

V CONTENTS V
EVENTS NEWS REVIEWS
TAX FINANCE PENSIONS
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JOB MARKET PLACE
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Expatriate ROI: models to consider

Since no model specific to expatriate ROI exists, Yvonne McNulty evaluates two approaches that take into account softer issues and intangible assets.

See part 1: [International mobility and the bottom line](#)



To date there are no solid data or research indicating that an ROI model in global mobility currently exists or is being used by multinationals. Whilst there is a growing body of literature alluding to the importance of ROI, there are only two general HRM return-on-investment models currently in circulation.

The first is the *balanced scorecard* developed by Kaplan and Norton (1992), which espouses a performance measurement system linked to organisational strategy, and which some years later was further developed into the "HR Scorecard" by Becker, Huselid and Ulrich (2001).

The second model is *human performance benchmarking* developed by Jac Fitz-enz, which in later years has been developed into strategies for measuring ROI of human capital (Fitz-enz 2000, 2002).

Neither of these models specifically relate to the measurement of ROI in expatriate management although both clearly illustrate that ROI in international HR management is not simply a financial transaction.

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Both models clearly illustrate that the measurement of human performance and the value-creation of human capital should be key components of any ROI model in HRM.

Model one: the HR balanced scorecard

The central concept behind the HR balanced scorecard is the realisation that HR's strategic potential lies within both tangible and intangible assets.

In other words, the measurement of ROI should include not only the financial transactions that are readily available from the annual report (such as areas of profit and loss, PE ratios and shareholder returns) but should also include the organisation's ability to retain a committed and capable workforce who can sustain competitive advantage through

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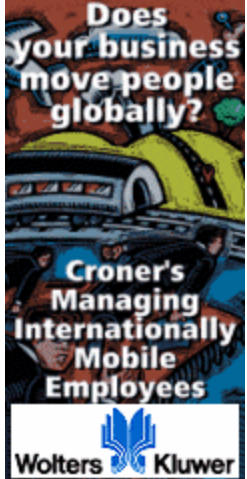
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innovation and flexibility (Becker, Huselid and Ulrich 2001, p7).

One of the key components of this model is HR's ability to apply different skills in the measurement of intangible assets to those that would be used to measure tangible assets, coupled with an acceptance that intangible assets can, and do, generate tangible (and financially measurable) benefits (p8).



According to Becker et al, in general 35 percent of an investment analyst's valuation model is today made up of non-financial information, including variables such as "execution of corporate strategy", "management credibility", "innovation", and "research leadership".

Whilst the concept of intangible assets does not originate from the Harvard Business School (for example, see other research by Baruch Lev of the NYU/Stern Business School investigating "Intangible Performance"), it is to date the most widely recognized and easily applied model of its kind within the HRM field.

The measurement challenge faced with intangible assets is that traditional accounting practices were not developed to capture and evaluate their value within the organisation.

Intangible assets are not conventional assets; therefore, leveraging knowledge and investing in human capital are not treated in the same way as money and equipment.

According to Becker et al, expenditure in the management of intangible assets is usually seen as an expense rather than an investment, unlike buildings and machinery, which are capitalised and depreciated.

The result is that organisations can, and often do, invest in physical assets rather than human capital, in spite of the latter having the potential to generate more value, both financially and strategically (p11). Thus the HR scorecard attempts to flip this strategy and instead focuses on causation, links, competencies, matrices, metrics, and detailed cost-benefit analyses.

Model two: human performance benchmarking

The central concept behind human performance benchmarking is similar to the balanced scorecard in that it recognises that organisational wealth is leveraged from both tangible and intangible assets.

The model differs in that it clearly defines the importance of both quantitative and qualitative economics in ROI, but also develops clear and concise measurement ratios that can be readily applied to the expatriate management scenario.

By comparison, the balanced

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scorecard tends to focus exclusively on a cost-benefit ratio. Components of human performance benchmarking includes metrics such as Human Capital Revenue Factor (HCRV), Human Economic Value Added (HEVA), Human Capital Cost Factor (HCCF), Human Capital Value Added (HCVA), and Human Capital Return on Investment (HCROI), to name a few.

Recent books on ROI

Ulrich D, and Smallwood N (2003). [Why The Bottom Line Isn't](#). Hoboken, New Jersey. Wiley.

Phillips J, Stone R, and Phillips P (2002). [The Human Resources Scorecard](#). Burlington, Massachusetts. Butterworth-Heinemann.

The workability of this model lies in the ease with which non-financial components can be integrated within traditional and conventional accounting practices.

For example, human capital expenses are comparable to revenue and expenses found on the income statement, with the principal costs of human capital being

1. pay and benefits for employees
2. pay costs for contingents (non-employees, eg. temporary and contract staff),
3. the cost of absenteeism, and
4. the cost of turnover.

The equations referred to earlier use one or more of these cost components to produce a ratio indicating true returns on direct and indirect human capital expenditures (p37). The result is workable ratios that add value within the financial statements because definite relationships can be seen between human capital and productivity and profitability. In a nutshell, the bottom line is affected.

So what should we measure?

As an ROI model in expatriate management does not currently exist, it is difficult to ascertain what hard and soft issues are currently being measured and what should be measured.

The hard issues in terms of "quantitative economics" such as labour and relocation costs should be measured and are easily obtained from financial statements and annual reporting procedures. According to Fitz-enz (2000) expatriate performance measures related to increases in growth, profitability and market share should also be measured and can be ascertained from performance reviews and income statements.

In terms of soft issues, the challenge is far greater in terms of justification for their inclusion in an ROI model and how best to measure their benefit to the bottom line; this is largely due to their intangible nature.

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The case for the inclusion of repatriation and retention measures is supported by the balanced scorecard model, which clearly illustrates that knowledge retention is a key factor in continued organisational success. Similar acceptance is given to value-creation and brand reputation, both of which can be strategically linked to financial performance measures within traditional HRM functions.

The most unlikely measure is, however, spousal and family adjustment in relation to their impact on achieving the strategic objectives of the assignment, given that this issue is largely a non-employee aspect of international mobility.

Yet a review of the expatriate literature quickly reveals that the role of the spouse and family is considered one of the most critical and important factors influencing international assignment success, according to Punnett (1997) and Sanchez, Spector et al (2000).

The importance of this factor is further supported by a PricewaterhouseCooper's Year 2000 Survey of Key Trends in European Expatriate Management which investigated, among other factors, why the five least important criteria for selection of expatriate candidates were also found to be the most common reasons given for assignment failure – namely, intercultural adaptability of the spouse, children's educational needs, and spouse's career.

Indeed, it has been demonstrated by researchers and suggested by the experts that whilst spousal (and familial) influences on an employee's performance are not unique to expatriate management and international relocations alone, they are more critical in these contexts than in domestic HRM settings (see Zeira and Banai (1984), Frazee (1996), Shaffer and Harrison (1998) and Harvey, Buckley et al. (1999)).

Thus, what should be measured in expatriate ROI is a combination of the hard and soft issues, both financial and strategic in nature. Why? Because three questions usually top the list of what CEO's want to know about their organisation:

- (1) How are we doing?
- (2) How does this compare with our competitors or with a previous period?
- (3) What can we do to get better?

Now more than ever, multinationals are asking these questions of international mobility programmes. Therefore, effective fiscal measures within the IHRM function that specifically influence the bottom line have become a critical need.

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The research quoted in this article is based on Yvonne McNulty's doctoral research into leveraging return on investment in repatriation. Ms McNulty is a doctoral candidate at Monash University (Australia) and can be contacted for further information at ymcnulty@thetrailingspouse.com or visit www.thetrailingspouse.com.



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