



Co-evolution of institutional and organizational factors in explaining offshore outsourcing

Somnath Lahiri^{a,*}, Ben L. Kedia^b

^a Department of Management and Quantitative Methods, 232 College of Business, Illinois State University, Normal, IL 61790, USA

^b Robert Wang Center for International Business Education and Research, The University of Memphis, Memphis, TN 38152, USA

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ABSTRACT

Offshore outsourcing of business functions is widely practiced by firms in advanced economies. Although scholars have argued for various theoretical perspectives in explaining its nature and implications, a coherent explanation of how crucial factors that aid this growing phenomenon coevolve has not been offered. Further, a potential gap in the extant literature concerns inadequate simultaneous attention to clients and providers – the key actors in offshore outsourcing. With an aim to fulfill these research gaps, we provide in this paper an integrated framework wherein we delineate various institutional and organizational factors that coevolve to enable engagement of clients and providers in offshore outsourcing. Our conceptualization draws from information obtained by interviewing 46 executives of 31 firms of the Indian business process outsourcing industry.

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1. Introduction

The phenomenon of international or offshore outsourcing that involves transferring business activities and/or processes to independent third-party providers located overseas has generated tremendous interest in recent years in both academic and managerial circles. Over the years, a significant body of literature has blossomed in scholarly journals and practitioner-oriented outlets that have discussed the antecedents, processes, and outcomes of offshore outsourcing at the firm, societal, and national levels (Doh, 2005; Engardio & Einhorn, 2005; Niederman, Kundu, & Salas, 2006; Weidenbaum, 2005). Despite the impressive growth, two underlining aspects of the evolving literature are its lack of (1) simultaneous consideration of institutional and firm-level factors that help initiate and propagate the practice, and (2) concurrent attention to the outsourcing firms (hereafter *clients*) and overseas vendors or supplier firms (hereafter *providers*). Such shortcomings do not allow for portraying the complete picture of offshore outsourcing.

Extant literature suggests that firms are embedded within their institutional environments and recommends that the decisions of top managers to engage in any strategic practice should be viewed as a joint outcome of the influence of institutional and organizational factors (Hrebiniak & Joyce, 1985; Koza & Lewin, 1999). While most articles relating to offshore outsourcing have explained various drivers that enable the practice (Niederman et al., 2006; Kshetri, 2007), very little scholarship have gone to the extent of elaborating on the factors that are present on the client as well as the provider

* Corresponding author. Tel.: +1 309 438 8452; fax: +1 309 438 8201.

E-mail addresses: slahiri@ilstu.edu (S. Lahiri), bkedia@memphis.edu (B.L. Kedia).

sides which, taken together, explain why the respective actors decide to engage into and continue the practice of offshore outsourcing. In fact, barring handful of published articles (e.g., Kedia & Lahiri, 2007) that have discussed the contexts of both clients and providers, most research have focused on the clients and very few on the providers (e.g., Feeny, Lacity, & Willcocks, 2005; Levina & Ross, 2003).

We contend that fulfilling this dual gap in the literature may be achieved by utilizing the coevolutionary perspective of firm dynamics (Koza & Lewin, 1999; Lewin & Volberda, 1999; Volberda & Lewin, 2003). Having academic roots in biological sciences this perspective suggests that “coevolution of organizations is an outcome of the interplay between forces internal and external to organizational environments” (Lewin, Long, & Caroll, 1999, p. 539). Our purpose in this paper is, therefore, to provide a coevolution based framework of offshore outsourcing that entails understanding of simultaneous evolution of institutional and organizational factors that propel clients and providers to engage in offshore outsourcing. By drawing on prior research and utilizing qualitative data collected by interviewing 46 top executives in 31 business process outsourcing (BPO) providers in India, we seek to address three related research questions. What are various institutional and organizational factors that drive clients and providers towards offshore outsourcing? How can offshore outsourcing be understood as coevolution of institutional and organizational factors? Finally, how clients and providers coevolve as strategic partners in offshore outsourcing?

Our prime contribution lies in utilizing the lens of coevolution in explaining the phenomenon of offshore outsourcing. By addressing three relevant research questions, we not only narrow the theoretical chasm that currently exists but also extend the outsourcing literature in a manner that will provide foundation for future research endeavors. The remainder of the paper is structured as follows. First, we provide an overview of the coevolution-based perspective and suggest why it may be important in the context of offshore outsourcing. Second, we explain our research methodology in collecting qualitative data from the Indian providers. Third, we develop and explain the components of a coevolution-based framework of offshore outsourcing (Fig. 1). We conclude by discussing theoretical and practical implications of our framework.

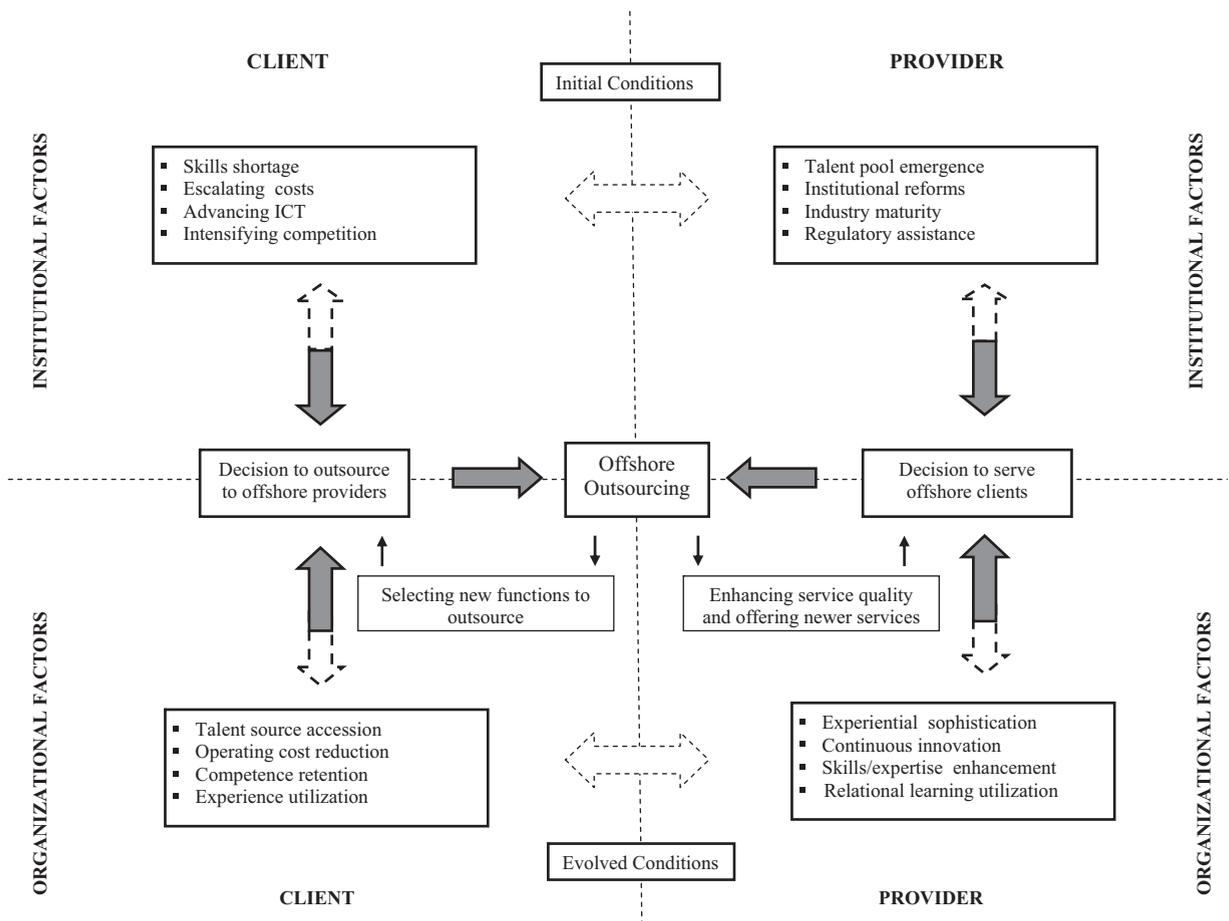


Fig. 1. A co-evolution based framework of offshore outsourcing.

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