Does policy flexibility work?

Discussion

26–29 October 2014
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Agenda

► Cargill’s story
► Some other mini “case studies”
► Suggestions for a successful implementation of flexibility
Cargill

► Provides food, agriculture, financial and industrial products and services to the world
► Is a multinational enterprise with 145,000 employees in 67 countries
► Has six platforms with 79 business units
► Has approximately 1,000 assignees (excluding our trailing liabilities employees)
  ► Long, short, commuter and localization policies
  ► Home country approach – balance sheet with split payroll delivery
  ► But also host peer option
  ► Both options: normal and fundamentals only

Slide courtesy of Cargill
Can flexibility work in a mobility program?

► Can we gain an understanding of how best to balance the need for flexibility **and** consistency?

► Our manager’s survey results illustrate the problem:
  ► 83% agree that our policy should treat everyone the same.
  ► 79% agree that our policy should have the flexibility to respond to case-by-case needs as they arise.
  ► The problem is that both answers are right.

► Evaluating the risks and benefits of the extreme approaches might point towards the right "middle course" solution.
Consistency: “the rules are the rules”

Pros:
► There is never any lack of clarity; it is what it is.
► There is never any extra spending; if it is not in the policy, it is not spent.
► There is no risk of unfair treatment; no one can say “it is not what you know; it is who you know.”
► There is no time wasted on discussion; “no means no.”

Cons:
► The policy can’t anticipate every need.
► No recognition of all the variables: the policy must address the needs that may arise for a very diverse set of situations.
  ► Covers everything from pay to cars to housing to school and more — almost every aspect of an employee’s life (more so than any other HR policies)
  ► Also covers family members (to a greater extent than other HR policies)
  ► Must work for a wide range of situations, best represented in the number of home/host country combinations it must support
► It may ignore a “supply and demand” market working in the business. What do you do if the only person who can do a job wants more?
► It may provide a false sense of security? Do businesses find workarounds to circumvent the policy?

Slide courtesy of Cargill
Flexibility: “it’s the business’ money, let it do what it wants to do”

Pros:
- Rules become guidelines; businesses have the maximum ability to tailor an arrangement to fit their perception of the specific situation.
- It respects the market. If supply exceeds demand, businesses might want to take elements out. If demand exceeds supply, businesses can enhance the package to adequately incentivize.
- There is a maximum recognition of all the geographic, family and situational variables; it can match provisions to needs.
- No time is wasted debating issues, as there are no issues to debate.

Cons:
- There may be undetermined (and uncontrolled) impacts on cost. Will they become free-spending? Will they start taking things away? The most likely outcome is higher costs.
- There is a need to administer as many arrangements as there are assignees.
- Perceived fairness diminishes: what you get becomes more dependent on who you are and who you know. Everyone will know someone else who gets something more than he or she does.
- There is a risk of uneducated decisions being made; unless there is widespread and deep understanding of policies, there is a high risk of making a special arrangement that’s already addressed elsewhere in the policy.

*Slide courtesy of Cargill*
Does policy flexibility work?

How Cargill attempted to steer the middle course
Mini case studies
Case study one – successful implementation

► Standard base (core) package – additional items flexible
► Clear guidance regarding how and when to offer “extras”
► Few exception requests
► Successfully in place for a decade
Case study two – successful implementation

► Business HR has the ability to decide what levels of certain allowances will be provided:
  ► For example, 50%, 75% or 100% of cost-of-living adjustment (COLA)
► Family-related items may not be reduced:
  ► Housing
  ► Education
► Successfully leveraged for X part of population for Y years
Case study three – challenged implementation

► An active assignee population of circa 700 operates under 12 different assignment policies.
► Various policies in place provide for reduced benefit assignments versus a traditional, long-term assignment policy. There was, however, a demand from the business to have direct control over assignment costs and benefits to be provided.
► Due diligence was carried out based on a) consolidating its two “light” policies and b) developing a flexible policy based on the light and long-term policies.
► The review was carried out, but after determining what should be included as “standard,” before giving the “option” assignment benefits for the business to chose, the policy was more expensive than both light policies.
► Although the flex policy gave options to the business and represented reduced costs over the traditional long-term policy, it did not prove popular with the business.
► The outcome is an additional assignment policy that is not used.
Recommendations to build a successful flexible approach
## Ways to offer flexibility

<table>
<thead>
<tr>
<th>Means of flexibility</th>
<th>Pros and cons</th>
</tr>
</thead>
</table>
| 1. Split of policies       | ► Pro: when clear business cases and criteria exist to define which policy for whom, no issue around employee equality  
                              | ► Con: risk that in order to make cost savings the business chooses cheaper package, which may not align to the business purpose               |
| 2. Assignment letter       | ► Pro: clearly increases flexibility by stating provisions granted beyond the policy  
                              | ► Con: has risk of becoming a known negotiation point, leading to exceptions                                                           |
| 3. Levers in the policy    | ► Pro: aligns cost and talent management strategies on a business unit level  
                              | ► Con: creates inequity between business units, questions to be raised if tolerable                                                       |
| 4. Discretionary benefits  | ► Pro: maximum flexibility, cost bearer makes decisions  
                              | ► Con: employee equality, low market competitiveness, little cost control                                                                  |
| 5. Policy application      | ► Pro: invisible to employee, levers exist to lower cost  
                              | ► Con: the challenge of achieving global consistency in policy application                                                                  |
Achieving consistency and flexibility

► It is suggested that you do not offer a high degree of flexibility on those elements that are easily visible to others – this can create perception issues.

► “Cafeteria” approach doesn’t work:
  ► There are taxability issues.
  ► There are calculation challenges.
  ► Employees often make the wrong choices prior to the start of an assignment.
  ► Changes after a decision is made are administratively challenging.
  ► Dissatisfaction is often directed at mobility, not the business.

► Flexibility can be offered through a variety of policies that provide clear guidance regarding application, ensuring flexibility within a specific policy.
Achieving consistency and flexibility

Some suggestions:

- Defined policies for particular roles
- Variation of policies based upon talent management components (fewer incentives may be required)
- Policy evaluation based upon specific facts: responsibilities, countries involved, etc.
- Examples: “professional” (host based), “exceptional” (home-based), “settler” (transfer), and “mission” (short-term)
- The leverage of exemplary cases to make sure that stakeholders can articulate the differences between the policies
- The development of a periodic assessment plan of business leads

The “Irish pub” test
### Sample evaluation of country combinations

#### Explore flexibility by country

<table>
<thead>
<tr>
<th>Criteria</th>
<th>From/to</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DK/CN</td>
</tr>
<tr>
<td>Immigration</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td><img src="#" alt="Red" /></td>
</tr>
<tr>
<td>Company pension plan</td>
<td><img src="#" alt="Green" /></td>
</tr>
<tr>
<td>Social security benefits</td>
<td><img src="#" alt="Green" /></td>
</tr>
<tr>
<td>Hardship</td>
<td><img src="#" alt="Green" /></td>
</tr>
<tr>
<td>Cost of living</td>
<td><img src="#" alt="Green" /></td>
</tr>
<tr>
<td>Final localization option</td>
<td><img src="#" alt="Red" /></td>
</tr>
</tbody>
</table>

- ![Green](#): Localization/local package
- ![Yellow](#): Local plus
- ![Red](#): Localization not possible/International Assignment (IA) policy applies
Sample decision tree
Help stakeholders understand what policy will apply

Decision levels:

Level 1: duration
The main driver for choice of policies is based on assignment length.

Level 2: country combination (Country combi)
The country combination of sending and receiving destination is checked for feasibility of host-based approaches and shall form a list of country combinations, providing objective criteria for decision level 2.

Level 3: training
This is the decision that must be made individually based on:

- Benefits bigger for business or employee
- Strategic versus developmental character of assignment
- Urgency and amount of resource availability
- Employer driven versus employee driven

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### Transfer

<table>
<thead>
<tr>
<th>Duration</th>
<th>Country combi</th>
<th>Developmental</th>
<th>Transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 5 Years</td>
<td>High/low</td>
<td>No</td>
<td>Long Term (LT) home</td>
</tr>
<tr>
<td></td>
<td>Low/high</td>
<td>Yes</td>
<td>LT home light</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>LT host</td>
</tr>
<tr>
<td>6 – 12 Months</td>
<td>High/low</td>
<td>No</td>
<td>Short Term (ST) home</td>
</tr>
<tr>
<td></td>
<td>Low/high</td>
<td>Yes</td>
<td>ST home light</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>ST host</td>
</tr>
</tbody>
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