Evaluating Expatriate ROI

The perceived critical role of "metrics" and the heavy focus on finding a measurable "magic bullet" for managing global mobility programmes has preoccupied the relocation industry for a long time. Mobility managers have tended to believe that the right metric would solve all their problems – gauge assignment success, justify their own job of managing the mobility function, secure continued investments in mobility and more internal funding for global staffing, and elevate their status as true deliverers of value based on unquestionable rock-solid metrics much like the accounting department can do. But this search for tools has distracted managers from focusing on what really matters: the approach, the mind-set, the philosophy, and the culture that lives and breathes expatriate ROI (eROI). What do I mean by this?

Metrics are superficial – for a small cost, they can be bought in any number of management books. But what cannot be bought is the more difficult-to-achieve and elusive goal of "lasting organisational change". This may explain why so many instead chase after the metric – it's easier and it says, "I'm doing something", even if that isn't much, and has no real value. It proves mobility managers are active, even if the activity is misplaced.

In this article, rather than develop or promote an extensive list of metrics per se (because there are many that can be used which are easily available elsewhere), the core message instead is that metrics are useless if companies don't get the basics in place first – the 'basics' being an eROI philosophy.

Building an eROI Evaluation Framework

So, how can we evaluate eROI? The core message here is that eROI is not so much a measure as it is a philosophy, one that requires metrics but requires a robust framework even more. In Figure 1 (on next page), I outline two phases with five criteria that can help companies build an evaluation framework. Let me explain in more detail what each critical step in the evaluation framework involves.

PHASE 1: Vertical Fit/ Strategic Alignment

Phase 1 is a necessary part of strategic alignment, and is based on a "systems approach" that is essential to proper eROI management. When a clear reason for calculating eROI is known, mobility managers will be better equipped to determine what needs to be measured, and to manage expatriate activities so that appropriate data are collected and reported to relevant stakeholders.

[1: ASK]. In Phase 1, the concern is with the vertical fit of eROI metrics to a company's broader strategic objectives. Here – before deciding on actual metrics – one must first determine how senior management across all business units (and not just the HR or mobility department) intends to use the information arising from the chosen metrics, and the purpose it will serve in the broader scheme of achieving organisational-wide objectives.

The point of Phase 1 is to ensure that the choice of metrics is linked to an assignment's purpose. Doing so ensures that only relevant data is captured to assess the costs and benefits arising from any particular international assignment. When metrics are linked to assignment purpose, two things happen: (1) the accuracy, and by default the reliability, of the eROI outcome increases because the metric is appropriate to what it is measuring; and, (2) the metrics help to foster greater strategic alignment of global mobility to other areas of the company.

PHASE 2: Horizontal Fit/ Operationalisation

In Phase 2, the concern is with how to choose metrics that can be implemented and used appropriately 'on the ground' (horizontally, across business operations), as well as how to approach the measurement of eROI specifically. Here, there are four additional criteria to assist in choosing the appropriate metrics.

[2: MIX]. I strongly advise using a mix of financial and non-financial metrics, ideally a combination of traditional accounting (e.g. salary expenses) as well as intangibles (e.g. development gains). Example metrics could be adaptations of remuneration/ costs and human capital ROI.

Using a mix of metrics is critical because a company's broader corporate strategy should demand that a range of mobility activities is used to determine value, for example, financial revenues, successful transfer of tacit knowledge into explicit knowledge, reassignment of a successful expatriate to another location for career enhancement purposes, or retention of a key individual for succession planning. Furthermore, in considering that eROI is based on outcomes arising from many mobility activities, then it is logical that a mix of metrics stands a better chance of accounting for outcomes from the total "expatriate management system".

The benefit of using a mix of metrics is that it pushes managers to capture eROI value beyond only the (much easier to measure) financial costs associated with deploying expatriates, thereby allowing criteria to be assessed that might otherwise be overlooked. This is particularly important for assignments where the main purpose is to achieve intangible or 'softer' results, such as acquiring intercultural capabilities or enhancing leadership skills. Because the inclusion of non-financial metrics does not restrict perceived assignment value to only the period in which the corresponding outlay of investment (i.e. expense to fund the assignment) occurs, it also provides greater predictive power in relation to longer-term profitability.

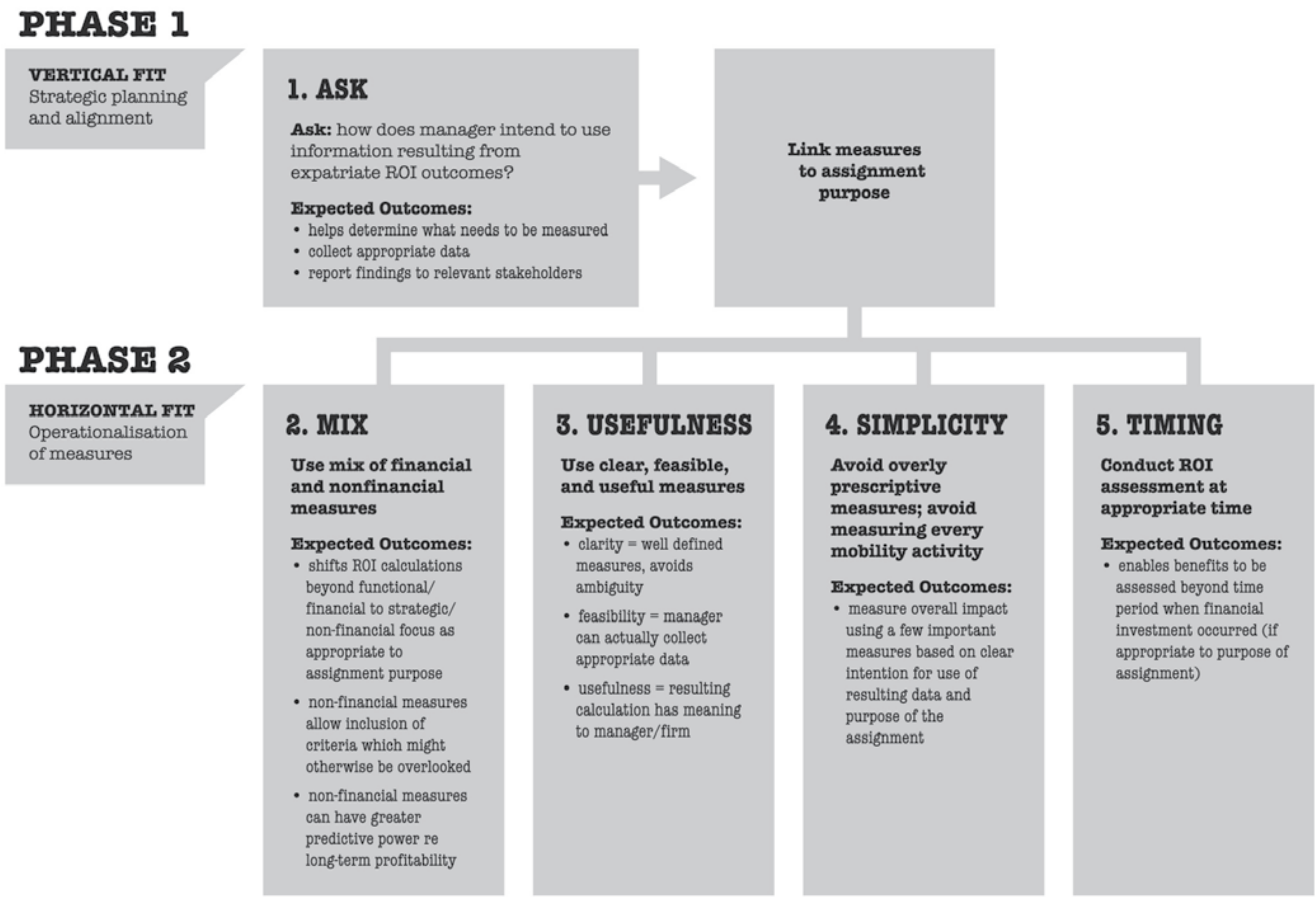
[3: USEFULNESS]. In choosing metrics that can be implemented and used appropriately 'on the ground', a third criterion is to choose metrics that are clear, feasible, and useful.

Clarity requires that any eROI metric is well defined and avoids ambiguity, trivialisation or irrelevance through too few or too many, or the wrong metrics being used.

Feasibility assesses whether a manager can actually collect the required data that a metric demands in a systematic and chronological manner. As many mobility managers know, one of the main barriers they face in making progress on eROI measurement is a lack of available time and resources; when data are too difficult to collect, they are less inclined to bother. Similarly, data collected in an ad hoc manner holds little value for longer-term planning; thus the ability to collect data consistently, over time, in a chronological manner, is critical.

Usefulness implies that outcomes stemming from the eROI metrics can be utilised effectively. Here, the concern again is with strategic fit: if an eROI

Figure 1. Criteria for Building an eROI Evaluation Framework



Source: "Managing Expatriates: A Return on Investment Approach" by McNulty and Inkson (Business Expert Presss, 2013).

metric has clarity and is feasible but the outcome itself will not tell a company what it needs to know about the value gained from international assignments, then the metric itself has little meaning. For example, if revenue per full time employee (FTE) or profit per FTE is used to assess financial gains, but the global staffing strategy is tied up in expatriates' developmental gains, then the usefulness of such metrics is questionable.

[4: SIMPLICITY]. The next criterion is to avoid being overly prescriptive by attempting to measure the impact of every global mobility activity or every outcome expected from international assignments. This is important because mobility managers are busy people who are frequently overworked and understaffed, leaving them with fewer resources and more time constraints. It therefore makes more sense to measure carefully selected mobility activities using just a few key metrics, ensuring a greater likelihood that there is a clear intention for the use of the resulting data, given that less – but the most important - data will be collected.

[5: TIMING]. The final criterion is to measure eROI at the appropriate time, recognising that the outcomes to be expected from expatriates may not be fully realised for several years. This is particularly true for assignments where predominantly non-financial benefits are expected, in areas such as building leadership and succession pipelines, and talent management programmes. Assessments of eROI can also be made at more than one point in time: for example, during the assignment (via performance reviews); at the immediate conclusion of the assignment; during and/or after the point of repatriation (if appropriate); and in subsequent years as the benefits accrue. The timing of the eROI assessment is critical because it shifts the measurement of eROI beyond the traditional accounting approach that expects assessments of value to be conducted in the same time period in which the initial financial investment occurs. Instead, eROI can, and should, be assessed when the value that is gained is expected to be most apparent.

Why use an evaluation framework?

A key benefit of the evaluation framework outlined here is that it elevates the mobility manager from an internally focused and programme-based "advisory" role, and makes him or her accountable for business results. By capturing and combining hard outcomes such as sales and profits, and soft outcomes such as developing expertise and building leadership, the accuracy of eROI assessments improves, thereby improving global staffing decisions.

It also proposes a 'paradigm shift' from using only one 'best' measure to assess outcomes from every type of assignment, to instead using a mix of metrics that better suit the purposes and expected outcomes of each type of assignment. By accounting for differences in assignment purposes, including different assignment types (short-term, long-term, commuter and so on), the resulting eROI outcome is far more accurate.

Furthermore, the framework is sufficiently flexible to be adapted when new trends and learning needs emerge, and therefore to account for changes in organisational priorities over time, particularly in relation to changes in a broader corporate strategy.

Additionally, the focus on evaluating, rather than "measuring", is likely to avoid metrics that are not relevant, timely, or useful. After all, it is not the measurement of eROI itself but what mobility managers do with the insights gained from the measures that matters and drives business performance.

Of course, I don't mean to suggest that developing metrics is unimportant – it is a very critical step in implementing eROI when the right metrics are used, though here I will go so far as to suggest that some companies will not even require additional metrics to achieve a satisfactory eROI, provided they have the right philosophy and framework in place. Doing this may be enough if senior management is realistic that lasting change is more than just the metric, and has invested sufficient time, money, and thought in implementing a proper eROI philosophy. As many mobility managers know, metrics are not likely to deliver the change that is needed to improve their international assignee programme.

My goal in this article has been to advocate how eROI measurement might best be achieved, but the core message remains quite simple: while it can be important for some companies to use metrics, for others it may not, where the metric matters less than the philosophy that drives satisfactory eROI outcomes. For these companies, we must now ask: How do we get the expatriate ROI we are seeking? A recently published book provides some direction. With a focus on strategically-based practices for the management of expatriates applicable in international organisations worldwide, and an in-depth understanding of today's corporate expatriates, the lives they lead and the issues they face, Managing Expatriates: A Return on Investment Approach (Business Expert Press, 2013) draws on the latest research to address the critical challenge of expatriate ROI.

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

These and other key concepts are explained in more detail in "Managing Expatriates: A Return on Investment Approach" by McNulty and Inkson (Business Expert Press, 2013).

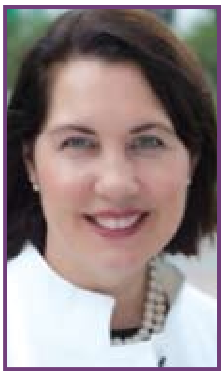
Metrics Resources

Although I do not endorse any specific metric for measuring eROI, readers may find some of the following sources useful:

- PricewaterhouseCoopers. 2010. Key trends in human capital: A global perspective - 2010. UK: PricewaterhouseCoopers.
- Fitz-enz, J. 2002. The ROI of human capital. New York, NY: MacMillan.
- Becker, B., Huselid, M., & Ulrich, D. 2001. The HR scorecard: Linking people, strategy, and performance. Boston: Harvard Business School Press.
- Fitz-enz, J., & Davison, B. 2002. How to measure human resources management (Third ed.). New York: MacGraw-Hill.

For an excellent summary of the business case for human capital metrics including traditional approaches to its measurement, see:

- O'Donnell, L., & Royal, C. 2010. The business case for human capital metrics. In J. Connell, & S. Teo (Eds.), Strategic HRM: Contemporary issues in the Asia Pacific region: 110-138. Prahran, Australia: Tilde University Press.



Dr. Yvonne McNulty is a leading authority on expatriate return on investment and an academic expert in the field of expatriation. Currently on the faculty at Singapore Institute of Management University, her research has been featured in The New York Times, Economist Intelligence Unit, International Herald Tribune, BBC Radio, China Daily, and The Financial Times, among others. An Associate Editor for the Journal of Global Mobility, she can be contacted at ymcnulty@expatresearch.com, www.expatresearch.com, or hp +65 9107 6645.