

**EXPATRIATE RETURN ON INVESTMENT  
(eROI) ON TOURISM INDUSTRY: A CASE  
STUDY IN KOTA KINABALU, SABAH**

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UNIVERSITI MALAYSIA SABAH

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# DECLARATION

I hereby declare that the material in this thesis is my own except for quotations, excerpts, equations, summaries, and references, which have been duly acknowledged.



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A handwritten signature in black ink, appearing to read "Norsabrina Binti Japar", is written over the UMS logo.

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# CERTIFICATION

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## ABSTRACT

This study examines expatriate return on investment (eROI) in the tourism industry: a case study in Kota Kinabalu, Sabah. Mc Nulty and Tharenou's (2004) propositions based on the HR stages are being adopted into this study to investigate the perceptions, experience, or perceiving thoughts among the expatriate and to see the differentiation of findings with the primary propositions proposed by the main scholar. The qualitative methods of this study received primary data from informants through the interview process and secondary data from company sources such as websites, annual reports, etc. The demographic backgrounds of the informant were from among the managers that involved in Human Resource expatriation management and the expatriate itself. This study specifically focused on the tourism industry and the data were from three categories which are expatriates, HR managers, and Immigration officers in Kota Kinabalu. The findings of this study show that expatriate ROI in the tourism industry in Kota Kinabalu related with HR stages started from the pre-departure process and administration, the on-going process of an international assignment, and the final stage of the whole process. At the same time, the tangible and intangible value showed through all the HR stages and hence, this study evaluates and makes comparative on the real experience of expatriate ROI with the theoretical models by Mc Nulty and Tharenou (2009). The study concluded how the expatriate ROI gives a positive impact on the economy in Kota Kinabalu, Sabah. Hence, it is very significant to highlight the role of these expatriates and the HR managers involving in the tourism sector as a human capital investment that capable to stimulate the economic influence in Kota Kinabalu, Sabah.

**Keywords:** Expatriate, Return on Investment, Economic Development, Tourism

## **ABSTRAK**

### **PULANGAN BALIK PELABURAN EKSPATRIAT TERHADAP INDUSTRI PELANCONGAN : SATU KAJIAN KES DI KOTA KINABALU SABAH**

*Kajian ini menyelidiki pulangan balik pelaburan ekspatriat dalam industri pelancongan: satu kajian kes di Kota Kinabalu, Sabah. Kajian ini untuk mengukur sejauh mana impak pulangan balik ekspatriat kepada pembangunan ekonomi di Kota Kinabalu, Sabah. Method kualitatif digunakan dalam kajian ini ialah data primer yang diperolehi hasil daripada proses temu bual dan data sekunder yang diperolehi daripada laman sesawang organisasi, laporan tahunan dan sebagainya. Informan adalah daripada tiga kategori iaitu Pegawai Sumber Manusia yang mempunyai pengalaman dalam bidang ekspatriat, informan daripada ekspatriat itu sendiri dan juga Pegawai Imigresen di Kota Kinabalu. Kajian ini turut menunjukkan bahawasannya pulangan balik pelaburan ekspatriat dalam pelancongan di Kota Kinabalu dikaitkan dengan seluruh proses HR bermula daripada proses permulaan (pre-departure), proses yang sedang dilakukan dan juga proses setelah menjalani assignment. Dalam masa yang sama, nilai abstrak dan subjek turut ditunjukkan di semua proses dan ini turut menjurus kepada rumusan kajian di mana perbandingan hasil kajian melalui pengalaman sebenar ekspatriat dengan teori daripada kajian sebelumnya iaitu daripada McNulty dan Tharebou (2009). Oleh itu, kajian ini merumuskan pengaruh dan impak positif eROI terhadap ekonomi di Kota Kinabalu, Sabah. Justeru itu, adalah penting untuk memfokuskan peranan utama ekspatriat dan Pegawai Sumber Manusia dalam penglibatan industri pelancongan untuk menjana perkembangan ekonomi di Kota Kinabalu, Sabah.*

**Kata Kunci:** *Ekspatriat, Pulangan Balik Pelaburan, Pembangunan Ekonomi, Pelancongan*

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## LIST OF ABBREVIATIONS

BRS	-	Brookfield Relocation Services
cROI	-	Corporate Return on Investment
DOI	-	Department of Immigration Malaysia
EHCOS	-	Expatriates of Host Country Origin / Returnees
EMT	-	Efficient Market Theory
EP	-	Economic Profits
eROI	-	Expatriate Return on Investment
ESD	-	Expatriate Service Division
ETF	-	Expatriate Technology Forum
FDI	-	Foreign Direct Investment
FELOs	-	Foreign Executives in Local Organizations
FPIs	-	Financial Performance Indicators
GDP	-	Gross Domestic Product
Gen-X	-	Generation X
Gen-Y	-	Generation Y
GMAC	-	Graduate Management Admission Council
HCNs	-	Host Country Nationals
HR	-	Human Resource
HRD	-	Human Resource Development
iROI	-	Individual Return on Investment
KePKAS	-	Ministry of Tourism, Culture and Environment Sabah
KK	-	Kota Kinabalu
KPI	-	Key Performance Index
LTAs	-	Long Term Assignments
MM2H	-	Malaysia My Second Home
MNC	-	Multi-National Companies
MP	-	Malaysian Plan
MPT	-	Modern Portfolio Theory
MYXpats	-	Malaysia Expatriate Talent Service Centre
NKRA	-	National Key Result Areas
PCNs	-	Parent Country Nationals
PDR	-	Performance Development Ratings
PM	-	Performance Management
ROI	-	Return on Investment
SDC	-	Sabah Corridor Development
SIE	-	Self-International Assignee
STAs	-	Short Term Assignments
STB	-	Sabah Tourism Board
TCNs	-	Third Country Nationals / Foreign Local Hire
TSA	-	Tourism Satellite Account
T&D	-	Traning and Development
T&T	-	Travel & Tourism
UNWTO	-	United Nation World Tourism Organization

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# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction

This chapter would provide an insight into the research area to the reader. It starts with a brief description of the background of the research which their concept adopted mainly from McNulty and Tharenou (2004). This is followed by the research problems, research questions, and research objectives of this study. In the final part of this research chapter, the definition of terms, the significance of the research, and the structure of the research were explained.

### 1.2 Background of Study

The study is about Expatriate Return on Investment (eROI) in which the aim is to measure the return on investment based on the elements of cost and benefits as were proposed by McNulty and Tharenou (2004). This chapter described the research background of expatriate ROI in Kota Kinabalu, Sabah. The term expatriate return on investment is popularly known in past researches as "expatriate ROI" as was expressed by McNulty and Tharenou, (2004). Hence, the terms expatriate ROI or eROI is also to be applied during the whole process of this study that will be referring directly to as "Expatriate Return on Investment".

The roles of an expatriate in Multi-National Companies (MNC) are significant as eROI creates the development of the economy in Kota Kinabalu, Sabah. The focus of the study is mainly on the system of Human Resource (HR) activities

influencing expatriate ROI. This study explored and applied the model and framework proposed by McNulty and Tharenou (2004) to measure eROI in Kota Kinabalu, Sabah. The main Human Resource activities include Planning the Assignment, Selection, Administering the Relocation Program, Compensation, Training and Development (T&D), Family Support Practice, Performance Management (PM), Repatriation, and Retention. Based on these HR activities, it is observed that these stages covered the whole process from the early stage or pre-departure of the expatriate, the current process till the end phase of repatriation of an expatriate.

The process of all occurrences and events of expatriates during their international assignment is complex because the stages presented not just the process of international assignment but also impacts the whole process of administration, planning, and organization practices. Hence, eROI should not be evaluated only on the financial part but also critically measured both in the form of tangible and intangible value either to the expatriate, the organizations, or the company that practice international assignment. Phenomena or events that show in this study perceived qualitative values as there is a crucial need for increased understandings about the issues to be studied in eROI specifically in the tourism industry in Kota Kinabalu, Sabah.

Therefore, this study investigates Human Resource activities based on the main propositions and will stimulate the cost and benefits in measuring the expatriate ROI. The diagram below shows the ten propositions adopted mainly for this research.

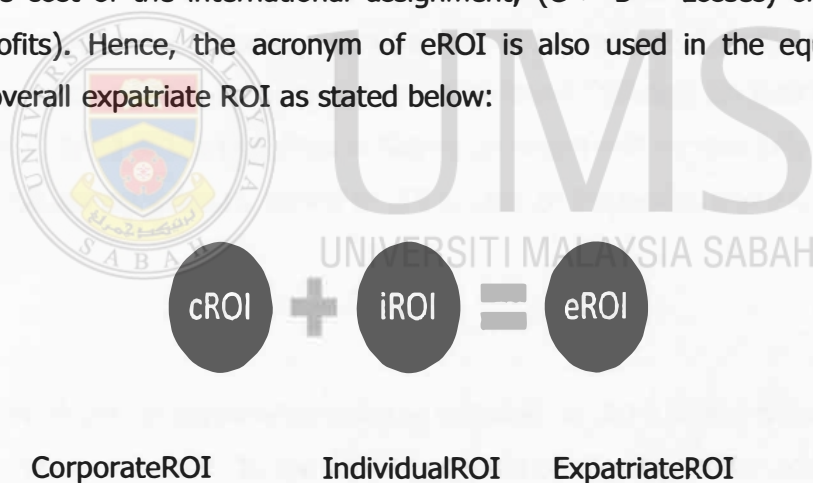
**Table 1.1: Proposition Proposed by McNulty and Tharenou (2004)**

Proposition 1: An Expatriate ROI calculation that evaluates a system of HR activities during all stages of a long-term assignment will produce a more accurate rate of return than an expatriate ROI calculation that evaluates individual HR activities in isolation.
Proposition 2: Linking expatriation to the careful planning of the purpose of an international assignment will increase benefits and reduce costs and increase expatriate ROI.
Proposition 3: Developing recruitment and selection practices that meet the assignment's planned objective and that result in an appropriate expatriate being selected for the assignment's purpose will increase benefits and reduce costs and increase expatriate ROI.
Proposition 4: Outsourcing expatriate administration will allow HR staff to focus more on expatriate strategy, which will benefit and decrease costs and increase expatriate ROI.
Proposition 5: Linking expatriate compensation packages to facilitate meeting the purposes of the international assignment will increase benefits and increase expatriate ROI.
Proposition 6: Providing expatriates with training and development appropriate to the international assignment will increase benefits and reduce costs, thereby increasing expatriate ROI.
Proposition 7: Providing support to the expatriate family will increase benefits and reduce costs, thereby increasing expatriate ROI.
Proposition 8: Customized performance management practices that are linked to an assignment's objectives and that are conducted during all stages of an assignment, will increase benefits and reduce costs and increase expatriate ROI.
Proposition 9: Planning and managing repatriation as appropriate to an assignment's purpose will increase benefits and decrease costs and increase expatriate ROI.
Proposition 10: Maintaining functional retention and functional turnover of expatriates as appropriate to an assignment's purpose will increase benefits and decrease costs and increase expatriate ROI.

Source: McNulty and Tharenou (2004, pg 74)



Return on Investment (ROI) is a large scope that can be defined in various fields either economics, accounting, business, and others field. M. Darst (2008), stated the objective of investing is to increase the purchasing power of capital whereby the total return after taxes from the portfolio must be more than the inflation rate. Meanwhile, ROI is defined as Economic Profits (EP) in the economic literature (Canibano, Garcia-Ayuso, and Sanchez, 2000; Mills and Rowbothams and Robertson, 1998). A combination of both past (lagging) and future (leading) returns by including this financial and non-financial data in ROI calculation is one of the value-based approaches of EP. Hence, this leads to the definition of expatriate ROI as stated by McNulty and Tharenou (2004,pg.88) that calculation in which the financial and non-financial benefits to the multi-national companies (MNC) are compared with financial and non-financial costs of the international assignment, as appropriate to the assignment's objective. Moreover, Kobrin (1988) and Sheridan (1998) stated that the expatriate's ROI is whether the benefits to the MNC outweigh the cost of the international assignment; ( $C > B = \text{Losses}$ ) or ( $C < B = \text{Gains or Profits}$ ). Hence, the acronym of eROI is also used in the equation of calculation overall expatriate ROI as stated below:



**Figure 1.1: The Amalgamation of Expatriate ROI**

Source: McNulty (2014. Pg8)

Based on figure 1.1 above, eROI is an amalgamation of corporate and individual costs and benefits that combine to impact the overall return on investment from expatriate companies expect (McNulty, 2014). Thus, measuring the expatriate ROI is one of the significant and interesting economic areas of study.

Malaysia had a welcoming talented foreign employee that give a high impact on economic development through the policy of Malaysia My Second Home (MM2H) in 2002 which was first introduced as "Silver Hair Programmed" in 1996 (Tan and Ho, 2014). This indicated how significant the presence of expatriates in the country as of the early '90s. Besides, the majority percentage of 36.6% is a professional and technical occupation as the main international visitors in Sabah (Sabah Tourism Board, 2006). Concerning tourism, annual reports of SEDIA 2015, show that earning in Sabah is mainly influenced by the tourist receipts. A drastic increase from 2.88 million in 2012 to 3.38 million in 2013 shows a relative increase of earnings at 5.26 billion to 6.68 billion in the respective years. This shows the value of tourism receipts is also align with the involvement of expatriates in the tourism sector. Moreover, the government aware of these benefits by introducing the Key Focus Area (KFA) for initiatives of Sabah Corridor Development (SDC) in the tourism industry that focuses on (i) making Kota Kinabalu the city of lifestyle hub and (ii) to make Kota Kinabalu greater city to enhance tourist attraction (SEDIA, 2015). Thus, Minister of Tourism, Culture and Environment Sabah, YB Datuk Christina Liew had mentioned her vision towards Sabah Tourism on pushing more than 4 million in 2019 of tourist arrival in Sabah as Sabah had successfully achieved the mark of 3.8 million tourist's arrival in 2018. (Sabah Malaysian Borneo, Vol 197, Jan-Feb 2019).

The population of expatriates working in Sabah in 2016 shows Sabah as one of the expatriate selections to be in an international assignment and as the investment state by the organization on sending their employees. Hence, this study aims to explore the expatriate ROI both involving on the long-term assignment and short-term assignment using the qualitative approach adopting from the model by McNulty and Tharenou (2004), based on the system HR activities that influencing the increasing and decreasing expatriate ROI. In which, the intended length of time abroad for a business expatriate can be short terms (1-12 months for Short Term Assignees (STAs), mid to long terms (1-5 years for typical western expatriates or considerably longer for Japanese employees; (Tungli and Peiperl, 2009), and indefinite for employees Self-International Assignee (SIE), (McNulty and Brewster, 2016).

Meanwhile, the length of period for expatriates based on the Malaysian Expatriate Service Division is categorizing into three types of Employment Pass. The terms for short-term and long-term expatriates in this study were applied based on the employment pass in the Malaysian Immigration Department.

**Table 1.2 Expatriate – Short and Long Term Employment Pass**

	<b>Employment Pass (Category I) Expatriate</b>	<b>Employment Pass (Category II) Expatriate</b>	<b>Employment Pass (Category III) Knowledge / Skilled Worker</b>
The requirement of Basic Minimum Salary	RM 5000	RM 5000	RM 2500-RM 4999
Employment Contract	Minimum 2 years	Less than 2 years	Not exceed 12 months
Permission of Bringing Dependent	Allowed	Allowed	Not Allowed

Source: Expatriate Service Division (2016).

The indicator of applying this qualitative method is due to future decision-making. As stated by McNulty (2013, pg3) shows measures of eROI give the perception that it is the desired organization action expected from the expatriate employee. McNulty also stated that most mobility managers seem to measure eROI more on an "intuition", "a feeling", "a belief" or often (biased) interpretation of hiring this expatriate for future decision making. Hence, the measuring of eROI is a challenging and complex process that needs to be conduct qualitatively in this study. In other perspectives such as the accounting field, ROI is focusing only on quantitative estimates which McNulty and Tharenou (2004) believe to be inadequate for the study of ROI. Scholar in accounting and economic theory (Abdallah and Keller 1985; Brief and Lawson 1992; Latinen 2003; Spencer 2003) shows doubts on the appropriateness of using only traditional accounting methods in determining ROI because accounting measures indicates only past or future financial performance which excludes non-financial indicators. McNulty is one of the

main authoritative persons conducting studies on qualitatively measuring this eROI. She conducted more than 10 years of studies to have a deep insight regarding this expatriate ROI (McNulty, 2013). Hence, in this study, it is justified to conduct in a qualitative approach. However, this study also makes attempts to gain data quantitatively based on the willingness of the informants.

The code of conduct and ethics of this research is given priority all the time as there might be high confidential data that cannot be revealed by the informants. Therefore, this study investigates expatriate ROI both for short terms and long terms assignments which is verified in Sabah to have more insight on the perspective of measuring expatriate ROI in Sabah and have some empirical evidence showing any similarities or differences on the findings from the original author and the model.

### **1.3 Overview of Expatriate in Malaysia**

The Department of Immigration Malaysia (DOI) is supported by the government as part of its high growth strategy while it pursued a higher term strategy to upgrade the economy and expand the supply of skilled labor. It is seen as one of the long-term alternatives as it gives effects not only to the labor market outcomes for Malaysian workers but also productivity of the firms in the Malaysian economy and to the society.

Based on the report by ILMIA and Ministry Human Resource of Malaysia 2013, the Management Lab that was created under the Immigration Department had recommended and analyses the economic effects on the inflow of foreign worker into the country and reviewing some of the policy systems in Malaysia. The Foreign Management Lab suggesting on improving the control of the demand and supply of immigrants, addressing some loopholes in the management, identifying reforms to better enforce laws, and improving the monitoring of immigrants. The authorities designed distinct rules and privileges between the terms of the

expatriate and the foreign worker. The main distinction between the expatriate semi-skilled or unskilled migrant workers is based on a monthly salary cut-off point which is set by the authorities. The employment pass of an expatriate in Malaysia is summarized based on table 1.3 below.

Statistic data from Sabah Immigration Department (SID) for expatriates is estimated to range from 3000 to 5000 in Sabah for the year 2013 till 2016. The data can be referred to in Appendix B. It shows the growth of the total number of expatriates are slightly decreased on the statistical data for the past two years which shows negative growth of -7.8% for 2015 and -17.4% for 2016. The inconsistent data reviewed on the monthly report shows that it cannot be expected on which months shows the highest population of expatriates in Sabah. For instance, for 2016, the largest rate and the lowest rate of expatriates are showing in the early month of the year which is February and April. Inversely for 2015, the rate of an expatriate for highest and lowest by month shows at the end of the year in August and November. The inconsistent of this reviewed report due to the external factors that involve such as low and high peak season of tourist arrival which influence the factors of expatriates coming to Malaysia. This population of the expatriate in Sabah leads to some observation on the incoming of expert and a positive impact continuously on tourist receipts in Sabah through their networking and large engagement. This is indirectly promoting Sabah as one of the main visiting places and also saturated with a pool of tourists and expatriates that will also sustain the economy in Sabah through investment and their business core.

**Table 1.3 Types of Expatriate Employment Pass in Malaysia**

	<b>Employment Pass (Category I) Expatriate</b>	<b>Employment Pass (Category II) Expatriate</b>	<b>Employment Pass (Category III) Knowledge / Skilled Worker</b>
Eligibility Criteria	i. Hiring company successfully registered with ESD ii. Applicant must earn a basic salary of minimum RM 5,000 per month	i. Hiring company successfully registered with ESD ii. Applicant must earn a basic salary of minimum RM 5,000 per month	i. Hiring company successfully registered with ESD ii. Companies that fall under Regulatory Bodies or unregulated sectors must obtain approval from the Ministry of Home Affairs (MOHA) to seek exemption from the minimum salary requirement of RM 5,000. Approval from MOHA does not apply to the companies under the purview of Approving Agencies. iii. Applicant must earn a basic salary between RM 2,500 to RM4,999
Duration of employment contract	Employment contract minimum 2 years	Employment contract less than 2 years	An employment contract must not exceed 12 months
Featured	i. Allows the holder to be employed in West Malaysia by the hiring company	i. Allows the holder to be employed in West Malaysia by the hiring company	i. Allows the holder to be employed in West Malaysia under the hiring company

	<p>ii. Spouse and children under 18 years old of Employment Pass holder are eligible for Dependent Pass</p> <p>iii. Children above 18 years old and unmarried eligible for Social Visit Pass (Long Term)</p> <p>iv. Parent/Parent-in-law eligible for Social Visit Pass (Long Term)</p> <p>vi. Eligible to hire a foreign maid(s)</p>	<p>ii. Spouse and children under 18 years old of Employment Pass holder are eligible for Dependent Pass</p> <p>iii. Children over 18 years old and unmarried are eligible for Social Visit Pass (Long Term)</p> <p>iv. Parents/Parents-in-law are eligible for Long Term Social Visit Pass</p> <p>vi. Eligible to hire a foreign maid(s)</p>	<p>ii. Not allowed to bring dependents</p> <p>iii. Not eligible to hire a foreign maid</p>
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Source: Expatriate Service Division (ESD), Immigration Department of Malaysia (2016)

## 1.4 Research Problem

McNulty and Tharenou (2004) claim that there are no published empirical studies examining expatriate's ROI in the academic literature as they did electronic searches on Business Premier, PsyInfo, JSTOR and Sociological Abstract (McNulty and Tharenou, 2004, pg69; McNulty and Tharenou 2006; Pricewaterhouse Coopers & Cranfield University, 2006).

Recent studies by McNulty and Brewster (2016) indicate although there is a presence of bulk expatriate studies, still there is no developed or tested theory of expatriates. McNulty and Tharenou (2004) also stated empirical studies examining expatriate cost and benefits from the HR system approach have not been done which had lead to the proposed propositions that relate to HR activities influencing expatriate ROI. The organization is investing an amount of money in this expatriate. Evidence from past scholars shows that the cost exceeds \$1 million per assignee and per assignment, meanwhile about \$75 billion a year cost of US MNC (Copeland and Griggs 1985; Sheridan 1988). This creates questions for the organization hiring expatriates in Sabah. M.Darts (2008), derived the theories of asset allocation on how high the real return is and how risky the means of achieving it. Hence, does the expatriate being view as the main assets of the organization, or is it just to fulfill the roles of recruitment in HR perspectives. Does the organization in Sabah provide such a large cost just for an expatriate and without knowing or measuring the return that the organization will receive after hiring this expatriate? Despite the challenge of lacking empirical evidence, the issues of confidentiality and anonymity of data are one of the main constrain of having this study quantitative.

This study is crucial due to the increase of tourists in Kota Kinabalu, Sabah throughout the years from 2016 until 2019. Hence, the value of economic development is not only be synthesized by the GDP but also part of human resources practices that leads to the success of tourism in Sabah. Hence more expertise and investors from various MNC are welcoming to Sabah to benefit