

International Mobility in the Engineering & Construction Industry

Analysis and insight on trends and best practice



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Methodology

We interviewed 24 senior human resources executives, or equivalent, from leading engineering and construction companies headquartered in the UK & Europe, North America, South America, Asia Pacific, South Africa and India. The data was collected in person and by telephone between May and September 2008. The quotations anonymously cited in this document are taken directly from our interviews and represent a broad range of geographical views.

Welcome

In this paper, we take a close look at trends and best practice across the Engineering & Construction (E&C) industry with regard to moving people to work abroad. We draw on interviews with 24 companies in the sector from around the globe, covering areas such as international assignment policy, compliance, reward, cost effectiveness and talent management.

Key findings of our interviews include:

- Of the sample of E&C companies, 80% rate international mobility as important to their business now – increasing to 95% in the future
- Most respondents recognise the importance of international mobility and talent management, but few have implemented a systematic approach to link the two
- 32% felt that an international assignment increases the risk of individuals leaving the company
- Only a few rated cost effectiveness as a priority – more than a third are failing to measure it at all, while those that do often use only rough estimates
- Immigration and social security issues are viewed as less critical compliance issues, but non-compliance in either of these areas can trigger steep penalties

Senior executives in the E&C sector recognise the importance of competing in the global market to grow their businesses. In the PricewaterhouseCoopers *11th Annual Global CEO Survey: Compete and Collaborate*[†], over a quarter of E&C chief executives cited geographic expansion as the main opportunity to grow their business over the next 12 months, a higher share than in most other industry sectors.

Since our global CEO survey was published in January 2008, global expansion and the spreading of risk has become even more critical, particularly in regions where the impact of the 'credit crunch' on the industry has been acute. Few observers would have expected conditions in the industry to change so dramatically in such a short period of time. Companies in developed markets suffering from slower economic conditions are looking even more urgently to emerging markets, where more robust economies, substantial oil revenues and major deficits in the existing infrastructure spell opportunity. Additionally, certain mature markets also seek to recruit offshore and bring in talent to meet demand on domestic projects.

Competing in the global market and winning contracts overseas means moving people around the globe – whether it be for a few weeks to win a cross-border

contract or for many years in order to deliver work. All the indications are that this trend is set to increase significantly.

At the same time, many E&C companies, like their peers in many other industries, are focusing on the importance of proactively managing talent. Recruiting, rewarding and retaining top talent is vital, given the profound skills shortages across the industry.

Our survey suggests that many E&C companies recognise the importance of both international mobility and talent management for their business – but very few, if any, have developed a systematic approach which links the two.

Companies will need to increase their agility in order to resource key projects appropriately – and the task of managing an expanding globally mobile workforce is not an easy one, as many companies have already found. The numerous challenges presented by international mobility require the sustained attention of companies in the industry to ensure it supports the objectives of the business, rather than undermining or hindering them.

This paper highlights some of the key people issues that are being faced by companies across the industry and provides insights into dealing with these challenges. We hope you find it to be thought provoking.



Jonathan Hook

Global Engineering & Construction leader
October 2008

[†] Further reading on page 18

Overview

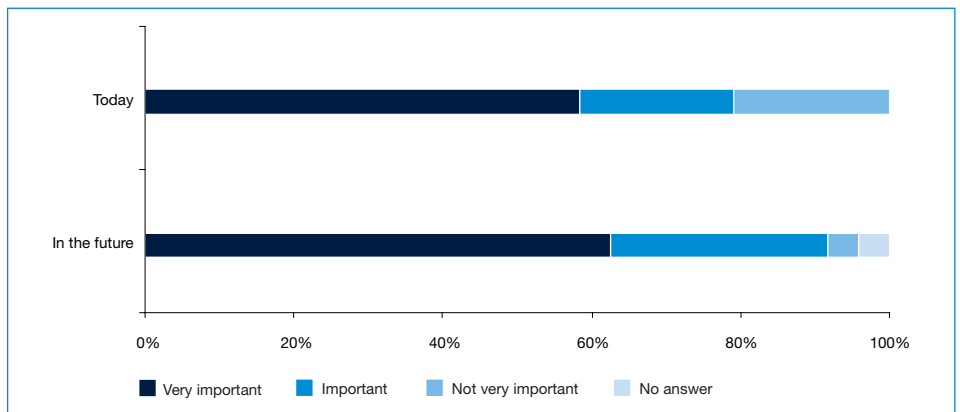
Moving assignees from one location to another can be a time consuming, costly and potentially risky business. There is seldom a sufficient level of experience or capability within companies to identify, let alone deal with, the breadth and complexity of the issues that arise.

The issues can range from double taxation, employer and employee social security compliance – through to ensuring that the employees are able to fulfil host country tax and regulatory obligations. Further, dealing with the human issues around re-settling, incentivising and providing sufficient recognition to employees working in a new environment poses significant challenges.

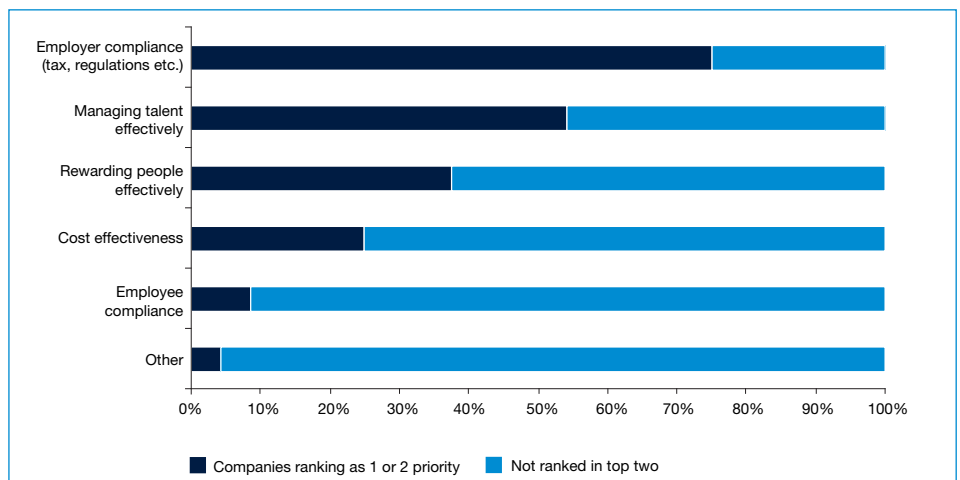
Often, issues only come to light when assignments go wrong and, by then, the damage is already done. Ill thought out assignments can lead to additional unplanned tax and social security costs for the company, the unwanted interest of revenue authorities and disgruntled assignees. Moving a number of assignees to a multitude of destinations serves to multiply the scale of these issues and their related risks. While the companies we surveyed varied widely in terms of the number of destination countries and overall assignees, many operate in dozens of countries. Therefore, for most, the number of assignees runs in the hundreds – and a few companies are seeing their expat population number in the thousands. This level of complexity presents a number of issues. For example:

- developing and implementing an effective policy for managing overseas assignments and international recruits;
- putting in place appropriate support in the host country for the assignee and their family once they arrive;
- coping with a host of compliance obligations and risks, starting with immigration and ranging from tax and social security compliance issues to local employment regulations;
- motivating and retaining employees who are assigned overseas;
- making sure that the development of your company's talent does not stop when assignees are seconded overseas; and
- managing the costs associated with international assignments.

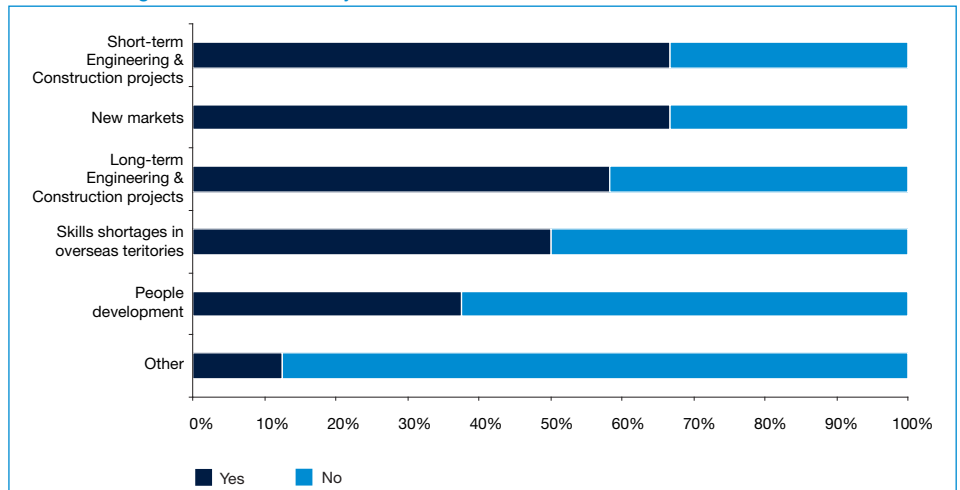
The importance of international mobility to the success of the organisation



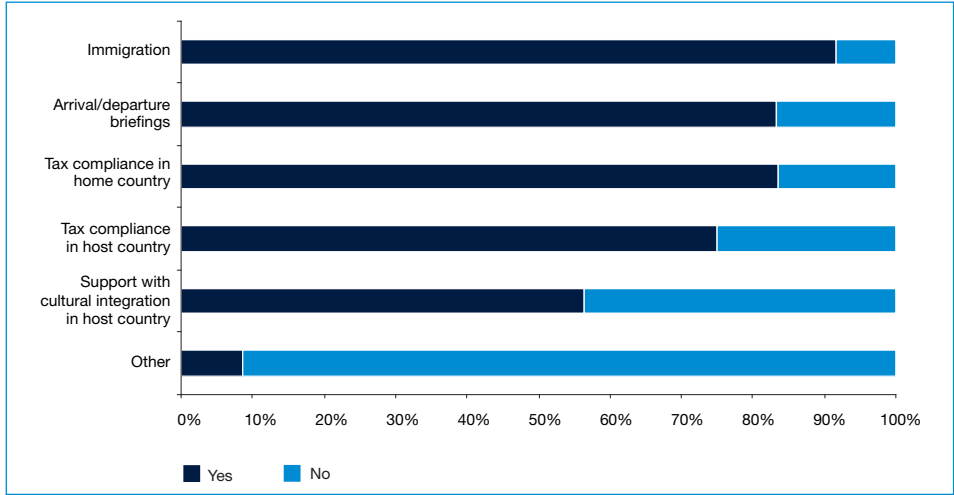
Key priorities with regard to international mobility



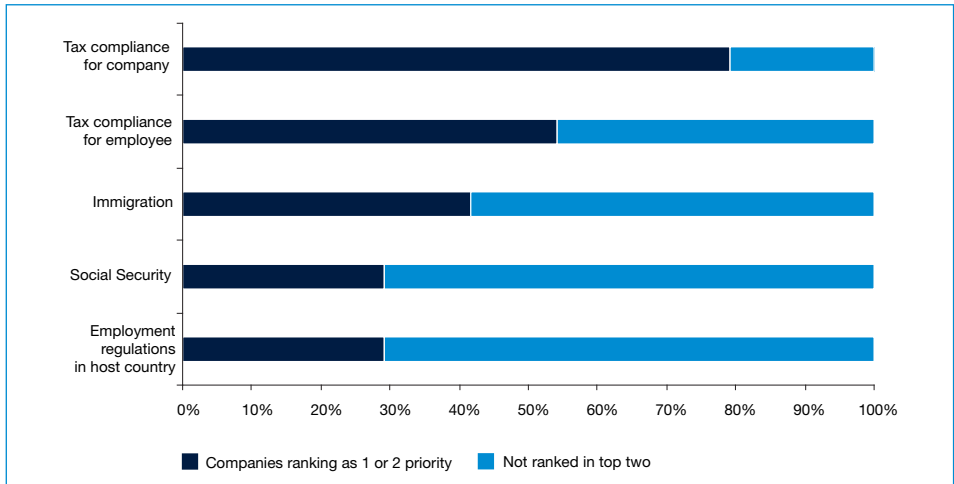
Factors driving international mobility



Types of compliance support offered to employees on international assignments



Top compliance issues with regard to internationally mobile employees



E&C companies face a number of very specific challenges around international mobility. While in many industries only a few expatriates will be sent to foreign subsidiaries or branch offices, or brought in to headquarters, at any given time, a major construction project often requires mobilising a large team, which may be composed of both in-house staff and external contractors. Moving from project to project and international location to location is endemic in some of the larger global organisations. Often assignees are sent to developing countries, where infrastructure issues may pose particular challenges.

Progress in managing a growing internationally mobile workforce is often unplanned and achieved through a process of trial and error. Most companies are dealing with such issues in a vacuum, as there is a lack of information or insights available on what is 'best practice' or even common experience across the industry.

How are the companies we surveyed approaching international mobility?

International mobility is viewed as very important to the success of E&C companies, both today and in the future. Most of the companies we surveyed either have a written International Assignment Policy or are in the process of drafting one – and are also very aware of issues around compliance. Nearly all respondents reported that complying with tax and regulatory issues is very important to their company, and tax compliance for employer and employee topped their list of compliance issues. Most companies also reported providing a wide range of support to employees to help ensure compliance. So far, so good.

How is international mobility affecting issues around talent management, reward and retention?

E&C companies are increasingly focused on talent management – more than half of the companies we surveyed already have a talent management strategy in place. Indeed, while talent management comes in second behind compliance as a key priority with regard to international mobility, most companies are not yet linking the two. For example, most companies report that they have a framework in place to evaluate the performance of international assignees, but they almost uniformly use standard

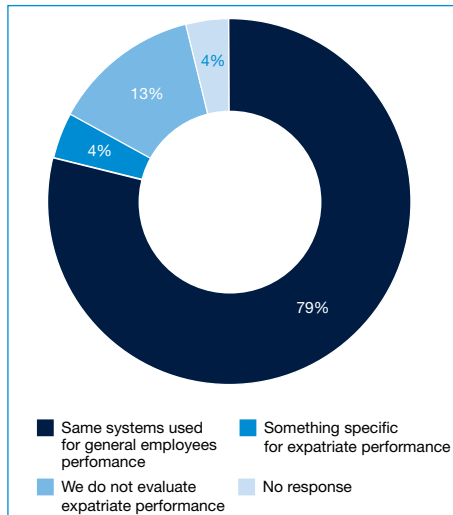
performance review tools. Only one company reported tailoring its performance review processes to the needs of overseas assignments. Not surprising perhaps, given that people development comes in fairly far down the list of cited factors driving international mobility.

Views were split as to the impact of an international assignment on the likelihood of an employee leaving the company. Roughly equal numbers felt that an assignment somewhat or significantly increased the rate of employee departures (32%), somewhat or significantly decreased this rate (36%), or had no effect (32%).

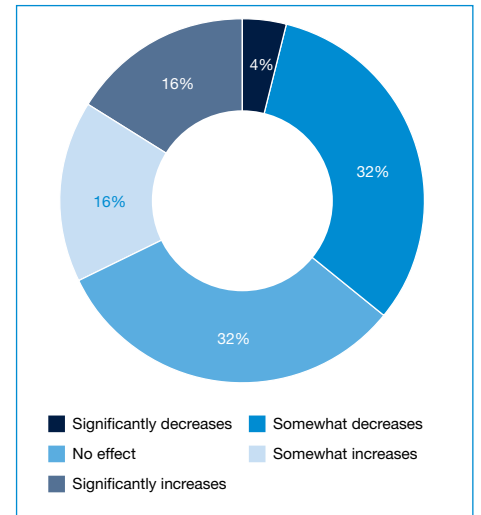
Every company we surveyed reported at least some form of extra compensation for international assignments. Almost all companies offered home-leave travel expenses, cost of living allowances and medical benefits – and the majority also include relocation benefits. More than half of companies increase base salaries and offer per diems, and a variety of other benefits such as housing allowances, educational allowances for family members, etc. were also cited. Overall, company reward strategies varied widely, as did the amount of analysis and preparation work done to determine these strategies.

Assignment packages and reward programmes can end up adding substantially to the overall cost of a specific project. Surprisingly, only a few respondents rated cost as one of their top priorities. Over a third do not actually estimate costs, and of those that do, many only use rough or rule-of-thumb

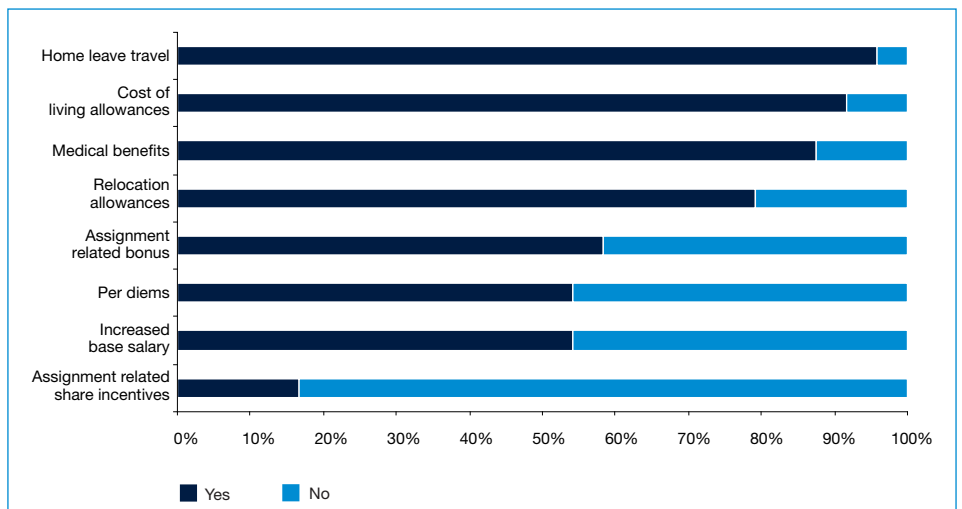
Methods of evaluating expatriate performance



Views on whether an international assignment increases or decreases the chances of an individual leaving the company



Types of additional remuneration offered as part of an international assignment package



estimates. Further, when asked about specific plans to minimise costs, fewer than half were able to report on current measures. Of those companies which did discuss cost-saving efforts, several reported measures only in the planning stages. Only three respondents out of 24 gave their companies top marks for maximising the cost effectiveness of assignments, while five actually described their cost efforts as ineffective, a further nine termed them merely satisfactory.

Many E&C companies are relatively decentralised, so it can be challenging to implement programmes consistently across all part of the company and the globe.

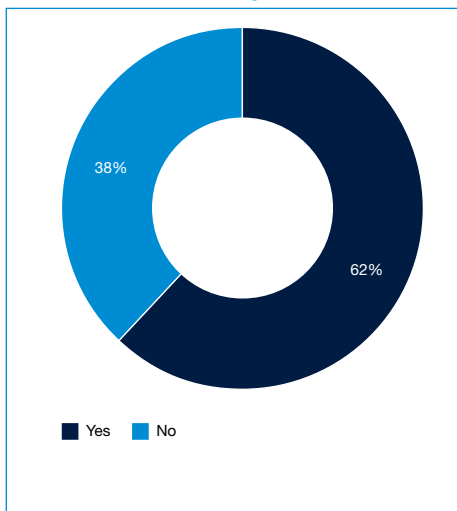
Several factors are critical to ensuring that the process runs smoothly:

- Companies should develop and rigorously implement a consistent, considered policy around international mobility
- Sending individuals and teams abroad generates a host of compliance issues – companies need to ensure that everyone involved understands how and when to address these issues
- Managing talent, and developing appropriate reward strategies to support the international assignment process, is key to developing your company’s people assets
- Companies sometimes overlook the bottom line. While staffing a project

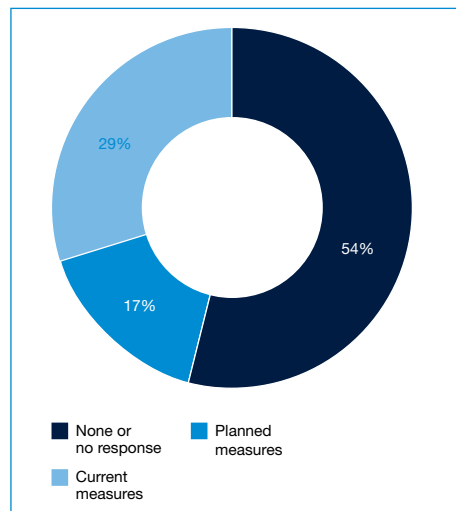
appropriately may be top priority, organisations need to understand the cost implications of their international mobility programme to ensure that it truly contributes to overall profitability and that there is full visibility of project profitability.

In summary, getting the right policy (assignment policy framework, talent management framework), processes (compliance, payroll procedures) and people (HR, payroll, tax specialists, external advisers) in place is key to delivering a successful international mobility programme.

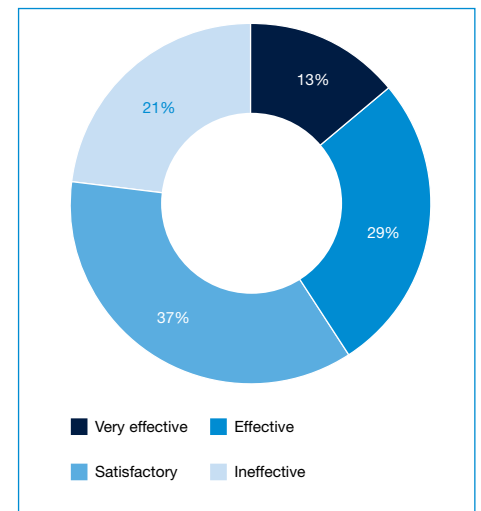
Percentage of companies estimating costs of international assignments



Percentage of companies taking measures to address cost issues



Rating of level of effectiveness of the company at managing and minimising costs associated with cross-border assignments



The policy challenge

The companies we surveyed agree – international mobility is critical to the success of their business. Nearly all rated mobility as important or very important, both today and in the future.

An International Assignment Policy is the foundation of an effective international mobility programme and is essential for a smooth, cost-effective process.

Companies typically develop a policy framework which comprises separate policies for different types of assignment (e.g. different policy terms depending on length of assignment, destination country, seniority of employee).

Whether a company has a single policy or policy framework, both should be aligned to: achieving the strategic goals which drive global business development in new markets and manage the risks thereof; responding to global opportunities with speed and flexibility; enabling the staffing of international projects whilst keeping compensation packages competitive; motivating, developing and retaining of skilled staff; complying with fiscal and social security legislation around the world; and efficiently managing an internationally mobile workforce.

The large majority of interview respondents (79%) reported that they have a written International Assignment Policy and those companies without a written policy are generally in the process of drafting one. These findings suggest that the importance of developing a written International Assignment Policy is already recognised within the E&C industry. However, while most companies reported having such a policy, some stated that it acted merely as a guideline, or that their policy differed between countries – unsurprising perhaps, given the decentralised nature of many E&C companies.

The challenge for an International Assignment Policy is to ensure that the content is sufficient to meet a company's strategic goals, whilst being supported by a process that ensures that the policy can be implemented effectively on a global basis.

The content of an International Assignment Policy must achieve the goal of motivating employees to become internationally mobile, whilst remaining competitive in the global market for E&C projects and ensuring compliance with fiscal and social security legislation around the world.

The underlying process has to be capable of delivering policy objectives in a timescale that enables the company to respond to opportunities speedily. It must be capable of implementation on a global basis – and robust enough to deliver in the areas of workforce management and development.

Motivating employees to become internationally mobile entails more than removing the cost barriers associated with relocation, living in another country and increased tax burdens. Policies should also address employees' concerns regarding career development, future employment and family commitments. Given the importance of global projects in the E&C industry, the retention and development of employees who have gained valuable knowledge and experience by working on an international assignment is a key strategic objective which will influence a company's ability to operate in the global marketplace. To achieve this, International Assignment Policies may be widened to incorporate a talent management framework, specifically designed to deal with talent which is assigned overseas.

Key factors in implementing an International Assignment Policy include the need for clear communication and to manage expectations. Time invested in explaining both policy and process to assignees results in fewer complaints and problems during – or after – the overseas assignment.

We asked respondents to highlight the issues most often raised by employees regarding their International Assignment

Policy. Results show many companies face contradictory demands from their employees, e.g. a demand for greater consistency around issues such as compensation – whilst at the same time experiencing attempts by employees to negotiate assignment packages, use funds provided for travel home for other purposes, etc.

It was noted that expatriates who have completed an assignment were much more likely to accept the company's overall policy for subsequent assignments. This suggests the importance of consistently applying existing policies. Companies with a clear, well-documented policy are less likely to negotiate with individual employees over terms – and employees are more likely to accept company policy. In common with other industries, E&C companies face a major challenge to ensure consistent global implementation of their policies.

Most companies differentiate the level of support they offer to employees around two factors: the length of the assignment (short, long-term or indefinite) and the employee's destination country. This finding corresponds to some of the wider issues faced by E&C companies. For example, short-term projects are common in the industry and employees may be required to work on a number of sequential international projects. Companies must balance the right level of support to employees to meet their expectations effectively, so differentiating by length of project and destination country often makes sense. The companies surveyed viewed the level of seniority of an employee and the employee's role during the assignment as less important when determining the appropriate level of support.

In our view, a gap continues to exist between vision and execution of International Assignment Policies within the E&C industry. Greater focus on people issues such as career management should have a knock-on effect for policies around international mobility. We believe that a strong written policy, together with a robust implementation process and clear communication, is the key to successful international employee mobility.

What should an International Assignment Policy include?

A well-prepared International Assignment Policy usually documents the following areas:

- **International assignment philosophy.** Details on the company's overall aim and guiding principles with regard to supporting international assignees.
- **Compensation package and delivery.** Information on offered allowances/benefits and the method of calculating an individual's salary.
- **Career development & repatriation.** How international assignments are expected to impact the employee's future role following a cross-border project (i.e. promotion, different responsibilities based on experience gained, etc.) and information on the continued development of the expatriate's career following the assignment.
- **Appraisal.** Information on the procedure for reviewing performance during and following the assignment.
- **Social security arrangements.** Information on what country's social security system the expatriate should be covered by and what pension (state/private) is being offered.
- **Family support.** Information on assistance provided around employment for spouses in the host country, education for children, nursery for children, medical and health care.
- **Removal & relocation.** Information on assistance concerning removal or storage of furniture, house hunting in the host country and payment of host accommodation.
- **The approach to taxation.** Information regarding whether or not the company will undertake to pay relevant income and other taxes which may exceed the employee's tax burden in the host country (tax equalisation); information on whether the company will assist in meeting compliance obligations.
- **Leaving employment.** Premature termination of assignment and/or leaving the assignment or employment.

Questions for reflection

- Does your International Assignment Policy include sufficient flexibility to respond to market conditions in the various countries in which you operate?
- How long does it take to set up an international assignment – is this in line with the response time for market opportunities? Is your International Assignment Policy designed to facilitate a quick response?
- Does your International Assignment Policy include concrete measures around the motivation, development and retention of skilled staff?
- Are you confident that your existing International Assignment Policy is consistently followed throughout your organisation?

International compliance

E&C companies rate most elements of compliance as very important – yet compliance issues may sometimes be addressed fairly late in the process of bidding and winning new projects.

In the E&C industry, international mobility moves at an extremely fast pace. Prior to beginning projects, companies often need to send a team on-site to scope bids. Once a contract is won, getting a major project up and running often needs to happen rapidly as deadlines tick by. This sometimes has the effect that international assignments are put in place, and sometimes employees have even already begun work, before compliance issues come under discussion. Further, the level of complexity of international assignments has burgeoned in recent years. Rather than only consisting of 2-3 year secondments, many companies now need to manage a mix of different types of arrangements, including short-term assignments, cross-border commuters, more frequent business travel and business trips which can stretch into months. When these arrangements are not considered to be international 'assignments' per se, compliance issues in home/host countries may be initially overlooked. Addressing compliance later in the process may increase overall costs – when these costs should be factored into project budgets beforehand – and more importantly, companies run the risk of non-compliance.

The ramifications for non-compliance are severe, and may include financial penalties, negative publicity, a damaged reputation and a potentially negative impact on shareholder value. Compliance with immigration regulations allows no room for error – if the correct documentation is not in place, this could mean refusal on entry and possible imprisonment for employer and/or employee, or the loss of licence to operate. The long-term impact from non-compliance can be substantially greater than immediate costs – companies may face greater scrutiny from tax authorities, or may find themselves blacklisted from lucrative projects, particularly those financed by local governments, due to the damage done to company reputation.

E&C companies may also effectively be creating permanent establishments in countries where they have contracts, potentially creating corporate tax issues and additional reporting requirements. Therefore, employers need to consider compliance issues for their globally mobile workforce around numerous factors, including immigration, employment law, income tax, social security, VAT and corporate tax.

When asked to rank their priorities around international mobility, the wide majority of respondents included employer compliance as one of their top two. Further, nearly all respondents reported that complying with tax and regulatory issues was very important to their company. Many companies are already sensitive to the reputation risk inherent in inadequate tax compliance. A number of respondents also highlighted the need to support employees in compliance issues so that they are free to focus on the project, rather than distracted by tax or immigration issues.

Looking more specifically at issues around compliance with regard to internationally mobile employees, E&C companies ranked their own tax compliance highest, followed by that of their employees. Immigration and employment regulations in the host country were much less likely to be viewed as top issues.

While the high rating of tax issues is not surprising and reflects the severe penalties for non-compliance, companies need to ensure that this emphasis is not coming at the expense of ensuring full compliance around other matters such as social security and immigration. Immigration is generally the first obstacle an employee/ employer faces when considering an overseas assignment – if an employee cannot enter the country, the assignment fails. Many companies may have sufficient confidence in their existing procedures, however these should be regularly scrutinised to avoid possible unpleasant surprises.

“It should just work and be a smooth transition. It would be frustrating for the employee if he himself would need to concentrate on his taxes, and would be inefficient for the company.”

“The most important (issue) is tax compliance due to the economic and reputation risk.”

Social security was also ranked well below tax issues. In our experience, this is actually one of the common areas where mistakes are often made – which can potentially be very costly. Companies need to ensure that they are paying social security in the right locations and in the right amounts.

Most of the companies surveyed look to external providers to support tax compliance – in other areas, there is significant variation around whether companies used in-house or external resources to achieve compliance. Given ever-changing legislation and the need to tailor assignments to individual assignees with very different personal situations, external advisors with detailed knowledge of legal requirements, cost of living, cultural conditions, etc. in many different countries may be able to help companies achieve compliance and a smooth transition to the host country for the employee, and reduce costs for the employer. For example, in the United Kingdom, there have been significant changes over the past year to the taxation of employees assigned to the UK and also to the immigration process. Companies who are not up to date with these changes risk tax compliance and even criminal (in the case of immigration) consequences of getting it wrong.

Very few of the E&C companies interviewed reported that their company has been subject to any employer compliance enquiries from tax or other authorities in the past twelve months. In our experience, some tax authorities have

had relatively little experience with issues around residency and taxation in the past years. We have also noted, however, that some tax authorities are becoming more experienced in dealing with expatriate employees. Further, access to information and the ability to interrogate data is much being made much easier for revenue authorities through the increased use of electronic records. So we anticipate more compliance reviews in future years. Many tax authorities see a review of compliance for expatriate employees as an easy target, because so many companies get this wrong. In the E&C sector, the HR/ expatriate team responsible for compliance issues is often detached from the department which is sending the individuals on assignment. If a consistent process is not in place to ensure that the right people are being notified at the correct time, compliance issues may arise.

As noted, the E&C industry is a fast moving sector, where assignments sometimes need to happen overnight. Having an established policy which is fully understood and executed by HR is therefore even more critical for the sector than in other industries which may customarily have more lead-time to check all the details of an international assignment. Both the employee and the employer need to understand fully their compliance responsibilities and information needs to be communicated within the business to the right people.

Non-compliance can jeopardise the bottom line. Companies should avoid the ‘ad hoc’ approach that predominates in much of the E&C industry and arrange assignments in advance wherever possible. When speed is of the essence, companies must have a thorough, co-ordinated process in place to consider all potential issues before sending individuals abroad. Finally, a company should work together with its employees. Every assignee must understand their responsibilities whilst on assignment, and this information should be written into the assignment letter.

Companies need to ensure that getting compliance right – including immigration and social security issues, and not only tax matters – is seen as a key business priority and not solely the responsibility of the HR function.

Questions for reflection

- Are you confident that your organisation is achieving full compliance for every employee working internationally?
- What internal processes do you have in place to monitor your international assignments and ensure you are fully compliant in home and host countries?
- Do you monitor the process for sending staff to perform on-site bids and other ‘business trips’ that may evolve into international assignments and at what point do you seek external advice?
- Do you recharge costs to the overseas territory to where the individual has been seconded? If so, have you ever reviewed the double taxation treaty for this particularly country to determine if a tax liability is created there?
- Are you aware of the impact on pension and incentive entitlements when operating cross-border?

Talent management

Focusing on those people who consistently add the most value to organisations is critical to long-term growth. Companies with a Talent Management Programme have a framework in place to recruit and develop top talent, including appropriate strategies for appraisal and reward.

The E&C sector faces skills shortages in a number of areas. Sourcing and recruiting was the top-ranked HR concern stated by our survey respondents, with 15 out of 24 seeing it as a one of their top two priorities – and talent management can help in this area. Indeed, another two-fifths of respondents signalled talent management out as one of their two key HR priorities, and more than a third of respondents report that a talent management strategy already exists in their organisation – so many E&C companies are beginning to focus attention on this area.

When asked how they are responding to concerns around recruitment, a number of companies reported an emphasis on building their brand as an employer. How do you achieve this type of strong brand? A comprehensive, documented talent management programme may help to attract top talent by showing them the opportunities they will encounter in your company. It also helps achieve these goals in less obvious ways. Talent management facilitates changes in internal behaviours – and successfully leveraging quality people is the best way to enhance reputation – particularly in a sector where a company's brand is only as good as its last project.

Given the growing importance of new markets for many companies in the industry, integrating talent management into existing International Assignment Policies or policy framework could prove to be a key competitive advantage for those who are most successful in this area.

Managing international projects is challenging, so top-performing employees are often sought for key international assignments. These stints abroad, when well-managed, can provide excellent opportunities to enhance the skills sets and experience of top performers. Nonetheless, a number of pitfalls can arise. A well-considered talent management programme includes provisions for developing a

pipeline of emerging talent – but when top performers are sent to remote locations, they may not be available to provide appropriate training and mentoring for their successors.

Other risks can emerge upon the return home. On the one hand, project managers and other top talent returning from international assignments may find they are no longer aligned to the local business environment. Providing support to help them reacclimatise and adjust to the local environment can help ease the transition. Companies also need to ensure that they take top performers' evolving skills sets into consideration when they move on to their next role. Global experience can significantly deepen an individual's capabilities – but all too often, companies fail to capitalise on an employee's enhanced skills and experience, increasing the likelihood that individuals will be actively recruited by rival companies who recognise these broadened skill sets.

Most companies report that they have a framework in place to evaluate the performance of international assignees, but this is generally done using standard performance review tools, rather than ones specifically developed for cross-border assignments. In practice, this means that such reviews often fall through the cracks, as key staff may be thousands of miles distant from their direct superiors, mentors and coaches. Most companies with a developed talent management strategy also did not report any tailoring of such to the specific experiences of expatriates. By incorporating specific procedures for international mobility into their frameworks around talent management, companies can ensure that the top performers who contribute to the success of international projects are able to make an equally strong contribution when they return – and also be appropriately rewarded.

“Our corporate HR philosophy is based on growing people, increasing their responsibilities and delegating decision-making, to develop small entrepreneurs. This implies a high autonomy in decision making and orientation to results: ‘the more responsibilities the people assume, the faster they will grow’. Talent management is critical for this HR model...”

The precise strategy for talent management in an individual company will not – and should not – exactly match a pre-defined industry standard. Talent management should be tailored to an individual company's operations and future goals. In the responses to our survey, several E&C companies emphasised a de-centralised corporate structure that facilitates responsibility at the divisional departmental – and individual – level. Greater autonomy is seen by these companies as a key selling point to new joiners. When enhanced autonomy is integrated into a comprehensive talent management programme, substantial opportunities emerge.

Other companies may define a different strategy. If engineering is seen as the company's core skill, fostering the best project managers may be the most effective route to ensuring that the individuals who are most vital to future success are managed and retained. In this case, the talent management programme must be tailored to this objective.

Once a company has developed a talent management strategy, implementation remains a key challenge. As previously noted, E&C companies are often very decentralised. Such companies may need to guard against developing a policies which may appear to work throughout, but are often not implemented in practice in many of the locations where they have operations.

Actively managing your top talent

We have identified three key steps to delivering a robust talent management programme:

- **Define.** Not only do differing organisations define talent in different ways but objectives will often vary across departments, so developing and agreeing a coherent definition across the organisation is critical.
- **Imagine.** E&C companies need to picture what their talent group will look like – be it developing top project managers, ensuring staff have market-leading skills in key contracting disciplines or facilitating in-house entrepreneurs – and plan how to get them there.
- **Implement & Improve.** Finally, solutions will need to be designed, communicated, implemented throughout the organisation, and continually enhanced, with the successes measured.

Questions for reflection

- How does your company define 'talent' – and is this definition consistent across the entire organisation?
- How strong is your company's brand as an employer? Have you considered how talent management might strengthen your image in the employment market?
- If you have a talent management strategy, is it consistently applied throughout your organisation?
- Do you use international assignments as a means to develop top talent?
- Do you have the skills and experience available to take on the next generation of international projects?



“Core elements of group talent management strategy may not necessarily be picked up by local management approaches/systems.”

Effective reward and retention strategies

The retention of high performing talent is absolutely fundamental to an E&C company's long-term performance. In an industry where top talent can make a major difference to the profitability (or otherwise) of projects, this is an issue that is unlikely to disappear.

With many mature markets facing an economic downturn, project management skills are more important than ever. A cautious economy does not mean that all key employees are suddenly satisfied with their lot. Indeed, disappointment over bonuses or pay rises can easily manifest itself in disengaged staff.

Many E&C companies do not prioritise the retention of high-performing staff on their return from an international assignment as a major issue – around two thirds of the companies we interviewed felt that an international assignment either decreased the likelihood of an employee leaving the company or had no effect. This finding is in contrast to the results of a PwC cross-industry survey[§], where a profound impact on retention in the twelve months following the return of assignees was noted.

While the E&C companies we surveyed may generally be doing a good job of providing a desirable work environment and appropriate rewards to their employees, this result could also indicate a lack of transparency around retention rates following international assignments.

There are many reasons why employees stay or move – and immediate financial gain, whilst not irrelevant, is rarely the most important reason. Career progression, future prospects, challenging projects, etc. are more likely to have a greater influence over staff. What, if anything, can companies be doing to help retain high-performing staff in a period of very difficult financial performance? As previously discussed, the use of a talent management programme is an important element in ensuring that career development overall is addressed.

But what happens when key performers return from international assignments? A minority of respondents did report increased risk of departure, particularly following the return from an assignment. One respondent explained that employees with international experience are sought

after by competitors and thus more likely to leave the company for other positions. Previously noted, most of our respondents reported that they have processes in place to evaluate the performance of international assignees, however in almost all cases, the standard method of performance evaluation, as for domestic employees, is used. In our experience, a strong danger remains that planned performance reviews may fail to take place while an assignee is abroad, as the reviewer often remains in the home country. Skipping regular performance reviews can pose problems later.

A few companies also reported problems with integration upon returning home – some reasons cited were employees who become accustomed to a higher salary, or who have expectations of greater prospects of promotion on return than they are offered. Again, previous research shows that many companies invest a great deal of resources in up-front preparation for international mobility, but neglect equally critical steps around repatriation (both financial and development related).

Financial incentives can generally take three forms: one-time bonuses, share-based incentives, or cash-based incentive plans. When companies are facing pressure on the bottom line, it can be tough to justify financial incentives, even for top employees. Further, there may be disagreement amongst management and board members around what bonuses are really meant to achieve. Understanding the implications of how companies structure their incentive programmes, and what impact this may have on international mobility, is particularly important in the E&C sector.

Often one of the key drivers of international mobility is the shortage of staff with sufficient skills to run or turn-around large scale projects. By contrast, incentive payments are often based around the financial performance on major

“These type of employees [e.g. those with international experience] are more marketable within our industry. Our philosophy is to provide developmental opportunities to employees in the form of international assignments.”

projects within the senior employee's 'line of sight'. This risks an inherent tension – if a high-performing employee has excelled on a particular project and is anticipating a good bonus, then why should they rush away from that project to rescue an under-performing assignment elsewhere – or indeed release their high performing junior people to do so?

International assignments which are rewarded with share-based incentives carry the risk that the reward will be affected by currency rate fluctuations and differing tax regimes – meaning that the reward actually paid to the employee could be distorted (upwards as well as downwards) by factors outside their areas of control. These can be mitigated, but not avoided, through the use of cash-based incentive plans.

While top performers inarguably have the greatest impact on the success of major projects, in many cases E&C companies need to send large teams to staff these types of contracts. It is therefore critical that companies offer a considered package of benefits to encourage all appropriate staff to accept international assignments.

Every company we surveyed reported at least some forms of extra compensation for international assignments. Almost all companies offered home leave travel expenses, cost of living allowances, and medical benefits, and the majority also include relocation benefits. More than half of companies increase base salaries and offer per diems, and a variety of other benefits such as housing allowances, educational allowances for family members, etc. were also cited.

Nonetheless, company reward strategies varied hugely. Some companies have specific, written policies in place. Others respond on a case-by-case basis. Some companies do detailed analysis of the local market, cost-of-living etc. where assignees are being placed, while others explicitly do not do so. In some cases, rewards may vary dramatically, even on the same project. So employees on longer-term assignments may find themselves effectively making much more – or much less – than co-workers from other countries in similar roles. This type of discrepancy can easily lead to tension in the workplace.

Using cash-based incentive plans to reward strong performance and maximise retention

While share options were a popular incentive tool in the past, their ability to serve as an effective way to reward and retain staff depends upon employees having a realistic expectation that share prices will rise – and the current economic downturn means that in some cases they may actually be falling. In short, employee confidence in such schemes may be difficult to achieve in tough economic times. Retention rates are often stronger with cash-based payments, because there is greater confidence as to what these will be worth at the time of payment. But many companies are cash-strapped in the present climate.

While some companies may look to defer paying bonuses, this creates a real risk of demotivating staff. An alternative is to create a cash-based incentive plan that includes an annual cash incentive to the highest performers as a means of recognition and to reduce the chances of their resignation, but also sets aside an additional amount of cash which is earmarked for the employee. This is linked in some way to the annual incentive already paid.

This fund will be increased or decreased in line with pre-set performance measures e.g. it will increase year-by-year at the same rate as the increase in group turnover (or whichever other measure is chosen). This provides a far more direct link to corporate performance than is achieved through the use of equity.

The payment is paid out if, and only if, the employee remains with the business for 3 years. So the size of the payout is related to personal performance incentives, corporate performance and continued loyalty – and payment can be delayed.

Questions for reflection

- Do you have a mechanism in place to ensure that expatriates continue to receive review of their performance and mentoring where appropriate during their assignment?
- Does your incentive programme effectively reward high performers who are on international assignments?
- Have you reviewed your overall package(s) of extra compensation for international assignments to ensure that it is competitive and accurately reflects varied living and market conditions in the countries in which you operate?
- Have you considered implementing a cash-based incentive plan to maximise retention of high-performing staff?
- Do you systematically track the retention rate of employees following completion of an international assignment? If so, how does it compare to your company's overall retention rate?



Controlling costs

International assignments can be very expensive, particularly when companies fail to calculate the total cost in advance. Incentivising employees to take on international assignments, and ensuring that the company and employees comply with all relevant tax and other regulation when they do, can come at a hefty price.

More than a third of the E&C companies we surveyed do not estimate costs of international assignments at all. Those that do reported using a range of techniques that varied widely, from informal ‘ball park’ estimates to detailed calculations of all related costs, which are then billed back to the host country. Some companies have no mechanism for including corporate-level costs, such as payments to external providers for tax or other forms of compliance, while others use a per-hour add-on to estimate how much these might add to overall costs.

In our own experience, companies frequently underestimate, or fail to consider, all of the ancillary costs around international assignments. Achieving transparency around these issues may make the difference between whether or not a potential contract is profitable – in an industry with already narrow profit margins in the main. While companies may be under enormous pressure to take the work that is on offer, no matter where, given slow domestic markets in some territories, the concomitant pressure of prices that comes with a bleaker economic climate means that decisions around whether or not to bid for a particular job need to be taken even more carefully.

Despite international assignments often representing major additional costs to projects overseas, only a few of our survey respondents included controlling costs as one of the top five priorities around international mobility for their companies. Ensuring the success of the project, and developing their people, are both seen as more important objectives. So, perhaps it should not come as a surprise that most of the respondents we surveyed gave their respective company a relatively low score in terms of cost effectiveness. Only three respondents awarded their company top marks for maximising the cost effectiveness of assignments, while five

actually described their cost efforts as ineffective, and another nine termed them merely satisfactory.

As the respondents to our survey generally represent those responsible for international mobility within the HR function, controlling costs may not instinctively be regarded as a major priority. However, company CEOs may view the matter differently. In order to ensure that the people agenda takes its rightful place as a key strategic priority, HR departments need to deliver accurate information around costs and benefits of employee programmes – including international mobility.

The first step towards managing the cost of international mobility is documenting it fully. Companies need to take into consideration the complete cost of compliance, as well as the full package of benefits and rewards associated with international assignments. Achieving transparency around costs should be easier for companies who have done their homework and developed a written International Assignment Policy that is consistently implemented. If the approach towards benefits, rewards, and compliance is well-documented, then responding quickly as bids arise and contracts are won should not preclude doing a robust estimate of the related costs.

The E&C companies surveyed did identify some areas where they would like to improve costs, with remuneration/benefit packages and tax savings receiving the most mentions – however, most of these possible areas to improve cost effectiveness were still theoretical. Fewer than half of our survey respondents were able to report on concrete measures around saving costs. Of those companies which did describe cost-saving efforts, several reported measures only in the planning stages.

“Cost is not a priority. Efficiency and effectiveness are more important.”

Those companies that do have cost-saving measures in place are clearly ahead of the game. Strategies they reported included reviewing third-party provided services, mapping processes end-to-end to understand cost points and possible inefficiencies in internal communication and data collection, training of the local workforce, improving communication flow between internal parties, tax planning and internal cost analysis.

Companies may also be able to achieve cost benefits by centralising responsibility for international assignments or using a shared services model. Given that many E&C companies have a dispersed, de-centralised structure, having someone responsible for overseeing international assignments across the board can prevent staff in different locations from re-inventing the wheel – and from offering vastly different reward packages. Although companies with more modest numbers of assignees may not yet see the need for such infrastructure, they may derive benefit from implementing and testing procedures on a smaller group of employees. Further, most companies are looking to expand globally – and preparing for international assignments is far more cost effective than looking to ensure compliance later in the process, or offering inappropriate benefit packages in an attempt to cover an understaffed project.

As mentioned previously, most companies see potential to reduce costs around taxation, although at least one respondent stressed that ensuring complete compliance needs to take precedence over possible cost savings. Tax planning may present real opportunities – and while it can be difficult to get compliance right, for companies sending large numbers of staff abroad, exploring tax options can certainly pay.

Tax planning can provide cost savings

Many countries have specific tax legislation for dealing with assignees. This can often present tax saving opportunities. Companies which lack the internal expertise to understand and take advantage of such tax reliefs may forego the opportunity for substantial savings, as tax regimes differ markedly from country to country.

Examples include:

Australia: With careful planning, housing can be provided tax free. The same applies to school fees and cost of living adjustments. For permanent relocations there are also significant saving opportunities related to the cost of buying and selling homes. For more senior individuals, appropriate superannuation strategies can materially reduce effective tax rates.

South Africa: Structured in the right way, it is possible for individuals assigned to South Africa to be taxed solely on their South African workdays, for up to five years. For assignees who work some of their time outside of South Africa, and where they are tax equalised (i.e. the company is paying their taxes), this may represent a significant tax saving for the employer. In addition, given certain tax planning, it is possible for accommodation to be paid tax free in the first 24 months of an employees assignment in South Africa.

Sweden: Individuals seconded to Sweden for less than six months may, under certain criteria, be taxed as a non-resident of Sweden with a flat tax rate of 25%, and a possible housing benefit may be tax-free. Individuals seconded to Sweden for two years or less may be able to claim a tax deduction for housing costs and travel expenses to their home country. Provided that the assignees are tax equalised, it can be a cost saving opportunity for companies. Under certain circumstances, there are possibilities for the assignees to receive 'tax free' per diems.

UK: Individuals (given the fulfilment of certain criteria) seconded to the UK for two years or less may be able to claim a tax deduction for housing costs, subsistence expenses and travel expenses. This can represent a significant tax relief for assignees and where assignees are tax equalised, it represents a significant cost saving opportunity for companies.

Questions for reflection

- Do you scope out assignments in advance to manage these in the most efficient way from a cost perspective?
- Are you confident that you have full transparency on the direct and ancillary costs of each international assignment in your organisation?
- Do you have a process for calculating the respective cost implications of using in-house versus external service providers?
- Have you fully investigated possible tax savings in all the countries where you assign staff?
- Have you considered possible cost benefits to using a shared-services approach to managing international assignments?

The future challenges

International mobility is here to stay in the E&C industry. Many mature markets in particular are facing a difficult economic climate and reduced spending is accelerating the need for companies to look further afield for suitable projects.

As the demand for new and improved infrastructure grows rapidly in emerging markets such as Asia, Central & Eastern Europe and the Middle East, so too the spend on major projects continues to rise. This trend is contributing to the dramatic growth of international mobility in the E&C industry, the importance of which was strongly underscored by our research.

All too often, however, international assignments happen reactively, as companies scramble to respond to new project opportunities. Companies need to develop and implement a more proactive approach, including developing a written policy which works for local markets. They need to achieve full compliance and offer competitive incentive packages, without neglecting a full calculation of the overall costs. Given the increasing complexity of many contractors' internationally mobile workforces – with more short-term assignments, lower-level expats in skilled trades and large numbers of expatriates based outside of the headquarter country – achieving consistency around benefit packages may be challenging and costs may spiral. Companies need to monitor costs closely and institute concrete measures to reduce them where possible.

New markets mean fresh challenges. When companies move into emerging markets, additional compliance concerns may also pose challenges, including coping with the increased risk of corruption and bribery. In our E&C supplement to *Economic crime: people, culture & controls: The 4th biennial Global Economic Crime Survey*[†], over 40% of E&C respondents in Central and Eastern Europe reported having been asked to pay a bribe and a similar rate was reported in the E7 emerging markets (Brazil, China, India, Indonesia, Mexico, Russia and

Turkey). Companies will need to be vigilant to ensure that entering these lucrative new markets does not mean compromising ethical standards. They also need to help employees adjust to a wide range of situations and cultures and ensure that they are incentivised appropriately.

Perhaps most importantly, however, international mobility needs to be integrally linked to broader HR priorities around talent management. Top talent drives projects – and ultimately defines the competitiveness of the business. International assignments can be a powerful means of developing the skill sets and knowledge base of top staff – yet it also can mean side-tracking their careers, or losing them entirely if appropriate performance evaluation, mentoring, and reward systems are not in place. E&C companies need to provide appropriate rewards which facilitate, rather than hinder, retention. Additionally, out of sight should not mean out of mind when it comes time for performance reviews, pay increases, and career mentoring – particularly when the next project may also require an international move.

HR executives have an outstanding opportunity to support their company's overall strategic objectives by ensuring that international mobility programmes fully support the overall business plan. By documenting the success of their efforts and communicating it throughout the company, they can also achieve substantial recognition and momentum for their programme. Future secondees will be eager to participate in a winning programme and executive management will provide full support to efforts which help to grow the company's overall bottom line.

[†] Further reading on page 18

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Further reading

Other publications from PricewaterhouseCoopers relating to the E&C industry are available to download free of charge at www.pwc.com/e&c

[PwC Annual Global CEO Survey – E&C summary](#)

Stemming from the interview process for the CEO Survey, we developed a summary document containing the highlights from the responses of over 50 CEOs and executives within the sample who were from E&C companies. We compare the results of their responses with the global average across all industries – with some interesting findings.

[Global Economic Crime Survey - E&C industry supplement](#)

Examines the views of over 300 E&C industry executives and compares and contrasts their thoughts with those of their peers across all industries, as well as with E&C executives' views from our 2005 survey. The results suggest that E&C executives need to take economic crime seriously. 46% of economic crime in the sector is still being discovered by chance, rather than via controls. Additionally, nearly 25% of the companies we surveyed worldwide admit to having been asked to pay bribes, and up to 40% of companies operating in some emerging markets, for example, Central & Eastern Europe.

[Building New Europe's Infrastructure - Public Private Partnerships in Central and Eastern Europe](#)

Explores the current developments and future opportunities within the infrastructure sector of the CEE region. In the paper, we outline the opportunities in infrastructure projects in CEE, EU funding, challenges and key success factors on bidding and delivering on projects in CEE – a region requiring significant infrastructure investment.

[Building Knowledge](#)

A quarterly series of short papers on highly topical issues for E&C companies, hitting directly to the heart of the business issue addressed.

Additionally, further reading on the people agenda, including the following, is available to download at www.pwc.com/hrs

[Managing People in a Changing World: Key Trends in Human Capital](#)

Discusses the critical issues and new developments of major interest to all executives involved in people management. The paper, unlike many other human capital reports, focuses in particular on financial results and their direct relationship to human capital performance. It is primarily based on data collected from our Saratoga international human capital database, supplemented by additional research such as findings from the PricewaterhouseCoopers 10th and 11th Annual Global CEO Surveys.

[Managing Tomorrow's People: The Future of Work in 2020](#)

Uses scenarios methodology and the results of a global survey of 3,000 "millennials" from the US, China and the UK who represent a generation just joining the workforce, to discuss key issues related to the future of work and their potential impact on future people management.

[Equity Compensation's Evolving Role in Total Compensation](#)

PricewaterhouseCoopers Global Equity Incentives Survey documents emerging best practices related to the design, accounting, tax planning, global co-ordination, and process and administration aspects of equity compensation. Additionally, the survey asks questions related to corporate controls, financial reporting, corporate tax, valuation, performance and market-based metrics, customisation of global plans to local markets and demographic groups, and total rewards.

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Our Engineering & Construction industry practice is comprised of a network of more than 4,000 industry professionals located in over 50 countries around the world.

Our Global E&C network – recognised for its industry credentials and extensive expertise – is focused on providing services to contractors, housebuilders, building products companies, professional and support services companies, governments as well as to private and public sector clients of the industry.

The firms of the PricewaterhouseCoopers global network provide industry-focused

assurance, tax and advisory services to build public trust and enhance value for clients and their stakeholders. More than 154,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice. Our specialised services to the E&C sector include contract dispute resolution, acquisitions, PPPs, cost reduction and structuring.

An in-depth understanding of key industry issues and practical experience of working with our clients are central to the delivery of our services to E&C companies. Many of these issues drive our programme of publications and thought leadership for the sector.

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