

Fuelling the Asian growth engine
A survey of global mobility trends in
the Asia Pacific region



1. Introduction

In an ever more cost pressured environment, businesses are exploring the use of lower cost mobility options such as localisation of expatriates, permanent transfers and hiring foreign nationals under enhanced local terms in order to meet the demand for skilled workers in Asia Pacific (APAC).

In a time of economic uncertainty and challenges to business strategy, APAC has been widely recognised as a region of relative stability and growth. Attracted by a large number of emerging economies, an increasingly affluent consumer market and the prospect of greater economic co-operation between APAC countries, many multinationals have chosen to invest their financial and human capital in APAC. At the same time, many Asian organisations, under pressure from foreign competitors, have ventured beyond their domestic markets in search of customers, talent and lower labour costs.

Demand for leaders and skilled talent in APAC has increased steadily over the last 10 to 15 years, whereas the supply has been consistently scarce. Leadership pipelines are underdeveloped across the board, with bench strengths particularly weak in fast-growing or expanding organisations. These companies also reported difficulties in finding graduates with an adequate level of employability.

In order to address the talent shortage in APAC, companies are continuing to look beyond their domestic labour market. Global sourcing is becoming more common, also supported by the adoption of technology platforms that connect candidates and potential employers across the globe. In this context, cross-border talent mobility becomes a critical part of the organisational talent strategy. However, the need to contain cost and to take a long-term approach to talent management has moved many organisations to shift their international mobility strategy from fixed term expatriate assignments to localisation or the hiring of foreign national on local or semi-local terms.

The talent landscape in APAC is characterised by an overall shortage of skilled labour and leadership capabilities.

The Survey

With these principles in mind, Deloitte embarked on this research project which aims to explore organisations' responses to the challenge of balancing the need to attract and retain international talent in a climate of increased cost focus and transparency within the APAC region. The following pages of this report outline our findings from a survey conducted with 90 companies, focusing on the different approaches with regards to localisation, international hire or permanent transfer policies and practices adopted by respondents for permanent international moves into, out of and within Asia.

The contributors are made up of senior HR professionals (i.e. Heads of HR, Talent, Reward/C&B or Mobility and senior HR Business Partners) from global organisations with Asian operations and locally-based Asian organisations.

2. Executive summary

Asia-Pacific (APAC) region has become increasingly attractive to multinational companies looking to invest their financial and human capital.

Talent supply chains in Asia Pacific

Buoyed by domestic demand, the increasingly affluent consumer market and relative stability and growth, the Asia-Pacific (APAC) region has become increasingly attractive to multinational companies looking to invest their financial and human capital. The result of this investment is an ever increasing impact on the overall talent demand and supply equation within APAC. According to A Focus on Asia survey conducted by Deloitte and the Human Capital Research Institute, in the next year APAC companies anticipate an increase on workforce demands and challenges as they struggle to fuel their talent growth with 71% of respondents reported they are struggling to find the right talent.

This supply/demand mismatch is characterised by the high competition for available talent in the region which is not aligned with the available levels of appropriate talent. Currently, **the majority of talent resources do not have the appropriate critical skills needed**, with the main reasons being cited as the lack of qualifications or required global experience. For those with the right skills, widespread salary inflation poses an additional challenge: **salaries in APAC are increasing nearly 10 percent each year**, a result of top talent candidates changing jobs every nine to twelve months in order to capture the most worth for their value.

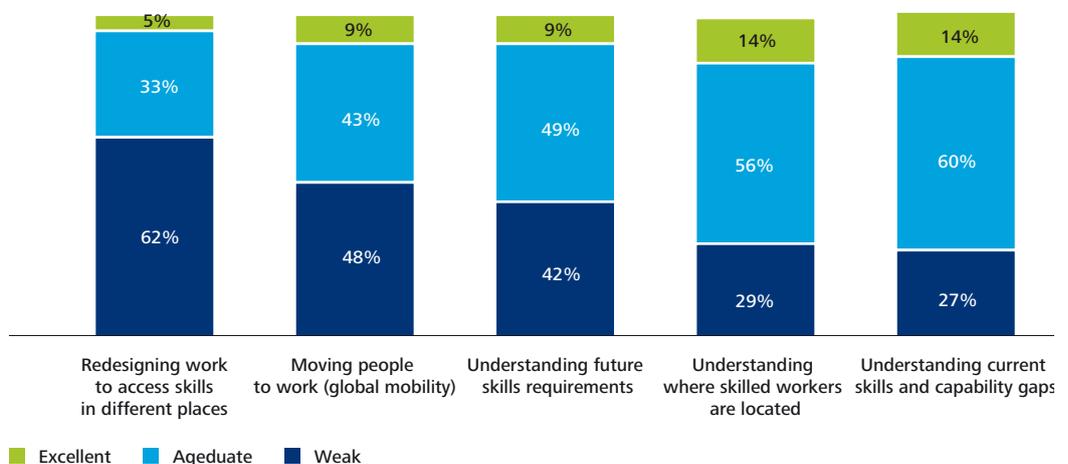
These factors together with the inability of many companies to retain the right talent only add to this supply/demand mismatch. As a result companies based in the APAC region need to **move away from the traditional training methods and development planning cycle** and instead embrace a more systematic, continuous process or “supply chain” approach to manage their global workforce.

Getting ahead of the curve

Supply chain approaches are used so companies can examine their capabilities at all levels and project gaps into the coming years to manage the supply/demand mismatch on a proactive basis. Once these gaps have been identified companies can focus on which skills they will need, where they might need them and how they might fulfil them (e.g. acquire or deploy).

Deloitte’s Global Human Capital Trends 2014 Report suggests that executives generally believe their companies are doing an adequate job of identifying both skill gaps and where skilled workers are located. However, it becomes apparent that **executives are struggling to access those skills, particularly when it comes to moving talent** to the work and redesigning work to access skills in new places (figure 1).

Figure 1. HR executives’ assessment of performance management capability levels

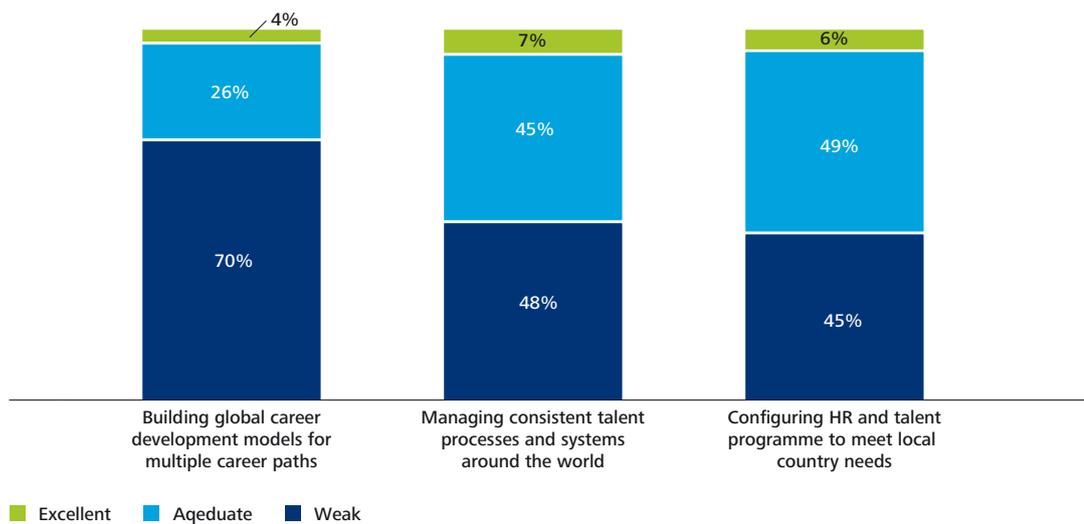


Source: Deloitte’s Global Human Capital Trends 2014 Report

For many organisations, one of the key drivers for managing their global people supply chains is the need for talent mobility within the company. Leading companies often move talent from region to region to address key talent gaps. Consider a business unit in Singapore with a strong need for engineering skills. The company may have a team in Germany with precisely the right skills that has just finished a similar project. Unless the company’s talent practices are globally integrated, this match between business need and existing skills may never take place.

A prerequisite to guarantee the success of talent mobility is the implementation of the right systems to support the increasingly common HR responsibilities around deploying the right specialists on the relevant global assignments in a rapid and cost efficient way. A globally integrated HR is critical, but when HR readiness was compared in the Deloitte Global Human Capital Trends 2014 among more than 20 talent practices, the **implementation of global mobility and career programmes was one of the lowest rated** – in fact it was more than 40% lower than the average for all other HR practices. More than two out of three executives (70%) rate their company’s ability to deliver on global mobility as “weak” (figure 2).

Figure 2. HR executives’ assessment of global HR capability levels



Source: Deloitte’s Global Human Capital Trends 2014 Report



Survey results

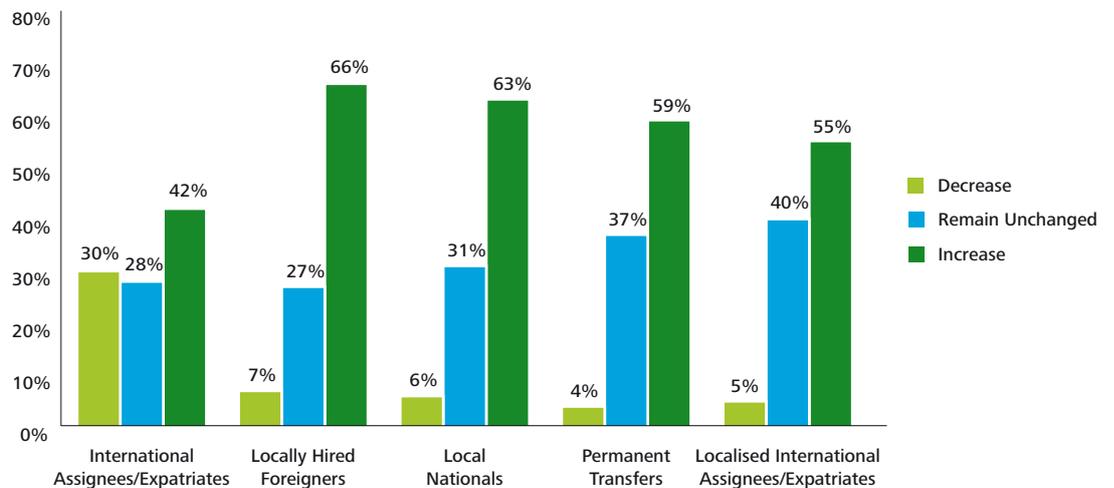
While businesses today operate in a pervasively global environment when it comes to customs, talent and supply chains, each local labour market has vastly different dynamics. **To balance strong global HR strategies and platforms, companies should build flexibility and agility into HR so it can be customised for local markets.**

The talent markets in Asia, for example, are far different than those in Western Europe and North America. The survey results indicate that the majority of **employers in APAC are seeking to overcome these challenges by creating a diverse framework of assignment types to support alternative ways of moving talent across the region** (figure 3).

The three most common alternative approaches for deploying talent across the region are:

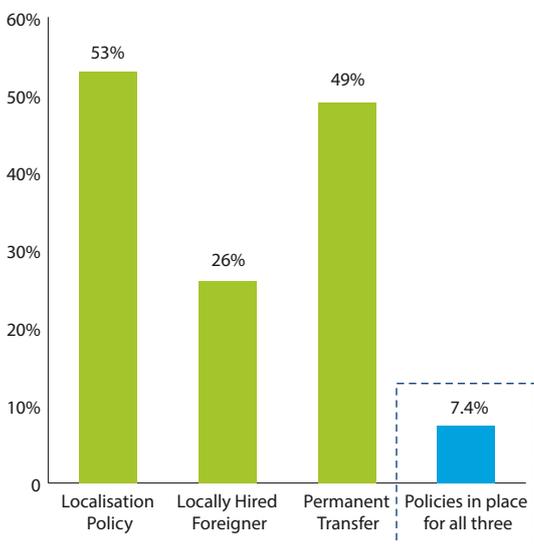
- **Locally hired foreign nationals**; the external recruitment of foreign nationals to a location different from where they currently reside;
- **Permanent transfer**; the internal cross border movement of an employee from country A to country B on local terms and conditions; and
- **Expatriate localisation**, the act of moving an employee from traditional home based expatriate terms to the host country terms and conditions.

Figure 3. Within the next 2 years and specifically in the countries that your company operates in, what volume and type of hires/moves do you expect to see?



More specifically, the survey indicates that **permanent transfer and localisation moves have seen an increase towards becoming standard practice** with 49% and 53% respectively of companies having a formal deployment approach to support such moves. Conversely, only 26% of companies have a formal policy in place specific to locally hired foreign nationals and less than 10% of companies have a policy in place for all three of the alternative move types (figure 4).

Figure 4. Percentage of companies who have formal policies in place for localising expatriates, locally hired foreign nationals and permanent transfers



Organisations with less than 500 employees universally applied the same policy to locally hired foreigners and local nationals. All larger populations were split across the same policy, a different one or call-by-case application.

Deep dive: Most prominent alternative approaches

Locally Hired Foreign Nationals

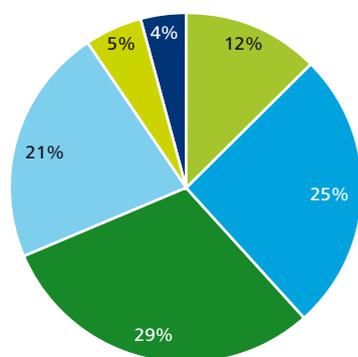
Potentially one of the most striking survey results is the finding that companies agree the **most significant increase in move types will be locally hired foreign nationals in the next 2 years.**

In general **job level, job role/function and hiring circumstances are consistent across all three move types but are most likely to influence packages** for permanent international moves. The most commonly indicated factors for locally hired foreign nationals were job level of the employee (29%), followed by job role or function (25%) and hiring circumstances (21%) (figure 5).

In terms of the package, benefits provided to locally hired foreign nationals are likely to be phased out. Where benefits are provided to locally hired foreign nationals **approximately two-thirds of benefits are provided for a limited period** following the relocation.

Where offered, benefits are most likely to be provided for between 2 and 5 years or indefinitely (applied to 33% and 45% of overall benefit provision instances respectively) until the individual's employment with the company ends (figure 6).

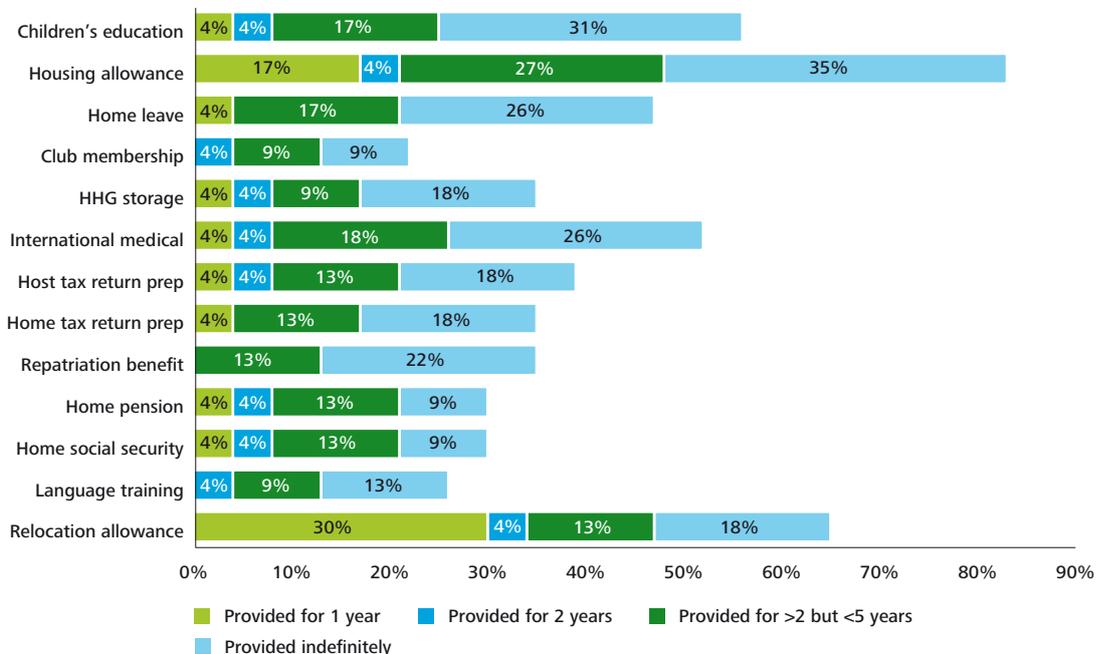
Figure 5. Which of the following factors influences the locally hired foreign national's package?



- Nationality
- Job role/function
- Job Level
- Hiring circumstances
- Length of time in host country
- Employee originates from a country within the region vs. outside of the region

35% of companies have the majority of their permanent transfers willing to permanently relocate within Asia.

Figure 6. For companies who provide additional benefits to the locally hired foreign nationals, which benefits are provided and is there a limit as to how long they are provided for?



Permanent Transfers

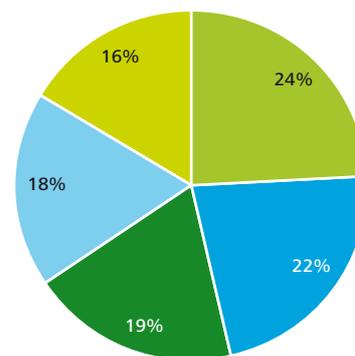
Our survey indicated that Permanent Transfers are not only on the rise, but are also the **most prevalent way for deploying talent within the region.**

There are many reasons that lead to the execution of a permanent transfer rather than deploying an international assignee.

The most prominent cited in the survey are either initiated upon the employee's request to transfer to another country or in an effort to manage the mobility costs of the assignment (figure 7).

The survey also indicated that permanent transfers are more common within Asia (figure 8). More specifically, only 8% of companies have the majority of their permanent transfers occurring in moves from Europe to Asia and only 2% originate from the Americas to Asia.

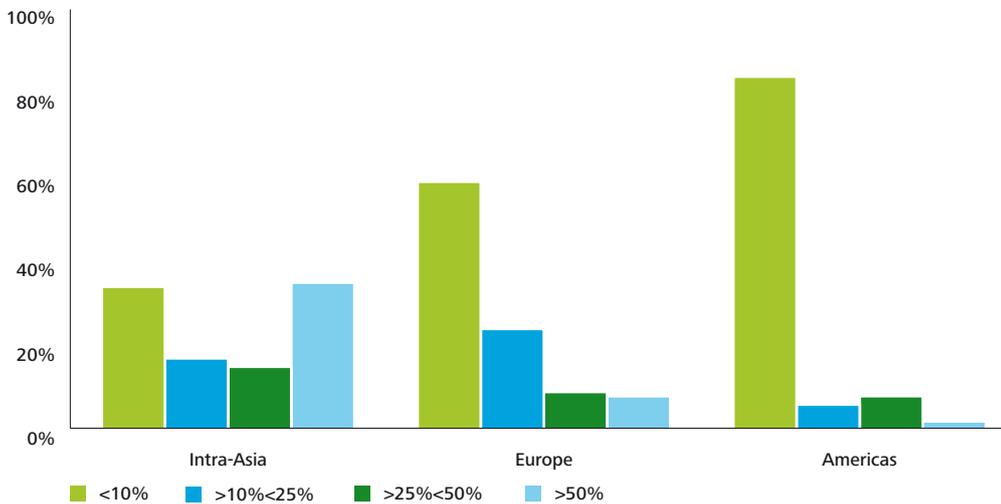
Figure 7. What were some of the factors that prompted your company to initiate intra-company permanent transfers instead of deploying an international assignee/expatriate?



- Need to manage total mobility costs
- Employee voluntarily requests for a transfer to host country
- Lack of requisite skills in local market
- Permanent Transfer is more favourable for company and employee
- Part of the company's talent management/workforce planning strategy



Figure 8. Using best estimates, what is the home region of your company's permanent transfers into Asia?



Conversely **35% of companies have the majority of their permanent transfers willing to permanently relocate within Asia.**

As a result each organisation will be required to manage a careful balancing of the use of traditional international assignments to plug short term skill gaps versus deploying people on permanent basis in order to manage their overall supply chain in the short to medium term.

Expatriate localisation

For many years the reason to deploy talent to Asia was to 'plug' particular talent gaps on a short-term basis with traditional expatriate assignments for employees who had a clear intention to return to their home country.

The sustained economic growth of the region more recently however has changed this dynamic with a greater longer term demand for talent within the region. This goes some way to explaining an **increasing trend to localise 'traditional' expatriates from both an employer and employee perspective** who both see the longer term growth opportunities in the region.

Proximity to family, asian partners and career growth are the most common 'other' reasons an assignee requests a permanent transfer.

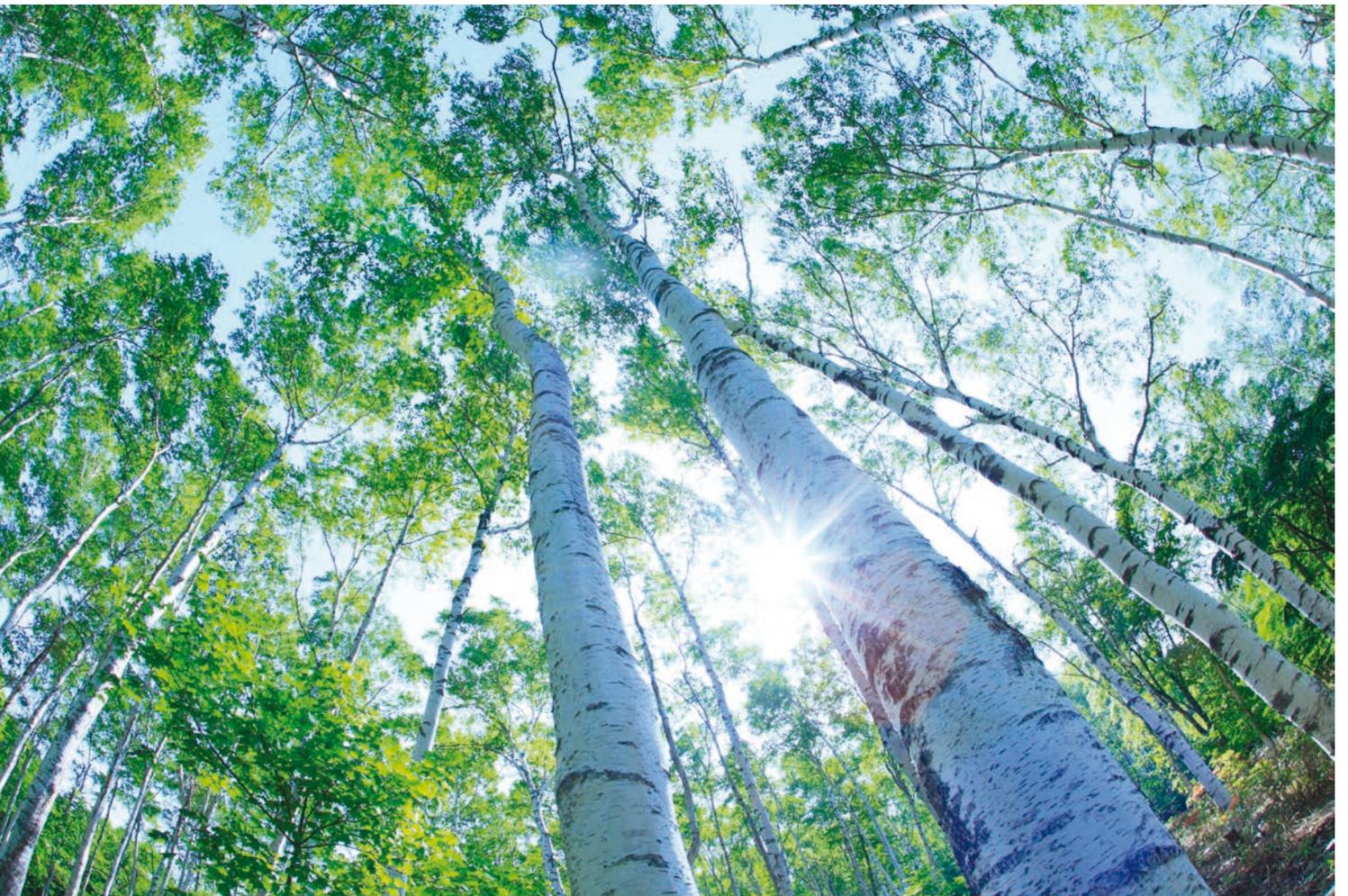
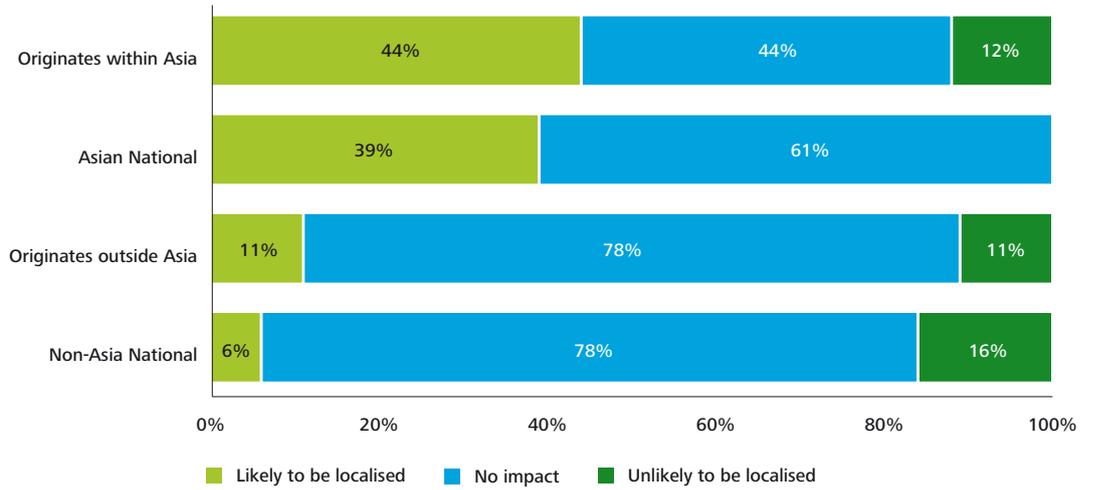
Our survey suggests that **assignee nationality and assignment origin were found to have an impact on the likelihood of localisation.** The results showed that 83% of respondents indicated an employee would be likely to be localised in APAC following an expatriate assignment if the assignment originated within Asia or if the assignee was an Asian national (figure 9).

In terms of locations, **the three countries in APAC where respondents indicated it was most common for assignees to localise were Singapore, China and Hong Kong.**

In addition 55% of companies reported that localisation of expatriates typically happens after 3-5 years. However, significantly, **88% stated that localisation is not mandatory** and therefore assignment benefits can be extended based on a case by case assessment. Where assignment terms and conditions are extended beyond the usual localisation date, 57% of respondents report the same terms and conditions are maintained on an ongoing basis.

Of the companies where a localisation policy is in place (57% of the respondents), less than a fifth apply the policy strictly. The vast majority (81%) cited that the **application of policy tends to be assessed on a case by case basis.**

Figure 9. In your experience with your company; would the nationality/originating country of the employee impact the localisation process?



3. Summary of our Top 10 key findings & final thoughts

#1 Policy diversification and the increase of alternative move types

The most significant anticipated growth relates to locally hired foreign nationals, local nationals and permanent transfers (expected by between 56% and 63% of companies). The smaller proportion of companies expecting an increase in expatriates (42%) illustrates that companies appreciate that they need to attract overseas talent by offering enhanced terms and conditions but moving away from the traditional and costly expatriate packages.

#2 Case-by-case approach to package formulation prevails

Having a formal policy in place does not preclude the use of case-by-case application, especially for localising expatriates. Formal policies provide greater parity and transparency for relocating individuals and allows companies to position themselves appropriately against competitors and peers while also ensuring a sound framework for managers to facilitate business planning and cost control.

Businesses are willing to deal with these downsides of the case by case approach in order to enjoy the flexibility to tailor localisation packages to individual circumstances.

However, our findings show that a case by case approach prevails in policy application thereby enabling companies to retain flexibility to tailor a package to individual employee circumstances. This approach to package formulation can have an adverse effect on centralised cost control and increase the administrative burden of international mobility.

#3 Additional compensation is often required to attract talent in APAC

A little over half of respondents confirmed they provide additional, ongoing benefits to permanent transfers (58%) and localising expatriates (56%). Support offered is generally the higher cost benefits such as housing and children's education. For locally hired foreign Nationals, the majority of respondents (70%) indicated that the compensation and benefits package differs from the package of local nationals.

#4 Phase out will generally apply to high cost benefits

60% of respondents remove assignment benefits with effect from the end date of an expatriation assignment. The remaining 40% either grandfather certain components, pay a lump sum to buy the expatriate out of their assignment package or continue assignment terms and conditions indefinitely.

Across the three move types the benefits that are most likely to be provided are relocation allowances, and ongoing benefits including housing allowance, home and host tax return preparation assistance and children's education. Where these additional benefits are offered, they are likely to be phased out over a period of 1 to 3 years; however some companies report that, particularly for localising expatriates, these provisions can be continued indefinitely.

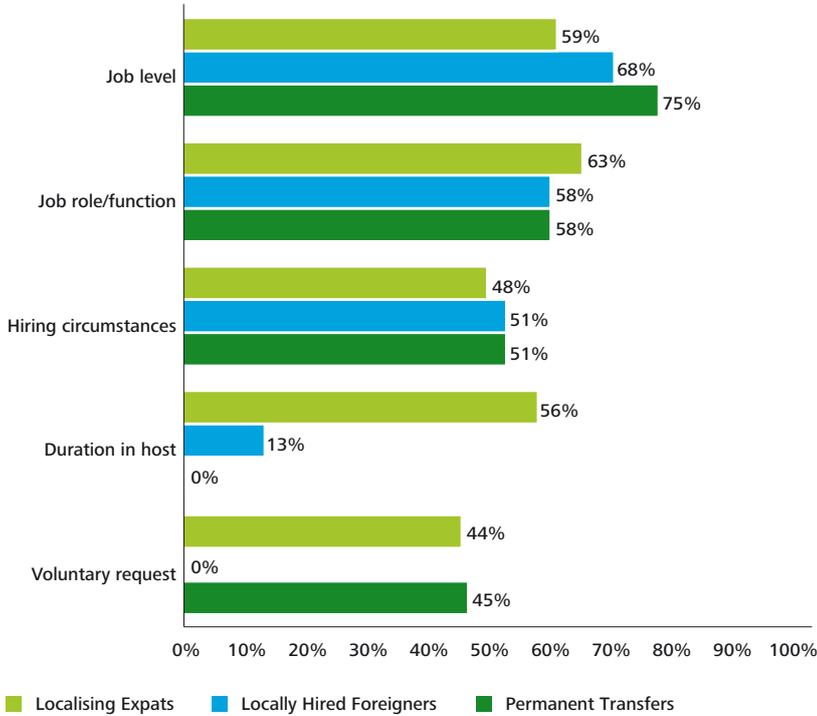
#5 A relatively small proportion of companies expecting an increase in locally hired foreign nationals have policies in place

Locally hired foreign nationals are anticipated to be one of the key growth areas over the next 2 to 5 years. Of the 66% of companies anticipating an increase in the use of locally hired foreign nationals, under a third have a formal policy for this move type. The predominant approach is currently to handle moves of locally hired foreign nationals on a case by case basis without a formal policy.

As the number of locally hired foreign nationals increases it becomes more advisable to introduce a formal policy in order to ease the administrative burden, ensure clarity and parity amongst employees, and maintain compliance and cost control by reducing company exposure to the collective bargaining power of individuals.



Figure 6.1. In your company, which of the following factors are likely to determine or influence the package offered to individuals moving under each move type



#6 The key drivers for relocation are broadly consistent across the three leading alternative move types.

Job role, job level and hiring circumstances have the greatest impact on the package of localising expatriates, locally hired foreign nationals and permanent transfers. Factors such as nationality and whether the move was self or company initiated were considered less important for package formulation although they were found to have a bearing on the likelihood of a local contract being established (figure 6.1).

#7 Assignment origin and assignee nationality have a strong influence on the likelihood of localisation

The majority (83%) of respondents indicated an employee would be likely to be localised in APAC following an expatriate assignment if the assignment originated from within Asia or if the assignee were an Asian national.

24% of companies stated that there would be no difference in the packages offered to expatriates localising following an intra-Asia assignment when compared with those originating outside Asia. The remainder stated that differences could arise depending on either negotiation with the employee or due to the nature of a flexible framework in place at the company.



#8 Top 3 countries for localisation are Singapore, China and Hong Kong

In terms of locations, the three countries in APAC where respondents indicated it was most common for assignees to localise were Singapore, China and Hong Kong. Approximately, 64% of all incidences of localisation are split across these three locations.

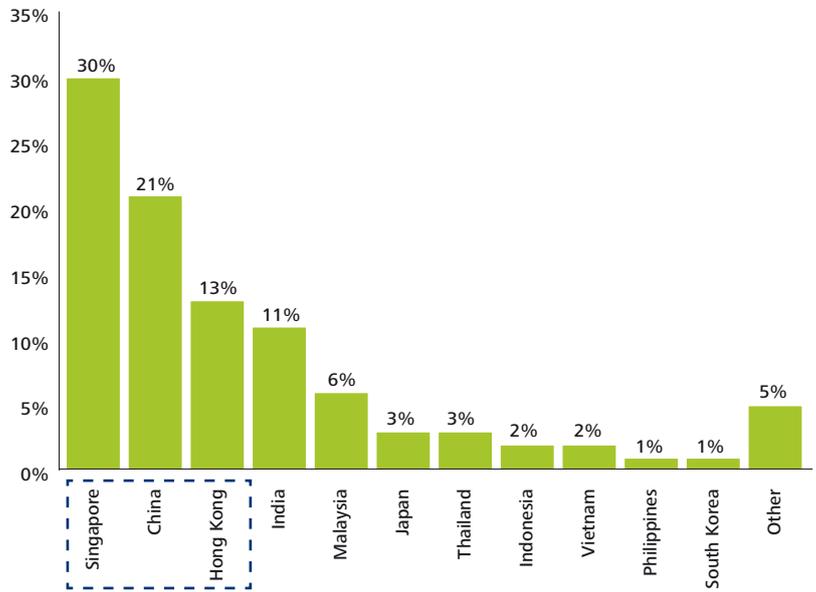
#9 The highest proportion of permanent transfers are intra-Asia with relatively few from the US

From the demographic information collected, we know the majority of respondents to the survey are headquartered within the United States. In spite of this the results have highlighted that the number of permanent transfers from the Americas into Asia is relatively low. It can therefore be devised that there is a trend for individuals moving from the US headquarter location to retain the option for repatriation rather than move on a permanent basis.

#10 For employees, the driving force behind permanent transfers is the chance of better careers prospects

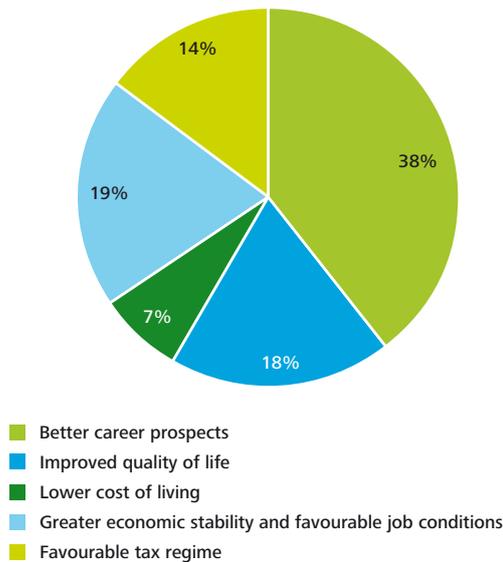
Employees increasingly expect international experience to form part of their career path rather than an exceptional opportunity for the few. By this token, employees are now more likely to see the benefits of moving to an overseas office as an opportunity to realise better career prospects and realise an improved quality of life with better job stability. Therefore, in place of the highly supportive expatriate package, companies are reporting that employees are willing to permanently transfer abroad with the incentive being the chance for better career development and learning experience.

Figure 8.1. List the top 3 countries in Asia where your company has the highest incidence of localisation of international assignees/expatriates



*5% respondents selected "other" as their top country

Figure 10.1 What, in your opinion, are some of the reasons behind why an employee has chosen to permanently transfer to the host location?



Final thoughts

The requirement for a combination of supply chain management (i.e. talent supply vs demand) of global workforces together with the right framework of assignment types has become more apparent than ever before. Businesses will react in variety of ways to address these challenges however here are a few starting points:

- *Understand skills gaps today and into the future:* Begin by identifying key customer or project needs, then identify key talent segments and expected supply into the future. Factor in company and geographical growth, retirement and attrition.
-
- *Extend the global supply chain:* Understand the extended supply chain to identify where keys skills are located, where they are going and where and how to source or relocate work to tap into talent hubs.
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- *Extend the time horizon:* Recognise how long it will take to fully develop key skill sets – the “time to proficiency” and model the training, experience and exposure necessary to build these capabilities.
-
- *Encourage local or regional differences within a global framework:* Adopting flexible local or regional alternative approaches to assignment policies can avoid a mismatch between investing in the right talent and receiving the appropriate business results without dramatically increasing business costs.

4. Glossary

Global mobility/Foreign service premium: A cash incentive provided to compensate for the inconvenience of being displaced. Also referred to as “Incentive Premium” or “Disturbance Allowance”.

Home country: The country where the employee was hired and not necessarily the country of residence or citizenship. Also referred to as “Originating Country”.

Home leave: A return journey granted to an international assignee/expatriate to visit his or her home country.

Host country: The country to which an employee is assigned.

Housing allowance: An amount paid by the company, either to the international assignee or the land, to cover all or part of the cost for rented or leased accommodation in the host country.

Host country compensation approach: A compensation approach intended to integrate the employee into the local market structure by paying him/her according to the local market rate.

Hybrid compensation approach: A compensation approach applying the higher of the home and host country approaches, depending on the home/host location combination, or using a home approach but integrating international (non-home-related) elements, such as an international spendable income.

Inter-regional transfers: Transfers between different regions (e.g. transfers between Europe and Asia Pacific)

International assignee/expatriate: An employee of the company who leaves his or her original country of employment to work in another country for a temporary period of time for a fixed duration, typically longer than three months.

International local hire: A third-country national who has been recruited from outside the country of employment hired to work in the country of employment. The terms and conditions of employment for a locally hired foreign nationals would typically not differ from those of a local employee, however initial relocation benefits may be provided.

Intra-regional transfers: Transfers between different countries within the same region (e.g. transfers within Asia Pacific).

Local employee: An employee who is working in his or her country of employment without any assignment-related benefits or allowances.

Local-plus conditions: Local employment conditions with supplementary expatriate benefits and allowances (e.g. housing and education allowances).

Localisation: The process of integrating an employee into the local compensation and benefits systems, following a long-term assignment along with the removal of assignment-related benefits and allowances.

Locally hired foreign national: A third-country national who has been recruited in and hired to work in the country of employment. The terms and conditions of employment for a locally hired foreign national would typically not differ from those of a local employee.

Permanent transfer: An employee who makes a one-way transfer of employment to the host country entity for an indefinite period of time, and severs his home country employment contract. This individual is often only provided with relocation and limited transition benefits to assist with the move from Country A to Country B.

Relocation allowance: An allowance paid prior to departure to help cover incidental and out-of-pocket expenses for the move which are not otherwise reimbursed by the company (excluding visa/work permit, tax consultation, removal expenses, cross-cultural or language training). Also referred to a “Moving or Transfer Allowance”.

5. Who to contact



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Notes

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Designed and produced by The Creative Studio at Deloitte, London. 36843A