Organizational responsiveness to anti-offshoring institutional pressures

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ABSTRACT

We explore the extent of organizational responsiveness to pressures from institutional constituents against offshoring of information technology and business process services. Drawing on a theoretical framework that integrates institutional and strategic explanations, we proposed that organizational responsiveness to anti-offshoring institutional pressures is a function of both the characteristics of such pressures as well as organizations' prior success with offshoring. Results based on survey data from 84 offshoring client organizations indicate the following: Both greater organizational expectations of enhanced social legitimacy and mimetic influences from other organizations led to greater organizational responsiveness. Both conflict of institutional expectations with organizational goals and greater regulatory environment uncertainty reduced responsiveness. Organizational dependence on a key pressuring constituent had no effect. Surprisingly, organizational success with offshoring had no direct effect on responsiveness and we examine why this might be so. However, it attenuated the otherwise strong positive effect of social legitimacy and exacerbated the negative effect of regulatory environment uncertainty.

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1. Introduction

Despite its prevalence and long history, offshoring—the business practice of sourcing information technology (IT) or business process (BP) services from abroad either through a third-party service provider or via captive operations—(Oshri and Corbett, 2011) continues to remain controversial (Bertrand, 2011; Doh, 2005; Levy, 2005; Venkatraman, 2004). The controversy primarily surrounds contended domestic job losses and downward pressure on wages (Levy, 2005; Venkatraman, 2004) when organizations move work offshore. In the back-drop of public backlash and political uproar against offshoring, organizations have faced increasing pressures from a variety of institutional stakeholders to curb their offshore engagements (Bertrand, 2011; King, 2005; Mankiw and Swagel, 2006; Venkatraman, 2004). For example, according to a January 2010 report in *ComputerWorld*, two influential senators from New York publicly urged National Grid USA, a utility company; to not offshore close to 1200 mostly IT jobs to India.[2]

Public outcries against offshoring and concerns of professionals regarding job losses (see Shao and David, 2007; Thelen et al., 2010), activism from union groups, legislative attempts aimed at directly curbing offshoring (for example, 2013 United States Bill titled "*HR 1086: Offshoring Prevention Act*", a 2012 Bill titled "*HR 5542: Bring Jobs Home Act*", and a 2010 US Senate

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[2] *ComputerWorld*, available at: http://www.computerworld.com/s/article/9143338/U.S._senators_urge_utility_to_keep_IT_jobs_onshore (retrieved 23.03.13).

Bill titled "*S.3816 – Creating American Jobs and Ending Offshoring Act*"), and public denouncements of offshoring by high profile politicians exemplify the broader calls against offshoring.[3]

Regardless of the debate over whether calls against offshoring are appropriate, necessary, or effective, scholars do acknowledge the broader anti-offshoring environment across developed Western economies (Bertrand, 2011; Hirschheim and Newman, 2010; King, 2005; Mankiw and Swagel, 2006; Venkatraman, 2004). However, given the numerous strategic drivers of offshoring on the one hand and the pervasiveness of calls against offshoring on the other, it is difficult to imagine organizations as invariably conforming *or* resistant to pressures against offshoring.

Extant literature (please see Table 1 for a brief summary) on offshoring suggests that labor costs savings is one of the primary drivers of offshoring (King and Torkzadeh, 2008; Lacity et al., 2009). However, a variety of strategic drivers beyond labor arbitrage have emerged. These range from access to qualified personnel, faster delivery speeds, business or process performance improvements, access to new markets, refocusing on core business (e.g., Carmel and Tjia, 2005; Currie et al., 2008; Lacity et al., 2011), and the conduct of core activities such as innovation (Nieto and Rodríguez, 2011). An often overlooked set of drivers include corporate tax policies in onshore and offshore countries that together may incentivize organizations to engage in offshoring and gravitate toward captive offshoring models (Bradley, 2011; Clausing and Avi-Yonah, 2007). There is some indication that firms do accrue the strategic benefits which initially led them to consider offshoring (Gokhale, 2007; Oshri et al., 2009b). However, this stream of research also suggests that there is substantial variation in the extent of benefits derived by client firms (e.g., Dibbern et al., 2008; King and Torkzadeh, 2008; Rottman and Lacity, 2008). Other work on offshoring highlights idiosyncratic challenges and risks pertinent to offshore engagements (Dibbern et al., 2008; Gregory et al., 2013; Iacovou and Nakatsu, 2008; Sakthivel, 2007). Another set of studies have focused on captive offshore arrangements in particular and highlight the primary reasons firms opt for internal governance of offshored work along with the associated challenges of such arrangements (e.g., Oshri et al., 2009b). Recent work also provides a glimpse into the direct impact of offshoring on the skill composition of onshore IT workers (e.g., Tambe and Hitt, 2012).

Noticeably absent from the literature is an explicit consideration of the broader institutional environment in relation to either the drivers or consequences of offshoring, especially when institutional processes *against* offshoring are concerned. While the strategic aspects of offshoring are well studied, the extent to which organizations are responsive to broader calls for the elimination (or at least reduction) of offshoring remains an empirical question. Little is empirically known about the prominence of organizational strategic considerations vis-à-vis outside contention regarding offshoring. Further, it is unclear how the extent of strategic benefits organizations derive from offshoring is related to their responsiveness to calls against offshoring. Given the relevance for clients and service providers, scholars have called for a more systematic examination of such broader calls against offshoring and their impact on the future of sourcing (Lacity et al., 2010). More important, despite long standing calls for explicitly incorporating policy in strategic information systems research (Gable, 2010; Galliers and Jarvenpaa, 2002), the implications of and for offshoring related public policy, especially in the anti-offshoring context remain unaddressed.

In this study we address the above gaps by framing this issue within a theoretical lens that integrates institutional and strategic explanations of how organizations respond to institutional pressures (Oliver, 1991; Pache and Santos, 2010). We use the phrase 'anti-offshoring institutional pressures' broadly to denote expectations or demands from institutional constituents that organizations should reduce or eliminate offshoring. The institutional constituents include, but are not limited to, the general public and public opinion, governments, regulatory structures, laws, professions, unions, and interest groups. This view of institutional constituents and pressures is consistent with prior literature (e.g., Goodstein, 1994; Oliver, 1991; Pache and Santos, 2010; Scott, 1995).

The purpose of this research is to develop and test a theory-based model that relates both the characteristics of anti-offshoring institutional pressures and organizations' strategic considerations with organizational responsiveness to anti-offshoring institutional pressures. We develop a conceptual model based on Oliver's (1991) theoretical framework and test its predictions using data from a survey of 84 offshoring client organizations. The context of this study is IT and BP offshoring and the unit of analysis is the organization.

Thus, this research addresses the following broad questions in the context of offshoring. *How responsive are organizations to anti-offshoring pressures? Do characteristics of anti-offshoring pressures determine organizational responsiveness? Does organizational offshoring success determine organizational responsiveness? Does offshoring success interact with characteristics of anti-offshoring pressures to determine organizational responsiveness?*

In the next section we discuss the theoretical framework and develop hypotheses. Following this, we present the method and results. We then discuss the findings, their implications for research and practice, and limitations and suggestions for future research, prior to concluding.

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[3] Examples of other legislative attempts at curbing offshoring include H.R.516: *Bring Jobs Back to America Act* (2011), H.R.1378: *Fighting for American Jobs Act* (2011), H.R.1354: *American Jobs Matter Act* (2011). Details available at: http://thomas.loc.gov/home/thomas.php. Also see: White House Weekly Address: September 25, 2010. Available online at: http://www.whitehouse.gov/the-press-office/2010/09/25/weekly-address-president-obama-gop-leadership-stand-ing-outsourcing-and-s (retrieved 25.03.13). For an example of union activism related to this issue see: http://www.aflcio.org/Blog/Economy/AFL-CIO-Kicks-Off-Bring-Jobs-Home-Campaign (retrieved 25.03.13).