Application of Ethical Frameworks to IT Offshoring

Peter Haried
University of Wisconsin - Milwaukee, pjaried@uwm.edu

Derek L. Nazareth
University of Wisconsin - Milwaukee, derek@uwm.edu

Follow this and additional works at: http://aisel.aisnet.org/amcis2005

Recommended Citation
http://aisel.aisnet.org/amcis2005/424
Application of
Ethical Frameworks to IT Offshoring

Peter Haried
School of Business Administration
University of Wisconsin-Milwaukee
pjharied@uwm.edu

Derek Nazareth
School of Business Administration
University of Wisconsin-Milwaukee
derek@uwm.edu

ABSTRACT

The global outsourcing of information technology (IT) activities, has received increased attention recently, given the controversy it generates. Differing views on IT offshoring prevail. One view claims IT offshoring steals jobs away from the United States economy, while another view maintains IT offshoring creates jobs and improves the overall United States economy. Despite the controversy created by IT offshoring, the ethical issues related to IT offshoring have received little attention. In this paper three major normative theories of business ethics: stockholder, stakeholder, and social contract theory will be introduced to examine the impact of IT offshoring from an ethical perspective. The application of these theories to a specific example of IT offshoring is presented in detail. This research represents an early attempt to examine the ethics of IT offshoring and could provide early insights into the IT offshoring decision.

KEYWORDS: IT offshoring, ethics, outsourcing, normative business ethics

INTRODUCTION

The global outsourcing of information technology (IT) activities, termed IT offshoring in this paper, has received increased attention recently, given the controversy it generates. Diametrically opposing views of the phenomenon prevail. One adamant view claims IT offshoring steals jobs from the United States economy by replacing domestic workers with cheaper foreign workers (McGee, 2003), as evident on websites like americansagainstoffshoring.com. Alternative views maintain that IT offshoring creates jobs and improves the overall economy (Mann, 2004; McKinsey, 2004,). Rarely is there complete agreement among all parties involved. Today’s market is forevermore global and this is clearly evident in the IT outsourcing environment. In 2000, approximately 27,000 American IT jobs were estimated to have been offshored, and by the year 2015, 473,000 IT jobs are estimated to be offshored from the United States (Overby, 2003). Gartner predicts 25% of traditional IT jobs in developed countries will be offshored to emerging markets by 2010 (Bendor-Samuel, 2004). Spending on IT offshoring was estimated to be $16 billion in 2004 and is expected to grow to $46 billion by the year 2007 (Surmacz, 2004). Clearly, IT offshoring is an irreversible trend, and an increasingly important issue within the IS discipline requiring increased attention.

IT offshoring can be viewed as a natural extension to traditional IT outsourcing. IT outsourcing has traditionally meant having IT work performed by an external company located within the same country as the outsourcing purchasing firm. IT offshoring is a term used in the United States to refer to IT outsourcing that occurs outside the United States. IT offshoring exists in many forms where firms can decide to offshore all or parts of their IT activities, such as software development, support, operations, or maintenance.

IT Offshoring Impacts

Firms are attracted to IT offshoring because of the wage discrepancies that exist between United States workers and foreign workers (Weber, 2004). The average programmer in the United States costs $65,000 annually, whereas a programmer with similar skills in India costs $7,500 annually (Overby, 2003). These wage differences typically reduce IT expenditures 15-25% within the first year (Davison, 2004). With the labor cost advantages for IT offshoring, it is no surprise that firms are intrigued by the opportunity. Additional potential benefits include improved flexibility, 24/7 operating hours, and improved productivity (Pfannenstein and Tsai, 2004). Even with the negative publicity created by IT offshoring, firms often believe that the cost savings outweigh the negative publicity (Stone, 2004).
However the benefits have to be weighed against the potential risks. The threat of a public relations backlash and potential loss of business has already caused a few well known companies (i.e., Lehman Brothers, U.S. Bank, American Express and Citi Bank) to repatriate their call centers back to their home country. Businesses also risk the loss of future IT talent, intellectual assets and organizational performance through using IT offshoring (Pfannenstein and Tsai 2004). Security threats may also develop through using IT offshoring. IT offshoring could put the organization’s and its customer’s private information at risk if appropriate safety precautions are not in place. Many countries that conduct offshored work have far weaker security and privacy laws than the United States (Swartz, 2004). Without the proper safety controls, firms face the risk of putting their intellectual property at risk.

The Ethical Decision

Ethics are about the decision making and actions of free human beings. Ethics help provide answers to questions like “What should we do?” “What goals should we pursue?” or “What collective behavior should we all pursue?” (Laudon, 1995). CIOs recognize that they are facing an ethical qualm when looking at what is happening to their IT departments (Koch, 2003). CIOs are torn between acting to take advantage of the lower cost offshored labor or continue to employ their expensive in comparison local IT department. In many Western companies IT offshoring is considered as an opportunity to achieve competitive advantage (Nair and Prasad, 2004). Firms feel they have no choice but to offshore, since their competitors are offshoring. The decision to offshore typically does not focus on the ethical issues involved, but on the cost advantages to the firms entering into the offshoring agreement. Non-profit factors such as the impact on the local communities and the workers who job has been offshored are often ignored (Breslin, 1999). This research attempts to address this gap by applying three major normative theories of business ethics to the IT offshoring decision. This paper represents an early attempt to examine IT offshoring through an ethical lens. In order to address the ethical issues involved with IT offshoring this paper will discuss IT offshoring’s impact through three established normative theories of business ethics.

NORMATIVE THEORIES OF BUSINESS ETHICS

Normative theories of business ethics are aimed at determining the standards of what is “right and wrong” and defines the obligations of what management “should” or “ought to” fulfill through their actions. The normative theories are expressed in language that is understandable to the average business person, which can then be applied to the ethical decisions encountered in the business domain. The three leading normative theories of business ethics include the stockholder, stakeholder and social contract theories (Smith and Hasnas, 1999). Each normative theory discusses a different set of responsibilities for management to adhere to in their decision making. As a result, management must choose a single theory to guide their decision making. In the following we will discuss each of the theories briefly and then examine IT offshoring’s impact on the objectives of each normative theory.

Stockholder Theory

Stockholder theory focuses on maximizing stockholder value. It is commonly considered as a managerial obligation and duty to maximize the financial returns to the stockholder (Smith and Hasnas, 1999). Management is required to act to satisfy the wishes of the stockholder, even if these wishes are at the expense of profits. The relationship between management and stockholders implies that management cannot expend business resources in ways that have not been authorized by stockholders even if any societal benefits could be achieved (Hasnas, 1998). This implies that a business has little social responsibility. Businesses are designed for serving socially beneficial projects, but are expected to satisfy the purposes specified by the stockholder, typically a fiduciary obligation of maximizing returns for the stockholder.

It is important to note that the stockholder theory does not give management free rein in their decision making for maximizing stockholder returns. The theory directs management to not seek short-term gains at the expense of long term financial health (Smith and Hasnas, 1999). Management must adhere to the ethical constraints the society has embodied in its laws and refrain from taking actions that are illegal and deceptive in their pursuit for maximizing profits (Hasnas, 1998).

Stakeholder Theory

Stakeholder theory focuses on pursuing stakeholder interests. The theory asserts that managers have a fiduciary duty to the stockholders of a corporation and to its stakeholders. Stakeholders can be interpreted widely to include any group or individual who can affect or is affected by the corporation. While this list can be extended ad infinitum, to include terrorists, blackmailers and thieves (Freeman, 1984), this paper adopts a more realistic perspective and includes only groups who are vital to the survival and success of the corporation. In this research we will focus on the narrower view of stakeholders, and include customers, IT employees, organization, IT offshoring provider, and the local community.
The stakeholder theory held that effective management requires the balanced consideration of the legitimate interests of all stakeholders. The long-run value of the firm is criteria for making the required tradeoffs among stakeholders (Jensen, 2002). This implies that there will be times when management will have to sacrifice financial performance in order to achieve a balance of stakeholders’ interests. Achieving an optimal balance between all stakeholders’ interests is easier said than done. Stakeholders regularly have competing and conflicting interests. The challenge is that the theory does not provide a clear framework for how to make the tradeoffs between the conflicting and inconsistent interests (Smith, 2004).

**Social Contract Theory**

Social contract theory asserts that all businesses are ethically obligated to enhance the overall welfare of society by following a hypothetical contract between the society and the business. Businesses are able to structure themselves as corporations in exchange for agreeing to promote society’s interests (Bishop, 2000). With this social contract created for giving businesses the right to exist, society expects that in return corporations will enhance the welfare of society through the satisfaction of consumer and worker interests (Donaldson, 1982). Members of society are not willing to authorize corporations to exist if society as a whole is not going to benefit from their existence. Social contract theory can be viewed as a form of stakeholder theory with a social contract basis.

In order for the decision to be acceptable under social contracts theory the decision must satisfy both the justice and social welfare terms (Hasnas and Smith, 1999). The justice term recognizes that the members of society will be willing to authorize corporate existence only if the corporations agree to remain within the bounds of the principles of justice established by society. The agreement requires corporate managers to avoid fraud and deception, show respect for their workers, and avoid practices that worsen the situation of any given group in society (Donaldson, 1982). Under the social welfare term, members of society are willing to authorize corporate existence only if they are going to gain from the creation of the corporation.

**APPLYING THE NORMATIVE THEORIES TO IT OFFSHORING**

In applying the normative theories, we will introduce a case example describing Upromise Investments’ IT offshoring experience. The impact of the IT offshoring decision will then be examined through the ethical lens of each normative theory. Each normative theory suggests different ethical responses, implications and challenges for management to consider when addressing the IT offshoring decision.

**Upromise Investments Inc.**

Upromise Investments Inc. is the fourth largest administrator of tax advantage college savings plans in the United States. Upromise offers a free service that allows families to earn money for college through purchases they make through affiliated stores, restaurants and online retailers.

Upromise had developed a reasonable growth trajectory on a relatively high fixed-cost technology platform. However, growth was slower than expected and capital was becoming scarce. In late 2002, Upromise decided to begin offshoring some software development and systems administration work to Wipro Ltd., located in Bangalore, India. The main objective was to decrease its IT related expenses in an attempt to break even, become profitable and survive. At first Chief Technology Officer Dave Andre did not support IT offshoring, but the economic conditions ultimately forced Upromise to shift some IT activities overseas in order to take advantage of the potential cost savings (Rosencrance, 2004). In their agreement Upromise required that the IT offshoring achieve the same workload and service levels as IT activities performed domestically. According to Andre if IT offshoring did not save the company any money, it did not make sense to include IT offshoring in Upromise’s IT sourcing portfolio.

Throughout the offshoring process, Upromise acknowledged a number of painful experiences. Upromise experienced laying off United States based IT workers whose activities had been offshored to Wipro. Andre stated that switching to an IT offshoring approach “causes angst to your employee base, and it causes angst to you” (Rosencrance, 2004). Throughout his experience, Andre expressed the importance for executives to communicate effectively and honestly with employees about the company’s offshoring plans. In addition, Andre acknowledged that the training needs and overhead costs were larger than expected.

Upromise considers their IT offshoring experience a success. In the first year of IT offshoring, Upromise decreased its technology budget by a stated 10-20%. In addition to the cost savings, secondary benefits cited included around the clock information technology operation and development, improved quality assurance capabilities, better internal development processes and increased staffing flexibility. By mid-2003, approximately 40% of Upromise’s IT workforce was located in Bangalore, India.
Upromise plans to continue its usage of IT offshoring in the future. Upromise’s overall view is that IT offshoring was and will continue to be necessary given the current and future economic conditions. Upromise’s view is that IT offshoring contributed to the future growth and survival of the company. Upromise expects even more cost savings and overall benefits as the offshoring agreements mature. The company embraces the opportunities presented through IT offshoring for supplying low cost, and high quality IT functionality. Through their IT offshoring agreement, Upromise now has a highly skilled and productive global IT team in place to take advantage of global IT capabilities.

We now examine the objectives of each normative ethical theory with respect to the Upromise case.

**Stockholder Theory**

Businesses following the stockholder theory must take into account the objectives of both the stockholder and the organization. The objectives of the stockholder and organization will be discussed to analyze the impact IT offshoring has on the objectives of both the stockholder and organization. This information is summarized in Table 1.

<table>
<thead>
<tr>
<th>Stockholder Theory</th>
<th>Objectives</th>
<th>Offshoring Consistent with the Stated Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stockholder</td>
<td>Maximize wealth</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Maintain/improve image</td>
<td>Unclear</td>
</tr>
<tr>
<td>Organization</td>
<td>Conform to laws and regulations</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Avoid fraud and deception</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Maximize short term profits</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Maximize long term value of the firm</td>
<td>Unclear</td>
</tr>
<tr>
<td></td>
<td>Ensure long term survival</td>
<td>Unclear</td>
</tr>
</tbody>
</table>

Table 1. Impact of IT Offshoring Applied to Stockholder Theory Objectives

**Stockholder**

Stockholders who have maximizing their financial returns as a top priority will support the use of IT offshoring by Upromise. Research on IT outsourcing announcements has suggested that a firm’s stock price is positively impacted after the outsourcing announcement (Farag and Krishnan, 2003). Similarly, IT offshoring is expected to contribute to the stockholders objective of wealth maximization by leveraging the cost savings provided by the cheaper IT offshored labor. Upromise was able to cut IT costs 10-20% by utilizing offshoring, supporting the stockholder’s wealth maximization goal. By definition stockholder theory requires management to spend corporate funds and act in ways that will best achieve the objectives of the stockholder. However, stockholders may not have wealth maximization as their top priority. There are a growing number of socially responsible investors who incorporate ethical opinions within their investment decision making (Waring and Lewer, 2004). IT offshoring may not be preferred under their socially responsible investing criteria, and stockholders may instruct management to refrain from IT offshoring. If management has not been instructed to avoid IT offshoring, management may be obligated to engage in IT offshoring to contribute to the stockholder’s overall objectives.

**Organization**

As long as the IT offshoring is legal, involves no fraudulent or deceptive practices, and is likely to increase profits, IT offshoring is acceptable. Even though IT offshoring has a short term aspect to it, where the firm will experience immediate labor cost reductions, management must only engage in IT offshoring if it is going to benefit the firm in the long run.

**Stockholder Theory Recommendation**

Overall, IT offshoring is an ethically acceptable practice within the stockholder theory for Upromise to follow. Some may go so far as to state that, management is ethically obligated to utilize IT offshoring, if image considerations are not of the highest importance to the stockholder, provided that it is not illegal or fraudulent. IT offshoring contributes to the stockholder’s objective of maximizing wealth through the achieved cost savings. As long as the IT offshoring is structured to not violate any stockholder theory constraints, IT offshoring is ethically viable. As a result the organization following stockholder theory would consider IT offshoring to be ethical and should pursue a strategy utilizing IT offshoring.


**Stakeholder Theory**

Firms following stakeholder theory by definition attempt to achieve an optimal balance between all stakeholders involved when reaching an IT offshoring decision, as summarized in Table 2. Only new stakeholders or new objectives are not previously discussed are included in the discussion.

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Objectives</th>
<th>Offshoring Consistent with the Stated Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stockholders</strong></td>
<td>Maximize wealth</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Maintain/improve image</td>
<td>Unclear</td>
</tr>
<tr>
<td><strong>Customers</strong></td>
<td>Lower priced goods/services</td>
<td>No direct impact</td>
</tr>
<tr>
<td></td>
<td>Higher quality of goods/services</td>
<td>Unclear</td>
</tr>
<tr>
<td></td>
<td>Secure handling of personal information</td>
<td>Unclear</td>
</tr>
<tr>
<td><strong>IT Employees</strong></td>
<td>Maintain job security</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Guarantee continued employment</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Maintain/increase wages</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Maintain/increase benefits</td>
<td>No</td>
</tr>
<tr>
<td><strong>Local Community</strong></td>
<td>Provide stable employment</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Increase wealth of members</td>
<td>Unclear</td>
</tr>
<tr>
<td></td>
<td>Maintain/increase donations</td>
<td>Unclear</td>
</tr>
<tr>
<td></td>
<td>Increase investment in the community</td>
<td>Unclear</td>
</tr>
<tr>
<td><strong>Offshore IT Provider</strong></td>
<td>Maximize profits</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Legal &amp; non-fraudulent actions</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Continue/grow opportunities for employees</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Build/enhance image as reliable offshore</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>provider</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Maximize long run value and survival</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Organization</strong></td>
<td>Conform to laws and regulations</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Avoid fraud and deception</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Maximize profits</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Maximize long term value and survival</td>
<td>Unclear</td>
</tr>
<tr>
<td></td>
<td>Balance stakeholder interests</td>
<td>No</td>
</tr>
</tbody>
</table>

*Table 2. Impact of IT Offshoring Applied to Stakeholder Theory Objectives*

**Customers**

The impact of IT offshoring on customer objectives is mixed, if at all. Upromise customers may benefit from the cost savings being passed down through the value chain to the customers. Upromise argued that economic and market conditions were forcing them to offshore. The argument that market forces are in play, may drive down prices for customers. Alternatively, IT offshoring may impact the quality and or services in the business offerings for the customer. However in this case, Upromise contracted from the start that IT quality must not be impacted. However, as previously discussed several prominent cases of customer dissatisfaction with offshoring have prompted a reversal of some offshoring activity. Customer security and privacy interests could be affected by IT offshoring, particularly if appropriate safeguards and precautions are not adopted. These risks may or not be any higher than traditional IT outsourcing, but perceived risks could be stronger in the eyes of the customer. Customers may not approve of the perceived increased risks of the offshoring of their personal information and may not support the usage of IT offshoring. As a result, the objectives of the customer being satisfied with the IT offshoring at Upromise are not clear following stakeholder theory.
IT Employees

IT offshoring does not contribute to the objectives of the Upromise IT employee: job security, high wages, high quality working conditions, high benefits and continued employment. IT employees would prefer that the organization refrain from IT offshoring, since their jobs are likely at stake. IT offshoring may entail retrenchment, and will require IT employees whose skills are no longer desired to either retrain, relocate, or change careers. Even if the skills the IT employees are retrained in are locally in demand, there is no guarantee that these new skills will not eventually be offshored to a more cost effective location. Employees may enter into a continual cycle of retraining and offshoring for the rest of their careers with the evolving global marketplace. Overall, IT offshoring does not contribute to the IT employee’s objectives.

Local Community

IT offshoring is expected to bring both advantages and disadvantages to the local community. The community objective of widespread stable employment for its community members will be challenged through IT offshoring. The community will be challenged to absorb the IT employees who have lost their jobs. Additional disadvantages will include the loss of personal and business tax revenues, and the loss of charitable contributions. While the wealth of IT workers may be challenged, the wealth and buying power of other members such as stockholders or businesses may increase with IT offshoring. The improved buying power and spending power of stockholders and the organization may contribute to increased revenues for the local community. As a result, the impact on the overall community is not as clear since different groups will benefit or lose based on the IT offshoring decision.

IT Offshoring Provider

Wipro is in a unique position to benefit, given that they can offer IT skills at a competitive rate compared to Upromise’s local IT staff. Wipro will gain in proportion to the job losses of the local community who offshored the IT jobs. Given that IT offshoring is not illegal, Wipro should seek to participate in offshoring agreements, since it will result in increased business opportunities. Wipro will need to complete a similar analysis in determining if entering into the offshoring agreement is ethical. The offshoring provider will have to consider the ethical interests of its own stakeholders when determining if the firm should provide offshored IT services. Overall, the expected impact on Wipro’s operations is expected to be positive.

Organization

Management must attempt to achieve an optimal balance between the identified conflicting stakeholder interests that will contribute to the long run value and survival of the firm. Given that IT offshoring is not illegal, it does not run contrary to the constraint against the organization participating in illegal activities. As long as Upromise made their offshoring activities public, the proscription against fraud and deception is satisfied. Firms or individuals who did not want to interact with Upromise who was utilizing IT offshoring will not be deceived if the offshoring activities were disclosed. As long as these constraints are followed by Upromise, IT offshoring is acceptable.

Stakeholder Theory Recommendation

Stakeholder theory does not provide a clear IT offshoring recommendation. The difficulty in identifying and balancing the stakeholder’s interests makes the ethical decision less apparent. Clearly, the objectives of various stakeholders are not always aligned, and it is doubtful that any decision will satisfy all of the stakeholders’ interests and objectives. As a result, a clear ethical decision to Upromise’s offshoring decision is difficult if not impossible to obtain under stakeholder theory.

Social Contract Theory

Under the social contract theory, IT offshoring to be ethical must satisfy both the social welfare and justice terms of the social contract (Table 3). If either of the terms is violated, IT offshoring is considered unethical.

Justice

The justice term recognizes that society is willing to authorize corporate existence only if corporations agree to remain within the established principles of justice. Management must avoid fraud and deception, avoid dehumanizing the workforce, and avoid practices that detriment the situation of any members of the society. IT offshoring can be conducted to avoid fraud and deception through public disclosure of the firm’s IT offshoring activities. For IT offshoring to satisfy the justice term involved with avoiding the dehumanization of the workforce, management must take actions to lessen the dehumanization of the IT workforce. The dehumanization of the workforce is becoming increasingly more common and perhaps more accepted in modern business (Petrovic-Lazarevic and Sohal, 2004). Workers are increasingly being regarded as an expense, deriving
from the accounting notion that any profit motivated operation would seek to minimize expenses. Upromise was guilty of treating employees as an expense to be minimized through replacing the local employees through offshoring. As a result, Upromise IT workers would be considered as being dehumanized through IT offshoring.

Welfare

It is difficult to foresee Upromise’s IT offshoring satisfying the social welfare term in social contracts theory. According to the welfare term, members of society are willing to authorize corporate existence only if they are going to gain. Society as defined by social contract theory includes both customers and employees. It is unclear if Upromise’s IT offshoring resulted in significant gains for their customers or employees. The expected impact on customer interests is unclear. The cost savings may have resulted in cost savings for the customer, but service, quality or security issues could have been compromised through IT offshoring. Upromise’s IT offshoring appears to have provided no welfare benefits to the domestic IT employees whose positions were offshored. Upromise’s replaced domestic IT employees will have been forced to retrain, relocate, or seek alternative employment, potentially in completely different industries with different income potentials. From the offshored employee’s viewpoint, IT offshoring will not significantly improve their welfare and would not be a desired or ethical decision.

<table>
<thead>
<tr>
<th>Social Contract Terms</th>
<th>Objectives</th>
<th>Offshoring Consistent with the Stated Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justice</td>
<td>Avoid dehumanizing employees</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Conform to laws and regulations</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Avoid fraud and deception</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Avoid practices that worsen the situation of any given group in society</td>
<td>No</td>
</tr>
<tr>
<td>Welfare</td>
<td>Pursue profits solely in ways that will enhance the overall welfare of members of society</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Increase employee welfare</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Increase consumer welfare</td>
<td>Unclear</td>
</tr>
</tbody>
</table>

Table 3. Impact of IT Offshoring Applied to Social Contract Theory Objectives

Social Contract Theory Recommendation

Overall, the social contract theory would most certainly recommend against Upromise utilizing IT offshoring. It does not satisfy the objectives of the justice and social welfare terms required under social contracts theory. Under social contract theory management must avoid any practices that worsen the situation of a given group in society. Clearly, Upromise’s IT offshoring has worsened the IT employee’s situation. As a result, following the social contract theory would deem using IT offshoring to be unethical.

LIMITATIONS

This paper has addressed IT offshoring through the lens of several normative theories of business ethics. No claim is made as to the exhaustiveness of this list. There may indeed be other frameworks to evaluate ethical decision making in a business context. The frameworks discussed are the most commonly cited ethical frameworks in use today. This paper was designed to introduce each normative theory, and discuss how each theory could be used to analyze IT offshoring. Second, this paper addressed a single case of IT offshoring, which should not be generalized from. Many IT offshoring case examples exist where firms differ in their execution and in their extent of activities offshored as well as the success achieved. IT offshoring is not an all or nothing decision, but each decision may influence other decisions. Each sourcing decision must be addressed on its own, utilizing the firm’s ethical decision making framework in order to arrive at an appropriate decision for the firm. In regards to ethics there is no concrete right or wrong decision. Each ethical decision situation is unique and all factors should be considered before arriving at a final judgment.
CONCLUSION

IT offshoring is clearly a phenomenon that will not disappear in the near future. Though it currently forms only a small portion of the total IT expenditure, observable trends suggest that it will grow in the near future, as firms seek to become more competitive. The inevitable loss of well paying IT jobs due to offshoring lends to political and other social overtones, and moves it outside the strictly economic analysis. The post-Enron business environment has led to heightened ethical awareness, and though the focus is currently aimed at illegal or quasi-legal activity, ethical considerations are now more likely to be factored into business decisions, particularly those that have non-economic ramifications. This paper has sought to examine one such decision, viz. IT offshoring, in the lens of alternative normative theories of business ethics. It is not the intent of the paper to provide a general ethical recommendation towards IT offshoring – the actual decision context will dictate that. Ultimately, ethics represent an individual's or a firm's values. Multiple factors will shape the IT offshoring decision. Providing an ethical framework allows management to examine factors other than purely economic considerations when making this decision.

REFERENCES