Social Responsibility Trends and Perceptions in Global IT Outsourcing

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This paper presents and interprets the results of an industry association survey regarding the role of Corporate Social Responsibility (CSR) in Global IT Outsourcing. The survey is conducted bi-annually by the International Association of Outsourcing Professionals (IAOP). Interpretations of the survey findings are used to articulate directions and models for outsourcing industry CSR initiatives, published in the IAOP Guide to Corporate Responsibility. Both CSR and Outsourcing continue to grow in importance in the global economy. This paper examines the trends of organizations that buy and provide outsourcing services and how CSR will become more important in future outsourcing contracts. The motivation for this research is to understand the social responsibility issues that providers should address to satisfy expectations of buyers of outsourcing services.

**Keywords:** CSR, Outsourcing, Social Responsibility, Sustainability.

1. **INTRODUCTION**

This paper uses industry survey data to describe and analyze trends and perceptions, for Corporate Social Responsibility (CSR) in the global outsourcing market.

The International Association of Outsourcing Professionals (IAOP) conducts a bi-annual survey collecting data from buyers, providers and advisors in the outsourcing marketplace. The survey was initiated in 2009 and repeated in 2011 and 2013. The Association uses data from the survey to inform its CSR committee on where to focus attention and effort. One outcome of the survey has been the production of the Outsourcing Professionals’ Guide to Corporate Responsibility (Hefley and Babin, 2013). As well the survey data provided perspective for a CSR discussions at the IAOP annual Outsourcing Summit held each February.

2. **LITERATURE REVIEW**

Babin and Nicholson describe socially responsible outsourcing (SRO) as, “an outsourcing model that creates social benefits by employing workers from a disadvantaged population in a profitable outsourcing business.” (Babin and Nicholson, 2012). Early definitions of SRO included an environmental component, such as “Green IT” (Babin and Nicholson, 2011); however recent research has focused...
on the human aspect of global outsourcing. The concept of SRO was fortified with the Rockefeller Foundation definition of Impact Sourcing (Nyoro, 2011) (Heeks, 2013) and the further definition of remote and rural sourcing (Lacity et al., 2011). At a recent IAOP conference (February 2014) the Rockefeller Foundation announced a $100 million commitment to further develop Impact Sourcing. In support of the Rockefeller project, Everest Group (2014) conducted a global analysis of Impact Sourcing, and concluded “Impact Sourcing ... provides quality and cost at parity with traditional BPO services, but with optimized enhancements such as... lower attrition rates and higher corresponding levels of employee engagement, and opportunities to fulfill corporate social responsibility and diversity objectives while operating within a traditional BPO framework.”

This research builds on the preliminary studies by Babin (2008) on the role of CSR in outsourcing decisions.

3. RESEARCH METHODOLOGY

Over the last six years, IAOP distributed an invitation to its global membership to participate in the survey during the February March timeframe of 2009, 2011 and 2013. The email invitation was sent to approximately 10,000 individuals registered in the IAOP database. Data were collected on a proprietary IAOP survey mechanism. The survey questions are guided by the international CSR standard, ISO 26000. Question set 23 addresses specific ISO 26000 issues. In 2013 additional questions (see question set 36) were included to reflect the increased attention to Impact-Sourcing (Heeks, 2013, Nyoro, 2011) and Rural-Sourcing (Lacity et al, 2011). The survey will be repeated in 2015. The survey questions are presented in Appendix A.

A key motivation for this research has been the growing awareness of the importance of social responsibility in all organizations. In particular the outsourcing business has been vulnerable to criticism that jobs are being exported, creating unemployment in the home country. The IAOP has published an Outsourcing Professionals’ Guide to Corporate Responsibility (Hefley et al, 2013) which was influenced by the findings of this research. The survey findings have been augmented with CSR case studies and examples, described in the Guide.

Demographics of Survey Sample

Total responses varied for each survey with 178, 207, and 186 submitted in 2009, 2011, and 2013 respectively. Average times to complete the survey were 20 minutes, 22 minutes, and 27 minutes in 2009, 2011, and 2013 respectively. Approximately 30% of the respondents are from customer or buying organizations; 50% of the respondents are from outsource providers; 18% of respondents are from advisors and the rest are from academics and media participants. These proportions have remained consistent over the three data sets. Approximately 50% of the respondents are from the United States.

The respondents surveyed were cultivated from across many different industries but as Figure 1 illustrates, the industries are concentrated in technology, services and finance more heavily. (Note: all Figures are presented in Appendix B)

As well, to accurately represent views of a broad cross-section of the outsourcing sector, a wide range of small, medium and large companies were asked to participate in the survey.

Having the multi-billion global companies represented alongside SME firms offers a clearer picture of the range of outsourcing issues across the economic spectrum. As well, consistency of the sample is important, and only in two categories ($1.1m-$5m and $500m-$1b) have we seen major shifts in survey representation. Because there has been consistent sampling in both adjacent categories, there is no reason to believe that these shifts have skewed the sample in a significant way. Figure 2 provides a breakdown of the annual revenue for the organizations that participated in the survey.

From a customer perspective, it is important to understand which are the most common services to have outsourced as it is possible to leverage economies of scale with a larger provider or seek better pricing due to increased competition. Figure 3 shows the different types of services that are commonly outsourced at the present time.

The top five services make up approximately half of the outsourcing market, these include: IT management, document management, administrative services, customer relationship management, and facility services. This data is counter-intuitive to older but still common perceptions of outsourcing that limit the concept to ‘product manufacturing’ which according to
the survey respondents only accounts for a 4% market share of all outsourcing services.

This is by no means an exhaustive analysis of outsourcing services, nor is it broken down by outsourcing spending in real dollars. Yet, it does suggest that companies like Iron Mountain (document management) and Salesforce.com (CRM hosting) are well positioned to capitalize on some of the most frequently outsourced business services.

4. SURVEY FINDINGS

Before embarking on any outsourcing relationship, customers have to understand the risks associated with such a venture and weigh those against the cost savings and other benefits that can result from a successful outsourcing project. Over the five-year period of the IAOP survey, the respondents perception of major risks has gone up across the board as illustrated in Figure 4.

Protectionism remains the biggest concern among the aggregated survey respondents but closely linked to that is the social resistance to the global distribution of work – which has seen the largest increase in concern since 2009. Climate change has also increased steadily over the five-year period, much as its prominence has also gained traction in the general public’s awareness and acceptance in the media.

The risks of falling behind on social responsibility were separated out from the previous question and asked respondents specifically about their perceptions of end-consumer attitudes surrounding CSR practices. Those responses are summarized in Figure 5.

The proportion of respondents who believed customers did not care at all about CSR has been steadily dropping over the five-year period. That drop did not correspond to a commensurate increase at the top of the scale, instead provided a big boost for those estimating 20-39% of customers are concerned with CSR practices.

There is a large disparity between companies’ perception of how important CSR is to their consumers and how greatly they believe it impacts purchasing decisions as illustrated in Figure 6. There are consistent growth trends at the 60% and above end of the spectrum which are in line with expectations. What is most surprising when comparing the responses for these two data points is that 14% of respondents believe that customers value CSR (at a level of 20% or more) but that it does not affect their purchasing decisions (0-19%).

In fact according to the Business Development Bank of Canada (BDC), these companies are drastically underestimating consumer appetites for socially responsible behaviors and the degree to which those behaviors affect buying decisions. Their report notes that, “90% of consumers stated they would stop buying products from a company if they learned it was using deceptive or irresponsible business practices, and over half claimed they had in fact stopped buying a product or service in the past 12 months because of such behavior” (BDC, 2013, p.23).

When taken in tandem it suggests that companies who are considering outsourcing contracts are very likely underestimating how much customers expect them to be investing in CSR practices at the outset of an outsourcing project.

If outsource buyers are not looking to their customers as guidance on the value of CSR, they must certainly have identified some intrinsic value to their company as nearly 35% identify social responsibility as a crucial part of their business strategy. Figure 7 charts the shifts in opinion, notably the sharp rise in those identifying CSR as crucial climbing from only 15% five years ago.

Unexpectedly, the bottom category (a 1 ranking of importance) showed a significant jump since 2011 in identifying CSR as a low priority. To explain this rise, it is possible that late adopters have felt other increasing pressures like cost competitiveness, economic circumstances, or industry pressures as superseding CSR for top strategic priority.

While Figure 7 looks at the opinions of the customers who would be purchasing outsourcing services, Figure 8 breaks out the same question from the outsourcing providers’ perspective. There is a noticeable gap at the upper end of the spectrum, where providers are less likely to claim CSR as a crucial part of their business strategy. When you factor in the top two brackets (i.e. a survey rank of 4 or 5 importance) the gap shrinks to only a 5% discrepancy between what customers want and what providers currently offer in terms of strategic priorities.
It is also notable that the number of providers who consider CSR to be a bottom priority is fewer than on the customer side. Providers are much more likely to have attitudes that stake out the middle ground in terms of strategic importance.

Another way to measure a company’s commitment to social responsibility as a strategic priority is to assess whether that company has formalized this policy in writing and whether or not there is a budget to implement the policy directives it outlines.

Figure 9 shows that 58% of respondents do have a written CSR policy within their organization. This roughly corresponds to the 60% of those surveyed who spend some amount of budget devoted to CSR implementation as illustrated in Figure 10. The two biggest clusters are those at either end of the spectrum – less than $50,000 or more than $250,000.

It is worth noting that these reported figures have not been normalized by size of the organization. These are gross budget numbers without a corresponding estimate of the revenue that this spend generates for each company.

Taken together, this data suggests that companies do place strategic value in corporate social responsibility as evidenced by nearly 60% of companies having both a written policy and a CSR budget. Whether they have taken this cue from consumers or because they place intrinsic value in the benefits of socially responsible practices, it is a significant part of many firms’ business strategies.

**Making Outsourcing Decisions**

Instituting a written policy is very different commitment level than a firm using CSR as a key factor in making decisions surrounding which outsourcing provider to choose. The IAOP’s survey asked customers if a company’s CSR capabilities would be considered when selecting an outsourcing provider, illustrated in Figure 11.

As positive trends, the number of companies reporting that they never or rarely consider CSR as a decision-making factor is on the decline and those that always take it into consideration has jumped significantly since 2009. Beyond simply considering a company’s capabilities, Figure 12 looks at whether CSR has been the preferential factor in making a decision of outsourcing partner, all else being equal.

According to the survey responses, over 85% of outsourcing customers have at least sometimes given business to an outsourcing provider on the basis of their CSR capabilities. Finally, Figure 13 looks at what factors customers consider most prominently.

Not surprisingly, labor practices, fair operating practices and human rights are the top three concerns when making these decisions. All three are focused on treatment of the outsourcing workers while environment comes in as a close fourth in terms of importance.

**Audit and Compliance**

The data so far has explained that more and more companies are recognizing the value of CSR and using that to help make socially responsible outsourcing decisions. This section will look at how companies monitor their outsourcing partner’s commitment and ongoing work in the area of CSR – most notably with some form of compliance audit conducted either internally or by a third party. Figure 14 provides a perspective on audit practices for CSR in outsourcing.

Customers who outsource services are indeed auditing their vendors 73% of the time, but only 38% are external or mixed-stakeholder audits. The reliability of non-internal audit processes is greater and lends the process greater transparency. Companies like Loblaw are moving away from a solely internal audit system to a multi-stakeholder audit process in the wake of Rana plaza.

**Outlook for the Future: CSR in Outsourcing**

It is interesting to look at how many of the attitudes and opinions of survey respondents have shifted over the five year period. Perhaps the most interesting is in Figure 15 where responses about the future importance of CSR have actually grown in the bottom two responses - suggesting there is a growing number of people who believe the importance of CSR in outsourcing has already peaked.

It is difficult to draw a correlative link between this chart and the revelations of the preceding questions, but one can only speculate that the growing number who foresee the decline of CSR could believe it is currently so important an issue that there is nowhere to go but down.
Among companies that plan to ramp up their investment in CSR, the top goal of that expansion was to increase resources or personnel in that department as shown in Figure 16.

Rounding out the top three are two initiatives that specifically speak to the transparency of the audit and compliance process – especially if those parties plan to move to third party or mixed-stakeholder auditing processes.

As much as there are plans to move forward with further CSR commitment, there are a number of barriers that prevent companies from doing more in this important field. These obstacles are measured in Figure 17 and predictably, budgetary concerns also top this list.

Curiously, the second most common response was that there was no pressure to commit to CSR. This speaks to both a misreading of consumer demand and perhaps, a correct assumption that there is no industry culture to pressure providers into raising the bar to offer more sustainable outsourcing solutions.

5. SURVEY CONCLUSIONS

The trends identified in the data are clear: there is a growing expectation regarding CSR in the minds of outsourcing buyers. Some of the data, such as Figure 8, suggest that CSR as a strategic topic may be plateauing, but it continues to remain an important if not critical topic for most organizations. Our research will continue to survey the outsourcing industry on this topic; at this point we can suggest that formal CSR capabilities will continue to be important in the outsourcing relationship between buyer and provider.

A few years ago, in the first 2000 decade, the topic of CSR was not considered in outsourcing. Today, we suggest, that outsource buyers and providers increasingly focus on CSR as important capabilities in the outsourcing relationship. We see IT and Business Process outsourcing (ITO/BPO) as a mature industry with at least 25 years of experience, and well established processes. Increasingly we expect to see CSR as a required component in the outsourcing process.

6. ACKNOWLEDGEMENTS

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7. REFERENCES


Appendix A
CSR in Outsourcing – Survey Questions

Demographic questions
1. Please identify your:
   1.1. Primary Role
   1.2. Functional Area
   1.3. Industry
   1.4. Region
   1.5. Annual Revenue
   1.6. Role within the organization
2. Do you have responsibility for outsourcing decisions or operations?
3. How many outsourcing decisions (or contracts) have you participated in; at your current organization; in the last two years?
4. If you are an outsourcing provider; how many outsourcing customers does your organization currently provide service to?
5. If you are an outsourcing customer; in your entire ORGANIZATION how many outsourcing providers currently provide service?
6. From where does the outsourcing provider you work with/work for deliver service? (Check all that apply)
7. What is the approximate total annual value of your current outsourcing contracts?

Survey questions
8. What are the CSR concerns or risks you consider when outsourcing?
   8.1. Social resistance to global distribution of work
   8.2. Protectionism; to keep services in our area and country
   8.3. Political instability in the countries from which you source
   8.4. Corruption in business dealings with outsourcing suppliers
   8.5. Climate change
   8.6. Environmental damage resulting from your outsourced services
9. What percentage of customers that use your products or services do you think are concerned about social conditions in the centers where your employees work?
10. What percentage of customers that purchase your products or services do you think make purchasing decisions based on environmental conditions in the centers where your employees work?
11. Has your company (in the last 12 months) received any requests for information on the environment and/or social performance of the locations from which you source your services?
12. Has your company ever been publicly named or reported in any way with regard to conditions in a center from which you source?
   12.1. If yes; please rate the importance that you assign this coverage or reporting. (Rate from 1 to 5; where 1 is beneficial and 5 is damaging).
13. Does your company assign responsibility for CSR to a senior board member; director or manager? If yes; which one?
14. Do you have a designated CSR manager? If yes; in which department is this person located?
15. How importantly do you rate CSR as a component of your business strategy? (Rate from 1 to 5; where 1 is somewhat important and 5 is crucial)
16. Do you have a budget for CSR? If yes; how much do you expend per year?

17. Does your company have a written policy concerning CSR?
   17.1. If yes; what does the CSR policy include? (Check all that apply)
      17.1.1. Social requirements within your company
      17.1.2. Environmental requirements within your company
      17.1.3. Social requirements for your outsourcing provider
      17.1.4. Environmental requirements for your outsourcing provider
      17.1.5. Ecological product requirements
      17.1.6. Governance issues
      17.1.7. Transparency issues
      17.1.8. Ethics issues
      17.1.9. Other (please describe)

18. How are requirements communicated to outsourcing provider(s)? (Check all that apply)
   18.1. Written into the service contract
   18.2. Verbally
   18.3. In written form separate from contract
   18.4. Seminars to training sessions for your outsourcing provider
   18.5. Not applicable
   18.6. Other (please supply name)

19. Does your organization participate in; or subscribe to the following social and environmental standards? (Check all that apply)
   19.1. Global Reporting Initiative (GRI)
   19.2. ISO 14001 -- Environmental Management Systems
   19.3. ISO 26000 -- Guidance on Social Responsibility
   19.4. OHSAS 18001 -- Occupational Health and Safety Management systems
   19.5. SA 8000 -- Social Accountability Standards for Decent Working Conditions
   19.6. Carbon Disclosure Project (CDP)
   19.7. UN Global Compact
   19.8. LEED - Leadership in Energy and Environmental Design
   19.9. ISO 50001 - Energy Management Systems
   19.10. Other (please specify)

20. If you are a customer; do you expect your outsourcing provider(s) to participate or subscribe to the following social and environmental standards? (Check all that apply)
   20.1. Global Reporting Initiative (GRI)
   20.2. ISO 14001 -- Environmental Management Systems
   20.3. ISO 26000 -- Guidance on Social Responsibility
   20.4. OHSAS 18001 -- Occupational Health and Safety Management systems
   20.5. SA 8000 -- Social Accountability Standards for Decent Working Conditions
   20.6. Carbon Disclosure Project (CDP)
   20.7. UN Global Compact
   20.8. LEED - Leadership in Energy and Environmental Design
   20.9. ISO 50001 - Energy Management Systems
   20.10. Other (please specify)

21. As a customer; when your organization makes outsourcing decisions; have you considered the corporate social responsibility (CSR) capability of the outsourcing provider?

22. As a customer; does your organization evaluate the outsourcing provider's CSR capability as part of your formal outsourcing evaluation criteria?
23. As a customer; which of the following components would you include in an evaluation of a CSR profile for an outsourcing provider? (Check all that apply)
   23.1. Human rights (discrimination; vulnerable and minority groups; etc.)
   23.2. Labor practices (labor standards; health and safety; fair wage rates; etc.)
   23.3. Environmental issues (pollution; sustainable resource use; protection of natural environment; etc.)
   23.4. Fair operating practices (ethical conduct; anti-corruption; etc.)
   23.5. Consumer issues (consumer support; service; data protection and privacy; etc.)
   23.6. Community involvement (social investment; employment creation; education and culture; etc.)
   23.7. Other (please specify)
   23.8. Not applicable/none of the above

24. As a customer; do you give preference to outsourcing providers who have demonstrated CSR capability?

25. Do you expect that CSR considerations will become less important; stay the same; or become more important in future outsourcing contracts?

26. As a customer; do you ensure that your outsourcing provider(s) complies with social and environmental standards?

27. As a customer; how do you ensure compliance? (Check all that apply)
   27.1. Internal auditing conducted by your own staff
   27.2. Third-party audit by external service provider
   27.3. Auditing by multi-stakeholder initiative parties (such as NGO's)
   27.4. Other (please specify)
   27.5. Not applicable

28. As a customer; what measures are taken in the case of non-compliance with your standards? (Check all that apply)
   28.1. Terminate the business relationship
   28.2. Give deadlines for corrective actions
   28.3. Provide support and guidelines for corrective actions
   28.4. Terminate the business relationship if corrective action is not taken
   28.5. Not applicable
   28.6. Other (please specify)

29. As a customer; what percentage of your outsourcing providers are covered by these audits?

30. Do you publicly report on social and environmental compliance issues?

31. Do you publish your code of conduct?

32. Are you planning to increase any aspect of your company's CSR in the next 1-3 years?
   32.1. Increase audits of outsourcing provider(s)
   32.2. Conduct more outsourcing provider training on social and/or environmental standards
   32.3. Increase resources and/or personnel in the CSR area
   32.4. Reporting publicly on CSR activities
   32.5. Hire external expertise to advise CSR program
   32.6. Make CSR a board responsibility
   32.7. Other (please specify)

33. Do you think you need to do more on CSR than you are currently doing?

34. What areas do you think are the most important? (Check all that apply)
   34.1. Improving CSR within the company
   34.2. Improving social conditions at outsourcing provider(s)
Improving environmental conditions at outsourcing provider(s)
Improving communication of CSR activities to the public
Other (please specify)

What are the major reasons for not doing more on CSR? (Check all that apply)

Lack of budget
Lack of transparency at outsourcing provider(s)
Insufficient evidence that CSR is financially worthwhile
Competitors are not doing CSR
No pressure to do so
Not relevant to our business
Don’t understand the meaning of CSR
Not applicable
Other (please name)

What regions or places have you outsourced to or considered?

What were the primary drivers?

Main concerns (perceived or real) were/are:

Is it important to employ people from these places that otherwise wouldn't have opportunity for sustainable employment?

The social impact is how important relative to the business decision?

To what extent would you follow the IAOP guiding principles for socially responsible outsourcing?
Appendix B - Figures

Figure 1. Industry breakdown (IAOP, 2009-14)

Figure 2. Companies' annual revenue (IAOP, 2009-14)
Figure 3. Types of services that are commonly outsourced (IAOP, 2014)

Figure 4. Degree of concern over outsourcing risks, survey median (IAOP, 2009-14)
Figure 5. How many end-consumers are concerned about CSR? (IAOP, 2009-14)

Figure 6. How many end-consumers make purchasing decisions based on CSR? (IAOP, 2009-14)

Figure 7. Customers: How importantly do you rate CSR as a component of your business strategy? (IAOP, 2009-14)

Figure 8. Providers: How importantly do you rate CSR as a component of your business strategy? (IAOP, 2009-14)
Figure 9. Does your company have a written policy concerning CSR?

Figure 10. Do you have a CSR budget? If so, how much do you spend annually? (IAOP, 2014)

Figure 11. As a customer; when your organization makes outsourcing decisions; have you considered the corporate social responsibility (CSR) capability of the outsourcing provider? (IAOP, 2009-14)
Figure 12. As a customer, do you give preference to outsourcing providers who have demonstrated CSR capability? (IAOP, 2009-14)

Figure 13. Key factors in evaluating the CSR capabilities of an outsourcing provider, survey median (IAOP, 2009-14)

Figure 14. Breakdown of audit practices and type of audit (IAOP, 2014)
Figure 15. Do you expect that CSR considerations will become less important, stay the same, or become more important in future outsourcing contracts? (IAOP, 2009-14)

Figure 16. Ways companies plan to increase their CSR commitment (IAOP, 2014)

Figure 17. Key factors why companies do not do more on CSR initiatives (IAOP, 2014)