GOOD ECONOMICS OR BAD CONTEXT:
ATTAINING A BALANCED PERSPECTIVE ON PRESENT PRACTICES, HISTORICAL DEVELOPMENT, AND THE
LEGACY OF OUTSOURCING IN THE CONTEXT OF GLOBALIZATION

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Acknowledgement

I have no friends. I have no enemies. I have only teachers.

- Native American Proverb

To all my teachers....
Abstract

Outsourcing is a growing industry that is used in both the private and public sectors, from banking to pharmaceuticals, insurance to energy, retail to software, and social security to entertainment. It is an industry that has drawn argument from both sides in economically developed and developing countries. Supporters believe it is necessary and good for global economic development for everyone, whereas opponents in developed economies point out the shipping of jobs from their countries. Some in developing economies consider it an extension of colonization despite the short-term economic benefits to their economies. In three essays, this research examines outsourcing in its historical context in India, its development across three industries over decades, and the management practices in outsourced organizations through strategies such as National Identity Management (NIM).

Outsourcing came into existence along with the first major multinational company of the world, the East India Company. Essay one examines how outsourcing is embedded in the context of power imbalance, unequal status, and the legacy of colonization that affects outsourcing today in India. Essay one shows that the context in which firms operate is important and that it is shaped significantly by history.

In essay two, the development of outsourcing is examined in three industries: advertising, the semiconductor industry, and business process outsourcing (BPO). Using comparative historical analysis and path dependence method, common and unique factors across each industry are identified. This allows a nuanced understanding of the outsourcing industry that has been missing from the scholarly literature.

Essay three uses the existing knowledge of trust in e-commerce and inter-personal deception theory. It also examines the effects of the location of call centers, the context of interaction, the type of call center, and the practice of NIM on the trusting belief and trusting intentions of customers in a call center. It was found that the trusting beliefs and intentions are lower in international call centers, but
even lower when firms practice NIM. It appears that a more honest, subtle, and customized approach towards customers can do better at earning their trust than engaging in practices like NIM to earn customer trust.
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Background

Businesses view going to other countries as a natural part of geographic expansion beyond their national boundaries in search of new markets for their products and services, raw materials, or human resources. The difference in wages is often cited as the prime reason for outsourcing. Other motives for outsourcing include focusing on core competencies, converting fixed costs to variable costs, accessing markets, and taking advantage of supplier knowledge (Chesbrough & Teece, 2003). The market for the business and information technology services sector exceeded $450 billion US in revenues in 2011, is projected to grow between 5-12% per annum over the next five years (Wilcox & Lacity, 2012), and was a global industry of approximately $480 billion in 2012 (Plunkett Research, 2013). Business services that are outsourced include human resources, accounting, legal services, marketing, and information technology. Twenty-eight percent of outsourced jobs belong to the IT sector, 15% to sales and marketing, 11% to the finance sector, and 9% to the administrative sector. The remaining 22% include customer service, data management, and tourism. Sixty percent of all organizations are engaged in IT outsourcing and about 10% in marketing and sales (Baltzan, Haag, & Phillips, 2009, p. 253). In 2006, the outsourcing industry accounted for jobs worth $1.2 trillion per annum, and economists have predicted that more than 3.3 million US jobs and $136 billion worth of wages will be outsourced to Asian and African countries by 2015. Some economists consider over-outsourcing as one of the factors causing economic recession since the outsourcing countries do not have enough alternate jobs to absorb those who are laid off (Tajdini & Nazari, 2012).
Figure 1. Outsourcing, Globalization and the *Zeitgeist*

Outsourcing and globalization are in the *Zeitgeist* since last few years. Many researchers consider outsourcing to be a subset of globalization and connected by various issues such as the global commodity chain (Gereffi & Korzeniewicz, 1994), global networks (Castells, 1996), and the internationalization of production and the division of labor (Beck, 2000; Robinson, 2003). Thus, outsourcing has emerged as an integral part of globalization literature. Though the social, cultural, political, economic, technological, and physical domains of globalization are not mutually exclusive and significantly overlap with each other (Gopinath, 2008), globalization has been primarily studied ahistorically (Bhawuk, 2011, 2014). Therefore, understanding the nature of globalization and outsourcing would be incomplete without understanding their historical roots and, as the outsourcing industry matures, its study requires a multi-method approach, which is attempted in this research.
Globalization is often viewed positively in economically developed countries, whereas it generally has a negative connotation in developing economies. Proponents of globalization refer to the increased economic growth in developing economies, for example in Brazil, Russia, India, China, and South Africa (BRICS). Also, there has been an increase in trade between the North-South, a global socio-economic and political divide, and in knowledge-sharing through the diffusion of technologies such as the growth of satellite-based communications. Dreher and Gaston (2008) developed a comprehensive measure of globalization with several variables from the economic, political and social sectors and, using the panel data, he concluded that globalization has a positive growth effect and countries with higher globalization will grow faster. Rao, Tamazian, and Vadlamannati (2011) showed that, though smaller than anticipated, countries with higher levels of globalization have a higher growth rate.

Critics of globalization point out that development has been asymmetric: Kalwij and Verschoor (2007) found that there are large regional variations in the capacity of growth to reduce absolute poverty. According to Tomlinson (1996), globalization is a process that unevenly distributes its benefits and risks, increasing the North-South divide. According to a McKinsey Global Institute report (2003), of the approximately $1.45-$1.47 of value derived from every dollar spent offshore by US firms; they receive $1.12-$1.14, while foreign firms receive $0.33 of the value. Income taxes paid by H1-B visa holders and software and service imports provide an aggregate benefit to the U.S. economy of $16.8 billion from India alone (Endleman, 2003). The revenue of India from the IT-BPO industry at the same time in 2003 was close to $3 billion (D&B Research, 2008). As one party tends to gain more than the other (becoming apparent over subsequent years), it creates bitterness in the disadvantaged party which is not conducive to the equal contact that is necessary for non-prejudicial interaction between people from different cultures (Bhawuk, 2014).
Katatsheh and Rawashdeh (2011) posit that with all of its instruments, globalization reflects U.S. hegemony over the entire process of dialogue between the North-South. Stiglitz (2007) calls this gap a democratic divide because the dominant party often has the upper hand in deciding policies that favor them. For example, investment arbitration operates as an international system devoid of core democratic principles. Both in its process and outcomes, investment arbitration appears to contribute to the democratic deficit (Stiglitz, 2007) because public interest regulations promulgated by host states have been particularly under attack by investors who are not elected officials (Choudhury, 2008). Critics claim that trade and globalization policies do not serve the interests of the poor and are potentially seen as another way for the continuation of economic imperialism by developing nations who are still trying to achieve same level of progress as developed nations (Mills & Hatfield, 1998). Hymer (1979) argued that the trend of differential allocation of responsibility and the transfer of only technical know-how may result in the neglect of the long-term interests of a host country, unless the host country proactively adapts counter measures and precautions. Multinational corporations make less mutually collaborative linkages in small and developing economies and instead more extensive linkages in larger economies due to governmental pressure and a regulatory framework (Lall, 1974). Therefore, the Human Development Report (1999) concluded that globalization aids local advancement only with strong governance.

Therefore, negative connotations for outsourcing in developing economies are observed in comments such as cyber coolies (Bidwai, 2003) and electronic sweatshops (Attewell, 1987), despite the economic benefit resulting from participation in the global market. From the outsourcee perspective, some argue that outsourced jobs have a neocolonial nature (Bidwai, 2003; Bhagat, 2007). India is the leading destination for outsourcing. One of the major reasons India emerged as a leader in the BPO sector is due to its vast workforce with English-speaking
skills. The foundations of this educational system were laid during the early rule of the East India Company. In India, the difference in salary between two equally experienced Indians, one who can speak English and one who cannot, is 400-500% (Southmayd, 2013). If this industry is providing such a generous remuneration and an opportunity for economic growth, one wonders why outsourcing has a negative connotation in India and other countries. A call center agent in India narrating experiences of abuse in a case study commented that we live in a world where some still think that the British rule India (Coyle, 2010). Thus, the answer to this question seems to be pointing toward the colonial history of India. However, research on outsourcing has neglected to examine the historical roots of such negative comments found in the popular culture. Historical analysis was carried out in essay one to uncover the roots of such negative feelings.

Business researchers have studied industries throughout their history to gain a deeper understanding of the changes in an industry and how they may shape the future. Hannan (1997) studied the European automobile industry from 1886 to 1982; Zelner, Henisz, and Holburn (2009) studied the global electric power industry from 1989 to 2001; and, Han (1998) studied the Japanese banking industry from 1873 to 1945. However, there is no such study of the outsourcing industry; essay two attempts to fill this gap in the literature. Since outsourcing is employed in various industries, there may be much to learn from the similarities and differences across the industries that use it. In essay two, industry level analyses were carried out in three areas (advertising, the semiconductor industry, and business processes) to uncover factors that are both common across and special to these areas.

Public opinion of outsourcing has a negative connotation associated with it in developed economies because it is inextricably linked to the issue of job loss (Mankiw & Swagel, 2006). Blinder (2006) estimated that 22 to 29 percent of total US jobs will potentially be outsourced in
the next few decades. Roberts (2013) argued that outsourcing by US corporations has permanently lowered US tax revenues, the US GDP, the tax base, and has contributed to the widening deficit gap. Some economists support the idea that over-outsourcing is one of the factors causing the economic recession since the outsourcing countries do not have enough alternate jobs to absorb those who are laid-off (Tajdini & Nazari, 2012). President Obama maintained an opposition to the outsourcing of jobs in his first debate in the 2012 presidential elections (Rangnathan, 2012). Popular attitude towards outsourcing is shaped less by economic consequences and more by the concern that US workers are at risk of losing jobs to others (Mansfield & Mutz, 2013).

Contact hypothesis (Allport, 1954) lists equal contact to be an essential condition for successful intergroup interaction. However, there is inherent inequality in outsourcing due to in-group out-group considerations between developing economies and developed economies. This is further aggravated by context, power-sensitive feelings and ethnocentric tendencies that are present in intercultural interactions (Bhawuk, 2014). Holman, Batt, and Holtgrewe(2007) noted that call center work has come to be regarded as “paradigmatic” of the globalization of service work. Thus, it is quite challenging to manage interaction between clients and service providers in an outsourced call center. As a result, a good economic argument for outsourcing is surrounded by negative context in developed economies. Many organizations have adopted an approach called National Identity Management (NIM) where outsourcers take measures at various levels to hide the identity of the location of call centers. For example, call center employees use American names and say that they are located in a US city. Therefore, in essay three, I developed hypotheses using existing models of organizational trust to examine the perception of NIM in the US.


Literature Review

Definition.

“Outsourcing is specialization outside the firm. This occurs when firms opt to
‘buy’ rather than ‘make’ in-house. That is, outsourcing involves greater
specialization as firms switch from sourcing inputs internally to sourcing them
from separately owned suppliers” (Abramovsky, Griffith, & Sako, 2004, p. 2)

Veltri and Saunders (2006) argue that outsourcing is a make or buy decision. When a
firm decides to buy a service from outside the firm instead of performing it in-house, this is
outsourcing. Outsourcing, therefore, is the act of moving some of firms’ processes to providers
that are external to the organization. Processes can involve both service and manufacturing.

Organizations are often viewed as open systems following general systems theory
(Bertalanffy, 1972) where they take a number of inputs from the environment including raw
material, capital, and human resources, which undergo a number of processes to generate
products and services that are sold on the market. The organization receives feedback from the
environment about how its product is doing and it uses that feedback to refine the processes.
Processes are a collection of activities in the organization. Thus, an organization is represented
as a set of processes; ‘i’ denotes the number of processes that vary from 1 to ‘n’. If the
organization decides to buy ‘x’ number of processes, which is a subset of those ‘n’ processes,
then the number of processes that it performs internally are ‘n-x’. Thus, the firm is said to have
outsourced ‘x’ number of processes.

The outsourcee organization procures inputs from the environment and the outsourcer
and transforms them using its own processes to provide output to the outsourcer as ‘x’ number
of processes. The outsourcer uses these processes to produce its output. Depending on the
needs of the outsourcer, the outsourcee provides products or services. For example, the outsourcee could provide components that go into the final product manufactured by the outsourcer as is the case in the semiconductor industry, or it can provide customer support services through a call center.

Figure 2. Organizations as Open Systems: Outsourcer–Outsourcee Dynamics
Theory and Perspectives on Outsourcing

Various theoretical perspectives have been used in the study of outsourcing. Agency theory conceptualizes firms as the nexus of contracts and has been used in the outsourcing context to expose the problems of divergent interests within both markets and hierarchies (Hancox & Hackney, 1999). Transaction cost theory maintains that economic efficiency can be achieved through a comparative analysis of production costs and transaction costs and has been used in outsourcing to study bounded rationality and opportunistic behavior (Williamson, 1979). Resource-based theories have been used in the study of outsourcing to determine the propensity to outsource and relationship between outsourcing decision and organizational performance (Espino-Rodríguez & Padrón-Robaina, 2006).

Blau (1964) defines social exchange theories as the voluntary actions of individuals that are motivated by returns. This theory has been used in outsourcing to build the maturation model for outsourcing relationships (Gottschalk & Solli-Sæther, 2006). Power political theories posit that power, idiosyncratic interests, and politics play roles in organizational outsourcing decisions (Lacity & Hirschheim, 1993). Relationship theory emphasizes social and economic exchanges to maintain organizational relationships and argues that outsourcing is a special instance of supply chain activities (Tsay, 2010). Relationship theories have also been used to study outsourcing for post-contract management (Kern & Wilcocks, 2000). Several other theories have been used to study outsourcing, such as game theory (Elitzur & Wensley, 1997), innovation theory (Miozzo & Grimshaw, 2005), strategic management theories (Doh, 2005), and the theory of reasoned action (Wullenweber & Weitzel, 2007).

Outsourcing theories can be divided into three categories based on their orientation: the strategic management view, economic view, and social view (Lee, Huynh, Chi-wai, & Pi, 2000). The strategic management view includes resource-based theory (Barney, 1991; Penrose,
1995) and resource dependence theory (Casciaro & Piskorski, 2005), focus on how firms formulate and implement strategies to accomplish set goals. Resource-based theory has focused on a firm’s internal resources while resource dependence theory focuses on the resources in the external environment. The economic view uses the transaction cost theory (Coase, 1937; Williamson, 1979) and agency based theory (Jensen & Meckling, 1976) to examine cost efficiency and contracts. Finally, the social view uses power political theories (Pfeffer, 1981) and social exchange theory (Blau, 1964). This view treats relationships as dynamic processes that evolve over time (Heath, 1976).

Research has focused extensively on finding an appropriate fit between the needs, motives, and the environment of the organization where they would come together to provide successful outsourcing. Outsourcing literature focuses on why to outsource, what to outsource, which decision process to use, how to implement, and the outcomes of the sourcing decisions (Dibbern, Goles, Hirschheim, & Jayatilaka, 2004), which are mostly prescriptive and functionalistic. These decisions are firm-specific, but outsourcing is a strategy where organization-environment co-alignment has an impact on its development (Loh & Venkatraman, 1992). Outsourcing is embedded in the larger context of organization, society, culture, the nation, and globalization. Thus, outsourcing needs to be studied beyond firm-level decisions and factors. Lacity, Willcocks, & Khan, (2011) argue that “there are sufficient mixed results with applying TCE [Transaction Cost Economics] to studying IT outsourcing to suggest that other work may be even more important.” Therefore, they further propose that outsourcing research needs to have confidence to build theory from the phenomena they are observing rather than importing a theory to corroborate it.
Historical Research in Business

International management requires a careful consideration of the context surrounding any decision, and historical circumstances often provide the context for the seemingly disparate strategies and decisions of international business (Buckley, 2009). Hannah (1983) criticizes business history as being biased towards narrative and narrow-based facts of individual skills, which can be addressed by following Cannadine’s (1987) recommendation of balancing analysis and narrative to describe history. Analysis without narrative loses a sense of sequencing and structure, while narrative without analysis fails to convey the constraints to contextualize the narrative. Attempts are made in essays one and two to maintain this balance.

Business history is finding its place more regularly in the international business research. Wilson (1995, pp. 1-2, quoted by Buckley, 2009, p. 308) argued that “the main aim of business history is to study and explain the behavior of the firm over long periods of time, and to place the conclusions in a broader framework composed of the markets and institutions in which that behavior occurs.” Business history serves a dual purpose: to record the events and to serve as a guide for future actions. Chandler (1962) published important work on business strategy from an historical perspective, which is considered seminal work in business strategy. Vernon (1979) proposed the product cycle model to explain the evolutionary wave of US manufacturing investment in postwar Europe. Hicks (1969) proposed a theory of evolution of market institutions based on Smith’s (1776) stages in evolution of society in his theory of economic history. Penrose (1995) suggested that the primary assumption in the theory of the growth of firms is that history matters and that growth is essentially an evolutionary process based on a cumulative growth of collective knowledge. Jones and Khanna (2006) argue that international business needs to explore how history matters, as understanding roots of Penrosian resources can shade light on conceptual issues.
Hannan (1997) studied the European automobile industry from 1886 to 1981 and explored theories of density dependence in organizational evolution. He revised it to specify the effects of density on legitimation and competition as organizations age. Zelner et al. (2009) studied the effect of domestic and global institutional forces across countries and over time, following a national government's adoption of a globally diffusing policy by looking at the global electric power industry from 1989 to 2001. They found that the world political culture legitimates and supports the new policy, while the policy's domestic opponents seek to mobilize opposition against it. Greve (2002) tested the ecological theory of spatial evolution by looking at data from the early history of banking in Tokyo from 1894 to 1936 and studied how geographically delineated subpopulations grow and interact with neighboring subpopulations. He argued that organizations exist in a differentiated spatial ecology generated by past failures and affects organizational and individual outcomes. Thus, history has been used extensively to study complex institutional developments and interactions with their surroundings. As noted before, the outsourcing industry has not been studied extensively historically, and this research attempts to address that gap.

Quantitative data often presents snapshot regressions at a single point in time and isolated from the broader temporal context. Unavailability of empirical data for a long duration of time can become a limitation in conducting longitudinal studies. Historical analysis provides a tool in such cases to analyze the processes over time and to explore important linkages. However, the challenge when using this tool is to overcome selectivity bias. The limitation of the cases is that they are not repeatable experiments designed to test a theory, but are illustrations of a proposition taken to be sound (Ingram, 1997). Hence, when using historical analysis, researchers have to be careful about selectivity; otherwise, data can be used to simply confirm the propositions they have in
mind. Since historical analysis relies on archival data and monographs of other historians who already subscribe to a bias, the researchers may choose only sources that conform to their viewpoint. The way to overcome selectivity is to examine the literature, recognize the limits placed on the evidence provided by the source, and expand the search among secondary sources to others who do not provide confirmation to the espoused theory (Thies, 2002). To avoid bias, Thies (2002) further proposes not to rely on a single historian’s account and to be aware of presentism in historical sources and influences of political views, social biases, and the culture of such sources.

Osho (2002) described wisdom in retrospect as worthless, and Watterson (1996) described wisdom as conforming to existing prejudices. The use of history as a research tool, therefore, requires careful consideration and objectivism from the researcher with an eye on the future. Positivist inquiry into history may lead, as Weick (1995) observed, only to the outcomes we already know. As the world changes in the present, so does the lesson from history. From a post-positivist perspective, history is revisable to get closer to the truth. As history is learned again and again from time to time, not only does it reflect the prejudices of the times, but also those of the present. History is a powerful motivator, which can fuel negative sentiments and hatred for generations. History also holds a powerful sway in challenging present prejudices in order to mobilize the present towards the future. Thus, revisiting history from time to time is important to check the validity of current assumptions, as the past is the best indicator of the future.

The perception of some researchers include that economic principles are without historical and cultural biases and that international business exists in disinterested economic spaces (Bhawuk, 2014), but international managers need to be aware of the historical and cultural background of their industry and organization. Most of the research in outsourcing has
been done to answer the why, what, how, and when questions from an outsourcer-centric perspective. Some research has been done from the outsourcee perspective as well. Essay 1 attempt to enrich outsourcee perspective by looking at India, as it is a leading destination for the outsourcing, and the historical roots of outsourcing that are shaping institution of outsourcing in India. The essay 1 investigates more thoroughly the connection between legacy of British rule and what happened during that rule that is impacting outsourcing in India today.

The lexicon of outsourcing is rich with many derivatives of outsourcing such as offshoring (outsourcing to offshore countries), nearshoring (outsourcing to neighboring countries), insourcing (bringing back the outsourced work), rightsourcing (selecting best way to procure service), and many more. There is a wide variety how scholars define outsourcing and refer to it with different terms such as supply chain management, contract management, global supply chain, and property rights depending on their unit of analysis. Therefore, understanding outsourcing as an industry through historical analysis can be a helpful addition to the existing gap in the literature. To understand current practices in outsourcing and connect them to their predecessors to retain institutional learning, there is a need to go back to its roots through historical analysis of their evolution. Essay 2 looks at the historical development of outsourcing in three industries: Business process outsourcing (BPO), advertising, and semiconductor. BPO is a logical choice after essay 1 as India is the leading destination for BPO services. However, to enrich understanding of outsourcing, semiconductor industry was selected to look at as outsourcing happened in this industry between countries with no colonial linkages. Outsourcing in advertising industry evolved domestically in US; hence, it was selected as the third industry to look at.

Call centers are part of the BPO industry and there has been a good amount of call center research from the call center employee’s perspective and using an Asia-centric
perspective. However, most of the research uses one perspective at a time and there is a need to connect all perspectives to understand outsourcing discipline. This research attempts to connect some of the different perspectives existing to gain better understanding of outsourcing. The strategies to manage outsourcing are situated in the societal context which needs to be developed through empirical studies and refined conceptualizations to make sure that current practice are evidence based. Therefore, essay 3 demonstrates how to do this by looking at one such practice, investigating trust in call centers from customer perspective, understanding of which can be enriching for both outsourcers and outsourcee. A balanced perspective on outsourcing can be achieved by evaluating present practices, learning from contributing factors in historical development, assessing the legacy left by the history, balancing different perspectives, and understanding the global context in which it operates.

As Martin Heidegger (1996) noted, there is no pure I, disconnected, disengaged, and discontinued from one’s understanding of the world, others, and self from one’s cultural identity. As self is an engaged agent, already enmeshed in a world of meaning and strongly embedded upon the earth, there is no privileged point-of-view from nowhere to assess and locate the self and its transformation. Therefore, since the researcher is from India, whenever a local perspective seems to emerge, effort is made to find a counter-argument to avoid simply rewriting history from the local perspective. If the analyses favor the local perspective, conclusions are presented as tentative, open to dialogue and debate. The researcher has set the objective of historical analysis to start a dialogue rather than stifle discussion by imposing evidence. The goal of historical analysis, as this researcher believes, is dialogue that can inform people on all sides about past events and how people feel about them.
ESSAY I:

COLONIZATION AND ITS LEGACY IN THE LIBERALIZED MARKET:
AN HISTORICAL ANALYSIS OF OUTSOURCING IN INDIA
Background

Galtung (1971) posited that imperialism is a collection of the dominance of relationships and that ending one type of imperialism (e.g., political, economic) does not guarantee the end of another type of imperialism (e.g., cultural). He further elaborated that the Marxists view colonization as a tool to establish dominance in economic relationships under private capitalism motivated by the need for expanding markets. The shortcoming of this view is that it believes all types of dominances will disappear when political colonization disappears. Structural theorists of imperialism (Robinson, 2007) argue that colonization is a system that relates in some parts with the harmony of interest and in other parts as conflicts of interest, implying that colonization is not all negative.

This juxtaposition of harmony and conflict of interests in relation to colonization is observed in the outsourcing industry in India today. SourcingLine (2014) ranked India as a leader among outsourcing destinations. One of the reasons India emerged as a leading destination for outsourcing was the English-based education system that was established by the East India Company to create large pool of local clerks to run its operations. In Latin America, Spanish is the language of communication, but in Brazil, Portuguese is used and in Morocco and Québec, Canada, French is used, which are inherited from their colonial history. Similarly, English is the legacy of the British rule in India. Had they not established this system, the vast skilled workforce of India would not have been as useful today to the outsourcing industry without its English-speaking skills. Thus, language mediates the relation between colonization and outsourcing in India. There is a large section of people who are grateful for the opportunity they received through the outsourcing industry and see it as a contributing factor to the economic growth of India (Bajaj, 2011). However, India is linguistically and extremely diverse country and only 5% or so are estimated to be fluent in English (Lakshmi, 2008). As there is a divide between
English speakers and non-English speakers, it has been an issue of political contention. M.K. Gandhi said that giving millions of people knowledge of English would be to enslave them and forcing them to conduct business in the language is a sign of slavery (Crystal, 1998).

The fact that the origins of outsourcing lie in colonization give rise to remembrance of the continuation of the British legacy that many do not feel proud of. This feeling was predicted by some scholars, such as Attewell (1987) who commented that outsourcing may result in electronic sweatshops. Hall and Du Gay (1996) and Tomlinson (1996) argued that globalization may be construed as cultural imperialism because it enforces the installation of western culture. Bidwai (2003) called outsourcing workers in India as ‘cyber coolies’ and is reminiscent of the coolies during the East India Company’s rule. Bhagat (2007) referred to call centers in India as air-conditioned sweat-shops because of the rigid work regime that is the norm; these include regulated breaks during the shift that must be scheduled in advance, the requirement to handle a minimum number of calls, and the need for a quick response time. Failure to meet these norms may result in firing. Therefore, even employees who choose to work in the call center industry and receive better benefits than other industries complain of feeling like servants under the Raj (British rule), especially after unpleasant exchange while interacting with customers. Thus, the argument of structural imperialism is demonstrated in the case of India where in economic terms there is a harmony of interests while in socio-cultural terms there is some disharmony. This essay investigates the link between present disharmony and the cause for this disharmony.

**Outsourcing and Colonization**

Several scholars have established that international business is a socio-political system (Almond & Ferner, 2006; Collinson & Morgan, 2009; Dörrenbächer & Geppert, 2011; Kristensen & Zeitlin, 2004) Outsourcing research is mostly dominated by transaction cost economics and is
mostly prescriptive and functionalist, as seen in the meta-analysis of the outsourcing research literature (Dibbern et al., 2004; Westner & Strahringer, 2008). As organizations began to outsource the work to other countries, Doz, Santos, and Williamson (2001) argued that this distribution of capabilities in multiple directions would not allow firms to behave like 21st century imperialists imposing exploits of their homeland on malleable worldwide markets. However, some scholars citing context and power-sensitive research (Morgan, 2007), “country of origin” literature (Verlegh & Steenkamp, 1999), and postcolonial theory (Prasad, 2003), disagree. Context and power-sensitive studies have indicated that in the case of subsidiaries there is a conflict due to institutional duality, where the conflict arises due to an imbalance in the headquarter’s rationale for actions and the local institutional contexts (Kostova & Roth, 2003). This results in subsidiaries resisting colonization by headquarters (Muzio & Faulconbridge, 2013) drawing on local power resources. Thus, Multinational Corporations (MNC) exists in a space where institutional logic competes with local resources (Kristensen & Morgan, 2012). Though this line of research has focused on the impact of a national institutional context on firms and cross-national management, little attention has been paid to the imperial nature of MNCs (Bousseba & Morgan, 2014). Such institutional conflicts are likely to flare up when the history of colonization offers some reason for conflict. This conflict tends to be neocolonial in nature, as people tend to interpret new information and events in terms of old stories which are superimposed on new situations (Salzman, 2008).

Different societies have different technical features—such as geographical location, useful knowledge, and capital stock—which impact economic outcomes. Other nontechnical aspects—such as laws and their enforcement methods, property rights, corruption, and trust—also influence economic outcomes (Greif, 2006). Econometric analyses and case studies suggest that differences in nontechnical features across different societies have historical origins. For
example, these differences were argued to reflect past cultures (Greif, 1994), social and power structures (Glaeser & Shleifer, 2002), and medieval republican political traditions (Putnam, Leonardi, & Nanetti, 1994). In developing countries, these differences reflect the environment at the time of colonization (Acemoglu, Johnson, & Robinson, 2001), the identity of the colonizing power (North, 1981), and the initial wealth distribution (Engerman & Sokoloff, 2002).

International business, psychology, industrial relations, organizational studies and other disciplines have posited that power differences grounded in an historical context introduce precariousness and anxiety in such relations (Cohen & El-Sawad, 2007; Frenkel, 2008; Zimmerman & Ravishankar, 2011). This power difference raises questions about how an outsourcee organization dependent on a Western outsourcing organization for business in a global context engages in negotiating in historically embedded relations of power (D’Mello, 2005; Mir & Mir, 2009). Zimmerman et al. (2011) point out this gap in the literature, which does not take into consideration the extent to which the historically derived power-related asymmetries in the relationship between the outsourcer (the West) and the outsourcee (India) impact the ways in which the outsourcee vendor organizations function, experience, and respond to the outsourcing work.

Boussebaa and Morgan (2014) posit that international business research can be enriched by looking at the history of MNCs and their role in colonial enterprises. The role these MNCs played in shaping the institutional structures has shaped the international business relations between these countries today. They also emphasize the need to focus on the internal dynamics of an MNC from its origin to examine if colonial relationships between the two countries shaped the organization. This is critical not only to understand the existing relationships in international business, but also to understand the different routes organizations take from emerging economies. This is also relevant in understanding MNCs; for example, China
was never formally colonized except for a brief period when multiple nations ruled its various parts. India, on the other hand, has received the education system and institutional structures from a colonizer, which plot a different path for the firms and workforce to develop there.

Educational institutions, knowledge of production processes like Taylorism and Fordism, and organizational and management models developed in the US and other European countries have diffused to other countries (Alcadipani & Caldas, 2012; Cooke, 2004; Westwood & Jack, 2008). The dominance of western firms has increased the shaping of the rules and expectations worldwide with the rise of globalization (Djelic & Quack, 2010). Hanlon’s (1994) study reveals how offices based in small economies of the big accounting firms adhere to the standards and practices laid down by the US and UK groups. Boubessa and Morgan (2014) reveal how skills and capabilities in international consulting firms flow from large western economies to the developing world. This North-South divide and dominance by western economies reproduce to some extent, the colonized/colonizer relations in international business.

Colonial history has deeply impacted globalization by shaping the economic, political, and societal structures of the colonies through dominance effects. The colonial powers exported their tax systems, laws, educational systems, and bureaucratic systems to the colonies to operate in those countries. This process institutionalized colonization. Smith and Meiksins (1995) argue that certain societies have dominated other societies ideologically by pushing their production models. Dominated societies needed to accept this model because it generated wealth and profit in the dominant society. This colonizer/colonized division can be observed in world economy today even after most colonies became politically independent in the 20th-century.

As international business increasingly involves relations between former colonial powers and colonized countries (Frenkel, 2008), there is the need to look beyond a Eurocentric
worldview and to pay attention to the divide between Western imperialist actors and those based in former colonies (Boussebaa & Morgan, 2014). Frenkel (2008) postulates that studies understanding how MNCs have contributed to the shaping of colonial societies and understanding their impact on international business can be advanced by drawing on postcolonial theory. Neocolonialism is different from colonialism in the sense that it occurs through ‘nontraditional means’ (Prasad, 2003); that is, through the economic and political activities of the MNCs, management consultancies, business schools, international regulatory bodies and financial institutions.

Organizational research in countries with a colonial history, therefore, need to look not only at the legacy of colonialism but the continuation of neocolonization and its impact on present day international business. In modern day, these nontraditional means are not as obvious as they were in the colonial era, but still the resistance to this dominance occurs in a framework in which colonizing powers are still hegemonic or dominant through various means. For example, Hodge and Coronado (2006) show how governments in South America have adopted characteristics of business discourse and seek to reinvent local practices by modifying the meaning of the institutions in the social image, which is displayed by informal behavior and jeitinho (a way of doing things by circumventing rules or social conventions) in Brazil. Stiglitz (2007) calls this ‘democratic deficit’, which is an outcome of modern globalization. The study of the East India Company and its impact in shaping Indian society and its educational institutions, to which outsourcing today seems to be connected, is therefore relevant when we discuss outsourcing to India.

Friedman (2005) described outsourcing as one of the flatteners, the events that are levelling the global playing field, in the process of globalization. The service industry is now recognized as having a high potential, replacing manufacturing where lower wages were
common (Carr & Chen, 2004). However, there have been setbacks (Rudiger, 2007). The deeply embedded contextual knowledge for many processes considered suitable for outsourcing became apparent after they were removed from the local context and introduced into another culture and context (Beardsell, 2009). British companies such as Norwich Union, eSure, Powergen, and American companies such as Dell and JPMorgan Chase have brought work back from India to their home country to be closer to their customers. Some companies from India have also recognized this movement and been taking advantage of this trend by using the valuable experience they have gained in the process to establish their own service delivery centers in Europe and the US. FirstSource in UK and Tata Consultancy Services (TCS) in the US (Ohio) and Mexico are examples that acknowledge the fact that customers want some processes to be delivered domestically (Ribeiro, 2006).

Sassen (2002) argues that there is a need to “recapture the geography behind globalization” to understand the local constraints structuring the global processes. In order to capture this geography of globalization—consisting of work culture, the attitude of local population, the political culture, and patterns of capital investment—understanding the social and historical context is crucial. This essay, therefore, takes one step in the direction of underlining the importance of the historical context by looking at the research question—Why is the colonial history having an impact on outsourcing today?—by investigating the case of India and the East India Company.

**Methodology**

Historical analysis involves the interpretation and marshaling of the argument in its support of the evidence of incidents and is not necessarily a chronology of historical events (Glenn, 2009). Historical analysis helps to avoid the ‘spurious labeling’ of certain phenomenon as new, such as globalization and outsourcing, and ensure it is not
misunderstood. Beyond focusing on path dependence, it helps to expand a domain to understand certain issues that are possible to interpret only longitudinally. Historical analysis also helps to look beyond the dominant perspective to provide a more complete understanding (Jones & Khanna, 2006).

The case of East India Company (EIC) is presented using accounts from several historians in order to interpret various events. The history and impact of the EIC on India consists of manifested and latent events; that is, some events that contemporary scholars were aware of and some they were not fully aware of, respectively, and can be better examined in retrospect. For example, the role of the education system which Macaulay promoted in 1835 is the basis for the outsourcing in 21st century India and the effect of the British economic policies on the Indian and global economy, to name but two. When looking at the case of the textile industry, there are two major schools of thought on the interpretation of relevant events. Some scholars claim that the British policy was a major cause for the decline of the industry while others propose that market forces caused its decline. Both sides present economic and other data to make their case and also acknowledge the limitations of their data.

Schroeder (1997) acknowledges that historical controversies are not about data or facts, but instead are about disputes over the interpretation and judgment of the significance of the facts. However, the relevance of the debate in this essay is in connection to the imperative of whose viewpoint matters when examining the role of the history in shaping the present and the future. To avoid bias, in this essay I include accounts from both historical researchers and critiques of their work by other scholars. The attitudes shaped by history may not always be driven by a causal inference of the
facts, but rather because of the descriptive inference shaped by the narrative and stories passed on through the generations (Salzman, 2008).

**History**

**The Beginning of the EIC**

The high demand for pepper and other spices by the British public was identified by a band of investors who lobbied to obtain a charter from the government to trade with the East. The dominance of the Dutch in this business trade made by Dutch author Van Linschoten emphasized the potential of the market, both for profits and tax revenue on the imports (Lawson, 1993). The Dutch ship *Victoria*, captained by Megallan, returned from Malacca in 1521 with a cargo of cloves which sold at 2500% profit. In its lifetime, the Dutch East India Company, VOC (Vereenigde Oost-Indische Compagnie), paid out 3600% in dividends based on the initial investment in 1602 (Jacobs, 1991). The economic disadvantage and uncertainty in trade with eastern countries irked the British government (Lawson, 1993). Before 1600, the British government used to award charters for the ventures that would serve the broader public interest and were managed by businessmen. Hence, Queen Elizabeth I granted a charter in 1602 under the name 'The Company of Merchants of London Trading into the East Indies.' Under the charter, EIC obtained not just sole rights to trade domestically, but to rule over as government on its territories, engage in warfare, maintain an army, exercise judgments, mint its own coins, and engage in relationships with local rulers as they saw fit, including waging wars.

The first voyage of the EIC was led by Captain Lancaster, sailing on January 24, 1601. It returned from Sumatra and other islands of the region with a cargo of 1,030,000 lb of pepper in November 1603 (Panikkar, 1959). The agents of the EIC suggested buying Indian textile from Surat, which was in high demand in the Banten and Moluku islands in Indonesia, in order to finance the spice trade. However, this did not solve the problem as the Company did not know
how to buy textile from India. It took a long time to establish a trading partnership with the Indian rulers and events at home, such as civil wars, made things worse. After three years of persistent efforts by Sir Thomas Roe, Ambassador of King James to the Mughal Empire, permission to open a factory in Surat was obtained from emperor Jehangir, the father of Shah Jahan, who later built the Taj Mahal in 1632.

The Charter for the EIC

The government hoped that it would earn a significant profit from the lucrative trade in Asia in the form of taxes, while also serving the public by providing essential and luxury goods and simultaneously letting private enterprise manage the trade. The charter offered the EIC protection and helped a great deal in its survival, but the Company had to fight hard to maintain and renew it every 20 years. That became a source of corruption for both the Company servants and government officials. The opponents of the Charter and the associated trading privileges objected on political and philosophical grounds and viewed it as an abuse of power and a restriction on free trade. The first discussion against the Charter came up as early as 1604 in front of the Free Trade Committee in the House of Commons and continued to be a point of contention until the dissolution of the Company after 250 years, in 1858. Many domestic merchants and towns outside London considered this monopoly offensive on practical and ideological grounds, as it restricted the equitable involvement of other entities in the eastern trade (Sacks, 1990). Economists in England who supported mercantilism theory opposed the trade of gold and silver bullions for spices. The Company in its early years used silver bullions to buy goods from the east, which was considered a loss of national wealth and also a cause of national trade deficit.

The Company’s defense for protectionism was based on the argument that its goals and needs were special. It cited the models of its competitors, such as the Dutch and the
Portuguese, who had strong backing by their respective governments. They secured monopolies to compensate the risks involved and the Company argued that it would be difficult for the British to compete if it did not have the same assurance and protection from the government. This proved to be a difficult argument for the critics of the monopoly and Charter to refute. The Company lobbied hard and engaged the services of influential people, such as Dudley Digges and Thomas Mun, who published a treatise on behalf of the Company in 1628 arguing that provisions in the Charter were essential for the ‘Strength, Wealth, Safety, Treasure and Honor’, which the EIC bestowed on the nation (Robins, 2006). Mun argued that the Company’s operations increased the national wealth, not just in London, through the re-export of goods from the East to the rest of Europe. Company operations also generated revenues for other industries, such as shipbuilding, seamanship, insurance, and banking. Mun (1930) showed that an investment of £100,000 in bullions resulted in a reinvestment into the British economy of £494,223, and by 1621 the Company led to a savings of £75,000 through direct spice trade.

Thus, despite strong criticism, the Company succeeded in keeping its charter.

The State of Global Trade before the Battle of Plassey

The Muslim and Arab powers were on the decline after enjoying the crest of their prosperity, specifically in India. Europe was emerging as the most prosperous part of the world. This economic transformation was helped by the 100 years of wealth flowing into Europe from South America. This prosperity by Atlantic nations experienced in the middle of the 17th century was comparable to the prosperity Venice had experienced during its peak (Panikkar, 1959). Europe’s prosperity created new demands for luxury items, such as muslin, printed textiles, silk, tea, and coffee. Other products in demand were wallpaper, fans, porcelain, lacquered goods, cashmere shawls, and brocade. Spices continued to be important, but increasing competition and decreasing margins reduced their lucratively.
Mercantilist economists in England believed that the East India trade was bad for the country because Asia did not buy any goods from England. Buying luxury goods from Asia in exchange for English gold and silver drained England of its bullions. New maritime routes to India and America were found at the same time. Silver from Spanish mines in the New World, such as Potosi in Bolivia, were used to pay for the spices from the East. The Asian empires were called the Water Moth States since they depended on land revenues and were self-sufficient economies (Panikkar, 1959, p. 53). The growth of wealth kept the public demand for luxury goods increasing in Europe. From 1600 to 1800, one-third of the silver produced in America was used to pay for the spices and other imports from the East (Furber, 2004).

In a span of four years between 1681 and 1685, EIC exported 240 tonnes of silver ($238,044,000 at 991.53/kg, current value) and 7 tonnes of gold ($375,011,770 at 53.57/gm, current value) to India (Keay, 1993). The trade was growing fast due to a high demand for products in England, and by 1707 the EIC had become the largest employer in London. The Company itself was not producing anything domestically and imported 100% of its goods from the international market. Between 1699 and 1774, the EIC accounted for 13 to 15% of all of Britain’s import and every seventh-of-a-pound imported to Britain was brought in by the EIC (Chaudhuri, 2006). It was also the EIC that raised money from the London capital market, established factories throughout Asia, bought textiles from India and exchanged them for tea and other spices in various regions of Asia, and brought these goods back to England and Europe in order to sell. This part of Indian history is often used to point to the economic superiority of India before the arrival of the British, which is a source of national pride. The decline of the Indian economy is often blamed on the British rule, which can be debated endlessly without convincing most of the locals.
The EIC and India after the Battle of Plassey

Bengal produced about a quarter of the global textile manufacturing output while England’s share was 1.9% of the market in early eighteenth century. The Battle of Plassey in 1757 led the EIC to the conquest of Bengal and stimulated strong growth predictions. As predicted, the revenue of the EIC increased from £606,000 ($104,979,369, current value) to £2,500,000 ($433,083,209, current value) in two years. The conversion into today’s current value is done using a calculator developed by Nye (2014) to determine historical monetary values. Previously the EIC used to pay bullions to buy products; however, after the conquest of Bengal, net bullions started to flow outside of India. In 1764, the flow of bullions into Bengal was £345,000 ($56,412,580, current value); in 1765 it fell sharply to £54,000 ($8,530,682, current value) and then ceased completely in 1766. The tax collected from Bengal in the 1760’s was £646,000 ($117,129,947, current value), £1,470,000 ($279,122,833, current value) in the first year of rule by the EIC, and by 1790 it was £2,680,000 ($358,726,153, current value) (Robins, 2006).

The goal of the EIC after assuming the role of tax collector was to keep all expenditures at a minimum while increasing the transfer of profits and hard cash from India to the British treasury (Lawson, 1993). Tax increased fourfold while production kept steadily decreasing. The net flow of bullion decreased from £606,000 to zero within two years while the income from tax went up fourfold to £2,680,000. The EIC continued with local officials as tax collectors which was described as “a perfect example of income without any investment” by Professor Sirajul Islam of Bangaldesh’s Asiatic Society (Robins, 2006, p. 76). This is colonization at its best and, though the economic damage done by it may be measurable, the socio-cultural damage may linger even after colonization has ended.
Bengal suffered from a famine from 1768 to 1770 which depleted resources and the sustainability of the local population. Cornelius Walford brings attention to the statistics that in the 120 years of British rule, 34 famines were recorded in India as compared to the 17 in the previous two millennia (Davis, 2001). Climate historians have attributed this increase in drought to weather factors such as the effects of El Nino that created monsoons. The likelihood of drought increased from 0.18% (once every three years) to 40% for the years 1775 to 1825 (Clingingsmith & Williamson, 2008). It is estimated that approximately 10 million people, about one-third of the population in the area, died in the famine between 1768 and 1770 (Dutt, 1908; Fiske, 1942). Adam Smith (1776), the founder of modern economics, noted that the famine severely affected India due to the EIC’s policies. During the famines, instead of controlling the increase in traders and their subsequent acts of profiteering, EIC officials joined them; they purchased all available food using their position of power to sell at a higher price and also increased land tax by 10% in 1770 in the midst of famine, despite 1769 being the worst year of famine (Dutt, 1908).

The EIC engaged in severe tax collection to make up for the loss of productivity due to the drought and revenues earned by the EIC were higher in 1771 than in 1768 despite the drought occurring during that period (McLane, 2002). The EIC donated 90,000 rupees in famine relief for the 30,000,000 affected people (roughly 0.003 rupees per person) (Moxham, 2001). However, others question how much of the responsibility can be attributed to colonialism (Robb, 1981). The 100 year rule of the EIC (1757-1857) was based on such events as the famine in Bengal, the reverse flow of money from England to India, and the increased taxation without comparable civil service in return. These are emotional events to Indians as their national identity was intricately connected to British colonial rule and from interacting with people of European descent.
The Case of the Textile Industry

When the EIC was first formed, the chief imports and revenue sources were textile and tea, with pepper becoming a secondary product. By 1684, 83% of the EIC trade consisted of textiles, in the form of 1.76 million pieces. Indian cotton also had a long history; in the 1st-century AD Roman historian Pliny had complained how the imports of good quality and inexpensive cotton fabric from India had drained Rome of gold (Robins, 2006). In 1696 and facing a financial crisis, local weavers from Spitalfields, England, marched to the parliament to protest against the EIC and demanded a ban on the import of textiles from India. The workers in England were not happy, arguing that cheap imports from India kept their wages low, as it cost half as much to import from India as compared to produce textiles in England. As a result, navigation acts of common wealth were introduced to protect the national industries, develop the export trade, and to safeguard the wealth of the country (Bowen, 2006).

Figure 3. East India Company Imports of Textiles from India (pieces)

In 1753, there were zero exports of textiles from Britain to India, while it imported textiles worth Rs. 2,850,000 (US $57,000). The mass production of textiles in England began
during 1760-1790, though it was not until 1786 that the first export of “Made in England” muslin occurred, reversing the flow of the textile trade. Mass production and steam-operated machines made the average mill worker in England 400 times more productive than the average Indian weaver. The mill owners lobbied to make the export of textiles to India duty free while increasing the duty on Indian imports. Indian textile exports to England fell to Rs. 1,362,000 (US $27,240) by 1800 and could not be sold for profit since domestically produced textiles continued to become cheaper due to mechanized production. By 1813, pressure on the British government was building; the mill owners wanted to abolish the EIC Charter, increase the tax on Indian imports by 20%, and have an even higher tax on popular products such as calicoes (78%) and muslins (31%) to avoid competition with the textiles made in England. The mill owners argued using Adam Smith’s theory of free trade in order to end the EIC Charter, while at the same time they lobbied hard to impose high taxes on Indian imports going against free trade. It was estimated that one-third of the demand for cloth in Bengal and Bihar was met by British imports by 1860 (Bayly, 1988).

By 1818, the largest production house in India—the Dhaka Factory—closed down and by 1824 local market was flooded with duty free British imports, making them cheaper than domestic products. The export of British cotton increased 50 times after the end of monopoly of the EIC, and the export of Indian cloth fell by three-quarters (Robins, 2006). Champions of the technology consider the British industrial revolution causing the decline of the Indian textile industry. However, the asymmetrical tax structure that favored British over Indian export makes the story somewhat unclear, with Indians perceiving the international trade as being historically unfair to them.
The Case of Salt Industry

The tax on salt was not uncommon and different regimes in different times had used it as a source of revenue. Roman soldiers received a special allowance to purchase salt, called salarium, from which the word “salary” is derived. Before the arrival of the EIC in Bengal, 5% was charged during the Mughal regime for Hindus and 2.5% for Muslims. Chinese peasants paid the equivalent of two days’ pay for their family’s annual salt consumption, while the French paid six weeks’ worth of pay. At its peak, an English laborer paid 1% of their income for a year’s worth of salt. During the period of the EIC, peasants paid two months’ wages or 17% of their income for their family’s yearly salt consumption (Moxham, 2001). Thus, Indians paid 17 times more for salt than British workers, which is difficult to explain economically, especially when Indians could make salt in India at little cost.

Tax on the salt trade under the British began with tariffs imposed on the transportation of salt. After the conquest of Bengal in 1757, the EIC acquired the salt manufacturing facility and in 1759 had doubled the rent by imposing a transit fee. At that time, the tax on salt was 0.2 rupees per maund (1 maund = 82 lbs = 37 kgs). In 1780, Warren Hastings brought salt manufacturing under direct government control. The traditional salt manufacturers, malangis, delivered salt to the government officer at a fixed price of 0.5 to 0.9 rupees per maund, who received a salary plus 10% of the government’s profit. The wholesale agents bought salt from the government at 2 rupees a maund, thus tax at the manufacturing source was 1.1 to 1.5 rupees. The revenue from salt increased from Rs.80,000 (US $1600) in 1780 to Rs.2,960,130 (US $59,202) in 1781-2, and to Rs.6,257,470 (US $124,149) by 1784-85 (Moxham, 2001).

Cornwallis introduced auctioning instead of a fixed price when selling to wholesale merchants, increasing the price of salt from 3.25 rupees to 4 rupees per maund where it stayed until 1879 (Moxham, 2001). The transportation and retailers’ profit was also added to this cost.
Half a maund (41 pounds) of salt, which is equivalent to the minimum requirement of a family of five for a year, was retailed at 2 rupees in 1788 and up to 6 rupees in 1823 for half a maund. The average laborer earned 1-2 rupees per month if employed throughout the year, thus costing them 2 months of their wages to buy salt for their family.

Collecting tax on land and buildings was relatively easy, but collecting tax on commodities like salt, which could be easily transported and traded in very small quantities, was much more difficult. There were several smaller princely states and the EIC had different treaties with each of them. The area controlled by the EIC was constantly changing and expenses were ever-increasing with the expansion. A line of Customs Stations were built along the trading routes of river Yamuna in 1823 by George Saunders (Moxham, 2001). To prevent the loss of tax through smuggling, an elaborate tax collection system was proposed. Customs Stations were created at every major road and river in Bengal to separate the salt-producing geographical areas from the consumption areas. A hedge of small trees and bushes, stretching 2,504 miles long (the distance from New York to Colorado) was constructed.

Within this line, an area of 500,000 square miles and a population of 130,000,000 were artificially partitioned in order to collect taxes on goods, principally salt and sugar. This division of land consisted of thorny hedges, customs posts, and guards. The trees and bushes selected were 10 to 14 feet in height and 12 to 14 feet in width. Babool (Acacia Catecha), Indian Plum (Zizyphues Jujuba), Carounda (Carissa Curonda), Prickly Pear (Opuntia), and several species of Euphorbia were used according to the appropriate soil and climate, and intermingled with Thorny Creeper (Guilandina Bondue). A patchwork of stone walls filled in the areas where plants could not grow. The inside of this line was patrolled by a guard using a tree branch and he was held responsible if there were any footprints found when he went off duty to make sure no one crossed the fence illegally under his watch (Moxham, 2001).
In 1854, the line was staffed with 6,600 men with an annual budget of 790,000 rupees. There were 136 officers, 2,499 petty officers, and 11,288 men comprising a total workforce of 13,293 men. The officers marched and patrolled 350,000 miles and weighed goods totaling over 200,000 tons. The men walked over 18,000,000 miles and dug 2,000,000 cubic feet of earth to make trenches and to plant hedges, as well as carried 150,000 tons of thorny material (Moxham, 2001). The size of this effort and government machinery was unparalleled in the contemporary world.

<table>
<thead>
<tr>
<th>Constitution of Custom Hedge</th>
<th>Miles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perfect and Good Green Hedge</td>
<td>411.50</td>
</tr>
<tr>
<td>Combined Green and Dry Hedge</td>
<td>298.15</td>
</tr>
<tr>
<td>Dry Hedge</td>
<td>471.75</td>
</tr>
<tr>
<td>Stone Wall</td>
<td>6.35</td>
</tr>
<tr>
<td>Wanting and Insufficient</td>
<td>333.25</td>
</tr>
<tr>
<td>Total</td>
<td>1,521.00</td>
</tr>
</tbody>
</table>

Table 1. Constitution of Custom Hedge

(Allahabad: Government Press, 1868-78)
Salt manufacturing outside of this cordoned area were also controlled as the EIC expanded its hold on more and more states. For example, the salt production site at Sambhar Lake in Rajasthan was acquired by the British to prevent it from competing with their monopoly. It was a profitable venture, as salt tax collected at the Custom Stations was 12,500,000 rupees in 1869-70, and the tax on sugar was 1,000,000 rupees. It was worthwhile to keep a tight control on salt as the tax collected on imported salt and manufactured salt was Rs.30,000,000 (US $600,000). Thus, together it earned a tax of Rs.43,500,000 (US $870,000), while the cost of maintaining the Customs Stations was Rs.1,620,000 (US $32,400) due to the employment of 12,000 men. The EIC rule ended in 1857 and Custom Stations were abandoned in 1879.

The Use of Outsourcing by the EIC

The EIC set an early example for the use of outsourcing. There was a high mortality rate of up to 50% among EIC employees who travelled to India. The EIC offered private trade as an
incentive to recruit and motivate overseas staff to expand their trade. The right to conduct private trade was a lucrative option to earn money in a short amount of time; this in turn allowed these employees to retire early if they survived their tenure of service in India and then live comfortably in England. It was this motivation that kept pushing the EIC to expand its territory (Robins, 2006). This policy, however, resulted in divided loyalties between the interests of the EIC and the self-interests of its employees.

India was also used as a source of cheap labor. By 1838, 25,000 Indians were sent abroad to places such as Fiji, Mauritius, and the West Indies to serve as laborers. In 1858-1859 alone, 53,000 Indians were shipped overseas, mostly to Mauritius which became the most Indianized British colony of the British (Hyam, 1993). Although the Indian Slavery Act V of 1843 banned the slave trade and the Indian Penal Code of 1861 made slavery a criminal offense, sending cheap labor abroad continued.

**Change in flow of wealth**

Though India was trading with the world for a long time, its economy was not based on trade; its industrial products were mainly for internal consumption. This structure of Indian economy changed to a trade-based economy when its products came into demand; these included textiles and also commercial crops such as mustard seeds, hemp, tea, and opium. Following the start of the Industrial Revolution in Europe, local economics in the East were overpowered and weakened as they could not compete with the mass production.

In the decade following the EIC’s conquer of Bengal in 1757, the influx of Indian goods in Britain increased the flexibility and rapidity of the movement of cash capital which propelled the start of the Industrial Revolution Adams (1928) described that no such force had existed before in the history of the world, with as much profit reaped from India due to the 50 years Britain stood without a competitor. The territories controlled by the EIC were far greater than what the
government controlled which raised serious concerns about the blurred lines of authority. In fact, McCauley noted in his speech to the British parliament on February 2, 1835, that the EIC was “exercising sovereignty over more people, with larger revenue and a larger army than the British state” (Forrest, 1975, p.17).

Figure 5. Change in Flow of Goods and Wealth between India and England
Table 2 shows the change in the share of world GDP from 1600 to 1870 (i.e., during the EIC’s lifetime).

<table>
<thead>
<tr>
<th></th>
<th>1600</th>
<th>% of total</th>
<th>1700</th>
<th>% of total</th>
<th>1870</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Britain</td>
<td>6 007</td>
<td>1.80</td>
<td>10 709</td>
<td>2.88</td>
<td>100 179</td>
<td>9.10</td>
</tr>
<tr>
<td>Western Europe</td>
<td>65 955</td>
<td>20.02</td>
<td>83 395</td>
<td>22.46</td>
<td>370 223</td>
<td>33.61</td>
</tr>
<tr>
<td>China</td>
<td>96 000</td>
<td>29.14</td>
<td>82 800</td>
<td>22.30</td>
<td>189 740</td>
<td>17.23</td>
</tr>
<tr>
<td>India</td>
<td>74 250</td>
<td>22.54</td>
<td>90 750</td>
<td>24.44</td>
<td>134 882</td>
<td>12.25</td>
</tr>
<tr>
<td>World</td>
<td>329 417</td>
<td>100.00</td>
<td>371 369</td>
<td>100.00</td>
<td>1101 369</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Table 2. GDP in World Market: 1600–1870
(in $ millions 1990)

Source: Angus Maddison, The World Economy, Paris OECD, 2001, p. 261, Table B-18

Scholars have compared the productivity and living standard of people in Britain and India. Parthsarathy (1998) claimed that the living standards in southern India were as high as in Britain in the 17th century. Bayly (1988) argued that the northern Indian economy was thriving in the 18th century. According to Paul (1997), the Indian per capita income was 10% to 30% less than the British per capita income in 1760, while the Chinese per capita income was equal to or higher than the British until 1800. Broadberry and Gupta (2009) found that the per capita income of Bengal grew moderately in the latter part of the 18th century but stagnated throughout India under the rule of the EIC from 1801 to 1871. Some historians (Jackson, 1998; Parthsarathy, 1998; Pomeranz, 2009) believe the date for the divergence in living standards between the East and West was after the industrial revolution, while Broadberry and Gupta
(2009) claim that the GDP per capita in India in the mid-18th-century was 30% lower than in Britain. Maddison (2001) estimates that the per capita income in India fell from $540 in 1757, the year of the Battle of Plassey, to $520 in 1857, when the EIC in India was dissolved. The subsequent per capita income in Britain for the same period rose from $1,424 to $2,717. Moxham (2001) estimates the income of an agricultural laborer in England to be 15 rupees or £1.50 per month, while that of an Indian laborer was 1 rupee per month.

**Implications of the EIC as Tax Collector**

The conquest of Bengal in 1757 was seen as “a new way of supplying the market of Europe’ b” means of British power and influence invented by parliamentary committees (Bowen, 2006, p. 23). The directors of the EIC were keenly aware of the criticisms made against them for exporting bullions for luxury goods. The EIC’s effort to balance trade with the export of wool and metal was only partially successful. Hence, the directors looked at the taxes from India as an opportunity to compensate the flow of silver and gold out of Britain. Very little silver was sent to India and Bengal after 1757, and far more bullions were sent to a single EIC factory in Sumatra, Indonesia, than to the whole of India (Lawson, 1993). In the history of globalization, the East India Company changed the flow of capital from the India to the West.

Between 1766 and 1778, less than one fifth of the EIC’s revenue had been applied to the purchase of goods to Britain (Bowen, 2006). This meant that India saw the flow of outside wealth for its goods reduced, opportunities for trade with other merchants was eliminated due to the EIC monopoly, and less than one-fifth of EIC’s income was invested back as the value of its goods production. The remaining amount was used to maintain the bureaucracy in India and the transfer of revenue to Britain. Interestingly, records in London indicated that the assuming role as tax collector resulted in a loss to the EIC due to higher costs, increasing conflicts with Indian
administrators, and London directing long term economic policy and development (Bowen, 2002).

The India Act of 1784 began to transform the EIC from a purely commercial body into an imperial administrator, with a two-tier double government where the state exercised its authority behind the scenes. The EIC’s export monopoly was not seen by merchants to be in the national interest of England and rising industrial interests, although their import monopoly was an essential tool in the transfer of wealth. However, the EIC’s exclusive charter ended in 1813, opening up further trade with the East.
Figure 6. East India Company Time Line
Discussion

Deindustrialization

The intention of the EIC was never to colonize India and be its ruler for almost a century. Colonization was an accident that happened as a means to protect trading and its profits. The interests of the London shareholders were of the highest priority for the EIC and this was reflected in their method of ruling. This was the first company in charge of ruling a country in order to benefit its shareholders. This had a number of serious consequences that affected the local population and it has been a constant debate among various scholars regarding the economic, political, and social impact of the EIC’s rule. This essay looks at different arguments by looking at the cases of the textile and salt industries. The motives of the EIC and the impact of the actions which resulted from these motives are not clear. In the case of the salt industry, the motive was to deindustrialize the local salt production to create a market for British salt, which was successful. For textile industry, the policies changed periodically and the market forces played a large role in shifting the nature of the industry. The influence of the EIC in manipulating those market forces is debatable, such as creating a railroad in India and the Industrial Revolution in Europe, and has been used by all interested parties to support their own arguments. From an Indian nationalist perspective, though, both of these cases have been used successfully to highlight the negatives of colonization. The deindustrialization debate and its political use is necessary to consider when doing business with Indian organizations as it is a legacy that these organizations have inherited.

Dutt (1908) proposed that the deindustrialization of India which took place during British rule either stagnated or declined the state of the Indian economy due to British policies designed in favor of the British economy. Panikkar (1959) supported this by claiming that it turned the local population into workers for the EIC where these human resources were
exploited for cheap labor. However, Morris (1968) argued against this view of the Indian economy that colonization deindustrialized India or at best caused its stagnation. This has been an ongoing debate and scholars have differing opinions about the benefits and disadvantages of colonial rule under the EIC. Quantitative evidence on the overall economic activity in India in the 18th- and 19th-centuries is scant and the complexity of Indian society confounds research into it. India was colonized over a long period of time and conditions in India and the policies under British rule changed so often that it becomes challenging to be conclusive about cause and effect. The nationalists argue that the EIC’s rule impoverished India and its economy was distorted under its rule. There is another view which argues that it improved India and any problems that arose were inherited from the Indian environment.

Dutt (1908) published two volumes of *The Economic History of India*, which were one of the first scholastic works that attributed the deindustrialization of India to British policies. These explanations for deindustrialization were a powerful weapon used by nationalist to critique colonial rule and to organize resistance. Chandra (1966) objectively criticized the economic ideas of the nationalists, but also concluded that British rule was economically injurious to India and perhaps designedly so. Nehru (1946), the first prime minister of India and second only to Mahatma Gandhi in popularity, ascribed most of the problems that the nation faced to British rule. Scholars supporting this view believed that the progress of India would have continued to modernity without European intervention. There was a prevalent argument, that prosperity in England was funded by the taxes collected from India instead of being invested back into the Indian economy to stop its decline. Wilson (1858) stated that “had not such prohibitory duties and decrees existed, the mills of Paisley and Manchester would have stopped in their outset and could scarcely have been set in motion, even by the powers of steam” (p. , as cited in Mukherjee, 1973, p. 703 ). Nationalists appreciated the positive contribution of colonization and
also shared enthusiasm for certain features of European society and culture, such as public work policies, the quest for scientific knowledge, and social reforms.

Nationalists also contend that the unwritten colonial contract enforced by the EIC was the main reason for the non-transmission of the Industrial Revolution to the colonies. The policies of this contract implied that: (a) the colonies could only import products from England and tariff rates had to be low or 0%; (b) colonial exports could be made only to England and from there be re-exported; (c) the production of goods that could compete with the products of the England would be banned; and, (d) the transport of goods between the England and the colony would be carried on the England’s ships only (Paul, 1997). Some researchers have argued that the ban on the production of competing products was one of the major reasons for the fight for American independence (Nester, 2000).

Morris (1968) contends that the EIC took over a society that was not ready for industrialization. Roy (2002) argues that the market-oriented British colonial policies initiated a process of economic growth based on labor intensive production processes and natural resources. This view claims that India was poor and anarchic before the arrival of the British and that they provided a central authority and modern infrastructure. Critics of nationalist policy, however, admit the direct or indirect possibility that colonization may have prevented industrial growth and note the shortcomings of the colonial rule (Robb, 1981).

The textile industry is often the most cited case from both sides. The nationalists claim that it was a systematic dismantling of the industry by the British. The opposition claims that improved British productivity led to declining world textile prices and declining sea transportation costs making the production of textiles in India increasingly uneconomic (Clingingsmith & Williamson, 2008; Roy, 2002). According to Williamson (2008), the deindustrialization of India during the EIC’s rule happened in two stages between 1760 to
1810 and 1810 to 1860 for various reasons. The first stage of deindustrialization was a result of poor climate conditions and the dissolution of the central ruling authority with the result of India losing its export market. This is observed by the reversal of flow of silver bullions from England to India. During the second stage of deindustrialization, the advancement of European productivity from mass production in factories led India to lose its domestic market. This resulted in the transition of India from a major net exporter of textiles at the beginning of the EIC’s rule to the major net importer by the end of its rule. Harnetty (1991), in his extensive study of the textile industry, concludes that deindustrialization did occur but he attributes it to the expansion of the railroads and market forces. However, he also contends that the expansion of the railroads in India was the result of policy to expand the market for British manufacturers. With an eye on the past, the inconclusive nature of the evidence for and against the deindustrialization of the Indian textile industry creates space for Indians to view globalization with suspicion, even when trying to be open to new possibilities. This is especially painful for people in India who came from the families and castes of craftsmen, for this history is very personal to them. Mahatma Gandhi’s Khadi (homespun cotton cloth) movement and the symbolic use of Khadi apparel by politicians in India continue to remind Indians of the textile industries’ decline during the EIC’s rule.

The case of the salt tax, however, presents more conclusive findings. In free market conditions, India’s salt industry would not have been threatened by the British salt industry. It was caused by the policies of the EIC and the deindustrialization of the salt industry in India. The cost of producing and exporting salt from Britain to India was more than double the salt locally produced in India (Ray, 2001), despite a decline in shipping costs. The salt import in Bengal was zero in 1830 but went to 2.7 million maunds by 1851, which was half the salt market in Bengal. Despite the higher production and shipping costs of British salt, this dominance was not possible
without the manipulation of the market and active encouragement by the EIC. Salt was exported from Cheshire and Worcestershire to India and import tax was adjusted so that the cost was competitive with local salt and profitable to English manufacturers. The EIC played a key role in the deindustrialization of the salt industry and creating a market for their industry while collecting taxes in the process. This presents an argument in favor of the nationalists who argue that the EIC played an active role in the deindustrialization of India and which casts doubt on the argument that market forces played role in a shaping the economic landscape. Salt became a symbol of the Indian independence movement with the success of a salt march led by Gandhi in 1930.

**Bounded Rationality**

The economists have argued that outsourcing is one of the rational forms of international trade that ultimately has positive impacts on both domestic and foreign economies (Jackson, 2013). Supporters of outsourcing also argue that jobs that are outsourced are not sustainable in the long term and free up resources to invest in more productive ventures resulting in a strengthening of US economy (Laksin, 2012). There is some empirical support for an external production cost advantage. The results of the study by Mansfield and Mutz (2013) suggested that support of Americans towards outsourcing is shaped less by the economic consequences of outsourcing and more by who they consider to be the in-group and their interaction with the out-group. Although there is no significant evidence that outsourcing has produced overall job loss in the American economy, the suspicion that it has contributed to the job loss is widespread (Blinder, 2006).

Thus, the economic argument for the rationality of outsourcing faces certain limits in explaining the actions by certain organizations or the reactions of customers or employees. The deductive rationality breaks down under complicated human behavior. Bounded rationality
suggests that individuals behave intendedly rationally but only limitedly so (Simon, 1978). Emotions profoundly affect individual behavior and decision-making according to behavioral economics (Bollen, Mao, & Zeng, 2011). Behavioral finance has indicated that financial decisions are driven by emotion and mood (Nofsinger, 2005). Psychological research has provided the notion that emotions in addition to information play a significant role in human decision-making (Damasio, 1994). Thus, rationality is bounded or limited by the information people have, the cognitive limitations of their minds, and the finite amount of time they have to make decisions (Simon, 1978). Thus, when accounting for the reactions to outsourcing from various actors who have influence on the process, they may not always stem from the economic viewpoint and researchers need to consider alternative explanations for their reactions.

Triggers

In India, growth from the liberalization of the economy and increased job opportunities from information technology (IT) and business process outsourcing (BPO) were welcomed and seen as a sign of prosperity. Because of the education system established by the British, India has a large pool of English speaking workers. Yadav (2007) noted that “as the cost of paying an agent in USA is approximately $100 for a seven hour shift, the Americans started hunting for a cheaper market just like they did during the colonial times” (p. 58). After being racially abused over the phone, one call center agent wrote in an online forum, “these people still think they are rulers and we are their slaves” (Harshg, 2006, p. 13). Vroom, the main character in Bhagat’s (2007) popular novel One Night @ Call Center (which sold over 2.5 million copies) compares his work at a call center to prostitution:

“Every night I come here and let people xxxx me. . . . [He] picked up the telephone headset. “The Americans xxxx me with this, in my ears hundreds of times a night . . . And the funny thing is, I let them do it. For money, for security, I let it happen. Come
xxx me some more,” Vroom said and threw the headset on the table. (216)

This reaction can be puzzling to a US manager or customers since the US has never colonized India and US managers feel they are offering them an opportunity for a better life while bearing the ire of people back at home. There are many people in the US consider who themselves victims and are humiliated because they feel they are losing jobs to the cheap labor in India (Fastenberg, 2012). At the end of the novel, Vroom rebels by delivering a political speech calling upon readers to reject materialistic ways and to exert the same anti-imperialistic power that India’s founders did, to redeem himself in the eyes of nation-state (Southmayd, 2013). The goal of his political resistance is to shift the power while participating in the global marketplace instead of engaging in any continued resistance to neocolonization from Americans, whom he unhesitantly calls stupid and racist. This link to colonization is observed in other literature, academic articles, discussion forums, news, popular media, and among academics alike. Outsourced work does provide workers a chance for upward mobility, increases the size of the service sector and prosperity to some, and increases the productivity of the nation, when this is juxtaposed to the negative reaction to outsourcing, it underlines the ambivalence with which outsourcing and globalization are seen in India.

The Call Center industry developed due to the need of firms to do cost cutting facilitated by technological innovations. The process is based on standardization, routinization, and a deskilling of labor process (Coyle, 2010) to serve customers in English speaking countries. The nature of call center work requires personalized customer performance ability while performing standardized, routine, high volume robotic work (Frenkel, Korczynski, Shire, & Tam, 1999). It is by no means an easy a task as may appear from the outside. The agent needs to move flexibly between “tight regimentation and flexibility, matter of factness and friendliness, subordination and responsibility” (Arzbächer, Holtgrew, & Kerst, 2002, p. 20). The constant illusion of
customer superiority is maintained over the rationalizing logic for call center workers even if it has an emotional cost for them to be in such an environment (Korczynsky, 2002). This invokes a reminder of the work culture in the EIC and this reaction is observed in the case of outsourcing companies irrespective of their country of origin.

Events of past humiliation shape historical sensitivities and trigger resentment in the present (Wang, 2008). People tend to interpret new information and events in terms of old stories, which are superimposed on new situations (Salzman, 2008). The colonization of India by the East India Company is such an event of past humiliation. While many workers in the outsourcing industry are grateful for the jobs and a chance to live the western lifestyle they are able to now live on due to this opportunity, the feeling of shame and past humiliation may arise from many triggers. These triggers could be abusive customers, emotions due to the nature of work, abuse from their own managers, discontent with the routine nature of the work with very few future prospects, and burnout from the repetitive work. They tend to superimpose negative feelings of emotional labor from the nature of job on old stories of colonization and past humiliation as a simplistic explanation for their unequal status in communication. As Weick (1995) notes, “[P]eople who know the outcome of a complex prior history of tangled, indeterminate events remember that history as being much more determinant, leading ‘inevitably’ to the outcome they already know” (p. 25).

The modern day call center and IT industry workers are referred to as ‘Cyber Coolies’ or ‘Code Coolies’ by some, the former term being coined in 2003 by Praful Bidwai, an Indian columnist. The growth of the IT and BPO industries are also periodically referred to by the media as glorified labor providers (Singh, 2010). People who do not receive any direct benefits from the entry of MNCs in India often criticize outsourcing on socio-cultural grounds. For example, the Indian writer Mishra (1997) noted that “the regular exposure, through the visual and print
media, to western lifestyles, which are models for millions of Indians, has induced deep feelings of anxiety and inferiority among the modernizing class” (p. 30)

The EIC needed clerical English-speaking staff from the local population to serve the administration, and so provided no opportunity for Indians to attain higher positions. The EIC prohibited any native person from occupying any officer-level position, limiting them to junior-level positions despite talent and ability. Many skilled workers in the call centers feel that their talents are not being used and blame the MNCs for not creating opportunities for them to grow. Widespread poverty of the greater population due to a lack of economic growth and comparatively better positions of this administrative class has created a divide and resentment among the general population. Gandhi recognized this as well, and as part of his civil disobedience movement in 1929 summoned Indians to resign from the civil services.

The impetus for the formation of the East India Company was to acquire pepper and other spices from the East and not lag behind other European powers which were profiting from that trade. The impetus for modern organizations to outsource to India was to acquire a low-cost, skilled pool of English-speaking workers so that they could stay profitable in the market by cutting costs. A McKinsey Report (2003) indicated that Indian IT companies remain wholly dependent upon foreign involvement to survive. The Indian economy was dependent on the East India Company during their rule for business as well as policies. The dependence of the outsourcing industry on foreign business indicates a fear that any collapse or changes in the foreign economy will adversely affect the local economy and subsequently create dependency.

Nadeem (2011) comments that “just as the status of the colonial mimic men was dependent upon the structures of British colonialism, today the social position of [outsourcing] workers [in India] is contingent upon the continued patronage of Western corporations” (p. 23). An example of it is seen in the movie Outsourcing (2006) when, at the end of the movie, the
company that sends the call center to India decides to outsource it to another location because it is cheaper. Such a scenario would be bad for the local economy as such dependency would make it hard to manage unemployment and sustain the growth of the economy, and would also increase consumption. The growth rate of the Indian economy was close to 8% throughout the last decade; however, after 2008, as the worldwide economy slowed down, India was also impacted. The growth rate of the Indian economy in last two years has been 5.5% (Bagri, 2014). There could be multiple reasons for such a slowdown given the present global economy, but this is a trigger that generates hesitancy for dependence on a foreign economy for prosperity.

The human rights abuse and corruption associated with the Enron power project in India in 1997 was investigated by the fact-finding mission of retired high court judges appointed by the government. Justice Daud, a member of the committee, described the practices of Enron as the second coming of the EIC (Enron’s Abuse of Power, 1997). Das (2002) notes that for many Indians the EIC story has two morals: (a) that the MNC wants not only trade but power, and (b) that division and betrayal among Indians enables foreign rule. Suspicion of MNCs continues to be present in India and the EIC remains in the Indian psyche.

Contact Hypothesis or Intergroup Contact Theory (Allport, 1954) posits that bias and conflict in intergroup contact is reduced if the conditions of interaction are characterized by equal status, superordinate goals, intergroup cooperation, support of authorities, and personal interaction. Allport (1954) recognized the need to reduce the differences in resources between the two groups to facilitate equal status. Bhawuk (2014) argued, however, that this is a theoretical impossibility, since inequality in resources drives the free market. Business people assume that if we are making transactions in the market place, we are doing so voluntarily, and therefore necessarily have equal status. Such an idea is supported by most western theories of the social sciences. In economics it is argued that the unequal value is a reflection of the
abstruse concept of utility. In negotiation each party examines its position by using its best alternative to negotiate agreement. The difference in wages is cited as one of the prime motivations for outsourcing and thus making equal status difficult if not impossible (Bhawuk, 2014). Not all decisions and reactions by people are based on economic rationalization. The definitive modes of human decision and action are good reasons, which are ruled by matters of history, culture, and character (Fisher, 1997). These triggers produce a remembrance of colonization in Indian psyche, rendering an air of neocolonization to the outsourcing industry.

**Conclusion**

The Outsourcing phenomenon is embedded in the context of the longstanding imbalances of power in the relationship between the East and the West. Although literature has focused a great deal on how, what, where, when, and the various aspects of outsourcing, the implications of perceived asymmetrical power relationships need more attention from researchers. To help fill this gap, this essay used an historical analysis to look at India and the legacy of the East India Company in order to better understand why such an asymmetry of power exists and why it would have an impact in present outsourcing relationships. The case of the East India Company and the impact of their policies give a better understanding of the power asymmetry between the outsourcer and outsourcee and add new dimensions to the outsourcing research. Nationalists used deindustrialization to further their political agenda and make their case against globalization, which may have implications in doing business with India.

As Friedman noted, the “hidden hand of [the] market will never work without a hidden fist, McDonald’s cannot flourish without McDonell Douglas, the designer of F-15s” (1999, p. 93). The display of power may not be overt but as Acemoglu et al. (2001) noted, property rights, laws, and other the nontechnical features of society reflect the environment at the time of colonization. Offices based in small economies adhere to the standards and practices laid down
by the US and UK groups by accepting the cultural and professional norms of the dominant society (Hanlon, 1994). This essay points out that there is a need to decode the contextual meanings surrounding these institutional norms and everyday talks.

There is a school of thought that strongly believes in this age of globalization that the world is becoming flat. Friedman (2005) described outsourcing as one of the flatteners, where there is a tendency to minimize the power asymmetry because of this worldwide flattening. However, as discussed in this essay using contact hypothesis, it is important to pay attention to the unequal power relations when examining outsourcing. Therefore, it is essential for researchers to develop sensitivity to the power asymmetry in outsourcing.

This essay suggests the need to expand its corpus of basic frameworks for studying and explaining outsourcing at the organizational level. This expansion should include the long-standing roles played by macro-level historical, societal, and institutional factors on different actors involved in these relationships. With broader viewpoints, the field would be able to add more to the narrow business dimension of outsourcing, especially in international business, as self-contained units of analyses. The use of historical analysis and colonial connections in outsourcing adds another dimension to understand the reactions of different actors involved inside and outside of the organizational context.

This essay also highlights why some may perceive outsourcing relationships to be neocolonial. Stan Shih’s smiling curve puts original equipment manufacturers (OEM) at the bottom of pyramid (Bartlett & Ghoshal, 2000). As Morgan (2007) noted in the context power perspective, firms in developing economies may feel the need to be the OEM’s in Stan Shih’s curve. Stan Shih’s ‘smiling curve’ captures the organized economic world dominated by multinational corporations from developed economies (Bhawuk, 2014). From the outsourcee perspective, when the history of colonization and the position at the bottom of pyramid are
juxtaposed, it lends a neocolonial nature to the outsourcing arrangement. But cause and outcomes are not simple bivariate relationships. Hence, Steinmo, Thelen, and Longstreth (1992) point out that institutions are not the sole cause of outcomes, instead they structure the conflict and, in doing so, influence the outcome. In reality, it is a power-balancing struggle where outsourcees as a nation or organization are trying for upward mobility to create equal status. If there is a conflict, resistance, or a lack of opportunities in its way, over time it may create bitterness in the disadvantaged party (Bhawuk, 2014).

As a result, employees in developing economies may feel as though they are at the ‘bottom of the pyramid’ in the global market. Many of them are grateful for the higher wages they are able to earn when compared to others. Some of their complaints, though, come from the inequality, lack of respect, and barriers they face in achieving upward mobility. They are happy to participate in the global economy, but their reasons are shaped by matters of history, culture, and character. Lacity et al. (2011) therefore, urge scholars to build new theories to understand outsourcing from the phenomena they observe instead of looking to other disciplines to import those theories to corroborate their own work.

This essay demonstrated how the flow of wealth changed from the East to the West during the rule of the EIC. As rulers of the time, the EIC was considered responsible for this change, regardless of the market forces at play and the motives of the EIC by nationalists in India. This invokes an historical sensitivity and subsequent negative reactions. The underlying suspicion of depending on foreign powers for the prosperity of the economy (as in colonial times) is another trigger for some of the reservations against new MNCs coming in India, which were found to play a role in the cases of IBM and Coca-Cola discussed earlier.

The charter between the British government and the EIC was an outsourcing contract. Although unintended, the policies of EIC—such as the creation of the bureaucratic system and
the education system—are what made India a leading destination for the modern outsourcing services. When looking at the topic of outsourcing it is difficult to ignore India, and when looking at outsourcing in India, the legacy of the EIC and British rule is also difficult to ignore. There is not enough attention paid in the literature to this legacy, and this essay helps to fill that gap.

Outsourcers may find it useful and relevant to know about this legacy in order to manage their relationships with outsourcee organizations. MNCs need to understand the conflicts and social changes caused by them and operating in the broader social environment. This essay underlines the importance that managers need to be aware of the history and social implications of their decisions, not just on their own employees but outside of the organizational boundaries. Thus, not only will it be useful for them to successfully manage employees from a different nation, but also to better understand the impact in their own environment.

Creating awareness of the emotional nature of the work irrespective of location would be a first step in alleviating the concerns of outsourcee employees. Offshore call center employees may not be aware of the difficulties faced by domestic call centers and the fact that providing them with equal status to their western counterparts (should this be the case) would create a sense of camaraderie which would reduce feelings of inequality among outsourcee call center workers. There would be some instances where abuse may be racial, but it will be a part of the present work hazard rather than a remembrance of past humiliation. Raising workers’ awareness of ethnocentric biases and country of origin literature would help outsourcee call center employees manage stress, thus producing a better understanding of where customers are coming from. Creating opportunities for upward mobility within the firm and creating policies at the national level that would offer opportunities to participate in the global economy would keep the call center employees motivated and reduce prejudice against the customers.
they are serving. Highlighting the positive aspects, such as opportunities to participate in the global economy, would help to negate negative connotations about the legacy of colonization in outsourcing.
ESSAY II:
THE HISTORICAL DEVELOPMENT OF OUTSOURCING ACROSS THREE INDUSTRIES
Background

Outsourcing is used in many industries, including banking, insurance, retail, software, the public sector, entertainment, and energy. A survey by KPMG LLP (2013) found that managers across industries planned to increase their outsourcing activities. In 2013, pharmaceuticals and life sciences are predicted to increase outsourcing by 25%-37% across analytics, application development and maintenance (ADM), and Information Technology (IT) infrastructure departments. Public sector plans to increase outsourcing are highest across these three sectors. In manufacturing, the industry is shifting to an outsourcing focus from analytics to ADM and IT functions. Figure 7 depicts various industries where outsourcing is used and the intentions of the managers in each industry in 2013 to increase outsourcing across analytics, ADM, and IT infrastructure operations.

Figure 7. State of Outsourcing by Industry in USA
Business researchers have studied industries historically to gain a deeper understanding of the changes in an industry and how they may shape the future. For example, Hannan (1997) studied the European automobile industry from 1886 to 1982, Zelner et al. (2009) studied the global electric power industry from 1989 to 2001, and Han (1998) studied the Japanese banking industry from 1873 to 1945. However, outsourcing has not been studied historically and this essay attempts to address this gap in the literature.

India is synonymous with outsourcing (Madhani, 2008) and India is the world's leading destination for business process outsourcing (BPO). Therefore, the BPO industry was selected as one of the industries to be examined historically. As discovered in essay one, colonization had a role to play in linking the BPO industry and India. However, the semiconductor industry did extensive outsourcing to countries where no colonial links existed between the outsourcer and outsourcee. Therefore, a history of outsourcing in the semiconductor industry was selected to look at in this essay. Finally, the advertising industry has presented an example of how outsourcing developed domestically within the US starting as far back as the 1840s. Thus, these three industries with different contexts and development trajectories were selected in order to broaden the industry-level understanding of outsourcing by looking at the similarities and differences across these industries.

Methodology

History consists of many events occurring at different times and a chronological ordering of the events is a central aspect of historical analysis. A focus on temporal sequence has led to a path-dependent analysis (Pierson, 2000), which has been used in institutional theories, in economics, and social sciences to study the historical trajectories of institutional change in social institutions. The basic premise of path dependence is that the past shapes the future and, therefore, history matters (Ebbinghaus, 2005). Path dependence proposes that in a
sequence of events, the latter decisions result from non-linear self-reinforcing processes that provide increasing returns (Arthur, 1989). The genesis and catalysts for the early success of an institution can be due to chance events, but once a critical mass has adopted a path, the path becomes stabilized or an equilibrium point is reached (Arthur, 1989). The macro-level institutional arrangements shape subsequent decisions making them diffuse into micro-level processes. The utilitarian framework is used mostly in economic history as it is most prominent in the marketplace, where institutions are formed through the rational cost benefit assessment of actors. The analyses of contingent events that become locked-in through the lens of utilitarian theory represent the core of path-dependent research in economic history (Mahoney, 2000).

Mahoney (2003) argues that path dependence characterizes historical sequences where contingent events start shaping institutional patterns with deterministic properties. Contingency refers to the inability of theory to predict or explain the occurrence of a specific outcome (Kiser & Hechter, 1991). The early events in a path-dependent analysis are contingent events that cannot be explained on the basis of prior events or conditions (Goldstone, 1998). However, an event that is contingent is not necessarily random or without antecedent causes (Carr & Davies, 1961). Path-dependent analysis involves studying initial conditions, as the earlier parts of the sequence matter much more than the later parts in having an impact on an outcome (Pierson, 2000).

Critical junctures are events of institutional genesis that determine the selection of a particular arrangement from two or more alternatives (Abbott, 1997). Historical development is viewed as a branching process, in which key actions push history down one branch and foreclose others (Kiser & Pfaff, 2010). The processes that are responsible for the genesis of an institution can be different from the processes that are responsible for the reproduction of the
institution (Stinchcombe, 1987). Once processes are set into motion and begin tracking a particular outcome, these processes tend to stay in motion and it becomes difficult for the organizations to turn to other alternatives (Abbott, 1992).

For some theorists, a path of increasing returns or self-reinforcement is important because it captures two basic elements of path dependence: the cost of switching to alternatives and distinguishing formative conjectures from periods of divergent paths (Pierson, 2000). Path analyses during the periods of self-reinforcement explains the configuration of events that have a predictable causal effect and are a common practice in comparative historical analysis (Mahoney, 2007). Some deviant outcomes or unintended consequences happen in some cases, which are different than predicted by theory and the initial conditions associated with its emergence. Thus, historically oriented researchers use path-dependence sequences to focus on particular outcomes, temporal sequencing, and the unfolding of processes over long periods of time. Path dependence helps combine the narrative with the action, events, and temporal sequence.

In a path-dependent pattern, selection processes during a critical juncture period are marked by a contingent event (Mahoney, 2000), which is an occurrence that can deviate from causal theories; however, it does not mean that contingent events are random and without antecedent causes (Carr, 1962). Figure 8 offers a schematic illustration of contingency in a self-reinforcing sequence (Mahoney, 2000). Many optional paths (only three are shown for clarity) are available at the initial condition at Time 1. The adoption of a specific path (path B in Figure 2) may not be predictable by explanatory theories. The chances of an institution branching to paths A or C are viable and the adoption of path B during a critical juncture time period (Time 2) is a contingent event. The critical juncture establishes path B as the dominant path for institutional formation and is stably reproduced across time in the future in a self-reinforcing
sequence until equilibrium is reached. There can be more than one critical juncture in the history of an industry when we study it over decades.

Figure 8. Contingency in a Self-reinforcing Sequence
(Mahoney, 2004)

Comparative historical analysis is a field of research that utilizes systematic comparison and analysis of processes over time to explain large scale outcomes (Mahoney & Rueschemeyer, 2003) and is an important tool in social science methodology (Mahoney, 2004). Standard regression frameworks have difficulty in estimating causal effects when evaluating hypotheses including probabilistically necessary and sufficient causes (Braumoeller & Goertz, 2000; Ragin & Drass, 2002). A factor can be considered necessary or sufficient if it is present in all cases and consistently interpreted as a causal necessity (Mahoney, 2003). The method of agreement is used to eliminate potential necessary causes, whereas the method of difference is used to eliminate potential sufficient causes. Basic information constitutes events that are relatively free from interpretation and describe facts rather than opinions. The factors derived from these basic events may exert an influence on dependent variables. Process analysis of basic
information reveals mechanisms through which an independent variable (factor) exerts an effect on the dependent variable (George & Bennett, 2005).

This essay uses both path-dependent analysis and comparative historical analysis. Path-dependent analysis consists of two stages: (a) the formation stage, where it is used to identify the initial conditions in each industry that favored outsourcing over other alternatives, and (b) critical junctures, which set outsourcing on a path of increasing return. The history of outsourcing in advertising, the semiconductor industry, and business process outsourcing (BPO) is organized on a timeline. The timeline is synthesized to identify factors that may have affected outsourcing as an outcome and corresponding events that caused these factors to emerge. Once the formation of outsourcing as an institution and factors on its self-reinforcement path are identified for each industry, these factors are compared using comparative historical analysis to find similarities and differences across the industries to gain deeper insight into outsourcing as an industry.

Advertising Industry

Outsourcing in the Advertising Industry

Total advertising spending in 2013 was $177.8 billion in the US and $509 billion worldwide (Plunkett Research, 2013). It is a profitable business with an average return on investment of 27.3% (Porter, 2008). The first advertising agency was founded by Volney B. Palmer in 1841; at that time, advertising was not considered a prestigious practice and firms that engaged in advertising risked a drop in their credit rating (Fox, 1984).

The formative phase of the advertising industry was from 1841 to 1880 (See Figure 11). The first advertising agency was formed to take advantage of the market gap by connecting print media and manufacturers. Manufacturers needed to advertise so that customers would buy their products, whereas publishers of newspapers and magazines needed to fill print space
and advertisements were a type of resource to the readers that also generated revenue over and above subscription fees. The value these agents offered to the manufacturers was their knowledge of the advertising rates and reader demographics. Merchants wanted to advertise outside of their local districts so that their products could reach more consumers. Newspapers needed to increase revenue beyond membership subscription. Thus, the needs of manufacturers and newspapers were met by the advertising agents serving as intermediaries.

The typical commission of agents was up to 25% for selling space in newspapers (Bermiss, 2009). Newspapers were bound to honor the contract signed by agents while agents were free to sell space for multiple newspapers. The newspapers were focused on news and content issues and were less inclined to focus on developing advertising skills. Therefore, they were at a disadvantage and lacked the ability to do their own marketing. The publishers sold advertising space for a wholesale amount to these agencies as it guaranteed them a modest yet fixed income. The agents developed the capability of marketing the advertising space and also took the risk of buying ad-space in wholesale. In the beginning, the primary business of the advertising agencies was the buying and selling of advertising space. Thus, from its inception advertising was outsourced by both manufacturers and newspapers, and advertising agencies were the outsourcers. To generate more revenues for the publishers, ad agencies started marketing publishers with whom they also had close ties to manufacturers (See Figure 9).
Due to the low cost of set up, a large number of new agencies entered the market. Between 1870 and 1899, the number of agencies grew up from 42 to 400 in New York City alone (Pope, 1983). By the end of the 19th century and as the advertising industry started to grow, it faced a credibility crisis due to false claims being made by some in the published advertisements (Sekou, 2009). The value-added services of the ad agencies advanced from media knowledge to content creation, including starting to copywriting their own ads. Manufacturers needed to advertise their product and the creativity of the ad agencies was used to promote products by appealing to customers’ emotions. Another service added by ad agencies pertained to the creation of brands for products. Ad agencies also took over the responsibility of public relations work for manufacturers (see Figure 10).

The shift to creative advertising changed the scope of the advertising business. The essential service that agencies performed was creating demand for the client products. Around 1920, ad agencies like Young and Rubicam further added market research as a service to better understand customers’ needs. In this phase of industry development a major shift took place in that the ad agencies were gaining recognition for their creative work, which continues to present day. At the beginning of the 20th-century, the manufacturing sector underwent a
consolidation, leaving fewer buyers. With the consolidation, manufacturers needed to reach markets outside of the local market. This resulted in larger contracts, which were controlled by larger advertising agencies or suppliers. The divide between small agencies and large advertising agencies grew.

In the 1920s, the structure of advertising agencies changed to add roles like client services, account executives, marketing services, administration, and finances. Professional employees specializing in one particular department became essential to manage the agency. Ad agencies also started offering scientific market research for the manufacturers to help better promote or improve their products. As the complexity of managing advertising campaigns grew with brand promotions for larger companies, only a few agencies wielded that kind of capacity and created a high barrier for manufacturers to do the work in-house. Agents became prominent in advertising because the size and scope of both the publishing and manufacturing industry grew and the complexity surrounding the transaction of placing an advertisement created a need for specialized intermediaries (Sekou, 2009).

Radio was introduced in the 1930s and television in the 1940s. This increased complexity of the advertising business fragmented the audience as well as the advertising budget of manufacturers. Media networks that specialized in print (e.g., magazines) were in a weaker bargaining position due to the large number of publications in the early period. However, radio networks enjoyed more power when dealing with advertising agencies. A new layer of intermediaries emerged in the radio age (1930 to 1950/60). These intermediaries, known as time brokers, negotiated with advertising agencies on behalf of radio agencies based on station information, hours available, and ratings. Advertising agencies soon added these capacities in-house. Television advertising followed in the footsteps of radio in the 1950s, with agencies dividing time slots in smaller fragments to increase revenue as the cost of program
production continued to increase. Ad agencies successfully adapted to the external event of introduction of new technologies.

Despite the proliferation of different advertising mediums, spending on advertisements did not rise owing to the Great Depression. Post World War II, however, there was a rapid increase in the size of the advertising industry. Ad spending almost doubled—from $2.9 billion to 5.7 billion from 1945 to 1950, respectively (Sekou, 2009)—while the number of agencies listed in the *Standard Advertising Register* went up by 1.67 times from 1,800 in 1945 to 3,000 in 1952. In 1971, the top 100 advertisers accounted for 80% of the television ad market (Sekou, 2009). Thus, the trend of conglomeration in the manufacturing sector was also reflected in the advertising industry. This created the economies of scale, as ad agencies provided value-added services to the outsourcers which in turn reinforced outsourcing. Today there are four major holding companies in the US that own most of the advertising agencies: Omnicom Group, Interpublic Group, WPP Group, and Publicis Groupe. Since an agency cannot serve two competitors simultaneously (e.g., Coke and Pepsi) due to the industry norm, these holding companies remain non-integrated though they own multiple agencies.

With the increase in channels of communication from newspapers, magazines, radio to television, as noted above, the audience was fragmented between different media. This presented a challenge for the industry to reach these different audiences. The average viewership of three major television networks dropped from 80% in 1980 to 62% in 1990 due to media fragmentation. The Integrated Marketing Communication package consisting of mass advertising, public relations, sales promotions, direct promoting, and personal selling were adopted by advertisers to cope with this problem (Rust & Oliver, 1994).

Online advertising began with the proliferation of internet service providers, such as Compuserv and America Online. They provided subsidized subscription services to their
members while renting space and content to advertisers. The power of web advertising lies in the fact that consumer data is highly trackable, by making accurate predictions about consumer behavior through the use of cookies and the browsing history. It is possible to deliver specific targeted ads to the target consumer group instead of the blanket mass distribution approach used in other media. To reach the right audiences, the outsourcees added value by developing specialized expertise in providing an integrated marketing package, profiling consumers, and targeted advertising (see Figure 11). Double Click, which was acquired later by Google, and other online ad agencies became powerful vehicles for advertising based on their profiling of web surfers. Online auction sites and portals such as eBay and Amazon gave another open platform for sellers to reach buyers in a direct way. The delivery and cost structure of the online advertising model has become a complex business model.

Major events in the history of the advertising industry as discussed above are plotted on the timeline in Figure 11. Knowledge of reader demographics was an asset, along with information about ad rates that attracted business to the agencies. To continue maintaining their importance in the market place, ad agencies started offering content creation and copywriting as services to the manufacturers. Ad agencies not only provided information to the consumers but also started creating a demand and brand value for the manufacturers to increase their sales. To fulfill this new demand, ad agencies engaged in creating structured organizations by adding specialized professionals, market research, and expanding markets for their clients. As new media (e.g., radio, television, and later online advertising) became available, ad agencies maintained their value in the market by managing these sources, providing integrated market packages, and profiling consumers for targeted advertisements. Thus, throughout the history of the advertising industry, ad agencies maintained their need in the market by adding value to the services they provided to their clients.
Figure 10. Addition of Value Propositions by Advertising Agencies
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1841 – 1880</td>
<td>Formative phase</td>
</tr>
<tr>
<td>1841</td>
<td>First advertising agency formed</td>
</tr>
<tr>
<td>1880</td>
<td>Shift to creative advertising</td>
</tr>
<tr>
<td>1880</td>
<td>Copyrighting as Value proposition</td>
</tr>
<tr>
<td>1890</td>
<td>Structured service organizations</td>
</tr>
<tr>
<td>1920’s</td>
<td>Emergence of structured service organizations</td>
</tr>
<tr>
<td>1930</td>
<td>Introduction of Radio</td>
</tr>
<tr>
<td>1940</td>
<td>Television transmission begins</td>
</tr>
<tr>
<td>1950’s</td>
<td>Economy of scale</td>
</tr>
<tr>
<td>1950’s</td>
<td>Conglomeration of agencies within few large public holding companies</td>
</tr>
<tr>
<td>1990’s</td>
<td>Increased media fragmentation</td>
</tr>
<tr>
<td>1990’s</td>
<td>Online Advertising begins</td>
</tr>
</tbody>
</table>

**Figure 11. Advertising Industry Detailed Timeline**
Analysis

Initially, manufacturers and print media were not in direct relationship to advertise and this market gaps was identified by advertising agencies. In the 1840s, there were initially many options available for the industry to grow. To fulfill the market gap in the advertising industry, alternative paths other than outsourcing were print media or the manufacturers managing the advertising themselves. Newspapers outsourced the task of generating revenue through advertising to the agencies. Manufacturers outsourced the marketing of their products to these agencies. The initial conditions of the market forces prompted stakeholders to make a choice from the multiple options available at that time. A rise of outsourcees to occupy this market gap is a contingent event and is a formative juncture in the development of the advertising industry which set into motion outsourcing as the institutional pattern. The critical juncture denotes the point that makes the cost of switching to alternatives higher while reducing the threat from alternative paths and thus outsourcing was set as the dominant path for institutional formation in advertising.

The conditions that were responsible for the genesis of the outsourcing path, however, were not sufficient to sustain outsourcing institution. To counter threat from alternative paths, the outsourcees chose to engage in creative advertising by adding value to their service offerings. Advertising agencies added value to their services by shifting to creative advertising and other value-added services. This established outsourcing as a dominant path where next events adapted to manage new developments, such as the introduction of new media serving as a path for increasing returns and creating a high barrier for outsourcers to bring work in-house. The path was stably reproduced across time in a self-reinforcing sequence. Outsourcing in advertising is a unique case where it became an industry in itself. This may have theoretical implications, as it is the highest point of organizational evolution for the outsourcees. The initial condition, critical juncture, alternative paths and self-reinforcing path sequence are displayed in Figure 12.
Once it was set as the dominant path, the events of industry development described on the timeline served to stabilize it as a dominant path that created a high barrier to doing work in-house for new media, manufacturers, or service organizations. Historical analysis of the advertising industry during the self-reinforcing sequence (see Figure 11) revealed the factors that had a causal effect on the development of outsourcing (see Table 3). To study outsourcing as an industry, these factors are important because they reveal how outsourcing sustained over alternative options. From a comparative analysis of these factors across different industries, it can reveal factors that aid in sustaining outsourcing as an industry.

![Figure 12. Contingency in Advertising Industry Path Sequence](image-url)

Figure 12. Contingency in Advertising Industry Path Sequence
**Factors contributing to the development of outsourcing in the advertising industry**

<table>
<thead>
<tr>
<th>Factor</th>
</tr>
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<tbody>
<tr>
<td>Adaptation to new technologies</td>
</tr>
<tr>
<td>Economies of scale</td>
</tr>
<tr>
<td>High barrier for in-house work</td>
</tr>
<tr>
<td>Managing increased complexity</td>
</tr>
<tr>
<td>Market gap</td>
</tr>
<tr>
<td>Specialized expertise</td>
</tr>
<tr>
<td>Value-added services</td>
</tr>
</tbody>
</table>

*Table 3. Factors in Advertising Industry*
The Semiconductor Industry

Outsourcing in the Semiconductor Industry

The semiconductor industry employs people in both low-end manufacturing and high-end service jobs. Semiconductors have three major stages in production: assembly, fabrication, and design. The capital investment and skill-set required are high in fabrication but a low skill-set in assembly; design requires the highest skill-set. The transportation costs for semiconductor industry are negligible, making any international location with adequate transportation facilities attractive. Hence, assembly was the first function that was outsourced; for example, the domestic silicon industry began in 1959 in the US and within the next two years started to look to international markets for skilled low-wage workers in order to save costs.

In 1961, Fairchild Semi-Conductors outsourced to Hong Kong the assembly processes for its discrete transistors. Assembly outsourcing was the first step in the formation of outsourcing in the semiconductor industry. Fabrication requires a wide variety of expensive equipment capable of producing chips according to different specifications and with extreme cleanliness. For the fabrication and design, labor costs are not a significant advantage and capital investment for the equipment is high. Labor costs account for approximately 16% in 200 mm wafers and less than 10% in 300 mm wafers (Brown, Linden, & Macher, 2005). In the absence of a compelling labor cost advantage for fabrication, there are a number of other factors that come into play in deciding the best location for outsourcing; these include tax advantages, a supply of technical talent, the quality of the water supply and other utilities, the proximity to existing company facilities, environmental permissions, host country political institutions, the presence of other fabrication units, and the firm’s prior experience in investment (Henisz & Macher, 2004; Leachman & Leachman, 2004).
Several outsourced units grew in East Asia due to the low wage for skilled workers, stable governments and pro-investment policies. By 1970 there were several outsourcees for US semiconductor companies in Asia (Linden, Brown, & Appleyard, 2007). East Asia emerged as a preferred destination because of the favorable social conditions, pro-business government policies, and the backing of local governments over South American countries such as Mexico or El Salvador. Testing was gradually added to the outsourced location and by 1978, 80% of semiconductors were assembled in offshore locations (Grunwald & Flamm, 1985).

Computerization of many processes in fabrication had begun in the 1970s and outsourcees adapted to these new technologies and successfully managed their increased complexity. To attract business, firms in developing countries offered value-added services to the fabrication of chips designed by US firms. Since these firms offered fabrication based on designs by other firms, they were called ‘Pure Play’ foundries (Macher, Mowery, & Simcoe 2002). These ‘Pure Play’ firms resulted in US firms focusing on design function. This ‘Pure Play’ foundry model emerged in Taiwan in 1987 through a government initiative and forming the Taiwan Semiconductor Manufacturing Corporation (TSMC). United Microelectronics is another Taiwan, government-backed company and a chief player in the ‘Pure Play’ foundry model. The third biggest foundry is Chartered Semiconductors, an initiative formed with the backing of the Singapore government in 1995. China-based Semiconductor Manufacturing International Corporation (SMIC) is another new and big player in the industry, founded in 2000 with investment from the Chinese government. The entrance of these giant fabrication facilities fostered the growth of the fabless chip design industry in the US and especially in Silicon Valley, California, in the 1990s.

Design requires equipment as well as highly skilled labor; for example, to make the Intel Pentium 4, with its 42 million transistors on a 180 nm line width process, it required hundreds of engineers working full-time for 5 years (Costlow, 2000). The design process underwent an evolution as well with the software expertise becoming a major source of competitive advantage for outsourcee
firms (Linden, Brown, & Appleyard, 2004). The increasing complexity of chip design was accompanied by an increase in automation. This increasing automation, as well as the increasing importance of software, and telecommunication facilities, allowed the design process to be divided into parts and be carried out across multiple locations.

Automation changed the ratio of high-skilled workers to low-skilled workers in the typical plants (Brown et al., 2005). By the mid-1990s, a typical semiconductor plant consisted of 80% low-skilled laborers, 6% engineering and professional staff, and 13% technicians. IBM and AT&T initially preferred automation over outsourcing, but eventually AT&T outsourced their chip assembly plants to Singapore and Thailand, and IBM outsourced to China, Malaysia, and Singapore with the goal of 100% assembly outsourcing by 2004. Automation provided a high degree of advantage when there was the need for large-scale production. Outsourcee firms had dedicated assembly and fabrication facilities with volume as their major competitive advantage due to the economies of scale to accommodate new designs and frequent design changes. However, due to the high investment in design and offering a wider range of products, US companies found automation to be costly and difficult to manage.

Some countries developed specialized skills in particular areas. For example, Britain developed expertise in consumer multimedia and Scandinavian countries in wireless technology (Brown et al., 2005). This resulted in some of the work being outsourced from the US to make use of those countries which had developed specialized expertise. "Follow the un" is a strategy used by many firms to continue work for 24 hours by setting up operations in various time zones. Cost reduction and taking advantage of "follow the sun" was also a factor in semiconductor outsourcing. Some efforts were made in the 1980s to repatriate assembly to enhance domestic manufacturing using automation, but they did not succeed. Many venture capitalists require startups to outsource some of the design work to international sites in order to be competitive in the market indicating a high barrier against doing the work in-house (Wilson, 2003). Some of the early outsourcing of design and fabrication was to Japan and
Western Europe to have close customer contact, and to access the market by overcoming trade barriers in the 1970s (Henderson, 2002; Leachman & Leachman, 2004).

At present, all of the chip design and manufacturing processes (e.g., the modules known as IP blocks) can be outsourced as work order models due to the specialized expertise acquired by outsourcees (Brown et al., 2005). While the physical design is the easiest part of the design process, it can often be beyond the abilities of small- or medium-sized firms due to the cutting-edge technology involved to do it in-house and are thus likely candidates to employ outsourcing. Shared costs of some of the crucial components, such as software licenses and Electronic Design Automation (EDA) tools, also contribute towards outsourcing by various midsized companies like Freescale, ST Microelectronics, and Analog Devices to outsourcee companies investing in those high capital costs. The advantage of having major fabrication plants in Taiwan also resulted in the filtering of design knowledge, as six of the top 30 fabless design firms are located in Taiwan, with the US coming in second with 11 firms. As of 2013, one-quarter of the assembly is outsourced and 60% of these assemblers are located in Asia (Silicon Strategies, 2004). The top 10 assembly contractors, who constitute 70% of the assembly contracts’ revenues, are all based in Asia, validating the early choice of location and the magnetic effect it has to attract more work to that location once the industry has developed in a particular region (Khadpe, 2005). Figure 13 describes the major events in the semiconductor industry outsourcing on a timeline.
Figure 13. Semiconductor Industry Detailed Timeline
Analysis

Outsourcing in the semiconductor industry is a contingent event, as theory is unable to explain its adaption over other options. The semiconductor industry began in the US in 1959 and started outsourcing to East Asia in 1961, before the domestic industry had completely established and over the other neighboring countries like Mexico. In this case, since a contingent event is not necessarily a random one or without antecedent causes, negligible transportation costs, automation leading to a high percentage of low-skilled workers in the total workforce, and the drive to improve competitive advantage could be considered as the initial conditions that led to outsourcing in the semiconductor industry (Brown et al., 2005). Also, the pro-business policies of the governments of East Asia and other factors as previously discussed played a role in it emerging as a leading destination. The critical juncture denotes the point that makes the cost of switching to alternatives higher, thus reducing the threat from alternative paths so that outsourcing, specifically to East Asia, was set as the dominant path for the institutional formation of the operations in semiconductor industry.

The conditions that were responsible for the genesis of this path, however, were not sufficient enough to sustain this institution. An active investment by governments to set up high capital intensive fabrication plants and the limitations to the automation in fabrication supported the growth of outsourcing. This established outsourcing as a dominant path where the next processes adapted to manage new developments (e.g., the ‘Pure Play’ foundry model serving as a path of increasing return), thus, creating a high barrier against outsourcers bringing the work in-house. This path was stably reproduced across time in a self-reinforcing sequence. Automation provided an alternative path to outsourcing and some companies like IBM and AT&T went for automation over outsourcing. However, due to lack of economies of scale and frequent adjustments to assembly required for the wide range of products offered, automation was not a great success in the US. Figure 14 describes the initial condition,
alternative paths, and critical juncture that established outsourcing as a dominant self-reinforcing path in the semiconductor industry.

Figure 14. Contingency in Semiconductor Industry Path Sequence

The outsourcing of greater parts of the value chain did result in “hollowing out” of the US chip assembly sector and into the emergence of competitors from other markets (Brown et al., 2005), which was an unintended consequence of the path chosen by the industry. However, once the self-reinforcing path was set, it was difficult to go back to the alternate paths. Once it was set as the dominant path, the events described on the timeline of the industry development served to stabilize it as a dominant path creating a significant barrier to completing the work in-house. An historical analysis of the semiconductor industry during the self-reinforcing sequence (see Figure 13) revealed the factors that had causal effect on the development of outsourcing (see Table 4). To study outsourcing as an industry, these factors are important because they reveal how outsourcing was sustained over alternative
options. From a comparative analysis of these factors across different industries, it can reveal factors that aid in sustaining outsourcing as an industry.

<table>
<thead>
<tr>
<th>Factors contributing to the development of outsourcing in the semiconductor industry</th>
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<tbody>
<tr>
<td>Access to markets</td>
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<tr>
<td>Adaptation to new technologies</td>
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<tr>
<td>Economies of scale</td>
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<td>High barrier for in-house work</td>
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<td>Managing increased complexity</td>
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<td>Pro-business government policies</td>
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<td>Skilled low-wage workers</td>
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<td>Specialized expertise</td>
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<td>Value-added services</td>
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Table 4. Self-reinforcing Factors in the Semiconductor Industry
Business Process Outsourcing

Outsourcing in the BPO

From 1900 to 1930, US manufacturing volume increased by 151%, outpacing the rise in the number of firms (Sekou, 2009). The share of services in the GNP rose from approximately 40% to 60% between 1947 and 1990, respectively, while employment in services during that same period rose from approximately 40% to around 70% (Melvin, 1995). The service industry began to change the industrial landscape in the US. By 1956, 57% of the national income was controlled by corporations. Firms in the service industry (with certain exceptions) were small, owner-managed and non-corporate (Fuchs, 1968). The commoditization of services and spatial separation created a more favorable atmosphere for the distributed work. From 1970 to 1999, the net gains of 40 million non-farm-based employments were in service sector.

Automatic Data Processing, Inc. (ADP) became the provider of payroll processing services in 1949 (Applegate et al., 2007). The credit for beginning business process outsourcing goes to Ross Perot and his company EDS (Electronic Data Systems). After IBM rejected his proposal to provide data services along with selling its computer equipment, he resigned and founded EDS in 1962. EDS secured contracts that were long-term and at predetermined prices, unlike competitors of that time. Around 1976, EDS acquired international contracts with the Iranian government and Saudi universities for data services. These foreign firms, which had neither the equipment nor the internal expertise to run these services, entered into contract deals with EDS and received the benefits of shared equipment and expertise. As soon as the potential for a decoupling of services from a physical location was realized, business process outsourcing began, coming into practice as early as 1970. EDS and others in the 1960s identified this opportunity and used it for their advantage.

According to Woodward (1990), labor costs for information data entry was the lowest in China and the Philippines ($0.90-$1.25). The cost was $1.00 to $1.75 in the Caribbean, $1.60 to $2.00 in
Europe, and $1.50 to $3.50 in USA, Canada, and Japan. Some firms set up operations in the Caribbean, Ireland, and throughout Asia in the 1970s for the batch-processing of not so time-sensitive paperwork. The batches of data in form of paperwork and/or magnetic tapes were sent to the offshore location via courier, ship, air, and dedicated communication lines based on the most convenient mode or shipping and the urgency of the material. The entire process would take from several days to weeks to complete.

American Airlines (AA) sent data on its flights to Barbados and Caribbean islands and then used satellite links to transfer the data electronically back to US (Wilson, 1995). AA could get the same work done at half the cost of their Oklahoma branch. Gradually insurance and other labor-intensive tasks were processed outside of the US. There were 11 information processing centers in Barbados in 1989 and, by 1999, the number increased to 36 (Freeman, 2000). The dominant players of today, such as India, China, and Ireland, hosted at least one data entry operations site by 1985 (Office of Technology Assessment, 1985, p. 212).

Earlier entrants to the outsourcing business focused on geographically close locations like the Caribbean. The expansion during early times was limited by the level of technology and communication links; however, the motivation for exploring this option was to find the availability of skilled workers at a low wage. Time-sensitive data could not be sent very far; however, firms developed logistics with offshore centers that could rival the processing done at domestic centers. For example, New York Life Insurance sent health insurance claims overnight to Shannon, Ireland. The data was processed, entered, and returned by the dedicated communication line to New Jersey. The customer could be mailed the next day about the status of their claim. For New York Life Insurance, the health insurance claims needed to be processed by registered nurses and there was shortage of registered nurses in the US. So to take advantage of registered nurses in Ireland, they set up the processing center in there (Wilson, 1995).
The beginning of modern outsourcing is generally credited with outsourcing all of its IT functions decision by Eastman-Kodak to IBM in 1989 (Yadav & Gupta, 2008); however, BPO began much earlier than this. Some firms engaged in BPO during its growth for two different reasons. At high end services, it was expensive to own equipment and develop expertise for problem solving, so it was economical to share those resources. General Electric (GE) employed shared services in 1985, where geographically dispersed units secured shared services from a common provider as it provided economies of scale (Konsynski & Short, 1992). At the low end, services were rule-based, routine, manual, and geographically independent that could be done at different physical locations in a time-sensitive manner and for low labor costs. Tasks that did not require direct interaction with customers or support tasks were deemed as ‘back-end tasks’ and the first to be outsourced. ‘Front-end tasks’, which require direct interaction with customers, were outsourced later, such as the establishment of a call center by GE in India in 1999. Outsourcers developed specialized expertise to manage the complexity of ‘high-end tasks’, such as end-to-end process outsourcing and research and development.

India is emerging as a leading offshore destination due to its low labor costs, quality of labor pool, and service quality. Colonial and cultural linkages also helped BPO to grow, as in the case of India and other countries. In 1991, India adapted a policy for economic liberalization which opened its markets and which the government encouraged through pro-business policies. The internet removed limitations on technology and communication links and the outsourcers adapted to this new technology. The Y2K challenge in 2000 provided many service providers the opportunity to establish relationships with foreign markets. The outsourcing industry diversified to provide value-added services in many other sectors of the business process, such as human resources, legal processes, transcription, and call centers. There were some setbacks and backlash to setting up the outsourced service centers in India, such as the closing of the Dell’s call centers in India in 2003. However, many others did manage to use this opportunity to their strategic advantage and build the required service levels. Eventually, Dell
outsourced call centers to India in 2006, indicating a significant barrier to completing the work in-house. As in the case of the semiconductor industry, India attracted more BPO centers due to its choice of location by early explorers in the BPO sectors.

Jack Welch’s visit to India in 1989 was a turning point in the relationship between the company and India, though GE had its presence in India since 1902 (Soloman, 2005). Jack Welch was surprised to learn that India had developed a robust software industry and there existed there a talented pool of people. GE was quick to capitalize on the human resource asset available in India. Jack Welch stated that 70% of GE's work would be outsourced; of this amount, 70% would be done in offshore development centers, and of this amount about 70% would be done in India (UNCTAD, 2005).
Figure 15. BPO Detailed Timeline
Analysis

The initial condition that favored the beginning of outsourcing in the BPO industry was the decoupling of services from products or physical locations. Decoupling allowed work to be sent to the locations where skilled workers with low wages were available. Initially, tasks that were identified for decoupling were technical jobs which had measurable results, were easy to instruct, had measurable outcomes, could be done with minimum supervision, and were easy to transfer knowledge. The communication technology and logistics allowed these tasks to be sent to other locations. There were few companies taking advantage of this, and doing the work in-house was a strong alternative to this path. Those who took advantage of this arrangement were limited by physical distance and chose to send the work to nearby locations and hence domestic suppliers were another available alternative path. Lower costs, economies of scale, and resource utilization improvement were the antecedent causes for organizations to engage in the contingent path of BPO to international markets. The critical juncture denotes the point that makes the cost of switching to alternatives higher and reducing the threat from alternative paths and thus, due to the lower cost of labor in the international markets and the improvements in logistics and communication technologies, outsourcing was set as the dominant path for institutional formation in the BPO industry.

The conditions that were responsible for the genesis of this path, however, were not sufficient enough to sustain this institution. Developments in information technology supported outsourcing by removing the limitation of physical distance and made available distant markets like India and the Philippines, establishing outsourcing as the dominant path. Once these markets opened up, several self-reinforcing contextual factors came into play, making this a prominent path and sidelining the alternatives. Some of the tasks that are outsourced in BPO are customer support services, business processing (e.g., legal), insurance processing, data entry and maintaining services, financial services, human resource services, claims processing, and medical transcription. Once it was set as the dominant
path, the events described on the timeline of the industry development served to stabilize it as a dominant path and creating a significant barrier against doing work in-house. Historical analysis of the BPO industry during the self-reinforcing sequence (see Figure 15) revealed the factors that had a causal effect on the development of outsourcing (see Table 5). Figure 16 describes the initial condition, alternative paths, and critical juncture that established outsourcing as the dominant self-reinforcing path in the BPO industry.

![Figure 16. Contingency in the BPO Industry Path Sequence](image)

Outsourcing allowed firms to have flexibility in the organization structure in terms of managing overloads and fluctuations in demand. Externalization, spatial relocation, and a social division of labor are the characteristics of a flexible provision of services, as evident in the relocation of these back-office operations. Delays in services, social and political risks, and fluctuating exchange rates jeopardizing cost savings are some of the risks and disadvantages encountered in sending services offshore (Aron & Singh, 2005).
One important contribution that service-oriented organizations in BPO brought in business thinking is that the consumer is a cooperating agent in the production process. This aspect was neglected to a large extent in the goods-producing industries. The consumer has a passive or active role in the delivery of services and is dependent on the knowledge, experience, and motivation of the consumer (Fuchs, 1968). The service industry in BPO took note of this and began to make extra effort to have a more active role for consumers. Loui Gerstner (2002), the CEO of IBM, emphasized the need to run the company from the customer’s point of view and to turn IBM into a market-driven enterprise, rather than it being internally focused and process-driven. In call centers, BPO companies try to make the experience of the interaction as familiar as possible to the customers, especially in international call centers located in a different culture.

<table>
<thead>
<tr>
<th>Factors contributing to the development of outsourcing in the BPO industry</th>
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<tbody>
<tr>
<td>Adaptation to new technologies</td>
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<tr>
<td>Colonial/cultural linkages</td>
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<tr>
<td>Decoupling of services</td>
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<tr>
<td>Economies of scale</td>
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<td>High barrier for in-house work</td>
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<td>Value-added services</td>
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Table 5. Self-reinforcing factors in BPO industry
Discussion

In the advertising industry, outsourcing evolved in the domestic market. Business process outsourcing (BPO) emerged at the locations where there were cultural/colonial linkages. The semiconductor industry emerged in offshore markets although there were no colonial linkages to these offshore locations. The initial conditions that caused the inception of outsourcing in each industry were different. The narrative of path dependence helped to identify these initial conditions that resulted in outsourcing as a critical juncture in these industries. Historical analysis helped to identify factors that resulted in outsourcing becoming a path of self-reinforcing factors. This essay used a utilitarian explanation of path dependence to investigate the mechanism of the institutional formation of outsourcing in different contexts.

The value of path-dependent analysis in this research is in establishing the initial conditions and the critical juncture that set into motion outsourcing on a self-reinforcing path over the alternative options available. A path-dependent analysis has to satisfy the condition that the sequence of events affects the outcome. Based on the limited data analyzed for each industry using historical analysis, however, it was found that once the self-reinforcing path was set in motion, the sequence of events were not strongly linked with each other in affecting outsourcing as the outcome; The outsourcing was already on the self-reinforcing path after the critical juncture. For example, once outsourcing was reached as the critical juncture for the advertising industry, a series of events (e.g., the introduction of radio, TV, and the Internet) occurred and still outsourcing remained the dominant path.

After the critical juncture, historical analysis revealed the factors that reinforced the path of outsourcing. The path analyses in this essay explain common and different factors through the configuration of events that have a predictable causal effect and are a common practice in comparative historical analysis (Mahoney, 2007). By using comparative historical analysis, I identified the common
and different factors that have a causal effect on the course of the self-reinforcement path for outsourcing as an industry on a macro level in different contexts.

The historical analyses are faced with a limitation of data and difficulty in their interpretation (Kiser & Pfaff, 2010). The scope of data analyzed in this essay is limited to basic events and is deterministic in its approach. The causal linkage in the deterministic approach assumes the existence of causes that exhibit an invariant relationship with the outcomes (Mahoney, 2003). The probabilistic explanation, on the other hand, assumes a degree of necessity or sufficiency of a factor to produce an outcome. In this essay, factors of the initial condition are noted by two “xx” to indicate their higher degree of influence in outcome. However, providing the proper weight and importance of each factor in shaping the path for outsourcing as an outcome is beyond the scope of the present research and would need more detailed data from each industry.

External events play a role in introducing factors on the developmental path. In the case of advertising industry, the post World War II boom was an external event that prompted advertising agencies to create a contemporary structure resulting in the consolidation of many companies into a few larger ones. This provided an advantage of economies of scale for the complex services these outsourcees were providing to the outsourcers. Sometimes these external events create a backlash process and can transform or reverse earlier events. These types of events are accommodated in the path-dependent analysis through reactive sequences. However, the unit of analysis in this research is outsourcing in a self-reinforcing path rather than the history of the industry as a unit of analysis. Therefore, the reactive path-dependent analysis for external events was not explored in this research.

When an industry chooses a path over the alternatives, it can produce both intended and unintended outcomes. In the 17 years of the semiconductor industry from 1961 to 1978, 80% of US production was outsourced offshore and by 1990 the emergence of ‘Pure Play’ foundry models in East Asia resulted in the formation of design-only firms in the US. Outsourcing of the greater parts of the
value chain resulted in a ‘hollowing out’ of the US chip assembly sector and into the emergence of competitors from other markets (Brown et al., 2005). This was an unintended consequence and yet the reversal of the path was difficult, given the institutional lock-in which is an important consideration for industries and organizations in considering their outsourcing strategies.

Once a critical mass of individuals have adopted the institution, the positive feedback stabilizes the path as more firms orient their decisions based on the perception that a sufficient number of firms have already done so. Maturation of a path is the result of multi-actor collective interactions and a macro-level outcome of rational micro-level decisions by individual actors. The path analysis conceptually describes the choice set and is not a story of inevitability in which the past predicts the future (North, 1990). Hence the development of outsourcing outlined in this essay needs to be interpreted carefully in the sense that it does not predict the sequential maturation of outsourcing. By using common factors from three case studies that used comparative historical analysis, it provides a generic path and the factors that cause set outsourcing once it is selected as the dominant path. The path does not describe the emergence of an unchanged institution but the long-term developmental pathway of a complex institutional arrangement, shaped and then further adapted by collective actors (Ebbinghaus, 2005). Table 6 lists the common factors on the self-reinforcing paths in all three industries and marks the common factors across the two or more industries.

Value-added services and adaptation to new technologies were the critical factors in the advertising and BPO industry maintaining outsourcing as the self-reinforcing path. They were also factors on the self-reinforcing path in the semiconductor industry. Hence, they form the two most important factors in the establishment and maturation of outsourcing as a strategy in an industry. Adding complex services and adapting to new technologies adds a layer of complexity that requires specialized experts for the outsourcees. Hence, managing increased complexity is critical for the outsourcees to stay competitive. The outsourcing reaches a stabilizing point and eliminates alternative
paths if it creates a high barrier for doing the work in-house for the outsourcers. By providing economies of scale with other factors, it achieved this point in the case of three industries.

The initial conditions for all three industries were different; hence, the conditions for outsourcing to begin and the path to succeed can be different in each industry. Outsourcers and outsourcers need to be aware of differences from other industries in their contexts before drawing any conclusions from them. Outsourcers also need to be aware of the unintended consequences of the path they choose, as a ‘hollowing out’ of the industry happened in the case of the semiconductor industry. The threat of competition from outsourcees is different in each industry. If there is higher scope for the outsourcees to add more value-added services, the threat of competition from them is also higher. For the outsourcees, the biggest threat comes from the work going back in-house; thus, they have to counter this threat by providing more value-added services while taking advantage of economies of scale and specialized expertise.

The outsourcer and outsourcee both strive to strike a balance between their interests. The advertising industry is perhaps the highest point that outsourcing can reach, where it has become an industry itself. In the case of BPO, there is no definite barrier for in-house work, as the tasks and percentage within the tasks that are outsourced vary greatly for each outsourcer. Institutions do not necessarily emerge in a planned way, and retrospective analysis can reveal the factors that shape the emergence of the institution as a result of the interactions of collective actions at the micro and macro level. The selection of an alternative action can have a decisively different long-term outcome. Hence, if outsourcers and outsourcees are at a critical juncture in making a decision, the analysis of the maturation of outsourcing outlined in this essay will provide them with guidelines as to which path they wish to take, a trodden path with some predictability or an alternative path with the clarity of intended outcomes not as available as on the trodden path. Maturation factors will also help to determine macro-level polices by regulatory institutions, such as government or regulatory bodies, to shape the course of
outsourcing in their respective industry/nation under consideration or promoting a location as an outsourcing destination.

Comparative historical analysis places great explanatory importance on early events, as these events shape the causal trajectories by comparing narratives across cases and can explain contingent outcomes. Thus emergence of preferred locations in outsourcing can be explained by the initial conditions from the path analysis. Also, these factors are important for the outsourcees who wish to gain an edge in the competitive market to gain more business. Location has proved to have a magnetic effect in attracting more outsourcing business and it is difficult to switch once it has reached critical mass. The outsourcees can benefit by managing the factors identified in this case study to reach that point of lock-in and set their location as a magnetic factor to attract further business.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Advertising Industry</th>
<th>Semiconductor Industry</th>
<th>BPO</th>
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<tbody>
<tr>
<td>Access to new markets</td>
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<tr>
<td>Adaptation to new technologies</td>
<td>X</td>
<td>X</td>
<td>XX</td>
</tr>
<tr>
<td>Colonial linkages</td>
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<td>X</td>
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<tr>
<td>Decoupling of services</td>
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<td>Economies of scale</td>
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<td>Government policies</td>
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<td>High barrier for in-house work</td>
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<td>Managing increased complexity</td>
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<td>Market gap</td>
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<td>Skilled low-wage workers</td>
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<td>Specialized expertise</td>
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<tr>
<td>Value-added services</td>
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Table 6. Factors on the self-reinforcing Path across Three Industries
ESSAY III:

CUSTOMER TRUST AND OUTSOURCING: AN EMPIRICAL EXAMINATION OF CUSTOMERS' PERCEPTIONS OF CALL CENTERS
Background

Outsourcing has continued the linear growth trend over the years with the size of the industry worth $480 billion in 2012 (Plunkett Research, 2012). Call centers are a very visible face of business process outsourcing (BPO) and are used to save on the higher costs of customer services. The number of jobs that were outsourced offshore in 2013 was 2,637,239, of which 12% were from call centers (Statistic Brain, 2014). According to the McKinsey (2003) Report, the size of the offshore call center industry in India alone is worth $17 billion and employing 160,000 professionals in 2008. The call center industry is worth $28 billion per annum within North America (Gartner, 2008), out of which 30% or $8.4 billion is outsourced. Many of the US call centers were outsourced with an estimated decline in job positions by 8.5% between 2004 and 2008.

Organizations have been aware of outsourcing for some time now and its effect on their reputation, brand image, core skills, and property rights (Reilly, 1997). However, outsourcing research has been focused on labor and ethical issues and the effects of outsourcing on organizations, with very little focus on the individual, end customers (Clott, 2004; Sharma, Mathur, & Dhawan, 2006). A customer’s ethnocentrism and country of origin affect their behavior towards international services (Ruyter, Birglen, & Wetzels, 1998). Only 27% of call centers adopt the strategy of disclosing their location and one-in-four call centers have the policy of not disclosing the location even if asked. Fifty-nine percent of customers have a sense of unease about their data security and perceive it as a risk for an offshore location (Weston, 2004). National Identity Management (NIM) is a deceptive strategy employed by many call center firms to offset the perceived risk by disclosing information to potential customers if a call center is not located in their home country. Firms justify their policy of NIM, citing this unease and mistrust among customers as reasons for their policy.

In this study, the effect of national identity management on the trusting beliefs and trusting intentions of customers is examined. The variation of trust across domestic and offshore call centers is
also examined. Within offshore call centers, the practice of whether national identity management makes a difference on customer trust is also examined. The nature of call centers, inbound or outbound, and the type of business it serves elicit different responses from customers and have an impact on the level of trust, which is also examined.

**Literature Review**

**Offshore Outsourcing**

Surveys have indicated that 71% of customers are aware of the policy of outsourcing services to other countries where labor costs are low. Negative opinions of outsourcing are higher among women and low-income groups. The reason for this unfavorable opinion is the fear of exporting domestic jobs, where 82% would be fine with offshore outsourcing provided it didn’t affect availability of American jobs. Organizations’ justify that offshore outsourcing improves company profits and makes them more competitive in the global market (Gallup, 2004).

There is a large body of research on cognitive trust, trusting beliefs, trusting intentions, and trust occurring in service encounters. Cognitive trust is conferred when a customer is involved in situations they are familiar with under particular circumstances and societal conditions based on performance, appearance and demeanor, and reputation (Luhmann, 1988). Cognitive-based trust literature posits that social categorization, reputation, irrational thinking, illusions, disposition, institutional roles and structures, and the need to cooperate on an immediate task can all contribute to the forming of quick, trusting beliefs without having enough meaningful information about each other (McKnight, Choudhury, & Kacmar, 2002; Meyerson, Weick, & Kramer, 1996). Having trust in a call center environment is considered to be cognitive trust and, while trust has been studied in online and other types of service interactions, trust in call center representatives is rarely investigated in the literature from the customer perspective.
Research has indicated that products and services from less-developed countries are evaluated unfavorably by customers in developed countries; some customers may not want to speak to a customer service representative from a particular country (Briggs, 2005) and this may decrease customer satisfaction (Hayward, 2004). This drives organizations to engage in the practice of National Identity Management in various ways by adapting the names for their Customer Service Representatives to be more familiar to the customers, as well as imitating accents and communication styles, and misrepresenting the location by saying (if asked) that it is in the same country as the customer. As one human resources manager stated, “It’s a marketing strategy: if you cannot convince, confuse” (Poster, 2007, p. 7). However, it is unknown whether this is an effective strategy or if it instead backfires and ruins the trust the customers had in the offered services.

**National Identity Management**

Outsourcing call centers to an offshore location can be difficult, as managing offshore call centers is complicated and customers are in direct contact with offshore service agents. A call center employee talks on average to more customers in a week than most employees in other jobs in their entire career (Yellin, 2009). Poorly managed outsourced services can reduce the quality of the customer’s experience, reduce the brand value and fail to deliver cost savings; that is, offshore outsourcing is either necessary or is a strategic decision in order to save costs. However, instead of being honest by disclosing the location of their call center to the customers, some businesses engage in the practice of NIM by deceiving customers, making them believe that they are being served domestically.

Country-of-origin literature posits that customers in developed countries tend to perceive the services offered by less-developed countries to be inferior (Sharma, 2006). Customer ethnocentric tendencies lead customers to be more loyal to their home country products and have negative attitudes towards foreign products and services (Shrimp, 1984; Shrimp & Sharma, 1987). Scholars are divided on the effects of globalization. Modernization theory posits that industrialization and technological
innovations eventually merge the identities of developing countries with the norms and cultures of
developed nations. Friedman (2005) observed that Indian call center workers enjoy and embrace an
American identity when they pose as American call center agents. Another view posits that globalization
creates friction and relations of disjuncture, where local cultures resist assimilation brought on by
technology and homogenization (Appadurai, 1996; Poster, 2007).

This tension exists among call center workers in developing countries, the society they live in,
and among the customers they service in developed countries. When feelings regarding American
unemployment and economic hardship become prominent, organizations fear a strong backlash against
their decision to offshore their customer services. In 2003, Dell closed their call center in India due to a
backlash and complaints of customer dissatisfaction. However, over the subsequent years it again
outsourced and added more agents in India, indicating the indispensability of offshore outsourcing for
organizations. A negative association has been found between customer satisfaction, the perceived
quality of the work, and the offshoring of customer services (Whitaker, Krishnan, & Fornell, 2008).

Many incidents have been noted where US customers have expressed hostility towards the
customer service representatives in offshore call centers. This behavior is not rare, as the frequency of
such calls is about one in 30 or at least once an hour in offshore call centers, according to Poster’s (2007)
case study. There are a number of reasons for customer aggression towards offshore customer service
representative (CSR), including the country of origin of the CCR, ethnocentrism, fear of loss of American
jobs, anger towards corporations as profiteers, a lack of accountability and quality customer service,
political rhetoric against outsourcing, and the comedic depictions of offshore CSR in popular media.
Therefore, Poster (2007) argued that customers, US corporations, and offshore managers all contribute
towards national identity management (NIM), even if unintentionally or subconsciously (Poster, 2007).
Offshore outsourcing is unavoidable for many organizations as they need to stay competitive, and they
continue to engage in the practice despite some risk of negative perceptions of quality and loyalty by customers (Whitaker et. al, 2008).

To minimize this risk and avoid hostile behavior from their customers, some organizations choose to engage in the practice of NIM. There are different levels and various measures of identity management that an organization can engage in; they may not explicitly lie if a customer enquires about the location of the call center. Some centers provide lists of American aliases to be used, participate and intervene in the training of representatives, and monitor the CSR in real-time from thousands of miles away. If a customer enquires about their location, the answer may come in successive misleading steps. Sometimes agents are advised to tell that they are calling from an outbound call center or simply a call center and deflect the question. If a customer still insists, then agents are instructed to say they are from Asia and change the subject. Alternatively, agents are occasionally instructed to respond that they are a foreign/Indian immigrant currently living in the US (Poster, 2007).

**Trust in Call Centers**

Cognitive-based trust literature posits that social categorization, reputation, irrational thinking, illusions, disposition, institutional roles and structures, and the need to cooperate on an immediate task, all contribute to form quickly trusting beliefs without having enough meaningful information about each other (McKnight et al., 2002; Meyerson et. al., 1996). Knowledge-based trust literature posits that the gradual development of trust occurs over a period of sustained social exchange (Lewicki & Bunker, 1995; Shapiro, Sheppard, & Cheraskin, 1992). The service interactions in a call center can be identified as based on cognitive trust since these interactions are for very short intervals, are impersonal, and are with a need for an immediate solution.

Trust is a challenging concept to operationalize despite the considerable amount of research on the topic. There is still no universally accepted definition of trust and it is a confusing construct where empirical research lags behind theory (Lewicki, Tomlinson, & Gillespie, 2006; Rousseau, Sitkin, Burt, &
Camerer, 1998). A customer’s trust in the service representative has been found to be a key component in the development of positive attitudes, behaviors and intentions for customers in a service environment (Swan, Bowers, & Richardson, 1999).

A customer’s trust in a trustee is characterized by three major characteristics: competence, integrity, and benevolence (Crosby, Evans, & Cowles, 1990; Mayer, Davis, & Schoorman, 1995). Trust based on competence is defined as the belief that a trustee has the ability or power to do for a trustor what the trustor needs to get done. Trust in integrity is defined as the belief that a trustee makes good faith agreements, tells the truth, and fulfills promises. Trust in benevolence is defined as the belief that a trustee cares about the trustor and is motivated to act in the trustor’s interest (McKnight & Chervany, 2001). Research and definitions on customer trust in mediated e-commerce is scarce, with the exception of research studying the effects of computer agents on customer decision-making capabilities (Komiak & Benbasat, 2004). When a CSR interacts with a customer in a mediated setting, the interaction becomes even more complex. The requirements discussed in the literature to gain customer trust in agent-mediated e-commerce is similar to those found in call centers and so can also be used to discuss customer trust in this latter environment. The interpersonal interactions aspect is different and more complex and is discussed later in detail. To gain customer trust in agent-mediated e-commerce, customer should be assured that the agent will not compromise private information, deviate beyond constraints, and that the customer will have the right to approve the purchase or final agreement (Nwana et al., 1998).

Deception and Mediated Communication

**Principle of interactivity.**

In mediated communication, interactivity refers to the structural features that are built into a communication modality that affords multiple, tightly interwoven conversational exchanges enabling a sense-making process by referencing current and past messages. Examples of interactive
communication are those that allow messages to be exchanged synchronously, are participatory in nature; communications which are considered to be non-interactive include time delays, placing the user in an observer role, and providing indirect responses to prior messages. Interactivity becomes more complex in technologically mediated communication, as the possibilities with regards to the combinations of presence and absence of several other properties come into existence; these properties include verbal-nonverbal cues and the presence of auditory, visual, tactile, and sensory information on various degrees of communication bandwidths. The principle of interactivity postulates that the degree of interdependency, participative and synchronous interactivity, and contingency afforded by a communication interface (e.g., if an interface produces answers tailored to a user's queries) has an effect on the communication processes and outcomes such as trust, honesty, and credibility (Burgoon, Stoner, Bonito, & Dunbar, 2003). The prominent structural modality that is present in a call center environment is the audio modality. Some call centers working as contact centers employ text messaging, emails, and some forms of visual modality.

**Interactivity in the audio modality.**

_a) When deception is absent._

Exaggerating, concealing, equivocating, and even lying are ingrained as part of the normal conversation routine (DePaulo, Kashy, Kirkendol, Wyer, & Epstein, 1996; Turner, Edgley, & Olmstead, 1975). Business ethics are even more lenient on the amount of honesty in communication. If deception is not actively induced, it can be considered as communication where deception is absent, even if clarity and transparency are not completely present. Research has established that the higher the degree of involvement and mutuality, the more favorable perceptions exist about communicating with a partner or group (Burgoon et al., 2000). Hence, communication modalities that create mutuality and higher involvement generate more trust between communicating partners.
Face-to-face interactions offer the highest bandwidth for the transmission of information and are most likely to generate favorable attitude towards others compared to the computer mediated communication (CMC). Call center interactions are CMC, as CSRs interacts with customers using voice as their primary mode in voice-over-internet protocol networks taking the aid of computers and customer databases. In CMC, empirical research has suggested that auditory channels have distinct advantages to synchronize and pace interactions, get feedback on the receiver’s understanding and reactions, and sustain involvement and comprehension over texting (Jensen, Farnham, Drucker, & Kollock, 2000; Stoner, 2000). It is interesting to note that in the presence of both visual and audio modalities, removing the visual modalities can actually promote more personalized hyperpersonal communication than when visual cues are present (Walther, 1996).

Thus in the CMC categories, interaction in call centers should provide the most favorable situation to create higher trust and truthfulness due to the presence of vocal cues and a lack of visual cues. Empirical research suggests that when an audio modality is compared to an audiovisual (AV) modality in truthful conditions, the involvement and homophily is higher in the audio than AV modality. Trusts in service encounters are positively correlated to the mutuality of involvement (Burgoon et al., 2003). Thus in all types of CMC categories, in the absence of deception, the audio modality and vocal cues received through it can generate the highest levels of trust among receivers than through AV or text interactions; the audio modality elicits the most trust among receivers when deception is absent.

**b) When deception is present.**

Truth bias is active in CMC interactions as they are present in face-to-face interactions. Deception in CMC is “a message knowingly transmitted by a sender to foster a false belief or conclusion by the receiver” (Buller & Burgoon, 1996, p. 205). Truth bias creates a lenient attitude towards detecting deception and overlooking or ignoring signs of deception. In interactive communication, deceivers adjust their performance over time as they detect suspicion or skepticism on the part of the receivers
and the risk of being exposed. The CMC differs from face-to-face interactions, both in their ability to generate mutuality and also receive feedback on their deception. Thus, deception will be successful if the modalities can generate higher mutuality and thereby a higher truth bias. If deceivers in CMC receive higher feedback to adjust their performance, the likelihood of a successful deception is higher. When modalities exert the least mental ‘heavy lifting’ (i.e., the effort to deceive), the deceiver has the chance of performing a successful deception. Empirical investigations have suggested that lying is a more difficult task than telling the truth and that it requires more mental heavy lifting than telling the truth (Buller, Burgoon, Buslig, & Roiger, J., 1996).

<table>
<thead>
<tr>
<th>Deception Absent</th>
<th>Audio</th>
<th>Audiovisual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Involvement is higher</td>
<td>• Involvement is lower</td>
</tr>
<tr>
<td></td>
<td>• Trust is higher</td>
<td>• Trust is lower</td>
</tr>
<tr>
<td></td>
<td>• Homophily is higher</td>
<td>• Homophily is lower</td>
</tr>
<tr>
<td></td>
<td>• Have the most trust for truthful senders</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deception Present</th>
<th>Audio</th>
<th>Audiovisual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Understanding is higher</td>
<td>• Understanding is lower</td>
</tr>
<tr>
<td></td>
<td>• Truth bias is lower</td>
<td>• Truth bias is higher</td>
</tr>
<tr>
<td></td>
<td>• Resultant trust is lower</td>
<td>• Resultant trust is high</td>
</tr>
<tr>
<td></td>
<td>• ‘Leakiest’ channel for detecting deception</td>
<td>• Visual bias distracts detecting deception</td>
</tr>
<tr>
<td></td>
<td>• Least trust for deceptive senders</td>
<td>• More trust when visual cues are present to misdirect deception detection</td>
</tr>
<tr>
<td></td>
<td>• Less mental ‘heavy lifting’ required</td>
<td>• More mental heavy lifting required</td>
</tr>
</tbody>
</table>

Table 7. Comparison of Audio Visual and Audio modalities  
(adapted from Burgoon et al., 2003)

Face-to-face and visual interactions a demand higher mental load on the deceivers, but they are also rich in giving feedback on a receiver’s skepticism, thus allowing deceivers to adjust their behavior. The more the number of channels to manage, the less the management load on the deceivers and the
less the chance of leaking deceptive cues or information. Thus, text-based communication is least likely to be detected as being deceptive.

It may as well appear then that the audio modality should be easier to manage than the audiovisual modality, as the number of channels to manage are less for the deceivers. However, research has shown that while it is easier to manage nonverbal cues, deceivers are less likely to monitor and successfully manage their voice than their face or body. The audio channel is thus the ‘leakiest’ channel to indications of deceit and so creates suspicion among receivers (Burgoon & Buller, 1994; Burgoon, Buller, Dillman, & Walther, 1995).

Thus in a call center environment, where the audio channel is the primary modality of communication, the deception about NIM is most likely to be detected. About 50% of the customers expressed confidence that they knew the location of their most recent call center interaction (Weston, 2004). Table 7 compares the two primary modalities in the CMC interactions. Thus while organizations engage in NIM to gain increased trust with their customers, they also take the highest risk of being detected and losing that trust completely.

**Trust and National Identity Management**

There are two goals for call center designers when they design services: the effectiveness of the services and the efficiency in delivering those services. Effectiveness has cost attached to it in a form of training employees, gathering extensive data on customers, and personalizing the service. There are two types of personalizations: outcome personalization and process personalization. Outcome personalization is giving the customer options to choose from a set of service possibilities, while process personalization is directed towards personalizing the interaction with the customer. Call centers, especially offshore call centers, train their staff with the knowledge of the customs and language of the customer’s country so as to personalize the interaction. Many of call centers engage in the practice of National Identity Management and are not limited to adapting names which are familiar to the
customers and imitating their accent or communication style, but are also stating blatantly that they are located in the host country when asked by the customer. Personalization of service is believed to be a better form of service but may come at the cost of effectiveness, and all forms of personalization do not necessarily result in a better evaluation of the service (Surprenant & Solomon, 1987). Thus, the practice of National Identity Management adopted by call centers is not based on any evidence, while on the contrary many are urging call centers to be honest about their locations (Weston, 2004).

Cognitive trust plays a critical role in the success of customers interacting with a CSR. When cognitive trust is weaker, it is complemented by emotional trust; emotional trust is the extent that a trustor feels secure and comfortable about relying on a trustee (Swan et al., 1999). Organizations may rely on compensating for the lack of cognitive trust in offshore call centers as compared to domestic call centers and compensate for it by engaging in NIM to appeal to the emotional trust of the customers.

**Conceptual Framework and Hypotheses**

Prior research on trust has defined trust according to a disciplinary worldview with various combinations of antecedents, trusting dispositions, cognitions, and willingness/intentions. McKnight (1998, 2002) built an integrative model of trust using the Theory of Reasoned Action (TRA). TRA posits that beliefs lead to attitudes, and attitudes lead to behavioral intentions which in turn lead to the behavior itself. The model is used in a web vendor context. Using this parsimonious model and applying it in a call center context, the effect of NIM on trusting belief and trusting intentions is studied (see Figure 17).
Researchers have classified trust as a behavior and have established a strong correlation between trusting intentions leading to trust-related behavior (Venkatesh & Davis, 2000). Common examples of a customer engaging in a trust-related behavior in a virtual mediated environment are sharing personal information, making purchases, and acting on the advice provided by the CSR (see Figure 18). These three risky behaviors indicate a customers’ probability of depending on the call center to engage in trusting behavior.

Trusting belief is the customer’s perception that the call center they are contacting has attributes that are beneficial to him/her. Three prominent trusting beliefs that are used in research and relevant to the present context are (a) competence (the call center’s ability to do what the customer needs), (b) benevolence (the call center shows caring and motivation to act in the customer’s best interests), and (c) integrity (the call center’s honesty and trustworthiness) (McKnight et al., 2002).

Institution-based trust is a social construct that ensures that needed institutional structures such as legal protection are present in order to achieve successful outcomes in an interaction. This poses the biggest challenge to both organizations and customers when dealing with an offshore call center. Country-of-origin literature posits that customers in developed countries tend to look at services from less-developed country as inferior (Sharma, 2006), that customer ethnocentric tendencies lead customers to be more loyal to their home country’s products, and that there can sometime be negative attitudes...
towards foreign products and services (Shrimp, 1984; Shrimp & Sharma, 1987). As a result, the
disposition to trust (i.e., the trusting stance) and to trust in benevolence, competence, and integrity will
be lower in an offshore call center than in a domestic one. Hence, hypothesis (H) H1a posits that trusting
belief in domestic call centers will be higher than in an offshore call center. As trusting belief leads to
trusting intention, according to McKnight’s (2002) model, hypothesis H1b posits that trusting intention
in domestic call centers will be higher than in offshore call centers.

**Hypothesis 1a: Trusting belief in domestic call centers will be higher than in offshore call centers.**

**Hypothesis 1b: Trusting intentions for domestic call centers will be higher than in offshore call centers.**

![McKnight’s (2002) Model of Trust](image)

Three groups of customers exist: customers who have no experience with an offshore call
center, customers who have experience with an offshore call center but have not experienced NIM, and
customers who have experience with an offshore call center engaged in NIM. Perceptions of these
different groups vary according to their experiences. There are two dimension of institution-based trust
which forms a customer’s belief in an institution: structural assurance and situational normality. Structural assurance helps customers to believe that legal recourse, guaranties, and promises are binding (Shapiro, 1987). Data security and governmental mechanisms in other countries deter customer confidence in structural assurance (Moores, 2006). Situational normality makes one to believe that the environment is in proper order; hence it gives the perception to customers that the call center environment is well-ordered and favorable for doing business and that the vendors are competent, have integrity and are benevolent (McKnight et al., 2002). A customer might be comfortable in dealing with a specific call center, but that may not increase their belief in the call center environment and vice versa. Having the disposition to trust is the willingness to depend across a broad spectrum of situations and persons; sub-constructs for having a trusting disposition are faith in humanity (which assumes the well-meaning actions of others) and a trusting stance (which believes in better outcomes with good intentions regardless of attributes of the other entity) (McKnight et al., 2002).

According to the interpersonal theory of deception, audio is the ‘leakiest’ mode of communication when deception is present. Hence, in an offshore call center with NIM, any suspicion of deception will lower the disposition to trust as well as any institution-based trust. As a result, trusting belief in offshore call centers will be higher than in those that practice NIM. Consequently, the trusting intentions of customers in offshore call centers will be higher than in those that practice NIM.

**Hypothesis 2a:** Trusting belief in offshore call centers will be higher than in those that practice NIM.  
**Hypothesis 2b:** Trusting intentions for offshore call centers will be higher than in those that practice NIM.

Familiarity breeds trust, and in McKnight’s (2002) model general web experience moderates institution-based trust (see Figure 18). Similarly, in a call center environment, general call center experience with offshore call centers will enhance the institution-based trust in them if the prior experience was positive (see Figure 19). Hence, H3a proposes that customers with experience in
speaking with an offshore customer service representative will have a higher trusting belief than customers with no experience. Subsequently, customers with experience speaking with offshore customer service representatives will have higher trusting intentions than customers with no experience.

**Hypothesis 3a:** Customers with experience in speaking with an offshore CSR will have higher trusting belief in an offshore call center than customers with no experience.

**Hypothesis 3b:** Customers with experience in speaking with an offshore CSR will have higher trusting intentions than customers with no experience.

The context (i.e., industry) of call center interaction forms an important part of the call center experience. Therefore, H4a posits that trusting belief will be dependent on the context of interaction and that trusting intentions will be dependent on the context (i.e., industry) of interaction.

**Hypothesis 4a:** Trusting belief will be dependent on the context of interaction.

**Hypothesis 4b:** Trusting intentions will be dependent on the context of interaction.

There are two types of call centers: inbound and outbound. In an inbound call center, a customer initiates a call, while in an outbound call center; the call center initiates the call. In an outbound call center, there is a need for CSR to make their initial monologue plausible (Hingst, 2006). This can create an impression of fresh talk, as indicated in the case of radio announcers who make advertising announcements (Goffman, 1981). As a result, customers having the disposition to trust an outbound call center could be low. Hence, H5a states that trusting belief in an inbound call center is higher than that of in outbound call centers. H5b states that trusting intentions in an inbound call center will be higher than that of in outbound call centers.

**Hypothesis 5a:** Trusting belief is higher in inbound call centers than that of outbound call centers.

**Hypothesis 5b:** Trusting intentions are higher in inbound call centers than that of outbound call centers.
Methodology

A survey was designed to test the relationship of NIM on trust constructs using the questionnaire developed by McKnight et al. (2002, but in a call center environment. Original scale was used to measure trust with the web vendors in the e-commerce context. Questions on the disposition to trust, institution-based trust, and intercultural sensitivity were asked of all the participants. Eight different scenarios based on the location, type of call center, and context of interaction were tested for trusting belief and trusting intentions of call center interactions. Four scenarios were set in an outbound call center setting, and four scenarios were set in an inbound call center setting to check if the type of call center had an impact on trust. The instrument can be divided into four major parts, each with a different purpose.

a) Individual attributes and attitude – This section measured every individual’s disposition to trust, institutional trust, and intercultural disposition. Intercultural disposition had the sub-constructs of ethnocentrism, patriotism, intercultural communication stress skills, intercultural communication style skills and intercultural communication relationship skills. The purpose of this section was to account for individual attributes that can have some explanatory power for the variance in the trust in call centers.

b) Trusting belief – Benevolence, integrity and competence were the three factors measured for the trusting belief of customers in call centers.

Figure 19. Constructs and Nomological Model of Trust for Call Centers
c) Trusting Intentions – Give information, make a purchase, and follow advice were the three courses of action measured to test the subjects’ trusting intentions along with their general willingness to depend.

d) Descriptive Information – Descriptive demographic information of the subjects, such as age, nationality, and income, were collected along with their personal experiences with the call centers.

All responses were measured on a seven item scale, while some items in the descriptive information section were categorical.

Participants

The survey was administered to the undergraduate students in a business school in November 2008. Participation was voluntary and a total of 97 students participated in the survey. The survey instrument was tested for item accuracy, content, and language by five experts: one university professor, one recent graduate from a doctoral program who had done his dissertation using McKnight’s (2002) Model for Trust, two doctoral students, and one IT manager. The items were modified using their suggestions to capture intended factors and to clarity the questions.

Design

Four different scenarios were developed to compare Domestic vs. Offshore call centers and Offshore vs. Offshore call centers which practice NIM. Scenarios were designed for inbound and outbound call centers (see Table 8).
<table>
<thead>
<tr>
<th></th>
<th>Domestic</th>
<th>Offshore</th>
<th>Subjects with no experience with offshore CSR</th>
<th>Offshore</th>
<th>Offshore with NIM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inbound</strong></td>
<td>Tech help</td>
<td>Tech help</td>
<td><em>Subjects who have experience speaking with an offshore CSR</em></td>
<td>Travel reservation</td>
<td>Travel reservation</td>
</tr>
<tr>
<td><strong>Outbound</strong></td>
<td>Credit card</td>
<td>Credit card</td>
<td><em>Subjects who have experience with NIM</em></td>
<td>Novelty product mattress</td>
<td>Novelty product mattress</td>
</tr>
</tbody>
</table>

**Table 8. Types of Scenarios and Categories of Customers**

The ‘technical help’ scenario was selected as it is one of the most familiar service interactions with the call centers. In a domestic versus offshore setting, trusting beliefs and trusting intentions were compared for ‘technical help’ and ‘credit card’ scenarios. ‘Technical help’ required subjects to seek help regarding a computer crash and indicate willingness to give information such as credit card details and a password for remote access, buying accessories, and to act on solutions suggested by the CSR. Subjects received an outbound call from a domestic and offshore call center regarding a change in policy relating to their credit card and the need for them to share their intent on sharing information about their credit card, paying for premium services, or acting on advice given about disputes with an existing card. The two scenarios involved a comparison between the offshore location and the offshore location with NIM in an inbound and outbound situation with subjects facing the decision to engage in a trust-related behavior. The ‘travel reservation’ is an inbound situation where subjects need help with booking an international itinerary in which they experience both offshore and offshore with NIM call centers. The last scenario involves the least-preferred type of interaction, where a CSR from an outbound call center tries to sell a novelty product to subjects who experience both offshore and offshore with NIM call center.
Thus, the shift in comparisons was done gradually to observe if trust deteriorates when the location is across two types of call centers. Since comparing an offshore call center with NIM and a domestic call center would present an extreme case of comparison with no conclusive recommendations for the practice of NIM, an offshore location was first compared to a domestic location and then two offshore locations were compared with and without the practice of NIM. It is also important to consider the subjective experience of the participants in their trust behavior; hence, they were divided into three groups of subjects based on their history of experience with call centers. The sequence of subjects receiving these scenarios was random and different versions were created for different participants to reduce the social desirability threat to internal validity by getting measures on different scenarios in a random sequence; before they start responding by guessing the goal of the study.

Results

Descriptive statistics.

There were 97 participants; the average age of the participants was 23.11 years, with the oldest person being 56 years and the youngest being 19 years old. Of the population, 35 were females and 62 were males. The average annual income of the population was $20,448. Eight subjects were citizens from other countries while 85 were US citizens. Four subjects did not report their nationality. Sixty-five subjects (67%) responded that they would not buy a product from telemarketers even if they thought the product was useful. Out of 97 subjects, only 18 subjects (18%) said they would ask the location of the call center representative they were speaking with, while 19 subjects (19%) said they would specifically request their call to be transferred to a domestic agent if they realized they were speaking with an offshore agent. Sixty-seven subjects (69%) revealed that they had the experience of speaking with an offshore agent, while 36 subjects (37%) believed that they had been deceived about the location in these encounters with offshore agents (see Table 9). This indicates a trend in firms either engaging
actively in deceiving customers about their location or the perception among customers that they are being deceived about the location of the call center. Eighty-four percent of subjects expressed confidence that they could identify whether the CSR was of US origin or not. Seventy-four percent of subjects expressed support for the bill introduced in Congress for call center representatives to disclose their physical locations to the customers.

<table>
<thead>
<tr>
<th>Total number of subjects</th>
<th>97</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subjects who have experience speaking with an offshore CSR</td>
<td>67</td>
</tr>
<tr>
<td>Subjects who have experience with NIM</td>
<td>36</td>
</tr>
<tr>
<td>Subjects with no experience with offshore CSR</td>
<td>30</td>
</tr>
</tbody>
</table>

**Table 9. Three Groups of Subjects**

First, confirmatory factor analysis and reliability tests were performed to test that McKnight’s (2003) instrument was applied successfully from web-based interactions to the call center environment. Cronbach’s alpha was calculated for the reliability of all the items. ANOVA was performed to compare the trusting belief and trusting intentions across the two conditions: domestic versus offshore and offshore versus offshore with NIM in all scenarios. Trusting belief had the sub-constructs of benevolence, integrity, and competence. The trusting intentions involved three sub-constructs—making a purchase, giving information, and following advice—and were compared in all four pairs. Subjects were classified into three categories according to the type of experience they had with the offshore call center: no experience, a positive or neutral experience, and a negative experience of NIM.

**Confirmatory factor analysis of the trust model in the call center context.**

To test if the Trust Model in the e-commerce context provides a good fit to the data in the call center context, structural equation modeling was used (SAS 9.1) to estimate the fit of the model.
Trusting belief had three factors: benevolence, integrity, and competence. Trusting intentions had four factors: following advice, making a purchase, giving information, and a willingness to depend.

Confirmatory Factor Analysis (CFA) tests were run for the trusting beliefs and trusting intentions in all eight cases. The data fit was better in some cases (e.g., tech help) while it was not best in other cases (e.g., novelty products). Technical help was the most common interaction with call centers, hence reporting would be more consistent in that situation. Telemarketing is mostly viewed as an annoying disturbance, as evidenced by the ‘Do-Not-Call’ registry and the laws passed to that effect; thus, the goodness of fit in outbound call centers may be low due to the negative attitude towards such interactions. In each case, information about discrepancies in the model fit from residual values were used to do item analyses and make post-hoc modifications to improve the model fit. The process was iterative, as each change would need to be implemented in all cases and affected model fit in each case. Item selection and omission based on the optimum fit in all cases was adapted.

To determine how well the model fit in a call center environment, the focus was on four fit indices: the Chi square test ($\chi^2$), the goodness of fit index (GFI), the non-normed fit index (NNFI), and the root mean square of approximation (RMSEA). The $\chi^2$ test assesses the fit between the sample correlation matrix and the correlation matrix estimated by the model. Lower $\chi^2$ values represent a good fit, indicating less discrepancy between the observed data and the hypothesized model; however, it is a highly sensitive index to the sample size. NNFI and GFI indices compare the hypothesized model to the null model accounting for model complexity. The closer these indices are to 1, the better the model fit. The RMSEA helps to determine how close the model fit approximates a reasonably fitted model and indicates a good model fit with values < 0.05.

SAS was used to generate these four statistics, twice for each case twice, to test the trusting belief and trusting intentions. Rank order analysis was used on each item to find out how the fit can be improved across all cases, and items were moved around or deleted to obtain an optimum fit across all
cases (see Table 10). Cronbach’s alpha was tested again to make sure that the internal consistency was maintained after moving and eliminating certain items. Cronbach’s alpha tested high (> 0.7) on all variables in all cases indicating the high reliability of the items.

<table>
<thead>
<tr>
<th>Case</th>
<th>$\chi^2$(df)</th>
<th>RMSEA</th>
<th>GFI</th>
<th>$\Delta$GFI</th>
<th>NNFI</th>
<th>Covariances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inbound Domestic Tech Help – Trusting Intention</td>
<td>64.2202 32</td>
<td>0.10</td>
<td>0.8868</td>
<td>0.0778</td>
<td>0.9609</td>
<td>0.77347 0.26552 0.35611</td>
</tr>
<tr>
<td>Inbound Offshore Tech Help – Trusting Intention</td>
<td>68.3150 32</td>
<td>0.10</td>
<td>0.8907</td>
<td>0.122</td>
<td>0.9531</td>
<td>0.89460 0.48298 0.55471</td>
</tr>
<tr>
<td>Inbound Domestic Credit Card – Trusting Intention</td>
<td>41.9531 32</td>
<td>0.05</td>
<td>0.9175</td>
<td>0.1114</td>
<td>0.9879</td>
<td>0.89055 0.71454 0.69985</td>
</tr>
<tr>
<td>Inbound Offshore Credit Card – Trusting Intention</td>
<td>43.9651 32</td>
<td>0.06</td>
<td>0.9175</td>
<td>0.1032</td>
<td>0.9854</td>
<td>0.91081 0.75663 0.78252</td>
</tr>
<tr>
<td>Outbound Offshore Travel Reservation – Trusting Intention</td>
<td>76.3144 32</td>
<td>0.12</td>
<td>0.8613</td>
<td>0.06</td>
<td>0.9439</td>
<td>0.88086 0.58792 0.73779</td>
</tr>
<tr>
<td>Outbound Offshore NIM Travel Reservation – Trusting Intention</td>
<td>58.5135 32</td>
<td>0.09</td>
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<td>0.73084 0.63311 0.61588</td>
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<td>Outbound Offshore Novelty Product – Trusting Intention</td>
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<td>0.10</td>
<td>0.8843</td>
<td>0.1023</td>
<td>0.9573</td>
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<td>0.1529</td>
<td>0.9804</td>
<td>0.81936 0.76732 0.80662</td>
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</table>

Table 10. Confirmatory Factor Analysis for Goodness of Fit Trusting Intentions

The model fit was satisfactory with trusting belief and trusting intentions in most of the cases, except in the case of novelty products (0.73/0.76, respectively). After receiving feedback from some of the participants, it was revealed that the situation in the outbound novelty products (i.e., the selling of unimportant novelty products over the phone) is least interesting for them and often dismissed with the least engagement, as opposed to seeking technical help which most have experienced in detail firsthand. Factors in trusting belief are highly correlated, indicating benevolence, competence, and integrity are highly interdependent in forming a trusting belief towards a call center. Following advice, making a purchase, and giving information are not correlated strongly with each other, indicating that one action may not necessarily lead to another, and that the customers will need to be pursued separately to convert each intention into action.
Rank order analysis was performed to see which items improve GFI for all cases, and appropriate items were dropped consistently across all the cases to improve fitness, followed by checking to ensure that the reliability was not compromised. Another important characteristic observed from this CFA was that the willingness to depend as a factor in trusting intentions constantly caused the GFI to be low in all cases. Conceptually, factor analysis is performed when there are definite categories or distinct factors identified through the exploration of these factors. General willingness to depend on a call center did not fit in this case as a separate factor; it does not provide any further useful information about their willingness to depend on a more generic level, when they are being measured with their intention on a more specific level. Hence, it was decided to drop the generic factor of willingness to depend and run the CFA again to improve the overall fit of the model on trusting intentions. The interaction between location and industry, and location and call center type was found to be not significant (see Table 11).

<table>
<thead>
<tr>
<th>Factor</th>
<th>Call Center Location (Domestic/Offshore/NIM Offshore)</th>
<th>Industry (Tech/Credit/Travel/Novelty)</th>
<th>Call Center Type (Inbound/Outbound)</th>
<th>Location X Industry</th>
<th>Location X Call Center Type</th>
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</thead>
<tbody>
<tr>
<td>Benevolence</td>
<td>Significant (21.31, 0.0001)</td>
<td>Significant (23.04, 0.0001)</td>
<td>Significant (67.65, 0.0001)</td>
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<td>Not Significant</td>
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<tr>
<td>Integrity</td>
<td>Significant (35.44, 0.0001)</td>
<td>Significant (20.60, 0.0001)</td>
<td>Significant (60.76, 0.0001)</td>
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<td>Not Significant</td>
</tr>
<tr>
<td>Competence</td>
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<td>Significant (14.13, 0.0001)</td>
<td>Significant (40.88, 0.0001)</td>
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<tr>
<td>Make Purchase</td>
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<td>Significant (13.66, 0.0001)</td>
<td>Significant (38.37, 0.0001)</td>
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<td>Not Significant</td>
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<tr>
<td>Give Information</td>
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<td>Significant (17.91, 0.0001)</td>
<td>Significant (46.11, 0.0001)</td>
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<td>Not Significant</td>
</tr>
<tr>
<td>Follow Advice</td>
<td>Significant (8.90, 0.0002)</td>
<td>Significant (36.78, 0.0001)</td>
<td>Significant (96.45, 0.0001)</td>
<td>Not Significant</td>
<td>Not Significant</td>
</tr>
</tbody>
</table>

Table 11 . Trusting Belief and Intentions for Location, Industry and Location, Type of Call Center for all Cases

The one-way Anova tests were used to test the hypothesis if there was a significant difference between the means of the two different groups. An inbound call center providing technical help was compared to see if the trusting beliefs and intentions differed when location was a factor. First, trusting belief was tested for all three components (i.e., benevolence, integrity, and competence); since factors
in trusting belief were found to be highly correlated, it was also tested for all cases as a cumulative independent variable of these three components. In the tech help scenario where an inbound call is placed, trusting belief between the domestic call center and the offshore call center was tested (see Table 12). There was a statistically significant difference between trusting belief in the domestic and offshore call center ($F = 15.28, p = 0.0002$). There was also statistically significant difference for benevolence ($F = 8.5, p = 0.0045$) and competence ($F = 19.32, p = 0.0001$), but not for integrity ($F = 3.2, p = 0.07$). For trusting intentions; all three components were statistically significant: making a purchase ($F = 11.04, p = 0.0013$), giving information ($F = 20.81, p = 0.0001$), and following advice ($F = 12.25, p = 0.0007$). Thus, for an inbound call center, trusting belief and trusting intentions were higher in the domestic call center than in the offshore call center and, even if there was not much difference between the competency of the offshore call center, customers may still have an overall higher trust of the domestic call center.

<table>
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<th>AC</th>
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<th>Std Dev</th>
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Table 12. Anova Results and Mean Comparison - Domestic/Offshore Inbound Tech Help
Similar tests were done using a credit card scenario for an outbound call center between a domestic and offshore call center (see Table 13). There was a statistically significant difference between trusting belief in the domestic and offshore call center ($F = 14.71, p = 0.0002$). There was statistically significant difference for all three individual components of trusting belief: benevolence ($F = 8.08, p = 0.0056$), integrity ($F = 8.27, p = 0.0051$), and competence ($F = 16.76, p = 0.0001$). For trusting intentions, all three components were statistically significant: making a purchase ($F = 9.27, p = 0.0031$), giving information ($F = 15.03, p = 0.0002$), and following advice ($F = 16.11, p = 0.0001$). Thus, in an outbound call center, trusting belief and trusting intentions were found to be higher in the domestic call center than in the offshore call center.

<table>
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<tbody>
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</table>

**Table 13. Anova Results and Mean Comparison - Domestic/Offshore Outbound Credit Card**

*Hypothesis 1a: Trusting belief in domestic call centers will be higher than in offshore call centers.*

⇒ *Supported*

*Hypothesis 1b: Trusting intentions for domestic call centers will be higher than in offshore call centers.*

⇒ *Supported*
To test the level of trust in the offshore call centers using NIM and not using NIM, two scenarios were used for data collection. For the inbound scenario, a travel reservation assistance call center was used (see Table 14). There was a statistically significant difference between the trusting belief for an offshore call center and an offshore call center using NIM ($F = 18.36, p = 0.0001$). There was a statistically significant difference for benevolence ($F = 15.16, p = 0.0002$), competence ($F = 11.03, p = 0.0013$), and integrity ($F = 25.68, p = 0.0001$). For trusting intentions, all three components were statistically significant: making a purchase ($F = 15.56, p = 0.0001$), giving information ($F = 15.40, p = 0.0002$), and following advice ($F = 22.24, p = 0.0001$). Thus, for an inbound call center, trusting belief and trusting intentions were higher in offshore call centers than in offshore call centers where NIM is detected.

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Table 14. Anova Results and Mean Comparison - Offshore/Offshore NIM Inbound Travel Reservation

Similar tests were done using a novelty product (mattress selling) scenario for an outbound call center between an offshore call center and an offshore call center practicing NIM (see Table 15). There was a statistically significant difference between trusting belief for an offshore call center and an
offshore call center using NIM ($F = 15.76, p = 0.0002$). There was statistically significant difference for all three individual components of trusting belief benevolence ($F = 9.26, p = 0.0031$), integrity ($F = 18.76, p = 0.0001$), and competence ($F = 9.53, p = 0.0057$). For trusting intentions, only making a purchase ($F = 4.68, p = 0.03$) was significant, while giving information ($F = 2.77, p = 0.09$) and following advice ($F = 0.95, p = 0.33$) were statistically insignificant. The trusting intentions with the offshore call center were low and the outbound call center was not viewed very favorably by customers.

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Table 15. Anova Results and Mean Comparison - Offshore/Offshore NIM Outbound Novelty Product

**Hypothesis 2a:** Trusting belief in offshore call centers will be higher than in those that practice NIM.

→ **Supported**

**Hypothesis 2b:** Trusting intentions in offshore call centers will be higher than in those that practice NIM.

→ **Partially Supported**
The type of experience a customer has (i.e., if they have no experience of talking to offshore agents, or if they have experience, self-declare they have been lied to) did not yield any statistically significant result in any of the scenarios. Hence, the means for these different experiences were plotted on a graph (see Figure 20). The pattern indicated that those who had been lied to had a higher level of distrust than those who had not been lied to. However, it also showed that those who had no experience speaking with an offshore agent registered almost an equal amount of distrust with those who had been lied to. Total trusting belief in offshore versus offshore with NIM call centers showed a slight decrease in trusting belief for those who had been lied to over those who had not been lied to, though pairwise comparison showed that it was not statistically significant. It is interesting to note that subjects who had no experience with offshore call centers had the least amount of trust, that is almost equal to those who had been lied to. For the trusting intention, pairwise comparison was statistically insignificant as well. The graph for their means did not yield any identifiable pattern (see Figure 21).
Figure 20. Trusting Belief - Means Based on Type of Experience
Figure 21. Trusting Intentions - Comparison of Means Based on Type of Experience
Hypothesis 3a: Customers with experience in speaking with an offshore CSR will have higher trusting belief in an offshore call center than customers with no experience.

→ Not Supported

Hypothesis 3b: Customers with experience in speaking with an offshore CSR will have higher trusting intentions than customers with no experience.

→ Not Supported

Anova was also performed for trusting intentions and trusting belief across locations (domestic, offshore, and NIM offshore), across industries (tech help, finance, travel reservations, and novelty products) and across both call center types (inbound and outbound). The difference in all belief components (benevolence, integrity, and competence) and trusting intentions (making a purchase, giving information, and following advice). Significant mean differences were found in all trust components in all cases between domestic and offshore, and offshore and offshore NIM, suggesting the context of interaction matters, with the exception of the outbound novelty product call center (see Tables 12-15). The feedback from participants of the survey indicated that taking further action was considered to be an irrelevant scenario by many and hence it did not provide a statistical significant result. The results supported the hypothesis that the context of interaction matters; however, further investigation is required to analyze what makes a context matter.

Hypothesis 4a: Trusting belief will be dependent on the context of interaction.

→ Partially Supported

Hypothesis 4b: Trusting intentions will be dependent on the context of interaction.

→ Partially Supported

Trusting belief traits scored higher in domestic over offshore, and offshore over NIM offshore locations. Trusting intentions scored higher in domestic than offshore call centers; however, there was
no significant difference between offshore and NIM offshore in all three factors (see Tables 12-15).

Industry trust differed in different cases; however, tech help scored the highest trust in all factors in all cases. Inbound call centers also consistently registered higher levels of trust over outbound call centers, irrespective of location or industry. Interactions between the location and call center types, and location and industry were not significant.

**Hypothesis 5a: Trusting belief is higher in inbound call centers than in outbound call centers.**

→ Supported

**Hypothesis 5b: Trusting intentions are higher in inbound call centers than in outbound call centers.**

→ Supported

**Discussion**

The study examined the relationship between the location of a call center and the practice of National Identity Management (NIM) on the trusting belief and trusting intentions of the customers.

Further study also examined the moderating effect of the type of experience on the trust (i.e., if a customer had experience speaking to an offshore agent, no experience at all, or being lied to).

McKnight’s (2002) model for trust was used in a call center context to measure trust. These effects were compared for to different interactions and two types of call centers. The results indicated that customers have higher trust in domestic call centers than offshore call centers irrespective of their past experience. Eighty-two percent of participants expressed confidence that they could identify whether the CSR they were speaking with was an offshore agent. This suggests that organizations need to employ a plan to address the concerns of customers when they interact with an offshore agent. NIM may be one of the strategies, but customers in this study also expressed higher trust in offshore call centers that did not employ NIM than those who did. The level of trust was higher in the inbound call centers than in the outbound call centers. When location is the mediating factor, domestic call centers enjoy more trust than offshore call centers and offshore call centers enjoy a higher level of trust than offshore call centers.
with NIM, regardless of the context or industry. The highest level of trust was placed in domestic call centers and the practice of NIM was consistently not looked favorably. Hence, organizations employing offshore call centers need to adapt the methods of service provided in the domestic call center that does not use NIM.

The type of experience one had with the call center was not found to be significant in order to determine the trust in the call centers. This may be explained based on the basic premise that McKnight’s (2003) model and instrument focus only on the initial trust. The pattern that was observed by comparing the domestic and offshore call centers is that customers who have no experience and customers who have been lied to about the call center’s location displayed a higher and almost equal amount of distrust of offshore call centers than customers who had experience (positive or neutral) of speaking with a CSR from an offshore call center. This essay was able to extend McKnight’s (2002) model of trust in the call center context: in McKnight’s model, the general web experience mediates the trust by the customers; however, in a call center context, the general call center experience was found to not affect the cognitive trust by the customers.

It is not surprising to find that customers prefer domestic call centers over the offshore call centers and is consistent with the theory of Country of Origin (Briggs, 2005; Poster, 2006). One of the justifications cited for NIM is to overcome this initial disadvantage; however, findings from this study suggest that the practice of employing national identity management can backfire by losing more trust in the process. Customers with positive or neutral experiences with call centers are willing to be more open in trusting. The fear of the organizations that the customers are reluctant to do business with offshore call centers is well founded, as indicated by the high level of distrust by customers with no offshore call center experience. However, lying to the customers about the call center’s location does not seem to be a very effective strategy and can be more harmful in the long run.
It is also important to note that the context of interaction plays a major role in determining the level of trust customers have in the call center. Inbound call centers scored higher on the level of trust, which is again consistent with cognitive-based trust where customers are more inclined to trust quickly in order to solve their problem. Outbound call centers are mostly viewed as a non-necessity, as evidenced by the ‘do-not-call’ registry and hence customers tend to be less inclined to trust them.

The type of industry also affects customer trust and actions along with context of outbound and inbound type of call center. In that regard, in a domestic versus offshore location, there was a significant difference found between tech help and financial industry; there was also a significant difference found between the case of the travel reservation and of the novelty product in the offshore versus offshore NIM. The interactions between the location and industry and the location and type of call center were not significant, thus it is not clear if the location played a role in these differences. However, this study identified that significant difference in trust levels exist based on the context of interaction and type of call center. This needs to be investigated in future research to determine what kind of industries are safe to send offshore without risking degradation in customer trust.

**Summary**

This research empirically examined the effect of location of call centers on the level of trust customers have on the call center, and if this effect is positive or negative for call centers. Prior research and literature points out that customer’ fears in trusting offshore call centers is not unfounded and carries some truth; however, the practice of NIM may not be the right answer. Cultural assimilation and familiarity are necessary to reduce the initial disadvantage of being in an offshore location and works to a certain extent; however, it may not be worth to lie to the customers about the location itself. Factors that lead customers to prefer domestic call centers, such as patriotism, country of origin preference, and fear of losing American jobs, are out of the control of the call centers. However, a positive experience, genuine intention to serve, and increased familiarity can be more effective to reduce resistance to the
offshore call centers than the imitation of another culture and subsequent dishonesty. Large number of customers expressed confidence in detecting an offshore call center. As theory of interpersonal deception lists audio as the leakiest mode of communication, lying may not be the best choice to customers to gain their trust. The comparatively higher trust by those who had experience with offshore call centers attests to this. The context of interaction and type of call center have a role in forming the cognitive trust of the customers and a subtle variation of the policy in this regard may be helpful and an avenue for further investigation.
General Discussion

A field of research is defined by paradigms and constructs that critically analyze the phenomenon. However, no discipline operates in isolation from other areas of research and instead works in close relation with many others. Therefore, it is important to engage in interdisciplinary research to enhance the exchange of knowledge across disciplinary boundaries. Outsourcing are diasporas of complex processes and multidisciplinary thinking that involves rapid changes happening across nations including politics, economics, communication, the physical environment, and culture and all interacting with each other. Culture is incomplete without history, and social impact and the impression of outsourcing constructed would be incomplete without culture defining it. This impression has the power to unsettle the more rational and dominant economic perspective. Therefore, outsourcing needs to be examined in the historical context in order to best understand it.

Studying outsourcing is not just a study of an industry, but a study of the transition of power, cross-cultural interactions, and perspectives loaded with history, and a transformative understanding of the changing world by people coming from opposite sides. Colonization has left a legacy that is evident today in India. Call centers are the face of outsourcing and this legacy of British rule is affecting interactions between call center employees and customers. The sentiment of mistrust is expressed to some extent from both the outsourcers and the outsourcee for different reasons. The reasons for mistrust on both sides are also different and it is difficult to understand and correct them without understanding the history of outsourcing.

The historical analysis of the East India Company (EIC) explains why there is some resentment and suspicion in India towards outsourcing. The goal of the EIC was never to colonize India; it was an economic venture started by merchants to earn profit through cordial business. Colonization was an accident that happened when the EIC was trying to protect its business interests. Figure 4 describing change in the flow of goods and wealth between India and England during the EIC’s rule explains how
colonization was used as a means of protectionism for profit. This legacy sows the seeds of doubt and suspicion in the Indian psyche about the motivations of multinationals coming to explore human and other resources through outsourcing.

Free marketplace emphasizes competitiveness for collective prosperity. Some academics and anti-globalization activists tend to interpret globalization as a seamless extension of western cultural imperialism (Shepard & Hayduk, 2002) and setting up identical ideals for all, usually of the more dominant in the group. Bartlett and Ghoshal (1989) showed that MNCs that create multidimensional capabilities for global integration and local responsiveness are more likely to succeed in increasingly complex international business environment. Each culture has its unique traditions. If the voice of individuals are acknowledged and diversity is recognized rather than diminished, then the interactions among individuals from different cultures will have less friction and reflect the same spirit on the collective level. This inability to operate and shape the broader social environment in which business operates has been a weakness of multinationals at different times (Litvin, 2004).

An insight into the evolution of capitalism can be gained through business history by comparing materials drawn from firms, industries, and/or nations. Comparative analysis and path analysis were used as tools to understand the maturation of outsourcing as a strategy at the macro level in different industries. The study of business process outsourcing (BPO) as an industry was a logical next step, as India is a leading destination for it and other places where there are colonial linkages. The semiconductor industry flourished in countries that had no colonial linkages. The study of this industry showed that colonization is a useful but not necessary condition for outsourcing linkages to develop. The history of the advertising industry revealed how outsourcing developed entirely as a domestic strategy. The historical analysis of the reasons for their different idiosyncratic paths of outsourcing maturation could not have been understood without studying their history. The comparative element of business history revealed factors that contributed to the sustainment of outsourcing as a strategy over
alternative paths. This also demonstrated the value in using cross-industry analysis as a method when studying a multidisciplinary topic like outsourcing.

We cannot understand trust without understanding the historical background, and a combination of qualitative and quantitative methods is necessary to gain understanding of a complex interdisciplinary field of research like outsourcing. The strategies to manage outsourcing are situated in the societal context which needs to be developed through empirical studies and refined conceptualizations. The third essay empirically examined one of the strategies employed by firms to overcome issues identified in prior research; that is, that customers fear trusting offshore call centers. This inquiry allowed for an extension of McKnight’s (2002) model of trust to the call center context. It was indicated from empirical analysis that general call center experience may not affect the cognitive trust of customers in call centers. Cultural assimilation and familiarity are necessary to reduce the initial disadvantage of being in an offshore location which works to a certain extent. A positive experience, the genuine intention to serve, and an increased familiarity with customer culture are more effective to increase the level of trust to the offshore call centers than trying to imitate another culture through dishonesty. It is important to note that a large number of participants expressed confidence in their ability to identify an offshore call center. Honesty is the best policy and location is only one indicator in establishing trust. To improve the quality of interaction between customers and call center representatives may need a two-part strategy: (a) to increase the customers’ awareness of the reasons for going offshore and (b) training call center representatives to provide an honest service experience.

Limitations and Future Research

This research examined the outsourcing industry in one country, India. To develop a generalizable theory, we need to study the outsourcing industry in other countries in Asia, Africa, Latin America, and elsewhere. The study of Indonesia may provide particularly rich variation because they were colonized by the Dutch. A study of South Africa may provide an interesting comparison with India.
and Indonesia because of the presence of the British and the Dutch in that country. The Philippines would provide another interesting study because of Spanish and American colonization, with a study of Latin American countries possibly providing similar historical insights.

Qualitative analysis of the experience of workers in call centers is important to study as it will provide more insights into how the legacy of colonization is affecting the present lifestyle and work culture in the call center industry. Essay two studies only three industries and yet provides a useful beginning to find common factors that contribute to the evolution of outsourcing. The manufacturing sector experienced outsourcing on a large scale after World War II, and hence comparing the outsourcing of the manufacturing sector with the service sector will provide important insights on the evolution and maturation of outsourcing. Studying more industries will also lead to the detection of more common factors that can help to build a robust model for the maturation of outsourcing in the call center industry. This model will be useful to chart the future course of outsourcing based on the present state of maturity of outsourcing.

In order to assess the third essay’s contributions and usefulness, it is important to examine some of its limitations. The data was collected from undergraduate business students and, though the results obtained from students and managers are found to be strikingly similar to the data of other researchers (Huang, Gattiker, Schwarz, 2008), it will be interesting to see if these results hold true for different demographic configurations. Some types of industries (e.g., tech help) were very familiar to most of the subjects and thus gave very consistent results; other cases were not very familiar and so gave more inconsistent results. Further research based on the actual experience of customers with outbound offshore call centers is needed, as many of the subjects in this experiment were less exposed to this type of experience. The data collected required students to answer eight cases with more or less similar questions due to the small sample size. Though the cases were arranged in a random order, the effects of fatigue and social desirability were difficult to eliminate. This study found significant
differences between types of call centers and the context of interaction. This shows that customers may react differently to different industries. It will be interesting to conduct industry-specific research to understand the acceptability level for offshoring customer service specific to groups of similar industries.
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