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MEASURING EXPATRIATE RETURN ON INVESTMENT: EMPIRICAL EVIDENCE FROM GLOBAL FIRMS

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Abstract

Obtaining a return on investment (ROI) from expatriates is viewed as important in many global firms, as evidenced by the considerable efforts of firms to reduce the costs of their mobility programs. This research examines how expatriate ROI is measured for long-term assignments in 50 global firms, representing a total population of 56,000 expatriates (including 37,000 long-term assignees), across 18 industries, and with headquarters in North America, UK, Europe, Africa, Asia Pacific and Australia. Our findings suggest that firms do not have formal procedures in place to measure expatriate ROI and instead rely heavily on informal practices that are predominantly used in spite of a global strategy, not because of it. We found that measuring expatriate ROI is a challenging and complex process that managers are not equipped to address. We offer recommendations for practice and suggest that managers in global firms seeking to obtain higher rates of return from their expatriates must improve the planning and management of their international assignment programs.

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INTRODUCTION

Getting the right people with the right skills into the right location has always been a cornerstone of good business performance. The mobility of employees, both domestically and internationally, is increasing to meet these critical needs. Utilizing expatriates is thus becoming increasingly important for many firms, given the recent rise in the internationalization of markets, competition and technology (Bartlett & Ghoshal, 2002). In one sense, having expatriates is often simply a cost of doing business if firms wish to compete globally, yet expatriation represents the single most expensive per-person investment a firm can make in its people (Black, Gregersen, Mendenhall, & Stroh, 1999). Some evidence suggests that the costs of long-term assignments, defined as the relocation of an employee abroad by a firm for a year or more (Cendant, 2004; KPMG, 2003), exceed US$1 million per assignee and per assignment, and that the total cost to US multinational corporations (MNCs) is about US$75 billion a year (Copeland & Griggs, 1985; Sheridan, 1998). The non-financial costs are also significant, particularly when assignments fail, and include such items as the loss of intellectual knowledge and disruption to global leadership due to labor turnover during repatriation (Stroh, 1995), poor cross-cultural adjustment leading to poor performance (Bhaskar-Shrinivas, Harrison, Shaffer, & Luk, 2005), damage to a firm's image, and disrupted relationships with host country nationals (Bennett, Aston, & Colquhoun, 2000). Despite these costs and reports that firms are attempting to reduce international assignment expenses (GMAC, 2005), many continue to use long-term expatriates (Cendant, 2002; Mercer Human Resource Consulting, 2003; Perez & Pla-Barber, 2005) even when cost-effective alternatives are available (KPMG, 2003; PricewaterhouseCoopers, 2002).

Accordingly, there is a growing literature on strategic international human resource management (IHRM) (De Cieri & Dowling, 2006; Ericksen & Dyer, 2004; Stroh & Caligiuri, 1998a) emphasizing the importance of linking human resource activities to global strategies to improve business performance, including justifying the different reasons for using expatriates (Caligiuri, 2005; Cendant, 2002; Dowling & Welch, 2004; Edstrom & Galbraith, 1994; Harzing, 2001; Hocking, Brown, & Harzing, 2004) as a way to manage expatriate return on investment (ROI). Within this body of literature, researchers have identified organizational practices that help firms achieve international assignment success, such as strategic planning (Torbiorn, 1994; Welch & Welch, 1997), selection (Farid & Buda, 1998), performance management (Milliman, Nason, Zhu, & De Cieri, 2002; Tahvanainen, 2000), repatriation (Gregersen & Black, 1995; Lazarova & Caligiuri, 2001), and retention (Black, Gregersen, & Mendenhall, 1992; Stroh, 1995), and individual characteristics such as expatriate adjustment (Aryee & Stone, 1996; Black & Gregersen, 1991), family situation (Arthur & Bennett, 1995), and personality (Boudreau, Boswell, & Judge, 1999; Caligiuri, 2000). Although this literature is not exhaustive, it nonetheless provides a good understanding of the issues associated with deploying expatriates.

However, managers in global firms still have difficulty determining what constitutes an acceptable ROI from expatriates given the substantial investment required (Black et al., 1999). Expatriate ROI is particularly difficult because, until recently, no adequate definition of the concept was available. Whereas there are definitions of ROI from other disciplines (e.g., accounting) that can be considered, they focus only on quantitative estimates, which we believe to be inadequate for the study of *expatriate* ROI because they do not include the non-financial (or intangible) costs and benefits associated with measuring strategic rates of return, which will be explained in more detail in the following section. We therefore define expatriate ROI based on McNulty and Tharenou's (2004: 73) definition, as a "*calculation in which the financial and non-financial benefits to the firm are compared with the financial and non-financial costs of the international assignment, as appropriate to the assignment's purpose*". McNulty and Tharenou (2004) argue that managers must first define what ROI means for their firm before meaningful data can be captured from which expatriate ROI estimates can then be made. The challenge is in linking the purpose of an international assignment to a firm's overall global strategy: managers must know the intent in order to track the costs and benefits, but to do so they must fundamentally change how they plan and manage their mobility programs.

Our current understanding of expatriate ROI is limited as there are no published empirical studies specific to the topic; past studies have instead focused predominantly on individual measures of assignment success and failure (rather than expatriate ROI) in three key areas: (1) expatriates' premature return from an assignment (Tung, 1981; 1987), (2) labour turnover rates from repatriation (Stroh, 1995), and (3) expatriate job performance (Caligiuri, 1997). Although informative, the study of these individual practices has ignored an HR systems view in terms of the collective impact of a set of HR practices on overall firm performance (Bowen & Ostroff, 2004; Huselid, 1995; Huselid, Jackson, & Schuler, 1997). The micro-level view evident in past studies does not take into account the short and long-term costs and benefits of all the HR activities occurring during long-term assignments; nor do these practices represent outcomes that are relevant to every firm's global strategy. They also reveal little about the barriers that prevent firms from measuring expatriate ROI so that the challenges can be addressed. Thus, do these individual and often informally measured practices support or impede a firm's ability to achieve their long-term global strategy? Our research is significant as it takes the view that the non-strategic and micro-level focus of ROI outcomes from HR practices in past studies has not provided sufficient empirical evidence to help managers determine an accurate expatriate rate of return for their firm. Importantly, our research extends the focus of expatriate ROI for long-term assignments beyond individual practices and outcomes, to four important questions that focus on long-term, strategic intentions for using expatriates, and the variables (including a firm's HR system) that influence rates of return. These four questions, which have not been previously examined, are: (1) How is expatriate ROI defined in global firms? (2) Do managers use measures of expatriate ROI that are appropriate to a firm's global strategy? (3) What barriers prevent managers from measuring expatriate ROI? and (4) What variables influence changes in expatriate ROI for the firm?

The paper commences with a discussion of the major challenges associated with measuring expatriate ROI, including concepts and theoretical perspectives that help frame the key issues. This is followed by an explanation of our research methods: to answer the research questions, we examine expatriate ROI practices in 50 global firms across 18 industries, with headquarters in six world regions. We then present our findings in four sections to answer each of the research questions, and provide empirical evidence to explain why the ability to measure expatriate ROI is so difficult for these global firms. We conclude with a discussion of key theoretical and managerial implications, limitations of the research, and recommendations for future practice and research.

CHALLENGES WITH EXPATRIATE RETURN ON INVESTMENT

Despite the commonly-held view that it is important to obtain an ROI from long-term assignments, our review of the literature suggests that there are no published academic empirical studies examining expatriate ROI, therefore, research in this field is still in its infancy (see McNulty & Tharenou, 2004; McNulty & Tharenou, 2006; PricewaterhouseCoopers & Cranfield University, 2006). Accordingly, three challenges are evident from the literature in attempting to measure expatriate ROI appropriate to a firm's global strategy: defining the concept, knowing the purpose or intent of the long-term assignment, and identifying the antecedents of ROI. We discuss each of these challenges in this section.

Defining Expatriate Return on Investment

In order to measure expatriate ROI, managers must be able to define what the concept means to their firm within the context of its overall global strategy. The definition must also take into account the various assignment stakeholders (e.g. the firm, the individual expatriate) in terms of (a) how expatriate ROI is defined by each, (b) whether these definitions are aligned, and (c) the impact on overall expatriate ROI to the firm if the definitions and expected outcomes are not aligned. Despite the apparent importance of expatriate ROI, definitions of the term, as it relates to the firm, are difficult to obtain. We reject the definition offered by GMAC (2003-2004: 32) as "*accomplishment of the assignment objectives at the expected cost*" for two reasons. First, it is inadequate in comparison to definitions given by scholars in related fields (Canibano, Garcia-Ayuso, & Sanchez, 2000; Mills, Rowbotham, & Robertson, 1998) because as Boudreau and Ramstad (1997) assert, it does not fully explain expatriate costs in terms of both the financial and non-financial gains and losses associated with mobility investments. Second, only 50 percent of respondents in the GMAC (2003-2004) survey agreed that they could use this definition to measure expatriate ROI; therefore, the GMAC definition does not have wide support. The definition we adopt draws from other disciplines for explanation, such as accounting (Flamholtz, 1985; Schachner, 1973) and economics (Canibano et al., 2000; Mills et al., 1998). It is defined within the context of economic profit (EP) which combines a value-based approach to measuring both past (lagging) and future (leading) returns by including financial and non-financial data in the ROI calculation. EP is most commonly used in the economic equations of *shareholder value analysis* (SVA) (Rappaport, 1981) and *economic value added* (EVA) (Stewart, 1991). Both SVA and EVA calculate ROI from the perspective of overall value, where value is defined in terms of both financial and non-financial gains and losses to the firm. An important part of any definition of expatriate ROI is whether the benefit to the firm outweighs the costs of the international assignment, irrespective of whether a cost is financial (e.g. cross-cultural training) and the corresponding benefit is non-financial (e.g. improved performance).

Importance of Purpose

In order to measure expatriate ROI, managers must also know and identify the reasons why their firm has expatriates. This enables them to measure their rate of return within the context of the purpose of the long-term assignment. Six reasons for using expatriates include: (1) fill a skills gap, (2) build management expertise, (3) launch new endeavors, (4) transfer technology, (5) enable managerial control, and (6) transfer corporate culture (Caligiuri, 2005; Cendant, 2002; Dowling & Welch, 2004; Edstrom & Galbraith, 1994; GMAC et al., 2003-2004; Harzing, 2001; Hocking et al., 2004). Classifying expatriates according to their purpose has far-reaching implications for calculating expatriate ROI for a number of reasons. First, because firms have many reasons for using expatriates, these differences in purpose automatically negate the usefulness of a 'one best' ROI formula or measure that expects identical costs and benefits to be calculated for every assignment. Second, not only is there no 'one best' formula or measure, but the purpose of the assignment also dictates the most appropriate time to perform an ROI calculation (Bonache, Brewster, & Suutari, 2001; Stroh & Caligiuri, 1998b). For instance, the original purpose of an international assignment may not have included repatriating an expatriate to their home-country; therefore, outcomes such as successfully finding a suitable position upon return or an increase in labour turnover resulting from unsuccessful repatriation would not be included in the ROI calculation. Third, misleading ROI calculations are more likely to result when longer-term perspectives with regard to an assignment's purpose are over-looked. This is because many of the costs and benefits associated with expatriates are often non-financial in nature and only appear after the conclusion of an assignment, and often many years later in activities such as succession planning and talent management programs. As Mills and Print (1995) point out, accurate calculations of ROI are less likely to be made in the short-term if the long-term benefits cannot be identified in the period during which the calculation occurs.

Identifying Antecedents

The importance of an expatriate ROI calculation is not just in determining the rate of return but also in understanding why rates of return vary; that is, what are the antecedents of expatriate ROI? Identifying the variables that influence changes in ROI is therefore important so that firms can proactively manage their international assignments in order to maximize rates of return. Much of the prior literature has focused only on the individual, micro-level outcomes from HR practices as possible antecedents of expatriate ROI (Caligiuri, 1997; Stroh, 1995; Tung, 1981; 1987), without taking into account a macro-level view of the inter-related nature of these HR practices and their strategic impact as a system of activities. Based on our review of the literature, we suggest two theoretical perspectives as particularly useful for explaining the manner in which expatriate ROI calculations can be made.

The first is the HR systems view (Becker, Huselid, Pickus, & Spratt, 1997; Bowen & Ostroff, 2004; Huselid, 1995; Huselid et al., 1997) in which groups of HR practices are viewed as a system of inter-related activities that can more fully explain rates of return than individual practices alone. Approaching expatriate ROI from a HR systems view is an important step forward from the micro-level perspectives used in previous studies (Caligiuri, 1997; Stroh, 1995; Tung, 1981; 1987) as managers will be better equipped to assess the collective impact of many HR activities operating at one time on overall firm performance (Bennett et al., 2000; Farid & Buda, 1998). The macro-level view espoused in the HR systems perspective takes into account the short and long-term costs and benefits of *all* the HR activities occurring during long-term assignments and can benefit the firm in three ways: (1) assignment outcomes can be assessed appropriate to an assignment's purpose because multiple outcomes will be available for interpretation and analysis; (2) as a result, ROI measures are more likely to represent outcomes of value and relevance to a firm's global strategy; and (3) managers will be able to more easily identify weaknesses and strengths in their HRM system and make adjustments accordingly as it specifically relates to the management of long-term assignments. The limitation of the HR systems perspective on measuring expatriate ROI is that it is not universalist in nature and cannot be applied independently of a firms operating environment (Bowen & Ostroff, 2004); that is, its effectiveness relies heavily on contextual considerations such as assignment purpose, firm strategy, and internal and external environmental influences.

A second theoretical perspective is transaction cost theory, which examines, amongst other things, the influence of a system of activities taking place during all stages of a contract, in terms of the costs arising from transactions and the minimization of transaction costs through efficient control structures (Williamson, 1985; Williamson & Masten, 1999). The contract of interest for this research is the long-term international assignment, which may be considered as a contract between the firm and the expatriate (Festing, 2006; Tan & Mahoney, 2003). Essentially, transaction cost theory argues that contractual activities have the potential to influence costs and benefits to the firm both *ex ante* (that is, before execution of the contract) and *ex post* (that is, during execution of the contract) (Benito, Tomassen, Bonache-Perez, & Pla-Barber, 2003; Tan & Mahoney, 2003). That is, each contractual activity has the potential to influence rates of return to the firm *at different times during the life of a contract,* not just at one point in time as most prior studies assume (e.g. Caligiuri, 1997; Stroh, 1995; Tung, 1981; 1987). This perspective is especially important when identifying the antecedents of ROI as it becomes evident that if there are inter-relationships among HR activities, then what happens at the beginning of an assignment (e.g. whether effective planning takes place) can and will impact HR activities and their respective outcomes at the end of an assignment and beyond (e.g. whether repatriation and retention goals are met and the subsequent impact on longer-term programs). The limitation of transaction cost theory, as it relates to measuring expatriate ROI, is that it relies heavily on identifying and then quantifying financial and non-financial costs and benefits within the firm in order to reduce costs; unfortunately these are practices that remain a challenge for many global firms (Festing, 2006).

Taking into account these theoretical perspectives, McNulty and Tharenou (2004) suggest nine major HR activities taking place during a long-term assignment as possible antecedents of expatriate ROI. We note that these antecedents do not constitute all possible variables influencing rates of return from expatriates which highlights the importance of this research in terms of attempting to identify other antecedents that may exist. The antecedents include: (a) planning the assignment in terms of identifying clear objectives (Bonache et al., 2001; Dyer & Reeves, 1995) thereby avoiding unforeseen costs including failure to achieve specific strategic goals (Torbiorn, 1994; 1997; Welch & Welch, 1997), both short and long-term; (2) selection and recruitment practices that support global staffing strategies (Harvey, 1996; Porter & Tansky, 1999), striving for a 'best fit' between the purpose planned for the assignment and the expatriate's skills and abilities

(Arthur & Bennett, 1995; Farid & Buda, 1998), and avoiding ad-hoc and reactive practices which are more likely to cause decreases in performance and productivity (Torbiorn, 1994; Welch & Welch, 1997); (3) outsourcing the relocation administration to ensure greater cost savings, access to vendor expertise, and allowing firms to focus on their core business (KPMG, 2004; SHRM, 2004); (4) linking compensation to the purpose of the assignment taking into account differences in assignment objectives and using compensation and reward systems to motivate expatriates to not only accept assignments, but to also perform in difficult locations (Bonache & Fernandez, 1997; Gomez-Mejia & Welbourne, 1991); (5) training and development appropriate to the assignments location and purpose to improve cultural adjustment and performance (Black & Gregersen, 1991; Forster, 2000); (6) family support services to facilitate an expatriate's adjustment (Shaffer, Harrison, Gilley, & Luk, 2001) and the achievement of an assignment's objectives (Caligiuri, 1997; Shaffer & Harrison, 2001); (7) conducting performance management during an assignment to assess whether the objectives of an assignment are likely to be met, address problems, and provide insight into the effectiveness of other HR activities (Schuler, Fulkerson, & Dowling, 1991; Tahvanainen, 2000), and customizing appraisals to account for differences in assignment objectives and the types of jobs being performance (Hendry, Woodward, Bradley, & Perkins, 2000; Milliman et al., 2002); (8) repatriation to improve strategic capabilities by leveraging international knowledge and expertise (Erdener & Torbiorn, 1999; Lazarova & Caligiuri, 2001) but only as appropriate to an assignment's purpose; and (9) retention practices in terms of carefully managing functional retention and functional turnover in which high performers are retained and low performers are reduced as part of a larger strategic plan (Black et al., 1992; McEvoy & Cascio, 1987).

This brief review of challenges suggests that measures of expatriate ROI can be improved when managers in global firms define the concept more clearly, adopt a macro-level perspective of the HR systems and subsequent outcomes that can potentially impact their global strategy, are aware of the context in which expatriate ROI calculations are made, and recognize the multitude of potential variables influencing rates of return. In order to better understand how firms can resolve these challenges both in theory and in practice, our purpose in this research is to determine how firms define expatriate ROI operationally (day to day), whether they use measures of expatriate ROI that are appropriate to a global strategy, what barriers prevent them from measuring expatriate ROI, and what are the variables that influence changes in rates of return. By providing empirical evidence to more fully explain and address these questions, we intend to build on the limited existing theory surrounding expatriate ROI in global firms.

METHOD

Research Design and Sample

A qualitative methodology was chosen for this study given its suitability for answering the four research questions (Lee, 1999; Seidman, 1998). The interview method was used to gather data because: (1) it is appropriate for acquiring an in-depth knowledge of complex issues and processes such as those found in strategic IHRM for which *"personal interviews constitute the most prevalent instrument"* for obtaining data in studies that are global in nature (Kiessling & Harvey, 2005: 34); and (2) it helps the research to remain phenomenologically based, that is, remain uncontaminated by scientific assumptions (Kvale, 1996). Common limitations of interview studies are that it requires significant advance preparation on the part of the researcher and considerable interviewer competence in order to achieve its purpose (Kvale, 1996).

In-depth interviews were conducted with 50 managers in global firms, which we define as firms with international operations which are centralized in their operational and strategic decisions and which view the world market as an "*integrated whole*" (Bartlett & Ghoshal, 2002: 16). A theoretical sample based on purposeful sampling was used (Creswell, 1998) and firms with global or off-shore operations employing expatriates were chosen to gain an in-depth look at ROI organizational practices in this context. Relationships with all of the participating managers were maintained via email with respondents self-selecting their participation in the study based on a detailed description of the research provided in an introductory explanatory letter. Interviewees included managers who work directly with expatriates or manage mobility programs, including senior managers, mobility specialists, executive directors and vice presidents, all of whom have a background in either human resource management and/or finance; hence, these individuals can be expected to be well-informed about both expatriate management and issues related to expatriate ROI. The cohort comprises 56 percent women and 44 percent men, with 50 percent either currently or previously undertaking an expatriate assignment. The majority of the 50 firms are classified as a Fortune 500 company (60%), consequently these are very large, well-established organizations who have utilized expatriates for a long time.

Table 1 summarizes the 50 firms in the study. Assurances of confidentiality and voluntary participation were given to the managers and as such none of the firms or managers can be identified. Eighty percent of firms are public companies, followed by private-private partnerships (12%), subsidiaries (4%), government agencies (2%) and joint ventures (2%). More than 90 percent of participating firms classify their organisation as a global company or a multinational corporation (MNC). The firms in this research represent 18 different industries with the majority from the energy and utilities (16%) and financial services (10%) sectors. The variety of industry types ensures that the findings do not relate only to a specific industry. Likewise, the sample has extensive regional coverage, with firms being headquartered in six different world regions including North America (52%), Europe (24%), UK (12%), Middle East/Africa (6%), Australia (4%), and Asia Pacific (2%). As a criterion for participation was that each firm currently has an expatriate population, the sample represents approximately 56,000 international assignees, with more than 37,000 long-term assignees.

At least half of the firms are undergoing some type of change in their mobility program. Some are undertaking major policy revisions or re-strategization, whilst others are improving or consolidating established programs that have been in effect for many years. At least a third are in the midst of new project implementations for international assignment vendor technology and relocation administration. Firms also vary in the degree to which their perceived use of informal ROI practices is operationalised across their organizations: some have been using informal measures (albeit not consistently) for a number of years, whilst others have no interest in it.

Table 1 about here

Procedure

Interviews were conducted over a two-year period from August 2004 to August 2006. The interviews focused on each manager's understanding of how expatriate ROI is operationalised in their firm, including how it is defined, whether they use ROI measures appropriate to their firm's global strategy, what barriers prevent them from measuring ROI, and the variables likely to influence changes in rates of return. A semi-structured interview format was used to ensure that all interviews addressed the primary questions whilst also allowing enough flexibility for each manager to respond to areas of specific interest or concern relevant to their firm's industry or stage of globalization as it relates to expatriate ROI. Most of the interviews were conducted by phone (96%) to allow for time-zone and geographical differences and ranged in length from 45 minutes to two hours. Although managers in this research provide a single–rater response, which contributes to measurement error, they can be viewed as expert informants; problems associated with internal and external validity are addressed by using an inter-rater procedure that is described in more detail in the next section.

Data Analysis

Given the large size of our data set, we used computer-aided qualitative analysis software (NVIVO version 7) and two main approaches recommended for qualitative analysis: (1) hierarchical categories to reduce, sort and cluster the data and then derive key themes (Denzin & Lincoln, 2000; Richards & Richards, 1995); and (2) content analysis to determine how strongly the themes are manifested (Dougherty & Hardy, 1996; Miles & Huberman, 1994). As suggested by King (1994), we created a larger set of higher-order categories (with two levels of sub-categories) before we commenced analysis of key themes. We formulated general categories *a priori* from the conceptual framework and the literature review, applying a predominantly theory driven or top-down approach. As it became necessary, we created lower order categories *a posteriori* during analysis of the text from the interview transcripts themselves (Miles & Huberman, 1994). We further refined and modified categories as necessary and appropriate using a constructivist approach (Miller & Crabtree, 1999), and then re-organized the data into key themes. Once theming of the data was complete, we used content analysis and frequency counts to determine how strongly the key themes were manifested (Miles & Huberman, 1994). Our inter-rater procedure used King's (1994) method as a guide to check for accuracy of the data collected, and to limit researcher bias (Marshall & Rossman, 2006). An independent researcher conducted a preliminary round of scoring of the categories, themes, and sub-themes on 10 randomly selected transcripts, giving an initial inter-rater reliability of 93.5 percent based on an established formula (Goodwin & Goodwin, 1985). After consultation, clearer definitions and categorizations of the themes and sub-themes were made in a second round of scoring, resulting in a much higher inter-rater reliability of 98.5 percent. According to Miles and Huberman (1994), the minimum acceptable inter-rater variation is 80 percent which is consistent with the reliabilities achieved in this research. Whilst our goal was to identify common themes, we recognize that not all of the variation can be explained through this procedure.

FINDINGS

Defining Expatriate Return on Investment

Our first research question asked: How is expatriate ROI defined by managers in global firms? We found widespread support for the definition of expatriate ROI we are using in this research ("*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: 73), and very little support for the GMAC (2003-2004: 32) definition '*accomplishment of the assignment objectives at the expected cost*'. Managers expressed concern that the GMAC definition is too short-term in focus and does not go far enough in terms of linking or explaining the non-financial costs and benefits inherent in international assignments. As a senior manager in the banking industry explained, for his firm a short-term focus would actually render his mobility program obsolete:

> It's too short term. It's too brief. I mean, if I come back to our international management cadre what we're trying to do in terms of sending more of our talented executives abroad on assignments, development of our people, well if it's just about meeting that business need on the assignment, that sort of short term business focus then that really misses the point of what we're trying to do in terms of our talent management strategy for the future in developing our global leaders.
>
> *(Senior Manager Global HR, Banking Firm, UK)*

In terms of how managers define expatriate ROI, there is no formal or informal definition currently being used by any of the managers in the research. Indeed, at least one third have never been required to provide a definition nor have they given it much thought, despite being under considerable pressure to justify their firm's continued investment in long-term assignments. Subsequent discussions with managers regarding what ROI means to their firm resulted in many varied responses but most with one common theme: it is a definition predominantly focused on *value* rather than *cost*. Common components of the definition emerging from nearly 60 percent of firms include phrases such as '*asset'*, '*investment'*, and '*intangible'*, that is, the non-financial components of expected returns from assignees. As a manager in a financial services firm explained:

> I think the key word there is investment, okay. I mean, cost is just cost. You know, these are just hard numbers and a sort of an immediate kind of thing but this is the whole point of return on investment where you are talking longer-term … what is the rate of return that you want … there's got to be some exponential element to the matter.
>
> (*Director of Deployment, Financial Services Firm, North America)*

Overall, the findings in relation to this question suggest that, despite the lack of a formal definition, managers remain quite clear about the reasons why their firm uses expatriates, with eight main purposes emerging from the data which appear to provide a more comprehensive range of purposes than those identified by existing literature: (1) filling a skills gap/providing technical expertise; (2) development purposes for career planning; (3) corporate control and governance particularly for start-up operations; (4) strategic planning for succession, leadership and talent management programs; (5) functional requirements such as meeting annual quotas (due to joint venture agreements); (6) financial reasons such as bottom-line driven objectives (i.e. an expatriate can increase revenues) or the cost advantages associated with using expatriates from a certain location (e.g. India); (7) a company's culture which promotes mobility (with or without regard for need); and (8) convenience reasons including employee self-initiated transfers. The implications of these various reasons will be discussed in subsequent sections.

Expatriate Return on Investment Measures

Our second research question asked: Do managers use measures of expatriate ROI that are appropriate to a firm's global strategy? None of the managers indicated that they are using a formal ROI measure, preferring instead to use a range of informal 'success' measures that are adhoc in nature, not consistently tracked or applied, and not aligned to a policy or mobility program routinely and appropriately in nearly 70 percent of firms participating in the research. We categorize the informal ROI measures used by firms into five broad areas: (1) for *approval* purposes only (24%) where the expected financial ROI is calculated in a paper-only exercise as a decision making tool, either as a budget or a business justification letter; (2) as a *financial* measure (30%) to determine whether the costs of the assignment exceed budget or whether revenues increase as a result of the international assignment (did business growth occur?); (3) as a short-term *functional* measure (41%) where the immediate benefits of the assignment are assessed in such things as local objectives being met (e.g. knowledge is transferred), local successor is groomed, rate of repatriation turnover, and percentage of premature returns/failures; (4) as a long-term *strategic* measure (31%) where benefits are assessed beyond the end of the assignment in long-term retention rates, promotion rates, talent management and succession planning objectives being sustained, building career expats, increasing brand recognition and relationships, and overall value being gained; and (5) as an *individual* measure (12%) in terms of the benefits accruing to the expatriate rather than the firm, including the degree of employee engagement upon repatriation (i.e. motivation level) and whether the expatriate views the assignment as enhancing their overall career development.

A number of managers also raised concerns about the impact of failed assignments on expatriate ROI. The question of how to define a failed assignment was difficult for at least 20 percent of managers who offered definitions ranging from premature return and not achieving objectives, to voluntary and involuntary termination on assignment and not renewing a contract. Some managers expanded their definition to also include families who return prematurely without the expatriate who stays in the location to complete an assignment to term. Of the 19 firms (38%) headquartered in five world regions tracking failure rates, 17 reported less than 5 percent of failed assignments, with 2 reporting failures of between 5 to 20 percent. No firm reported a failure rate exceeding 20 percent. The majority of these statistics are based on informal tracking procedures with less than 10 percent of managers formally tracking failure rates on an ongoing basis. When we queried why this was so, reasons included not having the time, the appropriate software, top management support required to do it on a consistent basis, or the embarrassing nature of failed assignments, both for the firm and the expatriate, which prevents managers from obtaining solid data:

> It's not something you want to advertise. It's like saying here are all the people who are turnover-rated, but what we don't go back and say is that's because we had lousy recruiters, they chose the wrong people. If you define failure as didn't complete the assignment … I kept my own little list and I had people on it that are still here today … they're the stories people don't want to know. We buried it.
>
> *(Director of Deployment, Financial Services Firm, North America)*

Reasons cited for failed assignments include family problems, cultural adaptation challenges, poor selection, improper planning, and not clearly setting objectives. Overall the findings in relation to this question suggest that when informal measures of expatriate ROI are used they are not predominantly linked to the original purpose of the assignment or a global strategy.

Barriers to Measuring Expatriate ROI

Our third research question asked: What barriers prevent managers from measuring expatriate ROI? Three broad categories were identifiable in the data (see Table 2): (1) *operational* (day to day activities and process); (2) *cultural* (attitudes about the importance and relevance of expatriate ROI); and (3) *strategic* (how international assignments are planned and structured, and then linked to a global strategy). From the outset we noted that in many instances all three categories could be present in one firm, indicating that there is often no single barrier but a multiplicity of factors impeding the firm's ability to measure expatriate ROI.

Table 2 about here

Operational Barriers

Approximately 44 percent of managers cite operational barriers in terms of the day to day activities and processes within the firm that prevent them from measuring expatriate ROI, with 22 percent stating that not tracking data or a lack of time and resources is a major impediment. For the majority (34%) the major operational impediment is a software challenge which prevents them from capturing meaningful data easily and quickly. Twenty percent in this category state that their software either is not adequate, or they are required to access multiple databases in various locations, which renders the exercise time-consuming, costly, and clumsy, and results in inaccurate and misleading conclusions. Consequently these managers either avoid gathering the data (due to a lack of time) or do the analysis as a one-off activity for a special project for which trends over time cannot be tracked and for which the data is therefore of little value.

Cultural Barriers

Fifty-six percent of managers cite cultural barriers as a major impediment to measuring ROI. By cultural barriers we refer to attitudes within the firm about the importance and relevance of ROI as a strategic tool. Forty percent of managers indicate that because expatriates are viewed as the cost of doing business, the need to measure their ROI is considered a pointless exercise; for many firms expatriates will still be used even if the ROI is minimal. For 16 percent there is simply no buy-in or support as it is not viewed as an important exercise adding value. For others (18%) the focus is on the *'front-end'* of an assignment in terms of the costs associated with sending an expatriate, with little consideration given to the expected benefits on the *'back-end'*: as long as the projected budget for the assignment is acceptable, a ROI is automatically expected which then invalidates the need to measure it.

Strategic Barriers
Fifty-two percent of managers cite strategic barriers to measuring expatriate ROI in terms of how international assignments are planned and structured and then linked to a global strategy, and whether calculating ROI is then possible, with 58 percent reporting that their firm does not plan for ROI because its importance is not understood. Reasons given include a lack of education and a lack of focus on the long-term benefits. Only when there is clear evidence to suggest that not planning for ROI can also affect the achievement of the firm's broader global strategy (in activities such as succession, leadership and talent management programs) do firms begin to think about special projects to address it. To this end, we found evidence that up to 28 percent of managers are in the midst of implementing, or planning to implement in the future, new internal ROI projects. Similarly, 32 percent of managers have clear ideas about what expatriate ROI will look like for their firm but are still struggling to get top management support to bring their ideas to life.

Variables Influencing Changes in Expatriate Return on Investment

Our fourth and final research question asked: What variables influence changes in expatriate ROI for the firm? Three broad categories were identified in the data (see Table 3): (1) *environmental* (variables external to the firm); (2) *individual* (variables attributable to the expatriate); and (3) *organizational* (variables internal to the firm's structure and operations). As per findings in previous sections, we found evidence that expatriate ROI is influenced by multiple variables in one or more categories rather than a single variable alone.

Table 3 about here

Environmental Variables
Managers cite factors such as currency fluctuations (including tax implications) and location of assignment as having both a positive and negative impact on their rates of return. In terms of location, attracting and retaining candidates to high risk regions usually incurs additional costs in salary (to motivate acceptance) and risk management programs (such as medical care) whilst on assignment, yet for some firms the location of an assignment has a positive impact on ROI, particularly in regions where labour costs are cheaper.

Individual Variables
These focus on the personal characteristics of expatriates in terms of their suitability, motivation, and capacity to perform during international assignments. Our findings suggest that up to 20 percent of managers view variables such as the expatriate's willingness to become a career expatriate (thereby reducing adjustment time considerably) and their degree of cultural adaptability as important antecedents of expatriate ROI. Another important variable is when assignments are approved for personal reasons that fall outside of the global strategy. For one firm these *'self-initiated'* moves have proven to be a major challenge with up to 30 percent of their mobility costs incurred in this way:

> Probably a third of all our moves fall into this mystery 'other' category … employee convenience. Employees are holding their managers hostage. They say things like 'I'm a good employee and my spouse/significant other is now going to move to another country … so I think the firm should pay for me to go and be with my significant other'. According to our executives we should not pay for that, we have no strategy around it, we have no desire to invest in that kind of relocation but I have news for you. It's about 25-30% of our moves which fall into that category … we don't have any dollars we want to invest in it, yet it goes on every day.
>
> *(Global HR Manager, Computer Hardware Firm, North America)*

Organizational Variables

The largest number of variables impacting ROI are at the organizational level in terms of a firm's internal activities and practices. We identified twelve organizational antecedents, including the nine HR antecedents already identified by McNulty and Tharenou (2004), and up to 80 possible sub-variables. As expected, planning the assignment, selection, administering the relocation program, compensation, training, performance management, family support, repatriation and retention were identified by managers as having a significant impact on expected rates of return. In addition, we found that company culture, internal systems and processes, and talent management also impact expatriate ROI. Overall, every manager in the study believes that an organizational variable in one form or another impacts their ROI from expatriates. As all the antecedents are listed in Table 3, the remainder of this section will only briefly discuss those variables that emerged as the strongest or previously unidentified antecedents.

At least a third of managers report assignee selection as the most important antecedent of expatriate ROI. Specifically we found 7 sub-variables of selection, including the decision criteria surrounding whether an expatriate should be used to fill a position as opposed to employing a local; we found evidence that the 'local versus expatriate' question is an ongoing challenge in many firms. For example, one manager in the energy and utilities industry explained that their firm currently employs double the number of expatriates in comparison to their closest competitor, simply because if an expatriate has always done a particular job, no one questions that they will continue to do so:

> I think we make a lot of mistakes, but so far my only success story in getting people to think about the return on investment is that I've gotten all the businesses to take note that it's not the policy or the compensation program that creates challenges about expatriates for us … it's that we have 7500 of them where our competitors only have 3500 … a cadre of 7500 may not be the right number; maybe we should be looking at this closer … we know that the low hanging fruit, the big money, is in cutting the number of expats, not in cutting the policies.
>
> *(Global Expatriate Policy Manager, Energy & Utilities Firm, The Netherlands)*

The impact on ROI for this firm is enormous in financial terms when this manager explains that expatriates make up only 6 percent of the firm's total employee population worldwide but account for 30 percent of payroll costs. When we ask about current practices to reduce the number of expatriates, the response is interesting:

> I can get their attention when I say why did you choose an expat for this position … I say they're three times as expensive; does this kind of expat do it three times faster than another - than a local? And they'll say, oh no, I don't think they can do it three times faster. And I'll say, oh okay, they're going to do it three times better? And they say no, I don't think they can do it three times better, and I'll say, so what's the point? Why do you have this expat, who's got to cost three times as much? Why would you take it unless they can do it three times faster, three times better?

Part of the challenge is that firms often have long-standing mobility practices that are no longer aligned to the global strategy, but which remain in force because of the size of a firm's operations, company culture, or a lack of support to change the status quo:

> 23 percent of our expats are rotating between the golden triangle … We have UK, US and The Netherlands based people working in the UK, the US and The Netherlands … so they travel between the golden triangle. What I'm saying is that if our population is 7500, 23% of them are either Dutch, American or British, working in either the UK, The Netherlands and the US. So if it's about shortage of talent, why do we have the Brits working in the US, the Americans working in the UK, etc, etc? All we're doing is moving people around for the sake of moving people around, right? That cannot result in a high return on investment.
>
> *(Global Expatriate Policy Manager, Energy & Utilities Firm, The Netherlands)*

Retention is considered by 32 percent of managers to be the most important variable influencing changes in expatriate ROI for their firm, with 9 sub-variables emerging from the data including career planning which influences the expatriate's desire to stay with the firm long-term, and failed assignments and unexpected turnover which incur financial and non-financial costs over the long-term to replace talent. To better understand the impact of retention and turnover on expatriate ROI, we examined the retention statistics of 26 firms (52%) who were willing to share their data with us. We found that 15 firms report a low turnover of less than 5 percent, 6 firms report between 5 to 20 percent turnover, and 5 firms report a high turnover of 20 percent or more. Two of these high turnover firms report rates of 50 percent and 70 percent respectively. Of the 26 firms reporting turnover, only 11 formally track the data on a regular basis. Those that do not report turnover cite various reasons, including not having the time or the need because turnover is low, or not having appropriate software to make it easier to track. Other managers state that tracking this type of data is '*a nice to have rather than a need to have*' (Aerospace and Defense firm, North America) and '*it's never been on the radar screen as a priority*' (Electronics firm, North America).

An antecedent of expatriate ROI identified in our data is *company culture,* which we refer to as *'organizational assumptions and values within the firm'* (Bowen & Ostroff, 2004: 205) that influence changes in ROI. We found evidence that 10 percent of managers believe that because their firm does not recognize the need for ROI, there is no accountability or awareness about what impacts rates of return, and therefore no strategy to improve it. A further 28 percent suggest that not having top management support to develop a mobility strategy incurs significant additional costs to the firm, as this manager explained:

> Top management became totally obsessed … by the cost of these programs … not wishing to realize that the solution was in their hands, and they should manage international assignments. They were just letting them drift and as a consequence lack of decisions about localizing people or repatriating them led to this obsession about cost.
>
> *(Compensation and Benefits Manager, Chemical Manufacturing Firm, Europe)*

Thus cost-cutting is seen as having both a positive and negative impact on ROI: on the one hand cost cutting can improve financial performance when it is used to trim benefits at the policy level, which is important when the culture surrounding international assignments is that they are a quick way for employees to 'get rich', yet cost-cutting can also impede a firm's mobility strategy when cutting costs is at the expense of achieving longer-term goals.

The second antecedent that emerged from our data is the *systems and processes* that make up a firms structure in terms of how a set of practices is organized to meet a strategic goal. The managers we interviewed identified five important sub-variables of systems and processes that impact expatriate ROI, including the difficulties that arise when there is no process in place to measure or project ROI, despite awareness that such a process could lead to greater buy-in from host-offices to undertake and approve costly assignments, as this manager explains:

> We know the conversations we need to have … when the host country doesn't want them because they don't think it's important to them. It's really about having to say, look, you have a global management issue and maybe you don't want to face facts but here's what this person is intending to do, and here's the value they will bring in your host country. What we are really trying to get to is how do we find a meaningful measure where I can say to a partner who's trying to decide about bringing someone into the Europe firm that the value of this particular assignment is not just having the employee work outside of his home management but 'what this means to you is _______.' And so from a follow-on perspective here's the value when they come back.
>
> *(Global Operations Leader, Financial Services Firm, UK)*

For other firms the lack of automation and inefficiencies in management software to assist their internal processes is an important concern. Overall, the findings in relation to this antecedent suggest that in at least 18 percent of firms, the systems and processes in place are not designed to facilitate the kinds of activities necessary to obtain satisfactory rates of return from expatriates.

The final antecedent to emerge from the data is *talent management,* which we define as a formal program used by firms to manage the engagement and retention of high potential global employees to improve expatriate ROI and overall firm performance (ORC Worldwide, 2004). Twenty percent of managers identify talent management as an important antecedent of expatriate ROI, largely because it is seen as the most effective way to improve retention rates. In terms of talent management programs, the majority of managers use either an informal program (66%) or no program at all (6%), with only twenty-eight percent of managers indicating that their firm uses a *formal* program which is linked to the mobility strategy. One of the most important sub-variables of talent management is using the program to develop a cadre of career expatriates, whose permanent mobility is a function of the firm's global strategy; talent management programs are used to recruit only high potential employees and then reward and retain them with permanent mobility, extremely rich financial packages and benefits, and the prestige of belonging to an exclusive group for which entry is extremely difficult. A manager in a banking firm described the impact of this type of talent management program on his firm's overall business growth and performance in terms of expatriate ROI:

> The permanently mobile cadre has taken this organization where we couldn't have … without them we could not have had the growth that we've seen. Now we've had a debate here about looking ahead; will we still need 400 individuals on a permanently mobile basis? Maybe in a few years time the answer will be no … but I can tell you that at this point in time from the top team, the chairman and the chief executive, there's a strong belief that we need that IM cadre. They are the key differentiator and reason for our success. So coming back to our ROI as a result of having them, it would have to be substantial.
>
> *(Senior Manager Global HR, Banking Firm, UK)*

Overall, the findings in relation to this antecedent suggest that there has been a surge of interest in talent management in recent years and it is inextricably linked to mobility practices: in this research we found that nearly 40 percent of firms make it compulsory for their top talent to undertake an international assignment in order to be considered for promotion. Indeed, references to talent management occurred no fewer than 215 times during our interviews, further consolidating the link between talent management and international assignments.

DISCUSSION

This study has allowed us to move beyond the conclusion that managers in global firms have difficulty measuring expatriate ROI, to also explain why this is so. Importantly, our research extends the focus of expatriate ROI for long-term assignments beyond individual practices and outcomes, to four important questions that focus, in part, on long-term, strategic intentions for using expatriates, and the variables (including a firm's HR system) that influence rates of return. We found that large global firms do not formally measure expatriate ROI due to operational, cultural, and strategic barriers. The availability of meaningful data from which to calculate returns appears difficult to obtain and is too dependent on managers having the time, resources and appropriate management software to capture it. When informal measures of expatriate ROI are used they typically produce quantitative outcomes (e.g. turnover and promotion rates, failure statistics, and financial costs) but these statistics are often not linked to the original purpose of the assignment or a global strategy. According to Bowen and Ostroff (2004), these statistics also do not demonstrate the mechanisms by which they inter-relate with each other to impact expatriate ROI and overall firm performance. There is also scant evidence that firms use their informal ROI procedures as a tool to manage or improve their international assignments, with an occasional exception. Similarly, although at least half of the managers in this research have a sense whether their international assignments are achieving good or poor rates of return - with 8 percent rating it as excellent or very good, 42 percent as good, and 50 percent as either fair or poor - the question is whether knowing this rate of return or using these informal practices supports or impedes a firm's ability to achieve their global strategy. The challenge is that most firms take a relatively short-term view of expatriate ROI: informal procedures measure more immediate outcomes up to two years post-assignment (e.g. repatriation turnover), yet mobility strategies and objectives are usually much longer-term in nature. For example, few managers appear to focus on whether an expatriate is still in the succession pipeline five years (or more) post-assignment, yet long-term retention is a key objective of most firms participating in this research. The resulting ROI is a short-term measure that remains disconnected from the perceived value from expatriates and how that is linked to the firm's longer-term objectives.

Theoretical Implications

This research suggests that few managers adopt a HR systems view (Becker et al., 1997; Huselid, 1995) to manage their international assignment programs, yet we found evidence during our interviews of consistent inter-relationships amongst antecedent variables that influence changes in expatriate ROI. These antecedents include the nine HR variables already identified in the literature, and three new variables (*company culture*, *systems and processes*, and *talent management*) arising from this research. Whilst we specifically focused our research on a HR systems perspective, rather than the individual focus used in past studies (Caligiuri, 1997; Stroh, 1995; Tung, 1981; 1987) to improve our understanding of expatriate ROI, we nonetheless found little support for this approach in practice amongst managers in global firms. This is mostly due to managers not having the time, resources, support, or skill to design an effective international assignment process that is linked to firm performance; that is, as suggested by Bowen and Ostroff (2004), the majority of managers are not equipped to administer a system of practices designed to achieve a firm's longer-term mobility objectives, with one or two notable exceptions. The result is that, in theory, managers support a systems view as one that makes sense for achieving greater rates of return from their expatriates; yet, in practice, implementing and operationalizing a systems approach is seen as a large and complex process of change in which existing mobility programs and policies would need to be significantly altered, but for which organizational support is unlikely to be forthcoming. This is despite a growing awareness amongst managers that all of the twelve antecedents identified in this research remain important variables influencing expatriate ROI.

In terms of transaction cost theory (Williamson, 1985; Williamson & Masten, 1999), we found minimal evidence that managers track and utilize assignment costing data to assess and manage rates of return from their expatriates from a financial ROI perspective, and even less evidence of non-financial data being used to assess or manage returns from a value-based perspective. For example, a large number of managers (82%) do a budget or cost projection as part of the assignment approval process (i.e. a financial ROI procedure) and slightly less (60%) formally track costs during each assignment; yet only a fifth (20%) of managers we interviewed then compare the actual versus forecasted costs at the assignment's conclusion to evaluate assignment outcomes. Similarly, whilst half (50%) of the managers set clear objectives at the commencement of an assignment, which is documented as part of the approval process, again only one fifth (20%) check those objectives at the end of an assignment to see if they are achieved (i.e. functional ROI procedure) or value is gained (i.e. strategic ROI procedure). Hence, despite some limited support for adopting a transaction cost perspective in order to manage, and then evaluate, international assignment outcomes, the majority of managers do not apply this approach on a consistent enough basis for the exercise to be of real value, even in financial ROI terms. According to Festing (2006), one reason why managers may find it difficult is that the approach relies heavily on identifying and then quantifying financial and non-financial costs and benefits in order to reduce costs. Our research provides evidence to suggest that managers not only struggle to identify non-financial costs and benefits, but also poorly manage the tracking of financial data and do not use the available data at their disposal to evaluate or improve their mobility programs, and consequently overall expatriate ROI. It stands to reason then that if the identification and tracking of these costs and benefits is poor, then quantifying these costs and benefits in a meaningful way will also be difficult. Thus, whilst we do not dispute that for the most part these challenges and issues are not new, they nonetheless remain prevalent.

Managerial Implications

Our analysis suggests that firms can overcome the barriers to measuring expatriate ROI by targeting three key areas. First, firms must 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 relevant data be captured to measure the costs and benefits and meaningful expatriate ROI procedures be developed. We suggest that it is one thing to know why expatriates are used but another entirely to articulate and document those reasons into the benefits the firm hopes to attain both in the short-term and within the scope of a broader global strategy. For example, sending an expatriate for developmental reasons could translate into a firm sustaining its succession, talent or leadership program for the long-term, whereas grooming a local successor could translate into lowering mobility costs and building local government relationships by developing local economies with international talent. Yet despite what the literature suggests (De Cieri & Dowling, 2006; Ericksen & Dyer, 2004; Stroh & Caligiuri, 1998a), we found inconclusive evidence in this research that the majority of global firms are linking the purpose of their assignments to formally articulated outcomes and then measuring those outcomes accordingly. Of the firms that do, the procedure is based on informal methods only; seldom did a manager use multiple informal procedures to assess value from their international assignments, that is, they selected one procedure which had the easiest and quickest statistics to obtain but which was often not appropriate to an assignments original purpose. Of critical importance here is the need for a paradigm shift from using only one measure to assess outcomes from all types of assignments, to a measure that better suits the purpose of the assignment. We suggest that our definition of expatriate ROI be used as a measurement tool (a generic measure if you will) in which the firm considers the financial and non-financial costs and benefits expected from each assignment, and then customizes the measure accordingly.

Second, firms must be able to identify the variables that influence changes in rates of return in order to understand where the weaknesses and strengths in their processes and activities lie. When strengths such as providing family support or talent management programs are known and leveraged, firms are able to capitalize on them to improve their rates of return in terms of improving performance and increasing retention rates. Thus, recognizing the inter-related nature of the antecedents of ROI (e.g. that family support practices can improve expatriate performance, or talent management can improve retention rates) empowers firms to make necessary improvements. In line with this, we show that one of the major antecedents of ROI in this research is the inter-relationship of the systems and processes in place in a firm's structure that enables it to plan and manage international assignments according to its global strategy. As Huselid (1995) suggests, firms without effective systems and processes (which are often supported by good software and centralized functionality), and with only a minimal knowledge of the inter-relationships that exist, will have difficulty sustaining satisfactory levels of overall performance, as evidenced by reports in this research that fifty percent of firms rate their current expatriate ROI as either poor or fair at best. The evidence we found suggests that rates of return from expatriates will be easier to measure, monitor, and manage when a firm's systems and processes can demonstrate the mechanisms by which they inter-relate with each other to impact expatriate ROI and overall firm performance.

CONCLUSION

Limitations and Recommendations for Future Research

One limitation of this research is that it does not take into account the problems inherent in all global firms with off-shore operations, nor all the firms in a particular industry. The research is also limited to firms that are well-established, with predominantly large (100-plus) expatriate populations. Our interview data also provides only a single-rater response, although this was addressed to some extent by using an inter-rater procedure to check for accuracy of the data collected and to limit researcher bias. Notwithstanding the findings we have shown in this research, more study on expatriate ROI is necessary in order to further develop our framework which may be incomplete. Future research should focus on other types of assignments including short-term and commuter assignees, and the problems inherent in particular industries such as oil and gas which has a predominantly large population of career expatriates. Consideration for differences based on firm size would also be of interest. The challenges associated with joint-venture and merged firms, in terms of broadening our understanding of how these firms integrate legacy systems and transition global policies over time, would likely bring additional perspectives. All of these approaches can substantially contribute to a greater understanding of how firms measure expatriate ROI, including the barriers they must overcome in order to do so.

We propose that a firm cannot measure what it has not defined; nor can it measure what is not being managed. We suggest that expatriate ROI calculations can be improved in various ways, and we have suggested a number of techniques which, if implemented, can begin to more effectively link international assignments to a firm's broader global strategy in terms of why expatriates are used, what benefits the firm hopes to attain, and how business performance and growth can ultimately be impacted. A shift from a single ROI measure to multiple customized measures (and definitions) is not only possible but necessary, provided that mobility managers can clearly articulate the reasons why they use expatriates and link those reasons to a global strategy. However, expatriate ROI is not just a function of defining it and measuring it. We argue that firms must also know why their rates of return change over time in order to more effectively manage their internal firm-wide strengths and weaknesses. Indeed, the failure to acknowledge or recognize these antecedents has far greater consequences in terms of being able to replicate or sustain good practices versus altering or abolishing weaker and ineffective HR activities. Consequently, whilst the antecedents of expatriate ROI may be well understood by managers in global firms, as evidenced by the long list of sub-variables identified by the managers we interviewed, we strongly believe that the inability of managers to adopt a systems view or a transaction costs perspective for long-term international assignments continues to impede achieving acceptable rates of return from expatriates.

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Table 1: Sample Characteristics

	n = 50	%
Industry		
Energy & Utilities	8	16
Financial Services	5	10
Banking	4	8
Computer Products & Services	4	8
Consumer Products Manufacturers	4	8
Pharmaceuticals & Healthcare	4	8
Business Services	3	6
Food and Beverages	3	6
Insurance	3	6
Aerospace & Defense	2	4
Automotive & Transport	2	4
Metals & Mining	2	4
Chemicals	1	2
Electronics	1	2
Industrial Manufacturing	1	2
Media	1	2
Telecommunications Services	1	2
Transportation Services	1	2
Company Type		
Public	40	80
Private / Private-Partnership	6	12
Subsidiary	2	4
Government	1	2
Joint-Venture	1	2
Company Structure		
Global/MNC	47	94
National	3	6
Fortune 500		
Yes	30	60
No	20	40
Headquarters Location		
North America	26	52
Europe	12	24
UK	6	12
Middle East & Africa	3	6
Australia	2	4
Asia Pacific	1	2
Gender		
Female	28	56
Male	22	44

	n = 50	%
Number of Employees		
Less than 10,000	6	12
10,000 to 49,000	19	38
50,000 to 100,000	9	18
More than 100,000	16	32
Number of Expatriates (n = 49)		
Less than 100	6	12
101 to 500	27	56
501 to 1,000	4	8
1,001 to 5,000	9	18
More than 5,000	3	6
Number of Long-Term Assignees (n = 49)		
Less than 100	10	20
101 to 500	26	54
501 to 1,000	2	4
1,001 to 5,000	10	20
More than 5,000	1	2
Total Number of Employees		3,697,400
Average		73,948
Lowest		2,600
Highest		346,000
Total Number of Expatriates		56,258
Average		1,148
Lowest		30
Highest		14,000
Total Number of Long-Term Assignees		37,868
Average		772
Lowest		15
Highest		7,500
Expatriates as % of Total Headcount		
Average		1.52
Lowest		0.02
Highest		11.38

Table 2: Barriers to Measuring Expatriate Return on Investment

	n	%
<u>**Operational Barriers**</u>		
Software challenges	**17**	**34**
Not regionally accessible or usable	*1*	*2*
Not enough functionality	*10*	*20*
Too many internal databases	*1*	*2*
Limited to HR use only	*1*	*2*
Using email to gather data	*1*	*2*
Using excel database	*3*	*6*
Lack of time/resources	**8**	**16**
Lack of co-ordination between business units	**4**	**8**
Don’t track data	**3**	**6**
<u>**Cultural Barriers**</u>		
Expatriates cost of doing business	**20**	**40**
Lack of support/no buy-in	**8**	**16**
Focus on cost only, not value	**9**	**18**
Too US-centric (ROI avoided)	**6**	**12**
Financial ‘boom’ = less focus on ROI	**3**	**6**
<u>**Strategic Barriers**</u>		
Lack of planning	**28**	**56**
Do not have a measure	*12*	*24*
Lack of education and understanding	*11*	*22*
Cannot define ROI	*3*	*6*
No long-term focus on benefits	*3*	*6*
Lack of accountability/ownership	*2*	*4*
Structure of mobility program	**10**	**20**
Continual reassignment of expatriate	*2*	*4*
Length of assignment unknown	*1*	*2*
Strategic assignments (difficult to ascertain non-financial benefits)	*1*	*2*
Working in teams (unable to ascertain individual benefits)	*1*	*2*

Table 3: Variables and Sub-Variables Influencing Changes in Expatriate Return on Investment

	n	%		n	%
Environment Variables			**Organizational Variables cont'd**		
Location of assignment			Family Support Practices		
Host country more/less favorable	6	12	*Offering support services*	14	28
High risk	3	6	Performance Management		
Cheaper labour	2	4	*Having a coach, mentor, sponsor*	6	12
Local-plus compensation favored	1	2	*Achieving performance objectives*	3	6
Ease of adjustment	1	2	*Conducting appraisal locally*	1	2
Currency fluctuations	2	4	Repatriation		
Individual Variables			*Identifying future role*	7	14
Career expatriates	6	12	*Leveraging assignment experience*	4	8
Personal characteristics and suitability	6	12	*Having a program*	4	8
Cultural adaptability	5	10	*Improving employee engagement*	2	4
Self-initiated moves	3	6	*Maintaining home-country network*	3	6
Managing own career	2	4	*Avoiding re-assignment*	2	4
Focusing on personal benefits only	2	4	*Reducing turnover*	2	4
Age	1	2	*Internal ownership of program*	1	2
Manageable workload	1	2	Retention		
Organizational Variables			*Offering career planning*	5	10
Planning			*Maintaining communication*	1	2
Aligning mobility to global strategy	10	20	*Failed assignments/turnover*	2	4
Extending assignment length	9	18	*Offering financial incentives*	2	4
Tracking data, reporting trends	7	14	*Cost cutting*	2	4
Cutting costs	7	14	*Developing unique strategies*	3	6
Having strategic plan	7	14	*Unexpected growth*	1	2
Setting objectives	6	12	Company Culture		
Assignment ownership/accountability	4	8	*Lack of top management support*	14	28
Appropriate policy	4	8	*Awareness of need for ROI*	5	10
Top management support	3	6	*Developing a global mindset*	4	8
Stealth expatriates	2	4	*Cost cutting*	3	6
Home-host co-operation	2	4	*Boom period*	2	4
Errors in budgeting	1	2	*Performance driven*	1	2
Selection			*Increasing accountability*	1	2
Choosing suitable candidates	18	36	*'Get rich quick'*	1	2
Expatriate versus local decision	9	18	Systems and Processes		
Using money to attract candidates	6	12	*Centralized vs decentralized structure*	3	6
Having a candidate pool	4	8	*Post-merger or joint venture challenges*	2	4
Unattractive policies/benefits	2	4	*Management software inefficiencies*	1	2
Unattractive brand/reputation	1	2	*No ROI procedure*	1	2
Compensation			*Host-country adherence*	1	2
Trimming excessive benefits	5	10	Talent Management (TM)		
Customizing packages	2	4	*Offering a TM program*	8	16
Aligning compensation to performance	1	2	*Fighting income war*	3	6
Training & Development			*Linking succession plan to TM*	3	6
Cultural preparation	4	8	*Linking career expatriates to TM*	1	2