How a Major Multinational Is Working to Overcome the Barriers to Improved Expatriate ROI

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Despite the growing use of international assignments and the high cost of expatriates, few global firms have found the key to gauging the success of their mobility program, especially their expatriate return on investment (ROI). The author reports on one global firm that has made great strides towards a practical ROI tool by targeting the fundamental systems and processes needed to manage international assignments. The author also makes the case that an assignment's purpose, relative to business and/or organizational strategies, determines the types of inputs and outcomes to measure; and that ROI determinations for expatriates must include intangible and long-term benefits and costs. © 2008 *Wiley Periodicals, Inc.*

Given the rapid rise in the internationalization of markets, competition, and technology, expatriates—and in particular long-term expatriates—can provide much of the value-creation opportunities global firms are seeking. But as the number of assignments increases, along with their annual cost—by some estimates, two-to-four times the individual's base salary—the need to assure such assignments are being effectively utilized is fast becoming a strategic issue for many companies.

Yet only 57 percent of the global firms responding to a 2005 survey by GMAC Relocation Services perceived their return on investment (ROI) in expatriates to be "good" or "excellent," with only 43 percent indicating they had specific programs in place to improve it.[1] Other surveys show that up to 85 percent of managers do not even attempt to demonstrate the ROI of long-term international assignments, nor do they measure it.[2] Thus, expatriate ROI appears to be not only rarely calculated among global firms but also not widely used as a tool to reduce expatriate costs, despite a growing economic environment of global uncertainty, cost cutting, and risk.

A large study of expatriate return on investment conducted by the author between 2004 and 2006 found that while the 51 global firms participating in the study desired to obtain an acceptable ROI from their expatriates, none of their mobility managers had yet been able to "crack the value code" and develop ROI measures that are both appropriate and useful for the management of long-term assignees.[3] The mobility managers concurred that in addition to financial costs and benefits, which characterize the definition of ROI used by accounting and other functions, expatriate ROI determinations should also include nonfinancial costs and benefits in order to capture the long-term, post-assignment benefits—such as skills transfer, global leadership capabilities, succession readiness, and other talent management objectives—that many managers believe is a key reason for having international assignees.

McNulty and Tharenou have defined expatriate ROI as "a calculation in which the financial and nonfinancial benefits to the firm are compared with the financial and nonfinancial costs of the international assignment, as appropriate to the assignment's purpose."[4] This definition implies two important conditions:

- Managers must know the intent for using expatriates—how the purpose of an international assignment is linked to a firm's overall global

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strategy—in order to then track the benefits and costs.
- Managers must include both tangibles and intangibles when calculating and comparing costs and benefits. Accurate rates of return are then more likely to be determined when the benefits are compared with the costs, even if a cost is financial (e.g., the cost of cross-cultural training) and the corresponding benefit is nonfinancial (e.g., the benefit of improved performance).

(See the **Sidebar** on page 40 for further discussion of important concepts related to the application of this definition to calculating expatriate ROI and developing systems and processes that support it.)

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In turn, these conditions imply a robust system for creating, approving, documenting, tracking, and evaluating international assignments. Significantly, most managers in the ROI study admitted that their mobility programs required substantial improvement first—in areas such as policy development, upgrading software and HRIS, and tracking appropriate data—before calculations of expatriate ROI can even be tackled. At the time, only 20 percent of the firms in the study were actively seeking solutions or implementing projects to address such fundamental issues in their mobility programs. The following case study focuses on one of these companies: the issues it faced, the steps it took, and what it has learned about improving the return on investment in its expatriates.

A Tradition of Global Mobility

For many years, WorldCorp (not its actual name) has deployed staff to assignments outside the headquarters or home countries as a necessity for business operations. At the time of the ROI study, it had 5 percent of its total workforce on international assignment in every region around the globe. Mobility is firmly entrenched in the firm's culture, and the associated expenditure was viewed as simply the cost of doing business.

Until recently, the company did not have a cohesive strategy for the use of international assignments, nor had it leveraged these assignments to further its broader human capital agenda. Despite a very significant annual investment in expatriates, the mobility program was being managed purely as an administrative, transactional function without a strategic focus or influence. Under these circumstances, expatriate ROI was never on the radar screen (how could it be?). But when the company found itself unable to manage the number and cost of its international assignments in response to changing business economics, it took a hard look at its mobility practices and the need to improve its expatriate ROI.

Economic Pressure to Change

In early 2002, as the financial markets were constricting in a post-9/11 economy, the company—partly in response to client pressure to deliver a more cost-effective product—began to act on the need to reduce headcount, upgrade equipment and facilities, and just be smarter across the board about how it operated. Questions arose about whether the firm had the right number of expatriates and for the right reasons, given their higher cost relative to local staff.

The company's senior management decided to reduce the number of international assignments over the ensuing five years in an effort to trim overall mobility costs and improve the ROI of those assignments it did make or retain. Despite that decision, however, during the next four years, assignment usage actually grew by 46 percent. How had this happened, despite senior management's agenda to reduce both mobility costs and the number of

Considerations in Calculating Expatriate ROI

It is fair to say that one of the most challenging issues mobility managers in global firms will face over the next decade is how to measure the return on investment from international assignees. Given the definition of expatriate ROI used in this article, the exact nature of an ROI determination will be driven largely by the purpose of the assignment.

Assignment Purpose

Given that firms differ greatly in terms of industry, organizational culture, and overall strategic objectives, they will have different reasons for using expatriates. In the two-year ROI study mentioned elsewhere in this article, four of the most common reasons given for using expatriates include:

- Fill a skills gap/providing technical expertise
- Development purposes for career planning
- Corporate control and governance, particularly for start-up operations
- Strategic planning for succession, leadership, and talent management programs

An expatriate who is to serve as the CEO of an offshore subsidiary (for the purpose of control, coordination, and transfer of the firm's culture) will be selected, trained, and compensated differently than an expatriate filling a role on a product development team in the same offshore subsidiary (for the purpose of filling a skill gap/transferring knowledge). Likewise, the expatriate CEO will potentially produce greater benefits over the long term than the expatriate technical expert, and consequently their respective ROI will differ. Thus, as assignments vary in purpose, their associated expatriate ROI will also vary.

Accordingly, firms need to be clear about the purpose of each international assignment in order to measure, monitor, and assess its return on investment. In addition, the purpose may serve to moderate the size and type of investment a firm is willing to make in an assignment (i.e., it may also act as a moderator variable). For instance, a company that anticipates receiving a higher return on investment in predeparture training of the CEO expatriate than of the project team expatriate may only provide such training when the purpose and nature of the assignment seem to merit it.

No "One Best" ROI Formula

The differences in purpose are likely to reduce the usefulness of a "one best" ROI formula that can be applied to all assignments. Rather, the ROI calculation will need to be tailored accordingly to those types of costs and benefits that are linked to the assignment's purpose. For example, if the purpose is to give a marketing manager from headquarters a better perspective on markets in another part of the world, and then repatriate him or her back into the headquarters organization to apply that new perspective, repatriation is an essential part of the plan. The calculation of the assignment's ROI should include the costs and benefits associated with repatriation-related outcomes—for example, the successful use (or lack of use) of the expatriate's international knowledge, or loss of the employee because of an unsuccessful repatriation. By contrast, the ROI formula for an assignment that anticipated additional international postings after the first posting would not include repatriation outcomes.

Timing and Measurement Horizon

Likewise, assignment purpose has implications for the timing of the ROI calculation and the time frame over which costs/benefits might accrue. In the example above where repatriation is an objective, all outcomes may not be known until a year or two after the assignment ends, which will then be the appropriate time for making the ROI calculation. The period for assessing ROI for assignments that have inherently strategic objectives, such as those designed to groom candidates for a succession plan or to expand operations internationally, may have an even longer horizon before success of the assignment can be ascertained, and a longer period over which benefits may accrue. As such, measurement of ROI will need to take a long-term perspective to accurately reflect the full impact of many long-term international assignments.

expatriates? The company began to dig more deeply into the mobility practices across its various business units to find the answer.

Shining the Light on Mobility Practices

It was soon apparent that several fundamental problems impeded management's ability to reduce assignment usage and contributed to a number of ineffective mobility practices.

Too Easy to Effect and Approve an International Assignment

In WorldCorp's decentralized operation, business unit managers had complete discretion to approve international assignments, and there was no vetting process to ensure that assignments were reviewed and approved at the right levels. "For a while," says WorldCorp's global mobility manager, "it was harder to buy a laptop here than to go on an international assignment."

Decisions Driven More by Individual Compensation Than Business Needs

Specific assignment objectives or deliverables were seldom defined. In fact, money was the overwhelming driver for expatriating, the main reason more than 50 percent of WorldCorp's expatriate population accepted an international assignment. Managers were using assignments as a way to compensate employees they couldn't otherwise reward via conventional remuneration vehicles.

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No Budgetary Controls

There was no checking system to ensure that managers didn't agree to include things in the expatriate package postapproval just because the employee was putting pressure on them. It was often the case that if an employee balked at the proposed assignment's terms and conditions, the manager would increase the package to include a significant position premium, resulting in a package considerably more expensive than even WorldCorp's own policies suggested it should be. There also was no system in place to ensure that business units tracked and captured mobility costs. Managers were therefore less likely to accept responsibility and ownership for the costs associated with using expatriates—and less likely to try to control those costs. In many instances, costs would significantly exceed budgets, but headquarters either wouldn't know about it or wouldn't discover it until the assignment was over.

Inconsistent Policies

As a result of negotiating the individual requirements of each assignee (a common practice before 2002), the various business units had a plethora of assignment arrangements in effect. This not only created a burdensome administrative task for the HR department but also led to widespread inconsistencies in expatriate benefits across the organization and across all levels of assignees.

Too Hard to End an Assignment

Other problems centered on what to do with expatriates when their assignments were over, since an exit strategy for ending the assignment—a plan to repatriate or re-assign the individual—was rarely specified before an assignment commenced. Although the firm had a comprehensive repatriation program to ease the transition for those returning to their home country after assignment, managers were often reluctant to utilize it. In many instances, reassignment to another location, usually employee-initiated, became the preferred exit strategy, thus extending an assignment beyond the period originally approved.

No Tie to Talent Management

Analysis showed that less than a quarter of the expatriates were in the firm's top 10 percent of performers worldwide, which suggested that the company was not necessarily sending its strongest talent on these important high-cost assignments, and that assignment decisions had no apparent tie to talent management objectives.

Taking on the Challenge

To begin to address these issues, WorldCorp took a bold move towards a more centralized system and a uniform policy framework for bringing greater consistency, quality, and cost-effectiveness to business unit managers' decisions about international assignments.

It was clear that the existing mobility program and practices were out of alignment with the pressing business need to reduce costs, and with other compelling business and organizational needs such as talent development. Nor was there any way of ensuring that the best skills were being deployed to the right places.

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Faced with these realities, senior management took action, beginning with articulating the firm's overarching objectives for its mobility program going forward. The objectives reflect a new philosophy towards international assignments: to give the firm's most talented people a truly global mindset; ensure diversity of leadership and thinking; and support key business priorities. These explicit objectives set a clear career and talent development agenda even as they reinforce the link to business priorities.

The mobility manager and his team were charged with overhauling policies, processes, and methodologies to bring more rigor to the selection and approval processes, greater alignment between assignments and the firm's talent and business priorities, and greater visibility to mobility costs, with a focus on reducing the number and cost of assignments and increasing the firm's return on investment in expatriates.

As a first step, they identified 15 key actions, with the following three at the top of the list:

1. Review every individual assignment by understanding the specific purpose and planning specific action, to occur within a two-year timeframe, for that assignment.
2. Implement a process for senior-level review of the candidate's talent profile prior to effecting an assignment. (First implemented in 2005, talent profiles capture the skills, experiences, and aspirations of the strongest talent employees.
3. Track and measure specific development objectives for each assignment.

It was clear that this would be a multiyear initiative, as well as an evolutionary process of changing the firm's culture and management behaviors. Work began in earnest on designing and implementing a number of major changes to the way the mobility program was structured and managed.

Standardized Policies

Building upon some earlier work to streamline expatriate benefit treatments, WorldCorp implemented seven standard policies to cover all expatriate assignments—five for long-term assignments and two for short-term assignments. The policies detail explicit terms and conditions for each assignment type, including remuneration and employment, relocation assistance and services, and assignment-related benefits. In addition, a legacy policy transitions existing expatriates into a one of four long-term policies. The new policy structure provided a critical foundation on which to build other strategic enhancements to the mobility program.

Assignment Approval Process

In June 2007, WorldCorp launched its first formal approval process for new international assignments. In effect, the approval process now requires managers to submit a proposal that documents the following information about a proposed assignment:

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- Reasons for creating the assignment, including:
  - The assignment role
  - The specific purpose of the assignment
  - The business justification for the assignment
  - Why a local employee is not the preferred option
- Anticipated investment and benefits, including:
  - Specific and measurable objectives for the assignment and when they should be achieved and measured
  - Projected assignment costs against which actual costs can be measured
  - Managerial sign-off on the assignment costs
- Talent considerations, including:
  - The strength of the preferred candidate in terms of latest performance rating (To ensure that assignees are among the most talented employees in the firm, only candidates with a "1" or "2" performance rating out of a possible 5 can be considered for international assignments.)
  - A development plan for the assignee

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The proposal is reviewed in succession by a regional head of international assignments and other members of the firm's senior HR management team. If any of these reviewers believes the proposal needs a more robust business case, for example, or a stronger career development plan for the assignee, the proposal is returned to the requesting manager in the business unit. A HR team member enters the information from approved proposals into an Excel spreadsheet, which currently serves as a rudimentary international assignment database for documenting, tracking, and ultimately evaluating the assignment success.

Review of Existing International Assignments

The company also embarked on a process to ensure that existing expatriate appointments would deliver the greatest value possible going forward, for the company and for the expatriates, and to cull those assignments that were not delivering enough value to justify their continuance. Business managers were required to review each active assignment and develop specific action plans for the assignee, detailing such information as why they were on assignment, what they were doing, and where they could expect to be within the next two years. Using the guidelines shown below, managers were required to choose one of four possible exit strategies from the mobility program for each existing assignee, with a specific end date attached to the strategy:

- Assignment is due to end within two years and will not be filled by another expatriate: *Repatriate or re-assign* at the agreed assignment end date.
- Assignment is due to end within two years, but expatriate is not performing well enough: *Accelerate* the assignment to end as soon as possible, and then repatriate to the home country.
- An expatriate is no longer needed in that location: Agree to an assignment end date, and inform the expatriate that *localization* will occur at that time.
- Assignment is justified in terms of career development and business requirements, and expatriate's performance is high enough to provide a sufficient return on investment: *Keep* expatriate on assignment.

The process of choosing an exit strategy for existing assignees played out quite differently in different business groups. Some managers in the smaller groups were quite happy to give up a number of expatriates without replacing them, begging the question as to why the assignments existed in the first place. Managers in larger business groups, however, were more reluctant to reduce their number of expatriates, citing the importance of these assignments to maintaining certain standards of performance around the world, as well as the attraction of an international career as a big reason why people join WorldCorp. In the end, however, all business units agreed to a 45 percent overall reduction in the firm's number of expatriates over two years.

Monitoring Progress Toward Goals

To remain on track toward the two-year goal of reducing the number of international assignments, the head of HR and the top 25 senior executives in the company now meet regularly to report on mobility volume and activity. Two key agenda items for these meetings are comparison of reduction numbers against business unit targets and reports on the number of new expatriates added since the previous review period.

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Capturing and Monitoring Actual Costs

WorldCorp's existing third-party relocation supplier, who was also responsible for reporting relocation expenses for international assignees, had not been capturing out-of-pocket expenses, which, as it turns out, expatriates were processing through WorldCorp's internal expense management systems. As a result, the relocation costs reported by the supplier did not reflect the actual costs paid by WorldCorp for each assignee's move, making it extremely challenging to create a clear picture of the total expenditure.

To bring greater transparency to assignment costs, WorldCorp has implemented a new process whereby all relocation costs are now processed through a third-party supplier that utilizes a central auditing system with increased reporting capabilities, which has resulted in more accurate cost data that can be better tracked and managed.

Champions

WorldCorp has installed "ROI champions" throughout the firm who act as torchbearers for the strategic value of the new mobility agenda and the good progress being made toward its goals. The most visible champion is the CEO, a passionate manager prepared to make the tough decisions in order to succeed. "When push comes to shove," says the mobility manager, "we rely on the CEO to bang the table and say, 'Okay, guys, why aren't you doing this?"'

Early Results

Given the entrenched culture, the initiative is sending a strong message to managers to begin changing their own behavior with respect to how they manage international assignments. Even at this relatively early stage, the firm can see real progress on several fronts, which moves the company closer to the goal of determining and improving the return on its expatriate investment:

- The firm now has greater rationale for and consistency in the remuneration offered to expatriates.
- HR and its business partners are now speaking the same language and meeting regularly to review assignment decisions.
- Senior managers are now holding each other accountable in terms of managing assignments and reducing mobility costs, and actively seeking out data from the HR department in order to make better informed mobility decisions.
- Managers and assignees are now committed to more specific, articulated goals and deliverables, business-related as well as developmental. With each party knowing at the outset what it must deliver and how it can expect to benefit from the assignment, the probability for success—including a desirable return on investment—is higher.

- The new processes have institutionalized some much needed discipline around mobility and, more importantly, mobility costs.
- The number and costs of long-term assignments is declining at an acceptable rate.

In short, WorldCorp has finally been able to institutionalize an ongoing, iterative, and disciplined process of managing mobility costs and increasing the chances of assignment success—a big leap towards improving its return on investment in international assignees.

But progress has not been without some pain. Not unexpectedly, some expatriates, dissatisfied with the terms and conditions of the new standard policies, have subsequently elected to leave the firm. Also, the mobility manager and his team are keeping an eye on an emerging trend, a marked increase in the number of one-way international transfers, in which the individual becomes a local employee in the new country, with no housing or child schooling benefits. As such, these employees are neither counted nor compensated as long-term expatriates, and while they are less costly in that regard, they fall outside the scope of the mobility program and its financial and immigration controls, which could pose potential cost and noncompliance risks should the number of one-way transfers continue to grow. It's not yet clear if this trend reflects a better assessment of the business requirements by managers or a loophole for "stealth expatriates" approved and managed below the mobility program's radar.

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Still, the company is pleased with the overall progress and outcomes, believing that the positive results thus far outweigh the few negative side effects. It sees continuing to move forward with the changes as critical if an "ROI agenda" is to take root in the organization.

Next Steps for WorldCorp

The most immediate next step on WorldCorp's expatriate ROI agenda is to further refine the approval process and methodology for capturing and evaluating assignment costs and effectiveness.

The mobility manager plans to develop new software for a global HR database that will automatically capture data from the assignment proposal, which is submitted to HR via the Intranet; capture much more data *during* an assignment; and include repatriation actions to better reflect the full life cycle of an assignment.

Currently, expatriates are paid on host-country payrolls, which are not linked with the company's global HR system, making it extremely difficult to track and report ongoing payments and allowances to expatriates. To remedy this, the company plans to implement a global assignee payroll that will be integrated with the global HR database.

In addition, the mobility manager and his team will be building measures and criteria for what constitutes a successful assignment.

Together, these enhancements will enable the company to

- Determine more fully the actual costs of each assignment
- Compare actual to projected costs
- Provide reports back to the business units to enable them to monitor costs and returns on their investments
- Begin to assess the success/failure of an assignment

As a result of the closer tie that the mobility manager and his team have forged with their counterparts in the company's Talent Management function, formal talent profiles will be used to support new mobility requests. The profiles will help managers align talent development goals with specific international assignment objectives.

These improvements to the mobility program will also position HR to act in an advisory capacity to senior executives, using the approval process (and development objectives identified within that process) to track which assignees are on target to achieve their stated objectives during an assignment, and which are experiencing problems. The mobility manager sees the ability to intervene and rethink global staffing decisions during mobility activities as a critical mechanism for delivering the desired rates of return from long-term international assignments.

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The tools the company has implemented and will continue to enhance are establishing a baseline against which more robust ROI measurement can be performed. While the mobility manager does not anticipate arriving at a formulaic solution to determining ROI, he believes the company has the components in place that will enable business managers and the mobility team to objectively determine an assignment's outcomes; if the cost was on target; if the employee is now better equipped to further business and personal growth—in short, to definitively answer the question, "Was the assignment worth the cost?"

Conclusion

According to the findings from the 2004–2006 ROI study, many global firms face operational, cultural, and strategic barriers that prevent them from formally measuring expatriate ROI. The availability of meaningful data from which to calculate returns appears difficult to obtain and is too dependent on managers having the time, resources, support, and appropriate software and tools to capture it. The study found scant evidence of strategic planning that would ensure long-term international assignments support the firm's overall strategy, as well as a lack of adequate justification and approval processes and the absence of accountability and ownership of international assignments.

Managers cannot measure what has not been defined; nor can they measure what is not being managed. Firms that wish to improve their return on their large investments in expatriates can begin by having managers define what expatriate return on investment means in terms of the reasons why they have a mobility program and use long-term expatriates. Only then can they capture relevant cost and benefit data and develop procedures for measuring meaningful expatriate ROI. Managers should begin to ask questions such as, "Which segments of our workforce create the value for which we are most rewarded in the marketplace?"[5] Then, mobility efforts can be directed towards areas that represent the greatest potential return on investment.

Managers must also understand the interrelated nature of the HR activities that support international assignments (e.g., selection, remuneration, family support, training, repatriation, and so on), and their impact on ROI. WorldCorp, for example, found that cohesive and consistent policies and processes (e.g., approval processes) greatly improved the ability of managers and the mobility team to plan and manage effective international assignments. A firm can leverage the strengths and correct the weaknesses in its HR system by targeting those processes and activities with the greatest influence on rates of return.

Most firms in the 2004–2006 ROI study tended to think that the determination of expatriate ROI

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would be complex, something they would struggle to understand, and would require sophisticated measures to implement. In reality, as the WorldCorp case study demonstrated, firms hoping to better their expatriate ROI can take relatively simple steps towards a practical ROI tool. By strengthening the existing infrastructure for managing assignments—planning, selection, approvals, reporting—through small, targeted steps, a firm can achieve significantly better alignment of assignments with business and organizational objectives, and more accurate determination of assignment success, in terms of costs and benefits. Such a pragmatic approach is within the capabilities of any firm.

Notes

1. 2005 global relocation trends survey report. (2005). Woodridge, IL: GMAC Global Relocation Services.

2. Emerging trends in global mobility: Policy and practices survey. (2004). Wilmington, NC: Cendant Mobility.

3. The study was conducted as part of the author's doctoral dissertation research at Monash University Australia. For information about the full findings from this study, please contact the author.

4. McNulty, Y., & Tharenou, P. (2004). Expatriate return on investment: A definition and antecedents. *Journal of International Studies of Management and Organization*, 34(3), 68–95.

5. For a more detailed explanation of this concept see Boudreau, J., & Ramstad, P. (2007). *Beyond HR: The new science of human capital*. Boston, MA: Harvard Business School Press.

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