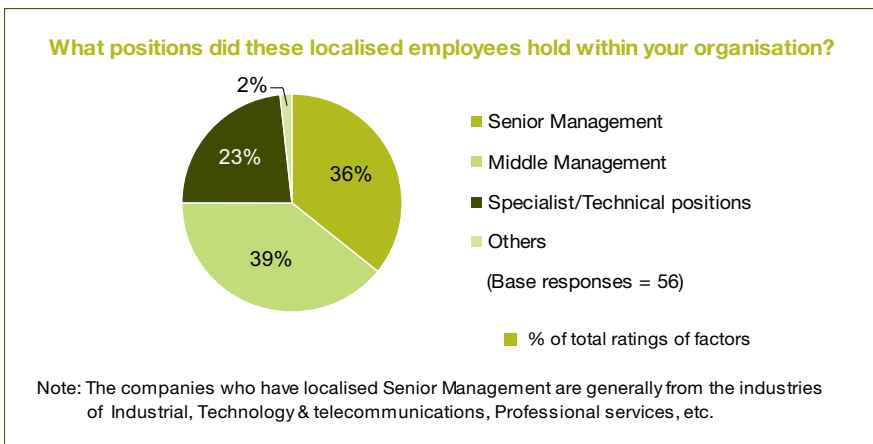
### Localisation more aggressively pursued in the last six months

Close to 50% of survey participants were able to localise expatriate employees successfully in the last six months. The majority of localisation initiatives took place between 1 to 3 years of the assignment duration. This reflects a more aggressive approach towards localisation compared to the past when localisation was implemented after the third or even fifth year of the assignment. There also seems to have been less resistance by assignees to localisation, a reflection of the challenging times we currently face.

The stage of assignment when localisation occurred	Percentage
Within less than 1 year	18%
Between years 1 to 3	45%
Between years 3 to 5	21%
After 5 years	16%
Base responses	44



In PwC’s 2008 survey, localisation efforts were seen to be primarily focused on middle management positions. The latest survey results show that in the first half of 2009 companies have been extending their localisation efforts to cover both middle and senior management positions, a reflection of their keen interest to contain costs. Survey participants who have been successful in localising senior management positions are from the industrial, technology and telecommunications and professional services industries.



## Key localisation challenges faced by China based companies



Consistent with PwC's 2008 survey, participants have once again ranked determining the localisation package as the top challenge to implementing localisation in China.

The success of localisation is very much dependent on the "starting point", i.e. the terms and conditions the individual was on prior to localisation. Companies that offer "richer" expatriate packages have, not surprisingly, found it more difficult to localise compared to companies that employ foreign talent on "leaner" terms and conditions.

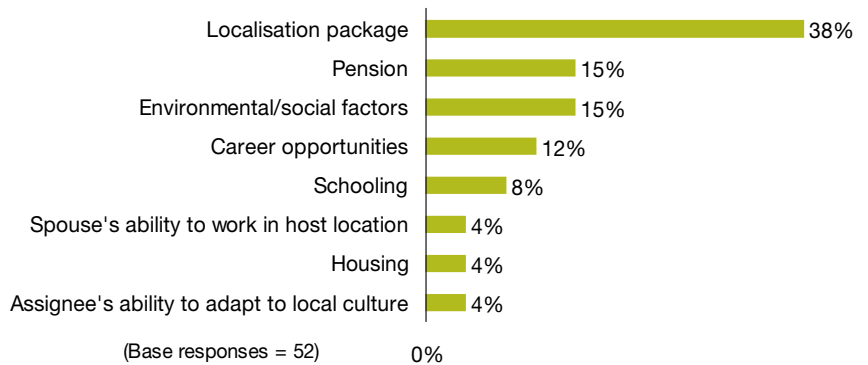
Companies are increasingly offering local plus packages which are more attractive to assignees and at the same time help mitigate the high costs of the more traditional expatriate packages. Certain benefits offered to foreign employees working in China can be treated as "tax exempt" if it is correctly structured, which may

make a pure localised package even less attractive from the employee's perspective.

15% of survey participants cited pension issues as a key localisation challenge. Foreign individuals localised in China are clearly disadvantaged since they are unable to participate in China's State pension systems and may, very likely, fall outside their home country pension system as well.

Rather than simply providing a cash option, companies in Asia are recognising the increasing need to address the retirement issues of their foreign talent. International / regional pension plans or other financial vehicles could be considered as alternative retirement plans in order to facilitate global mobility and long term transfer. Companies are strongly encouraged to review and evaluate legal and tax aspects as they explore such retirement planning alternatives.

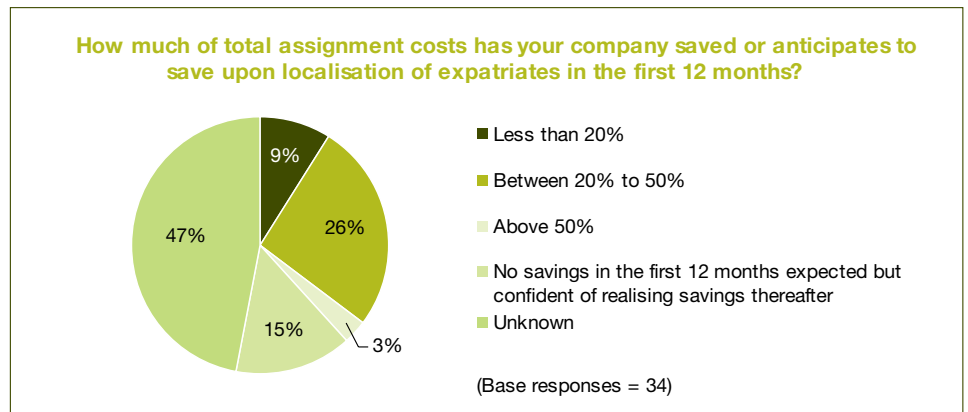
### What factors made the localisation process challenging?



## How much are companies able to save by implementing localisation?

Localisation is undoubtedly a sensitive and challenging issue. How much are companies actually able to save as a result of localising their foreign talent? 47% of survey participants shared that they are not able to quantify the cost savings generated, most likely because they do not have the tools to do so.

26% of survey respondents were confident of achieving between 20% to 50% savings. 15% of companies surveyed however did not expect to have any savings in the first 12 months but were confident that savings would be realised thereafter. This could be due to buy-out packages being offered upon localisation which could increase compensation costs in the short term.



## Conclusion



The focus on managing international assignments in China during the first half of 2009 has undoubtedly been on cost management as reflected in the way localisation and local plus approaches have been more aggressively pursued.

Although China based companies have started to focus their efforts on containing costs, the survey results show that more could be done in both the short term and long term. An example is monitoring the travel days for mobile employees and frequent business travellers so as to minimize the unexpected exposures in the corporate and personal tax regimes as well as unnecessary tax penalties.

The ability to understand the costs of international assignment programmes and potential cost savings as a result of implementing cost saving measures (e.g. localisation, local plus packages) is crucial in order for companies dependent on foreign talent to work towards developing a more cost sustainable model in the long run.

In the quest to localise or contain costs, there has also been an apparent disregard for the growing internal inequity between local and foreign talent. As this gap increases, HR in China will become increasingly plagued with talent retention and motivation issues.

Most would agree that when the turn-around in the global economy takes place, China will have a pivotal role to play. The HR function in China will then most likely be functioning in a reactive mode to keep up with the human capital demands the business will face.

The HR function in China should seriously consider taking time during this current downturn to review their organisation's HR policies and processes to ensure that when the upswing occurs, the HR model in place is equitable, aligned to the needs of the business and based on a sustainable cost model.

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