

International Mobility in the Financial Services Sector: the Challenge of Emerging Markets



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INTRODUCTION

The Brookfield Global Relocation Services (Brookfield GRS) 2008 Global Relocation Trends Survey (GRTS) has gathered data from over 150 senior human resource professionals and/or managers of international relocation programmes to examine expatriate demographics, geography, economics and return on investment (ROI) considerations, trends in additional forms of international mobility and cultural and family considerations.

This White Paper is based on 2008 GRTS data from 25 financial services firms and additional interview data from the senior international mobility (IM) functionaries of eight of these firms. This interview data, along with perspectives from other policy studies, has been used to identify a series of important issues.

- What factors appear to determine the role and remit of the international mobility function in financial services organisations?
- What are the pressures / forces that are driving greater standardisation in policy and practice, or more localisation of terms and conditions and a “lighter” touch from the centre?
- In managing mobility into emerging markets, how do organisations handle the trade off between sending those who are willing to go (having enough people committed to assignment) versus being able to send the most talented (competent)?
- How are changes in the business model changing the international mobility agenda?
- What types of knowledge and capabilities are organisations having to build in emerging markets and how does this shape the role of international assignments?
- How do organisations argue for and measure the ROI for the IM function or individual assignments?
- How does this calculation change when companies are sourcing into emerging markets?

Role of International Mobility Functions

Before exploring these questions, we have to remind ourselves about the currently different – but also changing – role and structure of IM functions in the financial services sector. The study found that this role varies considerably. In some instances the function is very mature and is afforded a central role in corporate HR reporting. In others, it sits in a more traditional ‘home’ which reports into a rewards and benefits function. Finally, it may be positioned as a very



transactional activity, handling mobility, part of which might include domestic relocations with the odd international need for this. Organisations also outsource different combinations of activity to third party providers, and arrive at different solutions for each level of outsourcing.

The most important dimensions across which the role of IM functions appears to differ are:

- The extent to which they have been embedded into a broader three-box Ulrich HR model
- The division of responsibilities across the life cycle of the international assignment
- The recruitment model operated, which may vary from very “high to low touch”

It is clear that in the financial services sector a number of IM functions have recently become more embedded in their corporate HR functions, or have moved towards a global talent management agenda. Consequently, the IM function has become more influenced by the decisions being made by their organisation about the overall shape and role of the HR function.

Choices about the overall positioning and reporting arrangements for the IM function

One of the most pervasive impacts on the HR field has been the adoption of a “three-box model” of HR, based on the ideas of Ulrich. It is necessary to outline the main implications that the model has:

- The first box represents the more transactional aspects of activity, which may be delivered from service centres or processing hubs, in multiple geographical locations, or outsourced to third party providers. The questions raised by this aspect of the HR operating model is which aspects of the IM work stream fall into this category, and which

other HR or global service activities might it encompass. Outsourcing scenarios can involve relatively narrow bands of activity, such as support for immigration or school search activity, throughout the entire expatriation process, and the advent of multi-tower outsourcing scenarios may also mean that an organisation seeks to include finance and Information Systems (IS) activities alongside HR transactional activities.

- The second box illustrates an embedded HR business partner (HRBP) structure. This raises the question of what is the most appropriate relationship and split of responsibilities between central IM specialists, and in-country or in-business division HR partners over specific aspects of the international assignment life cycle?
- The third box describes more added-value and specialist centres of excellence or functional support. The question raised here is how does IM (or associated expatriation activity) become a centre of excellence in its own right, or should it report via another such centre, such as talent management?

Ulrich Model

1

Shared Services

Concentrate on administrative and transactional personnel activities separately from the main HR group through Service Centres for “back-office” processing. Commodotised services may be insourced or outsourced but enable common provision of standardised or optimised HR processes. Supported by e-enablement of service delivery encouraging employees self service. “Intelligent agent” guiding of staff and managers through complex policy.

2

HR Business Partners

“Embedded HR” model in which HR personnel provided dedicated support as generalists, business partners and account managers aligned to a business unit of a holding company.

3

Capability Management

Clarifies organisational capabilities and crafts necessary HR investments and policies through centres of excellence or expertise that maintain critical fields of knowledge and a specialist core HR functional structure.

The study found that even within a single sector – in this case financial services – there were a multitude of structural solutions. This is crucially important. The solution chosen either affords or denies the IM function entry into a range of HR issues now being linked to international mobility. However, there were almost as many organisational solutions as there were interviewees.

The number of assignees supported by one IM expert ranges from 20 to 60 in the financial services sector. Half of the organisations interviewed conformed broadly to a three-box HR operating model. In one, IM is part of a centre of excellence or expertise (COE) reporting into a people strategy and rewards function. The structure separates out operations, country roles and product experts. The central COE sets policy and strategy around international mobility through global policy, overseeing vendor relationships, owning international mobility processes. Practical operation of policies, practices and contracts, and the ongoing relationship with assignees, is run through an IM operations team in a shared service centre in India, which executes moves, provides cost estimates and income statements. In-country HRBPs handle any resourcing and development gaps and agree with the business that assignments are appropriate. Another organisation uses generalist HRBPs, but each business also has their own mobility specialists, seven of whom were responsible for a population of 600 expatriates. Two organisations use two central specialists supported by a shared service centre of 28 people handling 800 expatriates and 400 permanent transferees. Another organisation uses three regional service centres to process assignment propositions.

A more traditional model, seen in about half of the organisations interviewed, sees the IM function forming part of a rewards function, moving people around the world, and creatively managing the rewards and tax issues. For example, in one organisation it forms part of a human capital function, sitting within a compensation and benefits structure. The IM function has responsibility for the design and administration of expatriate, international mobility and immigration programmes and vendor management. The role is advisory; separate processes and responsibility exist for the selection of expatriates and their day-to-day management.

A common issue for those IM functions operating a three-box model is that the relationship between all parties becomes critical to ensuring that the end-to-end process is effective, whilst those embedded under compensation

and rewards may have limited influence over the talent management agenda.

Different responsibilities across the life cycle of the international assignment: Through life cycle management

There is an ongoing debate surrounding the challenges of management responsibilities through the life cycle of the assignment. From agreeing on the purpose and need for mobility, to the selection of the expatriate, agreeing on assignment terms, monitoring performance, measuring return on investment and finally, assessing strategic contribution, what should be the relative split of responsibilities between the IM function and in-country business partners as it relates to the life cycle of the assignment?

One interviewee who holds an IM role in a mature financial services organisation that has recently been embedded into a corporate line of reporting explained: *"...this is a very hot topic at the moment. Banks have been very good at bringing people on assignment because they have business skills which are needed in another location, but not much thought is given to their personal circumstances. They might contribute to a project for up to three years, get repatriated and then they leave the bank within 18 months... the IM function has approval authority at the outset, but in terms of choice or suitability of an individual, that is down to the business. So the whole assignment initiation process has been revamped with historical performance data being pulled in as well as consideration of better psychometrics for selection"*.

The adoption, by a small minority of organisations, of a more co-ordinated life cycle management process leads to questioning about appropriate expatriate selection criteria: *"... that whole question is up for debate... we think it is a huge waste of talent not to select the most appropriate people depending on the type of assignment because some people will thrive in developed locations, but not in the emerging markets locations, where support is less, the greyness and level of uncertainty is much higher. We are currently putting processes in place that will attempt to manage this. This is part of a global workforce planning strategy"*.

Another debate concerns the relative responsibilities of the IM function and HRBPs for handling processes across the assignment life cycle. When placed under a talent management line of report a more business-linked and strategic role for the IM function becomes possible:

"...It has been firmly put in our mandate that we manage a talent framework that also manages the life cycle proposition. But we can not do that alone". Other benefits can follow. An interviewee from an organisation in which IM reported to corporate HR explains: *"...the beauty of the new role is that below the change in reporting we have been able to produce a philosophy, policy and governance framework. Having that linkage gives you the business positioning to lead those group discussions... the philosophy statement is linked to the business model"*.

"... we think it is a huge waste of talent not to select the most appropriate people depending on the type of assignment because some people will thrive in developed locations, but not in the emerging markets locations."

This thought process – which is rare – comes from an organisation that has developed a tiered system for HR policies. "Tier 1" policies – which includes the global mobility framework – are directly linked with the governance of the organisation. "Tier 2" policies concern the structures that must underpin this, whilst "Tier 3" are functional policies (such as the specific types of mobility policy for long term or short term assignees) that can be changed tactically in response to market needs.

The importance of this perspective seems self evident: *"...organisations that do not have a positioning of the reason for existence of its global mobility framework embedded in its business policies... are on a heading to nothing in the modern age. With this starting point you can then work down to argue the more detailed cases of policy selection, design and planning, because everyone has an understanding of why we have global mobility. You are not arguing for your reason for existence"*.

High to low touch recruitment models

The service level provided to employees and their families varies within the sector. One organisation felt that it had a distinctive approach in which the recruitment model shapes the IM agenda: *"... we have a very high touch model, with multiple interviews, a team based process, and this filters through to the approach taken on mobility. Any reasonable expectation is matched by services offered by us and our vendors. It is a very high*

communication and explanation relationship, needed to deal with high quality people”.

EXPATRIATE DEMOGRAPHICS

Numbers of expatriates

IM functions in the sector have to deal with expatriate populations of different size. In answer to the question ‘How many international assignees does your company have worldwide?’ from 100 to 500 was the modal response. However, there can be a complex mix of mobile populations. In one organisation with 430 expatriates on long term assignment receiving some kind of additional cash package over and above their normal compensation, there were another 5,000 employees a year moving on local terms.

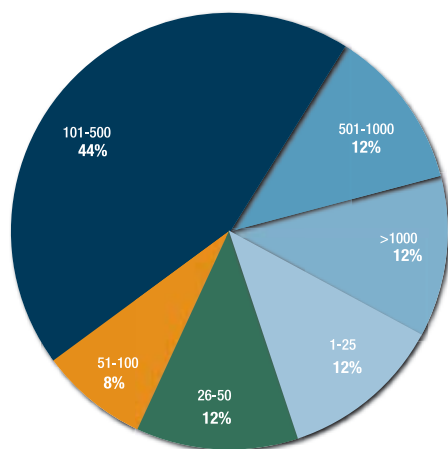


Figure 1:
Number of assignees per company

Standardised policies or lighter touch

Ten years ago many could be forgiven for believing that organisations had as many variations of policy as they had international assignees. Today IM functions face a tension between moving towards more standardised approaches to policy, slowly eradicating historical legacy arrangements and idiosyncratic assignment ‘deals’ in order to bring a degree of control over mobility, and allowing local businesses flexibility to establish terms and conditions that will attract and retain the most appropriate assignee. 73 percent of respondents in the financial services sector are moving to global standards and a further 23 percent moving towards regional standards. Those organisations with shared service centres handling assignment administration find that standardisation becomes easier,

and can be an important enabler of subsequent growth in expatriate numbers. Problems persist in management of the dichotomy between administration effort and more value-added advisory components. An interviewee from an organisation that has outsourced relocation management noted “...getting this dichotomy wrong can mean that you might have very expensive specialists doing sub-optimal work, so we will adopt a more rigorous hub administration approach”. Another stated “...You can add a lot of operational process control that helps you operate a global policy. We could not have handled our expansion as well... It gives us a baseline that then makes it easier for us to control where we will negotiate... we used to have more individual exceptions, but are in a process now of trying to become more disciplined. Given volume growth and overall stretch on the organisation, we need to standardise our processes so that we can automate them, make them more efficient, rather than have to provide more headcount to provide the scalability”.

Areas in which negotiation is legitimate can be signalled by changing the information provision: “... if you need to pay people more cash, do not pollute the rest of the programme and destroy its integrity and introduce inequity. We call it a position premium. It works on two fronts. It keeps the programme clean but it is also clear to the business if they claim that they have high costs... that it is their issue”.

Types of policies offered

A recent trend associated with this need to balance standardisation with flexible response to business needs is to increase the number of mobility packages or options available. Organisations have structured assignments to fit individuals and locations by introducing multiple assignment policies. As assignments are modelled to take maximum advantage of tax positioning regimes, point-point tax situations and immigration rules, these policy variations are used to manage (but not necessarily reduce) costs whilst also ensuring the assignment fits both business need and employee circumstance.

40 percent of respondents to the GRTS in the financial services sector were looking for alternatives to long-term (over one year) assignments. Their reasons are shown in figure 2.

When asked which alternatives to long-term assignments the companies were developing, the stated primary alternative programme is illustrated in figure 3.

A range of policy solutions are being offered so benchmarking is only useful if it provides specific and pragmatic detail of policy and practice.

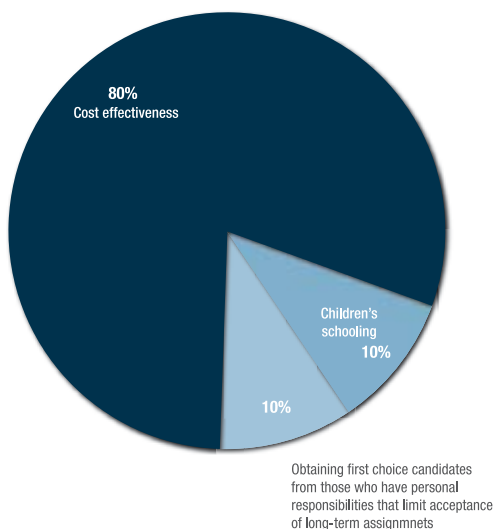


Figure 2: Reason for alternatives to long-term assignments

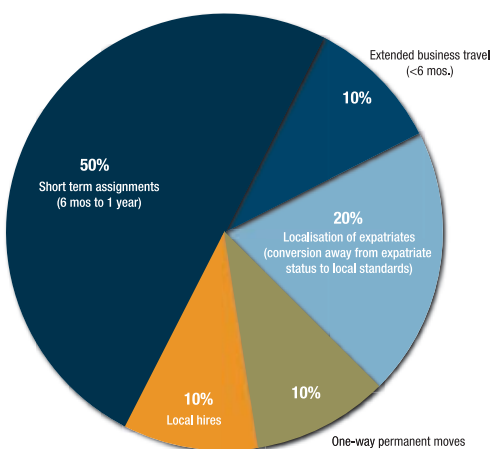


Figure 3: Types of alternatives to the long-term assignments

Most IM functions offer one tax-equalised policy, one non-equalised, and then various policies based on career or assignment duration alternatives. Two organisations use a four-policy solution: two for long-term assignments (a tax equalisation and reduced or modified policy); one for short-term assignments; and one for local low cost moves. Another offers five policies for each of the following types of moves: permanent transferees; traditional (tax equalised) package; 'explorer package' with lower costs based on

mutual career development benefits; short-term package (3-12 months); and a development short-term package. Low cost mobility policies are introduced to accommodate a sizeable population who are "...highly motivated to live and work abroad, surf the job postings and see something that intrigues them and ask to go there... a no frills do-it-yourself option... is attractive to this population. It has not had the uptake that the business thought it would, but it works well".

Another organisation offers six policies ranging from minimal to high personal support, determined by seniority and business-need rules: permanent transfers with initial mobility support but local contracts; full tax equalised policy; modified non-tax equalised package; career package for development reasons with minimal assistance and host terms; short-term package for 6-12 months; and extended business trip package for 1-6 months. The most complex offering relied on seven policies. These policies included: full balance sheet; home terms (a reduced package used for developmental assignments); market terms (driven by host salary where the assignment is of longer duration); short-term assignment policy; two types of commuter policy (host or home salary based) and local international assignments with acceptable relocation conditions for people moving to the location on host terms. An eighth variant for junior graduates is being developed.

Another issue is transitioning to local benefits. The schedules that best match the organisations' approach are shown in figure 4.

IM functions are dealing with legacy issues by standardising policies: "... we have a menu-driven policy which allows core things under each policy, then optional entitlements; this is one way we get round it, and it works pretty well". Another explains that there is sufficient flexibility around packages to provide enough flexibility: "... there always tend to be different options in terms of assignment type, and even if there is a reduced package there are different flavours of that depending on the circumstance, a business division's own policy and corporate issues. In most cases an individual is actually faced with from two to as many as eight different ways of thinking about the assignment".

Other recent changes in terms

Several organisations indicated that their operational models, policy approaches and market positioning had remained stable over the last five years. Innovation in offerings therefore operates around the margin. Attention

was drawn to four developments:

- Short-term outbound, or reverse assignments, triggered by the need to operate in new markets
- Things that make international mobility more effective (such as capitalising on e-enablement and moving skills provision, such as cross-cultural training, online)
- Things that make the decision for mobility easier (such as addressing partner issues)
- Managing the general attitude towards assignments

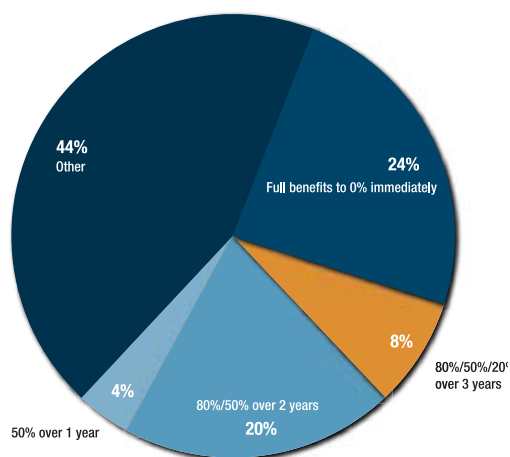


Figure 4:
Range of Different Schedules

In making the decision for mobility easier, one area of innovation has been spousal support, which may now apply to same sex or opposite sex partnerships and can be applied to all types of assignments. Organisations are looking at the total assignment context. For one, services such as settling in assistance, group networking, and buddy systems through full host-country career planning have been made available to all accompanying partners. Another innovation is the treatment of cash allowances. In one organisation, cash allowances are designed to ensure that people at the same level, with the same family size, are treated in the same way, regardless of personal circumstances. Standard cash allowances allow individuals to decide how much they spend on such things as housing, home leave or education. Tax planning services have become important for mobile individuals with high compensation levels. Some see this development as inevitable: "...individual family situations are becoming more complicated and that drives the need for more flexibility. Split families are more common". Another

motivation for a "core package, plus flexible options" approach is that it enables IM functions to move away from offering too many policies. A cafeteria benefits approach seems to be becoming more likely, but there are risks: "... the challenge is that we have a certain duty of care".

To manage the general attitude towards assignments, several organisations have put global talent frameworks in place and used these to communicate the importance of international mobility as part of career development. Mobility is deeply embedded within career structures in two or three of the organisations interviewed. In one organisation, over 60 percent of the top 400 leadership population have had at least one assignment in their career, with the top two layers having an individual coach, even when overseas.

ECONOMIC CONDITIONS AFFECTING INTERNATIONAL MOBILITY

Economic conditions continue to exert an important influence. When asked the question 'in response to economic conditions that may be affecting your company, has there been an effort to reduce international assignment expenses?', 52% of the GRTS respondents in the financial services sector answered 'yes'. The primary areas for cost reductions in the sector are highlighted in the chart below:

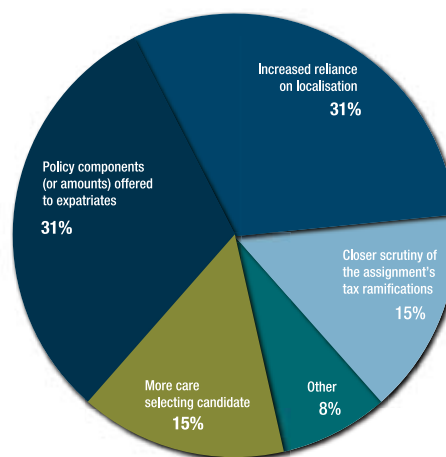


Figure 5:
Primary Areas of Cost Reductions

The current instability associated with the "credit crunch" led to the quip: "...the design of programmes might all change in the next three months", but short-term pressures aside, all interviewees cited the shift to long-term

assignments in emerging markets. This challenge is more important for organisations traditionally operating out of central HQ offices in European or U.S. regions. Some financial services organisations have been operating for many years in what might be seen by others as emerging markets. For them, emerging market equates to new market, which might be in Eastern Europe or, indeed, the U.S.

THE BUSINESS CONTEXT FOR INTERNATIONAL MOBILITY INTO EMERGING MARKETS

Definition of emerging markets

The word emerging has different connotations depending on whether it is applied to a market or an economy. Emerging market applies to country markets that are expected to experience considerable growth and financial return. It is possible for an organisation to consider a developed economy as an emerging market, based upon prior geographical presence and investments. However, most organisations use the term to reflect the nature of the economy. For the World Bank, an emerging (or developing) market economy has a much clearer definition. It is an economy with low to middle per capita income, with gross national income of \$10,725 or less per capita. This includes 20 percent of the world's economies covering 80 percent of the world's population. Such economies are classified as emerging because recent economic reform programmes mean they have "emerged" onto the global scene and reforms are usually associated with stronger economic growth. The process of moving from a closed to an open market system means that accountability is still being built into the system and so there is a degree of investment risk.

The attractiveness of investing in an emerging market varies across sectors and these markets serve a different purpose. Large population markets might be seen as strategic opportunities to grow a customer base. Although China is now an economic powerhouse, it is classified as an emerging economy alongside countries as different as India, Indonesia, Vietnam, former Soviet bloc countries and Latin American economies such as Brazil and Mexico. Other smaller population markets - such as Malaysia, Poland, Hungary, Algeria and Morocco - might provide niche opportunities, or act as gateways to other economies. Others might offer long-term opportunities. The business case to send an international assignee might be to:

- Capitalise on growing consumer market expenditure to balance declining markets elsewhere
- Apply a rudimentary business model that will develop into an established full-product or service model
- Relocate production or processing capabilities
- Help manage the in-country economic transition process

The definition of emerging economy differs across sectors and across organisations within sectors. Local labour market conditions differ across markets, each with different profiles in terms of economic possibilities, political stability, level of physical and institutional infrastructure and people development (pools of labour, wage and skill shortage levels).

In the financial services sector, the development of emerging markets is often closely inter-twined with the development of local institutions and regulatory controls. The latter often stop financial service organisations from moving as fast as they would like into emerging markets. Upon obtaining approval, the issue is then the level of talent in the marketplace.

MAIN CHALLENGES FACED BY INTERNATIONAL MOBILITY FUNCTIONS

The impact of the shift of mobility towards emerging markets has been very significant: "...our whole expatriation and relocation business has fundamentally changed in the last few years... [as] the business model has changed markedly, whereby we started to put people on the ground in more challenging locations. Now 25 percent of expatriate assignments are in emerging markets". Another organisation finds that 60 percent of its international assignments are now into the Asia region. For another, six years ago 75 percent of its international assignments were outbound British, but this has now fallen to 25 percent. Five challenges are faced by IM functions as a result of activity in emerging markets:

- The need for strategic workforce planning
- The initial resourcing of new regional hubs
- Acculturating and transferring skills into emerging markets through reverse moves
- Understanding the dynamics of new labour markets
- Fitting individuals to the different banking regimes that exist

Strategic workforce planning

All major banks are pouring into emerging markets and talent shortage issues have renewed the need for more strategic workforce planning: *"...what we are facing is a total lack of talent and skills shortages. We are looking at a location and strategically, analysing at what point we need to put in international assignees, how we will develop a local workforce, how we will transition this process, how we will develop local management and leadership who are also networked into the wider global business. All of these are crucial to the transition of a location from an emerging to a growth and stable state market"*.

"...what we are facing is a total lack of talent and skills shortages."

Global mobility frameworks clearly must sit within a broader market development and people management strategy. One organisation set up a process of workforce planning committees run not by HR, but by the business, and supported by business analysts to look at the market and predict growth opportunities in the market. Judgements are made on expected turnover rates and likely rates of progression to full competence: *"...all of the manpower planning equations have to be put into the mix to determine what quantity of in-country training we might need to develop or expatriate, but all of this has a real commercial grounding... if you want to do derivatives or fixed income trading in China, it does not exist, so you have to either import talent, or whilst you are developing the location, export local talent so that you can develop them in another location and put them back in when you have got regulatory approval. This is true whether it is China, India, Indonesia, or Korea"*.

Another company established annual strategic people agendas for each key growth market. These entail creating a human capital scorecard, developing resourcing and succession plans and structuring a global talent management framework. People issues surrounding the talent proposition include sourcing concerns, building a strong employer brand and establishing partnerships with local universities or regional centres of internal expertise and local graduate schemes. The sourcing challenge concerns the sheer volume of movements and *"...leveraging the international footprint through cross-border and function moves"*. Reflecting very different conditions in each emerging market, bespoke planning

models are used for each one along with a governance structure.

Clearly building this capability will become more important for IM functions but it must be counterbalanced by the ability to move fleet-of-foot. It would be wrong to assume that moves into emerging markets must always be handled in a strategic way. Flexibility can become more important than strategic workforce planning. One organisation conducting headcount planning with individual businesses, with HR working on succession planning, key business growth strategies and the teams needed, noted outside these processes the increased financial trade flows between China and Africa. A rapid response was needed to encourage the evident opportunity for more mobility from Africa to China.

Some assignments are also short term reactions to competitor behaviour: *"... operations may be set up in a new country, such as China, as a way to explore the market, and so are often driven by a need to match competitor moves into such markets. When that happens, we have to fall in line, look to find vendors and develop policies for those markets... we are led by what the business wants to do"*.

The resourcing of new regional hubs

Geographical shifts in location have also brought the need to resource and establish significant new overseas operations in emerging markets. One organisation initiated 500 short-term knowledge transfer assignments to establish new operational centres in India. In such hubs, knowledge transfer becomes important. As new internal business entities are created in emerging markets, they might still behave more like business process outsourcing operations, not absorbing a corporate perspective.

Acculturating and transferring skills into emerging markets through reverse moves

Growth in emerging markets has created the need for new policy developments. They are inevitably considered developing or hardship locations and assignees typically may be given full balance sheet packages. However, regulatory approval for various activities or system build-outs takes time and increases the level of capability needed in operations. Two types of reverse assignments may be used:

- For training, so that most people in relevant roles have to be put through the process

- For developmental reasons, with international mobility acting as a rewards mechanism, whereby high performers in emerging markets are provided with better opportunities by being put on short term assignments, special projects or stretch assignments

Reverse moves may take local talent out to regional centres or to corporate universities designed to impart highly specialised knowledge. These moves reverse the flow between corporate HQs and regional hubs in Asia. One organisation transitioned 180 people out of India to other locations around the world and then brought them back after training. Another found that “setting up [an Indian operation] triggered the need for short term assignments. The whole business model was based around people going from other offices to transfer knowledge, and equally people being hired [in the location] being sent to other offices to get acculturated to the organisation”.

However, in developing individuals in emerging markets: *“... You do not want to give false ambitions and put them on to host country based salaries. You need to entice them to go back to their home country [and] adequately protect them from a risk-cost perspective. We use a variation of our short term assignment policy which caveats all the regulatory, tax and immigration risks with specific relocation and support provision that suits those kinds of populations”.*

Understanding the dynamics of new labour markets

Moreover, as the traffic between hubs begins to focus on new geographical locations, IM functions have to understand new assignment contexts specific to the particular geographies and the challenges of sourcing people who are both willing and capable of carrying out the work.

There is a trade-off between finding people committed and willing, versus being the most competent: *“... We have gotten much better than we used to be, but there are still places where no one wants to go. Right now if you are sending someone to Moscow, the business needs someone to go and so might be sending a more mediocre employee, so they say ‘do not give us too hard a time.’”* Some organisations negotiate post-assignment financial incentives to entice the most capable candidate to undertake the project.

Whilst operating in emerging markets creates little pressure to change the basic design of policies, the commitment-



competence trade off changes the “needs” that any one policy has to manage. Considerable tacit knowledge is needed to manage this trade off, including the:

- Level of competitiveness, and whether expatriate packages still need to be offered to people who have been active in the region for some time and so might not be expected to get such a package elsewhere
- Requirement to flex core packages to cope with specific needs, such as hardship or transport provision, a general heightened expectation of service from assignees being sent to such markets, or the cost implications of using standard policies for specific types of assignee such as returning first generation diaspora
- Availability of mature service providers capable of operating to standards expected in other regions

IM functions are learning how to respond to each market in different ways. Although provided with general data by vendors, this tacit insight is built through expatriate roundtables and advice networks in the region.

Fitting individuals to the different banking regimes that exist

New geographies also bring different expectations and behaviours from local managers. There are differences in the culture and levels of sophistication in finance markets as well as the products that can be offered. As ways of doing business change, relationship strategies do not transfer nor yield the same results across markets, costs associated with relationship activities change in importance and the link between relationship banking, customer engagement and loyalty works in different ways. This potentially changes the profile for the most appropriate international assignee, and definitely changes their ease of adjustment.

“... in emerging markets... it is not just about where we need to go to grow our business but where do we go to operate more efficiently.”

BUSINESS MODEL CHANGE

To adopt a strategic workforce planning or predictive manpower planning approach and inform investments in local training centres of excellence or other strategies to develop skills in country, there needs to be a stable business model. The business model represents the core logic that creates, captures and leverages value in a way that generates both profitable and sustainable revenue streams. It is the dominant performance logic that specifies:

- How business is done, who the customers are
- Where the costs and profits are
- How and why the organisation works as it does
- How financial and non-financial resources have to flow through the organisation
- What organisational capabilities are necessary to ensure such joined up implementation of the business model

As organisations internationalise, many also change the design of their business model. This business model change, rather than the emerging market opportunity, becomes the real driver of the international mobility requirement. Where this is the case, IM functions find themselves playing an important strategic role in helping the organisation execute its strategy.

Financial service organisations are increasingly operating globally and adapting their business models, and the efficiency of processes within this model, accordingly: *“...many markets have come of age, and now need local infrastructure”*. In wealth management, for example, at one time all the money in the Asian market could be managed out of Europe or the U.S., because clients were international or could be served by sporadic client advisor support. To develop locations now, multiple products and trading infrastructure have to be developed, requiring a local presence. Processing hubs then have to shift nearer to these markets.

Another organisation noted: *“... in emerging markets... it is not just about where we need to go to grow our business*

but where do we go to operate more efficiently. Commercial emerging markets are primarily in Asia... these are not really new markets. We are just sending more people into them, which has been relatively easy... then from an administration [efficiency] perspective it is a one-off project [to set up] operational centres in India and Poland”.

But do efficiency-driven moves into emerging markets change the business model? The answers seem to be yes, because *“...we used to have lots of small business service centres (back office support) all around the world. Redundancy in systems, staffing and real estate meant we had to migrate to larger hub centres... these massive centres bring together accounting, data and HR”*. This changes the services that can be offered from these hubs and the skill mix needed: *“... Our front office has been able to create, train or hire staff, populate new entities doing transactional processing. This required some significant bedding down, cross-fertilisation of management structures...organic growth, an aggressive external hiring programme and sending in large numbers of expatriates”*.

However, not all organisations considered that their business model was changing. One argued that although it was moving into new markets where there were wealthy overseas diaspora from some of its core markets, the need to create new access points and brand awareness in these geographies was simply an expansion of its existing model.

Why does it matter whether the business model has changed or not? Because where there is change *“...there is no question it also changes the profile of the expatriates that we use... we have to bring on people who are semi-consciously globally mobile and have a need to be internationalised. We get so many different forms and shapes of global mobility that it is transforming the shape of the function”*.

TYPES OF KNOWLEDGE BEING TRANSFERRED: COMPONENT KNOWLEDGE AND ARCHITECTURAL KNOWLEDGE

The GRTS asked respondents if a clear statement of the assignment objective (business justification) is required to obtain funding for a relocation/assignment. 56 percent of respondents in the financial services sector answered no, with 64 percent saying no cost-benefit analysis is required as part of the business justification for a

relocation or international assignment. Such a statistic can be misleading. It reflects the different allocation of responsibilities across the life cycle of the international assignment afforded to IM functions: *"...I am not involved in selection so I do not know [reasons for assignment] other than the basics such as whether it is knowledge transfer, or to set up another office... it is not something that we track, so I do not have any data on that. However, the business does make these decisions, and not lightly, and so it is the HR specialists for business units, or other individuals acting as relationship managers, who have this insight"*.

Some organisations have very complex business justification processes. One assignment proposition process requires the in-country HRBP and business line to identify items such as the reason for assignment (career development, transferring skills etc), the business justification, alternatives considered and rejected, specific objectives by date to avoid assignment creep, opportunities for skills development, the profile of the chosen candidate and performance management readiness, and provide a narrative around these factors. The process is signed off by executive leadership. It was introduced because *"... we had real problems with the visibility of our movements. The population was growing at a time when we thought it should be shrinking. The objective was to align mobility with our broader talent objectives"*. The analysis showed that around 3 percent of assignments were to bring some objectivity to local roles, 10 percent for specific business projects, 34 percent for knowledge transfer, 35 percent for career development and around 20 percent for unspecified reasons or multiple purposes. The system offers better insight into the ROI being delivered: *"...we are building the data now to look at several hundreds assignments and assess individual assignments on projected costs and actual costs, so we can extrapolate these and look at ROI"*.

One way of understanding the role being played by international assignments in emerging markets is to consider the different types of capability and knowledge that are being created or transferred in-country by the assignments. A distinction can be made between component (operational) knowledge and architectural knowledge.

Component knowledge refers to an understanding of the nuts and bolts of the operations of the business, often also associated with specific products or functions. It is based on knowledge of the parts of the business rather than the whole. These assignments are common within financial

services as many moves require assignees to be able to operate overseas within specialist business areas specific to wholesale, retail or investment banking, for example product managers, or specialised knowledge of global markets or foreign exchange trading. Many assignees are also used to fill support functions such as HR, technology or risk management. At one level there will always be "opportunistic" assignments for assignees to perform and manage a specific function. For example, an equity or fixed-income trader might be sent to a market with some responsibility for knowledge transfer, but the transfer is often relatively limited. Component knowledge transfer has become more important in a business process outsourcing context.

Some financial service organisations have a culture of international mobility embedded into their career systems, operating 'stretch' assignments that move people away from their home country to pick up larger roles within their functional career path. Such moves can deepen existing technical career paths and enhance component knowledge.



The question for an IM function [or for the organisation at large, whether it is the IM function or the local HRBP who asks the question] is whether – and how the assignment can develop this type of knowledge deeply enough within not just the individuals involved, but the surrounding host operation.

Architectural knowledge, on the other hand, requires a shared understanding of the new strategy and the interconnections between the business models and the operational (component) knowledge. In short, how do things fit together? Some financial service organisations see this knowledge embedded within their corporate governance structure: *"...the majority of our in-country*

CEOs are expatriates, as are many CFOs and Country General Managers". Corporate governance issues trigger the need for more architectural assignments. An organisation that had recently expanded its business and banking proposition, saw the need "... to thread operations back together again. This works well in traditional markets but in emerging markets the tension between product and corporate logics is often acutely felt".

Corporate governance-driven assignments considered to be architectural in nature are driven by two logics:

- Create this knowledge through a small number of between-corporate centre moves, then export the know how via structural arrangements and processes operated out of these hubs. Good business justification processes enable the organisation and its IM function to deliver architectural capability via an "educated" series of regional hubs
- Send ambassadors out to operations to operate in senior roles in local operations and transfer the capability into local operational procedures

However, several other types of assignments also now require an architectural knowledge transfer element. Increasingly large numbers of international assignees now transfer knowledge as well as operate within the location: "... their networking is highly valuable to the firm. That individual can identify opportunities and pick up the telephone to people they know". Several interviewees noted the importance of sending in people who can "play the network" "... we have gone out to hire people far more for their contacts and relationships".

consequences of this are for the local market: "... it is knowing how markets, products, services and business divisions have to defer to corporate drives and business development in the broader sense". The setting up of new infrastructure activity needs people to cross-co-ordinate in the early start up phase of operations: "... it is absolutely vital to our ability to re-engineer the platform for any of our businesses. It is the infrastructure side and not the producer side that has driven much of the growth in our expatriate population. To grow infrastructure at this rate... people... have to have this architectural know-how".

This creates three challenges for IM functions:

- Understanding the networks that provide them with the connectivity to build architectural knowledge
- Having to create appropriate assignments on an idiosyncratic and often unanticipated basis
- Being able to demonstrate the function's own architectural knowledge about the organisation and its development path

These challenges show how important it is that IM functions now become involved in a more strategic organisation development agenda where emerging markets are concerned. There was a sense that the IM function is well placed to demonstrate its own architectural knowledge about the organisation: "...IM embodies the pre-Ulrich model. There is no part of the business that we do not touch". An important question is whether the Ulrich model forces the IM function into too much of a transactional activity stance? The answer depends on whether the in-country business partner can "see" the bigger picture and the capability needs of the operations they are attached to i.e. whether they too have architectural knowledge.

Changes in international assignment strategy

The balance between these two types of knowledge transfer strategies is changing, but not necessarily in the same direction. Three organisations considered that historically 80 percent of assignments have been of a 'component' nature, with from 10 to 20 percent of an 'architectural' nature. Another saw two-thirds of assignments as component in nature (if personal stretch assignments are included) with one-third being architectural in nature. Another has detailed data on the purpose of assignments which estimates that only 3 to 5 percent of assignments are primarily architectural, triggered



What does this architectural knowledge look like? It is understanding how things fit together and what the

by the need to bring a corporate sense of objectivity to local operations.

In most instances, this balance will change, although not necessarily in the same way for all organisations: *“... historically it used to be 10-20 percent architectural type assignments and 80 percent of assignments at the more operational level. We are looking to move that much more in favour of architectural assignments, so that it becomes at least 60 percent of international assignment activity”*. This shift is not common to all financial service organisations. One sees the volume of component assignments increasing in the immediate future largely as a result of its growth in new markets and acquisition strategy.

Where the shift takes place, it will alter the balance of activity in IM functions radically. However, such a move must be preceded by taking a life cycle management approach: *“...[it is this that] gives you a whole new perspective on the people you chose and how you prepare them for assignment... It is not just how you prepare them for location but whether it is the right person to do that... there is a massive restructuring of how we manage and look at the global mobility framework and the international assignment life cycle”*.

MEASURING VALUE OR RETURN ON INVESTMENT FOR ASSIGNMENTS

For the vast majority of interviewees return on investment (ROI) is a work in progress: “in terms of presenting something at a benchmarking conference, I would have to say that we are not there yet” or *“... There is a focus on cost, both pre- and during assignment, but no analysis of ROI... It is a concept”*. The GRTS data supports this position; 84 percent of respondents in the financial services sector note that they do not measure ROI. A number of reasons were given for the lack of attention to the issue:

- The resource investment to do this properly might be prohibitive and there appears to be little internal pressure to much more than adopt a through assignment life cycle approach
- Some financial service organisations argue that the work process, even for international assignees, is collective and interdependent. This makes it difficult both to tease out any individual impact or move beyond judgements about performance
- Where the culture has for a long time stressed the need

for mobility, assignments become such a part of the culture that it is taken for granted they are a good thing

ROI has been discussed over many years in terms of the measures to be used, how to capture it and at what point any intervention should occur. Should ROI be measured during the assignment, immediately post assignment or

“It is not just how you prepare them for location but whether it is the right person to do that...”

after an appropriate time when any capability transfer might be expected to have occurred? When organisations look at ROI and benchmarking, it is often being done to validate their own decisions rather than to import elements of another organisation’s way of doing it: *“...we want to know what our competitors do [but] you do not totally replicate this. You look at it to position yourself”*.

The level of tracking of international assignees varies markedly within the sector. One organisation tracks assignees in terms of successful repatriation, onward career development, and their performance ratings, *“...but can we say that we have a quality model for measuring return on investment, the answer is no”*. Another records failed assignments. The favoured approach relies on the performance management system and ongoing assessment given to assignees: *“...if they are making money, they will stay in their role. It is not a lot different to the way we measure the performance of locals”*.

There has been debate about the merits of using short-term measures that might look at the success of a particular assignment, or long-term measures that assess whether mobility in general has assisted in developing the capabilities of an emerging market. If a shift towards longer-term measures occurs, a logical step would be to then evaluate the ROI of the whole IM function using such metrics.

As a recommendation, the development of international mobility frameworks to service growth of emerging markets, whilst not currently associated with the development of sophisticated ROI models, affords the opportunity to consider these issues anew. In looking at one emerging economy in Asia, one organisation realised it would be five years before they could transfer to local management. Having developed workforce planning that enables them to predict the number of assignees they will

need over this development period and what investments are needed in the international mobility framework, they can see how it is possible to look at subsequent market development and performance as measured through annual performance metrics. The ROI of the function can be seen in a new light.

For most financial service organisations questions about the ROI of the whole IM function have only been considered as part of decisions regarding whether to outsource specific aspects of the function with ROI intimately tied in with general perceptions of service and recognition of overall success in resourcing.

The level of outsourcing in the financial services sector is relatively low, and interviewees had mixed views about market trends: *"... some firms outsource, some are bringing much in house... it depends on what the firm values, how much does it want to spend, where does it want control or not. There is a business justification for the model"*. Another noted that *"... outsourcing has brought the [value] thought process to the fore... we articulate what the function brings to the firm, what it costs and see if management believe it is still worth investing the money"*. The proportion who currently outsource various aspects of IM in the sector are shown in the following table:

	Currently Outsource	Plan to Outsource
Policy consulting	18%	0%
Programme administration	14%	0%
Vendor management and co-ordination	23%	4%
Financial management (expenses, invoicing, payment)	36%	18%
Payroll administration	18%	18%
Compliance (tax, social security, immigration)	77%	5%

CREATING VALUE, LEVERAGING VALUE AND PROTECTING VALUE THROUGH INTERNATIONAL MOBILITY

The value contribution of the IM function to the business has been of interest for a long time. This value contribution can be considered in three ways.

Value creation

This is created by ensuring the organisation has the ability to build and acquire talent and in turn develop the value proposition inherent in the business model. For IM functions value creation requires:

- Being able to answer the ROI question, and focusing senior management on what the function does well and how this is achieved
- Managing immediate and sustained talent challenges that are associated with resourcing emerging markets, establishing new operational hubs and strategic start ups

Developing HR processes that help to move talent to market and support the positioning of people in those markets to create economic value: *"... it is helping the business meet its objectives by getting the right people to hit the ground as quickly as possible with minimal cost to their family"*

- Understanding the new organisational capabilities central to the business model and establishing new processes to deliver this. An example given was the establishment of a new technology centre in China that could only be established by moving people on a rotational basis to set up the business

Value improvement and leverage

This is created by enhancing the business model as it develops and learning how best to execute the business strategy. For IM functions value improvement and leverage requires:

- Establishing international mobility frameworks to help transfer knowledge and maximise the benefits associated with the role. Examples include cross-cultural training and language training to make sure people in the role get the maximum benefit, and having policy provisions to support this, and also unlocking internal networks and know how
- Assisting in the optimisation of policies and practices

This is judged at the individual level "...by people receiving the right package and costs being appropriate" and at the functional level by the "firm getting the best service for its money"

- Managing the learning that results from any change or execution process associated with market and business model development. One organisation conducted experience audits and analysed the networks and connections that their international assignees have: "... we leverage by being able to resource new senior teams, rotate experts to bring in new perspectives and the freedom from bias that brings"
- Having multiple channels of connection that ensure engagement of the business with such issues: "... we leverage IM through our relationship with other HR functions and other parts of the firm". Another draws attention to the cross-functional co-ordination needed between IM and corporate tax and group legal functions
- Utilising the level of commercialisation of the IM function, to be able to add value to the organisations own clients: "in finance many of our own clients have their own businesses. We have taken it beyond an internal function and added value to individual clients. Three to five times a week we get clients (for example hedge funds in new overseas locations) seeking information"
- Leveraging future mobility investments to talent proof the organisation and enable future strategic development "...It is not about getting value out from the people on assignment today, it is about linking into the fact it works for us, that we can look at the profit levels to demonstrate this, and so what is the opportunity to do even more of it, multiply our leadership capability. It is not about more ROI today, it is about how we can leverage more investment to make better opportunities"



Value protection and preservation requires:

- The design and maintenance of effective governance processes
One organisation gave the example of having an internal audit function that is almost entirely made up of international assignees: "... We want them to bring to bear global knowledge and best practice from all areas of the bank when they are looking at processes in any part of the world"
- Constructive surfacing of the risks inherent in a business or resourcing model and appropriate mitigation strategies
There is scope for operations to be highly compliant or less so. Compliance penalties can be high: "... reputational or governmental compliance risk management, meaning not moving people before they have work permits, making sure they are compliant with tax regulation and have the necessary regulatory approval for roles"

"...managing risk is absolutely an important part of our business".

Value protection and preservation

This is demonstrated by making sure that any value that has been created does not then get lost. For IM functions "...this is one of the most critical processes to get right". Another respondent commented "...managing risk is absolutely an important part of our business".

- Ensuring that the organisation has a strong reputation across a range of stakeholders: "... there is still plenty of more work that we can do in building up stronger relationships with the business, understanding their needs more, providing better advice"

- Retaining its best capabilities (both people and systems), through effective repatriation and successful post-assignment retention

In short, articulating how the IM function contributes to the creation, improvement and leveraging of value represents a central challenge but the general view was that *"...I believe that we can be evaluated in such terms"*.

CONCLUSION AND RECOMMENDATIONS

The first question asked was what factors appear to determine the role and remit of the IM function in financial services organisations? The answer is the extent to which the function has been embedded into a broader three-box Ulrich HR model, the consequent division of responsibilities across the life cycle of the international assignment and whether the recruitment philosophy is driven by a high personal touch ethos or not. The choices made about the HR operating model do not fall into any common pattern. HR-to-expatriate support ratios varied markedly, in part reflecting the recruitment model operated, which varied from "low to high touch". The values held by the organisation about the centrality of international mobility to senior careers also determined the extent to which organisations wanted to maintain control of the function, influencing the level of outsourcing of international mobility activities.



Preferences for a single service centre or a series of regional service centres reflected the volume of moves taking place, especially around emerging markets. In reality each market has very unique features in terms of economic possibilities, political stability, level of physical and institutional infrastructure and people development

(pools of labour, wage and skill shortage levels). There are differences in culture, levels of sophistication in finance markets and the products that can be offered, ways of doing business and relationship strategies, and the link between banking strategy, customer engagement and loyalty. Considerable tacit knowledge into the dynamics of banking regimes and expatriate expectations is needed to be effective. Establishing centres aligned with regional markets makes considerable sense.

The study asked should international mobility (or associated expatriation activity) become a centre of excellence in its own right, or should it report via another such centre, such as talent management? By far the most important influence on the relationship and split of responsibilities between central IM specialists, and in-country or in-business division HR partners was the structural reporting relationship of the IM function. The solution chosen affords or denies the IM function entry into a range of HR issues now also being linked to international mobility. Many IM functions, by dint of history, still report into compensation and benefits function. They are the function that sorts out the terms, conditions and financial package for expatriates. There is a trend, especially in those financial service organisations that have mature international markets, towards aligning IM under a talent management umbrella.

This structural choice seemed to be a pre-requisite for the organisation being able to do two things. First, take a thorough international assignment lifecycle approach, thereby joining up work on assignment purpose, selection of expatriates, agreeing to assignment terms, monitoring performance, and measuring return on investment. Second, approach the resources used in emerging markets from a more strategic workforce planning perspective, and undertaking capability development activity, whilst also handling important transfers of knowledge into operations. Expatriates are only one brand of international manager. Today's choices require co-ordinated management of various expatriate packages, but also including the management and building up of forward skill supply and market mapping strategies, passive recruitment of self-initiated movers and immigrants, use of teams and networks, virtual or physical centres of excellence and various sourcing and shoring options.

To the extent that these activities are important, embedding IM under talent management would seem to be an obvious recommendation, but with an important

caveat. The historical compensation and benefit reporting means that IM functions have a much sharper financial and cost capability than is often found in talent management functions. To lose this sharpness might be as damaging a loss as that presented by missing the opportunity to link IM and talent management approaches.

What are the pressures / forces that are driving greater standardisation in policy and practice, or more localisation of terms and conditions and a “lighter” touch from the centre? Here the picture is simpler; flexibility is managed by two educative processes. The first process has been to provide the business with a greater variety of policies to suit the different mobility populations, the price for which is more rigorous adherence to such specified policy. Once the business proves capable of understanding these choices, the second educational process seems to be now moving to a re-simplified set of policies built more along the lines of a cafeteria benefits approach, providing a “cost plus” approach that allows more individualised (to personal situation, not type of employee) package solutions.

In handling mobility to emerging markets, there is an inevitable trade off between sending those who are willing to go (having enough people committed to assignment) versus being able to send the most talented (competent). Given that many IM functions are not involved in selection, the true extent of this trade off is not always known. However, the consensus seems to be that it is easy to overstate the issue. By the time individuals get to assignment, the uncommitted have been weeded out, and to the extent that mobility is embedded within the culture, then concerns about competence become less pressing.

The study has also examined whether there are any changes in business model that are changing the international mobility agenda. The picture here is a little mixed. The majority of interviewees did believe that their business models were being adapted, broadly through the need to establish better efficiency of processes within their models. The development of emerging markets brings the need not just to steer these locations through a “maturation” process as multiple products and trading infrastructures are developed, but also by requiring a local presence. Processing hubs are also being established nearer to these markets, and as these hubs grow in scale and combine other business services, in addition to creating efficiency gains in service delivery, they

potentially change the service offering.



What types of knowledge and capabilities are organisations having to build in emerging markets and how does this shape the role of international assignments? Component knowledge (an understanding of the nuts and bolts of the operations of the business, often also associated with specific products or functions) transfer has become more important in both the context of growth in emerging markets and business process outsourcing. Architectural knowledge, on the other hand, requires shared understanding of how strategy and business models require interconnections between all this operational (component) knowledge. Corporate governance issues, associated with mergers and acquisitions, the need to corporatise in-sourced operations and so forth, often trigger the need for more architectural assignments. However, other types of assignments – such as setting up of new infrastructure activity - need people to cross-co-ordinate much more deeply now. For about half of the interviewees, the proportion of architectural knowledge needed by international assignees is expected to grow.

This brings us full circle. The only way to build such knowledge is to have joined-up management across the entire assignment life cycle, and this is mainly enabled by thinking more deeply about the role and structural positioning of the IM function.

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We would like to express our sincere gratitude to all of the organizations in the finance, insurance, and real estate sectors that participated in this report. Thank you for your interest, forthright comments and your accessibility in contributing to our research.

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