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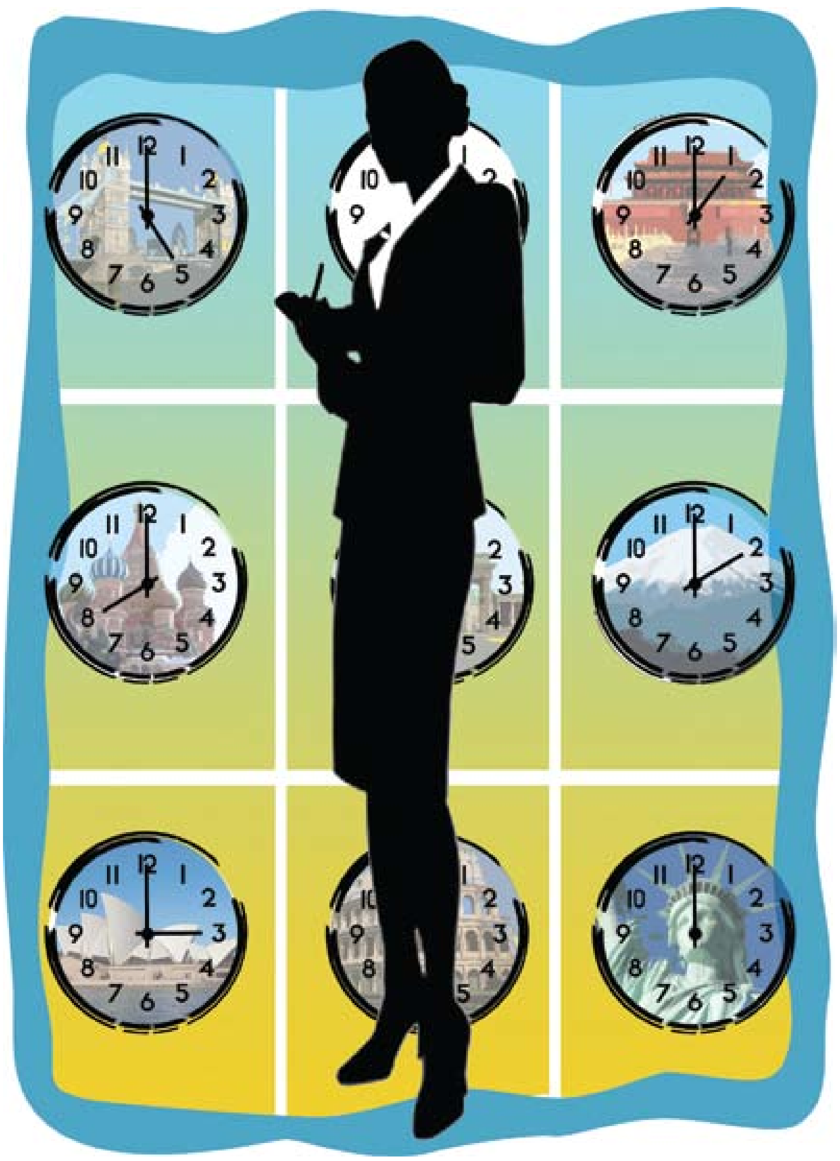

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In Loving Memory of Assunta Mondello

What Not To Do When Measuring Expatriate ROI

Although obtaining a measure of expatriate ROI has been a high priority for many companies for at least the past decade, no formal attempts have been made to measure it. When I first began research on this topic over ten years ago, I found this surprising. If firms investing millions of dollars annually into global mobility programmes do not have this discipline, on what basis do they make critical decisions about global staffing?

What I discovered is that while formal measures of ROI do not yet exist, there are numerous informal measures that have been used, predominantly in an attempt to measure something, even if that something isn't particularly meaningful in terms of guiding future decision-making. At best such 'measures' give the perception that measurement is in some way driving the desired organisational actions expected from expatriate employees, even if the impact is not visible or is misleading. At worst, careless measurement may actually drive the wrong actions and create more long-term problems in terms of improper resource allocation and increased costs.

There are five informal types of expatriate ROI measures that have been used: (1) anticipated outcomes; (2) short-term financial; (3) short-term functional; (4) long-term strategic; and (5) individual measures. But through the course of my research I've become highly critical of most of these measures because I found overwhelming evidence that the reported outcomes arise largely from ad hoc data and subjective perceptions of reality. Indeed, most mobility managers seem to base their expatriate ROI assessments on little more than "intuition", a "feeling", a "belief", or an (often biased) interpretation of an actual outcome.

Another 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. In this light, many existing expatriate ROI measures such as those above are incapable of guiding future decision making and helping managers sustain long-term strategic success.

A further problem is that, because informal measures are easier to obtain, they typically produce quantitative indices (e.g. turnover rates, failure rates) that then lead to inferences about unobserved relationships.

Another example of when informal measures of expatriate ROI do not work well is the use of promotion rates: some companies justify continued investments in global staffing on the basis that expatriates are promoted at a faster rate than non-expatriates, but there is little evidence to support their conclusions. For example, if time in a domestic role is three to four years for a non-expatriate, the length of an international assignment is pretty much the same; for a lot of expatriates, the next move is probably going to be a promotion but the key question is: was being on an international assignment what made the difference? I would argue no, not in all instances. Thus, the usefulness of measuring promotion rates is questionable.

The biggest problem, however, is that each of these informal measures assesses expatriate ROI in an isolated manner by observing only a few behaviours, factors, or outcomes within a limited context (e.g. repatriation turnover, assignment failure and/or success), so that the possible interrelatedness of the various measures and their joint impact on expatriate ROI are ignored. Put simply, no measure accounts for the total expatriate management system. This is a major failing by most companies because focusing only on isolated HR practices and their outcomes tends to reinforce the extent to which an expatriate programme alone has changed, rather than other wider organisational gains. This limited focus prevents managers from reframing how international assignments are considered in the broader context of an organisations overall strategic capabilities.

Additionally, inappropriate data on their own reveal very little about why certain outcomes occur. To explain what I mean, let's examine four of the most common measures of expatriate ROI.

Repatriation turnover

Avoiding repatriation turnover is often treated as an indicator of successful mobility programmes. But as recent reports show, many companies no longer provide post-assignment repatriation guarantees, so the loss of these employees during or soon after repatriation may be inevitable, and may even be functional. Additionally, in some instances repatriation turnover may be due to factors other than expatriate dissatisfaction or performance, including short-term external influences such as market conditions (e.g. redundancies or downsizing).

Similarly, low repatriation turnover may be misleading: for example, the loss of even one expatriate may be strategically devastating for a business unit if that particular individual is pivotal to achieving a vital objective and is considered a high performer whose retention is a specific objective of an international assignment, while the loss of a number of poorly performing expatriates during repatriation may instead be welcomed as 'functional turnover'. Context matters: measures of repatriation retention and turnover will have varying degrees of relevance to the expatriate ROI assessment and must be factored in accordingly.

Furthermore, the emphasis on repatriation as a criterion of success needs to be re-thought, because the importance of repatriation in its traditional form is declining. My research shows that while a number of assignees repatriate upon completion of an assignment on the assumption they are going home for good, an increasing number find they have done nothing more than 'relocate back' for a few years to then take up subsequent opportunities to go abroad again. Thus, repatriation is, for some, nothing more than one step in an evolving 'dynamic' global career.

From this perspective, I predict that the notion of repatriation as an 'end state' simply will not work for many expatriates or their companies and is already becoming an outdated model of global staffing. My own research proves it: I found that increasing numbers of expatriates are now leaving their companies during an assignment, often making their employers' focus on repatriation retention strategies pointless. For all these reasons, repatriation turnover as a measure of ROI is a mistake.

Assignment failure

Perhaps the most popular measure of all, assignment failure is also the easiest statistic for managers to obtain. Yet, failure rate data has consistently shown to be inadequate and unreliable, resulting in "efficiency" measures that are mostly subjective and intuitive. Failed assignments are difficult to define leading to estimates of failure that are grossly exaggerated, ranging up to 75 per cent, but accepted as fact. Such statistics are highly misleading for guiding future decision-making because they fail to account for the context within which failure occurs, e.g. short-term economic downturns or unforeseeable shock events, and thereby result in generalised data that neither depicts the 'true picture' nor is region specific.

In the rare cases when assignment failure is properly identified, data can provide useful diagnosis of organisational dysfunctions in the processes that support expatriates, such as poor career management support, or gender discrimination. Doing this elevates the tracking of failure rate statistics beyond 'measuring to report' to providing meaningful data that can be used to manage and improve expatriate policies and practices. In practice, however, this is rarely the case: the failure rate is often an embarrassing statistic that many wish to avoid becoming public knowledge, as evidenced by the fewer than 10 percent of firms in my research that formally track failure rates on an ongoing basis.

Assessing a failure rate is not an appropriate expatriate ROI metric because it is a lazy measure, frequently used as a scare-mongering tactic to sell third-party vendor services. This is because the myth about high failure rates has been around for so long that no one questions it any more. I recognise this is a bold statement but it needs to be said. To understand why, let's delve deeper into the psychological fear behind failed assignments. I know from my research that a failed assignment can sometimes de-rail a company's strategy, and maybe even send it spiraling backwards in terms of competitive advantage, especially in emerging markets where it may be difficult to get expatriates to go in the first place. The fall-out can be deep, for example, in Asia where business is based almost entirely around personal relationships with locals, thus creating a ripple effect that can be difficult to recover from in the short-term. If companies can then be convinced that assignment failure is high across a particular industry or region, they can more easily be persuaded to buy consulting services that will help them avoid having failed assignments. Common sense dictates, however, that companies with high failure rates would go out of business, period.

The reality is that failure rates are historically low. My own research shows that under normal business conditions, companies report fewer than 10% failed assignments, with most ranging from 4 to 6% annually, a statistic that has been consistently supported by consulting reports for more than 20 years. Thus, it is time to stop buying into the illogical conclusion that international assignment failure is high, and to start seeing this measure for what it is: one frequently used in isolation from other measures and assignment outcomes, plagued by poor construct definition and inconsistent data collection, that mythologises the impact of expatriation on a company's strategy, and is clearly a weak measure of ROI.

Assignment success

To most managers, the success of an international assignment is the embodiment of expatriate ROI. After all, if the assignment achieves what it is supposed to, then what better return can there be? The problem is that because companies still struggle to define not only why they have expatriates but what benefits they expect from expatriation, assignment success is as slippery a concept to define and measure as assignment failure. In my research, only 52% of companies said they set clear objectives at the commencement of an assignment that were documented as part of the approval process. Only 20% then checked against those objectives at the end of an assignment to determine whether they had been achieved. Further complicating the situation, assignment objectives often changed due to a management or strategy shift (for example, from a joint venture or merger).

How then are assignment objectives monitored and assessed? What about short-term objectives assessable as soon as the assignment is completed, versus long-term objectives the benefits of which may not be visible for some years? I contend that although knowing how to define assignment success in terms of the real value to the organisation remains a considerable challenge, what matters more is having clearly defined assignment objectives from which assignment success can be determined at various stages during, and various stages after, an assignment is completed.

Possible criteria for assignment success include cross-cultural adjustment, job performance, organisational commitment, assignment completion, and achievement of assignment objectives. Numerous consultancy surveys report further complexities. For example, a 2004 report by Cendant found amongst a cohort of 146 global mobility managers worldwide that three different assignment success measurement approaches are used by companies: (1) bottom line assignment costs; (2) business generated from the assignment; and (3) justified expense as part of a long-term globalisation strategy. A 2005-6 report by Mercer based on a survey of 160 MNCs found that success measures also include: (4) development of local competencies; (5) development of a pool of skilled, experienced managers; and (6) increases in market share in the host location.

Job performance

Job performance is perhaps one of the most critical short-term measures of expatriate ROI because it can be directly linked to an assignment's purpose. If an expatriate's performance against agreed on-assignment objectives is deemed to be satisfactory, then assignment success is almost guaranteed - and who could want more than that?

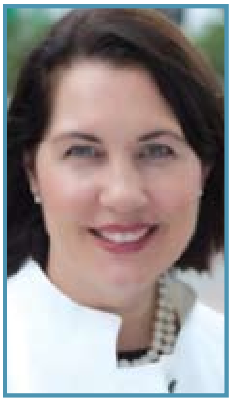
Unfortunately, assessing expatriate job performance is handled poorly by many companies, being viewed too often in terms of adjustment rather than expected job outcomes. This is especially the case in academic studies, where an extensive focus on adjustment to facilitate performance has impeded the more important focus on actual international assignment performance outcomes.

Furthermore, job performance as a component of assignment success must be based on a specification of assignment objectives. Yet, consistent with earlier academic studies, a 2005 GMAC report showed that only 32 percent of organisations monitored expatriate performance against clear objectives, while a 2006 ORC report stated that nearly 40 percent of home-country business units responsible for setting, monitoring, and measuring expatriate performance objectives did not clearly understand what those objectives were. Part of the problem is inconsistency in the use or enforcement of performance appraisals. In addition, various cross-cultural factors make it difficult to implement, monitor, and manage expatriate performance on a global scale.

Additionally, job performance is not given high priority when assessing assignment outcomes. For example, the most recent Brookfield report shows that of those companies that do attempt to measure expatriate ROI, 'completing assignment objectives' is the third-ranked criterion, behind 'international assignee compensation costs' and the 'cost of relocation support'.

The purpose of this article has been to advocate how expatriate ROI measurement might best be achieved by illustrating what not to measure. But while metrics are critical, there is more to ROI than simply designing measures and evaluating assignment outcomes. Now we must ask: How do we get the expatriate ROI we are seeking? A soon-to-be released book provides some direction. With a focus on strategically-based practices for the management of expatriates applicable in international organisations world-wide, and an in-depth understanding of today's corporate expatriates, the lives they lead and the issues they face, *Managing Expatriates: A Return on Investment Approach* (Business Expert Press, 2013) draws on the latest research to address the critical challenge of expatriate ROI.

In the book, my co-author (Professor Kerr Inkson, the world expert on global careers) and I focus the concept of Return on Investment (ROI) – both corporate ROI and the individual ROI expectations of expatriates themselves – and explain how to manage expatriates with an ROI approach in mind. We replace the traditional model of expatriation with a new model. We define what 'expatriate ROI' is, why it matters, and how organisations can improve expatriate management to secure a higher ROI. We focus particularly on expatriates themselves and the 'mobility managers' who manage them, and on the expatriation processes and practices of their organisations.



Dr. Yvonne McNulty is a leading authority on expatriate return on investment and an academic expert in the field of expatriation. Currently on the faculty at Shanghai University, her research has been featured in The New York Times, Economist Intelligence Unit, International Herald Tribune, BBC Radio, China Daily, The Financial Times, HR Monthly, Elle Magazine, Sydney Morning Herald and many other publications. An Associate Editor for the new Journal of Global Mobility: The Home of Expatriate Management Research, she can be contacted at dr.yvonne@expatroi.com hp +65 9107 6645.

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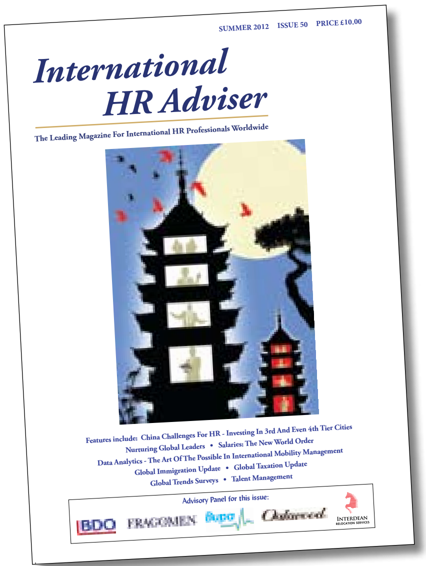

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