Interface of international outsourcing and green marketing

Expose - Master thesis
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Kassl, Germany
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List of abbreviations

MNCs – Multinational Corporations
FDI – Foreign Direct Investment
BPO – Business Process Outsourcing
3PLs – Third Party Logistics
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1. Abstract

**Background:** Outsourcing activities is growing tremendously around the world and nowadays almost all the companies outsource some part of their production. The main motivations for multinational corporations (MNCs) to practice outsourcing are to improve productivity and reduce costs. However, this activity causes negative environmental impact, while the consumers all around the world becoming more conscious about the environmental issues. Therefore, it is beneficial for MNCs to think on how to reduce environmental impact of their outsourcing activity and integrate green marketing into their strategy.

**Purpose:** The purpose of the research is to analyze the interaction between international outsourcing and green marketing. Moreover, we will search for possible approach on minimizing environmental impact of outsourcing and integrating green marketing into the strategy of MNCs.

**Method:** The study will be based on the relevant literature and a quantitative research. For quantitative research an online questionnaire will be used. There will be one target group focusing on opinion leaders and consisting of 50 participants.
3. Introduction

3.1 Background

From the beginning of the revolution of industries, abundant number of multinational corporations (MNCs) and local companies improved their efficiency in gaining profitability through international outsourcing which was known as sub-contracting. During the last several decades, the definition of outsourcing remained confusing (Brown & Wilson, 2005). In the 80s, the meaning of outsourcing was the scenario when a company does not fully utilize in-house production, but purchases some parts of its manufacturing product from outside of its organization. For example, the companies producing cars may purchase some inputs like brake systems, seats, or tires from another local company which might have a long-term contract with car manufacturing companies. Presently, the meaning of outsourcing has broadened into the international trade in services, as the information about the goods and services is available worldwide and with a click of mouse can be accessed easily. Thus, international outsourcing can be defined as: "delegating the responsibility of a specific project or process to an outside third-party entity, a sub-contractor, a specialized firm, or an overseas production development unit, whether it is a product or service" (Sarkis, Bae, & Yoo, 2010, p. 329).

Today, closely all companies around the world outsource some section of their business. According to estimations of Chakrabarty, Ghandi, and Kaka (2006) the practices of outsourcing to offshore locations in the sector of information and technology (IT) showed US$ 178 billion market in 2005. Domberger, Jensen, & Stonecash (2002) estimated that practicing outsourcing effectively can result in reduction of production costs by 20 to 40 % per annum. These estimations can explain the strong motivations and increasing tendency of outsourcing practices by MNCs. Furthermore, the increasing tendency of contracting with manufacturing factories are located in Eastern Europe, Southern and Eastern Asia. It is contrary in places like the United States (US) and Western Europe (Brown & Wilson, 2005).

The Chairman of US White House Council of Economic Advisors, Gregory Mankiw stated: “outsourcing is a growing phenomenon, but it’s something that we should realize is probably a plus for the economy in the long run. It’s just a new way of doing
international trade” (Brown & Wilson, 2005, p. 1). However, this growing phenomenon has several disadvantages. For instance, by sub-contracting with distance companies, MNCs are not fully aware about the practices of manufacturing and environmental footprint. Moreover, MNCs are unable to entirely monitor these processes and environmental impacts due to language problems, locations and other reasons. In fact, these issues show the complex interface between international outsourcing and the environment. Considering the environmental aspect is crucial for MNCs, because demographics, environmental degradation and information blast are causing public pressures and providing opportunities in the market for eco-friendly products and services. Government regulations and social activism are forcing MNCs to acknowledge and consider the environmental impacts in their activities (Emmett & Sood, 2010).

Wasik (1996) stated that MNCs have significant impacts on the economies of developing countries, especially with the transfer of technology and practices of employment. However, MNCs are disposing significant resources and in this way causing global impact, therefore global responsibility must be recognized by multinationals. Regarding the performance, practices of outsourcing, producing products or services and international operations, MNCs in the industrialized world are obliged to perform environmental responsibility.

As awareness of the consumers about environmental issues is growing globally, they have begun inquiring about the products. For example, consumers are questioning about how eco-friendly the supply chain and processes of manufacturing are. Moreover, MNCs are facing consumers' questions like how wasteful the product packaging is, how high the amount of carbon dioxide emission is and how do they plan to recycle. Therefore, it is important for MNCs to consider integration of their outsourcing practices into the eco-friendly outsourcing and communication of accurate and honest ‘green’ message to customers. (Emmett & Sood, 2010).

3.2 Research gap

Abundant numbers of researches have been conducted with a significant attention to international outsourcing. As for instance studies of Grossman and Helpman (2005),
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Feenstra and Hanson (1999), Feenstra and Hanson (2006), Grossman and Hart (1986), Tomiura (2007) and Hsieh and Woo (2005) basically concentrating on outsourcing and its positive impact on the company's productivity. However, none of these researches focused on the non-environmental parts of the product or service that companies may outsource. In addition, very few articles are dedicated on the negative impact of this activity to the environment.

Leahy and Montagna (2009) claimed that MNCs in the process of considering the strategy make choices from various internationalization approaches towards foreign direct investment (FDI) or international outsourcing. There is uncertainty to argue different assertions on how MNCs make choices between the two avenues (i.e. international outsourcing or FDI). Considering this uncertainty, Cole, Elliott, & Okubo, (2012) assume that MNCs’ costs on environmental regulations will not necessarily influence the decisions on whether to make FDI or not, and the same way as the decision to implement international outsourcing. There are many studies that were conducted on the influence of MNCs’ environmental pro-activism on FDI flows, but very few on international outsourcing. In addition, there are very few researches that examined the cost of implementing green supply chain.

3.3 Purpose of the research

The purpose of the study is to analyze the interaction of international outsourcing with green marketing. Considering the research gap, we will investigate the pollution intensive parts of the product or service that MNCs may outsource. Furthermore, I will try to give answers to the following questions: How to minimize environmental impact of international outsourcing? Is environmental pro-activism worth for MNCs? How to adopt green supply chain and integrate green marketing into the strategy of MNCs?

4. Theories and hypothesis

4.1 Theoretical foundation

Due to the fact that we have several research questions, there are two theories applied. The theories are the dynamic capabilities and planned behaviour. The first theory is used
to understand the firms’ decision on outsourcing practices. The other theory is used to examine the benefits of green marketing for MNCs.

There are many different theories that are used to study outsourcing phenomenon. There are many MNCs that attempt to gain competitive advantage through different approaches. According to Wang & Ahmed (2007) the dynamic capabilities is the new approach to achieve competitive advantage and it supplements the premise of the resource based view. This approach is defined as the “firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments” (Teece, Pisano, & Shuen, 1997, p. 516). Therefore this approach reflects the MNCs’ ability to gain innovative modes of competitive advantage. Utilizing this theory will help to understand the preparation stage of the outsourcing practice and decision criteria for choosing a supplier. However, neither this theory nor other theories such as transaction cost economics, resource based view and relational view do not help to research the environmental impact of outsourcing.

It is important to consider the environmental impact of outsourcing, as the consumers are becoming more concerned about environmental issues, and it is important for MNCs to think about green marketing in order to attract these consumers. To examine the worthiness of green marketing, the theory of planned behaviour is utilized. According to Rettie, Burchell and Riley this theory defines “behaviour in terms of complex relationships between knowledge, attitudes, perceptions of norms, intention, and behavior” (2012, p. 424). According to Kalafatis, Pollard, East, & Tsogas (1999), the theory of planned behavior is one of the most used theories that was utilized for various studies such as donations, use of internet, conquest of smoking habit and others. This theory is considered to be beneficial, as it has provided robust assessment.

4.2 Literature review

As this project will mainly be based on the secondary research and partly on primary research, it is necessary review the literature for two subjects that are international outsourcing and green marketing. Table 1 provides an overview about the relevant literature on international outsourcing:
<table>
<thead>
<tr>
<th>Title</th>
<th>Author(s) and year of publication</th>
<th>Source</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Black Book of Outsourcing: How to Manage the Changes, Challenges, and Opportunities</td>
<td>Brown and Wilson (2005)</td>
<td>Book</td>
<td>The authors provide an extensive guide with expert advice on the implementation of outsourcing.</td>
</tr>
<tr>
<td>Global services Outsourcing</td>
<td>McIvor (2010)</td>
<td>Book</td>
<td>This book deals with wide range of business services. Furthermore, it provides detailed explanation on the entire aspects of practicing services outsourcing.</td>
</tr>
<tr>
<td>International environmental outsourcing</td>
<td>Cole et al., (2012)</td>
<td>10th Annual Conference of the Euro-Latin Study Network on Integration and Trade</td>
<td>The conference paper is about whether firms outsource pollution intensive parts of their production as a means to escape environmental regulation costs. Moreover, it provides a theoretical model of environmental outsourcing that concentrates on environmental regulations, transport costs and efficiency of the firms.</td>
</tr>
<tr>
<td>Outsourcing innovation</td>
<td>Gobble (2013)</td>
<td>Research Technology Management, 56(4), 64-66</td>
<td>The author discusses about the tendency of MNCs in USA who outsource new product development and innovations. Furthermore, the author deals with technological innovations impact on strategy of MNCs. In addition, the researcher points on MNCs’ motivations on outsourcing as the attempt on research and development (R&amp;D) costs reduction.</td>
</tr>
<tr>
<td>The Market Valuation of Outsourcing New Product Development</td>
<td>Raassens, Wuyts, &amp; Geyskens (2012)</td>
<td>Journal of Research Marketing, 49, 682-695</td>
<td>This article is about financial performance implications of MNCs who outsource new product development. The article suggests two...</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Study Title</th>
<th>Authors/Ref.</th>
<th>Journal/Publication</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hybrid Relational-Contractual Governance for Business Process Outsourcing</td>
<td>Rai, Keil, Hornyak, &amp; Wullenweber (2012)</td>
<td>Journal of Management Information Systems, 29(2), 213-256</td>
<td>This article analyzes 355 MNCs that practiced business process outsourcing (BPO) and explains the influence of relational and contractual factors on how satisfied the clients are.</td>
</tr>
<tr>
<td>Outsourcing with quality competition: Insights from a three-stage game-theoretic model</td>
<td>Sarkis et al. (2010)</td>
<td>International Journal of Production Research, 48(2), 327-342</td>
<td>This research article suggests that different solutions on outsourcing based on the strategic features of competitor quality. This article initiates a three-stage game model that solves the balance points on outsourcing, investment and price in quality.</td>
</tr>
<tr>
<td>Environmental Assessment of Logistics Outsourcing</td>
<td>Facanha and Horvath (2005)</td>
<td>Journal of Management in Engineering, 21(1), 27-37</td>
<td>This article discusses the awareness of environmental issues in the society, companies and government. Furthermore, it concentrates on third-party logistics (3PLs), its attitudes towards environment and its impacts on global warming. In addition, the authors compare logistics operations that are implemented in-house with logistics operations that are outsourced to 3PLs.</td>
</tr>
<tr>
<td>Perceived Environmental Dynamism and Managerial Risk Aversion as Antecedents of Manufacturing Outsourcing: The Moderating Effects of Firm Maturity</td>
<td>Gilley, McGee, &amp; Rasheed (2004)</td>
<td>Journal of Small Business Management, 42(2), 117-133</td>
<td>This research article is about management risk aversion and environmental activism of the firms that outsource manufacturing products. The authors made a survey of 86 firms and provided the results and discussions in this article.</td>
</tr>
<tr>
<td>Outsourcing</td>
<td>Perunovic &amp;</td>
<td>POMS 18th</td>
<td>This conference paper is</td>
</tr>
</tbody>
</table>
Table 1. International outsourcing

| Process and Theories | Pedersen, (2007) | Annual Conference | about outsourcing and the theories that are applied to understand outsourcing process. This paper provides guide of the outsourcing stages with the relevant theories. |

The following Table 2 identifies the relevant literature on the topic of green marketing:

<table>
<thead>
<tr>
<th>Title</th>
<th>Author(s) and year of publication</th>
<th>Source</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green marketing and management: A global perspective</td>
<td>Wasik (1996)</td>
<td>Book</td>
<td>In this book the author provides a map which shows the ways of dealing with production and sales in an eco-friendly approach. The author shares his beliefs that by committing to environmental dynamism firms can improve efficiency, reduce production costs and increase profitability.</td>
</tr>
<tr>
<td>Green marketing: Challenges and opportunities for business</td>
<td>Mishra and Sharma (2012)</td>
<td>Journal of Marketing and Communication, 8(1), 35-41</td>
<td>This article is about MNCs that are trying to integrate green marketing in order to attract green consumers. The authors analyze and provide detailed report about the trend of green marketing in India.</td>
</tr>
<tr>
<td>Green Marketing Initiatives by Corporate World: A study</td>
<td>Omkareshwar (2013)</td>
<td>Advances in Management, 6(3), 20-26</td>
<td>This article gives definition and concept of green marketing. Furthermore, it explains the benefits of green marketing and it provides examples of companies that apply green marketing</td>
</tr>
<tr>
<td>Green: The New Colour of Marketing in India</td>
<td>Singh (2013)</td>
<td>ASCI Journal of Management, 42(2), 52-72</td>
<td>The article provides definition of green marketing, reasons of firms going green and explanations of green marketing mix. Furthermore, it discusses the green marketing practices in India.</td>
</tr>
<tr>
<td>Green marketing: Impact of green advertising on consumer purchase intention</td>
<td>Ankit and Mayur (2013)</td>
<td>Advances in Management, 6(9), 14-17</td>
<td>The research article studies green marketing and advertising the green products influence the buying intention of consumers.</td>
</tr>
<tr>
<td>Communicating green marketing appeals effectively: The role of consumers' motivational orientation to promotion versus prevention</td>
<td>Ku, Kuo, Wu, &amp; Wu (2012)</td>
<td>Journal of Advertising, 41(4), 41-50</td>
<td>This article provides a result of survey where the authors examined the attractiveness of green versus non-green advertising to consumers.</td>
</tr>
<tr>
<td>Factors affecting skepticism toward green advertising</td>
<td>Finisterra do Paco, Maria and Reis (2012)</td>
<td>Journal of Advertising, 41(4), 147-155</td>
<td>This article examines whether consumers who care about environment buy green products or they are sceptical to the green advertisings of the companies.</td>
</tr>
<tr>
<td>Green marketing strategy and the firm’s performance: the moderating role of environmental culture</td>
<td>Fraj, Martinez, &amp; Matute (2011)</td>
<td>Journal of Strategic Marketing, 19(4), 339-355</td>
<td>The journal article analyzes the impact of green marketing strategy on performance of the organization. Moreover, it discusses the performance effects when integrating green values into the firms’ culture.</td>
</tr>
</tbody>
</table>

Table 2. Green marketing

### 4.3 Hypotheses

Based on the articles and books that were studied and reviewed, I made the following assumptions:
H1. Companies can easily become carbon neutral by outsourcing pollution intensive parts of its production.

This hypothesis (H1), is based according to the theoretical model of Cole, Elliott, & Okubo (2012) which is known as environmental outsourcing. This hypotheses will try to measure the motives of MNCs in practicing outsourcing and the roles of environmental regulations, efficiency and transport costs in decision criteria for outsourcing practice.

H2. It is widely thought by MNCs that going Green is costly.

The H2 is based on the book of Emmett and Sood (2010). The authors claimed that there are many MNCs which are not aware about the benefits of going green. This hypotheses will attempt to identify the MNCs’ awareness on the benefits of going green.

H3. Adopting green supply chain and integrating green marketing strategy will result in minimization of negative environmental impact, reduction of production cost and gaining competitive advantage.

The last hypothesis (H2) is done according to the book of Emmett and Sood (2010) as well. It will evaluate the benefits of green supply chains and green marketing for MNCs, environment and society.

5. Methodology

My study will be based mainly on secondary (desk) research and partially on the survey. In order to understand the processes and environmental impacts of outsourcing, identify possible approach to minimize environmental impacts and analyze the benefits of green marketing the relevant literature such as books, research articles, conference papers, magazines, press releases and interviews will be used.

To test the mentioned hypotheses, a quantitative research will be applied. To be more specific, an online questionnaire will be conducted. Participants of this survey will be based from one target group: people who have experiences in dealing with outsourcing and environmental issues. This target group is usually opinion leaders and professionals,
thus it will be difficult to reach them. Due to this reason, the number of participants will be 50.
6. Overview of chapters

1. Introduction
   1.1 Background
   1.2 Research gap
   1.3 Purpose of the research
2. Theories and hypotheses
   2.1 Theoretical foundation
   2.2 Literature review
   2.3 Hypotheses
3. Methodology
4. Related Literature
   2.1 International outsourcing and its environmental impact
   2.2 Green supply chains
   2.3 Green marketing
   2.4 Interaction of international outsourcing and green marketing
3. Primary data
   3.1 Findings and analysis
   3.2 Summary of the results
4. Conclusions, suggestions and limitations
5. Bibliography
8. Plan of work

<table>
<thead>
<tr>
<th>Weeks</th>
<th>Tasks</th>
</tr>
</thead>
<tbody>
<tr>
<td>20.09.2013 – 21.10.2013</td>
<td>Writing expose</td>
</tr>
<tr>
<td>29.11.2013 – 05.12.13</td>
<td>Creating a questionnaire and searching for participants</td>
</tr>
<tr>
<td>06.12.2013 – 01.01.2014</td>
<td>Distribution of a questionnaire and data collection</td>
</tr>
<tr>
<td>19.12.2013</td>
<td>Handing in presentation</td>
</tr>
<tr>
<td>22.01.2014 – 23.01.2014</td>
<td>Handing in the intermediate report</td>
</tr>
<tr>
<td>05.02.2014 – 20.03.2014</td>
<td>Analysing the primary data</td>
</tr>
<tr>
<td>21.03.2014 – 10.04.2014</td>
<td>Buffer</td>
</tr>
<tr>
<td>15.04.2014 – 15.05.2014</td>
<td>Finalising report</td>
</tr>
</tbody>
</table>

Table 3. Work plan
9. Bibliography


