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**Determinants of Expatriate Return on Investment in Global Firms:  
Advancing the Conceptual Framework**

**Abstract**

The aim of this paper is to contribute to the extant literature on expatriation by providing a more comprehensive picture of the combination of strategic, contextual, and operational factors that contribute towards the return on investment (ROI) that is sought from long-term international assignments. Systems theory and psychological contract theory are adopted in a revised conceptual framework which builds on frameworks established previously by McNulty and Tharenou (2004) and Welch, Steen, and Tahvanainen (2009). In doing so, the revised conceptual framework to explain expatriate ROI in global firms depicts a more complete picture of long-term international assignments than has been offered in prior studies. Implications arising from the conceptual framework are discussed for theory, research, and practice, including directions for future research.

**Introduction**

During the past decade scholars and practitioners have been challenged by how best to measure and manage the value that can be gained from the risks and uncertainties associated with global staffing practices, and in particular, long-term international assignments of expatriates. Indeed, many practitioner-oriented reports (e.g. Johnson, 2005; PricewaterhouseCoopers & Cranfield University, 2006), as well as academic publications (e.g. Collings, Scullion, & Dowling, 2009; Collings, Scullion, & Morley, 2007), point to expatriate return on investment (ROI) as an

important business challenge which, when combined with the apparent shortage of empirical studies available on the topic (for exceptions see McNulty, 2008; McNulty, De Cieri, & Hutchings, 2009; Schmidt & Minssen, 2007; Welch et al., 2009), demonstrates that there is a need for more research in this domain. Although interest in expatriate ROI remains high, our understanding as to how expatriate ROI is operationalised and managed in global firms nonetheless remains under-developed. Furthermore, Welch et al. (2009) assert that research on expatriate ROI lacks a strong conceptual framework.

Based on the shortcomings of the literature, the overall aim of this paper is to contribute to current knowledge by presenting a revised framework of expatriate ROI for global firms which builds on the McNulty and Tharenou (2004) and Welch et al. (2009) frameworks, and which is based on recent developments and emerging directions in research and practice. A second aim is to discuss implications of the revised framework for theory, research, and practice, and to provide some guidance for future research in this area.

In this paper we use McNulty and Tharenou's (2004) definition of expatriate ROI 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" (p. 73). A long-term international assignment is defined as a temporary contractual arrangement between an employee and an organisation in which an expatriate is employed in a host-country for a period of 1 to 5 years (Shenkar & Luo, 2004). The focus in this paper is on long-term assignments. An expatriate is defined as an employee of an organisation who voluntarily chooses to be sent from their country of origin and/or permanent residence to a foreign country to work temporarily for a period of between one and five years (De Cieri, Fenwick, & Hutchings, 2005).

The paper commences with a brief overview of justifications for the examination of expatriate ROI in global firms. The theoretical reasoning to support the development of the revised conceptual framework is then discussed and explained. Systems theory and psychological contract theory are adapted to the study of expatriate ROI to position the factors presented in the conceptual framework within the context of the overall system of HR and non-HR factors that are proposed to influence expatriate ROI outcomes. Next, a detailed discussion of the conceptual framework in Figure 1 is presented. The full range of strategic, contextual, and operational factors that are proposed to exist from a systems perspective towards explaining expatriate ROI are discussed, along with a discussion of the inter-relationships between and amongst the factors that are proposed to have important implications for ROI outcomes. The paper concludes with a discussion of the implications of the revised framework for theory, research, and practice along with suggested areas for future research.

#### **Justification for Examining Expatriate ROI**

McNulty and Tharenou (2004) and Welch et al. (2009) provide a number of important justifications for examining expatriate ROI in global firms which remain valid. First, the decision to use long-term expatriates can significantly impact on a firm's overall performance in terms of influencing its cost structure (Erdener & Torbiorn, 1999). For example, the financial costs associated with global staffing decisions have been shown to account for as much as 5 percent of total headcount costs in global firms (ECA International, 2007). Second, investments in human capital (such as the training and development of expatriate employees) has been suggested to constitute a significant portion of the value equation in HR activities (Welch et al., 2009), where the non-financial costs associated with assignment failures can include loss of intellectual

knowledge and disruption to global leadership due to labour turnover, poor performance, and disrupted relationships with host-country nationals (Suutari & Brewster, 2003). Third, attempts to assess the value from international assignments in the extant literature have not gone far enough towards capturing the full range of meaningful costs and benefits to be expected from global staffing initiatives (McNulty et al., 2009). Although informative, the study of isolated practices has been criticised (e.g. Mol, Born, Willemsen, & van der Molen, 2005) because isolated practices often fail to represent outcomes that are relevant to every firm's global strategy. A micro-perspective also neglects the inter-relationships between all of the HR and non-HR activities taking place during an international assignment, where assignment outcomes could be misleading with potentially serious implications for global staffing decisions and resource allocation. Furthermore, because the assessment of isolated practices only provides an indication of past performance once an assignment has been concluded, the ability to manage expatriate performance, and in turn expatriate ROI, during an assignment is diminished.

A fourth justification for examining expatriate ROI is that it appears to be not only poorly calculated amongst global firms but also does not seem to be widely used as a tool to reduce expatriate costs nor to improve expatriate performance (McNulty et al., 2009). Lastly, despite the expense, the noted difficulties in attracting people to take international assignments (Hippler, 2009), and the 2008/9 global financial crisis and its impact on international mobility (ORC Worldwide, 2008), the use of long-term international assignments continues to be a popular staffing choice for many global firms. This trend is most likely because strategic value can best be obtained from long-term assignments and long-term assignments are typically located in regions of business growth (Westney, 2001).

In addition to the above, there may be a further reason why examining expatriate ROI is important and why a revised framework of expatriate ROI is both timely and necessary. McNulty and Tharenou (2004) present a conceptual framework of expatriate ROI in which they conclude that a fundamental issue in determining overall assignment value is the linking of international assignment costs and benefits to the purpose of an assignment. On the basis that they found “no empirical studies examining expatriates’ ROI” (p. 89), the framework has since been noted by other scholars (e.g. Caligiuri & Colakoglu, 2007; Collings et al., 2009; Collings et al., 2007; McKenna & Richardson, 2007; Schmidt & Minssen, 2007; Welch et al., 2009) as a useful tool from which further research on expatriate ROI and the value to be gained from international assignments can be explored. However, the framework focuses only on factors internal to the global firm at the operational level (HR practices) to explain ROI outcomes, thereby ignoring factors at other levels of analysis.

Furthermore, in an important development, Welch et al. (2009), in building on the McNulty and Tharenou (2004) framework, proposed an alternative conceptual approach to assessing the value from international assignments. Using an intellectual capital perspective, the combination of human, structural, and social capital has been positioned to “best capture the true worth – to organisations and individuals – of international assignments” (p. 1327). Findings from the study exposed different perspectives that allowed a broader picture of the measurement of ROI in global firms to be obtained although, as the author’s note, “we recognise, however, that the concept of intellectual capital is complex and poses methodological challenges” (p. 1340).

Whilst both frameworks have proved useful to advance the very little knowledge in this field, recent global events (e.g. 2008/9 global financial crisis, acts of terrorism (e.g. September 11, 2001), and the SARS and H1N1 influenza outbreaks), along with a new stream of research that is

focused on international and global careers (e.g. Jokinen, Brewster, & Suutari, 2008; Makela & Suutari, 2009) suggests the need for a more comprehensive and contemporary framework to explain expatriate ROI in global firms. Global staffing in particular has been affected by economic changes along with the increasing demands of a more globalised workforce, with implications at the contextual and individual levels of analysis. Although McNulty and Tharenou (2004) contend that that they approached their original study “with thoroughness and caution to be absolutely certain that we have considered all possible explanations for understanding the phenomenon” (p. 89), we contend, in borrowing from Paauwe and Boselie (2005), that a comprehensive understanding of expatriate ROI in global firms needs to extend beyond a focus only on operational factors at the organisational level (HR practices). We therefore propose a broader approach to expatriate ROI that, in addition to focusing on HR practices, also focuses on strategic, contextual, and other operational factors at the organisational and individual level. We suggest that developments in specific areas of research over the past decade justify the need for a revised framework of expatriate ROI in global firms. Before presenting our framework, we first discuss the theoretical basis for the conceptual foundation of the framework.

### **Theoretical Foundation of Expatriate ROI in Global Firms**

Several theories have been applied to expatriate ROI in global firms, including systems theory, transaction cost theory, and intellectual capital theory. Each theory varies in its assumptions about expatriate ROI and its focus, for example, from staffing costs to strategic benefits, and from an isolated perspective to a more wholistic balanced approach. Our revised framework draws upon two theories: systems theory (Kast & Rosenzweig, 1972) and psychological contract theory (Rousseau, 1989) to explain expatriate ROI in global firms.

## **Systems Theory**

Like McNulty, De Cieri, and Hutchings (2009), we use systems theory to support the revised conceptual framework. Drawing on general systems theory (Kast & Rosenzweig, 1972), the systems approach is based on the concept of *systems thinking* where the firm is seen holistically as a combination of many parts (including processes and employees) which are integrated in relationship to the whole (Liedtka, 1998). A firm may contain many systems, or sub-systems, depending upon its size and industry. Expatriation may, for example, be one system operating within a larger HRM system, in which the activities within the expatriate system interact not only with each other, but also, as a whole, with other systems in the firm (Stacey, 1996), such as talent management programs, succession plans, or work-life balance initiatives. A systems approach requires the ability to see how different issues are connected with each other and are influenced by each other, and to consider the effect that improvements in one area will have (or will not have) in other areas in the firm. Importantly, systems thinking requires a thorough understanding of the inputs and outputs likely to affect performance outcomes at multiple levels (Bonn, 2005). That is, systems thinking requires a conceptual understanding of the factors most likely to influence changes in performance outcomes.

A systems theory approach addresses the need for more research such as that of Yan, Zhu, and Hall (2002), whose model of agency relationships and psychological contracts (to explain assignment success) is a clear example of conceptualizing expatriation as an integrated process, in which multiple perspectives and theoretical insights combine to demonstrate proposed firm outcomes. A second benefit is the ability to demonstrate strong links between expatriate performance and broader, firm-wide performance outcomes. By focusing on the inter-relationships amongst a system of HR and non-HR factors as possible antecedents of



performance outcomes (see, as an example, Gong, Shenkar, Luo, & Nyaw, 2005), a clear conceptual link between the system of HR and non-HR factors that are associated with certain global staffing activities (e.g. such as those occurring during expatriation) can be established.

Hence, as noted by scholars (Bennett, Aston, & Colquhoun, 2000; Yan et al., 2002), although isolated factors (e.g., training and development, repatriation, career aspirations, host-location characteristics) can improve the likelihood of assignment success, and therefore increase ROI, isolated factors are less likely to be an effective substitute for the collective impact of many factors operating at one time. A systems theory approach to the conceptualisation of the determinants of expatriate ROI which can account for the multidimensional nature of expatriation at strategic, contextual, and operational levels therefore seems timely and appropriate. In addition, a systems theory approach can also account for the inter-relationships that potentially exist between and amongst a range of HR and non-HR factors that combine to influence international assignment outcomes. These outcomes in turn are likely to feed back into the overall system and to influence the IHRM strategy of the firm, thereby improving overall international assignment management.

On this basis, a systems theory approach to expatriate ROI is useful because: (1) it can account for the inter-relationships across a range of HR and non-HR factors that exist during all stages of an international assignment, thereby enabling managers to understand the complexities of global staffing and to address problems with greater clarity; (2) it is designed to recognise internal and external factors that may influence performance outcomes; (3) it can incorporate multiple levels of analysis; and (4) it provides a less subjective environment from better decision making.

Like McNulty, De Cieri, and Hutchings (2009), we also acknowledge criticisms of a systems theory approach in HRM from a methodological perspective. Specifically, scholars (e.g.

Fleetwood & Hesketh, 2006; Paauwe & Boselie, 2005) argue that the non-relevance of strategy, incorrect assumptions about linear causality, and a dearth of multi-level analysis in systems theory research represents a lack of theoretical rigour in studies which use the approach.

### **Psychological Contract Theory**

Drawing on both early and contemporary literature in which competing views exist to define a psychological contract (Anderson & Schalk, 1998; Guest, 1998), in this paper a psychological contract is defined as an individual's subjective belief about the terms of an exchange agreement between an employer and employee. A psychological contract is defined by the individual but exists within the context of the organisation, is subjective, and represents an indirect, unwritten form of communication between employers and employees (Rousseau, 1989), in which intentional and unintentional signals can be expressed (Guzzo, Noonan, & Elron, 1994). Research has suggested that the psychological contract is an important determinant of employee behaviour (Guzzo et al., 1994; Robinson, 1996; Turnley & Feldman, 2000).

Psychological contract theory provides an additional perspective to support the conceptual framework of expatriate ROI by drawing attention to the expatriate-employer relationship, where the quality of the psychological contract in terms of met and unmet expectations has been proposed to impact expatriate performance outcomes at the organisational and individual level of analysis (Haslberger & Brewster, 2009). Importantly, Welch (2003) suggests that how an expatriate interprets fulfillment (or otherwise) of the psychological contract can have implications for employee loyalty and commitment. Thus, the performance outcomes to be expected from international assignments, and overall expatriate ROI, would likely be affected.

Furthermore, Yan et al. (2002) assert that assessing the ways in which expatriates perceive a psychological contract is fulfilled may provide a starting point for appropriate interventions

within firms, taking into account that, within an expatriate setting, contracts are likely to be modified over time, to be influenced by a range of factors, and to result in a number of different outcomes. Guest (1999) suggests that the state of the psychological contract may also act as an intervening variable between HRM practices implemented by the firm and performance outcomes. Hence, when a psychological contract is assessed as stable and fulfilling, studies (e.g. Guzzo et al., 1994; Robinson, 1996) have demonstrated more positive employee attitudes and actions such as increased levels of trust and organisational commitment. Positive attitudes have been suggested to in turn influence turnover intentions (Turnley & Feldman, 1999).

Psychological contract theory represents a valid approach to conceptualising expatriate ROI because it can explain some of the contracting problems that are often found in international assignments, such as: (1) goal conflict between an expatriate and the firm (Lazarova & Cerdin, 2007); (b) outcome uncertainty for both the expatriate and firm as a result of undertaking an international assignment (Makela & Suutari, 2009; Stahl, Chua, Caligiuri, Cerdin, & Taniguchi, 2009); and (c) the risks associated with maintaining an employment relationship when expatriates are geographically separated from a firm as an inevitable function of a particular role (e.g. an international assignment), but in whom considerable decision making power has been given, and in which geographical distance and cultural differences can cause conflict (Tosi, Katz, & Gomez-Mejia, 1997). Rousseau and Shperling (2003) suggest that psychological contract theory can also provide possible solutions to these problems, particularly where firms have become increasingly reliant upon highly skilled employees (such as expatriates) and the critical assets they help generate in a global setting. From this perspective, strong psychological contracts could be used to positively influence expatriate behaviour, as well as to attract and

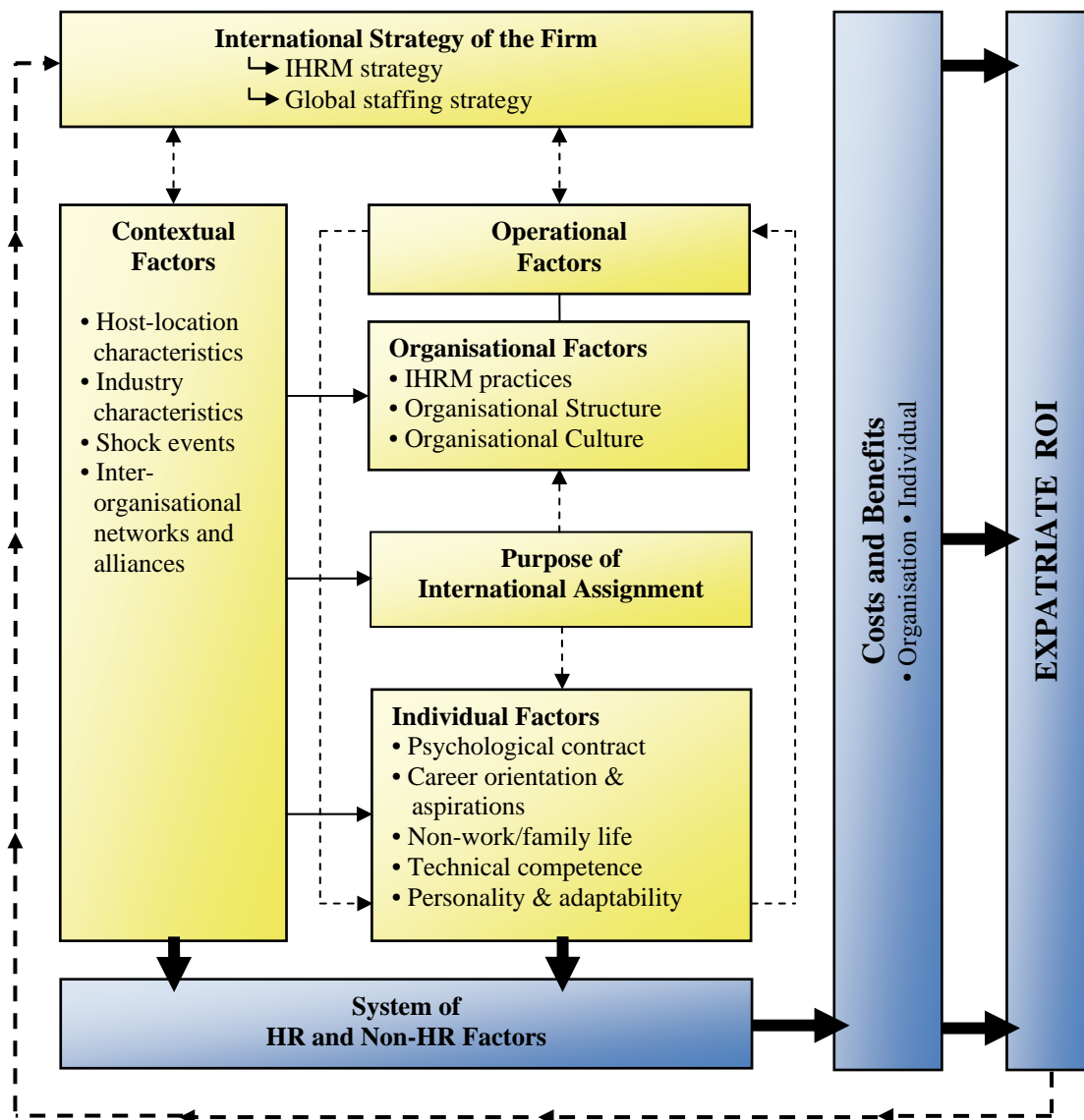
retain expatriates in order to help firms generate the knowledge flows that are necessary to meet its broader strategic objectives.

Yet, whilst some studies have examined the relationship between fulfillment of the psychological contract and commitment (e.g. Sels, Janssens, & van den Brande, 2004), loyalty (e.g. Hart & Thompson, 2007), and organisational support (e.g. Guzzo et al., 1994), only a few studies (e.g. Haslberger & Brewster, 2009; Lazarova & Caligiuri, 2001; Yan et al., 2002) have taken the view that the psychological contract may be an important variable influencing expatriate performance outcomes, with the potential to influence the value to be gained from international assignments. Research examining the psychological contract from an expatriate ROI perspective therefore appears limited and is timely.

Despite the usefulness of psychological contract theory to support the conceptual framework, we acknowledge that criticism of the approach has focused on the difficulties associated with assessing fulfillment of the psychological contract. Ho (2005) argues that fulfillment remains a predominantly subjective exercise which is prone to biases and individual differences. Furthermore, Rousseau and Parks (1993) argue that certain critical events (both externally and internally) can trigger assessments of fulfillment of the psychological contract, which can sometimes distort employee interpretations of met expectations, contract breaches and violations.

### **Development of the Revised Conceptual Framework**

We contend that developments in research as well as practice justify the need for a revision of the McNulty and Tharenou (2004) conceptual framework of expatriate ROI. A revised framework to explain expatriate ROI in global firms is presented in Figure 1 and discussed next.



**LEGEND:**

Symbol	Meaning
→	Proposed determinant
→	Proposed determinant
- - - - ->	Proposed inter-relationship
Yellow box	System component
Blue box	System output

**Figure 1.** Conceptual framework to explain expatriate ROI in global firms

The conceptual framework adopts a multidimensional structure consisting of three components: (1) international strategy of the firm; (2) contextual factors external to the global firm (e.g. environmental factors); and (3) operational factors internal to the global firm. Operational factors are proposed to be present at the organisational and individual level of analysis. The theoretical foundation to support the conceptual framework rests in the system of HR and non-HR factors that are proposed to influence the costs and benefits arising from long-term international assignments, and in turn, expatriate ROI outcomes. Expatriate ROI outcomes in turn are proposed to feed back into the system to influence IHRM strategies and overall international assignment management. It must be noted, however, that whilst the conceptual framework is developed from a review of the literature from fields such as accounting, economics, organisational behaviour, psychology, management, and IHRM to provide support and guidance for its critical components, the factors presented in the framework do not represent all the factors that could be included. New streams of research may further extend the framework over time.

Development of the conceptual framework is guided in large part by prior research in HRM, where it has been argued that the “black box” between a firm’s HR system and firm performance can be explained by the link between strategy, HRM, and firm performance (Paauwe & Boselie, 2005). Of importance to the linkage is the positioning of firm resources to achieve vertical and horizontal fit (Schuler & Jackson, 1987). On this basis, the conceptual framework proposes that the system of HR and non-HR factors can more fully explain expatriate ROI outcomes than factors which operate in isolation. The conceptual framework therefore considers a range of distinctive factors at the local, national, regional, and global levels of analysis that a global firm adopting an international staffing strategy would be expected to encounter and manage towards achieving vertical and horizontal fit (Brewster & Suutari, 2005).

## **International Strategy of the Firm**

The *international strategy of the firm* exists within the context of the corporate strategy of the firm, both of which have received considerable attention in the literature as important facilitators of a firm's broader goals and objectives (e.g. Bowman & Helfat, 2001; Prahalad & Hamel, 1990). The corporate strategy of the firm is defined as the companywide pattern of decisions that lead an organisation to create and capture value in a specific product market (Raynor, 2007). As an important component of an overall corporate strategy, the international strategy of the firm can facilitate the implementation of the broader corporate strategy a firm is striving to fulfill (e.g. to achieve a targeted percentage of market-share, or to pursue cost-reduction through economies of scale and standardisation), particularly if the strategy involves international expansion (Harzing, 2000; Taylor, Beechler, & Napier, 1996). The international strategy of a firm may be focused on strategic direction as well as production, support, implementation, research and development, and/or staffing, dependent upon its industry and headquarters location.

The international strategy of the firm (i.e. whether a firm pursues a global, international, transnational, and/or multi-domestic operation) has been proposed to influence firm-wide (i.e. parent company and subsidiary) decisions regarding the utilisation and effectiveness of an *IHRM strategy of the firm* (Kidger, 2002), including its HRM policies and practices (Schuler, 1992). An IHRM strategy is likely to include a *global staffing strategy*. Global staffing is defined by Scullion and Collings (2006, p. 3) as "the critical issues faced by MNCs with regard to the employment of home, host, and third country nationals that are required to fill positions in their headquarter and subsidiary operations". A global staffing strategy is therefore concerned with determining an appropriate staffing approach which can support a global strategy as well as local conditions (p. 5). For the purposes of this paper, the conceptual framework of expatriate ROI is

mostly concerned with the global staffing strategy of the firm (as a component of a firm's much larger overall IHRM strategy), and more specifically, the effectiveness of a firm's international mobility activities as it relates to managing long-term international assignments. Borrowing from Schuler (1992), international mobility activities may include a firm's HR philosophy, policies, programs, practices, and processes, which are proposed to influence expatriate ROI outcomes.

In the conceptual framework, the role of the international strategy of the firm is positioned as a first step towards understanding expatriate ROI. This is important, because, as shown, an international strategy is likely to influence the IHRM and global staffing strategies developed by the firm. A global staffing strategy, in turn, can play a valuable strategic role in influencing firm performance and competitiveness (Fabi, Raymond, & Lacoursiere, 2009), particularly when international mobility activities are formulated, implemented, and aligned appropriately to a firm's internal and external operating environment (Baird & Meshoulam, 1988). The pressure for managers to globalise their business operations through the deployment of long-term expatriates is, however, compounded by the fluid and dynamic nature of international mobility itself, in which emergent strategies require careful consideration and management (Mintzberg & Waters, 1985). On this basis, there may be important reciprocal (two-way) relationships between and amongst international strategy, IHRM strategy, and global staffing strategies that will likely determine how long-term expatriates are managed, and the costs and benefits arising from long-term international assignments.

For example, contextual factors such as host-location characteristics (e.g. a stable currency, stable political system, high regard for intellectual property rights, or cheap labour costs), as well as industry characteristics (e.g. level of existing competition), could influence the development, achievement, and effectiveness of an overall international strategy, and more specifically, a



firm's IHRM strategy. It is not to suggest, however, that all the contextual factors embedded in the conceptual framework can be expected to influence the corporate, international, IHRM or global staffing strategy of the firm, or vice versa. For example, it is unlikely that the international strategy of the firm would influence host-location characteristics. The international strategy of the firm is, however, likely to be influenced by the host-location characteristics a firm may seek in determining how best to support, monitor, and execute its strategy from an operational perspective (e.g. degree of infrastructure or a high-tech workforce).

Operational factors could also influence the development, achievement, and effectiveness of an international strategy as well as the strategies that arise from it. For example, an IHRM strategy could operate, and be influenced by, factors at both corporate and business levels (De Cieri & Dowling, 2006). At the corporate level, research has suggested that organisational structure in terms of ownership mode (i.e. joint venture or wholly-owned subsidiary) (Zhu, Cooper, De Cieri, & Dowling, 2005), type of strategy (global versus local) (Hocking, Brown, & Harzing, 2007), degree of economic development (co-ordinated versus emerging/transition) (Lenartowicz & Johnson, 2007), and top management's belief in the usefulness of its HRM competence (i.e. organisational culture) (Taylor et al., 1996), could influence the successful implementation of IHRM, as well as facilitate knowledge transfer. Conversely, at the business level IHRM strategy has been shown to influence staffing decisions (Lenartowicz & Johnson, 2007), and the implementation of other HR practices such as compensation and selection (Walsh & Zhu, 2007).

### **Contextual Factors**

Contextual factors represent a critical component of the conceptual framework of expatriate ROI because factors in a firm's external environment have been suggested to influence organisational performance in different contexts (Becker & Gerhart, 1996). Thus, the ROI that

global firms expect from the deployment of long-term expatriates may be directly and indirectly influenced by the context within which global firms operate. A number of contextual factors are proposed to exist to influence expatriate ROI outcomes.

First, *host-location characteristics* such as the degree of economic transformation (e.g. emerging/transition versus co-ordinated economies) (Zhu et al., 2005), political orientation (e.g. influence of labour unions, trade associations, and labour legislation) (Chow, 2004), as well as laws and institutional frameworks that guide the relationship between an organisation and its external environment (Bjorkman, 2006), have been shown to influence the HRM practices that are adopted by global firms, with implications for performance at the organisational level. Cultural and social differences in the host location, in terms of national/social culture and cultural taboos (for example, towards women or minorities) (Selmer & Leung, 2003), language difficulties (Selmer, 2006), corruption (Millington, Eberhardt, & Wilkinson, 2005), and degree of hostility in the host-location (e.g. climate, healthcare) (Selmer, 2006) may influence expatriate adjustment and performance, with implications at the individual level. Second, *industry characteristics* particular to certain types of global firms, where legal, cultural, and/or economic factors relative to different sectors or types of operations (e.g. health services manufacturing, automotive manufacturing) may influence strategic planning and, in turn, broader firm performance (Pruthi, Wright, & Meyer, 2009).

Third, *shock events*, which are defined as events that impact the firm but which sometimes originate from outside it (Lee, Pesaran, & Pierse, 1992), are suggested to be challenging for global firms in terms of strategic planning and, in particular, global staffing strategies. Shock events can occur at the macroeconomic level (e.g. the 2008/9 global financial crisis) (Park & Lee, 2009), within regions (e.g. the 2003 SARS outbreak in Asia) (Chen, Chen, Tang, & Huang,

2009), or within industry sectors (e.g. 2008 OPEC oil price crisis, and 2001 Enron corporate governance scandal) (Healy & Palepu, 2003). Shock events are characterised by uncertainty and unpredictability, and the absence of “historical paradigms” from which to co-ordinate relief (Marangos, 2003, p. 943), continuing for indefinite and often unknown periods of time, and often having an effect on a firm’s competitiveness and productivity (Lee et al., 1992). In terms of the conceptual framework of expatriate ROI, the extent of influence of shock events is dependent upon the type of shock and the level at which it occurs (Mellahi & Guermat, 2009), as well as the resilience of the global firm to cushion the impact of shocks (Duval & Vogel, 2008). Recent shock events, such as the 2008/9 global financial crisis, acts of terrorism (e.g. September 11, 2001), and the SARS and H1N1 influenza outbreaks, have led many global firms to alter their HR strategies, policies, and practices in response to the needs of their employees, a shifting external environment, and changes to a firm’s operating environment (e.g. cutbacks), which may have implications for the operationalisation and subsequent management of expatriate ROI.

Lastly, *interorganisational networks and alliances* (e.g. social capital relationships, business alliances, political affiliations) are suggested to influence expatriate ROI outcomes because each is increasingly relied upon by global firms and their expatriates to generate new resource capabilities to support both organisational and individual international business efforts (Sumelius, Bjorkman, & Smale, 2008). Interorganisational networks and alliances may be facilitated by any combination of PCNs, TCNs, HCNs, governments, suppliers, clients and customers, professional bodies, and investors (De Cieri & Dowling, 2006). For expatriate ROI, interorganisational networks are important because such networks rely heavily on the individual (i.e. expatriate) to manage and execute the relationships embedded within them.

Interorganisational networks and alliances can therefore influence firm performance at both the organisational and individual level.

### **Operational Factors**

The operational factors critical to the conceptual framework of expatriate ROI are modified from the Schuler, Dowling, and De Cieri (1993) and Taylor et al. (1996) SIHRM frameworks, and focus on factors at the level of the organisation and the individual. Referring to Figure 1, it is proposed that there are a number of key reciprocal relationships between and amongst operational, contextual, and strategic factors, which are suggested to operate as a system of HR and non-HR factors to explain and influence expatriate ROI outcomes.

#### ***Organisational factors***

Organisational factors represent an important component of the conceptual framework of expatriate ROI because factors in a firm's internal organisational environment have been suggested to influence organisational performance outcomes (Guthrie, 2001; Hocking et al., 2007). As shown in Figure 1, *IHRM practices*, which is defined as "the set of activities, functions, and processes directed at attracting, developing, and maintaining an MNCs human resources, both at home and overseas" (Taylor et al., 1996, p. 960) is proposed to constitute a set of inter-related strategic activities which can be linked to the needs of the business. Like McNulty and Tharenou (2004), we propose nine IHRM practices to influence expatriate ROI outcomes: (1) planning the assignment; (2) selection and recruitment; (3) outsourcing relocation administration; (4) compensation; (5) training and development; (6) non-work and family support; (7) performance management; (8) repatriation; and (9) retention. However, we re-label these practices to constitute "IHRM practices" instead of "HR practices" to be more relevant to the issues surrounding ROI for global staffing.

Other organisational factors include the *organisational structure* and *organisational culture* of the global firm. The literature has shown the importance of not just the structure of a global firm's management hierarchy and operations in terms of how a global firm is co-ordinated to achieve its broader goals and objectives (Harvey & Novicevic, 2002), but also of the networks that arise within them (Kidger, 2002). Recent studies have shown that organisational structure may be influenced by international joint venture (IJV), and merger and acquisition activity, in terms of the successful implementation of HRM across acquired business units (Yan, Child, & Chong, 2007). Similarly, organisational culture, which is defined as "the sense of common identity and purpose across the whole organisation" (Kidger, 2002, p. 81), has been suggested to influence the commitment of employees (Taylor, Levy, Boyacigiller, & Beechler, 2008), with implications for retention strategies. Organisational culture has also been shown to influence the transference of management practices across subsidiaries particularly in post-merger operations (Piekkari, Vaara, Tienari, & Santti, 2005).

### ***Individual factors***

The *psychological contract* is an important and relevant component of the conceptual framework of expatriate ROI given recent IHRM research (e.g. Haslberger & Brewster, 2009; Lazarova & Caligiuri, 2001; Yan et al., 2002) which suggests that employee performance and the outcomes arising from it can be influenced by the quality and content of the unwritten and non-contractual relationship that exists between a firm and its employees. Research has shown, for example, that the psychological contact can influence the symbolic and career capital of international assignments (Doherty & Dickmann, 2009), as well as the career orientation and career adjustment of expatriate employees (Haslberger & Brewster, 2009; Jokinen et al., 2008), which can have implications for expatriate retention. Some research has also posited the psychological

contract as a determinant of expatriate success in terms of knowledge transfer (Bonache & Zarraga-Oberty, 2008) and repatriation outcomes (Lazarova & Caligiuri, 2001). Thus, the quality of an expatriate's psychological contract with the firm is suggested to have implications for the global firm (Guzzo & Noonan, 1994), because the degree of commitment, motivation, and engagement of expatriate employees can impact the costs and benefits likely to arise from long-term international assignments, and in turn, expatriate ROI.

A second individual factor is *career orientation and aspirations* which has recently emerged as an area of concern to MNCs and their international assignees in terms of improving retention policies and strategies (Jokinen et al., 2008; Makela & Suutari, 2009). Expatriates' motives for undertaking an international assignment, in terms of their career aspirations and the alignment of their motives to those of the organisation, has also emerged as important (Hippler, 2009). Career orientation amongst expatriates has been identified according to two distinct categories: (1) company assigned expatriation (Jokinen et al., 2008), where an individual pursues an international career that is controlled and directed by an organisation; and (2) self-initiated expatriation (Vance, 2005), where the individual is the owner of his or her international career and directs the decisions regarding which companies to work for (which could be several over the course of a career), and the locations to work in (which could be dictated by the companies one chooses to work for). Self-initiated expatriation includes protean careers (Hall, 1996), global careers (Cappellen & Janssens, 2005), and boundaryless careers (Stahl, Miller, & Tung, 2002). In terms of the conceptual framework, recent research (e.g. van der Heijden, van Engen, & Paauwe, 2009) suggests that the quality and degree of career management support offered to international assignees to support their career ambitions, in terms of understanding and managing their career orientation and aspirations (including the motives for undertaking an assignment)

could have substantial implications for expatriate motivation, engagement, and retention. In turn, there could be far reaching effects for the outcomes expected from international assignments.

A third individual factor is the *non-work and/or family life* of expatriates, in terms of the dual-career issue (Harvey, 1998), spouse adjustment (Shaffer & Harrison, 2001), stage of family life-cycle (Dupuis, Haines, & Saba, 2008), and family and friendship networks (Copeland & Norell, 2002). Expatriates' non-work and family life has been positioned as an important contributor towards international assignment success (Shaffer, Harrison, Gilley, & Luk, 2001), willingness-to-go (Konopaske, Robie, & Ivancevich, 2005), repatriation adjustment (Gregersen & Stroh, 1997), and turnover intentions (Shaffer & Harrison, 1998), and on this basis is suggested to also contribute to, and influence, expatriate ROI.

A fourth individual factor is *professional and technical competence* in terms of the multiple competencies expatriates are expected to possess when selected to undertake their international roles (Pucik & Saba, 1998). Harvey and Novicevic (2002) argue that traditional notions of expatriates' professional and technical competence has evolved from only functional competencies (e.g. technical knowledge of the job, technical skills, managerial skills, and administrative competence) to also include "managing conflict, power, influence and control, commitment, and trust building both within and across a firm's boundaries" (p. 130). Thus, expatriates' degree of professional and technical competence has clear and obvious implications towards performance outcomes and, in turn, ROI.

Lastly, the *personality and adaptability* of expatriates to their international roles has implications for expatriate ROI in terms of the relationship between cross-cultural adjustment and job satisfaction leading to assignment success and turnover intentions (Caligiuri, 2000). For example, Gabel, Dolan, and Cerdin (2005) argue that emotional intelligence (defined as the role

and relevance of emotions for intellectual functions, e.g. empathy, social responsibility, and social relations) is an important personality trait for expatriate managers as a predictor of intercultural adjustment, thereby leading to assignment success.

### ***Purpose of an international assignment***

Like McNulty and Tharenou (2004), we propose that the purpose of an international assignment is a critical operational component in the overall conceptual framework because the costs and benefits of international assignments can only be determined when an assignment has a clear purpose from which expected assignment outcomes and value can be determined. Given that firms differ greatly in terms of industry, organisational culture, and overall strategic objectives they will have different reasons for using expatriates. However, as Edström and Galbraith (1977) point out, the motives for expatriation are not always mutually exclusive; that is, there may be more than one reason for using expatriates and, as such, there may be more than one benefit to be gained or potentially multiple failures and lost opportunities. There may be cumulative outcomes which may then drive the decisions regarding how best to manage the contextual and operational factors likely to impact long-term assignments.

McNulty and Tharenou (2004) conceptualise that there are reciprocal relationships between the purpose of an international assignment and operational factors specific to long-term international assignments, thereby influencing the strategic and non-strategic decisions that will then be made in the pursuit of short and long-term value from long-term international assignments. It is suggested that there may also be important reciprocal relationships between the purpose of an international assignment and contextual and strategic factors, as outlined in Figure 1. For example, the reason to use a long-term expatriate may be influenced by host location characteristics; where corruption is high, corporate governance and control may be the dominant



reason for sending expatriates and for using only a certain type of expatriate (e.g. a more experienced, more senior, and by default, perhaps a more expensive employee). Similarly, the global staffing strategy of the firm may influence the types of assignments that are undertaken, where a desire to hire TCNs as a way to reduce costs may result in the use of assignments that have only short-term on-assignment benefits, as opposed to longer-term developmental benefits. The purpose of such assignments may then dictate the IHRM practices that are used to deploy expatriates where, for example, repatriation to the headquarters operation may not be an important goal.

In terms of suggested inter-relationships between and amongst operational factors and other factors within the revised framework, the direction of the relationships between contextual and operational factors is suggested to be one-way; contextual factors are suggested to influence organisational factors but the reverse is not likely to occur. As a result, a firm's ability to influence its external environment from an operational perspective is unlikely (with the exception that some interorganisational networks and alliances could provide some scope of influence). Yet contextual factors (e.g. terrorist attacks in a particular region or location) could exert considerable influence on the firm, in terms of the ongoing attractiveness of international assignments and psychological contract expectations for assignments to that region. The direction of the relationship between and amongst the operational factors, i.e. organisational and individual factors and the purpose of an assignment has a stronger emphasis on a two-way interaction, where reciprocal cause and effect relationships between two or more operational factors are suggested to exist. For example, a developmental assignment (purpose) would be expected to influence the choice of IHRM practices (e.g. compensation approach, repatriation support) (organisational factor). Organisational culture (organisational factor), in terms of HR

support and management of the psychological contract (individual factor), is suggested to influence an employee's career orientation and aspirations (individual factor). Similarly, organisational structure (organisational factor) may influence the effective deployment of IHRM practices such as selection procedures and repatriation support (organisational factor) where, for instance, a flat organisational structure may be unable to enforce consistent guidelines and policies. The above notwithstanding, it is recognised that some operational factors (e.g. career orientation) may exist in isolation to the influence of other factors, for example, where Jokinen et al. (2008) suggest that a self-initiated career orientation may pre-date an individual's employment and/or expatriate experience with a global firm.

### **System of HR and Non-HR Factors**

Referring to Figure 1, the foundation upon which the conceptual framework to explain expatriate ROI in global firms exists is based on the system of HR and non-HR factors which emerges from the combination of strategic, contextual, and operational factors at play during an international assignment. The system of HR and non-HR factors is proposed to then influence the cost and benefits arising from international assignments in terms of both organisational and individual outcomes, and in turn, to influence expatriate ROI.

In keeping with Taylor et al. (1996, p. 960), and De Cieri and Dowling's (2006, p. 23) work, a system of HR and non-HR factors is defined as "a configuration of HR and non-HR activities, events, processes, policies, practices, and strategies that are directed at influencing the outcomes of long-term international assignments, to impact the international concerns and goals of global firms". Importantly, long-term assignments are unlikely to be influenced by identical configurations of HR and non-HR factors. Many different configurations are likely to exist in the same firm according to the different purposes and locations of international assignments and the

career orientations of expatriate employees. For example, the outcomes expected from an assignment that is primarily based on transferring technology or launching new endeavours may be influenced by a set of HR and non-HR factors consisting of (but not limited to) a cost-reduction strategy (strategic), stock market pressures (contextual), and different ownership patterns (operational), whereas a developmental assignment in the same firm may be influenced by a talent management/succession strategy (strategic), a thriving and developed knowledge economy (contextual), and the career orientation and aspirations of employees (operational). The system of HR and non-HR factors is hence multidimensional.

Identifying and subsequently managing a system of HR and non-HR factors that will influence the costs and benefits of long-term international assignments is suggested to be influenced in two separate, yet complimentary, ways. First, the purpose of an international assignment (whether planned or emergent) will dictate which configurations of strategic, contextual, and operational factors are likely to emerge within a system as important for expatriate ROI outcomes. Recognition of these different configurations is important, from which more rigorous and appropriate assessments of ROI can then be made. Second, inter-relationships between and amongst the strategic, contextual, and operational factors, as well as the direction of the relationships, is suggested to determine the relative strength and impact of the factors that are likely to emerge to influence international assignment outcomes, which will have important implications for decisions regarding the management of international assignments and expatriate employees, as well as expected ROI outcomes. For example, when a system of HR and non-HR factors is sufficiently co-ordinated, dynamic, and flexible enough, such that operational factors can be positioned to minimise or maximise (i.e. “buffer”) the influence of contextual factors through, for example, improved strategic planning and careful responses to external events, the

costs and benefits arising from long-term international assignments are likely to be positively rather than negatively influenced, leading to better expatriate ROI outcomes.

Like Guest (2001), it is suggested that the system of HR and non-HR factors will consist of inter-relationships between and amongst the factors that, at times, may be non-linear or causally ambiguous in terms of the relationship between strategy, HRM, and firm performance. Under certain circumstances strategy may also be less relevant as an antecedent of performance where, as suggested by Bowen and Ostroff (2004), other non-strategic factors may instead account for performance outcomes. It is therefore suggested that strategy may not determine HRM practice and firm performance as much as strategy may be developed in response to contextual and operational factors that emerge and arise during international assignments. In keeping with Fleetwood and Hesketh's (2006) view, understanding the direction of the relationships between and amongst the system of HR and non-HR factors that contribute towards expatriate ROI emerges as important.

Furthermore, the system of HR and non-HR factors may consist of inter-relationships which are so mutually intertwined that it may not be possible to determine which specific configuration of factors, individual factors, or moderating factors may actually cause performance outcomes. The conceptual framework may therefore oversimplify the reality of managing expatriate ROI in practice, and in particular, the factors that are predicted to influence assessments of expatriate ROI. Nonetheless, as noted by Fleetwood and Hesketh (2006), the notion that non-linear and causally ambiguous relationships may exist between strategy, HRM, and firm performance remains valid, which may help to overcome the limitations of explaining expatriate ROI outcomes in global firms.

## **Costs and Benefits**

Referring again to Figure 1, the costs and benefits of long-term international assignments which arise from the system of HR and non-HR factors are proposed to emerge at both the organisational and individual level to influence expatriate ROI outcomes. The cost-benefit approach adopted for the conceptual framework is adapted from the literature on cost-benefit analysis (Sassone & Schaffer, 1978), where ROI as a simple definition is essentially a cost-benefit analysis in terms of a comparison of costs and benefits to the firm and/or individual and the competitive advantage each party subsequently gains. Dhal (1988) suggests that the goal of cost-benefit analyses in HRM is to justify the existence of staffing policies by: (1) minimizing the cost of HR activities; and (2) maximizing the expected results or outputs from HR activities. On this basis, a cost-benefit analysis approach to the study of expatriate ROI is appropriate, given Collings et al. (2009) assertion that a key goal for many global firms is to minimise the costs of using expatriates whilst maximizing the intended outcomes of international assignments. Yet, no studies have taken a cost-benefit approach to the study of overall international assignment management or expatriate ROI.

At the organisational level, the financial costs associated with long-term assignments have been shown to be high (Briscoe & Schuler, 2004), however, accurate estimates of the costs remain inconclusive. When assignments fail, the non-financial costs to organisations can also be significant and can include 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 reputation and brand (Borstorff, Harris, Feild, & Giles, 1997), reducing the willingness-to-go factor (e.g. increasing the refusal rate, increasing barriers to mobility) amongst potential

candidates (Harvey & Wiese, 1998), and disrupted relationships with host country nationals (Bennett et al., 2000). In terms of costs at the individual level, scholars (e.g. Guzzo et al., 1994; Shaffer & Harrison, 1998) suggest that failed assignments can affect expatriate's physical and mental well-being in terms of low self-esteem, loss of prestige amongst colleagues, weakening of the psychological contract, family problems, career path damage, and loss of promotion prospects.

In terms of benefits, Boyacigiller (2000) concluded that the major benefits of long-term international assignments at the organisational level are an increase in organisational knowledge resulting from a greater knowledge of foreign markets, transfer of a firm's culture and capability, and the development of global managers. Downes and Thomas (1999) argue that the benefits of international assignments can often be linked to a longer-term competitive advantage for firms, for example, by developing unique rare capacities through the international competencies of the top management team. Their view is consistent with the resource-based view (RBV) of the firm, which emphasizes the importance of viewing employees as a source of competitive advantage to increase a firm's success (Morris, Snell, & Wright, 2006). The assumption is that internal firm resources (e.g. human capital investments in expatriates) can generate significant non-financial and indirect benefits for the firm (in addition to financial payoffs), including increasing firm knowledge and dynamic capabilities, and using expatriates to support the activities of a global strategy. On this basis, and notwithstanding the benefits of using HCNs (which affords access to important networks and familiarisation with local customs), expatriates can often add substantial economic value (i.e., non-financial benefits) to the global firm in the long-term.

It is not to suggest, however, that financial benefits do not also accrue from the use of long-term assignments. For example, Dowling, Festing, and Engle (2008) suggest that, even when

“increasing revenues” is not a primary purpose of an international assignment, the combination of the ability to develop and execute a strategy, mobilise talent, generate revenues, and manage costs are some of the reasons why firms consider using international assignments. As an indirect source of revenue, financial benefits could also be seen in cost savings resulting from increased productivity or reduced turnover.

At the individual level, Kobrin (1988) proposes a number of benefits from international assignments which accrue to expatriates. Benefits include on-the-job internationalisation of management experience, acquiring cross-cultural expertise, language skills, and local knowledge of the host-country. Stahl et al. (2009) found that assignees perceived a key benefit to include better future career advancement opportunities with their existing employer as well as improved career prospects with future employers. Improving the “career capital” of expatriates therefore seems to be a key benefit arising from long-term international assignments (Jokinen et al., 2008, p. 979). In addition, Osland (2000, p. 227) concluded that international assignments are perceived to be “mind-stretching” and “transformational” experiences which can influence one’s identity as well as future career expectations and intentions.

### **Expatriate ROI Outcomes**

The purpose of the system of HR and non-HR factors that are conceptualised to influence the costs and benefits arising from international assignments is to produce organisationally relevant expatriate ROI outcomes which then feed back into the overall system to influence the IHRM strategy of the firm, thereby improving overall international assignment management. However, to date research is unclear about how expatriate ROI outcomes are perceived, identified, or articulated. Studies of expatriate ROI (e.g. McNulty et al., 2009; Welch et al., 2009) have provided evidence to suggest that expatriate ROI is still not operationalised in global firms in

terms of measuring and identifying specific assignment outcomes. Thus, what constitutes an actual “ROI” a firm may be seeking is open to various interpretations both from HR and non-HR perspectives. For example, in borrowing from Bowen and Ostroff (2004), ROI may be concerned with how global staffing practices contribute to effective productivity, financial performance, and competitive advantage in terms of the achievement of a firm’s strategic goals. Hence, given the continued use of long-term international assignments in global firms, the need to measure and articulate the ROI arising from long-term international assignments remains an important agenda for future research.

### **Future Directions for Expatriate ROI Research**

In terms of theoretical implications, systems theory and psychological contract represent two complementary theoretical perspectives to explain expatriate ROI in global firms, yet there can be others. For example, whilst McNulty et al. (2009) found evidence to suggest that a systems theory approach could be a relevant framework in which to operationalise and manage international assignments, and Welch et al. (2009) found that an intellectual capital approach could more fully explain the value to be expected from international assignments, none of the findings in either study supported these conceptual approaches in practice. Further research could therefore benefit from multiple theoretical perspectives, e.g. a resource-based view (Morris et al., 2006) or a resource-dependency perspective (Taylor et al., 1996). Like McNulty and Tharenou (2004) in the development of their definition of expatriate ROI, a cross-discipline approach might also prove worthwhile to explore other ideas and issues related to expatriate ROI. Future research might therefore adapt and further revise the framework as developments in this field emerge. Furthermore, like McNulty et al. (2009) we contend that it is necessary to



develop a broader theoretical foundation about the value that is gained from international assignments which may extend beyond only a focus on expatriate ROI to also include expatriate careers and how the effective management of international assignments is evaluated.

In terms of research implications, although research on expatriate ROI has been fruitful, the frameworks that have been developed require more testing. The revised framework presented here could be applied to other types of assignments, e.g. short term, commuter, rotational, and frequent business travelers (Meyskens, von Glinow, Werther, & Clarke, 2009), as well as different types of expatriates, e.g. HCNs, TCNs, re-assigned expatriates, self-initiated expatriates, and returnees (Scullion & Collings, 2006). In addition, adaptation of the conceptual framework across a range of diverse organisational forms is also recommended. For example, Brewster and Scullion (1997) contend that although there is a vast amount of research on international assignments that take place amongst large MNCs, research across other types and sizes of organisations remains limited, e.g. smaller and medium sized enterprises (SMEs) as well as military, missions, academia, diplomatic and foreign-service corps, government, and international non-government organisations (INGOs). In addition to the above, it may also be worthwhile to re-examine the factors we have identified in our framework and to further explore the proposed inter-relationships between and amongst the factors. Operationalising specific research foci, as outlined above, may further extend the framework and add to our limited knowledge about expatriate ROI in global firms. Further work may also be required to overcome some of the methodological problems outlined earlier, including more multi-level research, testing of the relationship (and direction of the relationship) between strategy, HRM, and firm performance, and causality amongst the proposed factors.

In terms of managerial implications, from a strategic perspective the adoption of a logical and theoretically sound framework upon which to operationalise and manage expatriate ROI could provide managers in global firms with sufficient hard evidence to support the inference that investments in long-term international assignments lead to broader corporate success. Hence, the revised conceptual framework presented here may reflect a more logical system for how expatriate behaviour translates into strategic outcomes, thereby improving decision making.

### **Conclusion**

This paper adds to the limited empirical literature on expatriate ROI, of which few empirical studies, reports, or surveys currently exist. On this basis, the paper contributes to the literature by demonstrating how performance outcomes are suggested to vary under different levels of contextual, strategic, and operational factors, and how a combination of these factors converges to influence expatriate ROI outcomes. The paper therefore extends previous expatriate ROI research to specifically incorporate strategic, contextual, and operational factors at the individual level which have not been previously examined from a systems perspective. On this basis, expatriate ROI can be viewed as a multidimensional construct, in which the revised conceptual framework presented here has gone some way towards developing an integrative perspective of the IHRM process, where IHRM as a function has been conceptualised to operate in concert with a complex set of factors.

In line with Becker & Gerhart (1996), this paper has also proposed a range of possible nonlinear interactions that may exist amongst a cohort of factors, which could explain horizontal and vertical fit of a system of HR and non-HR factors within a firm's operating environment. In addition, the focus of the current paper towards understanding the relationships between and

amongst the factors within the conceptual framework provides scope for future research to examine which factors are most important, as well as which configurations of factors might be used to realise different international staffing objectives. A further contribution is that the conceptual framework has the potential to advance our understanding of the employment relationship during expatriation, by identifying new factors and consequences pertaining to fulfillment of the psychological contract. Recent criticism of endeavours to assess expatriate ROI notwithstanding, this paper contributes an important first step towards understanding the value of international assignments and the phenomenon of expatriate ROI, which may be used as a starting point from which other research can be developed and extended.

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