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International mobility and the bottom line



Expatriate assignments are still a vital part of global business, but questions about cost can only increase. The first questions to answer: how to define failure and all of its costs. Yvonne McNulty explains.



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Editor's note: This is the first in a series of articles by Yvonne McNulty, a doctoral student at Monash University, on the topic of expatriate return on investment (ROI). She will also speak on expatriate ROI at Expatica HR's 12 June event in Brussels (click [here](#) for more information).

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If anyone were to state that the practice of expatriation is on a downward trend, they would be ignoring the significant statistics reminding us that international mobility is anything but an outdated programme. One could even speculate that transferring employees globally for career development is surely the norm for future employment.

Undoubtedly the value of expatriate management is not lost on organisations that sink considerable funds into their global employee transfer programmes. Indeed, the practice of expatriation is growing in popularity if for no other reason than to expedite the transfer of knowledge between units of a global organisation in the most effective way – through human contact.

As prevalent and revolutionary as email and web- and teleconferencing have been in the 21st century workplace, face-to-face human contact remains one of the most effective and efficient means of communication for the transfer of "tacit" knowledge — knowledge that cannot be formalised in manuals or written guidelines.

If we assume that global career mobility is a sure thing, then we can also assume the financial costs associated with such programmes will come under intense scrutiny to justify the existence of such programmes.

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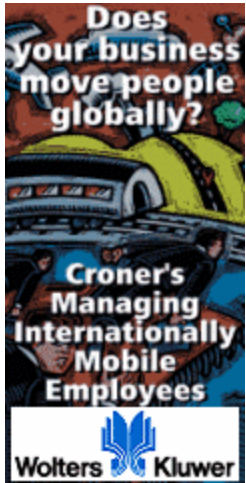
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If we take this scrutiny one step further, it becomes apparent that measuring a financial return *during* expatriation is only half the picture; the other is the return on total investment during repatriation and how this return on investment is leveraged throughout the entire expatriate cycle.

Assignment success and failure rates



The most obvious current measure of expat ROI still remains the assessment of whether an international assignment has failed or succeeded. It comes as no surprise to those in international HR that the costs associated with assignment failure are typically three to four times that of the expatriate employee's salary according to decades of research conducted by Harvey (1983), Zeira and Banai (1984), Mendenhall and Oddou (1985), Wederspahn (1992), Torrington (1994) and Birdseye and Hill (1995).

More recently the US-based NFTC estimates that the cost of sending an expatriate on a three-year assignment can easily total USD 1 million (with a base salary of USD 75,000-100,000).

Assignment failure rates range from 7 to 20 percent depending upon the source and home-country. It is difficult to obtain exact failure rate statistics given there is very limited research on the subject since Professor Rosalie Tung's (1981) study.

Given that Tung's research is the most statistically reliable to date according to Harzing (1995), a 10 to 20 percent failure rate was expected 20 years ago for the majority of US multinationals (69 percent), with a less than 5 percent failure rate for the majority of European (59 percent) and Japanese (76 percent) multinationals.

The effects of negative ROI

The possible outcomes of assignment failure can be equated to similar outcomes experienced from a negative ROI, namely:

1. *Financial cost of failure:*

For more information, check out these websites:

Saratoga Institute, Inc. - global leader in human capital management www.saratoga-institute.com

International Quality and Productivity Centre www.iqpc.com.au

Cranfield Centre for Research into the Management of Expatriation www.cranfield.ac.uk/som/creme

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Wederspahn (1992) estimates the cost of one assignment failure to be between USD 100,000-300,000 per employee, with a total cost per year for US-based companies as high as USD 2 billion according to Copeland and Griggs (1985)

2. *Failure of business/strategic objectives:*

is costly in terms of investment dollars, ineffectual business relationships and damage to a company's reputation and/or brand image which, according to Zeira and Banai (1984) and Borstorff, Harris et al. (1997), is often irreparable.

3. *Physical and mental well-being of the expatriate employee:*

the "invisible" costs of failure for the employee can include low self-esteem, loss of prestige amongst colleagues, family problems, depression, embarrassment, career-path damage and loss of promotion prospects

4. *Sunk/hidden costs to sponsoring organisations:*

these are non-refundable and a waste of investment dollars, and include the costs associated with recruitment, assessment, training and development, compensation and benefits, premature repatriation, and subsequent replacement of the expatriate employee

5. *Reducing the refusal rate:*

to increase the number of employees willing to relocate and reducing what PricewaterhouseCoopers (2000) refers to as the "barriers to mobility", the goal is to attract employees to accept international assignments as beneficial, rather than detrimental, to their careers; this includes addressing the dual-career issue.

In terms of assignment failure, we can classify it as the inability to achieve the organisational objectives of the assignment which can lead to increased costs associated with extending an assignment or replacing an expatriate who is not performing; another is whether the expatriate has returned prematurely to the home country.

Success has therefore largely been measured in terms of intent-to-leave, degree of cultural adaptability, and job performance, according to Caligiuri, Hyland et al (1998). The reality is that there are many ways to define international assignment success and failure, and a single definition is not easily obtained.

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More to the point is that assignment success and failure is a very simplistic measure of ROI and one that often fails to measure correctly the contributing factors for both scenarios. Likewise, whether success and/or failure have a role in ROI is also questionable, as many expatriates who do return prematurely to the home country may indeed still return a positive ROI.

Next month: *An overview of human capital ROI models and how they could be applied to expatriation.*

April 2003

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.

Recommended literature

Interested in the academic research on ROI topics? Here is a reading list compiled by Yvonne McNulty. *Books:*

Kaplan, R. S. and D. P. Norton (1992). "The Balanced Scorecard – Measures That Drive Performance." Harvard Business Review 70(1): 71-79

Fitz-enz, J. (2000). The ROI of Human Capital: Measuring the Economic Value of Employee Performance. New York, AMACOM.

Fitz-enz, J. (2002). How to Measure Human Resources Management. (3rd ed). New York, McGraw-Hill.

Becker, B. E., M. A. Huselid and D. Ulrich (2001). The HR Scorecard: Linking people, strategy and performance. Boston, Harvard Business School Press.

Journal & Book Articles:

Birdseye, M. G. and J. S. Hill (1995). "Individual, Organisational/Work, and Environmental Influences on Expatriate Turnover Tendencies: An Empirical Study." Journal of International Business Studies 26(4): 787-813.

Borstorff, P., S. G. Harris, et al. (1997). "Who'll go? A review of factors associated with employee willingness to work overseas." Human Resource Planning 20(3): 29-40.

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Caligiuri, P. M., M. M. Hyland, et al. (1998). "Families on Global Assignments: Applying Work/Family Theories Abroad." *Current Topics in Management* 3: 313-328.

Copeland, L. and L. Griggs (1985). Going International: How to make friends and deal effectively in the global marketplace. New York, Random House.

Frazer, V. (1996). "Expert Help for Dual-Career Spouses." *Global Workforce*. 1: 25-28.

Harvey, M. G. (1983). "The multinational corporation's expatriate problem: An application of Murphy's Law." *Business Horizons*: (October): 71-78.

Harvey, M., M. R. Buckley, et al. (1999). "Mentoring dual-career expatriates: A sense-making and sense-giving social support process." *The International Journal of Human Resource Management* 10(5): 808-827.

Harzing, A.-W. K. (1995). "The persistent myth of high expatriate failure rates." *The International Journal of Human Resource Management* 6(2): 457-474.

Mendenhall, M. E. and G. Oddou (1985). "The dimensions of expatriate acculturation: A review." *Academy of Management Review* 10(1): 39-47.

PricewaterhouseCoopers (2000). "International Assignments: European Policy & Practice - Key Trends 1999/2000." p1-19.

Punnett, B. J. (1997). "Towards the effective management of expatriate spouses." *Journal of World Business* 32(3): 243-257.

Sanchez, J. I., P. E. Spector, et al. (2000). "Adapting to a boundary-less world: A developmental expatriate model." *The Academy of Management EXECUTIVE* 14(2): 96-106.

Shaffer, M. A. and D. A. Harrison (1998). "Expatriates' psychological withdrawal from international assignments: Work, non-work, and family influences." *Personnel Psychology* 51: 87-118.

Torrington, D. (1994). International Human Resource Management: Think Globally, Act Locally. Hertfordshire, Prentice Hall International (UK).

Tung, R. L. (1981). "Selection and training of personnel for overseas assignments." *Columbia Journal of World Business* 16(2): 68-78.

Wederspahn, G. M. (1992). "Costing failures in expatriate

Human Resources Management." Human Resource Planning 15(3): 27-35.

Zeira, Y. and M. Banai (1984). "Present and desired methods of selecting expatriate managers for international assignments." Personnel Review 13(3): 29-35.



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