

Towards Understanding the Factors and Their Relative Effect on Privacy

Preserving Behavior of the Offshore Vendors' Workforce

Introduction

Offshoring has emerged as a viable strategic option for many Western firms in order to improve competitive advantage (Solli & Gottschalk, 2015). A study done by National Foreign Trade Council found that "goods, services, and content flowing through the Internet" accounts for 15 percent of U.S. GDP growth from 2007 to 2012. In addition, products and services that depend on cross-border data flows are expected to add an estimated \$1 trillion in value to the U.S. economy annually over the next ten years. However, there are several risks that are faced by companies looking to offshore (Murat, 2013). One of the most prominent risks of offshore outsourcing is that it often involves transferring various sensitive and propriety data overseas and authorizing service providers located in different countries to access and use that data (Bahl and Wali, 2014). There have been several allegations that employees based in foreign countries have stolen data that were outsourced to the service providers. Hence, how the offshore vendors' employees make their ethical judgment regarding issues such as Intellectual Property Right (IPR) and privacy preservation, and their consequent behaviors are very important factors in preserving the privacy of the offshored data. Even though preserving the privacy of data is a major challenge for the offshoring practice, in the extant literature, there is no empirical investigation of the factors that affect privacy preservation behavior of employees of offshore vendors. In order to address this gap in the literature, our research is guided by the following research question:

What are the factors that affect the privacy preserving behavior of the offshore vendors' employees towards client data?

In many of these outsourcing arrangements, the people involved in a single project are not only different in their geographical location but also in their standing on the different national culture dimensions. People from different national culture have different perception towards phenomenon like invasion of data privacy, IPR, and piracy. For example, Swinyard (1999) has pointed out that people from different cultures have very different view on the phenomenon like software piracy. The result of their study shows that there is a fascinating interaction between ethical transgression and consequence based on the cultural dimension. Hence, in our research we include a cultural dimension--power distance as a moderating variable to be studied.

We develop a research model through identification of the factors that affect the privacy preserving behaviors of the offshore vendors' employees. This study includes collecting information from offshore vendors' employees which is a major challenge for research such as ours. Hence, in this paper we develop two research designs so that based on the feasibility we can choose one (or both). Both of the research designs are positivist in nature. One of them is qualitative positivist case study, and the other one is survey based quantitative method. While we do not present any data examining the model in this paper, we believe our research lays the foundation for addressing an important gap in the offshoring literature.

Theoretical Development and Propositions

Offshoring refers to the situation in which a company transfers work that has been done in the home country to an organization in a foreign country (Ojha, 2014). In the extant literature, authors used different theoretical lenses to describe the offshoring phenomenon and different aspects of it. One of the theories that has been used most frequently is Institutional theory (Tate

et al., 2009). Institutional theory concerns the study of organizational isomorphism, i.e. the process by which certain processes or routines are adopted by all organizations and therefore gradually attain legitimacy in that field. Unlike decision-making models that focus mainly on economic motivations, institutional theory hypothesizes that organizations might adopt certain practices for legitimacy even in the absence of any economic benefit (DiMaggio and Powell 1983; Meyer and Rowan 1983). This premise is important for our study as it helps us to find out the factors outside the economic factors that influence the behavior of the offshore vendors and their employees. .

Code of Conduct Expected by the Client

In an outsourcing arrangement, regulatory controls such as legal documents, policies, formal systems, standards and procedures establish the relationship between the client and the vendor as well as specify boundaries (Das and Teng, 2001). One of the major steps that can affect the privacy preservation of the offshored data is the code of conduct for employees mentioned by the client through the contract. (Internet Business Law Service). For starters, the contracts with the vendors usually include requirements stating that the offshore vendors adhere to policies and standards for protecting data to which the outsourcing firm is itself subject. As suggested by the Internet Business Law services, the agreement should require the vendor to educate employees about the outsourcing company's data-protection and privacy policies, and require the vendor to have employees with access to sensitive data sign confidentiality agreements. Per Ferrell and Gresham (1981), rules and regulations is one of the major factors that affect ethical behavior of the employees. As code of conduct for employees mentioned by the client through the contract can essentially serve as guideline a vendor company's employees has to follow, we hypothesize:

H1: Code of conduct for employees mentioned by the client through the contract will positively affect the privacy preserving conduct of the offshore vendors' employees.

Code of Conduct in the Vendor Company

To justify the level of investment by both the vendor and the client in an offshoring arrangement, both parties will normally look towards a long term contract (Hoffman, 2006). As privacy preservation of the offshored data is a major concern for the client company, the vendor companies usually impose code of conduct on their employees to preserve the privacy of the client data. These code of conduct might include additional ones together with what is required by the client in the contract. As vendor companies are in control of the people handling the client data, in most cases they are the authority responsible for enforcing any sort of rules and regulations to preserve data privacy. Consequently, vendors' set code of conduct for the employees can positively affect the privacy preserving behavior of their employees and privacy preservation of the offshored data. Hence, we hypothesize:

H2: Code of conduct for data privacy set by a vendor organization for their employees will positively affect the privacy preserving conduct of the employees.

Code of Conduct set by the Professional Association

Often in an offshoring arrangement, vendor organization's country might not have a strong rule of law in place. When "strong" rule of law is not in place, it could be inferred that the existing institutions are not effective enough to implement and exercise laws like IPR effectively to ensure the protection of the foreign clients' data. Under the circumstances, professional associations often take a proactive role to protect clients' data and to place code of

conduct. For example, India's National Associations of Software and Service Companies (NASSCOM), one of the most recognized and prominent professional association in the information technology (IT) software and services industry in India, has put in place several measures to address data security concerns regarding service provider employees. Many of NASSCOM's initiatives and roles are linked to India's weak regulatory environment, and an effort to address the unwanted scenario. For example, The National Skill Registry launched by NASSCOM in January 2006 is a voluntary registry for call center employees, which allows employers to perform background checks on existing or prospective employees (Trombly and Yu, 2006).

In the absence of country level rule and regulations to protect clients' data, vendor employees' conduct can be highly influenced by the fact- whether it is formally forbidden by any higher authority, and that in turn will affect overall privacy of the clients' data. Kshetri (2008) suggested that in a developing country where rule of law is "weak" or "ignored with impunities" (Bratton, 2007), the professional associations can become more effective in shaping the members' behavior. The effectiveness and the "success" of India's National Associations of Software and Service Companies (NASSCOM) in preserving the privacy of the offshored data in India is example of such phenomenon.

Hence, we posit the following hypotheses

H3: Code of conduct for data privacy mentioned by the professional associations in the vendor country will positively affect the privacy preserving conduct of the offshore vendors' employees.

The Strength of Privacy Laws and IPR in the Vendor Country

IPR and privacy of Data are governed by its own distinct national law, which varies from one country to another. In many offshored countries legislative environment is weak and it difficult

to enforce privacy. Thus, many US and European companies are concerned about privacy preservation of the offshored data (Engardio et al., 2004). In outsourcing, U.S. privacy legislation is quite lenient relative to European Union regulations. U.S. privacy protections effectively end at the border, placing the obligation directly and solely on the shoulders of the U.S. client company if there is any privacy breach offshore. However, European consumers are afforded considerably greater protection by an EU law that permits personal data to be sent offshore only to countries whose privacy laws are perceived to provide equivalent privacy protection and that have been found to have strong enforcement capabilities. Essentially as perceived by the EU law, the Privacy protection law and IPR in the vendors' country can help the client organization to protect the privacy of the offshored data. Hence, we posit:

H4: The strength of IPR and privacy preservation law in the vendor country will positively affect the privacy preserving conduct of the offshore vendors' employees.

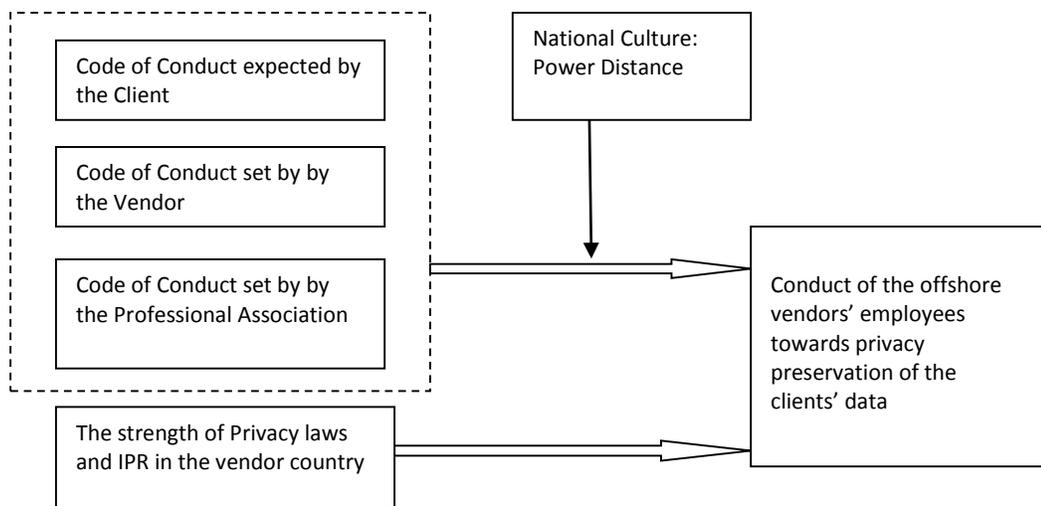


Figure: Research Model

National Culture and its moderating effects

Culture refers to the norms, values, and beliefs of a particular group or community in a particular area or geographic location, and shared by its members (Hofstede, 1980). This means that the beliefs, norms and value systems can influence the members of the community to behave and act in a particular way considered acceptable by the other members in the same group. While socio-cultural background presumably influences ethical perceptions, there is uncertainty concerning the actual strengths of the effect. One cultural dimension we are particularly interested in is power distance. Power distance is “*the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally.*” It essentially refers to what extent a society's level of inequality is endorsed by the followers as much as by the leaders. Power and inequality are very deep rooted facts of any society and in worldwide while all societies are unequal, some are more unequal than others.

Studies conducted by Zey-Ferrel et al (1979, 1982) suggest that in a country with small power distance, the workers look more to peers and informal codes for guidance on appropriate behavior. On the other hand, in a country with high power distance the workers are guided by the superiors and formal codes to make decide upon the appropriate behavior. Palvia et al (_) found that in a country of high power distance behavior control is one of the most suitable control strategies. In behavior control the controller influences the process, or the means to goal achievement, by explicitly stating specific rules and procedures, observing the controllee’s behaviors, and rewarding the controllee based on the extent to which they follow stated procedures. While it does not necessarily mean that the superiors and the formal codes do not affect a person’s moral behavior in low power distance country, in a high power distance country

superiors and formal codes simply more influential in terms of the way a worker does his/her judgment of ethical behavior. Vitell et al (1992) inferred that while formal codes will be the most effective source of ethical cues in a country of high power distance, in a country of low power distance fellow employees or other informal codes are the most effective source of ethical cues. But the pressures from professionals and networks are not formal and merely normative in nature (DiMaggio and Powell, 1983, 1991) and in many cases cannot be imposed. That is also true for the code of conduct set by a foreign client organization. The code of conduct suggested by the clients often get reflected in the code of conduct imposed by the vendors on their employees. However, in most cases clients are not in a position to directly impose any code of conduct on the vendors' employees. Therefore, the code of conduct suggested by the clients does not appear as formal ones for the employees working for an offshore vendor. Based on this we posit the following hypotheses

H5a: Code of conduct for employees mentioned by the client through the contract will have stronger positive effect on the privacy preserving conduct of the lower power distance country vendors' employees in comparison to the higher power distance country vendors' employees .

H5b: Code of conduct for data privacy set by a vendor organization for their employees will have stronger positive effect on the privacy preserving conduct of the lower power distance country vendors' employees in comparison to the higher power distance country vendors' employees .

H5c: Code of conduct for employees mentioned by the professional associations will have stronger positive effect on the privacy preserving conduct of the lower power distance country vendors' employees in comparison to the higher power distance country vendors' employees .

Recommended Research Approach and Methodology

In this stage of research, we propose and develop two research designs to test the hypotheses. This will allow us the flexibility to choose research method based on the feasibility.

Research Approach 1: Positivist Case study

Our adoption of positivism in case study is consistent with the views by scholars in the fields of organizational studies (Eisenhardt 1989; Lee 1991), and information systems (Sarker and Lee, 2002, 2003; Lee 1989; Orlikowski and Baroudi 1991) and follows the similar path.

“Hypothetico-deductive logic” is the central to the world of positivist research today (Lee 1999) which essentially is a synthesis of three traditions- Empiricist, Rationalist and Critical Rationalist (Sarker and Lee, 2002, 2003). There would be an empiricist influence in our positivist approach and that influence will be reflected in the rigorousness in our research process drawing mainly on Yin (1994). The rationalist and the critical rationalist traditions will be reflected in the use of pattern matching to deductively test falsifiable statements derived from the literature (Sarker and Lee, 2002, 2003).

Broadly, theoretically-grounded case studies are categorized as being positivist (Devers, 1999; Guba, 1985). Hypotheses will be tested by comparing their predictions with observed data. In order to test the hypotheses through deductive testing, as per suggestion by Lee (1989), we look for observations that confirm a prediction to establish the truth of a hypothesis as well as we involve looking for disconfirming evidence to falsify hypotheses. Falsified hypotheses are might need to be refined based on the reasons for falsification and subjected to further empirical testing (Shank, 2002).

As our research is positivist in nature, it is very important that we satisfy the four criteria of rigor in positivist study (Shanks, 2002). They are: *Construct validity, Internal validity, External validity, and reliability.*

Data Collection and Analysis Our case principal data collection method will be semi-structured interviews. We will interview offshore vendors' employees at different levels to understand their perception towards privacy preservation of client data. We will record all the interviews whenever possible and will transcribe all sessions before starting the data analysis. To enhance the validity of the answers, we will verify summaries of the major findings with the interviewee after the end of each interview session. Furthermore, to ensure consistency and reliability, we will use structured interview guides for all interviews. The interview guide will include several open format questions based on our research model which is based on existing literature. However, to allow the participants flexibility in their responses, we will use open ended questions.

A salient feature of our research will be frequent overlap of data analysis with data collection. We will accomplish this desired overlap through field notes. Field notes are an ongoing stream-of-consciousness commentary about what is happening in the research, involving both observation and analysis—preferably separated from one another (Van Maanen, 1988).

Research Approach 2: Survey Based Quantitative Analysis

In order to understand the privacy preserving behavior of the offshore vendor's employees we adopt the four stages model by Moores and Chang (2006). The four stages comprised of moral recognition, moral judgment, moral intent and moral behavior. Moral reasoning research

typically begins with an ethical scenario that is meant to “trigger” a person’s ethical decision-making process. Similarly, we begin by developing a set of four scenarios. In each scenario, we emphasize a particular factor we have identified in our research model. The underlying factor that explains the behavior differs in each scenario (Moore and Chang, 2006). In the survey we developed, we present each scenario along with recognition, judgment, intent and behavior questions.

We define each measure as reflective rather than formative, because respondents’ answers to each scenario are a function of their cognitive moral development. Therefore, pathways from each latent variable (recognition, judgment, intention) lead towards each manifest variable.

Usually multiple item instruments are desirable. However, Haines and Leonard (2007) suggested that in a questionnaire such as ours that includes multiple scenarios single item instruments are preferable to minimize questionnaire fatigue. Moreover, Haines and Leonard (2007) empirically proved in a study similar to ours that single items used by them can facilitate enough variability. Hence, we adopt their single item instrument to measure recognition, judgment, intent and behavior.” The items are shown in the following table.

Stage	Measure
Moral Recognition	<i>I would consider disclosing and/or sharing clients’ data as violation of ____</i>
Moral Judgment	<i>I would consider disclosing and/or sharing clients’ data as an unacceptable behavior</i>
Moral Intent	<i>I would consider disclosing and/or sharing clients’ data if opportunity arises</i>
Moral Behavior.	<i>I would disclose and/or share clients’ data if opportunity arises</i>

Table: Items to measure Moral recognition, judgment, intent and behavior

Together with this, we would also include items that would capture the nationality and/or national culture of the participants.

In order to conduct the survey we need to develop four different scenarios. In each scenario we emphasize one of the identified factors that will vendors' employees' behavior towards clients' data.

Conclusion and Future work

While offshore outsourcing certainly has its benefits, it comes with a risk of misuse of sensitive information. Although preserving the privacy of data is a major challenge for the offshoring practice, in the extant literature, there is very little empirical investigation of the factors that affect privacy preservation behavior of employees of offshore vendors. Our research is an attempt to address this gap in the literature. We propose a model identifying the factors that affect the privacy preserving conducts of the offshore vendors' employees. Another important aspect of our research is that we have taken into account national culture as moderating variable. This inclusion will allow us to understand the role of national culture in the privacy preserving behavior of the offshore vendors' employees. While at this point we do not present any data examining the model. However, we believe our research lays the foundation for addressing an important gap in the literature. In future, based on the feasibility we would like to conduct the studies to validate our proposed model.

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