

**Talent Management in the Era of Offshoring: A Social Exchange Model
of Turnover in Offshore Employees**

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Talent Management in the Era of Offshoring: A Social Exchange Model of Turnover in Offshore Employees Executive Summary

BACKGROUND: Organizations are increasingly relocating jobs to offshore locations that provide the best value in terms of labor, talent and expense. But managing and retaining offshore employees, who are typically young, educated, informed, diverse and global, represents a considerable challenge. Research is warranted to empirically examine the conventional assumptions of talent management and discover how to develop and maintain healthy relationships between employees and leaders and employees and team members in the offshore environment.

PROPOSED STUDY: Although offshore employees offer unparalleled value in terms of skills to cost ratio, the cultural, demographic and distal differences pose unforeseen challenges of talent management. In line with CHRM's "applied human resource" call to research issue, we propose to identify managerial practices that work best for offshore employees. Our research focuses on the formation of offshore-employees' psychological contracts with the organization. Psychological contracts are defined as perceptions regarding what employees owe to the organization in return for the support provided by the organization. The immediate manager represents the employer 'side' of the exchange relationship between manager and employee, which we propose determines contract fulfillment, and subsequent performance and satisfaction. Contextual factors unique to the offshoring setting include: (1) cultural diversity, (2) physical and social distance, and (3) phone/web based communication. Results of the proposed study will uncover ways to motivate high performance and retention among offshore employees.

GOALS: Talent management among offshore employees raises several practical and theoretical questions. What are the assumptions of an offshore employee and what kind of communication is needed to avoid biases? What type of interpersonal relationship between manager and member is optimum in a multi-cultural environment? How can virtual interaction substitute for face-to-face interaction? What management interventions are best to control turnover problems among offshore employees? In addition to addressing critical issues of practical concern, the research is also designed to make important theoretical contributions: (a) extending psychological contract theory to alternative/new work arrangements, (b) taking a step towards a contingency model of leader-member exchange theory, and (c) examining the interactive effect of psychological contracts and leader-member exchange with respect to turnover.

DELIVERABLES: The CHRM will receive a detailed report including: (1) a summary of offshore employees' perceptions of psychological contract fulfillment; (2) an assessment of the factors that influence employee performance and satisfaction; (3) ways to improve effectiveness of phone and web-based communication, and (4) recommendations for improving retention.

PARTICIPATION, SCHEDULE, and BUDGET: A sample of 200 or more employees in one or more CHRM partner firms who have offshore operations is required. Data collection can begin in the summer of 2006. The final report will be submitted within 3 months after the completion of data collection. Research assistance, travel, supplies, and phone are estimated at \$_____.

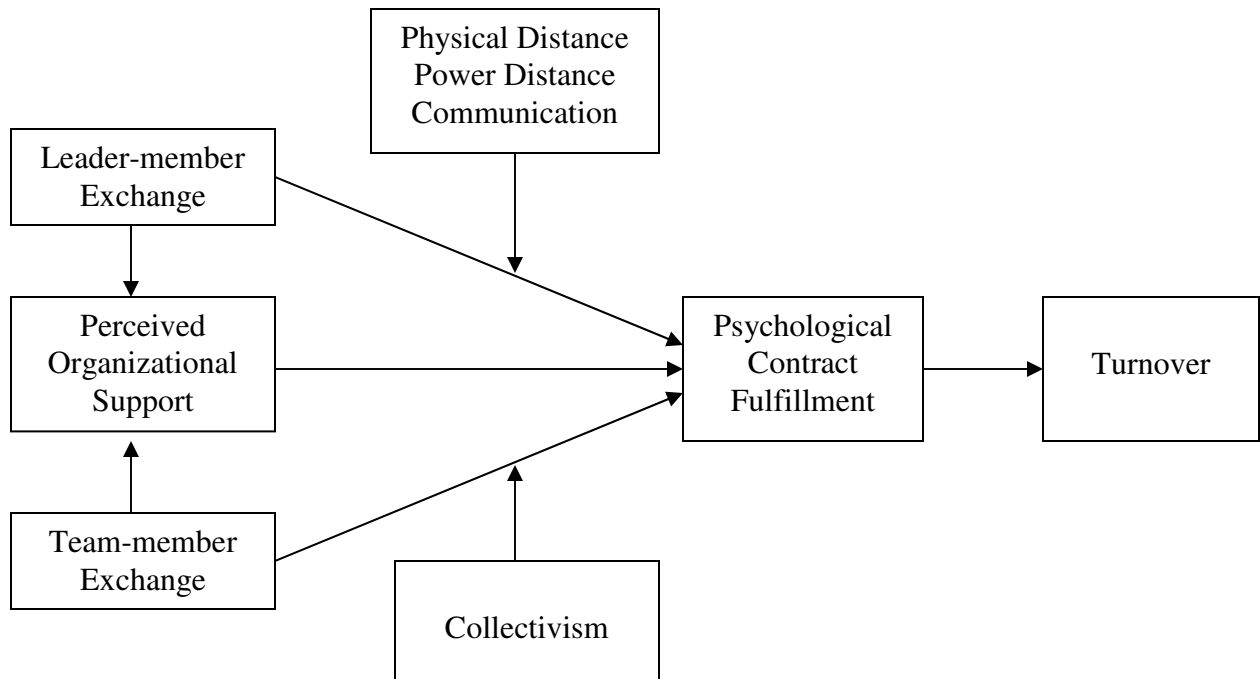
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Rational and Purpose

Organizations continue to outsource jobs to offshore locations with the goal of obtaining the best value in terms of labor, talent and expense. However, studies are needed to uncover ways to motivate offshore employees in order to achieve high performance and retention rates. High turnover among the offshore employees is one of the key concerns of offshore managers. Although numerous studies have been conducted on employee turnover, the non-traditional employment relationship with offshore employees warrants a re-examination of the conventional assumptions of turnover.

The main objective of the proposed study is to take a relational perspective on employee turnover by developing a social exchange model for offshore work arrangements. The proposed research is designed to make an important theoretical contribution by extending psychological contract theory to the context of non-traditional work arrangements. Psychological contracts are defined as perceptions regarding what employees owe to the organization in return for the support provided by the organization. A second goal of the proposed study is to identify cultural moderators of the proposed relationships and assess their effects on offshore employee turnover. By examining the cultural context, the proposed study takes a step towards developing a contingency model of the leader-member exchange and the team-member exchange theories. A third objective is to address issues and concerns of human resources practitioners and prescribe management interventions to control turnover among offshore employees. The conceptual model presented in Figure 1 on the following page guides our proposed hypotheses.

Figure 1: Relational Model of Turnover for an Offshore Employee



Theory and Hypotheses

Although turnover is regarded as a severing of the relational attachments between employees and the organization, few studies have examined the relational perspective of turnover (Mossholder, Settoon, & Henagan, 2005). Research testing social exchange theory (Blau, 1964) has consistently demonstrated that in traditional work settings, the quality of exchange relationships between leaders and subordinates and between team members has considerable influence on work outcomes (Liden, Wayne, & Sparrowe, 2000). The quality of exchange relationships with leaders provides a motivational force to remain attached to the organization. Empirical studies with traditional workers have shown negative correlations between leader-member exchange and turnover intentions (Major, Kozlowski, Chao, & Gardner, 1995; Sparrowe, 1994; Vecchio & Gobdel, 1984; Wayne, Shore, & Liden, 1997; Wilhelm, Herd, & Steiner, 1993). Kahn (1998) suggested that respect, warmth, and personal regard for leaders may translate to work-related connections to the organization. These qualities are similar to affect, loyalty, and respect dimensions of a high quality leader-member exchange relationship (Liden & Maslyn, 1998). Therefore, a strong or high-quality exchange relationship with leaders may dissuade offshore employees from withdrawing from the organization (e.g., Kahn, 1993). Furthermore, Maertz and Campion (1998) noted that positive work relationships can influence individuals to remain with an organization despite their disliking various features of it. The social support that employees derive from relationships with leaders and teammates has long been considered as potentially reducing individuals' withdrawal intentions (e.g., Price & Mueller, 1986).

Maertz and Griffeth (2004) contended that relationships with coworkers play a role in turnover. This is consistent with Erdogan and Liden's (2002) argument that examining leader-member exchange together with exchange relationships that individuals form with their team members constitutes an important development in understanding psychological contract

fulfillment. Team-member exchange describes the relationship between an individual and coworkers. Studies in the team-member exchange literature have found it to relate to attitudinal and organizational outcomes. Mossholder, Settoon, and Henagan's (2005) study suggested a negative relationship between coworker support and turnover. Similarly, Hellman, Witt and Hilton (1993) found that the quality of team-member exchange is negatively related to turnover.

We suspect that the causal link between exchange relationships and turnover is psychological contract fulfillment. We argue that the degree of support employees receive from leaders and teammates is positively associated with the extent to which employees feel that their psychological contracts with the organization have been fulfilled. Employees who enjoy quality relationships with immediate leaders and teammates recognize the loss of fulfillment they would incur in leaving the organization (Seers, 1989). Thus, individuals engaged in high quality leader-member exchange relationships and high quality team-member exchange relationships may be less inclined to voluntarily leave the organization than those experiencing lower quality relationships with leaders and teammates.

Hypothesis 1a: The quality of leader-member exchange is positively related to psychological contract fulfillment.

Hypothesis 1b: The quality of team-member exchange is positively related to psychological contract fulfillment.

Hypothesis 1c: Psychological contract fulfillment mediates the negative relationship between leader-member exchange and turnover.

Hypothesis 1d: Psychological contract fulfillment mediates the negative relationship between team-member exchange and turnover.

Although the organization, leaders, and coworkers all represent exchange agents, they differ considerably in their salience and proximity to an offshore employee. An offshore employee may possess vague knowledge about the organization. The employee may have never seen or met the top management. Due to large physical and social distance, it may be difficult for offshore employees to develop strong connectedness with their employers. Cultural differences together with a large geographical distance may make the organization a distal entity. It is reasonable to expect that terms of psychological contracts are communicated and fulfilled through more proximal agents, such as immediate leaders and teammates. Scholars have theorized and shown empirically that leaders form the 'face' of the organization (Coyle-Shapiro, Shore, Taylor, & Tetrick, 2004). In addition, substantial research has demonstrated that the more employees feel supported by the organization, the more they feel their psychological contract has been fulfilled (Aselage & Eisenberger, 2003). But because leaders and teammates represent a major source of social and emotional support, the more positive these relationships, the more employees feel that they are supported by the organization, referred to as perceived organizational support. For this reason, we contend that employees evaluate the extent to which they are supported by the organization through the relationships that they form with their immediate leaders and teammates. Finally, just as leader-member exchange has been found to be negatively related to turnover, research has revealed that perceived organizational support is also negatively associated with turnover (Eisenberger, Jones, Aselage, & Sucharski, 2002). We contend that the negative relationship between perceived organizational support and turnover is mediated by psychological contract fulfillment.

Hypothesis 2a: The quality of leader-member exchange is positively related to perceived organizational support, which in turn is positively related to psychological fulfillment.

Hypothesis 2b: The quality of team-member exchange is positively related to perceived organizational support, which in turn is positively related to psychological fulfillment.

Hypothesis 2c: Psychological contract fulfillment mediates the negative relationship between perceived organization support and turnover.

Offshore work arrangements may constrain a leader and/or followers and place boundaries on leader-member exchange relationships. Although research suggests that organizational characteristics can affect leaders in several ways, there have been few tests of contextual boundaries in leader-member exchange research (Green, Anderson, & Shivers, 1996). Because offshore employees have limited connection to their organizations, distance and communication with leaders become important factors influencing work outcomes. More specifically, the physical distance, power distance, and frequency of communication are particularly relevant for offshore employees. Based on past studies and related literature, we contend that (a) physical distance, (b) communication frequency, and (c) power distance moderate the relationship between leader-member exchange and psychological contract fulfillment.

Leaders may be located at the offshore office or in the host nation. Napier and Ferris (1993) argued that the physical distance between the leader and the member leads to functional distance, which is likely to weaken the relationship between leader-member exchange and psychological contract fulfillment. Communication facilitates the feedback and the developmental attention in dyadic relationships. In the absence of physical proximity between the leader and the employees, face-to-face interaction is severed. Electronic modes of communication become important means to maintain the exchange relationships with the leaders. Although research has not yet explored the effectiveness of electronic communication in exchange relationships, related literature suggests that electronic communication would have similar effect as face-to-face communication. Therefore a higher frequency of communication (face-to-face or electronic) is likely to strengthen the relationship between leader-member exchange and psychological contract fulfillment. Finally, cultural orientation of offshore employees may have an effect on the leader-member exchange→consequence relationship. Recent studies support the notion that the outcomes of leader-member exchange are contingent upon the cultural orientation of the individuals involved (Erdogan & Liden, 2006). Power-distance may be particularly important for the leader-member exchange→psychological contract fulfillment relationship (e.g., Erdogan & Liden, 2002). The empirical findings in the United States, a low power-distance society, may not hold in other national cultures. Offshore employees with a high power distance orientation, for example, India, may show a weak leader-member exchange→psychological contract fulfillment relationship.

Hypothesis 3: The relationship between leader-member exchange and psychological contract fulfillment is moderated by (a) physical distance, (b) power distance, and (c) communication frequency with the leader, such that these relationships are weaker for high physical and power distance, and low communication.

The influence of team-member exchange on psychological contract fulfillment will also depend upon the importance of team members in the work life of an employee. A typical offshore worker provides support to others in the team, and receives support from coworkers to learn the trade (e.g., Frenkel, Tam, Korczynski, & Shire, 1998). Further values, norms and roles of a team member are likely to be influenced by the workplace culture and individual's cultural orientation. An offshore work location may be high on collectivism.

In relative terms, support from coworkers is more salient for an offshore employee in a collectivistic culture, compared to the individualistic society of the United States. As collectivists give more importance to group phenomena, the quality of exchange relationships with co-workers will have a major influence on the extent to which the psychological contract is perceived to be fulfilled. For a collectivist, the quality of team-member exchange will be of greater importance. Therefore, high collectivism of the offshore society and greater importance of coworker support in the offshore work environment may produce a significant moderating effect of collectivistic orientation of individual on the relationship between team-member exchange and psychological contract fulfillment.

Hypothesis 5: The relationship between team-member exchange and psychological contract fulfillment for an offshore employee is moderated by the collectivistic orientation of the individual, such that the relationship is stronger for individuals high on collectivism.

Relevance to the Research Agenda of the CHRM

The proposed research has been prepared in response to CHRM's "applied human resource" call to research issue. In the recent CHRM roundtable (Fall 2005) presenters asked scholars to look beyond the political rhetoric and economic benefits associated with offshoring. Speakers called for practitioners and researchers to evolve human resource systems and processes to tap and manage the offshore talent. Through the proposed study, we attempt to address the CHRM's call to discover optimal ways of talent management. This research proposal is our effort to answer Ken Schwartz's challenge "How to sail when the wind is offshore?" We integrate theories in leadership, teamwork, the employment relationship and culture to explore methods for facilitating performance and retention among offshore employees.

Method

Participation

A sample of 200 or more employees in one or more CHRM partner firms who have offshore operations is needed to test the model. We propose to administer surveys to offshore employees and their immediate leaders. Participation will be voluntary and study data will be kept confidential.

Design and Procedure

We propose a longitudinal design with multiple data sources. Participants will be asked to complete a paper or web based survey. In the initial survey (Time 1), employees will respond to the measures of independent variables including perceived organizational support, leader-member exchange, and team-member exchange. This survey will also include demographic questions. A leader survey will measure leaders' opinions of leader-member exchange, employee performance, and employees' intention to turnover. A follow-up survey will be administered to the offshore employees after two months (Time 2). This survey will be used to measure physical distance, communication frequency, power distance, collectivism and turnover intentions. After six months of the second survey (Time 3), the turnover data will be obtained from the company records.

Measures

We propose to use the 12-item LMX-MDM scale developed by Liden and Maslyn (1998) to measure exchange relationships between employees and leaders. Team-member exchange will be measured using Liden and colleagues' (2000) 9-item scale. Perceived organization support will be measured using the 7-item scale by Eisenberger, Huntington, Hutchison, and Sowa (1986). We intend to use an adaptation of the 6-item measure of communication frequency developed by Kacmar, Witt, Zivnuska and Gully (2003), adding items on text messaging. We propose to use a 1-item scale adapted from Klauss and Bass (1982) to measure physical distance. Turnover intentions will be measured using a 5-item scale

developed by Wayne and colleagues (1997). Collectivism will be measured using a 6-item scale from Dorfman and Howell (1988). Power distance will be measured using scale developed by Maznevski and DiStefano (1995).

Qualifications of the Investigators

Schedule and Budget

We will be ready to begin the study in the summer of 2006 and plan to provide detailed feedback reports to the CHRM no later than 3 months following the final data collection. We are available to make presentations on-site for participating organizations. Budget:

Research Assistant (summer)	\$_____
Supplies (paper, copying, envelopes, postage)	\$_____
Travel (Air fares, lodging, and meals for two researchers)	\$_____
Total Cost	\$_____

Appendix A: References:

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