

Measuring the value of international assignments



Acknowledgements

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Introduction

Measuring the value of international assignments

The investment required to send employees on international assignment can be substantial; however, many organisations remain unclear about the benefits. Existing research indicates that there is limited measurement to determine how the benefits and costs compare, and to therefore establish what the return on investment is for organisations. Without a clear understanding of the return, it is difficult for an organisation to determine how effective its expatriate programme is as part of its overall talent management strategy.

This research seeks to develop an understanding of expatriate return on investment in greater detail than has previously been attempted. To achieve this, we have compiled a metric-based framework upon which the study is based. These metrics, used within the context of an organisation's expatriate policy and objectives for international assignees, will provide a powerful tool both for internal strategic management and external benchmarking.

The current mantra seems to be that international assignments are expensive but worth it.



An 'expatriate' as defined in this exercise is an employee who is 'not locally employed by the host location, but who is transferred by the organisation and covered by a company relocation policy i.e. is sent out from a home to a host country.'

We measured the benefits and costs for various types of international assignments, whether it involves short term assignments to cover skills gaps, or extended periods in overseas operations to develop the future leaders of the organisation. We also analysed differences between developmental and business-driven assignments. The research goes beyond the traditional boundaries of focusing simply upon current expatriates, by assessing what has happened to the careers of individuals whose assignments ended up to three years previously. This builds a cumulative picture of an organisation's success at retaining and developing those individuals with international experience.

PwC Saratoga¹ developed the metrics used in this research in co-operation with our research partners at Cranfield School of Management and our steering committee, made up of representatives of multinational organisations.

We begin by explaining how and why we used metrics to support this research and the research methodology. We then present the key research findings, which are followed by in-depth analysis in four key areas

- Assignee selection and purpose of assignments
- Performance during the assignment
- Investment
- Repatriation, retention and career development

To provide greater insight, Cranfield has incorporated a number of mini case studies into this report, based upon the experience of the participant organisations. These help to position the context of the metrics using real-life examples.

¹Specialist Human capital Measurement and Benchmarking area of PwC Human resource Services

The case for metrics supporting this research

Many of the important decisions we make can be made with data.

Measuring the value of international assignments participant

When discussing how we would approach this research, there was a range of choices. For example, we could either have completed surveys with international assignments managers or carried out a detailed case-study with a particular organisation or range of organisations. These methods have been carried out before and, in discussions with Cranfield and members of the steering committee, we found a strong desire to have an approach that combined metrics and organisation-specific situations and analysis. This allows us to provide participants with specific insights into the success of their mobility policies, permits them to benchmark their positions relative to other organisations, and enables them to re-test results based upon the effect of interventions made to either policy or processes.

Many organisations already participate in exercises to benchmark their human capital. These exercises may involve either the measurement of executive compensation levels, or the engagement and productivity of employees, or the investment in the recruitment and retention of key talent. PwC is experienced in the methodology of benchmarking and, through PwC Saratoga, has the world's largest, most robust database of people performance metrics from over 10,500 organisations.

Developing the discipline and competence to use metrics for evaluating people performance launches human capital issues, such as expatriate policy, into the mainstream of business debate. This is a debate which continuously assesses the comparative value of an organisation's assets, each often contending for a share of finite resources. Without measurement, people become an easy target at the first sign of activity downturn or recession: no measurement, no value, no loss.



What are metrics?

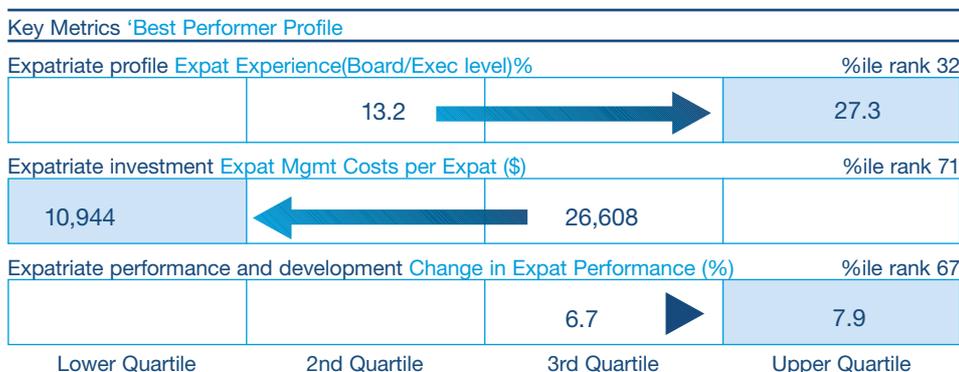
We use the term metric to denote the use of at least two numbers which, when combined in a formula, produce a numerical measure. For benchmarking purposes, this measure is compared with the same measure in other business units or organisations, to establish a comparative positioning. We have developed precise definitions to support each metric. Participants are required to apply these definitions rigorously in order to ensure an ‘apples-with-apples’ comparison with other organisations.

An example of the benchmarking analysis carried out as a result of this research is shown in figure one. For the four selected metrics, an organisation’s results are compared with those of the other research participants. For example, under expatriate investment, the participant shows a result for average expatriate management costs per current expatriate of US\$26,608 per annum. This cost places it in the third quartile, indicating that the result for this company is significantly higher than figures reported by the organisations in the lowest quartile of the sample.

Increasingly, HR professionals are being required to justify their strategic decisions about expatriate policy and people management through the use of metric-based assessment. There are a number of key areas that are potentially of importance to multinational corporations, such as:

- retention – turnover rates of repatriated assignees can be compared with retention/turnover rates generally.
- performance management – the appraisal data of expatriated assignees in comparison with non-expatriated peers will hold information relating to the effectiveness of working in an international environment, and may be especially useful in situations where international assignees have local objectives.
- cost – although many organisations have a perception that expatriates are more expensive than locally employed individuals, they only had anecdotal data to support this. By defining metrics relating to an organisation’s investment in its expatriate population, we were able to identify specific costs. Linking this to how expatriates are managed and developed, and an organisation’s ability to retain and reintegrate them, goes beyond a cost focus to tentatively assess value.

Figure one
Expatriate stretch profile of metrics positioned against other participants



Key to Interpretation

The Best Performer Profile shows the organisation’s results versus the target quartiles suggested by the sample.

2.4			Saratoga’s suggested target quartile showing threshold ‘Best’ quartile result
2.4		4.7	Organisation’s Result showing the gap versus ‘Best Performer’ quartile.
1.9			Organisation achieves the target quartile versus the sample.

By using metrics, we are able to analyse and compare data across organisations. Linking metrics together and using the contextual analysis devised by Cranfield helps to develop an explanation of why an organisation may be ranked where it is. It also enables a discussion of the reasons either for the success of an organisation’s policy and processes, or the need for a potential change.

Research methodology

We sought participation from a wide range of organisations in different industry sectors, including fast moving consumer goods (FMCG), engineering, IT, and other professional services industries. These organisations have varying degrees of international assignment management experience. This varies from organisations with long established global assignment policies and practices, to recently established organisations just commencing a programme of international moves. The participants were headquartered in the United States, the UK and continental Europe.

Nine organisations with a total headcount exceeding 500,000 participated in the research. The expatriate population typically formed between 0.3%-2.5% of total headcount. In absolute terms, the number of expatriates was 3,450, and we established that many of the expatriates performing key roles were either at a senior level, or were high potential candidates for future development. Sixteen per cent (559) of the total number of expatriates were female.



In discussing participation with these organisations, we set the following criteria:

- A high degree of co-operation with the research team. This involved a range of calls and interviews to explore data requirements (most important were international investment data, career development, performance and employee retention data over time, and in comparison with non-expatriated peers), and details of the international mobility strategy, assignment purpose, and wider organisational context driving the desire for international mobility.
- The organisation would commit to providing the data required to test metrics within a specified timeframe (approximately two months) to enable us to complete the research.
- The organisation could identify a 12 month base 'reporting period'.

We asked organisations to identify the reporting period so that we could use this to provide added context and dimension. For example, by identifying the base reporting period, we were able to ask the organisations to review measures for returned assignees in the two years prior to the reporting period. This will also, in future, enable us to re-test the results for the same organisation over later periods using a consistent reporting period to establish whether interventions to the organisation's assignment policy or practices produce changes to their results and ranking.

In selecting the reporting period, we did not impose a specific 12 month period upon all of the participants; instead, we asked organisations to select a recent period over which they could easily extract data. Some organisations used the calendar year 2005 as being their operating year end or the most common tax year end (and hence standard compensation reporting period). Others, however, adopted a 12 month period which fitted in with either their financial or their performance management cycle period, or both.

How easy was it to get the data?

When we met with participants for the first time to discuss the research and the details required, many were concerned that the information would not be easily available to them, or would need to be sifted from several different systems and sources. However, we found that, over the course of the research phase, the data extracted was of very high quality, both in terms of completeness and accuracy. We are therefore confident that the findings presented in this report have empirical value to all readers and users of this material.

Research findings – the insights

The table below presents some of the key data extracted from the research. These provide some overall trends and average statistics to illustrate key aspects of the assignment life cycle. Using this data and the metrics combined with the contextual analysis, we found a number of areas where organisations could make improvements either to their processes, or the levels of support for their (international assignment) programmes, or both.

Figure two
Some of the key research findings

Profile

- 18% of all expats are assigned for developmental purposes
- 32% of all expats are 'top performers'
- International assignment length is 29 months
- Continued increase in the level of international assignments

Investment

- International assignment cost is US\$311,000pa
- Large variation in the amount paid in assignment allowances
- Only 4% of assignments are terminated early
- There is a 13% net performance improvement of expats on assignment

Career development

- 24% of all Board/Exec level employees have international expertise
 - Organisations lose up to 40% of returned assignees within 12 months
 - 23.7% of returned expats promoted in first year of repatriation
 - Turnover in 2nd and 3rd year after repatriation is below domestic levels of turnover
-

note: figures and % values shown above are average results for all participants



Data from the research has provided key insights that will shape future strategic decisions, for example:

Organisations that do not specify a projected assignment duration tend to pay the highest in assignment allowances and had longer than average assignment durations.

It is questionable over a longer period whether the organisation continues to benefit from the individual's skills in the assignment location. In addition, where no duration is specified, there is a risk that assignments are extended, enriching the individual assignee, but without clear benefits to the organisation in terms of performance.

Paying more in assignment-related allowances does not result in better than average performance.

We found no correlation that showed organisations that paid comparatively more in allowances or base compensation to their assignees were rewarded with top performance.

Organisations that use a destination pay methodology tend to have significantly lower costs of assignment, but no visible difference in performance to those using a balance sheet method.

Although demographic factors may account for an organisation's decision to use destination pay rather than the traditional balance sheet method, we did not find that employees' performance was dependent upon the assignment package.

Although the overall net performance rating increases by 13% on assignment, the net performance increase is only 6% in the year of repatriation, with several organisations showing negative net performance.

There was some clear evidence to illustrate that performance does improve while on assignment. However, performance variances are much more pronounced on repatriation, evidencing that many internationally experienced individuals experience a 'career wobble' on return and have difficulty in adjusting to the home country environment. This evidence is consistent with the results of our first research topic 'understanding and avoiding the barriers to mobility.'²

Organisations are much more focused on the selection of assignees than on repatriation. The average time to accept assignments is 65 days; however, most participants have no real repatriation structure.

There is some evidence to show that organisations that have focused plans and that seek to place employees using their acquired skills have higher degrees of retention and post-assignment promotions.

International assignments are good for the careers of individuals in the medium-term.

After the assignment, promotion rates were higher than for non-expatriated peers in the next job, either in their home location or on another international assignment.

Turnover of repatriated assignees was higher than peer turnover rates during the first year of return to the home location.

Where turnover was higher, companies identified inadequate career planning, from both organisations and individuals, as primary reasons. However, once former expatriates were beyond the 'career wobble' phase, medium-term repatriate turnover rates are lower than that of non-expatriated peers.

²Copies of the first topic research findings are available from the contacts listed at the end of this report.

Assignee selection and assignment purpose

As a starting point for the research, we sought to establish the level of expatriate experience that existed within the participant organisations. We also reviewed how organisations create opportunities for international experience to be gained and whether they have formal processes to identify the purpose of the assignment, whether there is a candidate selection process that has a focus on pre-assignment performance, and how organisations manage the selection to acceptance process.

Expatriate experience – how significant is it?

In the research we identified that expatriate-experienced employees typically make up between 0.5%-2.5% of the overall headcount within the organisation. For this metric, we asked participants to identify all individuals currently employed in their organisation who had international assignment experience within that organisation (i.e. excluding those who had been on assignment with other companies prior to joining that organisation).

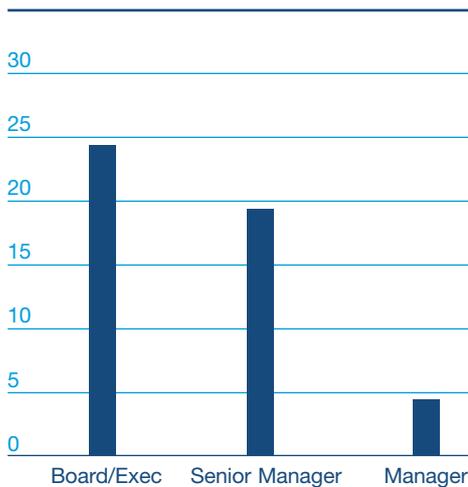
This overall percentage level is quite low, but this includes all employees in the organisation, many of whom would be in domestic roles or at a junior level where international experience would often not be expected or required. We further analysed this metric by both role and level in the organisation and found more pronounced results, emphasising the importance of expatriate experience.

For example, the level of expatriate experience at main board or similar executive level (e.g. country heads, territory leaders, and so on) was found to be on average 24%. In one multinational organisation, this was as high as 64% of the executive level. For senior managers, the average level of expatriate experience was almost as high with nearly one in five individuals having been assigned internationally during their career with the organisation. Figure three displays expatriate experience at different levels of seniority.

Therefore the metrics suggest that, at more senior levels in organisations, international experience is valued. Exploring this further, qualitative research among the participants enabled us to learn that it is becoming a pre-requisite for advancement to senior levels in some organisations.



Figure three
Expatriate experience at different levels of seniority



Are organisations selecting their best performers?

We asked participants to assess how many of their new expatriates were graded in their top performance categories, for the performance appraisal immediately prior to the start of the international assignment (top performance generally constituting the top 15%-25% of all individuals). Most participants use a five point grading system and several had a forced distribution of performance ratings. Generally the top 5%-10% of performance equated to 'exceptional' performance, while the next 10%-15% equated to 'stronger than expected' or a similar definition.

We established an average of 32% of new expatriates being in the top performance category, as assessed by the organisational representatives. Certainly, this would indicate that organisations do place a performance premium on expatriates. However, there were some marked differences within the range, with one organisation identifying 79% of all new expatriates as being top performers while, at the other end of the scale, another organisation found that only 1.5% were in the top performance category.

A mobile workforce is important in helping us meet our business goals, in filling specific needs for skills, in supporting development of local employees through skills and best practice transfer, and in improving diversity.

case study

A focus on selection pay dividends

The participant is a globally operating FMCG organisation employing more than 36,000 employees. One of its corporate objectives is strong international growth. A key goal of international mobility is the development of a broadly experienced group of employees that supports the needs of international expansion and successful operational activities. The purpose of having international mobility is clearly stated in its business plan.

However, the organisation has historically had performance and retention issues within its international assignee workforce. Several individuals identified for an international assignment were regarded as average performers who were often pushed to go on assignment by the home country business. The participating organisation has therefore taken several steps to gain greater value from the international assignment experience through a more focused approach to assignee selection and assignment purpose.

As a starting point, all individuals are now asked as part of their annual appraisal and objective-setting process to indicate their preparedness for international

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mobility, as well as identifying any potential considerations which might inhibit mobility (e.g. dual career issues, school age children). This profiling of candidates enables any potential issues to be raised and discussed with the individual at an early stage in assignment selection.

Prior to any assignment being initiated, a business case rationale form has to be completed that specifies the overall purpose of the assignment, including:

- the business case for the organisation
- a description of the role and position in the host location
- the development plan for the individual
- his or her most recent performance rating
- the intended benefits of the move
- the business objectives to be achieved during the assignment.

Part of the process requires detailed assignment budget calculations to be produced for the expected assignment duration, so that the business is clear on the overall level of investment in filling the position. Verification that the sending and receiving units have been consulted and support the move is required.

As a consequence of these changed processes, this organisation now has 33.4% of all assignments identified as primarily for developmental purposes, against an overall average of 18.2% among our participant organisations. It also identifies 23% of its total current expatriate population as being drawn from specific talent pools.

Its focus on selection, determining purpose and constructing a business case which is signed off by the three stakeholders (home country, host country and the assignee) means that this organisation is selecting high performing candidates. Just over half (51.2%) of new expatriates are being rated in the organisation's top performance category immediately prior to the assignment; this compares with an average across all participants of 32.3%.

This organisation expects that, within five to ten years, all employees at a senior management level should have had international experience; its changed focus on selection and purpose puts it well on track to achieve this goal.

Are organisations clear about assignment purpose?

We categorise assignments into three broad purposes (see figure four below) and we looked at all of the participant organisations' processes, in order to determine whether:

- they have formal assignee selection policies
- there is a business case sign-off and an assignment objective-setting process
- there is an administrative process that supports this.

We found that only half of the participating organisations distinguished the assignment purpose according to the categories shown in figure four, and had a selection process in place. For those organisations that were clear about purpose, we found that the organisations either had a higher than average level of top performers on assignment, or their assignees showed marked improvement in performance on assignment.

Figure four
International assignment by purpose

Assignment purpose	Primary business drivers	Benefits accrue to the organisation/individual
Short term business needs	<ul style="list-style-type: none"> • Skills shortage • Rapid deployment 	<ul style="list-style-type: none"> • Over short term
Control and coordination	<ul style="list-style-type: none"> • Control • Transfer corporate culture • Knowledge/process/technology transfer • Launch new initiatives 	<ul style="list-style-type: none"> • Tends to be medium to long term
Developmental (strategic)	<ul style="list-style-type: none"> • Planned career development • Global leadership 	<ul style="list-style-type: none"> • Primarily longer term



case study

Pre-departure – Clarifying purpose, setting goals and formalising processes

The importance of setting clear assignment goals and having processes in place to help deliver on these is important to the outcomes of an international assignment for both an organisation and the individual assignee. Communicating these in a comprehensive, digestible format can:

- lessen the potentially detrimental effects of role ambiguity
- enable the individual to quickly adjust to the new position and location
- provide greater objectivity in the appraisal of expatriate performance
- help to avoid premature return because of underperformance on assignment.

Within this global organisation, a format and process which explicitly clarifies assignment objectives, identifies the added value of the assignment, and facilitates individual career planning is put into place.

This process consists of a combination of:

- a comprehensive pre-departure pack of focused pertinent information (for individual assignees and their family)
- a process and format which facilitates discussions between the individual, the home and the host, helping to clarify roles and responsibilities before, during, and after the assignment
- a focused set of questions about the assignment objectives, managerial objectives for the assignment, and a business rationale for the duration of the assignment, forming the basis of a 'value agreement' which must be signed off before the assignment can start.

Although this may result in a longer average time to accept the assignment (this organisation reported among the longest average times to accept), because assignments tend to be long (this company had the longest average length of assignment), an integrated discussion of business goals and individual objectives can provide an essential tri-partite forum to facilitate synergy in goal-setting and clarity of expectations. This more formalised process has helped the organisation to achieve clarity in objective-setting for assignments and has resulted in a high level of satisfaction with personal performance among assignees during their assignment.

An expatriate assignment is a great experience... your life will change and a lot of things need to be organised for your relocation in a very short time.

The selection timeframe

We studied the average time for new expatriates to accept international assignments within the reporting period. The mean was 65 days, and the range extended from 30 to 92 days. The period for determination of this metric was defined as the period from the date when the international opportunity was first identified within the organisation, to the date on which the individual assignee accepted the assignment terms. This was not measured through to the actual start date of the assignment, because we considered that, after acceptance, there could be factors which would potentially inhibit the start date but were outside the organisation's control. Examples could include the time taken to get work visas/residence permits, a delay caused by family issues such as the start date of the next school term, or the accompanying partner needing to work out a notice period.

Organisations with formal selection processes all had above average longer times to accept than the organisations with no processes. This could lead to a simple conclusion that the former organisations spend more time profiling candidates, preparing comparative assignment budgeted costs, and so on. However, these same organisations also tended to select on average more top performers or had assignees who showed positive performance improvement while on assignment. We therefore concluded that the benefit of a more formal and thorough selection process is paid back with greater on-assignment performance.

Who provides pre-assignment learning and development?

We asked the participants whether they had formal programmes in place to educate new assignees about cultural lifestyle differences in the assignment destination, or about preparing for life as an assignee. Although most organisations offered a short pre-assignment visit where the assignment destination was in another region or culture, we found that the purpose of this trip was primarily to meet new business colleagues and to deal with issues such as home and school searches. Several of the participants acknowledged that they would like to devote more attention to the softer aspects of preparing the assignee (and the accompanying family) for life away from the home location.

Interpretation

- Organisations tend to select high performers and to a lesser degree, people with high future potential for international assignments.
- Selection should be linked to performance, potential, and the purpose of the assignment.
- There should be clear expectation setting. Clarity is needed about organisational goals, support mechanisms, and future opportunities for individuals. These all increase the chances of expatriation success.
- Although existing studies on international mobility recommend the assessment of softer aspects such as a desire to adjust, tolerance, or cultural openness of candidates, in practice these appear relatively neglected.



Performance during the assignment

We asked organisations a range of questions about performance. We have already looked at whether organisations select their best performers for international assignments. We therefore wanted to review how the performance of expatriates is managed while on assignment and to what extent this continues when the assignee is repatriated. We produced metrics relating to a number of performance-related areas, looking at appraisal ratings and the degree to which expatriate performance improved or declined during the assignment.

The right people in
the right place to drive
business growth.

case study

Developing talent as part of a pipeline

Identifying talented individuals who are willing to take up an international assignment and retaining them following the assignment becomes the key cornerstone of a successful global development strategy. Creating an environment which facilitates improved performance and internal promotion maintains a healthy talent flow of potential future leaders within the company.

This organisation is a worldwide professional services firm, driven by a global people strategy of developing excellence in each of its 70 plus territories. The mantra of 'people as the most important asset' is supported by a strong focus on the use of international assignments as a developmental opportunity. This organisation has the greatest proportion of international assignees on assignment, primarily for

developmental purposes, among participating organisations.

Explicit performance criteria for international assignment selection, brings forth the most talented candidates (i.e. only top performers are considered for assignment). This organisation reports the highest percentage of new expatriates rating as top performers, among participating organisations. Assignments are typically structured for a maximum duration of 24 months and individuals are encouraged to retain links with their home country throughout the assignment. Individual assignees are supported centrally by an international assignments administration team which encourages assignees to review their personal development plans every six months, and use home and host mentors throughout their assignment period.

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Does performance improve while on assignment?

Within the broad organisational philosophy of self-management in careers, the organisation provides a suite of formal development programmes to support on-going personal development. Performance remains high throughout the assignment: this organisation shows the highest percentage of top performers while on assignment, and has among the highest retention ratios.

Internal promotion for repatriates was highest of all of the participating companies (where data were available), with more than 50% of repatriates achieving an internal promotion within 12 months of return to home country. Furthermore, an impressive 96% of expatriates who had returned from assignment two years prior to the reporting period were still employed within the organisation.

Alongside a high (top of the participating organisations) positive change in repatriate performance, this organisation is successfully utilising international assignments as an important vehicle for talent development (showing the highest percentage of employees with expatriate experience), and the development of a pool of potential future global leaders of the organisation.

Having established that, on average, 32% of new expatriates are in the top performance category as assessed by their organisation, we reviewed the on-going performance of current assignees.

We found that positive performance tended to hold up with an average of 29% of current expatriates being graded in the top performance category. More importantly, we found that, on average, 28.4% of current expatriates had improved their performance rating in the period, while, on average, only 15.3% showed a decline in performance.

In most participant cases, of the organisations that showed a decline in top performance, the reduction in ratio was only marginal. However, one organisation showed a marked dip of over 12% in the number of current expatriates rated as top performers. There was no obvious explanation for the apparent performance dip; however, in discussing this metric with the organisation, a concern was expressed that expatriates are not as closely managed, in terms of objective setting and regular review as under the home country appraisal system. In addition it is believed that the local HR function does not understand the more complex needs either of individual assignees or their family.

Who manages the appraisal process during the assignment

We sought to establish which of the participant organisations involved both the home and host business in the annual performance appraisal process. Despite many organisations' stated policy aim that on-going career links with home country were encouraged and should be maintained, we found that only one of the participants actually involved both the home and host country management in the annual performance review process and on-going objective-setting. The remainder all had performance appraisals conducted solely in the host location.

Generally, therefore, there was a risk of divergence between global and local goals, leading to the potential neglect of longer term career planning or objectives that are considered important by the home location.

case study

Performance on assignment – a step up the career ladder

This multinational organisation employs more than 25,000 people in over 30 countries. The organisation uses a performance and potential matrix to position the performance of managers across a range of competencies. In selecting candidates for international assignment, the organisation considers candidates who possess the critical skills and experience



Assignment failure – how significant is this?

needed for the assignment, and the development prospects and career progression expectations of the candidate. It does not, however, review prior performance appraisals as part of the selection process or set a minimum performance grade requirement.

An HR representative explained that an international assignment is seen by employees as having three potential benefits: a financial opportunity (it had one of the highest overall investment figures per assignment), a career opportunity, and a prospect of possible promotion at the end of the assignment.

During the reporting period, the organisation reported that 17% of all current expatriates were in the top performance category. Importantly, 18% of its current expatriates showed improved performance over the reporting period, while 9% received a lower performance rating.

This trend continues after the assignment with nearly 17% of newly returned assignees showing improved performance, and an impressive 40% of individuals being promoted upon return.

For this organisation, the international assignment experience appears to be a good one, with individuals motivated to perform strongly during the assignment, and with a reasonable prospect of promotion at the end.

We researched the early termination rates of international assignments. Anecdotally, the reason given for assignment termination often involves a failure to culturally assimilate within the host territory. However, we found that the average international assignment termination rate (both employee- and employer-initiated reasons) was only 4%. This is significantly lower than most organisations' normal turnover rates. Perhaps the expected costs of repatriation and the disruption to the individual's family situation are reasons for organisations not initiating early returns, unless business circumstances force the issue.

When we analysed these results in more detail, we found that several organisations had no employee-initiated terminations while on assignment. In one case, an organisation terminated 10% of its international assignments during one year. A merger of two international businesses caused a business re-organisation and realignment, and the terminations were in line with a general reduction in headcount for that organisation in the post-merger period.

Excluding this extreme factor, the average for early termination of assignment falls even further. We discussed the reasons behind early assignment terminations and found several instances where the reason was related to a positive rather than a negative factor. For example, the individual or the organisation found a better role for the individual either back in the home location or in another territory, or a promotion created a need to move the individual into a new role.

We were therefore able to conclude that there was no significant indicator of assignment failure.

Interpretation

- International assignments deliver a net positive effect on performance for the organisation, both for the percentage of people who are identified within the high performance category, as well as for individuals generally, when tracking their performance over time.
- The appraisal process tends to be handled by the host country only, despite suggested best practice and most organisations' stated goal of involving both the home and host locations in the appraisal review.
- Clear career paths and the use of mentors and coaching are seen to lead to better performance.

Investment

Most companies view the cost of the international assignment as being a critical factor in the decision to send employees overseas (particularly for longer-term assignments). In our experience, organisations tend to over-emphasise the up-front costing of the assignment. Very few of the organisations which participated in the research had readily available information on what their overall assignment costs were or actually tracked assignment costs after the assignment commenced.

In this section of the research, we examined a number of factors involving the 'costs' of international assignments. We looked at the direct costs of the assignment, but also at how much is spent on assignment administration, outsourced costs, and the investment in learning and development specifically for the assignment.



International assignment remuneration methods

All of the participant organisations used a long-term international assignment policy, although some participants had variants to deal with short-term assignments. Two of the participants also used developmental assignments and regional policies. The long-term assignment policy typically forms the basic framework for international moves and transfers. In the majority of cases, the policy provides for a balance sheet method of determining compensation, where the individual is paid on a commitment that their net compensation should leave them in a position where they are no better or no worse off than had they stayed at home. However, two of the participants use a destination pay approach to compensation, and one organisation uses a mix of expatriate compensation policies, typically dependent upon regional factors. This distinction exposed important evidence about costs and performance which is discussed further below.

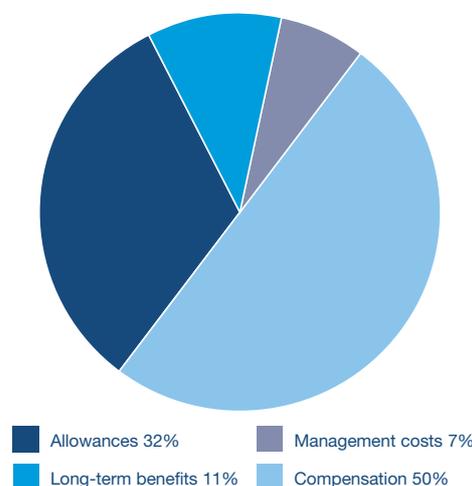
An analysis of investment

We looked at the investment in international assignments to assess the overall costs associated with the management of expatriates. To do this, we examined the direct compensation costs and the costs to the organisations of managing their international assignments programme. The overall average investment in an international assignment per annum was reported as US\$311,000³ for the nine organisations that participated. The breakdown of this cost is shown in figure five below.

The major part of this investment is the total compensation and long-term benefits paid. The sum of these two items of employee reward and benefits is, on average, US\$190,000 and, as figure five shows, is itself higher than the amount paid in average management remuneration for all employees.

For this research, we defined total compensation as gross base salary, bonuses, profit-share, employer social security contributions, and other cash compensation which forms part of non-assignment compensation. Long-term benefits include contributions by the employer to pension plans, healthcare, disability, and life insurance cover. We excluded amounts related to stock options, awards or other above base incentive programmes geared to shares, on the basis that these amounts were generally not offered as assignment-specific items and could significantly affect the investment figures.

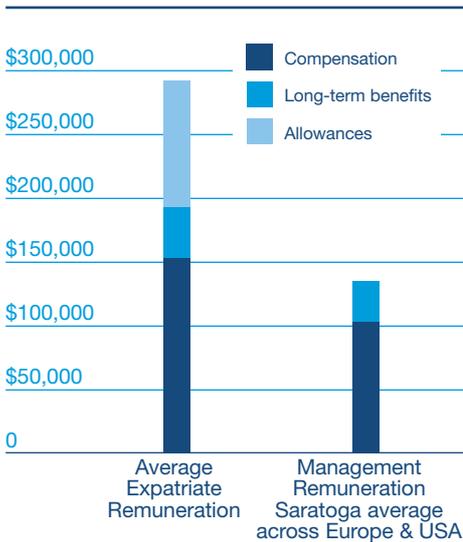
Figure five
Average breakdown of expatriate investment



³For the purposes of this report, all figures are shown in US dollars and are converted from GBP at US\$1.82 to £1.

We compared the average expatriate investment figure with the average investment in all management level employees as shown in figure six below.

Figure six
Comparison of the remuneration levels of expatriates and all managers⁴?



All \$ refer to US\$.

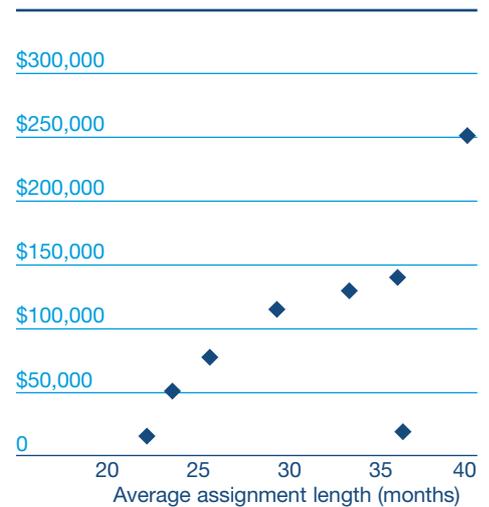
This illustrates that, compared with an all employee group, expatriates are generally better rewarded, but it also highlights the assignment allowance premium paid. Expatriate allowances may be location/family size dependent (e.g. cost of living adjustments). Given the range of cost-related surveys already publicly available, a detailed analysis is not included here.

Is there a payback for generous organisations?

Figure six shows that the amount paid to expatriates is clearly greater than that paid to their non-expatriated peers generally, so we sought to explore whether there was a link between compensation and performance, and therefore what kind of payback organisations received. The results were quite pronounced, but not as we expected them to be.

First, we found that the organisations which, as a matter of international assignment policy, did not have standardised assignment durations had the longest average assignment lengths. Conversely, those that stated a fixed duration tended to have an average assignment duration which closely matched their published figure. We further found that organisations which paid the highest in assignment allowances per annum (defined as all allowances paid for the assignment period over and above normal base and bonus compensation and home country benefits) tended to have longer than average assignment durations. The effect of these metrics is represented in figure seven right.

Figure seven
Assignment allowances versus average assignment length



All \$ refer to US\$.

The combination and close correlation of these two metrics indicated that where the organisation sought to be generous with assignment allowances, but did not put a time barrier to the overall assignment period, there was a much longer average assignment length. Although there may be genuine business reasons for this approach, it raises the question of whether assignment durations are being extended by the expatriate, seeking to remain in the host location, in order to retain the value of the generous package. If this is the case, there is a further question mark over whether the organisation gets increased payback in terms of assignee performance over the longer-term.

⁴PwC Saratoga average across Europe & USA based on data from PwC Saratoga's international human capital and HR database.



We explored whether there was a link between the level of assignment-related allowances and assignee top performance during the assignment. We questioned whether paying assignees more generously should lead to better on-assignment performance (or perhaps improved performance compared with pre-assignment performance). Figure eight below illustrates that there is not a similar close correlation between these two metrics. Although at the very bottom of the scale, the organisations which pay significantly lower than other organisations have a relatively low level of top performers, it can be seen that the organisations paying the highest allowances did not have markedly difference performance levels to the other participants.

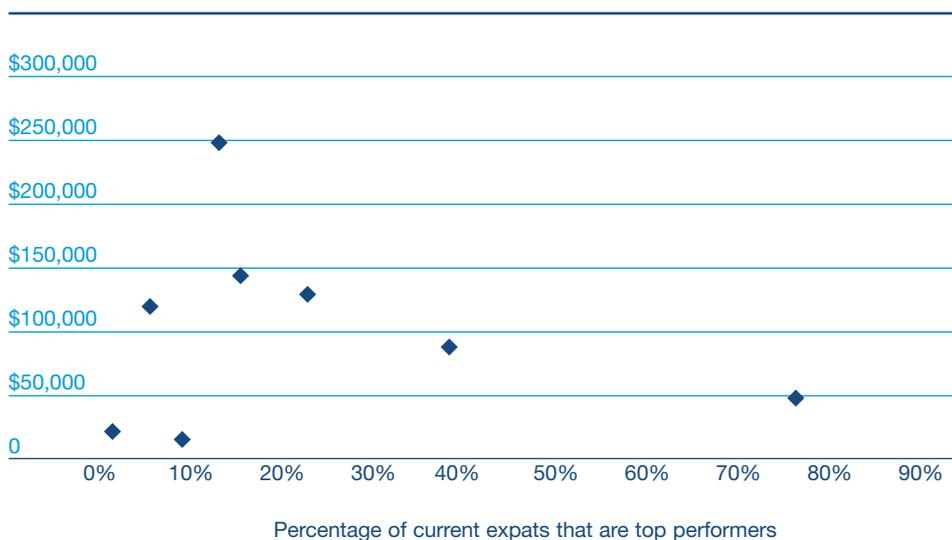
Finally, we tested whether the organisations which paid higher on-assignment allowances had a problem with retention post-assignment (indicating that expatriates perhaps find difficulty adjusting to their home-based compensation after the assignment). We found no strong evidence to support this, which may suggest that other factors affect turnover rates in the period after repatriation. This is further discussed in the career development section of this research (see page 23).

When we asked participating organisations how they reacted to assignees citing issues over the value of their package, they stated that the most common reaction was to accede to additional allowances to retain the individual on assignment.

However, the above analysis demonstrates that whether expatriates receive generous allowances or stay for shorter or longer periods on their international assignments does not seem to influence either performance or retention. It is therefore questionable whether such generous packages really do provide a return on investment. Although it would be difficult for organisations to reduce allowances for existing expatriates mid-way through assignments, it would be interesting to see whether an organisation that chose to reduce the value of the package for new assignees saw a reduction in the numbers wishing to go abroad, or whether performance or achievement of assignment objectives was reduced. The first joint research project between Cranfield and PwC indicated that financial incentives are often less important than organisations believe. However, if compensation is pitched too low, financial issues may become a barrier to continued employment with the organisation.

The reasons may, instead, lie in issues such as general performance management, expectations relating to repatriation, and longer-term career management approaches. These will be explored below.

Figure eight
Assignment allowances versus current expatriate top performance



All \$ refer to US\$.

The investment in assignment administration

We measured the average number of expatriates supported by international assignment managers or administrators within the organisation. We defined this as individuals who spend more than 50% of their working time administering international assignments. The mean level was one administrator per 37 assignees.

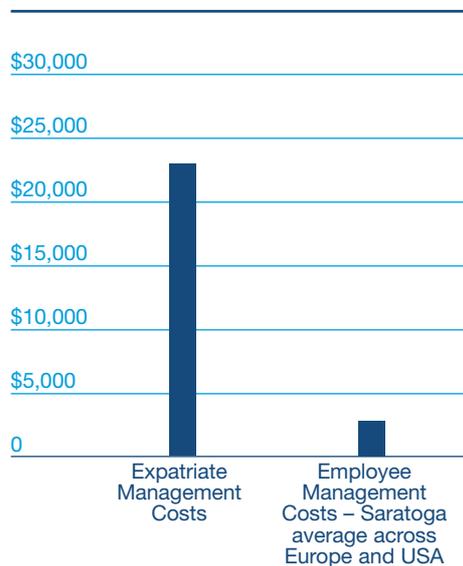
This compares with the level of administrative support provided to staff in all organisations where the management ratio is typically 70:1. Within our participating organisations, we found that the range of results varied from between a support ratio of 15:1 and 100:1, indicating that some organisations provide almost five times as much resource to support their international assignees as their domestic workforce.

This may be explained by the senior level of individuals being selected for assignment and consequently the degree of one-to-one service offered by the expatriate administration function.

The management of international assignments

Organisations spend significant amounts on supporting their expatriate programmes. We defined assignment management costs as being a combination of the internal costs to the organisation of employing staff primarily devoted to the management of their expatriate population, plus the overall costs of outsourced services. In total, the average management cost per expatriate was US\$22,378 per annum in comparison to US\$3,000 for the PwC Saratoga average of all employees.

Figure nine
Expatriate management costs versus all employee management costs?



All \$ refer to US\$.

Outsourcing spend

Most organisations will outsource activities or processes to:

- focus scarce resource on either strategic or core activities
- reduce their costs
- manage their risks
- buy in expertise.

All organisations in the survey have outsourced some of the process of expatriate management to external vendors, be it the process of managing tax compliance, assignment costing, removals management and so on.

Overall, we found that, of the total expatriate management costs, 75% were outsourced costs. This would indicate that major organisations use external expertise to a large extent.



The amount spent on pre-assignment learning and development

We also sought to determine the level of learning and development spend per expatriate, as part of overall assignment management costs. We defined this as the amount spent on pre-assignment cultural training, language training and any professional qualifications required to meet the host country standard.

With an average of 0.5% of the total investment per assignee, this was a significantly smaller element of the total investment, compared with the average levels of on assignment allowance expenditure. The average pre-assignment learning and development spend amounts to only US\$1,521 per assignee. Several organisations indicated that they spent nothing on pre-assignment cultural training at all, even though they believed that it would benefit their individual assignees and help them to adjust more quickly to the assignment location.

The total average cost of an international assignment

For participants that use a balance sheet method, we found that the average cost per international assignment was US\$1,032,000. Organisations that use the balance sheet method of compensation had significantly higher costs per expatriate than those which use a destination pay approach: the range of average cost for the balance sheet method varied between US\$774,000 and US\$1,320,000 per assignment. The average assignment cost for the destination pay method was approximately US\$273,000 per assignment.

The relative cost of the balance sheet method

This analysis shows there is a clear distinction in assignment costs between those organisations that use a balance sheet method of determining assignment compensation and those that use a destination pay approach.

Two of the nine participants use a destination pay approach to compensation delivery for their international assignments. This means that they move assignees onto a local market rate for the assignment position, as determined by local market conditions in the host country. They typically do not tax equalise, although they will meet certain tax costs on relocation-related expenditure in the host location. Assignees are expected to adapt to the living standards of their local peers.

We looked at the demographics of the assignee populations to determine whether there were material differences in the destinations of assignments or other factors which would explain why the cost difference was so marked. We found that the organisations that used destination pay tended to have a high proportion of younger expatriates, who were often single and who initiated the move as part of their own career plan. We did not find that there was a difference in the location to which assignees were posted. There were similar levels of deployment between high (approximately 60%), medium (35%), and low cost (5%) assignment destinations.

We established across all data that neither assignment pay nor pay method influenced levels of assignment performance.

For organisations using the balance sheet approach to compensation, the average investment per expatriate was a little over US\$360,000 per annum. Although base compensation figures (i.e. average base and bonus compensation) were relatively similar, we noted marked differences in expatriate allowances. These varied from as little as US\$20,000 for one organisation to US\$250,000 at the upper end of the scale.

Interpretation

- The average expatriate assignment cost per annum is US\$311,000, with a range of between US\$103,000 and US\$396,000.
- There are markedly lower costs for those organisations which use a destination pay method, but with no significant difference in assignee performance compared with those on a balance sheet method.
- Generous assignment-related allowances do not, on average, result in either higher performance or assignee retention, but do correlate with overall length of assignments.
- Existing studies show that many assignees and accompanying family members find it initially challenging to adjust to life abroad. However, organisations spend relatively little in pre-departure learning and development, compared with the amounts paid in relation to on-assignment allowances.

Repatriation, retention and career development

Although organisations emphasise the business case for international assignments and much of the immediate return on investment is gained during the assignment period, the effect of international experience can be just as important in longer-term career development. It is perhaps surprising therefore that only two of the nine participant organisations had a formalised repatriation process which focused on preparing the individual for the next role within the organisation.

A number of participants provide a guaranteed right of return to the home country, but not all of them then committed to finding the individual a position. In only a few instances did organisations focus on the international experience and how this would be used.

Previous surveys, including our first research topic, have shown that repatriation is the area of highest dissatisfaction among expatriates with respect to organisational policies. International assignees hope for a holistic process which gives them an early indication of their next position and an adequate prospect of further career advancement.



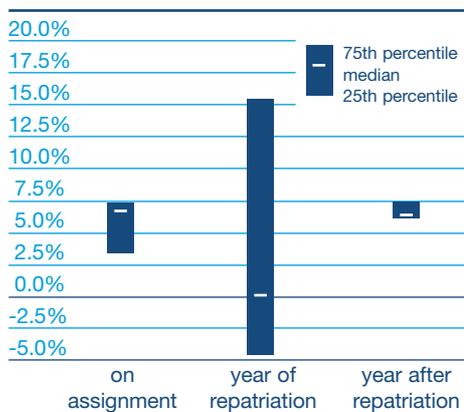
Analysing employee performance around the time of repatriation

We gathered a number of metrics to enable us to study the relative change in employee performance at three important points in the assignment cycle:

- during the assignment
- in the year of repatriation
- in the year after repatriation

The typical range of net change in employee performance for the participant organisations is displayed in figure ten below.

Figure ten
Net change in assignee performance



This figure shows where improved performance is greater than declined performance for participant organisations. The 0% line means that overall there is no net improvement in performance; hence where the range is above this point, there is an overall improvement in performance across the participating organisations.

In reviewing the three key stages in the assignment lifecycle, we therefore established that, during the assignment, employee performance shows a net improvement ranging between 3% and 7.6%. However, in the year of repatriation, there is a much wider range with some participants reporting overall a negative change in employee performance. This is consistent with the findings of our first research project where we discussed the ‘career wobble’ which is often experienced by repatriated assignees in the immediate months after repatriation. In the year after repatriation, typical net employee performance moves back into the positive range. The narrow band implies that organisations experience a net positive change in performance improvement of between 5% and 7%.

The retention challenge

Leading up to the date of repatriation, we know from our previous research that expatriates would welcome more opportunities to re-establish old contacts in the corporate centre, hope to be mentored in the changed realities at head office, and expect to be debriefed. They also find honesty important. These expectations are very frequently unfulfilled, so surveys show that more than two-thirds of expatriates are not content with the repatriation approach of their firms, and that up to 75% of expatriates consider leaving their employer either during or after their work abroad. It was, therefore, no surprise that we also encountered retention issues within some of our participant organisations.

case study

Illustrating the retention challenge for organisations

This organisation is a company that pursues a strong developmental purpose within international mobility. The research data indicates a good on-assignment performance of current expatriates, with 40% being among the top performers and a trend of improved performance exceeding lower performance while on assignment.

Our expatriation process has its weakest link in the phase of reintegration into the sending organisation. It is then that expatriates go through their deepest and most unexpected cultural and mis-appreciation shock phase.

However, this organisation experiences substantial problems with reintegration and retention of international assignees. Our research indicates that it has the lowest rate of promotion of returned assignees of any of the participating organisations in the year of repatriation.

An internal document outlines that the company 'loses between 30% to 40% of expatriates within the first two years of their return from international assignment, not having regained its investment of the assignment costs'. The data gathered in the research was consistent with these observations and showed that, based upon the average assignment cost per annum, the loss of returned assignees is costing the business at least US\$25 million in lost investment each year. A mobility expert within the organisation stated that she believed that the expatriate turnover rate within the first year after return would be so high as to create serious problems in attracting potential assignees.

It appears that significantly more needs to be done in the period leading up to the repatriation of the assignee to consider how the skills and experience gained over the assignment period can be matched to opportunities for ongoing career development.

Repatriation – who gets the benefits?

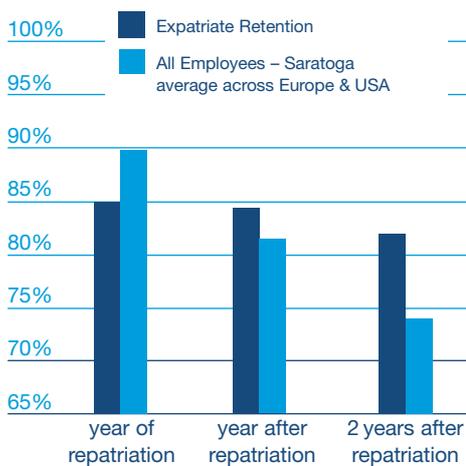
We have found further supporting evidence of the continuing trend for growth in international assignments. The number of new expatriates exceeds the level of returned expatriates. On average across all participants, the number of assignments ended over the reporting period was 28%, a figure which is 6% lower than the average number of new assignments, in relation to all current expatriates. At the end of their assignment, some assignees would have immediately moved on to another international assignment or localised in the host country, rather than returning home.

Of the assignees who returned to their home country, 85% were still with the organisation by the end of the reporting period, suggesting a short-term turnover rate of 15% of assignees in the year of return; this is above expected annual turnover rates for all employees.

It does appear, however, that organisations that can manage their repatriated assignees after the assignment period are paid back with longer-term loyalty. Figure eleven shows that, over time, repatriated expatriates tend to stay with the organisation, and retention rates are much higher than the equivalent figures for all employees.



Figure eleven
Repatriation of returned expats versus management retention



Although we did not measure what happened to the expatriates who left the organisation, we would expect that they would have left to seek a similar position with another organisation, often with a direct competitor within the same industry sector. This illustrates the level of investment to support international mobility programmes and the cost to the company when returning assignees are not successfully reintegrated.

case study

Illustrating the retention challenge for organisations

A lack of data caused by limited measurement systems leads many organisations to continue to make the often very expensive ‘leap of faith’ that international assignments will result in pay-offs in terms of business benefits and individual careers. If companies are to reap the benefits of international assignments, then short- and particularly longer-term issues, such as repatriate performance, retention over the longer-term and promotion as a proxy for added value to the organisation, become important factors.

This participant is a globally operating service organisation with more than 100,000 employees. Within the company, international assignments are based exclusively upon business-related goals, and objectives are set for the role, not for the individual’s personal development or for the overall achievements of the assignment. This clearly articulated business rationale means that international assignments are not considered a must for career progression per se; however, it does generate a focus on how international assignments fit within talent management. The succession planning process considers the experiences required by individuals to facilitate their progress and maintain a talent flow within the company. Thus, international assignments are positioned as one of the critical experiences valued within the general career structure of the organisation as a whole.

Since assignments are business-driven and role-based, the push comes via the job evaluation system. Promotion during assignment is regularly attained and a number of expatriates come back to a promoted role. Data on internal promotion of expatriates show a consistent trend of about one-third being promoted on return. Although there is no guaranteed return home for expatriates (because positions are role vacancy driven), the organisation reports a consistently high retention rate over time. Combined with longer-term (two years returned) consistently improving performance, this data would indicate the possibility of good longer-term utilisation of skills within the organisation, with potential benefits accruing to both company and individuals.

Interpretation

- Very few organisations focus on either repatriation or the next opportunity to the same degree as initial selection.
- The turnover of 15% of repatriated assignees in the first year is generally higher than all employee turnover.
- Medium-term repatriate turnover remains stable: if the employee does not suffer (or recovers from) a ‘career wobble’, then chances of longer-term retention are good.
- Where turnover was higher, companies identified inadequate career planning from both organisations and individuals as a primary reason.

Conclusion

This research demonstrates that, as the trend for international mobility increases, organisations are placing a greater emphasis on the placement and development of talent. Our approach of using metrics and contextual analysis enabled us to present a much deeper analysis of the dynamics in international mobility – including strategic purpose, selection, investment, career development and performance – than had been attempted before. We find that many organisations have a largely hands-off approach to career management during the assignment, and a lack of focus on the repatriation process and the use of acquired skills.

There is clearly a risk to a business with this approach. Employees are often selected based upon existing known strengths and performance prior to the assignment. Inevitably, there will be differences in the new role or function with additional personal challenges along the way. For many organisations, there is an expectation (or hope) that performance will at least remain stable or, better still, improve during the assignment.

We found in a number of cases evidence of overall averaged improved performance on assignment. However the general lack of investment in pre-departure learning and investment, as well as the reliance on host country only appraisal management, it means that the individual may not be prepared to hit the ground running in their new location. They may also not interact effectively enough with their home

location to ensure that their newly acquired skills and experience will be of benefit to the organisation in the longer term. We question whether even greater levels of improved performance could be achieved, as well as a reduction in the average level of decreased performance if these issues are addressed by organisations.

We also found that when problems arise, the first reaction of organisations is often to offer more money to the employee, perhaps in the hope that this will delay or prevent having to deal with the more difficult issue of performance or even early return. This might provide a short term solution but we would question whether this achieves a longer term benefit for either the employee or the organisation, if the fundamental cause of the problem is not adequately corrected.



For the expatriates, as their experience and hence net worth to the organisation increases, so does their marketability and attractiveness to competitor companies. Therefore, a failure by the employer to focus on career development and how to leverage those acquired skills on repatriation can be unsettling for the individual, with the risk of losing a talented high performer, if the situation is not appropriately managed. The high turnover rates upon repatriation we found during the research clearly highlights a problem of lost value to organisations.

For the participant organisations, the process of research was both a challenging, but also stimulating opportunity. Many were, in truth, sceptical of their ability to obtain meaningful data from their internal systems in the timeframe permitted. However, the quality and volume of the data obtained in a relatively short time frame highlights that in fact much of this 'hidden' information can be sourced when required. By utilising the metric-led approach, we have created an environment where these organisations may now compare their future results against these research findings and establish what effect their interventions will make on international assignment policy and process.

Issues to consider and actions to take

Our research showed that currently there is no model system in place for ensuring optimum return on investment. However, many of the research participants are making very positive steps towards achieving this, and using the information obtained during the research, we have been able to build an overall strategy for other organisations to help them to achieve a positive return on their investment. Below we have outlined some of the good practice principles that organisations could consider:

- 1 Be clear about the overall organisation and individual objectives for international mobility and their link with business strategy.

- 2 Ensure that assignee selection is a three-way process (assignee, home and host business sponsors) with a documented business case.

- 3 Be clear about the assignment purpose and the assignment-specific objectives to be achieved.

- 4 If the purpose changes (e.g. from short-term skills gap to a longer-term assignment), be sure to re-frame the assignment purpose and business objectives.

- 5 Manage the performance appraisal process during the assignment by keeping a focus on the achievement of the assignment objectives.

- 6 Involve the home and host country, where possible, in the performance management process, and particularly the longer-term career development discussions.

- 7 If the assignment objectives have been achieved, make a critical assessment of whether the assignment should be ended.

- 8 Be aware of individual assignees' needs relating to repatriation and help to facilitate the transition back to home country.

- 9 Focus on the next role and the use of the international experience in the subsequent stage of an individual's career development.

- 10 Regularly review the performance of the international assignment policy and benchmark results against other organisations.

Next steps

Through our research, we have gathered a great deal of data about the participant organisations and spent much time with their international mobility experts. This has enabled us to collect a significant amount of data for benchmarking purposes. The metrics will be made available through PwC Saratoga so that other organisations will be able to measure their own performance against our participants. As our database of results grows, we expect to be able to provide data analysis broken down by industry sector, geography and assignment policy type.



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If you are interested in discussing the issues raised in this publication, or if you would like to talk to one of our experts about the on-going development of these metrics, please contact one of the following:

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