The use of expatriates in the offshoring of services - Framework and research propositions

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Keywords: offshoring, services, expatriates, international assignment

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ABSTRACT

This paper studies the propensity of using expatriates as one type of international transfer assignees in the context of service offshoring operations. It proposes a theoretical framework that explains the choice of using expatriates as a function of the five main characteristics of offshoring projects: the objectives pursued with offshoring - cost savings, service and process improvement, or innovation and learning -, the type of task offshored - more or less advanced -, the host country risks – the inter-firm relationship or the environmental uncertainty to the offshoring firm -, the offshore governance mode - captive or outsourcing -, and the size of the project. The framework also incorporates firm level moderating factors that are experience (with offshoring and with expatriations) and size. Research propositions provide a framework for companies and researchers to approach international transfer assignment decisions for service offshoring activities in a more systematic way.

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1. INTRODUCTION

“Offshoring” has existed for decades in the manufacturing sector but recently concerns have been raised about the emergence of service offshoring. One of the reasons the service offshoring has gained main attention is its suddenness (Metters and 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 and 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 they were estimated to be 350,000 in India alone (Fox, 2003). With the boost of service offshoring, the amount of interactions among people from diverse countries that companies need to manage is increasing (Black, 1988), and managing offshore operations, coordinating with the onshore teams, and ensuring successful collaboration have become a critical challenge.

Often the objectives set by offshoring companies are only partly reached. The cultural and physical distance between the home and the host companies lead to difficulties in communication, coordination and knowledge transfers, which are important reasons for offshoring projects failure. One way that firms use to address those challenges is to send to the host country an expatriate as international transfer assignee, in order to facilitate collaboration and communication between the home country and the host country entities.

Expatriates have traditionally been considered to play a crucial ‘liaison’ role between home country and host country operations (Edstrom and Galbraith, 1977) and 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. Other firms however prefer to use alternative ways to coordinate onshore and offshore operations. In fact, from previous academic literature using expatriate is also a big challenge, because of high cost, challenge to select and train expatriates, as well as difficulty for the expatriates to adjust to the new environment.
Service offshoring projects differ in their underlying rationale, type of tasks offshored, host country, and captive or outsourced governance mode chosen (Lewin and Peeters, 2006). We expect that these characteristics influence how companies organize for and manage offshoring relationships, including whether or not they rely on expatriates as international transfer assignees. Building on two streams of literature, on expatriates on the one hand and on offshoring on the other hand, we develop a framework that explains the propensity of using expatriates as a function of the objectives of the offshoring project - cost savings, service and process improvement, or innovation and learning - (Lewin and Couto, 2007; Lewin et al, 2009; Lewin and Peeters, 2006), the type of tasks offshored - more or less advanced- (Jensen and Pedersen, 2007), the host country risks – the inter-firm relationship or the environmental uncertainty to the offshoring firm - (Chatfield & Wanninayaka, 2008), the offshore governance mode - captive or outsourcing- (Hutzschenreuter et al, 2011; Manning et al, 2011; Peeters et al, 2010), and the size of the project. The framework further includes firm level moderating factors to account for the effect that experience with offshoring and expatriates, and firm size may have on the propensity of using expatriates for similar types of offshoring projects.

Several studies have already documented the role that expatriates play in the cases of multinational companies, international joint ventures, strategic alliances, acquisitions and green field projects (Selmer, 2005; Geng 2003). As both the drivers but also the challenges of using expatriates may be exacerbated in the case of service offshoring relationships, we argue that more research is needed on the role and the effectiveness of particular types of international transfer assignees in that context. First, offshoring firms usually target emerging economies that tend to be distant not only geographically but also culturally and institutionally (Kshetri, 2007). As a result, relying on expatriates to play a liaison role (Edstrom and Galbraith, 1977) may be even more crucial in those 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 challenging to adjust (Tung, 1981; Black et Gregersen, 1991) to the very different environment of emerging countries. Also, 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). Finally, an important driver of offshoring is cost savings. But past research has shown that using expatriate is costly (Bonache et al, 2006).

Section 2 of the paper provides the theoretical background of the research. First it defines and provides a brief review of the emerging literature on offshoring of services. Second, it summarizes existing research on the advantages and drawbacks of using expatriates as international transfer assignees. Section 3 then develops the theoretical framework and research propositions on the specific relationships between the characteristics of service offshoring projects and the propensity of using expatriates. Section 4 concludes and opens the way for future research on inpatriates and flexpatriates as alternative forms of international assignees that may be relevant in the context of service offshoring.
2. LITERATURE REVIEW

2.1. Growing literature on offshoring of services

The academic literature and the media debate have referred 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 service tasks (Dossani and Kenney, 2007). Offshoring refers to “the process of sourcing and coordinating tasks and business functions across national borders. It may include both in-house (captive) and increasingly outsourced activities which are performed by an external provider (outside the boundaries of the firm). The outsourced activity can be located both domestically (onshore) and/or abroad (offshore)” (Lewin et al, 2009). Further it refers to sourcing rather than sales activities, and it supports domestic or global rather than local operations (Manning et al, 2008). For example, companies in developed countries are now able to source software programming, accounting, or telephone call center services to low wage locations such as India, the Philippines, and Eastern Europe.

International Business scholars have researched the offshoring of manufacturing production for several decades (Vernon, 1966). But recently researchers have started to turn their attention to the offshoring of services. A number of factors drive the trend towards growing 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 referred to offshoring of services as "The Next Industrial Revolution" (Blinder, 2006).

Many articles and books have been published on offshoring, rooted in various research disciplines and focused on different characteristics or impacts of offshoring at the firm, industry, national or global level (Manning et al, 2008). Some studies have addressed the growth of particular offshore destinations, in particular India that, thanks to the quality and quantity of technically skilled labor available, has become the most important provider of IT and software development services (Dossani and Kenney, 2007). Other studies have focused on the role of managers in offshore operations, suggesting for instance that achieving effective cooperation did not depend on the governance mode, nor on choosing a particular offshore location, but rather on specific program managers who engaged in boundary-spanning practices across country and firm borders (Levina, 2007). To that end, Levina (2007) identifies successful practices like facilitating frequent travel in both directions, using technology to create and share knowledge, teaching offshore providers to voice their opinions and to understand why they are not always followed.

In this paper, we investigate the main characteristics of offshoring projects that may determine decisions how to manage offshoring projects. In the area of offshoring, many different strategic objectives have been recognized. The primary driver for offshoring is to realize cost savings from labor arbitrage (Dossani and Kenney, 2004). However, Lewin and Peeters (2006) report an evolution in the strategic drivers, with access to qualified personnel and service improvement as gaining importance. Still others show that the importance of cost savings as a strategic driver of offshoring tends to decrease as companies gain experience with offshoring and experiment with complex and advanced activities offshored (Pedersen and Jensen, 2007). Related to this, offshoring is also no longer limited to simple and standardized tasks (such as test, patenting, service operations, bookkeeping & payroll), but increasingly involves complex and advanced tasks (such as new inventions, design, advertisement,
programming, management) (Jensen and Pedersen, 2007). The idea is that all activities are made up of both extremely complex tasks as well as more simplified activities. For instance, R&D includes standardized and routine tasks such as tests, patent applications, and documentation.

The literature on offshoring has identified a number of challenges that companies perceive in relation to offshoring. The inter-firm relationship and environmental uncertainty from the host-country refer to two different sources of risks in the offshoring context (Chatfield and Wanninayaka, 2008). On the one hand, the inter-firm relationship risks refer to those risks that arise as a result of offshoring relationships. From the study of Chatfield and Wanninayaka (2008), a total of three inter-firm relationship risks were identified including risks related to cultural, language and time-zone differences. On the other hand, environmental uncertainty from host-country risks refer to political (such as political instability, corruption and government effectiveness), financial (such as currency fluctuation, taxes and employees turnover), security (such as intellectual property rights) and technical risks (such as infrastructure). Businesses prefer to operate abroad in countries that are politically stable. However, as in less stable countries wages tend to be lower, companies are often tempted to operate in relatively unstable environments. (Davis et al, 2006)

Furthermore, companies use a range of different governance modes (captive or outsourced models). The mode of governance disturbs the level of control a company has over its operations abroad, the degree of risks associated with offshoring, the amount of effort required to implement and operate the offshoring project, and the extent of know-how a firm can access or leverage (Hutzschenreuter et al, 2011). By using captive offshoring, firms have to provide all of the financial and managerial resources required to implement and run the offshoring project, such as getting permissions from the government, hiring and training employees and managing the all business abroad. On their own, they have to cope with all the challenges of an offshoring implementation. Furthermore, their lack of local knowledge can cause serious delays in the establishment of the offshoring project and putting them in difficulties in resolving problems properly. The great advantage of using captive is that the firm exerts a full control over the offshoring projects and avoids the risk of conflicts with external service providers due to poor service quality or targets that are unreached. (Hutzschenreuter et al, 2011) On the other hand by using outsourcing offshoring, so much effort is spend on information exchange and coordination with the external service provider that efficiency gains are negated. Firms that must share confidential data or information, run the risk of trusted knowledge becoming accessible to competitors. In this case, the loss of intellectual property protection may be a serious threat. Additionally, firms that are becoming dependent on an external service provider may easily lose control over their activities abroad. The great advantage of using outsourcing offshoring is that firms have the opportunity to access critical knowledge on offshoring that would not be available within the firm. An external service provider might have particular know-how in a certain area and might also be able to operate on a large scale which can reduce cost significantly for the firm. (Hutzschenreuter et al, 2011)

The theoretical framework that will be presented in this research paper is based on those main dimensions of offshoring projects: the objectives pursued with offshoring, more or less advanced tasks, the host country risks and the offshore governance mode.

All too often many of the objectives set by offshoring are only partly reached, and sometimes not at all. These failures cause the parent-company to face even more costs (Kuni and Bhushan, 2006). Lack of timely completion of projects and lower than expected quality of products are some of the reasons for
these failures. Linberg (1999) states that offshoring operations offer new cultural learning possibilities to the development team. On the one hand, this added diversity can contribute to the strengthening of teams and to an increase in quality. But on the other hand, cultural and physical distances can also exert a negative influence on work relations and lead to misunderstanding and poor collaboration which in turn lead to poor performance (Cramton, 2001). All in all, time, cultural and physical distances turn out to a main source of why offshore projects fail (Nicholson and Sahay, 2004). For this reason, the offshore company should consider its way of managing offshore operations. One way to address those challenges is to send an expatriate on an international transfer assignment to the host country, in order to ensure successful collaboration and communication between the home and host companies.

### 2.2. Expatriates as international transfer assignees

Aycan and Kanungo (1997) define 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 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 with great attention paid to 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.

Past research has also shown that the failure rate of American expatriates has been estimated between 25 and 40% (Mendenhall and Oddou, 1985) 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 to adjust to cultural differences (Harvey, 1985; Dowling et al, 1994). Extant literature has also paid attention to the preparation and support of other parties (host-country employees and parent country managers and colleagues) involved in the expatriate assignment, and showed that training them 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 attributed to the expatriate himself. It can be caused by other stakeholders such as host-country employees, parent-company managers, mentors and family (Gruszynski, 2007). Dickmann et al. (2008) find that the motives that drive the decision of individuals to take on an assignment abroad are perceived differently from the parent-company managers. For instance, while firms overestimate the impact of prior experience with foreign assignments, financial and family considerations, they underestimate cultural adaptability factors, developmental issues and work/life considerations. Finally, in order to prepare an expatriate successfully, cultural training only is not enough and not always efficient (Morris and Robie, 2001). Also, the majority of training efforts for expatriates are devoted to the pre-departure period, while the post-arrival stage would be a more critical and appropriate period for training expatriates (Black and Gregersen, 1999). Most interestingly, Harzing (2002) reported that there is in fact little reliable empirical research for the claims of high expatriate failure and that it has been spread by careless and inappropriate referencing. The failure rate of expatriates in US multinationals is considerably higher than the European or Japanese counterparts, who hardly experience expatriate failure rates in excess of 10 per cent (Harzing, 1995; Scullion and Brewster, 2001; Tung, 1981). A number of reasons can explain this: i) Europeans have more exposure to
different cultures and languages. ii) European managers were more international in their orientation and outlook than American managers (Scullion and Brewster, 2001), iii) expatriate failure rates may have decrease over time, as companies learn from their mistakes and pay more attention to careful selection and training (Harzing, 1995), iv) a premature end to an international assignment is not necessarily an expatriate failure (Harzing and Christensen, 2004), and v) over the last decades it has become almost traditional to open an article on expatriate by stating that expatriate failure rate is (very) high (Harzing, 1995).

Several authors have researched the reasons why using expatriate but also the shortcomings. Their contributions offer the theoretical background for the present paper. The study of Edstrom and Galbraith (1977) is the first one that theoretically explains why international assignments in the form of expatriation occur. First, expatriates are a crucial mechanism for control. The study of Harzing’s (2001) identified three kinds of controls from expatriates: bear, bumble bee and spider. Expatriates can be used to control subsidiaries through socialization of host employees (named as ‘bumble bees’), through informal communication networks within the multinational (named as ‘spider’), and finally through direct surveillance over subsidiary operations (named as ‘bear’). This study is worth it to be discussed as it goes further than the basic question of why the use of expatriates and sheds light on whether these roles are equally important in different situations. The bumble bee and spider roles appeared to be more significant in longer established subsidiaries while the bear role seemed to be more important in newly established subsidiaries. Second, expatriates are an important mechanism for coordination. 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 and collaborate with others to make a social bond in order to share values and gain trust (Ring and Van de Ven, 1994). Third, expatriates are 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. Finally, 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 (Edstrom and Galbraith, 1977).

Despite the good reasons for using expatriates, there are also important limitations. First, the expatriates can increase the risk of assignment failure because of the difficulty to perform effectively in a foreign country (Tung, 1981) or because of premature end to the assignment (Tung, 1981; Mendenhall & Oddou, 1985). Second, the high cost associated with expatriates is a major challenge for the parent company. An expatriate is very expensive for the parent company, and its failure even more. For instance, it can be very costly in terms of reduced productivity in the foreign location operation, loss of business opportunities and market share, and because it can easily damage the relation with 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). Third, 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). The main reasons for the lack of available candidate expatriates are: i) dual career conflicts and disturbance to children's education (Mayerhofer and Scullion, 2002; Dickmann et al, 2008), ii) limited participation of women in international management (Adler, 2002; Tung, 2004), iii) repatriation conditions falling far from the expectations of the expatriates (Stroh et al, 1998, 2000), and iv) firms not aware of where potential best performers for international assignments are located in the organization (Evans et al, 2002).
Dowling and Welch (2004) argue that due to cost pressures and international staff shortages, companies will look for alternative forms of international assignments. The literature on international human resource management has stressed the need to focus on those alternative types of assignments, such as inpatriates and flexpatriates (Mayerhofer et al, 2004). But academic research on that topic is quite recent and scarce. In fact, despite the high costs, companies continue to use expatriate assignments (Scullion and Brewster, 2001), research has suggested that many firms underestimate the complexities involved in global staffing and should take a more systematic approach to the question of using or not expatriates as international transfer assignees (Dowling and Welch, 2004). The present paper contributes to that effort.

3. THEORETICAL FRAMEWORK ON THE EXPATRIATE DECISION IN SERVICE OFFSHORING

Many offshoring projects do not meet firms’ expectations. The reasons range from increasing management costs to poor quality services that result in disappointment and frustration. Oshri et al. (2009) suggest that collaboration and the ability to share and transfer knowledge between home and host countries is vital to the success of offshoring projects. One way to address those challenges is to send an expatriate on an international assignment to the host country. But as we discussed in the previous section, the benefits of expatriation may be costly and difficult to realize. We therefore expect that using expatriates will be attractive in certain offshoring situations, but not all, and we propose a framework (depicted in Figure 1) that explains the propensity of using expatriates as a function of the characteristics of the offshoring project and firm level moderating factors to account for the effect that past experience and firm size may have on the propensity to use expatriates for similar types of offshoring projects. The framework is useful to understand the factors that make the propensity of using expatriates vary from one project to another.
Figure 1: The propensity of using expatriates in service offshoring

Characteristics of the offshoring projects:

Objectives
- Cost savings \( \text{P1a} (+) \): cost of expatriates
- Service and process improvement \( \text{P1b} (+) \): control
- Innovation and learning \( \text{P1c} (+) \): tacit

Tasks
- Level of complexity \( \text{P2(+) \: tacit knowledge transfer} \)

Host country risks
- Inter-firm relationship \( \text{P3a(+)} \): cultural bridge, coordination, control, position filler
- Environmental uncertainty \( \text{P3b(-)} \): no control, reluctant

Governance mode
- Captive / Outsourcing \( \text{P4 (+) \: control} \)

Project’s size
- Small / Large \( \text{P5 (-)} \: costly, less control

Firm level moderating factors:
- Firm experience
  - with offshoring \( \text{P6a} \)
  - with expatriation \( \text{P6b} \)
  - with the host-country \( \text{P6c} \)
- Firm size \( \text{P7} \)
3.1. Service offshoring objectives

As shown in various studies (e.g. Lewin and Couto, 2007), the primary reason for offshoring is cost savings, which can reach from 20 to 50 per cent. The cost-orientation of an offshoring project is reflected in the search for lower wages, lower transportation costs, and a location that offers subsidies, tax incentives, or other forms of favorable regulations. As illustrated in the literature, the use of expatriates involves high costs. 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 and eight times as much as in developing countries such as China and India. While using expatriates is very expensive for the parent company; the cost of a potential failure on their part is even greater (Bonache et al, 2006). According to Naumann (1992), the direct cost (salary, training costs, travel and relocation) of an expatriate who has failed lies between $55,000 and $150,000 while the indirect cost is even larger (Harvey, 1985). Therefore, we propose that

**P1a:** The greater the importance of cost savings as an objective of an offshoring project, the less likely the firm is to use expatriates.

Companies may also offshore in order to improve processes and services. 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). Offshoring companies tend to have high expectations in the quality of the service in the host country. 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 tend to have higher skill levels than in 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 that most workers in developed nations choose to avoid (Lewin and Peeters, 2006). Offshoring also allows companies to offer unique and highly valued services such as 24/7 customer support, or to speed-up the product development process with follow-the-sun work schedules and hiring more people to perform a given activity (Lewin and Peeters, 2006).

Interestingly, achieving expected quality of service is also perceived as an important risk of offshoring (Lewin and Peeters, 2006). As illustrated in the previous section, to reduce the risk of poor quality services, expatriates can be used as controllers. 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). There are different forms of control that can be fulfilled by international transfer assignees. Expatriates can be used to perform control based on direct surveillance of the subsidiaries, on socialization and/or on the creation of informal communication networks (Harzing, 2001). Therefore we propose that

**P1b:** The greater the importance of service and process improvement as an objective of an offshoring project, the more likely the firm is to use expatriates.
Finally, although cost advantages remain important, **knowledge acquisition and innovation** have become significant drivers of offshoring too. This is due to the increasing shortage of skilled labor (scientists and engineers) in developed countries (Lewin et al, 2009), and the large amount of highly skilled workers in developing countries (Sen and Shiel, 2006). The access to knowledge and skills located abroad would improve competitiveness. The number of scientific and engineering degrees granted in the United States and Europe is stagnating and even decreasing, whereas in developing nations such as China and India, the number of scientists and engineers is growing significantly (Bunyaratavej et al, 2007). The reason is that both China and India are, ironically, taking advantage of US immigration and the visa policies. In the beginning, these policies were established to attract highly skilled individuals from abroad and to offer foreign nationals a chance to obtain 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 start a career in their home country. (Manning et al, 2008) Furthermore innovation– and learning- goals are linked to the offshoring of more advanced tasks and follow a different strategy than the offshoring of less advanced tasks. Cost savings drive a firm’s offshoring of less advanced tasks, whereas companies searching for new knowledge and qualified workers abroad offshore more advanced tasks (Jensen and Pedersen, 2007). Creating, distributing and sharing knowledge is a dynamic process and to be effective must be managed and integrated between the locations. To that end expatriates can be very useful as coordinators and to transfer tacit knowledge. Therefore we propose that

**P1c:** The greater the importance of innovation and learning as an objective of an offshoring project, the more likely the firm is to use expatriates.

### 3.2. Type of tasks offshored

The type of tasks offshored may also influence the propensity of using expatriates. Offshored services can be categorized in different ways. In this paper, we follow Jensen and Pedersen (2007)’s distinction between less and more advanced tasks. Less 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. More advanced tasks refer to more complexes, innovative and qualified activities, which the offshoring firm may not have the possibility to perform in the home country. Increased levels of complexity imply that more stimuli or signals must be processed (O’Reilly and Pondy, 1980). The information load, information diversity, and rate of information change (Campbell, 1988) may therefore require important control, which is a typical role of expatriates (Edstrom and Galbraith, 1977). In the offshoring of more advanced services such as R&D, new software development, medical testing or analysis and technology system design, the tasks involve tacit knowledge and are difficult to codify. Polanyi (1962) define tacit knowledge as knowledge that is “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) or “the way things are done around here” (Spender, 1993). Given that tacit knowledge is not featured in manuals and can only be observed through its application, the parent company may be willing to assign expatriates to the offshore operations to help the transfer of tacit knowledge.
Therefore we propose that

**P2**: *The level of complexity of the task offshored is positively correlated with the propensity of using expatriates.*

### 3.3. Host country risks

The risks involved in offshoring activities have attracted a lot of attention in extant research (Nakatsu and Iacovou, 2009; Hahn et al, 2009; Dhar and Balakrishnan, 2005; Tafti, 2005; Kliem, 2004). Services offshoring operations provide opportunities for savings and growth but can also increase exposure to different kinds of risks. In this section, we identify several risks of service offshoring that are related to the host country and from the study of Chatfield and Wanninayaka (2008) we classify them into two categories: 1) inter-firm relationship risks, and 2) environmental uncertainty.

**Inter-firm relationship risks** involve language and cultural barriers, and time zone differences. According to Nakatsu and Iacovou (2009) projects developed by a team made up of members from many different countries, speaking a variety of languages and separated by time and distance, have greater associated risks. Language barriers make project communication complex. Even when all parties speak English, there may be misunderstandings and misinterpretations due to cultural differences. Also, slang terminology and accents can create problems and hinder communication. Miscommunication can bring incorrect, unclear, ambiguous and inadequate requirements that can decrease a project’s performance. One of the other major apparent risks in the host country is the ‘cultural distance’, defined as the degree to which the cultural norms in one country are different from those in another country (Kogut and Singh, 1988). Cultural diversity encourages the learning of new routines and may result in improved performance (Ghoshal, 1987). Nevertheless, large cultural distances hold back the subsidiary’s integration (Jemison and Sitkin, 1986). Greater cultural distance may lead to misunderstanding, friction and conflict between the home and host country nationals (Adler, 1997).

Expatriates have been extensively used as an effective way to exert control and to manage uncertainties by helping the company to understand local values and norms (Nohria and Ghoshal, 1994; Black and Gregersen, 1999). Expatriates provide a “cultural bridge” between home and the host company that creates a social bond to promote the sharing of knowledge and to gain the trust of host country employees. Furthermore, the lack of required knowledge/skills in the offshoring project from host country nationals, leads to poor quality operations. The level of technical sophistication implemented in a host country can be lower than in the home country. In the end, this can lead to delays, conflicts, lack of motivation and poor quality (Nakatsu and Iacovou, 2009). Indeed, staff risks refer to issues associated with the project staff members that can increase the uncertainty of a project’s success, such as host country nationals who are not familiar with the tasks, who lack the knowledge and skills required for the project, or who are inexperienced and unmotivated. 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. Expatriates usually transfer their ‘know-how’ by training and developing host country nationals (Goodeham and Nordhaug, 2003). Once the decision is made to invest in developing countries and a qualified local national cannot be found or quickly trained, firms choose to send in an expatriate (Edstrom and Galbraith, 1977).
‘Geographic distance’, which lead to time zone differences, is yet another aspect linked to the host country that affects offshore operations through, among other things, the cost of travel to and from the host country and the difficulty in communicating with host country employees. In general, the main difficulties imposed by geographic distance are thought to affect relationships in terms of communication, coordination, control and trust (Herbsleb et al., 2001). It is postulated that the greater the geographic distance between collaborating partners, the more complex and problematic are the interactions between them. Expatriates may be used as a means to counteract these difficulties, especially when considering just how difficult it can be to maintain communication and control over long distances.

The other type of risks perceived in a host country is the environmental uncertainty. Generally the valuations of country risk involve political, economic and security risks. Economic risks encompass aspects including currency exchange fluctuations and security risks including intellectual property protection. Political risks incorporate measure such as corruption, local regulations and governmental laws. Another important challenge is the threat of major disruptions arising from political instability, border tensions between countries and the possibility of war in the 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) Additionally, infrastructures (roads, airports, water system, telecommunications, and electricity) can be very weak in some emerging countries and thus represent a barrier to offshoring. It may be reassuring to companies to send expatriates to mitigate the risks of offshoring to institutionally weak or politically unstable countries. However, expatriates have less control on those external risks and may be reluctant to relocate to unstable countries.

Therefore, we propose that

\[ P3a: \text{The more risky the host country with inter-firm relationship, the more likely the firm is to use expatriates.} \]

\[ P3b: \text{The more risky the host country with environmental uncertainty, the less likely the firm is to use expatriates.} \]

3.4. Governance mode

We expect the governance mode to influence the propensity of using expatriates for service offshoring operations. In this paper, we focus on two modes of governance: 1) captive offshoring which refers to services performed within a wholly owned subsidiary in another country; and 2) outsourced offshoring which refers to services performed outside the boundaries of the firm in a foreign country. Choosing outsourcing is a way to limit the resource commitment in offshore countries. It is particularly adapted to standardized and codified activities that do not require high level of coordination, control and transfer of knowledge. (Manning et al, 2011; Gooris and Peeters, 2011) Using expatriates may therefore be less needed in the case of offshore outsourcing. As the services are performed by an external provider, long term international assignments may also be more difficult to organize. On the contrary, the more complex and the less codifiable an activity is, the more appropriate a wholly owned subsidiary is in order to safeguard the internal knowledge flows. An offshoring company chooses captive also when innovative
activities require a high level of coordination and stronger governance structure that facilitates knowledge flow and integration. Finally a captive offshoring strategy is a way to maintain control over offshore operations (Youngdahl et al, 2008).

Therefore, we propose that

**P4: The propensity of using expatriates is greater in the case of a captive offshore governance mode than with an outsourced governance mode.**

### 3.5. Project’s size

Large projects tend to present a greater investment risk and therefore require more attention from the parent-company. From the study of Welge (1981), it has been revealed that personal coordination intensity grows with the importance of the project to the parent-company.

Therefore, we propose that

**P5: The propensity of using expatriates is greater in the case of a large project than of a small project.**

### 3.6. Moderating factors

Moderating variables affect the direction and/or the strength of the relation between an independent and a dependent variable (Baron and Kenny, 1986). We assume that firm-specific attributes will influence the impact of offshoring project characteristics on the propensity of using expatriates. Our framework considers two firm level moderating factors: i) firm past experience with offshoring and expatriation; ii) firm size.

#### 3.6.1. Firm past experience

Past experience with offshoring and with expatriation can influence the propensity of using expatriates. First, companies learn over time how to benefit from offshoring. Experience with offshoring enables firms to get a better understanding of the benefits and costs involved, while it also helps developing knowledge and trust in their offshoring activities. Firms with greater experience in offshoring better know how to conduct remote activities, which reduces operation risks and their perceived need for control and process. In the 2006 Offshoring Research Network (ORN) survey, companies without offshoring experience rated ‘loss of control’ as their greatest risk (65%).

We expect that companies that are used to work with expatriates successfully in order to manage their international operations will be more likely to manage their offshored services in the same manner. On the other hand, when companies are unsatisfied with their past experience of using expatriates we expect that
they will be more likely to consider other types of international transfer assignments to manage their offshore operations.

Therefore, we propose that

\[ P6a: \text{A firm’s level of prior experience with offshoring moderates the effects of objectives, tasks, host-country risks and governance mode on the propensity of using expatriates.} \]

\[ P6b: \text{A firm’s level of prior experience with expatriation moderates the effects of objectives, tasks, host-country risks and governance mode on the propensity of using expatriates.} \]

3.6.2. Firm size

Using expatriates can be a very expensive way to manage offshore operations. Because of resource constraints we therefore expect that at similar characteristics of offshoring projects, small firms will be less likely to use expatriates. Therefore, we propose that

\[ P7: \text{Firm size moderates the effects of objectives, tasks, host-country risks and governance mode on the propensity of using expatriates.} \]

4. DISCUSSION – alternative forms of international assignment

For a long time the main focus of research on international assignments has been on long-term expatriates, involving the selection process, pre-departure training, cross-cultural adjustment during the assignment and repatriation. The question remains that if offshoring companies do not use expatriates, then how do they manage onshore-offshore relationships? In this section, we discuss the growing importance of and the strategic reasons for choosing alternative forms of international assignments rather than traditional expatriates. Previous academic literature has proposed the concepts of inpatriates and flexpatriates as alternative ways to manage operations abroad. Inpatriate is when an employee moves from the subsidiary to the parent company on a semi-permanent to permanent basis. Flexpatriates can be for instance a short-term assignment or a frequent flyer; or a commuter assignment. Those alternatives may provide an attractive option when a location is particularly challenging for expatriates, when expatriates are too costly for the firm or when high level of control over offshore operations is not required.

A study of PricewaterhouseCoopers (2005) found that three quarters of the companies surveyed identified cost reduction in expatriates as a priority matter (either important or very important) in the development of international assignment practices. Over the past decade, there has been increased scholarly interest in the inpatriation of subsidiary staff into the parent company (Harvey et al, 2005; Reiche, 2006). Inpatriates may provide an option when a location is particularly challenging for expatriates (Harvey et al, 1999). Developing countries that are recognized as difficult assignments for expatriates in terms of quality of life and cultural adjustment are therefore less likely to be accepted by long-term expatriated (Harvey & al, 2001). It seems 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
Inpatriates diffuse knowledge of the 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 headquarters 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 behaviors, which enable them to master future management tasks within the company. Nevertheless, inpatriates can also encounter some serious challenges. Coming from a foreign unit, they do not receive the same level of credibility, respect and status from the home country nationals as do expatriates (Harvey et al, 2005). It has also been revealed that due to the parent company’s fear of losing some of its power and authority, 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 et al, 1999).

In addition to this category of international assignments (inpatriates), recognition is now being given to a second category of international assignments: flexpatriates (as flexible expatriates). 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 alternative forms of international assignments. Academic research on this topic is quite recent and still scarce, as expatriates have 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 inpatriates and flexpatriates (Mayerhofer et al, 2004). When the use of expatriates in certain services offshoring activities is not a good option, hiring inpatriates or flexpatriates may be an appropriate alternative.
5. CONCLUSION

Based on a review and integration of relevant literature on expatriates and service offshoring, the present paper studies the propensity of using traditional (long-term) expatriate assignment in the offshoring of services.

We developed a theoretical framework that models the propensity of using expatriates as a function of the objectives of the offshoring project - cost savings, service and process improvement, or innovation and learning-, the type of tasks offshored - more or less advanced-, the host country risks – the inter-firm relationship or the environmental uncertainty to the offshoring firm -, the offshore governance mode - captive or outsourcing -, and the size of the project. The framework further includes firm level moderating factors to account for the effect that experience with offshoring and expatriation, and firm size may have on the propensity to use expatriates for similar types of offshoring projects. The framework is useful to understand the factors that make the propensity of using expatriates vary from one project to another and the propositions open up avenues for future empirical research on the topic.

Even with the high costs and ongoing problems associated with international assignments, companies continue to use expatriate assignments (Scullion and Brewster, 2001). Contributing to the growing debate on the utility and viability of the long-term expatriation model, we also discussed inpatriates and flexpatriates as alternative global staffing assignments when long-term expatriates are not a good option for offshoring. 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 whether or not to use expatriates in the offshoring of services.

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