



IGM notepad

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Your IGM Notepad

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Welcome to the first and Spring edition of the Swiss 'IGM notepad – the quarterly newsletter of the Institute for Global Mobility (IGM).

The launch of the IGM – Swiss branch

The successful launch of the Institute for Global Mobility - Switzerland took place in Geneva and Zurich on the 20th and 21st of April respectively. A thoroughly great time was had by all partly due to Peter Ferrigno's joke telling during his presentation on the EU Accession, and of course due to the drinks and food on offer!

But on a more serious note, I would like to thank Peter Ferrigno (Prague office) for both his entertaining and informative talks and for Clare Loosley's (London office) invaluable help.

I was very pleased to see that most Global Mobility professionals who attended the launch stayed on for the "Apero" after the presentations, and used this chance to network amongst themselves. I was also very encouraged to hear the feedback from various members who enjoyed the opportunity to network and learn more about Global Mobility in Switzerland, as this is exactly what the IGM is all about!

As a result of the success of the launch, we are keen to put the First Thursday Club meetings into action and will soon be sending out invitations for the next events.



Presentations at the Geneva launch event

I hope you enjoy this first Swiss IGM Notepad and look forward to seeing you at another event soon.

Kind regards

Kevin Cornelius
President of the Swiss Branch of the Institute for Global Mobility

There will also be the first IGM Masterclasses taking place in September to look forward to. As members of the institute we would also like to invite you to share your ideas and experiences within the profession and would welcome any input, whether it be writing an article for the next IGM notepad, hosting a First Thursday Club event or presenting on a topic of interest.



Networking at the Zurich launch event

Internal labour mobility in global organisations – a future perspective

Mike Fraser, Group Remuneration Manager, BHP Hilton

Trade liberalisation, the proliferation of formal regional and bilateral trade agreements and the emergence of networking technologies continue to break down borders. This has seen many companies expanding globally and growing in existing international markets. The key to being able to maximise the rents from this global expansion and growth depends on the ability to develop a global workforce capability.

Developing global workforce capability

Developing a workforce with a global orientation requires organisations to take a proactive approach in developing and then maintaining this capability.

Strategies for developing this capability include:

- Using a recruitment approach that specifically targets internationally orientated/ experienced staff. All functions and departments required to build a base of international knowledge including language skills and cross-cultural awareness.
- Introducing graduate recruitment programmes in local markets and follow up with accelerated international graduate development programmes for the best graduates. Using international leadership development programmes – both internal and external to build networks and develop cross cultural experiences.
- Internal mobility is critical in building global workforce capability. A flexible and well-developed internal market develops an appreciation of market and cultural differences whilst enhancing the global network of contacts within the organisation and alignment of organisation values.



Mobility takes precedence

Due to the immediacy of the resourcing challenges and to meet the demands for developing this capability, many organisations' response is to use an internal mobility strategy as the primary strategy to address these challenges. They then proceed to transfer employees to their various territories using a variety of assignment types to facilitate these moves in the most cost appropriate manner.

The real cost, however, is in the increase in total number of international assignees as the organisation expands. A standard three-year international assignment typically costs a company between two to three times more than an equivalent local position.

... but this changes in maturity

As global organisations move towards maturity, they also then start experimenting with and using alternative strategies to achieve a diverse and global workforce.

They also increasingly look to reduce the number of international assignments and seek to replace foreign nationals with locals in order to strengthen the local market responsiveness.

... but does it? Hypothesis of the future state

However, with this growth and development in the emerging economies, the growth in the number and availability of skilled workers will accelerate and ultimately a wave of reverse migration will commence as skilled employees with a global orientation start moving to the traditional core locations of the business to replace the ageing population in these developed markets.

So what can companies do to avoid an explosion in the number of international assignees in the same manner as experienced in the early stages of globalisation?

A post-modern view of internal mobility

To answer this question requires a different approach to compensation of mobile employees.

Classical economic theory suggests that as supply improves, one should be able to 'buy' this additional supply at a lower 'price'.

Therefore assuming most of the developed economies have highly developed labour markets, the new migrants will generally be catapulted in to higher earning opportunities by just putting them on a level with locals in developed economies. This then provides a case for the removal of traditional assignments and the opportunity to focus on local to local transfers in these instances.

To achieve this requires an organisation to take a global view of compensation and benefits and this requires establishing a strong philosophy of internal equity in the organisation. A possible approach could be to view remuneration in two parts – one being the element of compensation that allows individuals to maintain living standards in the host location and the other in providing equal wealth creation opportunities in nominal terms across all jurisdictions.

Assistance will still be required to assimilate mobile executives, but individuals will then be responsible for looking after themselves in the new location.

This in turn requires a mind-shift within the organisation and amongst employees – particularly those executives who saw an expatriate assignment as a quick way to make a lot of money. However, there are a number of advantages of having a globally aligned workforce with a common view of earnings ability. One is that the only employees who will move on assignments will be those that are interested in moving because of the value it adds to their career and also it removes feelings of inequity between local staff and expatriates. In addition, as each assignment is undertaken at a relatively lower cost to the company the number of assignments may increase again (for the right reasons), thus improving the organisation's global workforce capability.

To conclude, as global organisations mature, they will need to rethink the traditional approach to mobility and take a single global view of its workforce. This will inevitably be difficult but the advantages of an organisation aligned globally in this area cannot be ignored.

Out of sight, out of mind – the problems of repatriation

Chris Debner, Senior Manager, Ernst & Young

Today's Managers and Executives in high-level positions often think twice about accepting international assignment offers. It is generally not the concerns of moving to a foreign country that hinder their decision making, but rather the repatriation at the end of the assignment.

Employees returning to their home country on completion of a project, mission or goal in most cases bring back a variety of new skills and experiences. In fact this is often the reason cited for the necessity of the assignment in the first place i.e. it is becoming increasingly important for employees to gain international know-how and in some organisations for example General Motors, leadership positions require an incumbent who has earned the merits for the job not only in the home office but also abroad.

However it is not unheard of for companies to underestimate the value of international experience, and to neglect to cash in on the return on their investment. Thus problems can arise for the returning employee, when little thought is given to their succession/career planning and or personal difficulties faced upon repatriation.

Missed opportunities...

The result entails the employee being offered a position to return, that does not take into account their newly acquired skill set and international perspective. This in combination with the often-cited personal problems of re-integration can create further issues. In fact the results from a survey by The Society for Human Resource Management shows, that 26% of returning Expatriates leave the company within two years. It should also be noted that 50% of the companies surveyed, reported not even to have monitored the numbers of employees leaving upon repatriation, and we are therefore left with the impression that the percentages could be higher.

Companies risk not only losing their future potential within the organisation but also the initial investment they made due to the cost of the assignment, together with the replacement costs of any unhappy returnee's. As already mentioned

International experience is becoming a key competency for many companies and therefore it is important for organisations, to consider retention strategies for their returning Expatriates, but let's first have a look at the root causes of this phenomena.

Root Causes

The most commonly cited reason of the failure of repatriation is the simple fact, that during a two or three year assignment both the company and the employee undergo changes. Whilst the employee becomes more independent and gains a different skill set, the employee structure and numbers change within the home country. Just think of the frequent number of mergers & acquisitions, and how they have shaped the way companies are today. These changes tend to lead to different expectations about the return from both sides and a lack of contact with the home country during an assignment can compound the issue. The problem of finding a suitable position within the home country, taking into account departmental changes and an employee's new skill set, together with expectations of promotions that do not take place, are other reasons why Expatriates resign on return. One should also not forget possible re-integration problems and in worse case scenarios reverse culture shock, which can come as much more of a surprise in repatriation than it does during expatriation.

Change of life style

Other issues come under the title of remuneration. Some returning Expatriates find themselves in financial difficulty due to the fact that allowances they once received on assignment are no longer paid. Think of the various premiums some generous assignment policies grant. They are not always just the reimbursement for a higher cost of living, but can go far beyond that. In some developing countries the standard of living of the Expatriate changes to one with a driver and home help and most of these perks are lost upon return. Therefore the former assignee and their family might have to cope with a dramatic change in lifestyle.

Assistance on Repatriation

Effective measures for a successful repatriation

must address both the reintegration of the individual into the business and the non-work related issues Expatriates face. Thus discussions between the employee and HR have proven to be successful in the past, as it allows the company to generate a picture of the individual and their needs, which in turn provides a better basis for finding the right placement.

Assistance should ideally start before repatriation, and should ensure the Expatriate has realistic expectations about their return. Other strategies are to run a so-called shadow career and a shadow salary during the assignment, however it should be noted that both strategies reach limitations, when there is no longer sufficient performance data available on the Expatriate in the home office. Keeping regular contact with the Expatriate during the assignment seems to be one of the most successful strategies. By sending regular company newsletters and showing an interest in an individual's progress, contact can be maintained and expectations for the return aligned. Some companies go as far as leaving the responsibility to find a new position after the return with the Expatriate. In this situation the employee is forced to stay in touch with his peers and superiors back home in order to obtain a job on return. But the latter solution does bare the risk that the Expatriate does not even consider to return to his home company and starts the search for a new job with a different employer whilst still on assignment.

The time has come to learn from those Expatriates who have returned from their assignments and to realise what the loss of an Expatriate can mean to the company. International Human Resources can and should assist Expatriates with repatriation. They can encourage the business to learn from the experiences of these international employees and to help others to understand the unique position that returnee's find themselves in. Last but not least future assignees will enjoy the opportunity to talk with returned Expatriates providing both of them with the chance to share their experiences.

The IGM notepad review

In each issue of the IGM notepad we will look at books/websites that are of interest to the world of global mobility.

We welcome your opinion too! If you would like to submit a review or comment on books or websites, please e-mail us at tax.igm@ch.ey.com

A Career in Your Suitcase 2 by Jo Parfitt

*Summertime Publishing. Second Edition. 192pp.
£12.99 plus postage and packaging to Switzerland*

The frantic pace of twenty first century living increasingly pushes us towards a globetrotting existence and portfolio careers. Yet whilst many people follow their careers around the world, what about those who have to pack up their career along with the furniture? 'A Career in Your Suitcase 2' is an updated and revised edition of the immensely popular 'A Career in Your Suitcase' by Jo Parfitt. First published in 1997 this book became hot property on the expat 'need to know' list. There has always been an abundance of books about the trials and tribulations of living abroad. However, the only books dealing with the logistics of working abroad have tended to be aimed at the Gap Year market. Here was an informative, accessible and inspiring book about how to make the most of being a 'trailing spouse'.

Yet Career in Your Suitcase 2 does not limit itself to providing information for the itinerant spouse. Instead, it has evolved into a book which encourages the reader to 'think outside the box' and make the most of any situation life throws at them. The author writes from personal experience, and it shows in the heartfelt and impassioned tone of the book. Jo, a 'portable careers guru', has spent her adult life living and working abroad as 'the trailing spouse'. Yet Jo, as she is at pains to point out, is not likely to be found living in comfortable, expat idleness. Even whilst living in Dubai where a stamp in her passport read, 'not permitted to take up employment', she pursued hobbies and furthered her natural talents in an effort to assert her independence and inspire others, whilst earning some money at the same time.

A global survey taken in 2001 showed that 87% of overseas workers had an accompanying spouse. Prior to moving abroad 43% of these spouses were employed, yet this dwindled to just 14% after the move. 'A Career in Your Suitcase 2' takes the author's wealth of experience and combines it with common sense advice for cultivating a career you can pursue anywhere in the world. Jo is not suggesting that you spend vast amounts of time and money changing profession, but rather look to your abilities and interests to make the most of any situation. Packed with tips, reference points, self-assessment exercises, case studies and professional advice, this book covers all possibilities. Even the most overwhelmed expat will find the courage and motivation to jump into the unknown after reading ACYS.

If you would like to provide copies of this book for your assignees' spouses, discounts of 25% applies to orders of more than 20 copies.



Please email joparfitt@career-in-your-suitcase.com for more details or telephone her on +44 1780 444768.

Countries in brief – on assignment in Japan



Sending an assignee abroad? Then the IGM country profiles should be of interest to you. This month we profile Japan.

With the end of World War II Japan abandoned its military rule and put into effect a new Constitution, committed itself to becoming a peace-seeking democracy, and succeeded in relaunching its economy. In 1956 the nation's entry into the United Nations was approved. Since then, Japan has contributed to world peace and prosperity as a member of the international community.

To successfully do business in Japan, a foreigner must first have a glimpse into the people of Japan and the way they structure business. The most important aspect in the corporate world and society is hierarchy. The Japanese rank industries and the companies within them by status, performance and prospects. Once closely allied with the government, business in Japan is now dominated by the corporate giants known as keiretsu gaisha.

The heart of the Japanese decision-making process is *nemawashi*. Literally translated, it means "to bind up the roots prior to transplant". In business, it embodies seeking informal consensus for a decision before the formal arguments are made. It often entails secretly persuading people to your side in discussions outside of formal channels, such as after-work socialising. The naive foreigner seldom realises that a topic may have been widely discussed in outside circles before being formally introduced at a company meeting. Not understanding the concept of *nemawashi* puts one at a distinct disadvantage in the Japanese decision making process.

Whereas Westerners identify most strongly as individuals, Japanese always see themselves as part of some larger group (ie company, country, family or school). Westerners relate as individuals who work together based on expressed mutual agreement. On the other hand, Japanese relate interdependently to one another whilst working within a context of unexpressed, mutual expectations and obligations. Differences in age, rank and sex – not emphasised outwardly in westernised companies – are openly acknowledged in Japan, forming the most important basis

forming the most important basis in interpersonal relations. In fact, it is safe to say that an individual is never allowed to forget his/her position. Even the Japanese language takes into account the hierarchical nature of Japanese society.

There are many international companies represented in Japan, and most business people there are used to working with foreigners, at least to some extent. Always have your *meishi* (business card) ready. Have them printed in English and Japanese, and be sure to observe the proper etiquette of giving and receiving them. Meetings will be in Japanese. Bring an interpreter if one is not provided. Try to always be on time. It is amazing that in Tokyo, a city of 30 million people, punctuality is not only expected but achieved.

While conducting business in Japan, do not press for a response or decision from a colleague. The most frustrating aspect of doing business in Japan for most Westerners is that there are no quick decisions. The process of deliberation can seem endless, for almost everyone seems to have a say in even minor decisions. If you attempt to exert pressure, your clients or colleagues will most likely withdraw from you, verbally or even physically.

For newcomers to Japan, it is essential to understand the meaning of *keigo* (polite language). Polite language relates to the relationship and respect. Remember to use titles to recognise your colleagues' station and contribution. Although the exact meanings of these titles are not the same in all companies, some positions are referred to as the same. *Kacho* usually refers to a group supervisor, and although it is not the leadership position, it is very important nonetheless.

Much has been written on the art of conducting business in Japan. Whether you work in a large Japanese corporation or a smaller, privately-owned company, you will find the experience often frustrating, sometimes exhilarating but never boring. Western and Japanese business practices are so different that one cannot help but to have at least one new cultural experience every day.

Keep in mind that all business and social interaction is based on the Japanese concept of

Wa, the all-important harmony. Its effect on every aspect of Japanese society cannot be underestimated, and successfully doing business in Japan depends on a basic understanding of this concept. You will generally find that inconsistencies in communication and management styles between European, Japanese and North American companies are based on the concept that the more traditional the Japanese company, the greater the difference.

In brief, Western communication style is explicit, Japanese communication style is implicit. Most strikingly, Japanese individuals rarely even place a subject in their sentences, which is left to be inferred by the listener. At first, you may need to ask a few questions to get the facts straight. Japanese nationals are not accustomed to giving all the details – the who, what and when; these are implied. However, vagueness and ambiguity are not necessarily negative attributes, but are considered useful for interpreting situations and avoiding conflicts.

As many Westerners know, conflict and confrontation in Japan are to be avoided at all costs. Problems are best dealt with indirectly and through an intermediary. Behind the scenes power plays are an everyday occurrence and conciliation is always sought. To be strong is highly revered in Japan, but strength is respected only if you observe the cultural subtleties of dealing with conflict. The Japanese power of persuasion is not argumentative. One is quiet when right, and modesty and self restraint are highly valued. *Kao*, the concept of saving face, is essential in Japanese conflict resolution.

A foreign woman in Japan faces unique challenges. If she is in Japan to pursue a career, the hierarchy of Japanese business may prove discouraging, and a professional woman may find it hard to be taken seriously. Conversely, the forthright attitude of Western-style relationships can seem shocking or rude to traditional Japanese. Westernised women, so proud of their hard-earned emancipation, may have to adjust their independent demeanor. Yet, modern Japan can be a wonderful place for women, presenting career and social opportunities as exciting as those from your home country.

Question time – share options and equalisation

Now that gains from share options are a realistic possibility once again, what can we do to protect the tax impact for international assignees without running the risk of breaking assignment budgets?

There has always been debate about how best to deal with the international tax repercussions of share options when option holders are assigned to a different country. Tax equalisation is not the ideal solution, even when you have found a way around the fact that share option rules rarely, if ever, allow for the gain on exercise of an option to be reduced by hypothetical tax. This is because there is not a single taxing event as there is with salaries, bonuses and benefits which are taxed at the point of delivery. With share options there is a potential tax liability at grant, vesting (the point at which you can exercise the option), exercise and sale of the shares acquired. In some instances a charge may arise on a deemed gain when you leave the country. The point at which a tax charge arises can vary from country to country and keeping track of the tax equalisation ramifications can be complex and long term.

Consider the example of an Austrian assignee in Switzerland when options are granted. The Swiss will normally tax the value of the option at grant. Had he remained in Austria, our assignee would

not have had a tax charge so no hypothetical tax is due. The company pays gross tax on the assignee's behalf while wishing they had posted him to Zug rather than Zurich. Years later the assignee returns to Austria and later still exercises the option. There is then an Austrian tax liability. This is however subject to credit for the Swiss tax the company paid on his behalf. Would the company track this or is it left to the employee to offer to make good the windfall?

There is, of course, the opposite scenario where a British resident is granted options before being assigned to Switzerland. When she exercises the options in Switzerland there is no tax liability but there is a hypothetical tax deduction because she would have been liable in the UK. So the company makes up its losses? Not necessarily. Our assignee returns to the UK and years later, when no longer employed by the company, she sells the shares. In calculating the capital gain the Inland Revenue will care nothing for the hypothetical gain on exercise. The assignee therefore returns to her former employer and demands that they make up the difference between the CGT she would have paid had she exercised her option in the UK and the CGT now demanded. Not many companies budget for such an eventuality and such cases have proved to be a very unwelcome shock in the past.

So should options be equalised? Quite a few companies stopped equalising option gains having seen budgets blown in the past when assignees to a high tax country have exercised when the share price was high (unconcerned about the tax implications because their exposure is limited to home country rates). Others still take the view that option gains are part of the remuneration package and so should be protected in some way.

One possible alternative is to amend the option rules so that while an employee is on assignment the employer has a right to buy out the option for the pregnant gain less hypothetical tax and social security. It can exercise this right at any time up to a month after the assignment ends. This right is only triggered if the assignee notifies his or her intention to exercise. At the end of the assignment the assignee has the right to demand that the employer buys him or her out at the agreed price within a month of return. If the share price has continued to rise the rights may not be exercised. The overall effect of this is that the employer is only ever exposed to a tax charge equal to the employees' contributions. There may even be a windfall to the employer if the election is made during an assignment to a low tax country.

The fairly complex details of the implementation of this scheme were only worked out when the stock market collapsed and interest in it waned. Now may be the time to dust it down again.

People...who's moving where?

• **Nigel Williams** is joining **XL Capital** as Head of HR, Europe