

Management for Professionals

Maike Andresen
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Editors

Human Resource Management Practices

Assessing Added Value

 Springer

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The Added Value of Expatriation

Assessing the Return on Investment of International Assignments

Yvonne McNulty

Abstract

Expatriation is undoubtedly an expensive undertaking. Companies spend billions of dollars annually to send their employees on international assignments, and yet, based on recent reports (e.g. Brookfield Global Relocation Services, *Global relocation trends survey report*, Woodridge, IL, 2012) the return on investment (ROI) from expatriates has been altogether ‘unsatisfactory’. And so, year-on-year, organizations still struggle to define what international assignment success really means, and have made little to no progress on expatriate ROI in practice. More alarmingly, few have a clear strategy for how to measure expatriate ROI in a meaningful way (Cartus & Primacy, *Global mobility policy and practices survey*, Wilmington, NC, 2010). In addition, these same companies often have a short-term profit-driven focus, ignoring such forces as international careers and the “global war for talent.” Many also fail to run their mobility programs like they often do other areas of their business: with rational strategic practices, and a clear strategy and focus to ensure an acceptable level of “success” (McNulty and Inkson, *Managing expatriates: A return on investment approach*, Business Expert Press, New York, 2013). The question then is: if expatriates are among an organization’s most expensive employees, surely we ought to be able to justify the money spent and manage them more effectively?

The purpose of this chapter is to delve deeper into the “added value of expatriation”. Specifically, what purpose does expatriation serve and which types of international assignments *and* international assignees add real value? How has expatriate return on investment (‘ROI’) been historically defined and measured? And how should the return on investment of international assignments be evaluated in the future?

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1 The Value and Purpose of Expatriation and International Assignments

Expatriation plays a vital role in an organization's global operations, for a variety of reasons. Early research (e.g., Edström and Galbraith 1977; 1994; and more recently Harzing 2001) shows that companies have three major purposes for using expatriates: (1) to fill international positions when qualified locals are not available, (2) for management development, and (3) to help control, coordinate, and assist in the transfer of a firm's culture. These purposes have been validated by several industry surveys in which it has been found that the top six reasons for using expatriates are to: (1) fill a skills gap, (2) build management expertise, (3) launch new endeavors, (4) transfer technology, (5) enable managerial control, and (6) transfer corporate culture (Brookfield Global Relocation Services 2010; Cendant 2002). McNulty and Inkson (2013) found that in addition to the above, expatriates are also used for: (1) corporate culture reasons (such as an old boys network, or continuing to use expatriates because they have always been used), (2) functional requirements in terms of project-based mobility where a client requires consulting staff on-site, (3) financial reasons including for bottom-line driven objectives or the cost advantages associated with using expatriates from a certain location (e.g. India), and (4) convenience reasons, for employees requesting self-initiated transfers for their personal benefit. These reasons illustrate that just as organizations differ greatly across industries, they will also have different reasons for using expatriates. However, the motives for expatriation are not always mutually exclusive: there may be more than one reason for using expatriates and there may be more than one benefit to be gained or multiple potential failures and lost opportunities.

Many of the researchers who study expatriation and global staffing (e.g., Collings et al. 2009; Lazarova et al. 2010; Pinto et al. 2012; Scullion and Collings 2006) have focused on a particular form known as the 'international assignment'. This typically involves a manager or technical specialist, often (but not always) from an organization's home-country base, who is assigned temporarily to fill a specific role or complete a specific project in an overseas subsidiary, usually over a predetermined period, perhaps 2 or 3 years (Dowling et al. 2013; KPMG 2011). After that time, the expatriate typically returns home through a process of repatriation and is then re-integrated within the organization (Lazarova and Cerdin 2007). If the expatriate has an immediate family (as the majority do), then the family's needs in the foreign setting (for example, children's education) must also be dealt with both abroad and once back home (Lazarova et al. 2010; McNulty 2012).

Recent research (e.g., Collings et al. 2007; Mayrhofer et al. 2008; McNulty and Inkson 2013; Meyskens et al. 2009; Tait et al. 2012) and industry surveys (e.g., Ernst & Young 2011; KPMG 2011) suggests, however, that the continuing preoccupation with single long-term 'there-and-back' assignments is an outdated model upon which expatriation is continuing to be run, but which is creating problems for sponsoring organizations. Indeed, the there-and-back assignments popular in the 1980s and 1990s were undoubtedly easier to manage than today's more diverse and

Table 1 The meanings of ‘international assignment’

Type of assignment	Definition	Advantages and disadvantages
Long-term assignment	Temporary transfer normally lasting between 1 and 5 years, though often extended; the employee’s family typically relocate	+ deep knowledge development – costly
Short-term assignment	Temporary transfer of between 3 and 12 months duration; the employee’s family typically do not relocate	+ less expensive – family problems
Commuter assignment	Temporary transfer that allows an employee to reside in his or her home country on a regular basis, usually on weekends, while commuting to work in a host country, usually on weekdays	+ less expensive – burnout
Frequent business travelers	Temporary transfer of between 3 and 6 months duration typically on a business visa rather than a work permit of the host country; the employee and their family do not relocate	+ less expensive – burnout
Flexpatriates	Short-term temporary transfer where an employee travels from the home country to other parts of the world in response to business requiring face-to-face and in-person contact, and then returns to the home country shortly thereafter; also known as frequent flyer assignments; the employee and their family do not relocate	+ less expensive – burnout
Accommodation assignment	Employment provided by an organization in a host country at the request of an employee for a specific period of time that is solicited/ initiated by the employee and used predominantly when the employee’s spouse/ partner is offered an assignment by his or her employer to that host country	+ employee retention – often not budgeted
Interregional assignment	Temporary transfer where the home and host countries are both within a defined geographical area (e.g. Southeast Asia)	+ builds regional talent and expertise + less expensive (fewer benefits provided)
One-way transfer	Permanent transfer where an employee severs ties with the home country and becomes a local employee of the host country, with no company-funded option to return to the home country	+ no repatriation required – turnover risk increases in host-country
Localization	Transitioning of an assignee to an employment status/package in the host country equivalent to that of host country nationals (locals)	+ cost control – turnover risk increases in host-country
Indefinite assignment	Temporary transfer that does not have an anticipated end date, but which is still intended as a temporary (rather than permanent) assignment	+ facilitates achievement of assignment objectives in real time – costly over long-term

(continued)

Table 1 (continued)

Type of assignment	Definition	Advantages and disadvantages
Rotational assignment	Temporary transfer requiring an assignee to work for a designated number of consecutive days in the host country, followed by a designated number of consecutive days leave (taken in the home country, host country, or another “leave location”)	+ no disruption to family in home-country – burnout
Sequential assignment	Assignee is expatriated to another host country at the immediate conclusion of the original assignment without returning to the home country	+ builds international competencies – lack of connection to HQ
Unaccompanied (split family) assignment	Temporary transfer where the employee’s immediate family remains in the home country or a third location	+ less costly – increase in family problems

complex ones. These alternative types of assignments are outlined in Table 1 and include commuter, short-term, sequential, and one-way transfers, among others.

In line with alternative assignments, other research (e.g. Arp 2014; Moeller et al. 2010; Thite et al. 2009) also points to a change in the types of assignees that accept an international assignment, beyond only parent country nationals (PCNs). In order to help meet changing and broadening demands for talent in key markets, new meanings of ‘expatriate’ are emerging (see Table 2 for an overview), among them third country nationals (TCNs), expatriates of host country origin/returnees (EHCOs), foreign executives in local organizations (FELOs), localized expatriates (LOPATS), and inpatriates.

In addition to the above, many non-traditional expatriates have begun to emerge that have previously not been acknowledged or adequately researched. As McNulty (McNulty 2014, p. 67) points out,

the context within which expatriation takes place has for years been dominated by the traditional view that international assignees are typically senior male staff in their late 40s or early 50s, sent by a corporate western headquarters to a subsidiary office in another country [and] they are almost always accompanied by their (often non-working) wife, and children. Over the past decade this view has changed, largely because conventional wisdom concerning the traditional international assignee has become not just unproductive, but counterproductive wherein using the ‘traditional’ type of expatriate has caused an unnecessary reduction in the available talent pool.

Today, the demographic data suggesting ‘who’ is an international assignee has been turned on its head. Non-traditional expatriates now include more women, married couples with no children or single and unaccompanied people, same-sex partnerships, and younger expatriates (Fischlmayr and Kollinger 2010; Gedro 2010; Harvey and Moeller 2009; McNulty 2014; Shortland 2009). There are also increasing numbers of non-Western, particularly Asian, expatriates (Goby et al. 2002) as

Table 2 The meanings of ‘expatriate’

Type of Assignee	Definition	Where to find
PCNs: parent country nationals	Citizens of headquarters country location of a company from which they are then sent abroad	Home-country
TCNs: third country nationals, foreign local hires	Originate from neither the home country where corporate ‘headquarters’ is located, nor the host country where they are employed, but a third country where they have lived either temporarily or permanently before agreeing to move to the host country	Host-country region
EHCOs: expatriates of host country origin/returnees	Permanent resident of the parent country but belongs to ethnicity of the host country and is hired and/or transferred by the parent country organization to the host location on a temporary assignment or permanent transfer	Host-country
FELOs: foreign executives in local organizations	Foreign individuals at the executive level who hold local managerial positions supervising HCNs in local organizations where these organizations have their headquarters	Host-country
LOPATS: localized expatriates	Expatriates that originate from a home-country and are localized in the host-country	Home-country
Inpatriates: reverse expatriates	HCNs and TCNs of a subsidiary sent to the parent country headquarters on an international assignment to provide them with an international perspective, exposure to corporate culture and a network of contacts	Host-country
Millennials	Individuals who are members of “Generation Y”, those born 1982–2000	Home-country

Adapted from McNulty and Inkson (2013), p. 16

companies attempt to expand their talent pool options while struggling to fulfill their global staffing needs.

2 Defining International Assignment Value

For more than a decade, measuring the return on investment from expatriation has been the “holy grail” of the global mobility industry (Johnson 2005; Russ-Eft and Preskill 2005; Welch et al. 2009). Yet the *Brookfield 2012 Global Relocation Trends Report* shows that there has been very little improvement in expatriate ROI-based management techniques: of the 123 companies surveyed, only 9 % formally measure expatriate ROI. The main barriers include not knowing how to achieve it (39 %), not having time (18 %), and it not being important to their organization (11 %). None of the companies rated their ROI from expatriation as “excellent.” While 42 % estimated their ROI as “very good” or “good”, 58 % said it was “fair” or “poor.” Clearly, these figures indicate a massive waste of time,

money, and resources to secure a return on investment that is considered marginal at best. How can this be so?

Part of the problem lies in defining what a return on investment from expatriates really means. The most common definition historically among practitioners has been that of Brookfield⁴: “*achievement of the assignment objectives at the expected cost.*” Yet, research shows this definition is inadequate because expatriation is more than simply a financial ‘cost’ – there is also a non-financial cost and value that needs to be included (Scullion and Collings 2006). This shortcoming has led to the development of an alternative definition that has come to be widely accepted and cited in academia, and increasingly among practitioners:

a calculation in which the financial and non-financial benefits to the firm are compared with the financial and non-financial costs of the international assignment, as appropriate to the assignment’s purpose (McNulty and Tharenou 2004, p. 73)

An advantage of this definition is that it explicitly recognizes that while the concept of expatriate ROI should include and acknowledge a financial cost and benefit component, it must also include a non-financial component, which represents what many managers believe is the primary reason for using expatriates, particularly those on long-term international assignments. The focus is therefore not on financial cost alone, but on *value*.

Undoubtedly, the objectives of an international assignment may be too nebulous for some companies to identify, making expatriate ROI clearer for some organizations than for others. For example, objectives such as “professional development”, “succession planning”, and “building leadership capabilities” are often difficult to articulate in a meaningful way. For this reason, a definition, such as the one above, needs to deliberately avoid being overly prescriptive, to instead allow the definition to be customized according to a wide range of financial and non-financial costs and benefits appropriate to different assignment purposes and company expatriation strategies. This is essential because there are multiple reasons for using international assignments, which makes it impossible to determine a “one best” definition of expatriate ROI that will fit every company or every assignment. Indeed, investments in expatriation are likely to be defined differently across various assignment types within different business units, industries, and regions. As one manager indicated in a recent study on expatriate ROI,

companies have got different end points that they wish to achieve . . . [so] it’s fatally flawed to think that one answer suits everyone because it doesn’t (McNulty 2010, p. 181)

What is apparent from the McNulty and Tharenou (2004) definition of expatriate ROI is that *strategic intent* is of paramount importance. How is the international assignment intended to contribute to the organization’s strategic goals, and the elaboration of these goals in tactical and operational terms? If an international assignment does not have a clear purpose from which expected assignment outcomes and value can be determined, then how can it be evaluated and how can the company ever know whether the investment was justified? Strategy then must be a key *determinant* of assignment purpose.

Beyond strategy, however, there are other reasons that knowing the assignment purpose matters. McNulty and Tharenou (2004) suggest that differences in assignment purpose will lead to different choices in the HR practices used to support expatriates. For example, if the purpose of an assignment is to control, coordinate, and assist in the transfer of a company's culture, then expatriates will be selected, trained, and compensated differently than if the purpose of the assignment is mostly knowledge transfer or to fill a technical position. The purpose of an assignment also moderates the costs and benefits arising from international assignments. For instance, more expatriate ROI may be gained by pre-departure training of an expatriate who will be a chief executive abroad than of an expatriate who will provide the technical skill for a company project. On the other hand, the purpose of an assignment will also dictate who is selected to go in terms of the individual factors relating to expatriates themselves and the ways in which these may ultimately impact on expatriate ROI, where the choice of candidate for a developmental assignment (for example) should be dictated by what the assignment is intended to achieve.

3 Measuring International Assignment Value

While obtaining a measure of expatriate ROI has been a high priority for many companies for at least the past decade (e.g., Johnson 2005; Schmidt and Minssen 2007; Welch et al. 2009), predominantly on the basis that doing so will assist in making critical decisions about global staffing, McNulty et al. (2009) found that most firms do not have formal procedures in place to measure expatriate ROI. Instead, there is a heavy reliance on informal practices that are seldom aligned to a global strategy in an attempt to measure *something*, even if that something wasn't particularly meaningful in terms of guiding future decision-making.

But as McNulty et al. (2009) found, the use of ill-defined informal measures, the observation of only a few factors or outcomes within a limited context (e.g. assignment failure), and ignoring the possible inter-relatedness of various factors that simultaneously impact on expatriate ROI creates problems for many companies. Furthermore, focusing only on isolated factors and their outcomes tends to focus too much on the global mobility program alone, rather than on other wider organizational and international forces. Consequently, inappropriate data on their own reveal very little about *why* certain expatriate outcomes occur.

What we can learn from prior research on expatriate ROI (e.g., Johnson 2005; Schmidt and Minssen 2007) is that existing measures of ROI do not account for the total "expatriate management system" (McNulty and De Cieri 2011), a conceptual and theoretical foundation based on systems theory (Ackoff 1971; Von Bertalanffy 1972; Wang et al. 2002). The core argument as to why an expatriate management system matters is that when companies fail to adopt a systems approach, the subsequent limited focus on isolated factors prevents mobility managers from reframing international assignments in the broader context of their organization's overall strategic capabilities. At best, such "measures" give the perception that

Table 3 Informal ROI measures used by mobility managers

Informal measure	%	Sample quote
1. Anticipated outcomes: Expected ROI calculated in a paper-only exercise as a decision making tool	24	By the time we find someone who is going on an assignment it is a done deal. The estimate and the approval process is just a formality.
2. Short-term financial: Determine whether costs of assignment exceed budget or revenues increase	30	In terms of ROI . . . we're able to determine it from apportioned revenue from the individual in what they charge . . . it's relatively easy for us to determine how much somebody bills and offset that against assignment costs and look for baseline data to determine ROI.
3. Short-term functional: Immediate benefits assessed in local objectives met (e.g. knowledge transferred), local successor groomed, repatriation turnover, premature returns/failures, among others	41	It comes down to really the success in the assignment, are they actually doing the job . . . it's got to be the fact that we increase sales by X or we design something new or we do whatever we needed to do . . . the actual fundamental job you sent them to do.
4. Long-term strategic: Benefits assessed beyond end of assignment in long-term retention rates, promotion rates, talent management and succession planning objectives being sustained, building career expats, increasing brand recognition and relationships, and overall value gained	31	The return on investment would be that we continue to have a viable talent which is enhanced by the overseas experience . . . somebody who is able to get the job done, but who is now more culturally savvy and can be counted on again for an assignment.
5. Individual measures: Benefits accruing to expatriate employee rather than firm (e.g., career capital enhanced, financial gain)	12	Mobility has very much more to do with what is the net cash position going to be to the employee, and are we doing the right thing by the employee.

Source: Adapted from McNulty et al. (2009)

Note: Managers provided multiple responses, so percentages do not add up to 100

measurement is in some way driving the desired organizational actions expected from expatriates, even if the impact is not visible or is misleading. At worst, careless measurement may drive the wrong actions and create long-term problems of improper resource allocation and increased costs (see McNulty 2013b).

To illustrate this point, McNulty et al. (2009) found the informal measures of expatriate ROI that have been used include: (1) anticipated outcomes; (2) short-term financial measures; (3) short-term functional measures; (4) long-term strategic measures; and (5) individual measures. Table 3 provides examples of these informal measures and their levels of usage by organizations, along with sample quotes from various mobility managers.

McNulty and Inkson (2013) are highly critical of these informal measures for a number of reasons. First, the reported outcomes from these measures was found to be based mostly on ad hoc data and subjective perceptions of reality, with many mobility managers admitting that their assessments were based on “intuition”, a

“feeling”, a “belief”, or an (often biased) interpretation of an actual outcome. As one informant in their study admitted (p. 151):

We have all the data in the systems which are trackable, all the costs are trackable, and that’s no issue because we can call them out of the system without much difficulty . . . it’s not difficult to do. But we don’t do it I’m afraid to say . . . it’s all basically perception.

A further problem is that these informal measures relate to past performance and provide only retrospective data as observed once the assignment has terminated, thereby diminishing managers’ ability to obtain predictive information upon which they might act. Additionally, because informal measures are easier to obtain, they typically produce quantitative indices (e.g., turnover rates, failure rates) that often lead to inferences about unobserved relationships (McNulty and Tharenou 2004).

4 Assessing the Return on Investment of International Assignments

4.1 Individual ROI

Although this chapter is focused predominantly on the return on investment of international assignments to companies – what McNulty et al. (2013) coin ‘corporate ROI’ or ‘cROI’ for short – it is important that in considering corporate gains we also must focus on returns for the individual expatriate in terms of his or her personal return on investment, or individual ROI (iROI). This is because expatriates are the very people that companies rely on to deliver the value they seek – the *e* in eROI (expatriate ROI) – given that they are making their own investments of time, energy and skill into an international assignment so that the company will ultimately benefit.

Corporate ROI (cROI) is defined as *the return on investment to companies arising from expatriation*, whereas individual ROI (iROI) is a construct that draws on individuals’ motives for undertaking and accepting international assignments and the benefits they expect to gain by doing so. Individual ROI is defined as *the perceived benefits that accrue to expatriates arising from international assignment experience in relation to professional and personal gains*. In simple terms, expatriate ROI, then, is an amalgamation of corporate and individual costs and benefits that combine to impact on the overall return on investment from expatriates companies expect. Thus:



Source: McNulty and Inkson (2013).

In thinking about iROI, it is important to note that the definition both draws on, and extends, what is commonly referred to as expatriates' "career capital", i.e. their energy, values, skills and networks built up over their working lives, enabling each to acquire competencies that can be used within, as well as across, companies (Dickmann et al. 2008; Stahl et al. 2002). Some of the beneficial iROI outcomes that expatriates receive through their international assignments include personal *career enhancement* and *family and personal opportunities* (Hippler 2009; McNulty et al. 2013). Similarly, Cartus found that 90 % of companies report *career development* as a major reason for their employees to engage in global mobility (Cartus and Primacy 2010). But there are individual costs that expatriates also incur, in areas such as family difficulties, and decreased compensation arising from local-plus and localization strategies deployed by their companies (McNulty and Aldred 2013). Why does iROI play such a critical role in overall expatriate ROI?

The answer lies in an increasingly dual-dependency relationship that is emerging in the employer-employee relationship during expatriation, insofar as the relationship is no longer dominated *only* by the interests of the company. As McNulty and Inkson (2013, p. 36) note:

Gone are the traditional days when expatriation was a solely company-controlled activity, used by firms as a somewhat ruthless tool to reward, incentivize, and direct employees as faceless commodities and resources for the company's overall gain. As countless studies and reports now attest, the increasing internationalization of work, the changing nature of employment (for example, where individuals are now expected to have upwards of seven or more career changes during their lifetime), and the routine acceptance of global mobility as an inevitable part of one's working life, have compelled many employees to seek out long-term international assignments as a way to ensure continued employment. Thus, employees, and expatriates in particular, are nowadays increasingly focused on how best to negotiate the opportunities that international work presents, and how personal investments in global mobility can ensure "lifetime employability".

As a result, the company's stance as the dominant stakeholder in the expatriate employment relationship is weakening. Because today's companies need expatriates more than ever, this then affects the expatriate ROI that can be expected, not in the least because finding expatriates is one of the biggest challenges they face. As the inevitable scramble to fill their international subsidiaries with qualified staff then ensues, the fallout from this talent shortage has given rise to alternative forms of global staffing that enable firms to build a dynamic pool of candidates but which at the same time renders them unable to rely on only PCNs, over whom they have historically had considerable control.

As Table 2 shows, assignees today are increasingly being drawn from different candidate pools, including HCNs, foreign local hires, inpatriates, FELOs, and expatriates of host-country origin (returnees). While it is true that many of these alternative assignee types cost less to employ, and deploy, many also receive less support in their international roles in comparison to PCNs, in areas such as reduced compensation, benefits, and career support, thereby causing additional unforeseen problems particularly in relation to iROI and their subsequent loyalty and retention with the company in expatriate ROI terms.

4.2 Hidden Costs and Benefits

One of the most important, and significant, hidden costs and benefits that need to be considered when assessing the ROI of international assignments is that, with the emergence of a dual-dependency perspective that is heavily focused on iROI outcomes, many expatriates – and especially those that are company-assigned – are no longer as loyal to their employers as they once were. For expatriation, this represents a dramatic shift in the expatriate employment relationship, not least because the traditional view of expatriates' commitment to their firm has rested on the assumption that there are significant “ties that bind” them to their organizations as a result of the ‘bells and whistles’ compensation package they receive that then minimizes financial and other risks they face in being abroad.

Unfortunately, as McNulty and Aldred (2013) explain, the introduction of local-plus compensation as a cost-saving measure for companies has resulted in diminished loyalty among many expatriates. A local-plus package is one where employees are paid according to the salary levels, structure, and administration guidelines of the host location, as well as being provided with limited ‘expatriate-type’ benefits such as transportation, housing, and dependents’ education in recognition of the employee’s ‘foreign’ status (Stanley 2009). As such, today’s expatriates are increasingly more inclined to reject the traditional safety net afforded by company-assigned expatriation in favor of having more control over their international careers and their family life. Indeed, in their study of 31 Asia-Pacific based expatriates, McNulty et al. (2013) found that nearly 40 % of expatriates were moving away from long-term loyalty-based international assignment contracts (i.e. many assignments with the same firm), towards more short-term transactional type contracts (i.e. many assignments with many firms). “Vertical mobility” (i.e. promotion) to enhance career growth in only one firm was found to be less important than “lateral mobility” across a range of jobs, functions, borders, and employers.

These changes signify a change in expatriates’ career orientation, from company-controlled ‘servant’, to free-agent ‘entrepreneur’ (McNulty 2013a). In simple terms, expatriates are increasingly pursuing ‘boundaryless careers’, a term that implies the progression of career moves across multiple employment settings and multiple borders (Thomas et al. 2005). What matters for expatriate ROI is whether, and how, this change in career orientation occurs – are expatriates *pulled* by a deeply held desire to ‘work and travel abroad’ over which companies have no control, or *pushed* inadvertently by employers who are unresponsive to their personal and career needs? The often hidden but long-term cost in terms of expatriate ROI to the company can be significant if expatriates leave and take their newly-developed expertise to other companies, particularly competitors.

What the reality of iROI highlights is that, aside from the benefits accruing from international assignments, there are also many hidden costs that have thus far not been anticipated, nor addressed, that are brought about by the emergence of iROI. McNulty and Inkson (2013, p. 38) suggest that these can cause new retention problems for companies including,

that “external marketability” to other employers has emerged as a new and valuable iROI commodity on the international labor market; that the personal goals of expatriates seem often to be in conflict with the strategic goals of the companies they work for; and that the values, types of work, careers, and lifestyles that expatriates now wish to pursue appear to be changing.

McNulty and Inkson (2013, p. 38) further contend that the problem overwhelmingly seems to lie with,

companies [that] do not reward and support today’s modern expatriates in a way that matters [where] there exists a very wide gap between the value that companies perceive their expatriates’ hold and the feeling by expatriates’ that they are even valued by the companies that employ them.

4.3 Evaluating International Assignment Value

If prior attempts to evaluate international assignment value using measures of expatriate ROI have been criticized for lacking rigor and substance (e.g., Johnson 2005; McNulty et al. 2009; McNulty and Inkson 2013; Welch et al. 2009), how then should the return on investment of international assignments be evaluated? There are two schools of thought.

Doherty and Dickmann (2012) illustrate how organizations attempt to assess ROI by reporting on the development of a range of metrics. Using an action research approach, and working in close collaboration with nine multinational companies, they developed a set of metrics to explore and gauge the ROI of international assignments by analyzing the purpose of expatriation, investment, performance, promotion, and repatriation and retention as the key foci of measurement. Key insights from their study were then synthesized to provide actionable outcomes for participating companies.

Using case study data on each of the nine organizations, the researchers’ measured expatriate investment starting from the company systems and calculating the costs for each of the international assignees. They found that during the process of developing the metrics, organizational representatives were afforded the opportunity to debate the purpose of metrics and influence the type of measures produced. The measures that were then developed were valuable, meaningful, and useful to the participants because they were subsequently used in internal reviews and benchmarking across organizations, as well as incorporated in companies’ systems thereby leading to corporate policy changes. The researchers’ contend that this ‘action research approach’ helped to overcome the problems of buy-in and the lack of a skills base to develop measures, as found by McNulty et al. (2009). A shortcoming of the study was nonetheless that the reliability and validity of the metrics developed for the project could not be tested, for which further research is needed.

A different school of thought relies less on metrics to instead focus on ‘an evaluation framework’. McNulty and De Cieri (2013) propose that such a

framework is an essential first step *before* metrics are developed and selected. They argue that when there is no underlying mindset to metrics’ usage – no expatriate ROI philosophy applied to the choice of measure and what value the metric can ultimately deliver – then the metrics can be somewhat meaningless, ill applied, and, in some cases, quite misleading. The reasoning behind their approach is that metrics may tell a company *what* it got, but it won’t tell the company *why* it got that particular result. Consequently, if the company doesn’t know why, it will not be able to improve or repeat those practices that have helped it achieve some measure of lasting return from its global mobility program.

McNulty and De Cieri’s (2013) central argument is not that metrics are unimportant but that more rigor is needed around metrics selection and use. On the basis that many global firms will continue to invest in expatriation and international assignments, moving toward a measurement approach that can more accurately account for the value to be gained from expatriation will undoubtedly be crucial. As such, their evaluation framework is designed to guide both the choice of expatriate ROI metrics (vertical fit/strategic alignment), and how expatriate ROI measurement should be approached (horizontal fit/operationalization). Figure 1 outlines two phases and five criteria for building an evaluation framework.

In Phase 1, the vertical fit of metrics to a company’s broader strategic objectives is key. Before deciding on actual metrics, the organization must first determine

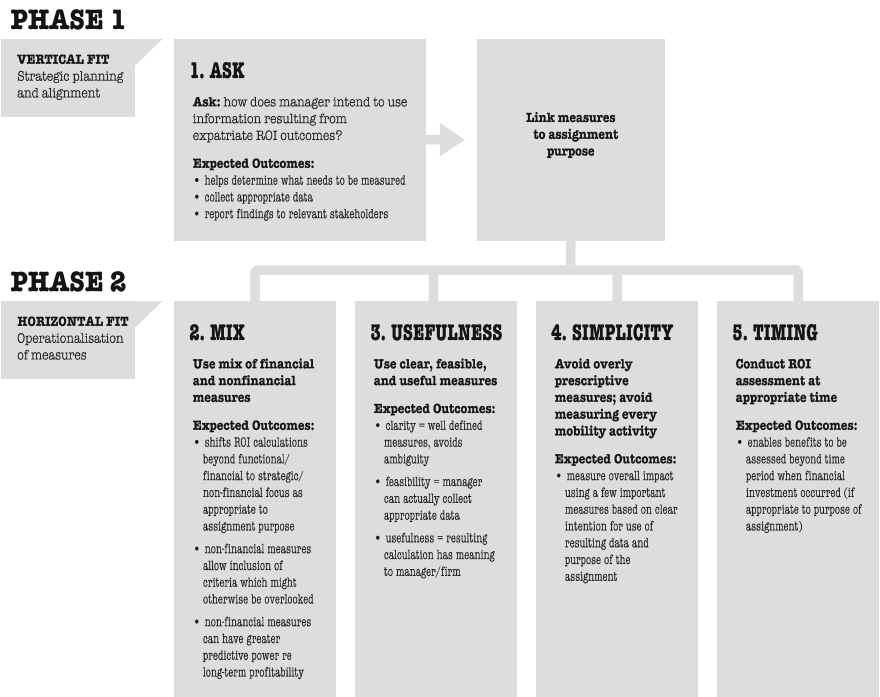


Fig. 1 Evaluation framework (Source: McNulty and Inkson 2013)

(ASK) how senior managers across all business units intend to use the information arising from the chosen metrics. In addition, what purpose will it serve in the broader scheme of achieving organization-wide objectives? The point of Phase 1 is to therefore to ensure that the choice of metrics is linked to a purpose to (a) improve the accuracy and reliability of outcomes, and (b) to help foster greater strategic alignment of global mobility to other areas of the company.

In Phase 2, the concern is with how to choose metrics that can be implemented and used appropriately on the ground, i.e. horizontally, across business operations. Using four criteria, the first step is to ensure a MIX of financial and non-financial metrics are selected, ideally a combination of traditional accounting metrics as well as intangibles (for example, development gains). Doing so pushes managers to capture international staffing value beyond just the (much easier to measure) financial costs associated with international assignments. This is particularly important for assignments where the main purpose is to achieve intangible or “softer” results, such as acquiring inter-cultural capabilities or enhancing leadership skills. Examples of metrics include revenue per full-time employee (FTE), profit per FTE, cost per FTE, remuneration/cost ratios, and human capital ROI (Fitz-enz 2002; PricewaterhouseCoopers 2006, 2010).

The second step in Phase 2 is to choose metrics that are *clear, feasible, and useful* (USEFULNESS). Clarity requires that any ROI metric be well defined and avoid ambiguity, trivialization, or irrelevance through the use of too few, too many, or the wrong metrics. Feasibility assesses whether a manager can actually collect the required data that a metric demands in a systematic and chronological manner. Usefulness implies that outcomes stemming from the expatriate ROI metrics can be utilized effectively in terms of strategic fit: If an ROI metric has clarity and is feasible, but the outcome will not tell a company what it needs to know about the value gained from international assignments, then the metric has little meaning.

A third step is to avoid being overly prescriptive by attempting to measure the impact of every global mobility activity or every outcome expected from international assignments (SIMPLICITY). This is important because it makes more sense to measure carefully selected mobility and international staffing activities using just a few key metrics, thereby ensuring a greater likelihood that there is a clear intention for the use of the resulting data, given that less – but more important – data will be collected.

The final step is to measure expatriate ROI at the appropriate time (TIMING), recognizing that the outcomes to be expected from international assignments may not be fully realized for several years. Assessments of international assignment value also can be made at more than one point in time – for example, during the assignment (via performance reviews), at the immediate conclusion of the assignment, during and/or after the point of repatriation (if appropriate), and in subsequent years as the benefits accrue. Timing is critical, because it shifts the measurement of ROI beyond the traditional accounting approach that expects assessments of value to be conducted in the same period in which the initial financial investment occurs. Instead, international assignment value can and should be assessed when the value that is gained is expected to be most apparent.

5 Summary

This chapter began with the premise that we need to be able to delve deeper into the “added value of expatriation”. By focusing on expatriate ROI and the various ways that its measurement has been approached, a key contribution is that recent improvements in measuring international assignment value by various researchers’ (e.g., Doherty and Dickmann 2012; Johnson 2005; McNulty and De Cieri 2013; Schmidt and Minssen 2007; Welch et al. 2009) can elevate the mobility manager function from an internally focused and program-based “advisory” role to instead make him or her accountable for *business results*. The use of an evaluation framework as suggested by McNulty and De Cieri (2013) allows, for example, the capturing and combining of hard outcomes such as sales and profits with softer outcomes such as developing expertise and building leadership. In doing so, the accuracy of expatriate ROI assessments improves, thereby improving overall global staffing decisions. Furthermore, their framework it is sufficiently flexible to be adapted when new trends and learning needs emerge, and therefore to account for changes in organizational priorities over time, particularly in relation to changes in a broader corporate strategy.

A further contribution is that the suggestion by various researchers (e.g., Doherty and Dickmann 2012; McNulty and De Cieri 2013) to utilize a mix of metrics that better suit the purposes and expected outcomes of each type of international assignment represents an important ‘paradigm shift’ from using only one ‘best’ measure to assess outcomes from every type of international assignment. By accounting for differences in assignment purposes, including different assignment types (short-term, long-term, commuter and so on), the resulting value from international assignment outcomes is likely to be far more accurate. Additionally, shifting the focus to *evaluating*, rather than “measuring”, is likely to avoid metrics that are not relevant, timely, or useful, because as McNulty and Inkson (2013, p. 163) suggest,

it is not the measurement of [expatriate] ROI itself, but what we *do* with the insights gained from the measures that matters and drives business performance.

In addition to the above, we have also introduced the construct of ‘expatriate ROI’ as a means of conceptualizing and evaluating not only individual ROI but the overall global mobility of the company. While expatriate ROI has become a kind of “holy grail” that many organizations aspire to utilize but few have made progress towards, the measurement approaches illustrated here (including a critique of the shortcomings of those that have proven to be unreliable) illustrates how progress towards a strategic and expatriate ROI-based approach to international assignments is not only necessary but can be impeded by “status quo” forces within the organization if not carefully managed and monitored. In noting that expatriate ROI requires clarity in terms of the purposes for expatriation against which its returns are measured, it is clear that international assignments can indeed continue to add value as part of organizations’ overall global staffing approach.

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