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A systems perspective on offshoring strategy and motivational drivers amongst onshore and offshore employees

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ABSTRACT

Extant research tends to view firm level offshoring strategies and micro level motivational drivers as self-contained units of analysis. By contrast, this paper draws on an inductive study of two global service firms to demonstrate how the implementation and success of an advanced task offshoring strategy depends on certain systemic interdependencies between (a) the strategy, (b) onshore employees' motivation to transfer advanced tasks and (c) offshore employees' motivation to spend effort on their tasks and stay with the firm. We analyse how these three elements interact and produce feedback loops to create an 'offshoring system'. Extrapolating from our findings, we propose how the offshoring system is likely to develop within the external constraints set by the attainable expertise of offshore employees and by client demands.

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1. Introduction

With the growing maturity of services offshoring,¹ increasingly complex and non-routine service tasks are being transferred to offshore destinations (Contractor, Kumar, Kundu, & Pedersen, 2010; Mudambi & Venzin, 2010). This development is part of a trend towards a transformational global sourcing strategy, in which offshoring is not only seen as a cost-saving exercise, but is in fact at the very heart of a firm's core value creation and enhancement activities (Clampit, Kedia, Fabian, & Gaffner, 2015; Jensen & Petersen, 2013). Across diverse research areas such as international business, information systems, organizational behaviour and strategic management, researchers have highlighted how such advanced task offshoring strategies can create knowledge benefits and additional cost savings, but at the same time produce transaction costs beyond those created by routine task offshoring (e.g. Dibbern, Winkler, & Heinzl, 2008; Gerbl, Mclvor, Loane, & Humphreys, 2015; Stringfellow, Teagarden, & Nie, 2008). A small number of studies have further shown how individual level processes and social dynamics between onshore

and offshore employees can determine the degree to which onshore employees support advanced task offshoring in practice (Cohen & El-Sawad, 2007; Mattarelli & Tagliaventi, 2012; Metiu, 2006; Zimmermann & Ravishankar, 2014; Zimmermann, Raab, & Zanotelli, 2012).

Overall, there is now considerable research on strategic considerations for offshoring on the one hand, and on individual level processes that underlie offshoring on the other hand. What is less examined, however, are the potential interactions between an offshoring strategy that follows a group level rationale, and the motivational drivers amongst onshore/offshore employees that may stem from local rationales. Several recent field experiences point to the likely presence of such interactions. For example, US onshore employees are known to be motivated by a set of fundamental fears and insecurities when required to train offshore employees and therefore prone to resisting offshoring strategies (Thibodeau, 2014, 2015). Similarly, Indian offshore employees who are top-ranking graduates of prestigious engineering colleges can be solely motivated by the prospect of undertaking creative and challenging tasks and their commitment to the offshoring strategy contingent upon the availability of such tasks (Ravishankar, Cohen, & El Sawad, 2010).

In this paper, we argue that it is necessary to consider offshoring strategies and employee level motivations in relation to each other, in order to better understand the implementation and success of an advanced task offshoring strategy. Our claim is grounded in an inductive qualitative study of two service companies, which examines how department level offshoring strategies,

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¹ In this paper we conceptualize offshoring as the transfer of tasks from an onshore unit (typically in Europe or North America) to an offshore unit (typically in an emerging economy). Offshore units can either be subsidiary units of global MNCs or independent service providers.

motivational drivers in onshore units, and motivational drivers in offshore units depend on each other. Our case analysis revealed that the interdependencies of these 'elements' created an 'offshoring system', and through this affected the implementation and success of an advanced task offshoring strategy. We extrapolate from our findings to suggest how a number of feedback loops shape the dynamics of the offshoring system, within the limits set by certain external resources.

Our research contributes to offshoring research by providing a systemic and more holistic perspective on offshoring strategies and employee-level factors that drive offshoring implementation and success. It also yields new recommendations for practitioners on how offshoring success can be fostered, for example by combining a performance perspective on offshoring with a career perspective, and by creating a joint career pyramid that balances the career aspirations of onshore and offshore employees. In what follows, we will provide a review of strategic considerations for advanced task offshoring, followed by a synthesis of current insights into employee level processes that have implications for employee motivation in offshoring settings. Throughout, we highlight the lack of research on the interactions between offshoring strategy and such employee level processes. This gap in extant research sets the ground for our methods, findings and discussion sections.

2. Background: advanced task offshoring, motivational drivers, and the systems perspective

2.1. Advanced task offshoring

An advanced task offshoring strategy specifies a clear intention to move increasingly complex and non-routine tasks to offshore units. While there are several ways of describing an advanced task, we view them as tasks that are complex and non-routine. Complex tasks are definite pieces of work that include a large set of interrelated subtasks and require comprehensive knowledge and high levels of skill (see Møller-Larsen, Manning, & Pedersen, 2013). Non-routine tasks, in turn, are non-repetitive tasks that are hard to codify (see Kumar, Fenema, & von Glinow, 2009). As part of advanced task offshoring, offshore units are typically assigned increasing managerial responsibilities, ranging from project management to the control of customer relations and ownership of independent profit centres. A strategy of moving advanced tasks to offshore units further includes plans for the future distribution of tasks and managerial responsibilities between onshore and offshore units.

Our perspective of advanced task offshoring accords with an activity based view of offshoring (see Johnson, Melin, & Whittington, 2003), which suggests that offshoring decisions cannot be made at the broad level of functions (such as sales, research and development, or procurement) alone, given the diversity of activities within each element of an organization's value chain. Instead, it is argued that these decisions have to be based on the suitability of particular 'activities' for offshoring (see Dossani & Kenney, 2007). To take examples from our case study, such activities can include IT development and tax return services, which comprise specific tasks such as software coding and tax computations, respectively.

Previous international business research has explored several key aspects of offshoring strategies such as choice of offshoring locations (e.g. Bunyaratavej, Hahn, & Doh, 2007; Gerbl et al., 2015; Mukherjee, Gaur, & Datta, 2013; Schmeisser, 2013), governance modes (Kedia & Mukherjee, 2009; Luo, Wang, Jayaraman, & Zheng, 2013), geographical configurations (Manning, Møller-Larsen, & Bharati, 2015), and organizational (re-)design (Jensen, Møller-Larsen, Manning, & Pedersen, 2013; Lampel & Bhalla, 2011; Schmeisser, 2013). With regard to motivations for advanced task offshoring, a large body of

research across academic disciplines has identified factors that determine the cost-benefits ratio of advanced task offshoring for an organization. This research has considered the potential of advanced task offshoring to reduce transaction costs and generate knowledge benefits for the firm, such as access to local talent and specialist knowledge (see Contractor et al., 2010; Jensen & Pedersen, 2012; Kotabe, Mol, & Ketkar, 2008). Studies have also shown how offshoring creates transaction costs, particularly when the tasks offshored are complex (e.g. Gerbl et al., 2015; Møller-Larsen et al., 2013) and non-routine (Murray, Kotabe, & Westjohn, 2009; Stringfellow et al., 2008). Increased complexity and non-routineness of the offshored tasks can contribute to communication and coordination costs (Handley & Benton, 2013; Karmarkar, 2004) because it necessitates high levels of contextual knowledge, for example, about IT system architectures, end products and cultural specificities (Dibbern et al., 2008). Similarly, non-routine tasks (such as the development of client-specific software solutions) tend to require problem solving skills and higher levels of knowledge and expertise, and therefore create higher costs for training and ongoing support (Karmarkar, 2004). It has also been demonstrated how such transaction costs can be reduced, for example through the social mechanisms of relational governance (e.g. Gopal & Koka, 2012) and the development of social capital between onshore and offshore units (Rottman, 2008).

This body of research thus highlights a multitude of factors which determine the cost-benefit ratio of advanced task offshoring for an organization. However, there are only a few studies on strategic offshoring considerations that simultaneously examine how these considerations are related to employee level processes. One exception is Bidwell's work (2010, 2012), which notes that actual offshoring decisions are rarely uniform throughout an organization, as business unit managers typically have some discretion over these decisions. Bidwell (2010, 2012) draws on the behavioural theory of the firm (e.g. Cyert & March, 1963) to point out that organizations consist of coalitions of multiple elementary units which follow local rationales and goals, rather than aligning with the goals of the organization as a whole. In his case study, Bidwell (2012) describes how managers' offshoring decisions were driven by their evaluations of offshoring with regard to costs and benefits for their particular group, rather than the costs and benefits for the organization as a whole. This implies that local rationales and interests can affect onshore managers' motivation for offshoring. Bidwell's research thus indicates how the implementation of a firm level offshoring strategy depends on unit managers' motivations. However, his work does not address motivational drivers at the offshore sites, or amongst middle managers and non-managerial employees. Moreover, he does not expand on what we might call the reverse influence, namely the consequences that these motivations have for the implementation, success, and the further development of the offshoring strategy.

In a recent study, Manning (2014) touched upon this reverse influence. He described the key firm-level factors that determine how firms react to internal and external challenges that arise during offshoring implementation. Internal challenges in his case study included onshore employees' resistance and offshore employee turnover rates, which are closely related to motivational drivers. Firms in the study worked to mitigate their internal challenges or simply tolerated them. By contrast, a major change in the offshoring strategy, through relocation of operations, occurred almost exclusively in response to external challenges (such as infrastructure challenges), but rarely in response to internal challenges.

In our research, we take a broader perspective, by examining the offshoring strategy in relation to the individual motivations amongst onshore and offshore middle managers as well as non-managerial employees. Put differently, our focus is on the interdependencies between an offshoring strategy and employee

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