EXPATRIATE RETURN ON INVESTMENT:  
PAST, PRESENT, AND FUTURE

Accepted for publication in

THE ROUTLEDGE COMPANION TO  
INTERNATIONAL HUMAN RESOURCE MANAGEMENT

Citation:

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EXPATRIATE RETURN ON INVESTMENT: PAST, PRESENT, AND FUTURE

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While there has been much talk about the value to be gained from international assignments and how to assess the benefits of expatriation (e.g. Collings, Scullion, & Dowling, 2009; Hamori & Koyuncu, 2011; Pinto, Cabral-Cardoso, & Werther, 2012), including its measurement (e.g. Colakoglu, Lepak, & Hong, 2006; Wang, Dou, & Li, 2002), few solutions have been offered. Much of this discussion has led to the term ‘expatriate return on investment’ (ROI) being increasingly used to represent the full range of costs and benefits attributable to global staffing activities, including international assignments and expatriate programs. And yet empirical research on this important topic remains inadequate, if not grossly under-researched, in comparison to the extensive dialogue that has endured for the past decade or more.

Consider, for example, that measuring expatriate ROI has been called the ‘holy grail’ of the international human resource profession (Russ-Eft & Preskill, 2005; Welch, Steen, & Tahvanainen, 2009), due to in large part to expatriation being an increasingly expensive undertaking. Yet, while organizations spend billions of dollars annually on expatriates, many appear to get an altogether ‘unsatisfactory’ return (Brookfield, 2012). Furthermore, few companies seem to have a clear strategy for how to measure expatriate ROI in a meaningful way (Cartus & Primacy, 2010; McNulty, De Cieri, & Hutchings, 2009) with very little improvement in expatriate ROI-based management techniques over the past decade. The main barriers include not knowing how to achieve it, not having time, a lack of top management support, and it not being important to their organization (Brookfield, 2012; McNulty, De Cieri, and Hutchings, 2009). These figures suggest that expatriation may be a massive waste of time, money, and resources when the ability to secure a return on investment is marginal at best.

Part of the problem is that some companies have a short-term profit-driven focus, ignoring such forces as international careers and the ‘global war for talent.’ Others 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 & Inkson, 2013). But if expatriates are among an organization’s most expensive employees, then there ought to be a better way to manage them and secure a better ROI.

What the above illustrates is not only the nature of expatriate ROI, but also the urgency with which credible data and ideas is needed. Yet the reality is that empirical research on expatriate ROI is relatively scarce, with only a handful of studies – and researchers - offering substantive guidance. Our understanding of this topic therefore remains in its infancy, both among academics and practitioners, in terms of progress on expatriate ROI management techniques and the implementation of ROI metrics. This is in spite of a growing, and somewhat intense, interest in this “hot topic” from many different professions, including academia.
The purpose of this chapter is to present the current state of knowledge about expatriate ROI, including: (a) a balanced overview of the main empirical studies examining expatriate ROI, (b) key issues and current debates as to how ROI could - and should - be approached, implemented, and measured; and (c) how the future research agenda relating to expatriate ROI is likely to unfold. Specifically, the chapter is organized to address: (1) how expatriate ROI has been, and should be, defined; (2) current debates about the measurement of expatriate ROI; and (3) how the return on investment from expatriates needs to be considered in the future. We also provide some guidance for practitioners as to what current research on expatriate ROI means for IHRM practice as well as the implementation of global mobility policy.

**Historical timeline of expatriate ROI research**

**Industry and practitioner research**

The earliest published report that presents reliable expatriate ROI data stems from Brookfield Global Relocation Services (2001), an IHRM consulting firm headquartered in the United States and formerly known as ‘GMAC’. In their 2001 annual survey of global relocation trends, data reported for the first time indicate that while one-third of the 150 surveyed companies rated their expatriate ROI as good or excellent, more than two-thirds considered it to be average, fair, or poor. More than a decade later, data reported in the 2013 survey (n=136) indicates that more than two-thirds of companies rate their ROI as good, with only 8% rating it as ‘fair’. While Brookfield (2013) notes that this is,

a dramatic reversal from the last two years and well under the 22% historical average … [it is not surprising] given the relatively low international assignment attrition rate and the low failure rate. That said, only 25% of respondents rated their ROI as very good or excellent (p. 25).

Other data on expatriate ROI reported by Brookfield include: (1) the percentage of companies that formally measure ROI, (2) reasons for not measuring ROI, (3) measures that are factored into ROI calculations, and (4) initiatives to improve ROI. Brookfield notes in the 2013 report that while,

companies that formally measure international assignment ROI remain firmly in the minority [at] 14%, the percentage continues to rise. The percentage is 5% above last year’s report (9%) and is the highest it has been in the last five years (p. 24).

Since 2004, other consulting firms (e.g. Cendant, 2004; ECA International, 2007; Ernst & Young, 2010; Mercer, 2005-2006; PricewaterhouseCoopers & Cranfield University, 2006) have replicated Brookfield and reported similar ROI data, yet the Brookfield data continues to be tracked and cited by IHRM scholars because the reports not only constitute one of the industry’s most reliable sources of global relocation data and trends, but the longevity of the survey (currently in its 18th year) enables comparisons of data year-on-year with historical averages to then help gauge the relative importance of annual variations. It must be noted, however, that, unlike academic studies where changes to questions are avoided, industry surveys are prone to change the wording of questions and/or omit questions altogether when they are
deemed ‘irrelevant’ or no longer ‘trendy’, thereby impacting on the reliability of some data. A good example of this is the recent omission, by Brookfield, of the question that asks companies to agree or disagree with a stated definition of expatriate ROI; although the question had been included in 11 prior surveys since 2002 on the basis that “acceptance of the definition … implies acceptance of an objective standard by which to evaluate assignment success” (p. 55), it was not included in the 2013 report and no explanation was given.

A notable exception to the survey data reported above is that of Johnson (2005), a former director of consulting services at Cendant Mobility (now Cartus), whose article in Compensation and Benefits Review was aimed at educating senior executives and professionals who design, implement, evaluate and communicate compensation and benefits policies and programs about how to measure international assignment ROI, taking into account the costs and benefits related to assessing expatriation success.

**Academic research**

The first study on expatriate ROI in the academic literature was published in 2004. In their seminal article, McNulty and Tharenou (2004) adopted systems theory to conceptualize a multidisciplinary definition of expatriate ROI, and a cost-benefit approach to its antecedents in terms of the human resource (HR) activities that would increase or decrease ROI. The McNulty and Tharenou model subsequently provided the initial framework and impetus from which other studies (including their own) were conducted and/or new frameworks developed and extended.

Empirical studies relating to expatriate ROI began to emerge in 2007, with the publication of a study exploring the extent to which HR managers in the German chemical industry account for the value of international assignments (Schmidt & Minssen, 2007). This was followed by: (a) a case study focusing on a practical ROI tool deployed by a US-headquartered company (McNulty, 2008); (b) an in-depth examination of ROI practices in 51 global firms (McNulty et al., 2009); (c) a study of HR managers’ versus expatriates’ viewpoints about ROI (Welch et al., 2009); and (d) the development of metrics to measure ROI (Doherty & Dickmann, 2012).

The focus of most of these early studies has been on the ROI to companies and how well they are able (or not able) to measure expatriate ROI, including challenges and barriers to its measurement. This stream of research also began to question whether ROI was the right approach to assessing expatriate value (Welch et al., 2009) or, given that expatriation is often a cost of doing business, whether ROI should be measured at all (McNulty et al., 2009).

More recent empirical studies by McNulty and colleagues have progressed research on expatriate ROI to consider alternative perspectives. For example, McNulty and De Cieri (2011) provide an updated conceptualization of the original McNulty and Tharenou (2004) model to incorporate a multidimensional structure consisting of three main components (external factors, the expatriate management system, and ROI outcomes related to the costs and benefits to organizations and assignees). McNulty, De Cieri and Hutchings (2013) further expand the focus on company ROI to also
include individual (assignee) ROI perspectives, a concept elaborated in greater detail in McNulty and Inkson (2013).

The culmination of McNulty and colleagues research is represented in McNulty and Inkson (2013), a management book aimed at educating mobility managers about expatriate ROI in practice. In their book, the authors’ provide definitive guidance on evaluating expatriate ROI (McNulty & De Cieri, 2013) as well as detailed discussions on ROI-related concepts that includes the duality of corporate versus individual ROI (McNulty, 2013), global careers and expatriate psychological contracts (Inkson, McNulty, & Thorn, in-press; Vance & McNulty, 2013), expatriate family issues (McNulty, 2012), changing assignee profiles and the global staffing mix (Cole & McNulty, 2011; McNulty, in-press), and the opportunity costs associated with localization (Tait, De Cieri, & McNulty, 2012) and local-plus compensation (McNulty & Aldred, 2013).

The body of research on expatriate ROI is depicted in Figure 1 showing a timeline of the research that has been undertaken.

INSERT FIGURE 1 ABOUT HERE

Key issues and current debates about expatriate ROI

Defining the construct of expatriate ROI

Initial research surrounding expatriate ROI began with a focus on defining the construct. The most common definition historically among practitioners has been that of Brookfield (GMAC, NFTC, & SHRM Global Forum, 2002): “achievement of the assignment objectives at the expected cost.” McNulty and Tharenou (2004) showed this definition to be inadequate because expatriation is more than simply a financial ‘cost’ – there is also a non-financial cost and value that needs to be included. This shortcoming led to the development of an alternative definition that is frequently cited in academia:

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 & Tharenou, 2004, p. 73)

An advantage of their definition is that McNulty and Tharenou explicitly recognize 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 (see McNulty et al., 2009). The focus is therefore not on financial cost alone, but on value.

McNulty and Inkson (2013) argue, however, that the objectives (purpose) of an international assignment, “may be too nebulous for some companies to identify, making defining expatriate ROI clearer for some organizations than for others” (p.
29). For example, objectives such as ‘professional development’, ‘succession planning’, and ‘building leadership capabilities’ are often difficult to articulate in a meaningful way. This is likely why the definition above avoids being overly prescriptive, to instead be customized according to a wide range of financial and non-financial costs and benefits appropriate to different assignment purposes and company expatriation strategies. McNulty and Tharenou (2004) argue that 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 study of 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. As McNulty and Inkson (2013) note:

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 (p. 30).

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.
Measuring expatriate ROI

While obtaining a measure of expatriate ROI has been a high priority for many companies for at least the past decade, 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 isn’t particularly meaningful in terms of guiding future decision-making. 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 1 provides examples of these informal measures and their levels of usage by organizations, along with sample quotes from various mobility managers.

Insert Table 1 about here

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 et al. (2009) further contend that 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. Additionally, 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.

Of the very few studies that examine the measurement of expatriate ROI, Doherty and Dickmann (2012) provide one of the most comprehensive sets of metrics yet to be developed. In their study of nine multinationals conducted in collaboration with a consulting firm, the authors develop a set of key metrics to capture data relating to
performance, promotion, repatriation and retention outcomes from international assignments, as well as remuneration and other financial costs in the processing and management of assignees. While the list of metrics reported (see Appendix A in their article) represents only part of the full set of metrics that were developed, their study nonetheless represents a small but very critical step in advancing knowledge about the measurement of ROI.

On a smaller scale and in less detail, Johnson (2005) also provides some guidance on measuring expatriate ROI. Using metrics that are focused predominantly on the financial costs associated with international assignments, the author suggests, as a first step, to calculate the expenses incurred by employees in relation to international assignments (e.g. salary, taxes, housing, education assistance for dependents, household goods shipment, spouse support, cross-cultural training, goods and services allowances, repatriation logistics, and reassignment costs, among others), followed by the administrative costs of running an international assignment program (e.g. salary of HR and mobility staff).

Taking a different stance, McNulty and De Cieri (2013) provide an alternative perspective to measuring expatriate ROI by focusing less on metrics and instead on ‘an evaluation framework’ centred around strategic planning and alignment (vertical fit) and the operationalization of measures (horizontal fit) (see Figure 2). They propose that such a framework is an essential first step before metrics are developed and selected, arguing 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 usage.

Theoretical approaches to expatriate ROI

If prior attempts to evaluate international assignment value using measures of expatriate ROI have been criticized for lacking rigor and substance (McNulty & Tharenou, 2004; Welch et al., 2009), how then should expatriate ROI be considered from a theoretical standpoint? There are three schools of thought.

Action research approach

Focusing predominantly on the ROI to companies, 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, they developed a set of metrics to explore and gauge the ROI of international assignments. Key insights from their
study were then synthesized to provide actionable outcomes for participating companies. Although their study did not rely on a single theoretical framework, it was nonetheless guided methodologically by the use of ‘contextualization’, in terms of the impact of context on the design, assessment, implementation, and interpretation of the research itself. This was achieved by employing a case study approach among a group of companies and by providing a “rich description of the setting, establishing frames of reference, and the inclusion of a temporal dimension, i.e. tracking the outcomes of expatriation over time” (p. 3439).

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 found to be more 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. Doherty and Dickmann (2012) contend that an action research approach helps to overcome the problems of buy-in and the lack of a skills base to develop measures, as found by McNulty et al. (2009). Certainly, the outcomes from their study illustrate that working in close collaboration with practitioners lends itself well to “developing metrics that are feasible and suitable for purpose for practitioners” (p. 3439).

A shortcoming of the study, however, is that the reliability and validity of the metrics developed for, and arising from, the project were not reported in full and therefore could not be tested or replicated in further research. As the authors themselves state, “due to the extent and competitive sensitivity of the measurement information, we can only present parts of the measurement approach” (p. 3453). Thus, while action research in direct collaboration with industry practitioners is beneficial on the one hand for developing practices that have real meaning among those that ultimately will benefit (i.e. companies), this study only partially advances our understanding about the measurement of expatriate ROI because, for commercial reasons, the authors’ were restricted to reporting only what was done, but not what was fully found or developed.

Furthermore, although Doherty and Dickmann (2012) claim that “previous research on ROI has tended to be driven by an academic impetus and agenda” and that their research instead “develops and produces a process and metrics which [companies] were facilitated to apply within their organizational settings”, the metrics published from their study nonetheless focus predominantly on the financial investment portion of ROI “starting from the company systems and calculating the costs for each of the international assignees [in an attempt to provide] higher quality data” (p. 3449). These key metrics relate to expatriate management costs and benefits in areas such as total compensation, long-term financial benefits, allowances, support staff, outsourcing, and cross-cultural and language training. As such, the ‘other half’ of the expatriate ROI equation (metrics relating to non-financial costs and benefits, which the authors’ devote nearly one-third of the early part of their paper discussing the merits of) have been downplayed, save for descriptive statistics explaining changes in performance, promotion, repatriation and retention rates year-on-year (but with no metrics given to
explain how these changes were measured or how the metrics were deployed).

One cannot help but ponder that a less than ideal outcome of the Doherty and Dickmann (2012) study is that, despite the intention to achieve a “mutual interaction [between] academics and practitioners in the development of actionable knowledge” (p. 3449), intellectual property constraints instead won the day. For instance, although the study was aimed at “engagement with practitioners to develop critical reflections, in this case, on the approach to ROI, to enable the development of workable, appropriate and applicable processes and tools” (p. 3440), it may have instead been driven by the way business is done in the consulting world (payment for knowledge) thereby handicapping the wider publication of the very tools and processes the authors’ stated are essential in studies of this kind.

Furthermore, while the study provides clear evidence of “a first step towards closing the rigour–relevance gap in the field of ROI”, the subsequent heavy focus on overcoming that there has been “limited progress in the practice of measuring ROI” (p. 3438) has, by default, ignored that true ROI rests not just in its measurement, but also in its management (McNulty & Inkson, 2013), taking into account not just corporate ROI but also individual ROI concerns. Additionally, the assumption that ROI metrics should focus predominantly on performance, promotion, repatriation and retention is, again, a leap of faith, given that ROI outcomes are, and should be, customized according to a variety of contexts, including purpose of the assignment, industry characteristics, the external environment, and individual employee considerations, which much of the research on expatriate ROI has been discussing for some time (McNulty & De Cieri, 2011; McNulty et al., 2013).

Intellectual capital approach

A second school of thought about expatriate ROI takes an interpretive perspective to reframe the value of international assignments by exploring HR managers’ and expatriates’ experiences of the practices and activities relating to expatriation. The approach relies on exploring the social reality of a phenomenon as experienced by participants using abductive reasoning (the dynamic interaction between data and theory). Utilizing a qualitative two-country study of nine multinational companies and drawing data from both organizational representatives and repatriates study, Welch et al. (2009) argue that, unlike McNulty et al. (2009), the failure of companies to measure ROI is likely not due to a lack of formal systems and procedures, but because ROI may not be an appropriate approach to measuring the human capital investment in international assignments. Presenting their study as a “voyage of discovery, sense-making and interpretation” that deviates from the “conventional presentation of empirical research” (p. 1329), the authors’ determine from their data that an intellectual capital approach may be a potentially more relevant construct when assessing international assignment outcomes (see Figure 3). This is because, in addition to capturing firm-specific inter-dependent and long-term intangible costs and benefits, such an approach can also account for expatriates’ individual agency as an important component of the ‘career capital’ they seek by undertaking international assignments (Dickmann & Doherty, 2008).

INSERT FIGURE 3 ABOUT HERE
Figure 3 highlights three interdependent components of intellectual capital (Bontis and Fitz-enz 2005): (1) human capital, defined as an individual’s set of knowledge, skills and abilities acquired through education and experience; (2) structural capital comprising data and information in relation to “the knowledge left behind when human capital walks out the door each night” (p. 1334); and, (3) social capital, where personal relationships and networks are used for company-related purposes.

The benefit of an intellectual capital approach is in first recognizing that any assessment of international assignment value rests with the individual undertaking the assignment – expatriates. This is reflected in the manner in which the components of intellectual capital (human, structural and social) are invested in the individual who then chooses whether or not to share their skills with the organization, as well as the extent to which the organization is able to exploit the required knowledge and information from expatriates for the betterment of the firm as a whole - essentially, “converting individual intellectual capital – a private good – into organizational intellectual capital” (p. 1335). From an intellectual capital perspective, Welch et al. (2009, p. 1335) contend that,

> International assignments add significantly to the multinational’s knowledge base, increasing its value and consequently competitive advantage through the ability to transfer and exploit information and knowledge more efficiently. An international assignment, therefore, reveals the multidimensional nature of intellectual capital, and how individual and firm intellectual capital accumulates over time.

The authors’ show that harvesting intellectual capital nonetheless remains a difficult endeavor, with two issues that remain challenging. The first concern is related to ensuring knowledge transfer upon repatriation, a problem that other researchers’ have long studied (Bonache & Zarraga-Oberty, 2008; Lazarova & Tarique, 2005). Based on human capital theory, knowledge transfer captures very well the outcomes expected from management development as an assignment purpose, but if we consider that there are many purposes, of which management development is one but which also includes skills acquisition and corporate governance, then a human capital approach limits the benefits to be gained from every international assignment other than for management development purposes.

A second concern is related to how well the HR function is able to develop effective talent management systems to support global staffing initiatives, and by doing so demonstrate the value and relevance of its own function “through the use of measurement tools to enhance credibility among their management peers” (Welch et al., p. 1337). This latter issue is one that has also been around for some time, where HR is perceived to have a “limited ‘zone of influence’”, being confined to the “period of assignment because that’s what we can impact”, and being viewed as “the administrator of the company’s international assignment policies” (p. 1338) but “not in a strong position to influence how the organization manages its investment in intellectual capital” (p. 1337). As the authors note, although their proposed intellectual capital perspective is aimed at capturing “the true worth – to organizations and individuals – of international assignments (p. 1327) … the concept is nonetheless] complex and poses methodological challenges” (p. 1340).
While the authors’ argument as to the appropriateness of ‘ROI’ terminology to measure international assignment value has some merit, the issues they identify are more or less the same as those at the centre of the ongoing debate about expatriate ROI in general: the intangible nature of much of the benefits to be gained from expatriation activities (McNulty and Tharenou, 2004), the lack of strategic focus by HR managers and other mobility executives on ROI in general (McNulty & De Cieri, 2011), and the need for what McNulty and Inkson (2013) call “the eROI mindset”. Thus, one could argue that it is not the terminology that matters, i.e. whether one is assessing ‘ROI’, ‘intellectual capital’, ‘human capital’, ‘costs and benefits’, or ‘value’, as much as what is at the core of the approach being used. Unlike traditional accounting that focuses ROI on a (financial) cost recovery approach, the earliest research on expatriate ROI by McNulty and Tharenou (2004) makes it clear that ROI in the management discipline requires reinvention and re-application to include a “complex range of intangibles inherent in the use of international assignments” which “has more to do with appropriate measurement techniques than with the process of measuring” (Doherty and Dickmann, 2012, p. 1335). As such, the “danger that a formal ROI system may foster an approach to assignment management driven by a desire to recover costs incurred during the assignment, and a tendency to emphasize direct, monetised costs” (p. 1335) is a very real one, also identified in early research (McNulty and Tharenou, 2004) and which remains a continuing (and unfortunate) focus even today in the most credible consulting surveys and reports (e.g. Brookfield Global Relocation Services, 2012). Researchers on expatriate ROI therefore agree that more emphasis is required to avoid the improper use of traditional accounting ROI which will likely result in any measurement of international assignment value “becoming a cost containment tool that fails to capture items such as the opportunity costs of using an expatriate rather than a host country national (HCN), or the indirect cost of expatriate under-performance” (Welch et al., 2009, p. 1335).

Systems theory approach

A third school of thought in relation to expatriate ROI focuses on systems theory to explain international assignment outcomes. Building on prior frameworks (e.g. McNulty & Tharenou, 2004), McNulty and De Cieri (2011) present a ‘contemporary’ framework of expatriate ROI that extends beyond a focus only on management practices linked to expatriate activities, to instead focus on a broader combination of external and strategic factors, as well as factors at the organizational and individual level. Anchored in systems theory (Ackoff, 1971; Von Bertalanffy, 1972), they apply “systems thinking” to argue that expatriation is one sub-system within a larger management system, where expatriate processes interact not only with each other but also, as a whole, with other systems in a company such as talent management programs and succession planning. By taking into account all of the factors, and inter-relationships among the factors that are likely to impact on ROI, companies are compelled to “reconcile the demands of stability with the dynamic challenges of internal and external change in order to facilitate and achieve satisfactory organizational outcomes (in this case, ROI)” (p. 901).

At the heart of the McNulty and De Cieri (2011) framework is the ‘expatriate management system’ defined as a configuration of organizational activities, events, processes, policies, practices, and strategies that are directed at influencing the outcomes of long-term international assignments, to impact the international concerns
and goals of global firms (p. 905). The system is multidimensional and factor configurations are likely to vary across individuals, assignments and firms. The system consists of four components: (1) global staffing strategy; (2) purpose of an international assignment; (3) organizational factors; and (4) individual factors. This then sits within a broader conceptual framework that adopts a multidimensional structure comprised of three main components: (1) external factors; (2) the expatriate management system; and (3) expatriate ROI outcomes which includes the costs and benefits to organizations and individuals. The theoretical foundation to support the conceptual framework rests in the entire expatriate management system which impacts on expatriate ROI. This occurs because, as shown in Figure 4, each component acts as a determinant of other components in the system. Organizational and individual factors are proposed to have important uni- and bi-directional inter-relationships, with ROI outcomes feeding back into the expatriate management system to influence global staffing strategies and overall international assignment management.

One strength of the framework is the inclusion of a feedback loop, where ROI outcomes are fed back into the overall expatriate management system at the strategy level, to impact and improve future global staffing initiatives. This represents clear evidence as to how strategy may be developed in response to practice, i.e. how a global staffing strategy could be developed, improved or adapted in response to external, organizational and individual factors arising during international assignments. Without a feedback loop between ROI outcomes and strategy, ROI is not likely to improve, nor is its assessment likely to be of any long-term benefit considering that the importance of an ROI outcome is not just in determining the rate of return, but also in understanding how and why ROI may increase and decrease.

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 can prevent mobility managers from reframing international assignments in the broader context of their organization’s overall strategic capabilities. At best, any resulting “measures” of ROI will give the perception that 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 (McNulty & Inkson, 2013).

A key construct of an expatriate management system is its dynamic nature, whereby components are likely to enter and exit the system according to a variety of conditions, for example, where purpose of an assignment may determine whether a short-term versus long-term assignment is required, whereas the location where subsidiary staffing is required may influence the choice to use expatriate or local staffing options. On this basis, changes to the structure of an expatriate management system should be both expected and required in order to better understand, and subsequently improve, ROI.
The most obvious shortcoming of the framework is its “somewhat simplified representation of the dynamic inter-relationships between the factors” (p. 903), many of which may be more complex than presented, given that the components of the framework consider a range of factors at the local, national, regional, and global levels of analysis that a company would be expected to encounter and manage. This is especially true in light of McNulty et al.’s (2009) finding that there are many barriers to implementing expatriate ROI systems among global firms, largely because mobility managers are under-staffed, lacking in the skills needed to develop ROI programs, and many have little buy in from top management for such initiatives. Thus, the complexity inherent in such a framework may be out of reach for many practitioners that work in this field.

Systems theory has also been criticized for lacking theoretical rigour in studies that use the approach, for example, in terms of the possible non-relevance of strategy as well as incorrect assumptions about linear causality (e.g. Fleetwood & Hesketh, 2006; Paauwe & Boselie, 2005). While McNulty and De Cieri address these assumptions, more empirical research is needed to test their conceptual framework ‘in situ’. Furthermore, as the authors’ note, “the inter-relationships between some external, strategic, organizational and individual factors in our framework may be so mutually intertwined that it may not be possible to determine which factors in isolation or in combination are likely to lead to certain performance outcomes” (p. 903). The authors’ acknowledge that they do not present a conclusive list of factors that can play a role in expatriate ROI where “identification and understanding of factors will continue to evolve [as] new streams of research further extend the framework over time” (p. 903).

**Future research agenda for expatriate ROI**

Although research on expatriate ROI remains in its infancy, the small number of empirical studies to date have provided an incremental but significant foundation thus far. More research is nonetheless needed in three key areas: (1) individual ROI, (2) push versus pull factors, and (3) ROI metrics.

**Individual ROI**

An advantageous feature of the McNulty and De Cieri (2011) framework lies in the logic of its theoretical grounding to explain how an expatriate management system impacts on expatriate ROI outcomes, including those at the *individual* level. Yet, much of the research on expatriate ROI conducted to date has predominantly focused on the return on investment of international assignments to *companies* – what McNulty et al. (2013) coin ‘corporate ROI’. But as McNulty and Inkson (2013) have recently shown, while it is important that researchers’ consider corporate gains, the next stage of research must also focus on returns for the individual expatriate in terms of his or her personal return on investment, or individual ROI (iROI), as a way to explain overall expatriate ROI outcomes. Future research must therefore consider a new research paradigm represented by McNulty and Inkson (2013) in Figure 5 as:

INSERT FIGURE 5 ABOUT HERE
McNulty and Inkson (2013) argue that a focus on iROI is critical, because expatriates “are the very people that companies rely on to deliver the value they seek – the e in eROI – given that they are making their own investments of time, energy and skill into an international assignment so that the company will ultimately benefit” (p. 38).

Corporate ROI (‘cROI’ for short) is defined by McNulty and Inkson (2013) 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.

It is worth noting that the McNulty and Inkson (2013) 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, Doherty, Mills, & Brewster, 2008; Stahl, Miller, & Tung, 2002). The definition further relies on psychological contract theory to explain the exchange agreement between organizations and their expatriates in terms of reciprocal expectations about employee performance, support, communication and equity. For example, some of the beneficial cROI outcomes that employers receive from expatriates includes the internationalization of skills and knowledge transfer, whereas the 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 & 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 & Aldred, 2013; Tait et al., 2012).

Why does iROI play such a critical role in the future of expatriate ROI research? 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”.

The future research agenda for expatriate ROI rests in a weakening of the company as the dominant stakeholder in the expatriate employment relationship. Furthermore, 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 expatriate candidates is one of the biggest challenges they face. The inevitable fallout from this talent shortage will then give rise to alternative forms of global staffing to enable firms to build a dynamic pool of candidates, which at the same time will mean companies are unable to rely on only PCNs, over whom they have historically had considerable control.

**Push vs pull factors**

One of the most important, and significant, hidden costs and benefits that need to be considered when assessing expatriate ROI 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’ (i.e. balance sheet) compensation package they receive that then minimizes financial and other risks they face in being abroad.

But as McNulty et al. (2013) and McNulty & Aldred (2013) explain, the introduction of local-plus compensation as a cost-saving measure for companies has resulted in diminished loyalty among many expatriates, and along with it an increase in the number of expatriates seeking alternative employment during an assignment. 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).

These changes show that 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 percent 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, 2013). 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, Lazarova, & Inkson, 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 in academic research - costs 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.

One area of future research that therefore appears crucial is to more closely examine the push and pull factors that: (a) cause a shift in expatriates’ career orientation; (b) influence expatriate retention both during and after an international assignment; (c) determine the ‘currency’ (both economic and developmental) of the psychological contract for expatriates; and (d) the subsequent impact on both long-term and short-term cROI, and overall eROI, to companies.

**Metrics**

A third but no less important aspect critical to expatriate ROI research in the future is the development of metrics. Hand in hand with any investigation of expatriate ROI is the need for a reliable set of metrics relevant to measuring the outcomes and value to be gained from international assignments, as well as global mobility and global staffing initiatives in general. Doherty and Dickmann (2012, p. 3437) note that,

It is important to acknowledge there has been an enduring issue around
measurement and the ability to show the contribution of HRM to the bottom line. For the case of international assignments, similar measurement issues persist.

McNulty and De Cieri (2013, p. 22) further state that,

The proper measurement of expatriate ROI is less about the adoption of poorly defined metrics, and much more about assessing how metrics can be used to determine an individual’s value to a company in terms of the present value of a future service that he or she is expected to provide either on, or after, an international assignment.

The development of HRM metrics in general has largely been undertaken by consulting firms (e.g. PricewaterhouseCoopers, 2010) or by scholar practitioners (e.g. Fitz-enz, 2002; Phillips, Stone, & Phillips, 2001). These metrics include, among others, 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). Using frameworks and definitions developed by McNulty and colleagues (McNulty and Inkson, 2013; McNulty and Tharenou, 2004), Doherty & Dickmann (2012) build on this work to present the first set of metrics specifically focused on assessing expatriate ROI. But while this foundational work provides an important first step as to what could be measured taking into account the barriers that firms are likely to encounter and initial attempts to overcome them, future research is needed to expand expatriate ROI metrics in terms of their number, relevance, and application in practice.

**Conclusion**

In summing up, it is important to note three key issues that contribute to the increased complexities surrounding expatriate ROI research and practice. First, future research must consider that the ROI from international assignments (cROI) is different to the ROI from expatriates (iROI) (McNulty & Inkson, 2013).

Second, both ‘the meanings of international assignments’ and ‘the meanings of expatriate’ are in a state of flux and re-development (McNulty, 2014), with implications as to how the value to be determined from global mobility will be measured and managed in the future. Indeed, the continuing preoccupation with single, long-term, ‘there-and-back’ assignments of parent-country nationals (PCNs) is an outdated model that continues to create problems for sponsoring organizations. Today’s more diverse and complex types of assignments, along with a range of new types of expatriates including non-traditional assignees, contribute to a much needed refocus on ‘global staffing’ as opposed to simply ‘expatriation’, as companies attempt to expand their talent pool options while struggling to fulfill their global employment needs.

Third, there is no singular theory that frames, or explains, the construct of expatriate ROI, nor should there be. Indeed, for a topic on which so little is still known and for which so little has been extensively studied (compared to other IHRM issues), researchers’ are well placed to consider a variety of theoretical perspectives as well as...
to extend current theoretical frameworks, including intellectual capital and systems theory approaches, among others. What remains important is that our research efforts related to expatriate ROI continues despite the complexities, given the increase in global mobility activity that is expected to last into the next decade, and beyond.

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Figure 1: Timeline of Expatriate ROI Research Undertaken in Industry and Academia
<table>
<thead>
<tr>
<th>Measure</th>
<th>%</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Anticipated outcomes:</strong> ROI calculated as a decision making tool</td>
<td>24</td>
<td>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.</td>
</tr>
<tr>
<td><strong>Short-term financial:</strong> Determine whether revenues increase as a result of expatriation</td>
<td>30</td>
<td>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.</td>
</tr>
<tr>
<td><strong>Short-term functional:</strong> Assessment as to whether local objectives met, repatriation turnover, and premature returns/failures</td>
<td>41</td>
<td>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.</td>
</tr>
<tr>
<td><strong>Long-term strategic:</strong> Benefits assessed in retention rates, promotion rates, talent management and succession planning</td>
<td>31</td>
<td>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.</td>
</tr>
<tr>
<td><strong>Individual measures:</strong> Benefits accruing to expatriate rather than firm (e.g. career capital, financial gain)</td>
<td>12</td>
<td>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.</td>
</tr>
</tbody>
</table>

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

Figure 2: Expatriate ROI Evaluation Framework

**PHASE 1**

**VERTICAL FIT**
Strategic planning and alignment

**1. ASK**

*Ask:* how does manager intend to use information resulting from expatriate ROI outcomes?

**Expected Outcomes:**
- Helps determine what needs to be measured
- Collect appropriate data
- Report findings to relevant stakeholders

**Link measures to assignment purpose**

**PHASE 2**

**HORIZONTAL FIT**
Operationalisation of measures

**2. MIX**

*Use mix of financial and nonfinancial measures*

**Expected Outcomes:**
- Shifts ROI calculations beyond functional/financial to strategic/non-financial focus as appropriate to assignment purpose
- Non-financial measures allow inclusion of criteria which might otherwise be overlooked
- Non-financial measures can have greater predictive power re long-term profitability

**3. USEFULNESS**

*Use clear, feasible, and useful measures*

**Expected Outcomes:**
- Clarity = well defined measures, avoids ambiguity
- Feasibility = manager can actually collect adequate data
- Usefulness = resulting calculation has meaning to manager/firm

**4. SIMPLICITY**

*Avoid overly prescriptive measures; avoid measuring every mobility activity*

**Expected Outcomes:**
- Measure overall impact using a few important measures based on clear intention for use of resulting data and purpose of the assignment

**5. TIMING**

*Conduct ROI assessment at appropriate time*

**Expected Outcomes:**
- Enables benefits to be assessed beyond time period when financial investment occurred (if appropriate to purpose of assignment)

Figure 3. Re-framing the value of international assignments through intellectual capital

Figure 4. Conceptual Model of Expatriate Return on Investment

Figure 5. Expatriate ROI Equation


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1 A 1999 industry article was, in fact, the first to report on expatriate ROI [see Handel, J. (1999). Determining ROI of expatriate assignments. ACA News, 42, 22-25]. Utilizing a performance indicator (PI) adapted from The Georgia Institute of Technology Weighting System to determine if an expatriate had succeeded in an international assignment, from which ROI outcomes could then be determined, Handel reported on an ROI calculation developed by Schell that attempted to determine whether accumulated ROI was sufficient to cover the incremental costs of an international assignment. Despite its simple logic, McNulty (2010) could not replicate the calculation with similar data in 2003 and assumed the formula to be flawed (see Appendix A), which was subsequently confirmed by Schell via personal communication. Further attempts by McNulty to obtain literature on the ‘The Georgia Institute of Technology Weighting System’ from which to verify, replicate, and test the formula were unsuccessful.

ii The different types of assignments include long-term, short-term, commuter, frequent business traveler, flexpatiate, accommodation, inter-regional, one-way, localized, indefinite, rotational, sequential, and unaccompanied (split).

iii The different types of expatriates include parent-country nationals (PCNs), third country nationals (TCNs), expatriates of host country origin/returnees (EHCOs), foreign executives in local organizations (FELOs), localized expatriates (LOPATS), and inpatriates.