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How Offshore Outsourcing is Perceived: Why Do Some Consumers Feel More Threatened?

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How Offshore Outsourcing is Perceived: Why Do Some Consumers Feel More Threatened?

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Abstract: *As globalization intensifies, multinational companies are not only compelled to expand their operations, but are also facing greater pressure to enhance productivity and concomitant return on investment (ROI). One way to achieve cost efficiencies is by offshoring selected business operations to overseas firms. Such offshoring, however, has generated public concern and, in some cases, outrage. Angst against offshoring is based on many perceptions, including perceived job losses and damage to domestic industries. In the wake of this threat, multinational firms in Europe and North America confront a public relations problem in justifying their offshoring activities. Yet, no systematic study has investigated why some consumers feel threatened by offshoring while others do not. Our study addresses this concern by using Americans as a sample. We show that economic threat and consumer ethnocentrism have a negative impact on offshoring attitudes while perceived quality of services delivered by offshore firms has a positive effect. Implications are discussed.*

Beginning in early 2004, the drumbeat about offshore outsourcing resonated with mixed tones of trepidation by those viewing it as a threat and of promise by those seeing it as a comparative advantage. U.S. Senator Schumer and former U.S. Assistant Secretary Roberts captured this apprehension in saying that “The United States may be entering a new economic era ... with a seismic shift in the world economy ... any worker whose job does not require daily face-to-face interaction is now in jeopardy of being replaced by lower-paid equally skilled workers thousands of miles away ...” (Schumer and Roberts, 2004). In contrast, N. G. Mankiw, head of the Council of Economic Advisors, expressed a more promising view: “outsourcing is just a new way of doing international trade ... and is a good thing” (Drezner, 2004). Why are there such disparate views about the benefits of offshore outsourcing? Is it possible that such views are shaped by a person’s predispositions? We seek to explore how views toward offshore outsourcing may be rooted in a person’s attitudes about culture, patriotism, or anger, among other forces.

The dawn of the twenty-first century has witnessed the collapse of protectionist trade barriers of the past, culminating in a new economic paradigm called “globalization.” The creation

of huge trading blocks (e.g., NAFTA, European Union), along with liberalized economies in former Soviet Bloc countries, has opened great market opportunities for multinational corporations to reach out to consumers in a more or less borderless world. Parenthetically, it should be noted that IMF and World Bank structural adjustment policies have led to dropping of trade barriers in the less affluent world while perpetuating them in the G8 countries. According to some estimates, the volume of world trade has grown at a faster rate during the last decade than ever before (Bateman and Snell, 2007). At the same time, intensifying competition, both domestic and foreign, creates pressure for corporations to deliver their products and services more efficiently. How to increase productivity, indeed, has become the mantra in today's globalization.

One avenue for streamlining business operations and cutting expenses is offshore outsourcing (also known as offshoring). Offshoring refers to the practice of contracting with an overseas party to produce one or more of an organization's products or services. Frequently, offshoring is done to take advantage of labor arbitrage. For example, educated workers in countries such as India and China work for a much lower wage than do similarly educated workers in developed countries (Drezner, 2004). To take advantage of this wage differential, corporations in developed countries transfer some of their operations such as IT services and call center management to overseas service providers.

Critics of offshoring in developed countries marshal ominous sounding statistics to validate their claim that domestic industries are being devastated, resulting in significant job losses. In 2003, for example, the McKinsey Global Institute estimates that offshoring will increase by as much as 40 percent by 2008 (McKinsey Global Institute, 2003). Furthermore, Forrester Research projects that 3.3 million white-collar jobs in the United States will move overseas by 2015 (McCarthy, 2002). Most recently, *Business Week* has reported that offshoring is having a much larger negative impact on jobs than originally realized (Mandel, 2007). These perceived job losses have enraged trade unions, generated public controversy in the media, and induced passionate debate by government officials in Western countries such as the U.S.

Proponents of offshoring, on the other hand, assert that it benefits developed and developing countries alike (Sturgeon, 2004). For example, while lower-skill jobs may be lost to developing economies such as India, new jobs take their place in the developed countries. These new jobs are superior in economic value due to their higher pay and skill levels. As suggested by Nigel Holloway, director of executive services at the Economist Intelligence Unit, while some individuals may have been negatively affected, overall, offshoring has brought about

a positive change to the workforces and economies in developed countries (Sturgeon, 2004). Others suggest that when we keep in perspective the overall U.S. employment of 130 million and the projected creation of 22 million new jobs by 2010, the job loss due to offshoring would affect only 0.2 percent of the U.S. workforce (Drezner, 2004).

Despite the passionate statements on both sides of the issue, surprisingly no extant study has been reported in the academic literature about the mindset of consumers regarding off-shoring. There is no clear evidence as to whether all consumers, irrespective of their mindset, feel threatened or share similar perceptions toward offshoring. Also, we do not know what factors influence consumers' offshoring attitudes. Most importantly, if consumers have a negative disposition toward offshoring, do they discriminate against firms (in terms of their purchases) that outsource their services overseas? This study fills an important gap in our understanding of the consumer mindset related to offshoring, a topic that is under researched and continues to be in the headlines.

Study Objectives

Our study has several objectives, which are based on the extant literature which will be reviewed in the next section. First, we determine whether psychological tendencies of consumers such as ethnocentrism, cultural openness, animosity, and patriotism play a significant role in influencing offshoring attitudes. Second, we investigate if consumers' concerns about the threat that foreign competitors pose to them personally or to their domestic economy (i.e., economic threat) affect offshoring attitudes. Third, we analyze how beliefs about the quality of services provided by offshore firms shape their offshoring attitudes. Lastly, we examine the impact of job loss due to offshoring on respondents' offshoring attitudes, ethnocentrism perceptions, and economic threat perceptions.

The rest of the paper is organized as follows: We present background literature on psychological tendencies such as consumer ethnocentrism and economic threat that are likely to have an impact on offshoring attitudes. We then discuss our research method, which describes our sample and survey measures. Subsequently, after the results are presented, the paper concludes with discussion and managerial implications.

Background Literature and Research Questions

Impact of Consumer Ethnocentrism on Offshoring Attitudes

Crawford and Lamb (1982) were among the first to observe the emotional underpinnings affecting consumers when purchasing foreign-made products, particularly those products that

threaten the domestic industries of their countries. Following that study, consumer ethnocentrism emerged as a key explanatory variable in understanding the rejection of foreign products by consumers. Research conducted on country of origin (COO) has also shown that consumers tend to have a favorable bias toward domestic products/services referred to as “domestic country bias” (Elliot and Cameron, 1994; Sharma, Shimp, and Shin, 1995). Other researchers showed that American consumers who are more prone to “Buy American” have various personal qualities such as empathy, social concern, and ethnonational tendencies (Granzin and Olsen, 2005) and that such personal qualities also affected “Buy Domestic” in Portugal as well (Granzin and Painter, 2001). Given that the consumer ethnocentrism concept has been used to explain such bias (Acharya and Elliot, 2003; Balabanis and Diamantopoulos, 2004), we wish to know if ethnocentrism also affects attitudes toward offshoring.

Consumer ethnocentrism is derived from the general concept of ethnocentrism, which is rooted in sociology (Shimp and Sharma, 1987). First introduced by Sumner (1906), the concept is defined as the tendency to view one’s own group as central and superior to those found in other societies (Levine and Campbell, 1972; de Ruyter, van Birgelen, and Wetzels, 1998). Our application of the ethnocentrism concept is based on the articulation expressed by Shimp and Sharma (1987), who defined consumer ethnocentrism as an individual’s tendency to view domestically manufactured products as superior and the belief that it is unacceptable to buy foreign-made products due to the detrimental consequences of such behavior on the domestic economy and employment. Ethnocentrism can be viewed much like a personality trait that is not shared universally.

Consumer ethnocentrism has been measured on a scale ranging from highly ethnocentric to nonethnocentric via the Consumer Ethnocentric Tendencies scale, also known as the CETSCALE (Shimp and Sharma, 1987). The scale has been found to be reliable and valid across different countries (Netemeyer, Durvasula, and Lichtenstein, 1991; Kaynak and Kara, 2002; Klein, Ettenson, and Morris, 1998; Luque-Martínez, Ibañez-Zapata, and del Barrio-García, 2000). Consumers with high levels of ethnocentrism believe that purchasing foreign-made products is morally wrong because it can harm the domestic economy, cause loss of jobs, and is unpatriotic (Huddleston, Good, and Stoel, 2001; Kaynak and Kara, 2002). They prefer to purchase domestic products/services given their sense of moral duty (Acharya and Elliot, 2003). It is very likely that those high in ethnocentrism also feel that offshoring high-paying American jobs is not morally correct; they would, therefore, oppose offshoring activities on moral grounds.

Studies on consumer ethnocentrism have found that high-scoring consumers on the

CETSCALE rated domestic products' quality as higher and were generally unwilling to purchase foreign products (McLain and Sternquist, 1991; Good and Huddleston, 1995; Klein, Ettenson, and Morris, 1998; Brodowosky, 1998). In contrast, those with lower levels evaluate foreign products on their objective attributes and/or view them as better because they are not produced in their own country (Durvasula, Andrews and Netemeyer, 1997; Vida and Fairhurst, 1999; Kaynak and Kara, 2002; Hopkins and Powers, 2003).

Additional empirical studies identified that the intensity of consumers' ethnocentrism was also linked to their degree of product involvement, perceived product necessity, and the extent to which consumers perceived foreign-made products as a threat to their personal or economic welfare (Kaynak and Cavusgil, 1983). Moreover, the intensity and significance of the impact of ethnocentrism on consumers was related to the consumer's perception of the country of origin of the specific products studied (Herche, 1994; Durvasula, Andrews, and Netemeyer, 1997)

Consumers who have ethnocentric tendencies are more likely to feel threatened by the prospect of offshoring of service activities because of their perceived impact on domestic jobs. With the spread of globalization and media attention to offshoring, this fear is only likely to increase. Given the previous research on consumer ethnocentrism and the gaps in our understanding of how this concept operates with respect to offshoring attitudes, we propose the following research expectation:

R1: Consumer ethnocentrism will have a significant impact on attitude toward offshoring.

Cultural Openness and its Impact on Attitude Toward Offshoring

There seems to be a wide dispersion amongst a nation's populace in the degree to which individuals are open to something foreign. A person's cultural openness may have been conditioned by previous experiences or the lack of exposure to something unfamiliar or foreign. Indeed, individuals differ in terms of their experience with and openness toward people, values, and artifacts of other cultures. Extreme lack of cultural openness is labeled "xenophobia." Interactions with other cultures are likely to diminish a person's cultural bias. If a person had a closed mind, such cultural interactions are more likely to make that person open-minded.

Different regions of a country are also likely to produce different levels of cultural openness. Areas that are more insulated from the diversity that comes from immigrants are more likely to be less open. Cultural openness, for example, provides an explanation for what Howard (1989) found for U.S. residents on the West Coast, a region where numerous cultures interact. These residents were more likely to rate imported products as more favorable than domestic

products, unlike residents of the Midwest, who rated imported products as much lower in quality. In a relative sense the Midwest is less heterogeneous in its cultural composition. Shimp and Sharma (1987) detected that respondents from Los Angeles were less ethnocentric than were those from Denver, Detroit, North Carolina, and South Carolina.

Granzin, Brazell and Painter (1997) view cultural openness as related to lower prejudice, less ethnocentrism, and more approving of free trade. Hence, since offshoring involves foreign countries, consumers who are lower in cultural openness are more likely to be disapproving of giving business to so called “foreigners” who are viewed as “stealing American jobs.” On the basis of our understanding of consumers’ cultural openness, we propose the following research expectation:

R2: Cultural openness will have a significant impact on attitude toward offshoring.

Impact of Consumer Animosity on Attitude Toward Offshoring

Animosity deals with intense anger of people toward a foreign country. Consumer animosity has been found to have a direct, negative effect on consumers’ purchase behavior (Nijssen and Douglas, 2004). In contrast to country-of-origin effects, consumer animosity does not seem to operate in consumers’ judgments of product attribute or quality perceptions. Instead, consumers with animosity may refuse to buy products from that country per se without having a need to bad-mouth that country’s products (Klein, Ettenson, and Morris, 1998).

Klein, Ettenson, and Morris (1998) conducted one of the first studies using the consumer animosity construct by examining Chinese animosity toward Japan, which was rooted in Japanese atrocities in China during World War II. The study was conducted in Nanking, China, where over 300,000 civilians were brutally killed by Japanese solders in their invasion in 1936 (Chang, 1997). The study found that the level of animosity held by Chinese consumers against Japan determined their willingness and desire to own products produced by Japan. Of great importance, these effects were independent of judgments of Japanese product quality. Regardless of the level of animosity, Chinese consumers evaluated Japanese products very positively. However, those with a high level of anger refused to buy goods made in Japan. Thus, even though 60 years had elapsed since the occupation of Nanking, some Chinese consumers were unwilling to buy Japanese products, despite perceiving those products to be of high quality. Another example can be found in Australians’ disinclination to buy some French brands in the mid-1990s after France resumed testing nuclear weapons in the South Pacific (Henry, 1995; Rees and James, 1995). Once again, animosity prevailed in that Australian consumers rejected

products originating from France.

The role that animosity plays in consumer judgments is very different than the research findings examining the effects of country-of-origin or ethnocentrism. Animosity seems to override product quality judgments, unlike ethnocentric evaluations that consumers make when examining the origin of a product's production. Moreover, it contradicts the behavioral view that product judgments are highly correlated with purchase behavior (e.g., Green and Srinivasan, 1990; Wilkie and Pessemier, 1973). The anger rooted in such animosity predisposes a consumer to reject any product from that country despite high quality. For example, in the recent past, consumer animosities ran very high in the Middle East when Danish newspaper *Morgenavisen Jyllands-Posten* published caricatures of the prophet Muhammad. Within six months after that incident, sales of Danish dairy company Arla Foods amba almost vanished from a level of $430 million (Ettenson et al., 2006).

Prahalad, Krishnan, and Donker (2004) suggest that the loss of well-paying jobs in the U.S. has created a climate of animosity and fear. Congressman Joe Wilson (Republican, South Carolina) captured the extent to which this consumer animosity was played up during the 2004 election campaign in the U.S. by saying that "it is unfortunate to see the India-bashing that is going on during this campaign over outsourcing. I feel India has become a scapegoat over this issue" (IndiaOneStop.com). Even the popular press has noted the growing animosity toward Indian service agents who have been the target of ethnically degrading and demeaning comments from overseas customers (Basu, 2003).

In an economic sense, people exhibit a high degree of animosity if they perceive that foreign countries take unfair advantage in their trade practices (Klein, Ettenson, and Morris, 1998). With respect to outsourcing, there is a perception in North America (e.g., United States) and Europe (e.g., Britain) that countries such as China in manufacturing and India in information technology services, because of labor arbitrage, are taking away high-paying jobs from economically developed countries. Journalist Lou Dobbs, who has been in the limelight as a fierce opponent of offshoring, exemplifies this angst. His recent book, *Exporting America*, expresses this strong opposition to firms that offshore well-paying American jobs (Dobbs, 2004). He also maintains an internet site at: http://www.cnn.com/CNN/Programs/lou.dobbs.tonight/popups/exporting.america/content.html, which lists specific American companies that use offshoring; he labels these firms pejoratively as those "Exporting America." Based on our understanding of consumer animosity perceptions on economic issues, we propose the following research expectation:

R3: Consumer animosity to foreign countries in general on economic issues will have an impact on attitude toward offshoring.

Patriotism and Attitude Toward Offshoring

As noted above, patriotism is linked to ethnocentrism, but it is not the same concept. Patriotism is rooted in a person's pride for his/her country and the degree to which the home country's people, practices, and values are favored. Patriotism, in essence, deals with perceptions toward "home country," whereas consumer ethnocentrism reflects (in part) attitude toward domestic products. Patriotism may manifest itself in various ways, such as when Americans were willing to boycott French products, given the criticism by France of the U.S. invasion of Iraq. Patriotism, therefore, when at high levels, is likely to predispose a consumer to reject products made in those countries that are viewed as working against U.S. interests.

The negative feelings toward offshoring and firms that offshore have become so contentious that a new expression, "The Lou Dobbs Effect," has emerged highlighting the disfavor of offshoring. Implicit in this negativity is the belief that offshoring is unpatriotic and firms that offshore are "Benedict Arnold" companies; "Hire American" has become the watchword (Cocheo, 2004). One study found that 66 percent of respondents in a large survey said that American firms have a moral responsibility to hire Americans (McKinsey and Company, 2004). Based on what we know about patriotism, we propose the following research expectation:

R4: Patriotism will have an impact on attitude toward offshoring.

Impact of Economic Threat on Attitude Toward Offshoring

Economic threat can be defined as the extent to which consumers feel threatened by economic forces that are beyond their control. Specifically, consumers who have a high perception that foreign competitors can hurt them personally and/or their domestic economy are more likely to oppose offshoring versus those who do not feel this threat. When citizens in a country feel that a foreign power is attacking or feel threatened by competition, they are likely to view something that is "foreign" negatively (Polhemus, 1988). Some research has shown that even a consumer's support for free trade (such as NAFTA) is subject to that person's level of perceived U.S. economic vulnerability, xenophobia, the need for job protection, and conservatism (Granzin et al., 1998).

Some consumers who view offshoring as a national economic threat are likely to react

negatively. With the spread of globalization and the recognition that offshoring is inexorable, this fear is likely to intensify. Fear of losing one's job is also likely to aggravate fear about offshoring. Shimp and Sharma (1987), for example, found that consumers who worked in threatened industries such as automobiles and textiles demonstrated higher degrees of consumer ethnocentrism than those in nonthreatened industries. Furthermore, Sharma, Shimp, and Shin (1995) provided additional insight by showing that economic threat significantly influences consumer attitude toward imports.

Social psychology may explain why off-shoring is likely to evoke feelings of economic threat. Sherif et al. (1961) established that between-group hostility escalated when two groups competed against each other while in-group solidarity and cooperation was simultaneously enhanced, reaching its maximum level when between-group hostility peaked. Social identity theory may also explain the relationships between in-groups versus out-groups (Tajfel, 1982). Hence, Americans (i.e., the in-group) who feel insecure about their job or business and who conclude that foreign countries (i.e., the out-group) are "stealing American jobs" are more likely to feel a greater bond with fellow Americans in protesting offshoring.

Insight is also offered by research on the country-of-origin dimension, which found opposition to imported products when the consumer is threatened. Specifically, if consumers feel that a specific country is more threatening than others, they are more likely to have greater negative feelings toward offshoring jobs to that specific country. Hence, to the extent that consumers view India or China as a monolithic force that threatens their own economy, they will hold a more negative view about offshoring jobs to those countries. Based on our understanding of the economic threat perceptions concept, we propose the following research expectation:

R5: Perceptions of economic threat will have an impact on attitude toward offshoring.

Impact of Beliefs About Quality of Offshore Services on Attitude Toward Offshoring

One criticism of offshoring is that product or service quality suffers. As such, the perceived quality of outsourced activities is likely to have some impact on attitudes toward offshoring. One example giving credence to this speculation is the reaction of consumers to offshore call centers in India. Some U.S. customers were so enraged by the poor quality of service they were receiving by these Indian call centers that Dell decided to discontinue their use. Since there is a complete absence of research on how beliefs about quality of offshore services affect attitudes toward offshoring, guidance was sought by looking at the quality dimension investigated for other variables.

Research on country-of-origin effects, for example, has generally examined how a country's image (concerning, for example, workmanship, innovation, and technological advancement) is projected on to the features of products produced by that country (Bilkey and Nes, 1982; Johansson, 1989; Johansson, Douglas and Nonaka, 1985; Papadopoulos and Heslop, 1993). This research has demonstrated that images of the operational and technological capabilities of a foreign country affects consumers' evaluations of product quality greatly (e.g., Bilkey and Nes, 1982; Papadopoulos and Heslop, 1993; Hong and Wyer, 1989).

Another study by Herche (1992) proposed that "quality perceptions of products coming from source countries" could possibly explain how consumer ethnocentrism may impact purchase behavior. He suggested that besides consumer ethnocentrism, there may be other potential influences on buying behavior that create a more dynamic and complex state of mind. Such thinking parallels subsequent research by Crawford and Lamb (1981), which found that consumers were more willing to buy products from source countries that were more similar to their own in terms of social, political, and economic dimensions. Such a finding could be due to superior quality perceptions of products originating from foreign countries.

Reardon et al. (2004) concluded that economic development (which may reflect a country's ability to produce quality products) moderated the connection between ethnocentrism and attitude toward the product or brand. Chakrabarty and Conrad (1995) examined the impact of product quality perceptions for a number of products. When quality perceptions of domestic brands were higher, consumers had a relatively lower intention to purchase foreign products. Results by Wang and Chen (2004) found that the impact of ethnocentrism on purchasing domestic products tends to be weaker when consumers judge them as being of inferior quality. Haizhong (2002) also found that when imported products were perceived to be more capable, then consumer ethnocentrism had a weaker influence on intention to purchase domestic products. Collectively, this stream of research suggests that consumers' beliefs about the quality of services provided by offshore firms are likely to impact their offshoring attitudes. Based on our understanding of product quality perceptions, we propose the following research expectation:

R6: Beliefs about the quality of offshore services will have an impact on attitude toward offshoring.

The Impact of Job Loss on Attitudes Toward Offshoring

It seems intuitive that if a person or his/her relative loses their job due to offshoring, they are likely to have a negative sentiment toward offshoring. Yet, supporters of offshoring explain in

the media that this process is a natural one where less profitable industries disappear from the American economy while new ones (with better-paying jobs) take their place. So it is likely that not everyone who is affected by offshoring will be negative. We propose the following research expectation to examine this issue:

> **R7**: Those who have lost their job due to offshoring or have relatives who have been affected will have a negative attitude about offshoring.

Method

About the Sample

Data were collected in the U.S. Midwest from young adults who had exposure to business education. The sample included subjects who had work experience and were either pursuing a part-time M.B.A. or about to graduate. Such a sample gives insight into how educated consumers are likely to view offshoring. Young adults are one major segment that is likely to be significantly affected by offshoring; hence the demographics of this group are appropriate for our study. To the extent that this group is negative, we would expect even more negativity among those less educated. A total of 176 people participated in the study with the following profile: 48 percent women and 52 percent men; 14 percent of the sample was either directly or indirectly affected by offshoring. The sample size compares favorably with typical sample sizes employed by others whose findings are published in major marketing journals.

About the Survey Measures

At the outset of the survey, the definition of outsourcing was provided as follows: “Offshore outsourcing is when U.S. firms hire service providers in foreign countries to perform functions that were once done by the U.S. firms. Examples include IT, Call Center Management ...” The actual survey consisted of instruments that were derived from established scales or measures (cf. Sharma, Shimp, and Shin, 1995; Durvasula, Andrews, and Netemeyer, 1997; Klein, Ettenson, and Morris, 1998; Parameswaran and Yaprak, 1987). Consumer ethnocentrism was measured with a 17-item scale that is in widespread use. A five-item scale measured economic threat perceptions (e.g., “extensive foreign competition may force U.S. into a recession,” “the security of a person’s job or business is heavily influenced by foreign competitors”). *Belief about the quality of service provided by offshore businesses* was measured using a four-item scale (e.g., “good/bad value for the money,” “technically advanced/backward,” “reliable/unreliable”).

A six-item scale measured *cultural openness* (e.g., “I would like to have opportunities to meet people from other countries,” “I would like to read about the lifestyles of people from other countries,” “I would like to attend cultural events organized by people from different countries”). *Economic aspects of consumer animosity* were measured using a four-item scale (e.g., “outsourced countries ... are trading unfairly with the U.S.,” “The U.S. is more fair in its trade dealings with ... countries than those countries are with the U.S.”). A nine-item scale measured *patriotism* (e.g., “The people of the United States are hard working,” “The people of the United States are friendly and likeable,” “The people of the United States are proud”). Lastly, a seven-item scale was employed to measure *attitude toward offshoring* (e.g., Offshore outsourcing is: “beneficial/harmful,” “unnecessary/necessary,” “important/unimportant,” “good/bad,” “unfavorable/favorable,” “positive/negative,” “worthless/valuable”). Use of such semantic differential pairs to measure attitudes is not uncommon as exemplified by the scale to measure attitudes toward advertising (cf. Durvasula et al., 1993).

All items were measured using seven-point rating scales. While the consumer ethnocentrism, economic threat, cultural openness, consumer animosity, and patriotism scales were based on the Likert scale format, the two scales measuring beliefs about the quality of services provided by offshore businesses and attitude toward offshoring were based on the semantic differential scale format. Finally, the survey included a dichotomous scale that measured whether or not the respondent or someone close to the respondent lost a job in the previous 12 months because it was outsourced to another country.

Results

Properties of Survey Measures

The psychometric properties (i.e., dimensionality and reliability) of survey measures were established using confirmatory factor analysis; these are featured in Table 1. In sum, all the scales mentioned above have acceptable reliabilities (i.e., above 0.7). Based on widely used fit statistics such as comparative fit index (CFI), Tucker-Lewis index (TLI), and standardized root-mean-square residual (SRMR), these scales also demonstrate adequate fit (Brown, 2006). Parenthetically, when a factor model fits the data well, fit indices such as CFI and TLI would be high and close to 1 while SRMR would be small and close to zero. The item loadings are all significant ($p < 0.05$) and well above 0.40 on their respective factors, suggesting a good overall model fit (Lewis, 2003). With the exception of the attitude toward offshoring scale that we developed specifically for this study, the other scales have also been validated by other studies

(cf. Durvasula, Andrews, and Netemeyer, 1997; Klein, Ettenson, and Morris, 1998; Netemeyer, Durvasula, and Lichtenstein, 1991; Sharma, Shimp, and Shin, 1995). Hence all the tests demonstrate that the survey measures have acceptable psychometric properties and that they can be employed for further analysis.

Impact of Predictor Variables on Attitude Toward Offshoring

The purpose of this exploratory study is to determine whether attitude toward offshoring is affected by consumer ethnocentrism, cultural openness, cultural animosity, economic threat, beliefs about the quality of offshore services, and patriotism. In order to address the study objectives, we performed covariance structure analysis using LISREL 8.8. In this analysis, attitude toward offshoring served as the dependent measure while all other variables served as predictor measures. Because both criterion and predictor measures are based on multi-item scales, covariance structure analysis is the most appropriate technique.

The relevant fit statistics for this covariance structure analysis are provided at the bottom of Figure 1. The fit indices CFI (comparative fit index), TLI (Tucker-Lewis index), IFI (incremental fit index), are high and close to 1. The SRMR (standardized root-mean-square residual) is relatively small. Overall, all fit indices fall within acceptable ranges (Hu and Bentler, 1995). Further, the correlations among the predictors (i.e., phi correlations) are not very high. These correlations ranged from 0.00 to 0.65 with an average correlation of 0.27. None of the confidence intervals around these correlations contained a value of 1, indicating that the predictors are indeed correlated, yet distinct constructs. In other words, the predictor variables exhibit discriminant validity.

Figure 1 shows the path estimates, which partly answer our research questions. The predictors that have a significant impact on attitude toward offshoring are consumer ethnocentrism, beliefs about the quality of offshoring services, economic threat, and patriotism. All the path estimates are in the expected direction. For example, attitude toward offshoring is more favorable when consumer ethnocentrism is low, when beliefs about the quality of offshore services are positive, and when economic threat perceptions and patriotism perceptions are relatively low. These results support research expectations R1, R4, R5, and R6. Based on this analysis, the two research expectations that are not supported are R2 (related to cultural openness) and R3 (dealing with economic aspects of consumer animosity).

To obtain further insights into the impact of various predictors on attitude toward offshoring, we performed a series of independent sample *t*-tests. To facilitate these analyses, we created dichotomous categories for each predictor variable. For example, depending on how

they responded to the consumer ethnocentrism scale, “high” ethnocentric consumers are those who fall in the top 33 percent of the sample. In contrast, the “low” ethnocentric consumers represent the bottom 33 percent of the sample. The same procedure was employed for the remaining predictor variables to identify the relevant “high” and “low” consumer groups. While it is generally not recommended to dichotomize continuous variables, it is justified in exploratory studies for determining whether or not predictor variables have an impact on the criterion variable (Preacher et al., 2005).

Next, for each predictor variable, we used the independent sample *t*-test to compare mean attitude toward offshoring for the “high” and “low” groups. These results are shown in Table 2.

From these results and effect size estimates, we can conclude that attitude toward offshoring is significantly more favorable when (*a*) consumers have positive beliefs about the quality of offshore services. On the other hand, offshoring attitudes are less favorable when (*b*) consumers are more ethnocentric, (*c*) consumers exhibit high economic animosity, (*d*) consumers show high levels of patriotism, and (*e*) consumers perceive higher economic threat. While not significant in a statistical sense, results also show that consumers who are culturally more open-minded have more favorable offshoring attitudes. These results, while adding further support to research expectations R1, R4, R5, and R6, only provide marginal support for R2 and R3. In sum, our analysis provides strong support for four research expectations and some support for the other two. The implications of these results are discussed in the next section.

To examine R7, whether attitude toward offshoring is affected when the respondent or the respondent’s immediate relative/friend lost a job due to outsourcing, we performed another *t*-test. Not surprisingly, attitude toward offshoring is less favorable in the event of a job loss ($p < 0.05$). A final *t*-test revealed that males have relatively more favorable attitude toward outsourcing than females ($p < 0.05$). These results are shown in Figure 2.

Discussion

Offshoring appears to resonate well with those consumers who consider themselves culturally open-minded. Moreover, subjects in our sample are relatively *less* consumer ethnocentric and *do not* perceive economic threat from foreign competition. These consumers have relatively *favorable* attitudes toward offshoring. However, even for this consumer group, off-shoring attitudes are significantly affected by consumer ethnocentrism and economic threat. Consumers who exhibit higher levels of ethnocentrism and greater economic threat are likely to

show less favorable attitudes toward offshoring. It is important to point out that since the sample is better educated and younger, they are likely to have a better understanding of the forces at work in globalization.

Results also reveal that economic threat perceptions increase when close relatives or associates have lost jobs due to offshoring. In turn, high perceived economic threat, when coupled with ethnocentric tendencies, may have made offshoring attitudes negative for some consumers. But, the good news is that consumers generally have favorable beliefs about the quality of service provided by offshore businesses. Such types of services provided by offshore firms are considered to be technically advanced, a good value for the money, and reliable. Perhaps such favorable disposition toward the quality of outsourced services may have moderated consumers' negative attitudes toward offshoring. This factor may explain why consumers' overall mean attitudes toward offshoring are favorable. Nonetheless, the results may be identifying a red flag that could portend a backlash to offshoring in the future if corporations are not careful. The implications are discussed below.

Implications

In *The World is Flat*, Thomas Friedman discusses the acceleration of globalization due to advancements in technology, especially digitization and the web of optical fiber lacing the planet together (Friedman, 2005). Countries that were historically not competitive suddenly have become juggernauts in the competitive race fostered by globalization. India, for example, has become a magnet for U.S. firms wishing to cut costs in their call center activities. China too has benefited from offshoring as more and more U.S. firms transfer production from the U.S. to outsourced contractors in China. Industries that were once viewed as secure such as legal services, accounting activities, medical diagnosis, and engineering have become the new industries where offshore activities are making an impact. Imagine that a radiologist in the U.S. can now be replaced by one in India who receives the digitized X-rays or CAT scans for their interpretation. Or contracts and other legal documents for business in the U.S. can be legally examined by lawyers in India who have been educated about American law in Indian universities. Indeed, even Indian speechwriters are providing offshore services to U.S. lawmakers (Tejaswi, 2006). These highly skilled professionals in India work for 20 percent of the costs that would be charged in the U.S.

Our results, however, point to ethnocentrism, economic animosity, patriotism, and perceived economic threat as forces that heighten the likelihood of consumers opposing

offshoring. As these forces intensify, consumers were more likely to have greater opposition to offshoring. If economic threat underlies the bias against offshoring, ethnocentrism may become an even more volatile and powerful force. The question then arises, How can businesses that offshore mitigate the impact of these forces so that consumers are not likely to protest offshoring? It is likely that ethnocentrism and patriotism may be qualities that are hardened within a person and not likely to dissipate. There will always be some who dislike “foreigners” and feel that offshoring represents an act that damages economic wellbeing of the U.S.

Yet, it is necessary to ask if this offshoring process can continue unabated. The “flatter world” envisioned by Friedman, produced by globalization, has created reactions of insecurity, nationalism, and distrust about the pace of economic activity in the world. Indeed, globalization has become the enemy to some. Lou Dobbs’s vitriolic disdain for offshoring describes the intense fear that offshoring has created in the minds of some. If Americans see offshoring as a threat, they may pressure their elected officials to put constraints on the freedom of corporations to offshore. In fact, some elected government officials such as U.S. Senator Charles Schumer have called for intervention by the government to curtail such offshoring.

Such clamor persuaded Congress in 2004 to include a provision in its legislation that prohibits federal agencies from offshoring some types of work to private companies that employ overseas workers (Baily and Farrell, 2004). Over 30 states are also considering similar restrictions. Labor unions such as the Communications Workers of America have also engaged in lobbying Congress to oppose offshoring. Protectionism of this sort is likely to constrain a firm’s potential to use offshoring. McKinsey Global Institute believes that fears about job losses generated by offshoring have diverted attention from the substantial benefits it creates and that such fears are vastly overstated (Farrell and Rosenfeld, 2005). Yet, Bivens (2005) states such reasoning overstates the benefits and ignores the costs to American workers.

It is important to point out that workers’ fears may not be ungrounded. The Bureau of Labor Statistics found that of those whose jobs were displaced by overseas trade from 1979 to 1999, 31 percent were not fully reemployed and 55 percent were making 85 percent or less than their former wages (McKinsey Global Institute, 2003). Furthermore, by 2008, U.S. firms are estimated to employ more than 2.3 million offshore service workers (Farrell and Rosenfeld, 2005). Even Nobel Laureate Paul Samuelson (2004) warned that in some circumstances free trade (such as offshoring) can diminish the comparative advantage of rich countries and leave them in an inferior position. McKinsey and Company argue that companies and government “can and should help citizens cope with the faster rate of job change” (Farrell and Rosenfeld, 2005, p.

3). Hence the crux of the situation is how to soften the impact on workers and create a win-win situation.

Insight developed by the McKinsey Global Institute may offer other ways of dealing with resentment that some consumers, including a section of those in our study, have harbored against offshoring. McKinsey acknowledges that offshoring is an emotive topic that ignites fear and resentment. But they stress that while offshoring is not good for particular individuals, it does benefit the U.S. economy. They suggest that there are numerous myths that have created an incorrect understanding of offshoring (Baily and Farrell, 2004). As a result, both business and public policy officials must address the falsehoods of offshoring, according to McKinsey. The key question then deals with how to manage the negative feelings that arise from the inevitable displacement and disruption of jobs.

We found that consumer animosity aggravates attitudes to offshoring. One can then ask, How can such animosity be assuaged? Ettenson et al. (2006) and Durvasula and Lysonski (2006) give some guidance by recommending downplaying the “Made in ...” aspect of a brand. A related practice is to reposition brands to appear as local products on store shelves as Proctor & Gamble Co. and Unilever Plc/Unilever NV have done effectively in the Middle East. However, since substantial offshoring deals with services, this guidance seems less pertinent. Nonetheless, it is crucial that offshore call centers have trained representatives that speak English well and give high-quality service. The authors have witnessed firsthand the language training that is given to Indian call center operators so that they appear to be American for American customers and appear to be English for those in England. Customers are thus less likely to even know that they are speaking to an offshore facility.

For public policy makers, it is necessary that they help displaced workers transition from losing their jobs due to offshoring to a more favorable outcome. Learning new skills through job-retraining programs and continuing education grants permit workers to make this transition successfully. Tax credits could also be offered to firms who are willing to hire displaced workers. Businesses too can also help mitigate the downside to workers who lose their jobs. Kletzer and Litan (2001) recommend that firms could purchase insurance that covers the wages lost by displaced workers. Bailey and Farrell (2004) estimate that it would only require about four to five percent of the savings firms realize from offshoring to insure all full-time workers for job losses due to offshoring.

In sum, firms that offshore must continue to monitor the sentiments of protectionism and antiglobalization against offshoring as expressed by ethnocentrism, patriotism, economic

animosity, and perceived economic threat. If these sentiments reach critical levels, consumers may become more vocal about protesting offshoring. Clearly, offshoring has benefits, but if the losses are perceived to be much greater than the gains, “stop offshoring” may become the rallying cry for government intervention.

Future Research

Certain limitations constrain the generalizability of the findings in this study. For example, the sample was collected in the Midwest, where people are more likely to be pro-American and less accepting of what is foreign (Howard, 1989). Hence, other studies should replicate this research in other regions of the U.S. Also, the sample was gathered from those who were exposed to business curriculum. To the extent that these subjects were more open-minded than the general population, the results may be reflective of only one segment of the U.S. Therefore, replicating this study with samples with other backgrounds such as blue collar and those less educated would allow for a more inclusive understanding of Americans.

Our exploratory study has identified important consumer variables that have an impact on offshoring attitudes. Nonetheless, it is too early to say that we have a definitive understanding of all the key forces that shape offshoring attitudes. Future research should identify other consumer variables that may affect offshoring attitudes. Also, do consumers in other demographic segments perceive offshoring similarly? Are the offshoring attitudes likely to vary in other countries that are affected by this phenomenon, such as Canada, countries in Western Europe, and Australia? Perhaps this research will serve as a catalyst for others to examine the dynamics of offshoring on consumers’ mindsets.

Notes

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Appendix
Table 1
Fit Statistics for Various Measures

Measure	Comp. reliab.	χ^2	df	CFI	TLI	SRMR	Range of Load.
Attitude—Offshoring	0.86	76.61	14	0.93	0.90	0.07	0.45–0.89
Consumer Ethnocentrism	0.95	357.04	119	0.97	0.96	0.05	0.61–0.85
Economic Threat	0.85	46.31	5	0.92	0.83	0.06	0.63–0.78
Beliefs—Quality of Offshore Firms	0.72	7.40	2	1.00	1.00	0.01	0.43–0.88
Cultural Openness	0.87	51.02	9	0.94	0.91	0.05	0.58–0.81
Consumer Animosity	0.82	8.24	2	0.98	0.94	0.03	0.60–0.82
Patriotism	0.88	94.55	27	0.95	0.93	0.06	0.51–0.77

Note. CFI refers to comparative fit index, TLI refers to Tucker Lewis fit index, and SRMR refers to standardized root mean square residual. Models with a perfect fit tend to have CFI and TLI values close to 1 and SRMR close to zero.

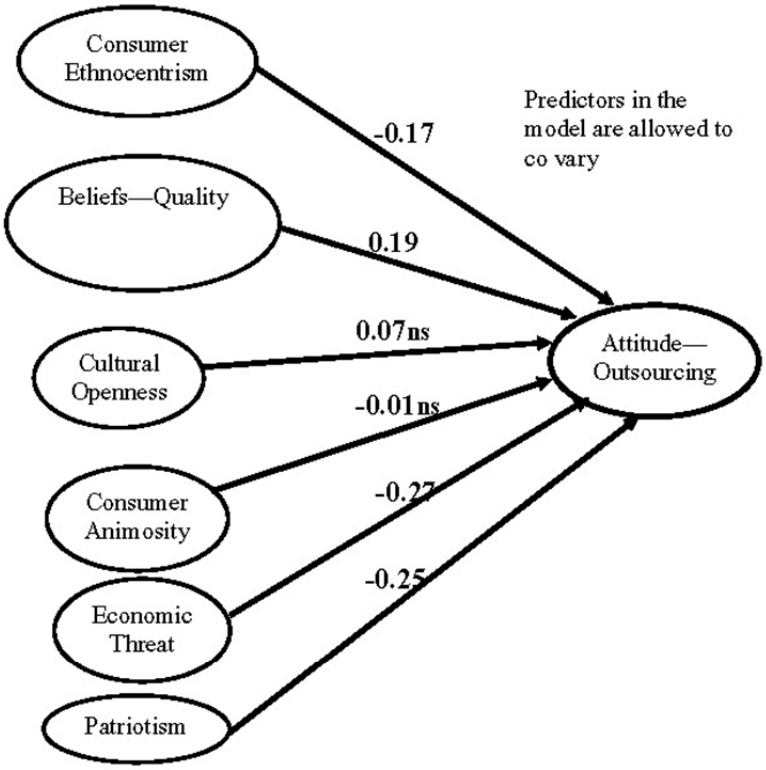
Table 2
Attitude Toward Offshoring

Consumer Variables	High	Low	Prob.	Effect Size
Consumer Ethnocentrism	4.46	5.04	0.00	0.81
Beliefs toward Qual/Offshore Firms	5.15	4.56	0.00	0.82
Economic Threat	4.47	5.18	0.00	0.66
Cultural Openness	4.93	4.78	0.44	0.15
Consumer Animosity	4.44	5.08	0.00	0.71
Patriotism	4.53	4.98	0.00	0.51

Note.

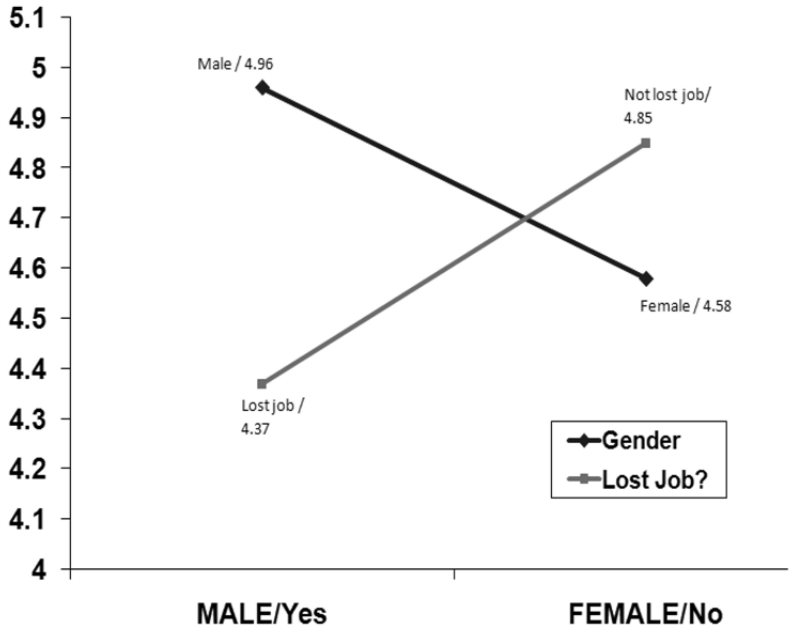
1. Attitude toward offshoring is measured such that a higher score reflects a more positive attitude.
2. Table shows mean attitude toward offshoring for the “High” and “Low” consumer groups. The “High” consumer ethnocentric consumers are those who fall in the top 33 percentile in terms of their score on the CETSCALE. The “Low” consumer ethnocentric consumers are those who fall in the bottom 33 percentile in terms of their score on the CETSCALE. The same procedure is also applied to identify the “High” and “Low” consumer groups for the other variables.
3. To interpret the table values, attitude toward offshoring mean is 4.46 for those who are rated “high” on consumer ethnocentrism while it is 5.04 for those who are rated as “low” on consumer ethnocentrism.
4. Effect size estimates show Cohen’s D values. For reference, effect size estimates close to 0.20 are considered small, close to 0.50 are called medium, while values close to 0.80 are considered large.

Figure 1
Impact of Consumer Behavior Variables on Attitude Toward Outsourcing



Fit Statistic	Value
$\chi 2$ (dof)	2155.88 (1253)
CFI	0.95
TLI	0.95
IFI	0.95
SRMR	0.07
Range of correlations among predictors	0.00 to 0.65
Average correlation among predictors	0.27
Std. Loadings for	
Attitude—Outsourcing	0.59 to 0.87
Consumer Ethnocentrism	0.61 to 0.85
Beliefs—Quality of Offshore Services	0.43 to 0.87
Cultural Openness	0.59 to 0.82
Economic Animosity	0.61 to 0.82
Economic Threat	0.63 to 0.79
Patriotism	0.51 to 0.77

Figure 2
Attitude Toward Outsourcing



Note. a. Females have a significantly lower offshoring attitude than men ($p < 0.05$). b. Those who are directly or indirectly affected by job loss have a significantly lower attitude than those who are not affected by offshoring ($p < 0.05$).