



# Journal of Applied Sciences

ISSN 1812-5654

**science**  
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## Research on Offshore Service Outsourcing and the Related Issue of Corporate Social Responsibility

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**Abstract:** With the trend of economic globalization, offshore service outsourcing is developing rapidly and its related Corporate Social Responsibility (CSR) issues emerge as a result. However, so far, the related research findings are limited. This study based on the CSR theory of stakeholders and the special characteristics of international service outsourcing, discusses the related CSR issues such as the unemployment problem of outsourcer country, the unfair employment problem of recipient country, etc. In the end, it proposes some corresponding countermeasures to solve these problems, such as: firms of offshore service outsourcing should refer to the international standards of social responsibility such as UN Global Compact, OECD Guidelines for Multinational Enterprises and ISO26000, etc., to establish a proper code of ethics within the organization, consult with the host country's stakeholders to understand their concerns of CSR issues impacting on their benefits, try best to reduce the related job losses and protect the interests of employees by training and education to improve their skills and strengthen communication channels with the stakeholders like the government, communities, suppliers and employees, etc., so as to increase their awareness of CSR issues and take measures to resolve these issues. And the administrative authority of the government should play an import role in the creation of a capable or proficient supervision on the CSR issue of offshore service outsourcing, etc.

**Key words:** International service outsourcing, CSR, problem, countermeasure

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### INTRODUCTION

Outsourcing is defined as the contractual arrangement in which one firm permits another firm to produce and sell its products or services in a specific geographical area or market, so that the outsourcer can do well what it can do well and let others do well what it can not do well. This outsourcing contract can be given to a company within country or outside country. When this contract is given to a company outside of country, it is called off-shoring or off-shore outsourcing.

Offshore service outsourcing refers to the activity of service outsourcing conducted across national boundaries with the outsourcer and the outsourcee from different nations in tertiary sectors which consist of all services based industry for example, retail sales, entertainment, healthcare, banking, insurance etc. Due to the difference between countries in labor costs and technological advantages, the outsourcer mainly comes from the developed nation, such as USA and EU, while the outsourcee chiefly originates from the developing nation, such as India and China.

In fact, as a result of industrial transfer in the global sense, offshore service outsourcing is developing very

quickly in the following sectors such as IT, banking and insurance, R and D, human resource management, accounting and auditing, as well as legal affairs. Based on the recent data from the Trade Promotion Committee of UN, the global software and service outsourcing market is growing at an annual rate of 30-40%. And China as the largest developing nation has an increasing rate of 34.8% in service outsourcing in the last five years (Xiao-Neng, 2012). International Data Corporation forecasts that China's IT outsourcing market will maintain a growth rate of 15.3% in recent years. Gartner predicated in 2009 that China's outsourcing business would grow at a rate of 30% between 2009 and 2013 while the world's growth rate of outsourcing would be about 9%. Why has China developed so quickly as a potential outsourcing nation? This is because China may have the following advantages as illustrated by Table 1.

In addition, China News Net 2011 reported that China reached 23.83 billion US dollars of undertaking offshore service outsourcing business from the world contracts, leading it to be the second largest outsourcee nation in the world. This volume accounts for about 23.2% of the total offshore service outsourcing business of the whole world. According to the Circular, enterprises

**Table 1: Advantages of China facilitating the quick growth of service outsourcing**

Type of advantage	Explanation
Support from the government	Chinese government has strongly supported the development of offshore service outsourcing in recent years, for example, the provincial government of Guangdong sponsored the establishment of a service outsourcing research institute in Guangdong University of Foreign Studies in 2009
Large pool of high-level talents and low costs of labor	China has educated a large pool of various talents such as IT experts and financial talents, etc. and what is important is that China's labor cost is still very low compared with other nations such as India
Well-built infrastructure	China has built state-of-the-art infrastructure such as express way, express train, airports and ports telecommunication and other facilities which have facilitated the development of offshore service outsourcing
Good regional location	China mainland, Hong Kong and Taiwan as the great China region are sharing a regional location to lead to the rest of the world with complementary advantages of each other when conducting service outsourcing activities

in 21 Chinese service outsourcing demonstration cities, namely, Beijing, Tianjin, Dalian, Harbin, Daqing, Shanghai, Nanjing, Suzhou, Wuxi, Hangzhou, Hefei, Nanchang, Xiamen, Jinan, Wuhan, Changsha, Guangzhou, Shenzhen, Chongqing, Chengdu and Xi'an, shall, from July 1, 2010 to December 31, 2013, be exempted from business tax if engaging in offshore service outsourcing business, which indicates that the Chinese governments have been strongly committed in promoting the development of offshore service outsourcing through favorite fiscal policies.

With the quick growth of service outsourcing, a few researches have been conducted on the related issue of service outsourcing CSR, for example, International Outsourcing and the Value Chain Upgrading of Chinese Service Enterprises (Xiao-Neng, 2012) argues that companies in developing countries can achieve the upgrading of value chain by outsourcing. Babin (2008) published the paper of The Evaluation of CRS Role on Outsourcing Decision-making, which indicates that the issue of CSR is playing a more and more important role in global IT service operations so that the adoption of global report and ISO26000 social responsibility standard is beneficial for enterprises' taking of a uniform measure in the global value chain.

More researchers have subsequently proposed different concepts of CSR and have made a lot of research findings ever since the proposing of the CSR concept. For example, Carroll (1979) proposed the model of four levels of CSR; Freeman (1984) proposed the theory of stakeholders. In addition, there have been thousands of papers probing into the related issues of CSR from the perspectives of industry, law, economics and ethics, etc.

However, in general, there are limited researches on the CSR issue of offshore service outsourcing. Facing the rapid development of offshore service outsourcing, it is of great importance for researchers to conduct in-depth studies on the issue so as to understand it better and take proactive measures to handle the related issue.

### LITERATURE REVIEW

Corporate social responsibility means business managers' acceptance of obligations to consider

profitability, customer satisfaction and societal welfare of equal values in the evaluation of a firm's performance (Boone and Kurtz, 2005).

The basic elements of CSR cover not only the protection of interests for shareholders, employees and customers but also the protection of interests for the general public in the local community and even the whole world in terms of ensuring sustainable development, protecting environment and contributing to non-business sectors, etc.

Most values of CSR dating back to the 18th century in the Western world like sincere and friendly treatment of employees came from the influence of religious thoughts. In China, there are some researches on the relationship between Chinese Confucian culture values and modern CSR values, arguing that Confucian culture values have contributed to the development of modern CSR values but they are not the same thing (Xiao-Neng, 2012; Hui *et al.*, 2012). In recent years, lots of illegal and unethical events have occurred in China's businesses such as explosion of coal mines, deduction of employee payment in factories, employment of teenagers, tainted milk, pricing-fraud of Wall-mart, etc., all of which show that Chinese enterprises including MNCs in China do exist unethical practices or CSR problems.

In terms of classic pure economic view, one of the representatives is the American Milton Friedman who argued in his article in 1970 that a free private enterprise system, an organization has only one social responsibility, which is to make use of its resources to conduct profit-seeking activities for its shareholders in the principle of open, free and no-fraud competition, that is to say, the only social responsibility of a business in his mind is to maximize profitability for its owners or shareholders. In his argument, an enterprise must produce products needed by the society in the most efficient way so that what is good for the enterprise must be beneficial for the society. In fact, his argument had been based on the theory of Invisible Hand put forward by Adam Smith, the world-famous Scottish political economist in the 18th century. Adam Smith regards private interests and public interests as the same.

On the hand, the idea of the social economics for CSR thinks that the social responsibility of a business not only

includes the profit-making for its investors but also includes the improvement of societal well being.

There are quite a number of similar arguments to the social economic view such as: CSR is defined as the management's acceptance of obligation to the consideration of profits and social well being of equal value in evaluation of a business's performance (Boone and Kurtz, 2005).

As a representative of this field of study, Freeman (1984, 1991) proposed a stakeholder theory of CSR, which argues that the primary objective of a business should exceed profit-making to its owners to involve the protection of all stakeholders' interests. Internal stakeholders such as owners, managers and employees and external stakeholders such as customers, suppliers, government, creditors and local community may be directly or indirectly affected by the operation of the enterprise. These stakeholders are closely related to the development of the enterprise, they share the operation risk of the enterprise, some pay a cost for the operation of the enterprise, some supervise and constrain the enterprise and the decisions of the enterprise must take their stakes into consideration and accept their constraints. Stakeholders of a commercial business may include all those parties which may impact or may be impacted by the operation of a business, which are divided into internal stakeholders such as owners, managers and employees and external stakeholders such as customers, suppliers, community, etc.

In Freeman's stakeholder theory, stakeholders are not only those people who have direct stakes in the firm but also those who are equivalently influential as well, especially in affecting reputation and public image but their stake is more representational of public than direct. Stakeholder theory argues that every legitimate person or group participating in the activities of a firm do so to obtain benefits and that the priority of the interests of all legitimate stakeholders is not self-evident. From this perspective, the groups of stakeholders expand to government and social institutions etc.

In his Strategic Management-Analytical Methods for Stakeholder Management, Freeman (1984) clearly came out with the stakeholder management theory which refers to the management activities management of an enterprise carries out to balance the stake requirements of stakeholders. Based on the theory, an enterprise should consider the interests of all stakeholders rather than those of some major ones.

In addition, CSR can be divided by Carroll (1991) into four levels which include economic, legal, ethical and altruistic social responsibilities. Economic responsibility is the making of profits of a business to its owners,

forming the necessary foundation for it to survive and to be able to contribute more to the society; Legal responsibility refers its legally conducting of business so that it will not be punished, forming the required obligation for it to operate soundly; Ethical responsibility refers to its ethically conducting of business, forming a suggested obligation for it to operate sustainably; Altruistic responsibility refers to its contribution to the society by means of donations to charitable projects, forming a optional obligation of it to operate with better image and more competitiveness. The classification of four levels of CSR at least indicates that the social responsibilities of a business should be more than economic one, namely profit maximization, to include other social responsibilities such as legal, ethical and altruistic (Tan, 2012).

In a summary, the above-mentioned points of view have analyzed the main concepts core values of CSR, however, they have actually expressed one uniform theme which means that the objective of a business should be not only to seek economic benefits for itself but also simultaneously to emphasize social benefits for the general public including all stakeholders, in order to realize sustainable development.

So far, the researches on the issue of offshore service outsourcing CSR have reached the following main points of view concerning its advantages and disadvantages, which are seen as follows.

Researches argue that offshore service outsourcing is an evidence of businesses' irresponsibly seeking for profit maximization, while some other researchers argue that offshore service outsourcing is an economic mechanism of sharing the global welfare.

On the one hand, the researches who believe that offshore service outsourcing is an evidence of businesses' irresponsibly seeking for profit maximization include: Parayil, Blinder, Levy and so on, among whom, Parayil (2005) thoughts that offshore IT service outsourcing is kind of "information capitalism" behavior, which is widening the gap between the rich and the poor in developing nations. Blinder (2006) argued that the increasing offshore service outsourcing is a type of business innovation that is destructive to the employment in North America. He regards it as the third industrial revolution which will take away a lot of job opportunities from EU and US, among which India is the most serious threat. There are, however, also some other scholars who believe that MNCs have created a pool of cheaper labors, who are very low in collective bargaining and can not enjoy the protection of law and the benefit of social security.

On the other hand, the researchers who argue that offshore service outsourcing is a kind of attractive economic mechanism of sharing the global wealth include. Knorringa and Pegler (2006) believed that On the global scale, offshore service outsourcing has greatly improved the working condition for the developing nations by means of extending the global value chain. Who argued that the responsible operation activities of businesses involved in offshore service outsourcing and the collective bargaining of International Labor Organization can effectively improved the working condition for participators from developing nations in the global value chain.

In addition, there are also some scholars who propose a more balanced point of view concerning offshore service outsourcing. For example, Stainer and Grey (2007) argued that offshore service outsourcing is an inevitable fact but a business strategy which can fairly benefit many stakeholders in the global market. Thus, they suggest that businesses should manage the risk of international operation through enhancing corporate social responsibility. Although offshore service outsourcing could increase the revenue of businesses, yet it may exist a potential risk of business ethics, such as the exploration of human resources, the poor working condition of labors, the unfairly lower pay for workers, etc. So they recommend that offshore service outsourcing projects should reach consensus between the firm, owner, employee, government and the general public so as to protect the interests of all stakeholders.

Concerning the related CSR issue of international service outsourcing, there are also some scholars who have proposed some views and research findings, among whom, Babin (2008) argued that many people believe the fact that the CSR issue of outsourcing is an unprecedented new topic of discussion and a predictable future research direction. Youhuan (2010) argued that the introduction of ISO26000 will bring the whole world a new uniform standard of social responsibility guiding the direction of the global CSR movement. Wenzhong (2010) mentioned the specific importance of studying the CSR issue of service outsourcing in his study. However, in general, although there are already some research results on the aspect of CSR issues concerning service outsourcing, there still exists a lack of systematic and in-depth research on the direct-related CSR issue of offshore service outsourcing. Thus, the conduction of an in-depth research on this issue is of practical importance.

## **SYSTEMATIC ANALYSIS OF CSR ISSUES OF OFFSHORE SERVICE OUTSOURCING**

**Causes leading to CSR issues of offshore service outsourcing:** For any kind of business operation, there are some common excuses that may result in the problem of CSR, such as:

- Firstly, business owners may have considered profit-making to be their only objective of business operation and seldom taken care of the interests of other stakeholders involved in their business transactions, which means that they are actually pursuing a kind of short-term transaction management concept or vision in business behaviors rather than a kind of long-term relationship management philosophy
- Secondly, managers and employees may have regarded what they have done unethically or even illegally on the excuse that it is good for the protection of owners' investment interests or the protection of the majority of stakeholders' interests. But they may have forgotten the interests of some stakeholders
- Thirdly, managers may have thought that since quite a number of other businesses have been not socially responsible in their business operations, yet they have not been badly impacted or seriously punished, their businesses may have no profit-making opportunities or lost competitive advantages if they have not done as others on the excuse in a fluke mind that there would be very few chances of being caught even if they have conducted some unethical activities

But of course, as for the causes leading to CSR issues of offshore service outsourcing, there may be some specific unique reasons which can be seen as follows:

- Different countries have different traditions, customs, religions, social systems, legal systems so that ethical standards vary from country to country. When offshore service outsourcing activities are conducted across countries, the issue of CSR in offshore service outsourcing may arise. For example, in terms of gift-giving or dinner-inviting customs, China may tend to consider the giving of even a big gift or the inviting of a big dinner party as something very natural or even nothing to do with the real problem of business bribery while these activities may be regarded illegally or unethically according to the norms of the US or more strictly regulated

society, where there are more specifically defined norms for the value of a gift and the inviting of a dinner to a overseas client or business cooperative partner

- The shortage of a related ethical standard in the international community may have resulted in the CSR issue of offshore service outsourcing, for example, in the world today, SA has announced SA8000, ISO has announced standards like ISO14000, UN has proposed the Global Compact and OECD has announced the Guidelines for Multinational Enterprises, etc. However, all these ethical standards are not of any legal binding enforcement, so their influences are limited. In addition, these CSR standards are mainly focusing on a specific aspect of businesses' social responsibility, e.g. SA8000 concerns about the issue of labor protection and ISO14000 concerns about the issue of environmental protection, etc. The newly published ISO26000 concerns about more aspects of social responsibility but it is a broad consideration of social responsibility issues, which may not applicable to the specific situation of offshore service outsourcing
- Different perceptions between the host nation and the home nation may lead to the CSR issue of offshore service outsourcing as well, for instance, in terms of the employment benefit of offshore service outsourcing, when it is deemed from the perspective of an outsourcer's nation, it may be considers to unethical because of the loss of employment opportunities, while it can be regarded as an ethical action by the outsourcee's nation as the new job opportunities have been thus created by the outsourcing contract
- The government authority's lack of technique in the supervision or low efficiency in control of offshore service outsourcing activities. For instance, a lot of government administrators do not have a sufficient understanding of corporate social responsibility problems, not saying the CSR issue of offshore service outsourcing and they may be in shortage of related skill in checking and preventing the issue, which results in the possibility of the occurrence of such an issue

In the end, the social supervision on the CSR issue of offshore service outsourcing is not in place or limited in effect. For example, the related customers may have considered the high costs of consumer protection so they have just kept silent although they have discovered the issue; the media may have never paid attention to such a kind of CSR issue as offshore service outsourcing is quite a new type of business operation mode or business strategy and the related CSR issue has not caught on their eyes in reporting transparency.

**Stakeholder analysis of CSR issues of offshore service outsourcing:**

Based on the stakeholder theory of Freeman (1984), a business may have internal stakeholder such as owners, managers and employees and external stakeholders such as shareholders, creditors, customers, suppliers, community and government. Business operations will affect the interests of stakeholders who in turn will affect the success or failure of business operations. In relation to offshore service outsourcing, the CSR issue may occur as a result of the consideration of stakeholders' interests from the across the national borders (Table 2), for example:

- **Stakeholders of owners or investors:** Owners in the outsourcer's home nation worry about the CSR issue of leaking or loss of patent and core technology in the operation of offshore service outsourcing, while owners in the outsourcee's nation worry about the illegal or immoral actions of the firm which may negatively impact their investment returns or sustainable profitability
- **Stakeholders of employees:** The CSR issue concerned by the employees from the outsourcer is the potential loss of job opportunities or job-cutting as a result of outsourcing, whereas the CSR issue concerned by the employees from the outsourcee is the unfair treatment of pay and social benefits as a kind of sweatshop or poor working condition. Taking the example of US, in the economic recessionary scene world over, one of the hot debates is job loss due to offshore service outsourcing, especially in the US. Media is full with one or the other public poll,

Table 2: Summary of CSR issues of offshore service outsourcing based on main stakeholders

Stakeholders	Outsourcer's nation	Outsourcee's nation
Owners	Leaking or loss of patent and core technology	Illegal or immoral actions
Employees	Potential loss of job opportunities	Unfair treatment of pay and social benefits and sweatshops
Communities	Loss of jobs from the local society and the loss of taxes	Environmental pollution cultural erosion
Governments	Breaking the home nation's law and regulation although not breaking the host nation's law or regulation	Breaking the host nation's law or regulation although not breaking the home nation's law and regulation

showing the majority of public opinion against outsourcing. Every now and then there is a news report suggesting some policy or legislation change forbidding companies in US to outsource their functions. President Obama has been open in his views favoring restrictions to offshore outsourcing. All in all from public to media to business intellectuals to the political leaders share one opinion that outsourcing is snatching American jobs away from America (mainly to India) and it needs to stop ASAP

- **Stakeholders of the community:** The CSR issue concerned by the outsourcer's home community is the loss of jobs from the local society and the loss of taxes, while the CSR issue concerned by the outsourcee's community is the environmental pollution and cultural erosion caused by the outsourcing activity. In addition, brain drains are also worried CSR issues
- **Stakeholders of governments:** The CSR issue damaging the interests of the government from the outsourcer's nation is the concern of breaking the home nation's law and regulation although not breaking the host nation's law or regulation when the outsourcer conducts outsourcing projects such as business bribery to the host nation's politicians or business partners, while the CSR issue damaging the interests of the government from the outsourcee's nation is the concern of breaking the host nation's law or regulation although not breaking the home nation's law and regulation

In a word, offshore service outsourcing activities involve across-country stakeholders so the CSR issue becomes more complicated and special. It is of importance to make an analysis of these issues involved so as that the related enterprises may have a better understanding of offshore service outsourcing and maintain the successful operation of offshore service outsourcing.

#### **CONCLUSION AND SUGGESTION**

The study concludes that the related researches on the CSR issue of offshore service outsourcing are somewhat lagging behind, so it is necessary to conduct timely studies of this issue to promote the healthy development of offshore service outsourcing in the global market. Based on stakeholder theory and the specialty offshore service outsourcing, it makes an analysis of its CSR issues from the three aspects such as the CSR issue caused by different cultural values in different countries, the CSR issue caused by the shortage of an effective

uniform standard of ethics and the CSR issue caused by the country-specific conflicts of interests between nations; there are some core stakeholders and their corresponding CSR issues such as: the CSR issues concerned from the perspective of the outsourcer are mainly the loss of jobs in the local community, the illegal operation of the firm for investors, the right to be heard for customers, etc., while the CSR issues concerned from the perspective of the outsource mainly focus on the unfair treatment for employees, the pollution of environments for community, etc.

It finally suggests that firms of offshore service outsourcing should refer to the international standards of social responsibility such as UN Global Compact, OECD Guidelines for Multinational Enterprises and ISO26000, etc., to establish a proper code of ethics within the organization, consult with the host country's stakeholders to understand their concerns of CSR issues impacting on their benefits, try best to reduce the related job losses and protect the interests of employees by training and education to improve their skills and strengthen communication channels with the stakeholders like the government, communities, suppliers and employees, etc., so as to increase their awareness of CSR issues and take measures to resolve these issues. But of course, the administrative authority of the government should play an import role in the creation of a capable or proficient supervision on the CSR issue of offshore service outsourcing while non-governmental organizations or especially the industrial association of offshore service outsourcing as an NGO should develop a specific industrial standard of CSR for the direction of all the related firms' ethical behaviors.

#### **ACKNOWLEDGMENT**

This study is sponsored by the Project of 2012 Postgraduate Teaching Reform (12GWYJSJG-10) and the Project of Research Center of Cantonese Merchants, Guangdong University of Foreign Studies.

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