

## **Expatriates in the offshoring of services - Framework and research propositions**

(Draft)

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## ABSTRACT

This paper studies the effectiveness of using expatriates as one type of international transfer assignees in the context of services offshoring. It proposes a theoretical framework that models the choice of international transfer assignment in function of the dominant objective a firm pursues with its offshoring strategy – cost savings, service and process improvement, or learning and innovation –, and the risks it faces – whether originating in the home or host country, and whether internal or external to the offshoring firm. It develops research propositions and discusses alternative forms of international assignments such as flexpatriates, inpatriates and virtual assignments.

Keywords: offshoring, services, expatriates, international assignment

## 1. INTRODUCTION

“Offshoring” has existed for decades in the manufacturing sector; recently concerns have been raised about the emergence of services offshoring. One of the reasons the services offshoring has gained main attention is its suddenness (*Metters & Verma, 2008*). It appears that, “overnight, a sea change has occurred: telephone calls to American companies are now answered in New Delhi, and the best computer programming firms are all of a sudden in Bangalore, not in America” (*Metters & Verma, 2008*). It was estimated that 5000 offshore workers existed in 1986 in the world (*Noble, 1986*), offshore service workers did not exceed 35,000 in 1994 (*Wilson, 1995*), but in 2003 it was estimated at 350,000 in India alone (*Fox, 2003*). With the boost of services offshoring, the amount of interactions among people from different countries that companies need to manage is increasing (*Black, 1988*). Managing offshore operations and coordinating with the onshore teams is therefore critical. Because expatriates have traditionally been considered to play a crucial ‘liaison’ role between home country and host country operations (*Edstrom and Galbraith, 1977*) certain offshoring companies rely on expatriate staff to act as link between the parent company and the third party provider or fully owned offshore subsidiary, focusing for instance on cross-cultural communications, collaboration and improving management control of the offshoring initiative. However, past research has shown limited success of expatriate assignments (*Dowling et al, 1994; Harzing, 1995*), mainly because of high cost, challenge to select and train expatriates, as well as difficulty to adjust to the new environment. *Dickmann & al (2008)* for instance show that organizations significantly underestimate the importance of career development and work/life balance, and overestimate the financial motivations.

Firms that offshore service activities differ in the objectives they pursue and the risks they face. Cost saving is the most commonly discussed objective of offshoring. But recent data have shown that firms consider offshoring also as a way to improve services and processes, and to foster learning and innovation (*Lewin and Peeters, 2006; Lewin et al., 2009*). For instance, access to a workforce in different time zones across the globe may facilitate companies to conduct work around the clock and therefore meet worldwide customer needs. Although firms may have many incentives to offshore, they may also face disincentives to offshore. Many risks need to be managed to succeed in offshoring, such as difficulties linked to cultural differences, resistance from the part of employees or customers, or poor infrastructures offshore (*Aron and Singh, 2005; Lewin and Peeters, 2006*). As explained by *Das and Teng (1998)* in the case of strategic alliances we may expect that the objectives pursued and the risks faced influence how companies organize for and manage their offshoring relationships, including

whether or not they rely on expatriates as international transfer assignees. This paper explores and formalizes this question in the form of a framework that models the choice of using traditional expatriates or other types of international transfer assignment depending on the service offshoring objectives and the type of risks companies face.

Several studies have already documented the role that expatriates play in the cases of multinational companies, joint ventures, strategic alliances, acquisitions and greenfield projects (*Selmer, 2005; Geng 2003*). Nevertheless, the offshoring of services is a relevant new context to study the role and efficiency of expatriates as international transfer assignees because both the drivers but also the challenges of using expatriates are likely to be exacerbated. We see some main reasons for that. First, offshoring firms usually target emerging economies that tend to be more distant not only geographically but also culturally and institutionally. This implies that the need for relying on expatriates to play a liaison role (*Edstrom and Galbraith, 1977*) may be even more crucial in these distant countries. Similarly, the lack of local management skills (*Seak and Enderwick, 2008*), which is often used as a justification for relying on expatriates from the home country, may be more acute. On the other hand, expatriates and their families coming from developed countries may find it challenging to adjust (*Tung, 1981; Black et al., 1991*) to the very different environment of emerging countries. Second, the offshoring of services concerns activities that support a firm's operations at home, regionally or globally (*Lewin et al., 2009*). It is not primarily meant at entering new geographical markets. As managers of back office functions such as accounting, finance or IT tend to have lower international exposure than managers dealing with sales and business development, especially in the case of SMEs, it may be even more difficult for companies to find managers with the adequate profile for successful expatriation (*Evans et al., 2002; Caligiuri and Cascio, 1998*). Third, an important driver of offshoring is cost savings. But past research has shown that using expatriates is costly.

One can therefore wonder whether and when traditional expatriate assignments are effective in the context of services offshoring, or when alternative forms of international assignments are more appropriate.

Section 2 of this paper provides the theoretical background of the research. First it defines and provides a short review of the emerging literature on the offshoring of services. Second, it summarizes extant research on the advantages and drawbacks of using expatriates as international transfer assignees, as well as alternative forms of international assignments. Section 3 then presents the theoretical framework and research propositions on the relationships between offshoring risks and objectives on the one hand, and the use of expatriates on the other hand. The paper ends with a discussion on alternative forms of international assignments and a conclusion.

## 2. THEORETICAL BACKGROUND

### 2.1. Short literature review on offshoring

Offshoring has been for a long time addressed in the international business literature (*Buckley and Casson, 1976; Vernon, 1966*). The academic literature and the media debate refer to the offshoring phenomenon under different terms, such as outsourcing (*Kakabadse and Kakabadse, 2000*), international outsourcing (*Mol et al, 2004*), global sourcing (*Kotabe, 1992*), and the globalization of manufacturing or services tasks (*Dossani and Kenney, 2007*). “Offshoring” generally refers to the practice of replacing goods or services previously produced domestically with goods and services produced abroad. For example, companies in developed countries are now able to move software programming, accounting, or telephone call center services to lower-wage locations such as India, the Philippines, and Eastern Europe. A company may offshore services either by purchasing services from another company based overseas or by obtaining services in-house through an affiliate located overseas.

Offshoring in manufacturing is not a new phenomenon and it has existed in the international business literature for several decades (*Vernon, 1966*); whereas now researchers have started to keep their attention in the phenomena of services offshoring. A number of factors have driven the trend towards the offshoring of services, including trade liberalization, economic and regulatory reform in emerging economies, advances in communication technology, reductions in communication costs, availability of skilled labor (*Lewin et al, 2009; Lipsey, 2006*). Consequently, some authors have started to refer offshoring of services as "The Next Industrial Revolution" (*Blinder, 2006*).

While many articles and books have recently been published about offshoring, most studies have been rooted in certain research disciplines and focused on specific characteristics or impact of offshoring on the firm, industry, national or global level (*Manning et al, 2008*). A number of papers have discussed the impact of offshoring on domestic employment (*Dossani and Kenney, 2006*), or on the global race for talent (*Lewin and Peeters, 2006*). Others have addressed research and development (*Blinder, 2006*), or the increase of certain offshore destinations, in particular India (*Dossani and Kenney, 2007*). Other papers have focused on the role of managers in offshore operations (*Levina, 2007*).

While these studies cover important aspects of offshoring, the use of expatriates in services offshoring operations has not yet been addressed in the offshoring academic literature. In this paper, we propose that a more comprehensive perspective is needed to better understand the concept of using international assignments in services offshoring activities.

### 2.2. Short literature review on expatriate

*Aycan and Kanungo (1997)* have defined an expatriate as an employee sent by a parent-company to a foreign nation to carry out specific tasks for more than a year. These tasks include coordination and control of the host-country operation, communication and implementation of the parent company performance objectives to the local host country firm, and, hopefully, returning of useful local knowledge and information back to the parent company (*Kamoche, 1997; Edstrom and Galbraith, 1977*). There is an extensive literature on expatriation. Prior research on traditional expatriates has

mainly been focused on the process of expatriation, which includes the selection process (*Briscoe and Schuler, 2004*), the pre-departure training (*Black and Mendenhall, 1990*), the cross-cultural adjustment during the assignment (*Dowling and Welch, 2004*) and the repatriation.

However, expatriates managers experience a high rate of failure for numerous reasons including the lack of training, the inadequate selection criteria, the ineffective compensation packages, the difficulties for the expatriate and/or his family members in adjusting and managing cultural distance (*Harvey, 1985; Dowling and al, 1994*). In the United States, the failure rate of expatriates has been estimated between 20 and 40% (*Dowling et al, 1994*). Furthermore, existing literature has paid attention regarding the preparation and support of other parties (host-country employees and parent country managers and colleagues) involved in the abroad assignment; and that training the other involved members has a positive impact on the outcome of an expatriate assignment (*Vance and Ring, 1994; Aycan, 1997; Tsui et al, 1997; Liu and Shaffer, 2005; Oddou, 1991; Black and Gregerson, 1999*). Indeed, the expatriate failure cannot be exclusively caused by the expatriate himself, it can be caused by other players related to the outcome: host-country employees, parent-company managers, mentors and family (*Gruszynski, 2007*). The literature (*M. Dickmann et al., 2008*) indicates clearly that the motives that conduct the decision of individuals when they are considering taking an assignment abroad are perceived differently from organizations. For instance, while organizations overestimate the impact of prior experience with assignments, financial and family considerations, they underestimate cultural adaptability factors, developmental issues and work/life considerations. (*M. Dickmann et al., 2008*) Finally, in order to prepare an expatriate successfully, only cultural training is not enough and not always efficient (*Morris and Robie, 2001*). Also the majority of training efforts for expatriates have been devoted to the pre-departure, while the post-arrival stage is a more critical and appropriate period for training expatriates (*Black et al, 1999*).

Even with the high costs and continuing problems associated with international assignments, companies continue to use expatriate assignments (*Scullion and Brewster, 2001*). Research suggests that many firms seem to underestimate the complexities involved in global staffing and that companies should take a more strategic approach to the question of using or not expatriate as international assignment (*Dowling and Welch, 2004*). Some companies use expatriates and others do not, and are not less successful.

Several authors have researched the reason why using expatriate but also the shortcomings. Their contribution offers the theoretical background for the present paper. The study of *Edstrom and Galbraith (1977)* is the first one that theoretically explains why international transfer of assignees occurs. Expatriates are a crucial mechanism for coordination and control. It consists of creating a verbal information network that provides links between the parent company and its subsidiary. Integration among companies does not occur spontaneously. Therefore, the need of expatriates is required to gain information (*Hosking and Morley, 1991*) and collaborate with others to make a social bond in order to share values and gain trust (*Ring and Van de Ven, 1994*). Expatriates are also an essential mechanism to transfer tacit knowledge (*Bonache et al, 2001*). Given that tacit knowledge cannot be in manuals and can only be observed through its application, the parent company must assign staff to the foreign operations. *Edstrom and Galbraith (1977)* suggest another motive which leads organization to use an expatriate. Expatriates are commonly used as position filling by firms that have set up subsidiaries in developing countries and encounter difficulties finding qualified host country nationals suitable for management positions.

Even when companies find the right person to take up expatriate assignments, there are many other factors making the performance of the expatriate difficult. The expatriates can increase the risk of the assignment failure. Traditionally, the main topic in the global staffing literature is on the expatriate failure, which is defined as the inability of an expatriate to perform effectively in a foreign country (*Tung, 1981*) or as the premature end to the assignment (*Hill, 1998*). The high cost associated with expatriates is also a major challenge for the parent company. An expatriate is already very expensive for the parent company and its failure even more. For instance, it can be very costly in terms of management performance, productivity in the foreign location operation, the loss of business opportunities and the loss of market share, and can easily damage the relation and the reputation of the parent-company (*Black and Gregersen, 1991*). From this perspective, using expatriates to fill subsidiary's positions can be potentially counter-productive (*Hailey and Lor, 1996*). Research indicates that there is a growing shortage of experienced and competent international assignees which becomes a significant problem for international firms (*Evans et al, 2002; Caligiuri and Cascio, 1998*). Four main reasons are highlighted related to the lack of available expatriates: 1) dual career conflicts and disturbance to children's education (*Mayrhofer and Scullion, 2002; Dickmann, Doherty, Mills, & Brewster, 2008*), 2) limited participation of women in international management (*Adler, 2002; Tung, 2004*), 3) repatriation issues falling far from the expectations of the expatriates (*Stroh et al, 1998, 2000*), 4) unaware of where their best talented performers for international assignments are located (*Evans et al, 2002*).

Many companies still underestimate the complexities and difficulties involved in international assignments, and that companies should take a more strategic decision view in their international assignment choice. Why organizations continue to use traditional expatriates even though their high costs and risks for the parent company? As there are different arguments for both using and not using expatriate assignees, it is critical to study factors that influence the use of expatriate assignees in the offshoring of services. In contrast to the extensive literature dealing with the selection, training, compensation, and cross-cultural adjustment of expatriate managers, there are no empirical studies investigating how the use of expatriates is determined as an attractive method for the performance of the offshoring of services.

*Dowling and Welch (2004)* argue that due to cost pressures, high failure rates of expatriate assignments and international staff shortages, companies are increasing the motivation for using a range of alternative forms of international assignments. Academic research on that topic is quite recent and scarce, as the expatriate has received the majority of research attention. In the area of international human resource management, academic research has stressed the need to focus on alternative types of international assignments outside long-term expatriate assignments including flexpatriates, inpatriates and virtual assignment. (*Mayerhofer et al, 2004*) Those adequate alternative forms are discussed later in the paper.



### 3. ***MODEL OF THE EXPATRIATE DECISION IN SERVICES OFFSHORING***

Companies should be aware of the critical factors that can place offshoring of services operations at high risk. Therefore parent companies should develop plans to overcome the potential obstacles. A traditional way of addressing these challenges has been to send an expatriate on an international assignment to the host country. Figure 1 depicts the model we propose to link offshoring objectives and risks to companies' decisions to use expatriates or alternative international transfer assignments in order to manage, coordinate and control onshore-offshore relationships.

*Collings and Scullion (2006)* stated that ideally international human resources management should focus on selecting the suitable expatriate or alternative assignee, according to the organizational objective or assignment driver. Furthermore, *Meyskens et al (2009)* show a model that offer different types of international assignment selection options according to the goal congruence and work/life balance considerations of a multinational enterprise. In our case, we build a model that determines if the company's objective and risks involved in services offshoring correspond with the staffing choices.

The model represents a key decision that needs to be made in offshoring of services situations; it is whether or not a traditional expatriate assignment is an attractive method for offshoring of services situations. This paper provides a model to explain the attractiveness of using expatriates for which offshoring services situation, with the identification of services offshoring's objectives and risks as the two main determinants. In the following sections, the variables are explained in more detail, and specific research propositions are stated. The conceptual model reflects the nature of expatriate choice decision. Furthermore, the model incorporates research hypothesis to highlight the relationship among offshoring and expatriates. Given the need for research in the area of alternative assignments, we argue for a strategic approach to alternative assignments that are congruent with both the firm's objectives and the risks involved. Global staffing issues will grow in importance in the coming years due to a range of factors, for instance a growing awareness of the significance of staffing issues in ensuring the success of the enterprise; the emergence of new forms of international assignments; the continued growth of trade in a growing range of developing countries, including China, India and Eastern Europe; and the internationalization of a growing number of small and medium enterprises.

**Figure 1: Model of the expatriate decision in services offshoring**



### 3.1. Services offshoring's objectives and the use of expatriates

The reasons for services offshoring can be classified into three categories: 1) cost-oriented (*Lewin and Couto, 2007*), 2) innovation- and learning-oriented (*Lewin, Massini and Peeters, 2009*), and 3) service and process improvement-oriented (*Lewin and Peeters, 2006*).

We can argue that

**Proposition 1** (P.1. in figure 1.): The attractiveness of using traditional (long-term) expatriates as international assignments depends on the offshoring of services' objectives.

As shown in various studies (*Lewin and Couto, 2007*), the primary reason for offshoring is cost savings which can reach dimensions from 20 to 50 per cent. The **cost-oriented** category includes the search for lower wages and lower transport costs; it also focuses on a location with subsidies, tax incentives, less regulation, or a more soft governmental law. The cost-savings can be generated when foreign subsidiaries can benefit from specific knowledge of the parent company without significant extra costs, including technical, marketing, and other knowledge. As illustrated in the literature, the use of expatriates involves high costs and assignment failure rate even more costly (*Bonache et al, 2006*). Generally, it is estimated that the cost of an international assignment is between three and five times an assignee's home salary per annum (*Selmer, 2001*). Others suggest that an expatriate assignee can cost up to four times as much as hiring a local assignee in developed countries (also called an inpatriate); and eight times as much as in developing countries such as China and India. An expatriate is already very expensive for the parent company and its failure even more. According to *Naumann (1992)*, it is assumed that the direct cost (salary, training costs, travel and relocation) of an expatriate who failed is between \$55.000 and \$150.000 and that the indirect cost even larger than the direct cost (*Harvey, 1985*). Therefore, this research paper argues that

**P.1.a.:** The more important the cost savings in a firm offshoring strategy, the less attractive the use of expatriates.

Cost advantages may still be important, but an important driver for offshoring firms nowadays is also to **learn and boost innovation**, due to the increasing shortage of skilled labor (scientists and engineers) in developed countries (*Lewin, Massini and Peeters, 2009*), and by the large amount of highly skilled workers in developing countries (*Sen and Shiel, 2006*). Through access to knowledge/skills located elsewhere than in the home country, it improves competitiveness as well. The number scientists and engineers graduates in the United States and Europe is stagnating and even decreasing, whereas in developing nations such as China and India, scientists and engineers talent are growing significantly (*Bunyaratavej et al, 2007*). The reason is that both China and India are ironically taking advantage from the US immigration and the visa policies. At the beginning, it was established in order to attract high skilled talent from abroad and to offer the chance for foreign nationals to get masters and PhD degrees in the US. Due to the growth of job opportunities in the foreigners' home country and of recent US visa restrictions, more and more foreign nationals return to their home country after finishing their degrees in the US and to start a career in their home country. (*Manning, Massini and Lewin, 2008*) Furthermore innovation- and learning- goals are linked to more advanced tasks and follow a different strategy than those offshoring less advanced tasks. The cost saving drives a firm's

offshoring of less advanced tasks, whereas companies searching for new knowledge and talented performers abroad offshore more advanced tasks. (*Jensen and Pedersen, 2007*) In the advanced services offshoring, the tasks are with a good deal of tacit knowledge and hard to codify, for instance R&D, new software development, medical testing or analysis and technology system design (*Jensen and Petersen, 2007*). *Polanyi (1962)* defined tacit knowledge as “hard to communicate and is deeply rooted in action, involvement and commitment within a specific context. It is "a continuous activity of knowing," (*Nonaka, 1994*); it is 'the way things are done around here,' (*Spender, 1993*). Given that tacit knowledge cannot be in manuals and can only be observed through its application, the parent company must assign staff to the foreign operations. In order to succeed the process, communication, integration and coordination in the network are required. The need of expatriates in advanced services tasks, where complexity, creativity and innovation is required, is probably more required than in low advanced services tasks. Innovation- and learning- ambitions are much more than just offloading work with a set of specifications to a different location. Creating, distributing and sharing knowledge is a dynamic process and must be managed and integrated between the locations to be effective. Furthermore, *Hennart (1991)* argues that the higher the R&D intensity, the more proprietary assets will be at risk, and in order to protect them, the more control is required for the parent company. Thus, we hypothesize that

**P.1.b.:** The more important learning and innovation in a firm offshoring strategy, the more attractive the use of expatriates.

**Service and process improvement-oriented** as a third category can also motivate companies to offshore. From the Offshoring Research Network (ORN), which studies the offshoring of administrative and technical work to low-cost countries, reported that the desire to increase quality of service levels was ranked as the third most important reason for offshoring. (*Lewin and Peeters, 2006*) As the labour wage difference between developed and developing countries can be high, the parent company can hire a university graduate from the host country instead of a non university graduate from the home country. Therefore, people who carry out services in emerging nations have a higher skill than in the developed countries. Companies discover that they are able to recruit highly skilled personnel in low-cost countries who are motivated and ready to take on low-level jobs avoided by most workers of developed countries. (*Lewin and Peeters, 2006*) Offshoring also allows companies to offer unique services highly valued by customers such as 24/7 customer support, or to speed the product development process with follow-the-sun work schedules and hiring more people to perform a given activity. (*Lewin and Peeters, 2006*) In addition, working together with people from different cultures with diverse views may help to increase the quality of the services that are delivered.

Interestingly, achieving expected quality of service is also the highest cited risk. (*Lewin and Peeters, 2006*) In spite of experiencing success with achieving and even exceeding expected service levels, companies continue to associate risks with quality of service in their offshoring operations. (*Lewin and Peeters, 2006*) As illustrated in previous section, expatriates in this situation can be useful as networker and as controller. Control is an essential element of managerial functions responsible for ensuring that home firms' objectives and interests are achieved in the subsidiary (*Fenwick et al., 1999*). According to *Max Weber (1946)*, firms can either exert formal control or informal control through culture and socialization. Formal control relies on hierarchy and the use of explicit rules, standards and

regulations; whereas informal control relies on customs, traditions and oral communication (*Harzing, 2001*). There are different forms of control that can be fulfilled by international transfer of assignees. Expatriates can be used to realize control based on direct surveillance of the subsidiaries, on socialization or/ and on the creation of informal communication networks (*Harzing, 2001*). Therefore, we propose that

**P.1.c.:** The more important service and process improvement in a firm offshoring strategy, the more attractive the use of expatriates.

### 3.2. Services Offshoring's risks and the use of expatriates

Companies that make offshoring of services decision increase their own exposures to risk and at the same time potentially create additional risks. In this paper, the different risks of services offshoring are classified into two categories: 1) risks originating in the home country (*Hahn et al, 2009*) and 2) risks originating in the host country (*Hahn et al, 2009*); and each of those two categories are distinguished between internal (linked to human resources or/and to governance mode) and external/environmental risks.

We can argue that

**Proposition 2** (P.2. in figure 1): The attractiveness of using traditional (long-term) expatriates as international assignments depends on the offshoring of services' risks.

#### 3.2.1. Home country risks

Risks for the parent-company can be perceived in the home country. Firms may perceive risks in offshoring associated with internal employees. Workers at a company that offshored operations or that announced layoffs were less likely to feel secure about their jobs. Moving operations abroad is likely to negatively affect the attitudes of the internal employees; employees of offshoring companies tend to be less motivated at work than those of non-offshoring companies.

Furthermore, there are numerous legislations against offshoring that creates uncertainty for the parent company to start offshoring services. In some sectors, regulations prevent offshoring of activities such as radiological services in healthcare (*Ge et al, 2004*). Public policy debate about offshoring began in the United States in November 2002 by Forrester Research that 3.3 million US jobs would be lost by 2015 as a result of offshoring. Public sentiment against offshoring has begun to heat up across Western Europe as the amount of work sent offshore by companies begins to rise.

Firms may also believe that they don't have expertise and capabilities needed to make it work, but it is unlikely that expatriates will have significant influence in terms of helping companies overcoming these internal risks and fears.

### 3.2.2. Host country risks

Several type of risks are perceived in the host country, in this research paper we sorted them into three groups: 1) internal risks from staff, 2) internal risks from organization, and 3) external/ environmental risks.

In the host country, one of the major perceived risks is the **internal risks linked to human resources** involving language and cultural barriers, none qualified personnel and other teamwork problems. Projects developed by a team from many countries, speaking a variety of languages and separated by time and distance, have higher risks. Language barrier makes project communications complex. Even when all parties speak English, there may be misunderstandings and misinterpretation because of cultural differences. Also, slang terminology and accents can create problems and slow down communications. (*Nakatsu and Iacovou, 2009*) Miscommunication can bring incorrect, unclear, ambiguous and inadequate requirements that can decrease the project's performance. Cultural issues arise from the density involved in learning how to manage and collaborate with staff from another culture with other values and norms. Coping with cultural differences seem to be less of an issue for IT, Finance or Accounting than for functions that require more intensive interactions with home country employees, such as Call Centers. Also cultural challenges appear to be higher with countries like China than with India or the Philippines. (*Lewin and Peeters, 2006*) Expatriates have been extensively used as an effective way to exert control and to manage uncertainties (*Black and Gregersen, 1999*). Indeed, the fact that operations are located in high cultural distance, involve a high degree of uncertainties (*Boyacigiller, 1990*). Therefore, companies are more in favour to send an expatriate who will help the company to understand local values and norms, and to have a high control on the offshoring activities (*Nohria and Ghoshal, 1994*). The need of expatriates is required as network argument, in order to collaborate with the host company to make a social bond in the intention to share values and gain trust. Furthermore, the lack of required knowledge/skills in the project from host country nationals, for example, technology, business knowledge, and experience, leads to poor quality operations. The level of technical sophistication in a host country can be lower than in the home country. At the end, this can lead to projects' delays, team conflicts, lack of team motivation and poor quality operations. (*Nakatsu and Iacovou, 2009*) Indeed, staff risks refer to issues associated with the project staff members that can increase uncertainty of a project's success, such as host country nationals who are not familiar with the tasks, who lack knowledge and skills required for the project, or who are inexperienced and unmotivated. If the attitude of employees towards a new system is unfavorable, then it is likely that they will not cooperate during the project's development, leading to an increased risk of project's failure. In this case, expatriates can be used as position fillers. Expatriates are commonly used by firms that have set up subsidiaries in developing countries and encounter difficulties finding qualified host country nationals suitable for management positions. The expatriates usually transfer 'know-how' by training and developing host country nationals (*Gooderham and Nordhaug, 2003*). Once the decision is taken to invest in developing countries and a qualified local national cannot be found or quickly trained, the firms send in an expatriate (*Edstrom and Galbraith, 1977*).

One of the other major apparent risks in the host country is the **internal risks linked to governance** involving loss of control, lack of intellectual property protection and secure data, lack of proximity and

capabilities. Companies might decide not to offshore as it can represent a loss of control. From the 2006 Offshoring Research Network (ORN) survey, companies that have no offshoring experience, rate 'loss of control' as the highest risk (65%), and 46% of the companies in the survey with offshoring experience are also concerned with this issue. The results of that survey indicated that offshoring companies are struggling with loss of managerial control, in particular when it comes to offshoring higher skilled activities. (*Lewin and Couto, 2007*) Going abroad decreases the level of direct management control from the parent company to the host company. It is very difficult to maintain control over long distances and with destinations having different cultures, laws, and languages. Due to the distance between home and host countries, it brings time zone differences and lack of coordination requirements. Changes to the initial set of requirements can cause delays and other problems if they are not managed properly. Even when changes are well documented and justified, there may be delays due to the long distance between cross countries. Projects that require intensive supervision might not be considered for offshoring, if it is carried out on an international level, the supervision's costs may be too expensive. Companies may also fear of a lack of data security and a lack of intellectual property rights' protection, when processing their data in a location with less strict privacy laws than in their home countries. (*Nakatsu and Iacovou, 2009; Lewin and Peeters, 2006*) Private personal information or data can be misused by host country nationals. In most developing countries, no data privacy protection laws currently exist, and no counterpart to the Federal Trade Commission has been established to issue, administer, and enforce data privacy rules. In this case, the role of the expatriate as control argument can be useful to the parent company.

The other risk that can be perceived in the host country is the **external/ environmental risks** including varied tax and labour laws, unfamiliar with regulation and governmental laws and currency exchange fluctuation. Another important challenge that is specific to offshoring is the threat of major disruptions arising from political instability, border tension between two countries or war in an offshore host country. Companies prefer to operate abroad in countries that are politically stable. However, because wages tend to be lower in less secure countries, companies are often tempted to operate in a more unstable environment. (*Davis et al, 2006*) Business corruption is also perceived as a problem. For instance, extensive business corruption is perceived to exist in India. (*Transparency International, 2004*) Additionally, infrastructures (roads, airports, water system, telecommunications, and electricity) are too weak in some emerging nations and can be a barrier for offshoring. Local managers of the host country can be more effective than expatriates in order to deal with particular environment.

Therefore, we can propose that

**P.2.a.:** The more important home country risks (as opposed to host country), the less attractive the use of expatriates.

**P.2.b.:** Within host country risks, internal (linked to human resource and governance) are likely associated with expatriates than external.

**Table 1: Summary of the propositions and expectations on the attractiveness of using traditional expatriates**

Hypothesis	Expectation on the attractiveness of using long-term expatriates
<b>P.1.a.:</b> The more important the cost savings in a firm offshoring strategy, the less attractive the use of expatriates.	-
<b>P.1.b.:</b> The more important learning and innovation in a firm offshoring strategy, the more attractive the use of expatriates.	+
<b>P.1.c.:</b> The more important service and process improvement in a firm offshoring strategy, the more attractive the use of expatriates.	+
<b>P.2.a.:</b> The more important home country risks (as opposed to host country), the less attractive the use of expatriates.	-
<b>P.2.b.:</b> Within host country risks, internal risks (linked to human resource or/and governance) are likely associated with expatriates than external risks.	+

### 3.3. Moderating factors

Moderating factors have the potential to affect the impact of services offshoring's objectives and risks on the perception of the attractiveness of using expatriates. In this model, moderating factors can be divided into five categories: 1) governance mode, 2) task offshored, 3) location, 4) company's experience, and 5) company's size.

#### Governance mode

Governance mode can influence the attractiveness of using expatriates for services offshoring operations. Firms may offshore operations through outsourcing in order to reduce costs. Alternatively, if a firm is experiencing internal quality problems, it may turn to outsourcing to improve the process quality. When a firm is unable to attract and retain qualified employees, resulting in unsatisfactory service quality. In this case, it may prefer to outsource to a firm in order to improve service. The author *Metters (2008)* argues that once a process is outsourced, it is difficult for the parent firm to gain any competitive advantage from the process. For that reason, better to outsourced activities that are not central to the mission of the company. *Aron and Singh (2005)* have similar argument that there is a great difference in the offshoring decision mode with what is core and what is non-core for the company. It is sometimes very difficult for companies to identify which knowledge they can afford to lose and which one they cannot. *Jensen and Pedersen (2007)* showed that more advanced tasks, which



are offshored by experienced and high knowledge intensive firms, prefer the form of captive offshoring in order to guarantee regular and secure operations. On the other hand, less advanced tasks can follow a different strategy if his main offshoring's drive is to save cost. *Williamson (1985)* suggested that if the task specificity is low, negotiating an appropriate contract with a third party can be selected. Here the risk is limited as the contract can be terminated at little cost and a new agreement can be settled with another supplier. On the other hand, the situation is different when the task specificity is high, it implies that the task cannot be easily performed by another supplier as it require the transfer of a large amount of tacit knowledge. Furthermore, the provider can easily demand exorbitant price increases when the contract come up for renewal. (*Aron and Singh, 2005*) Therefore, in such situation the fully owned subsidiary will be rather preferred. *Kogut et al (1993)* showed that the less codifiable and harder to teach a certain technology, the more likely a wholly owned subsidiary is preferred. The captive offshore model becomes the dominant governance mode in order to safeguarding the internal knowledge flows, when the offshoring tasks become more complex. When organizations desire to maintain complete control over their offshore operations, they pursue a captive offshoring strategy (*Youngdahl et al, 2008*). Control is one of the most important reasons for using or transferring expatriates (*Edstrom and Galbraith, 1977*). Traditionally, expatriate managers have served as control representatives of the parent-company in ensuring that the foreign subsidiary adheres to corporate goals and objectives (*Peterson et al, 1996*).

Given these differences, we expect the type of governance mode to be a moderating factor. Therefore, we hypothesize that

P3a.: The firm's governance mode moderates the effects of services offshoring's objectives and risks on the attractiveness of using expatriates.

P3b.: In a captive offshoring situation where the objective is innovation and learning, we would expect an increase use of expatriates.

P3c.: In an outsourcing offshoring situation where the objective is cost savings or services improvement, we would expect fewer requirements for the use of expatriates.

### Location factors

One of the most important questions when doing offshoring of services is how to make the right offshoring location decision. In the literature, different categories of location decision have been made by different authors (*Aspray et al, 2006; Farrell, 2006*). For instance, *Aspray et al (2006)* introduce four categories of location decision: highly skilled workers with a low labor wage; language skills; geographic proximity; and high technology. *Farrell (2006)* recommends the location decision based on six criteria: cost (labor, infrastructure and corporate taxes), availability of skills (the size of labour force with the required skills), environment (quality of life, crimes per capita, government support, level of corruption), market potential, risk profile (intellectual property risk, cost inflation and currency fluctuation, political stability), and quality of infrastructure. It is suggested that the differences in



wages between the developed and developing countries cannot be considered as the only main factor that firms use to consider where to offshore their services. This is also due to the fact that invisible costs may appear in some countries with high cultural distance, potential decreases in service quality and the managerial traveling and training.

The specific location decision depends on the offshoring's main objectives. *Farrell et al (2006)* performed a study on different countries and their offshoring advantages. It seemed that China, India, the Philippines and Malaysia are very attractive for cost savings. Canada and Mexico are attractive destinations for the US, and Czech Republic and Poland for Germany because of geographic proximity, familiarity with the language and culture, and lower wages compared to the home country. Israel is an attractive location for its strength in security and anti-virus software.

*Boyacigiller (1990)* stated that the closer the host country is culturally, the more likely it will be seen as a desirable foreign location, posing fewer problems for expatriates. The socio-cultural factor is also related to the host labour market. The limited availability of management and technical skills in some countries is one of the major reasons for employing expatriates in MNEs (*Scullion, 1994*).

Given these differences, we expect the location decision to be a moderating factor. Therefore, we hypothesize that

P3d.: The location decision moderates the effects of services offshoring's objectives and risks on the attractiveness of using expatriates.

### Task offshored

The services offshoring tasks can be categorized in different ways. For instance, it can be distinguished between low and high advanced tasks. Low advanced tasks refer to simple, standard and more routine office work and services with the lowest entry barriers in terms of skills, scale and technology. High advanced tasks refer to some more complexes, innovative and qualified activities, which maybe the offshoring firm does not have the capability to perform in the home country. These tasks are performed by highly qualified workers. The cost savings drive a firm's offshoring of less advanced tasks, whereas companies searching for new knowledge and talented performers abroad offshore more advanced tasks. (*Jensen and Pedersen, 2007*)

Given these differences, we expect the task offshored to be a moderating factor. Therefore, we hypothesize that

P3e.: The more complex the task, the more services offshoring's objectives and risks will be associated with the attractiveness of using expatriates.

P3f.: In low advanced tasks (as opposed to high advanced tasks), where the objective is cost savings

we would expect fewer (higher) requirements for the use of expatriates.

P3g.: In high advanced tasks, where the objective is innovation and learning we would expect an increase use of expatriates.

#### Firm-specific factors

The firm-specific factors here include international experience and firm's size.

International experience and outsourcing experience can both influence the attractiveness of using expatriates. We expect firm's experiences to play a moderating role. We expect more experienced firms to differ from less experienced firms in their evaluation of using expatriates. Because they have a better knowledge and understanding in the conduct of remote activities, which reduces operation risks and their need of control and process. Firms at an early internationalization stage usually pursue a high level of control. Some authors have suggested that there is an association between international experiences with international staffing (*Tung, 1982*). Companies with limited international experience tend to have a high usage of expatriates while companies with high experience of employing expatriates tend to use fewer expatriates than they used to. Thus, we hypothesize that

P3h.: The firm's level of experience moderates the effects of services offshoring's objectives and risks on the attractiveness of using expatriates.

P3i.: For low experienced firms (as opposed to high experienced firms), we would expect an increase use of expatriates.

Firm's size is another consideration. How different are small companies from the large companies in their offshoring of services decision? From the Offshoring Research Network (ORN) survey of 2006 in the US, the small companies (defined as fewer than 500 employees in the US) are offshoring in particular for product development functions (38%), such as R&D, engineering and product design. Small firms seem to be more interested in offshoring in order to increase speed to market for their new products or processes and to better access to high skill talent performers. (*Manning, Massini and Lewin, 2008*) Whereas large companies seem to give less importance to supplier and technology factors, but rather more importance to cost factors.

### 3.4. Discussion - Alternative forms of international assignment

For a long time the main focus of research on international assignments has been on the long-term expatriates, involving the relocation of the expatriate and his family to a foreign country. In this section, we discuss the growing importance and the offshoring firms' strategic reason of choosing alternative forms of international assignment rather than traditional expatriates. We could ask ourselves for which services offshoring's objectives other type of international assignments could be more attractive than long-term expatriates?

Expatriates can cost three to five times an assignee's host country employee per year and even more if currency exchange rates become unfavourable (*Selmer, 2001*). A study from *PricewaterhouseCoopers (2005)* found that three quarters of companies studied had identified cost reduction in expatriates as a priority matter (either important or very important) in the development of international assignment practices. As a result due to cost pressure, new alternative such as **virtual assignment** are becoming more and more popular in many companies. Virtual assignment is when an employee is not delegated abroad; he works in his home country using modern electronic media such as emails, conference calls or video conferences in order to communicate with host country nationals. Virtual assignees are generally far less expensive than traditional expatriates, due to the reduction of travel and relocation costs (*Holtbrugge and Schillo, 2006*). Furthermore, a salary premium as compensation for relocation abroad is not necessary (*Holtbrugge and Schillo, 2008*). We propose that in the case of firm services offshoring's objective as cost savings, the use of virtual assignment could be more attractive than long-term expatriates. On the other hand, virtual assignments have several disadvantages as well, for instance the lack of physical and social interaction can bring a lack of trust (*Cascio, 2000*). There is a greater probability of misunderstandings and misinterpretation during the virtual conversation than the face to face conversation (*Dowling and Welch, 2004*). For certain location, virtual assignment would not be the best appropriate type of international assignment. For instance, in Asian countries, where it is crucial for good relationships to build up trust, no face-to-face contacts may not be a good idea (*Dyer and Chu, 2000*). As virtual assignment is at its early stage, more research is needed to explore the ways to improve the performance of virtual assignments (*El-Tayeh et al, 2008*), for instance to introduce intercultural-training to the virtual assignees.

Another alternative type of international assignment such as **inpatriates** may provide an option when a location is particularly challenging for expatriates (*Harvey et al, 1999*). Inpatriates is when an employee moves from the subsidiary to the parent company on a semi-permanent to permanent basis. It seemed that the integration of host country employees into the parent company is easier and they are more likely to be highly motivated. It has been revealed that they diffuse knowledge of different host environment to the parent company and aid in developing a multicultural perspective within the global management team (*Harvey et al, 1999*). Inpatriates can act as a "linking pin" between the parent company and the foreign subsidiary; they act as boundary spanners (*Harvey et al, 1999*). Inpatriates are expected to share their local knowledge with headquarter staff in order to facilitate corporate activities in the local markets. At the same time, they are familiar with corporate culture and learn firm-specific routines and behaviours, this enable them to master future management tasks within the company. As a result, inpatriates seem to act both as knowledge senders and receivers. We propose that in the case of firm services offshoring's objective as innovation and learning; the use of inpatriate could be an attractive alternative than long-term expatriates. Nevertheless, inpatriates can also

encounter some serious challenges. Coming from a foreign unit, they do not carry the same level of credibility, respect and status from the home country nationals as the expatriate from the host country nationals (*Harvey et al, 1999*). It has also been revealed that due to fear of losing power and authority from the parent company, there is a lack of cooperation between inpatriates and headquarters employees (*Harvey et al, 1999*). The literature on inpatriation is quite recent and has not been widely explored in the academic literature (*Harvey and Novicevic, 2002; Harvey and Buckley, 2001; Harvey et al, 1999*). Harvey and his colleagues have written the most on inpatriate assignment.

In addition to these two categories of international assignments (inpatriates and virtual assignment), recognition is now being given to a third category of international assignments: **flexpatriates** (as flexible expatriates). It can be for instance a short-term assignment which is a traditional expatriate but usually for less than a year; or a frequent flyer, which is when an employee undertakes frequent international business trips for a few days to a week and does not relocate; or a commuter assignment, which is when an employee travels from his home base to another country on a bi-weekly or weekly basis. Based on different studies, flexpatriates have the advantage to be less costly than a long-term expatriate and to eliminate the problems involved when relocating the entire family members of the expatriate to the host country (*Melone, 2005*). It also allows face-to-face communication with the subsidiary employees without the need for relocation and thus minimizes interruption to the individual's careers and mostly reduces costs to the parent-company. They involved in a wide range of purposes, including market exploration, trouble shooting, project management, and skill/technology transfer (*Nurney, 2001*). Flexpatriates offer flexibility in purpose, skills, location, and timing, in comparison to expatriate assignments, which involve long-term commitments by the organization and the individual in one location. They may also facilitate a global understanding of company operations and the development of global competence more effectively than a long-term placement in one location (*Moore, 2002*). Information from the CReME report (*Petrovic, 2000*) indicates that flexpatriate assignments are financially less complex to administer, there are no relocation costs or repatriation costs and no complicated international compensation packages. It was also shown that flexpatriate assignments do not involve the organization in career management processes that are considered necessary before and after expatriate assignments. Flexpatriates do not face the repatriation disorientation experienced by many expatriates with communities, coworkers, and friends (*Feldman & Thomas, 1992*). On the other hand, numerous problems concerned with flexpatriate are observed, like difficulties to build effective relationships with the host country nationals, the tax management, the unbalanced life creating family's crises, the intensive travel commitments and the high stress involved in that type of assignment can bring poor performance (*Dowling and Welch, 2004; Tahvanainen et al., 2005*).

*Dowling and Welch (2004)* argue that due to cost pressures, high failure rates of expatriate assignments and international staff shortages, companies are increasing the motivation for using a range of alternative forms of international assignments. Academic research on that topic is quite recent and scarce, as the expatriate has received the majority of research attention. In the area of international human resource management, academic research has stressed the need to focus on alternative types of international assignments outside long-term expatriate assignments including flexpatriates, inpatriates and virtual assignment. (*Mayerhofer et al, 2004*) The research articles on the alternatives forms of international assignments have been largely descriptive and conceptual, rather than empirical.

#### 4. CONCLUSION

The aim of this research paper was to recognize when expatriates in excess of costs and difficulties add values in the services offshoring operations. Based on a review and integration of relevant literature in international human resource management and offshoring, the present paper studies the effectiveness of traditional (long-term) expatriate assignment for achieving services offshoring's objectives in the presence of different types of risks. The model sets the ground for future empirical studies and opens the door to a new set of research issues reviewing the HRM policies and practices needed for services offshoring success.

The framework represents a key decision that needs to be made in offshoring of services situations; whether or not a traditional expatriate assignment is an attractive method for offshoring of services operations. The model incorporates research hypothesis to highlight the interrelationship among offshoring and international assignment. The results from our model indicates that only for offshoring strategies that are not exclusively focused on costs does use of expatriates make sense. Within learning/ innovation/ improvement oriented in a firm offshoring strategy, the type of risks companies face will have a positive impact on the attractiveness of expatriates when: (a) the risks originating in the host country are more important than the risks originating in the home country, thereby calling for continuous local control and management; or (b) the internal risks linked to human resources (involving for instance language and cultural barriers, lack of qualified personnel and other teamwork problems) or to governance (involving loss of control, lack of intellectual property protection and data insecurity) is greater than external risks originating in the environment (e.g. varied tax and labour laws, infrastructure and political instability in host country, political backlash at home, and currency exchange fluctuation) on which expatriates may have little leverage.

Even with the high costs and continuing problems associated with international assignments, companies continue to use expatriate assignments (*Scullion and Brewster, 2001*). As there is a growing debate on the utility and viability of the long-term expatriation model, our research proposes alternative global staffing assignments when long-term expatriates are not a good option for offshoring. First due to cost pressure, virtual assignments could be an appropriate alternative for offshoring companies driven by cost savings objectives. Virtual assignees are generally far less expensive than traditional expatriates, due to the reduction of travel and relocation costs (*Holtbrugge and Schillo, 2006*). Second, inpatriates may provide an option as alternative assignment when a location is particularly challenging for expatriates (*Harvey et al, 1999*). It has been showed that they act as boundary spanners to share and diffuse knowledge of different host environment to the parent company and aid in developing a multicultural perspective within the global management team (*Harvey et al, 1999*). We proposed that in the case of firm services offshoring's objective as innovation and learning; the use of inpatriate could be an attractive alternative than long-term expatriates. Third, flexpatriates as another type of international assignment could be considered as a position filler in the host country, and has the advantage to be less costly than long-term expatriate and eliminate the problems when relocating the entire family members to the host country (*Melone, 2005*). Flexpatriates can be used by firms that have set up subsidiaries in developing countries and encounter difficulties finding qualified host country nationals suitable for management positions. In this research paper, the different forms of international assignments have been reviewed, paying attention to the growing importance of non-traditional forms of international assignment. Research suggests that many firms seem to underestimate the complexities involved in global staffing and that companies should take a

more strategic approach to the question of using or not expatriate as international assignment.

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