Offshoring in the Age of AI: A Theoretical Investigation

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Organizations operating in the AI space present themselves as key drivers of innovation, transforming industries such as healthcare, finance, and transportation. However, a significant and often underappreciated factor behind their rapid growth is the strategic use of offshored labor. This practice allows companies to access cost-effective talent pools, increase efficiency, and scale operations. As organizations continue to "offshore" many of their operations across national boundaries, they also reconfigure their relationship with their workforce. In this paper, we examine the impact of offshoring on the employer-employee contract, primarily through the lens of the exit-voice argument proposed by the economist Alfred Hirschman in 1970. Our contention is that offshoring reconfigures the employer-employee relationship, replacing earlier psychological contracts with an increasingly transactional character. We also present a framework of new HR imperatives that confront organizations and employees in the post-offshoring age, and discuss the ethical challenges facing organizational theorists, who must represent this tricky debate fairly in their research and the classroom without taking recourse to ideological formulations which conflate corporate welfare and social welfare.

Keywords: offshoring, Artificial Intelligence (AI), employer–employee relationship, psychological contract, Human Resource Management (HRM), workforce globalization, Exit–Voice Theory, organizational ethics

INTRODUCTION

The issue of offshored jobs played a prominent part in the recent presidential election in the United States. While Donald Trump played a nativist card against offshoring, critics were quick to point out that Trump himself had been a large scale deployer of offshoring as a strategy while he was a businessman, and that offshoring is now a fait accompli in the globalized marketplace. Indeed, the case appears to be true; large corporations continue to "offshore" jobs from well-paying Western locations to the Global South, primarily for the purpose of achieving labor economies and savings associated with vertical disintegration. The debate on the broader consequences of such offshoring continues in the business press (Thornhill, 2024), consultant publications (Farrell, 2024), and increasingly, in journals devoted to managerial practice as well as organizational theory (Glennon, 2024). At the heart of this debate lies unease about the transforming relationship between employees and organizations, a topic that has been extensively researched in the organizational literature (Rode, Huang, & Flynn, 2016). As organizations continue to

socialize their employees into subjecthood (Louis, 1990), issues of employee-organization relations become increasingly salient. While research has indicated that employees experience both economic and social pulls toward their organizations (Arthur, 1992), theorists have often wondered which of these pulls is more compelling in the current organizational scenario. On the one hand, the employee-organization relationship can be highly economic in nature, resembling a market transaction (Williamson, 1985). On the other hand, a psychological contract exists between employees and organizations, one that extends far beyond market transactions (Rousseau, 1995). The framework of social exchange theory (Blau, 1964) has been used to provide a theoretical basis for this relationship, and empirical examinations of this issue have concluded that the *mutuality of investment* in this relationship is the greatest determinant of the strength and success of the employee-organization relationship (Moss, Sanchez & Heisler, 2004; Tsui et. al., 1997).

Offshoring AI

AI companies use offshored labor across the entire lifecycle of AI development, from data preparation to model deployment (Lin & Ho, 2024). Some of these include:

- *Data Annotation and Preparation*: AI models rely on large, high-quality datasets for training. One of the most labor-intensive stages of AI development is data annotation, where raw data is labeled to make it usable for machine learning algorithms. Offshoring this task to regions with lower labor costs has become standard practice. Here, workers in countries such as India, the Philippines, and Kenya are employed by data annotation firms or directly by AI companies. They label images, transcribe audio, tag video frames, and classify text data. Labor in these regions is significantly less expensive than in Western countries, enabling companies to process vast datasets without prohibitive costs. Offshored labor provides scalability. Companies can quickly ramp up or scale down operations depending on project demands.

- *Software Development and Engineering Support:* Beyond data annotation, AI companies rely on offshore teams for software development, infrastructure management, and engineering support. Offshore software engineers, particularly in countries like India, Ukraine, and Eastern Europe, develop AI frameworks, create APIs, and test software for quality assurance. Offshore teams manage cloud infrastructure and maintain systems critical for running AI models, such as data pipelines and storage solutions. As in other industries, offshore development teams enable around-the-clock operations, ensuring continuous progress on projects by leveraging global time zones.

- *Customer Support and Implementation Services:* Many AI companies provide software-as-a-service (SaaS) solutions that require ongoing customer support and implementation services. Offshore teams handle customer queries, troubleshoot issues, and provide technical assistance, often using scripted workflows or AI-assisted tools. Offshore labor is also involved in customizing AI solutions for specific clients, integrating them with existing systems, and training client employees on how to use these tools. By offshoring these functions, AI companies reduce overhead costs while ensuring high-quality support for global customers.

- *AI Research Assistance:* While high-level AI research often remains the domain of advanced research teams in Silicon Valley or other tech hubs, offshore labor plays a supporting role. Offshore researchers assist in conducting literature reviews, summarizing research papers, and performing initial algorithm testing.

- *Data Gathering*: Offshore teams gather domain-specific data, such as extracting public information from websites or digitizing archives, to support research initiatives. Some AI companies have established research centers in countries like Canada, China, and Israel, where they access top-tier talent at a fraction of the cost of Silicon Valley salaries.

- *Translation and Localization:* AI applications often need to cater to global markets, requiring models trained in multiple languages and optimized for cultural nuances. Offshore teams provide linguistic expertise for translating and localizing AI models and interfaces, ensuring they function effectively in diverse languages and cultural contexts. For Natural Language

Processing (NLP) tasks, companies may hire language experts in specific countries to create datasets and test AI models for accuracy in regional dialects and contexts.

In this paper, we argue that the employee-organization relationship in the current corporate landscape is undergoing further shifts due to the changing profile of the workforce. This is especially evident in the world of offshored AI but presents as a generic issue. Due to offshoring and corporate downsizing, today's employees often operate in an environment where their work group comprises a mix of traditional workers employed directly by the organization and contracted workers from various organizations, assembled to work on a specific project. The former provides stability and organization-specific expertise, while the latter provides both functional and numerical flexibility to the organization. Often, the group starts working on projects as soon as it is formed. Additionally, the nature and size of the group tend to be dynamic, with post-offshoring employees being added and removed as needed. As a result, the "post-offshoring worker," including the worker who is attempting to enter the workforce in the next few years, encounters an atmosphere characterized by a paradoxical combination of high hopes and declining trust. In the wake of waves of corporate downsizing (Beam, 1997), most of which have been triggered not by falling productivity but more by the exigencies of the stock market (Lowe, 1998), workers are justifiably wary of their expectations from their employers. To that extent, we may hypothesize that their relationship with their employers is moving from a psychological contract model to an economic exchange model.

How do we reconcile the ambivalence of the post-offshoring workers toward their employers with their intense need to monitor their own progress? Does this attitude on the part of the post-offshoring workers constitute a fundamental shift? How can such a challenge be met by practicing managers? How can organizational theorists assist them in developing this understanding? In the rest of this paper, we address these issues in three ways. First, we draw on insights from Albert Hirschman's theories of exit and voice to evaluate the choices made by organizations and workers, and map out some of the ways in which organizational actions can be understood within the framework of economic/organizational theory. Second, we develop and critique a framework of newer techniques being deployed by organizations to manage the post-offshoring employee. Finally, we invoke a class analytic perspective on offshoring, and end with a discussion on the role of academic ethics in the unpacking of the discourse of offshoring.

Exit, Voice and Offshoring: A Crisis in the Making?

Attitudes toward corporate offshoring are often intensely polemical and fluctuate wildly depending upon the source of one's information. On one hand, organizations like the Center for American Progress make a passionate case that offshoring is the defining political crisis of our time, costing US workers around half a million jobs in the professional services and information sector (Hersh & Gurwitz, 2014). The AFL-CIO disputes a variety of "corporate myths" that suggest, among other things, that the jobs being outsourced are low-end jobs or that offshoring is indirectly beneficial to the US economy. On the other hand, pro-corporate research by organizations such as McKinsey suggests that offshoring is a boon to US businesses, and that it is an important source of "value creation" for the US economy (Farrell & Agrawal, 2003).

A comprehensive transnational discussion on the macroeconomic impact of offshoring, both in the manufacturing and white-collar sectors, is long overdue. However, our aims in this paper are more circumscribed. In this paper, we limit our analysis to the study of the impact of offshoring on the organizational commitment of employees in industrialized nations worldwide, and the ethical challenges posed by such phenomena for academics teaching in business schools.

A Framework for Managing the Post-Offshoring Employee

Theorists studying the workforce in the new economy have outlined a paradox: post-offshoring employees demonstrate a higher commitment to their work but a lower commitment to their organization than traditional workers (Mir, Mir, & Mosca, 2002). This observation is consistent with the theoretical assumption that expectations of organizational loyalty are positively linked to the affective commitment of workers, and that work commitment is more linked to perceptions of environmental volatility.

Clearly therefore, the challenge posed by such a scenario for the organization (and by extension, the human resource manager managing in the AI space) is to maintain the high level of work commitment

demonstrated by the post-offshoring employees while simultaneously raising their affective commitment. In order to achieve this task, certain radical transformations have been undertaken by human resource managers. Not only does this involve the deployment of newer techniques, but it has also entailed the abandonment of several traditional practices in response to changing employee expectations. Some of the changes made in the human resource arena have been schematically represented in Figure 1. In this paper, we have chosen to focus on three key human resource activities: recruitment, training, and employee retention. We also outline some of the factors that post-offshoring employees perceive as being of increased importance to them in their new jobs, along with those factors they consider of lesser importance, and those factors that are as important to them as they were to traditional workers.

Recruitment

In the past, recruiters were known to use mass mailings, employment agencies, and other broad-based sources to hire candidates. However, with a sharpening of employee requirements and an increased emphasis on person-organization fit, recruiting tools have become more sophisticated (Cook 1997). These tools include a greater reliance on initial screening through internet-based interfaces (Slick, 1997) as well as a greater focus on employee referral. Recruitment has also been decentralized to the departmental level, with HR only playing a supportive role in most cases, unless the recruitment involves a function-spanning executive. In a related change, compensation packages for new employees are increasingly being customized rather than remaining within bureaucratic confines.

Training

To cater to the demands and needs of post-offshoring employees, the paradigm of centralized training programs, typically occurring at the time of entry into the organization, has given way to a more flexible, on-the-job, and customized training schedule (Marcum, 1999). Moreover, training schedules now extend beyond a focus on job function, concentrating equally on developing employee flexibility and currency with respect to future roles. Finally, many new organizations have benefited greatly from providing on-line training materials. These materials, typically available from firewall-protected intranet sites, offer a range of asynchronous training options for self-motivated post-offshoring employees.

Retention

Retention of employees, especially sophisticated knowledge workers has always been a priority issue for organizations. However, in the post-offshoring era, we find that the greatest inducements for employees to stay are a promise that the organization will be able to maintain employee currency, teach them new skills, offer job rotation, and provide more experiential training (Garger, 1999). At the same time, employers are becoming increasingly philosophical about the issue of turnover, and in most cases, budgeting for it by attempting to formalize and routinize work processes so that they can be easily transmitted to new employees.

Overall, in the new corporate landscape, we find that employees continue to explore avenues where they may actualize their work commitment. To that end, new workers favor opportunities to enhance their skills, a flexible work environment, access to newer hardware and software, and the chances of job rotation and horizontal mobility. Their diminished affective commitment finds expression in a diminished emphasis on job continuity and organizational culture. They are also less likely to be geographically rooted, and are more easily persuaded to move, even to foreign locations. Ultimately, the picture of the post-offshoring employee is that of a driven and innovative worker, but one who is far less loyal to any organizational setting. Perhaps this is a mirror image of how organizations have defined their own prerogatives in the recent past. It is, however, important to note that much of what has been presented here as analysis actually draws from experiences with relatively qualified labor. The position of unskilled labor in the post-offshoring economy has become very precarious, and perhaps can only be remedied by concerted collective action to safeguard the employment benefits that were hitherto considered a matter of guarantee. This, then, becomes the ultimate paradox of the post-offshoring era, where the skilled worker becomes more mobile

and difficult to retain, while the unskilled worker suffers from increasing vulnerability to exploitation and must necessarily resort to collective action.

A Worker-Centric Approach

Two key observations need to be made about the phenomenon of offshoring. First, while offshoring has a less-than-overwhelming impact on domestic labor markets in the US and Europe, it has functioned as a powerful signifier to reduce the bargaining power of the workforce. For instance, studies from the early 21st century have shown that 29% of all offshored jobs in the US have been from unionized facilities, despite only 8% of the private workforce in the US being unionized (Bronfenbrenner & Luce, 2004: 29). Second, it must be conceded that the terms of the discussions on the impact of offshoring have taken on a troublingly ideological character, equating the welfare of corporate actors with that of society at large. As Levy (2005: 689) suggested, in this ideological representation, "wealth transfer is equated with wealth creation, corporate interests are conflated with those of society as a whole, and the process is portrayed as natural and inevitable, leading to prosperity for industrialized and developing countries alike." If we, as organizational theorists, are to do better than merely reproduce these ideological positions as benign, we will need to work on the assumptions that undergird our arguments. Our contention is that the inability of academics at large to present the ethical dimensions of offshoring to their students represents a significant gap in the field, which has become even more pronounced in the wake of disastrous crises of management behavior and corporate governance worldwide.

Around two decades ago, theorists began to focus on the role of business education as an implicit accomplice of ethically bankrupt economic systems (Chikudate, 2002). The perception that the curriculum in business schools was inadequate to address these challenges (Baetz & Sharp, 2004) was linked to its inability to draw a distinct but definable line between the economic imperatives of profit generation and the fiduciary imperatives of ethically anchored and socially responsible behavior. The late Sumantra Ghoshal (2005), in a scathing, posthumously published analysis of business curricula contended that some of the "worst excesses of recent management practices have their roots in a set of ideas that have emerged from business-school academics over the last 30 years." Jeffrey Pfeffer (2005) supported Ghoshal's view, and referred to a 2000 study that found the percentage of MBAs in a firm's upper echelons to be a significant mediating variable in the link between firm size and malfeasance citations. From business theorists like Henry Mintzberg (2004) and Ian Mitroff (2004) to popular publications like *The Economist* (2005), the critique of business schools has been linked to their inability to advocate for social responsibility and to ensure that corporations fulfill their putative role as servants of society and allocators of social products. Similar critiques began to be applied to labor in the world of AI as well (De Stefanot, 2019).

This phenomenon is all too observable in the analyses of offshoring that populate much of organizational research. A survey of the literature on offshoring in the organizational field is replete with "how to" advice on what can and should be outsourced. Lesser attention is paid on issues of inequality in exchange, of the role of offshoring in the perpetration of unfair labor practices in the West as well as the Third World, and the "everyday routines of worker resistance" (Mir & Mir, 2002) that occur on a routine basis in the post-offshoring employment landscape, routines that we as organizational theorists have been trained to dismiss as "resistance to change" and "irrational" acts. Worker responses to some of the oppressive dimensions of the offshoring regimes, both in the West and in the Third World, often take subtle and irrational forms. Resistance to work practices often takes on a more passive, "routine" dimension (Scott, 1985). Open confrontations are reduced, and replaced by "subtle subversions," by acts of "disengagement," and "ambiguous accommodations" (Prasad & Prasad, 1998). For instance, instead of more confrontational practices such as work-to-rule, workers who fear that that jobs may be offshored may paradoxically feign incompetence in carefully chosen arenas, thereby subverting organizational plans for a flexible workforce (Gottfried, 1994). This response aligns with prior research observations on worker responses to large-scale organizational changes, such as computerization (Prasad, 1993) or re-engineering (Diplock, 1997). Workers periodically alter their level of enthusiasm for the process as a means of communicating their fears and expectations. There are also different ways in which resistance to offshoring is expressed in the recipient nations. Contrary to the dominant discourse that third-world recipients of jobs from global corporations

view this as manna from heaven, the workplace in the periphery is also a contested terrain. Sometimes, rural workers in modern organizational settings may express their resistance through the invocation of ghosts, spirits, legends, and religious deities (Ong, 1987). They may choose to accentuate their separateness from the managerial class by refusing to accept organizational gifts, thereby ceremonially disputing the managerial posturing that there is more to the manager-worker relationship than a pact between wage and labor (Kondo, 1990). The everyday relations at the workplace on both sides of the offshoring divide are sites of class struggle, alienation, the constitution of worker subjectivity, the gendering of work and its subversion, intra-organizational bargaining, and sometimes, relations of imperialism and cultural dislocation. Representing this becomes an ethical responsibility for organizational researchers who wish to demonstrate a genuine commitment to their craft.

Offshoring AI: Ethical Dilemmas

The relationship between offshored workers in the AI space and their employers plays a pivotal role in shaping the efficiency, ethics, and sustainability of the AI industry. On the one hand, this relationship enables companies to access cost-effective talent pools, ensuring the scalability of labor-intensive tasks such as data annotation, software development, and customer support. Workers in regions such as India, Kenya, and the Philippines make significant contributions to AI development by handling complex and repetitive tasks that are foundational to machine learning systems. However, the power dynamics of this relationship often place workers at a disadvantage, with low wages, lack of benefits, and limited job security frequently reported. Employers face increasing scrutiny to provide fair compensation, better working conditions, and opportunities for skill development. On the other hand, some companies invest in their offshore workforce by offering training programs, fostering long-term partnerships, and improving job prospects. This mutually beneficial approach not only enhances worker morale and productivity but also strengthens the company's reputation in a competitive market. Furthermore, collaboration between offshored workers and employers can bridge cultural and technological gaps, promoting global inclusivity in AI innovation. Ultimately, the quality of this relationship determines the ethical and operational success of AI companies and their impact on global economies.

CONCLUSION

In this paper, we have provided a theoretical framework for the commitment profile of post-offshoring workers, contending that their attitudes toward the changing corporate workplace are characterized by a diminishing affective commitment to the organization, coupled with a paradoxically increased work commitment. Based on this contention, we have designed a model that enables HR managers to raise the affective commitment of these workers without compromising their work commitment. The model also suggests the factors that post-offshoring workers tend to emphasize more in their new work roles. Paying more attention to these factors, we suggest, may lead to HR gains with respect to recruitment and retention.

Of course, this analysis does not address the broader issue of the social impact of offshoring. As we suggest in the paper, such an analysis should use economic class rather than national boundaries as the frame of reference. Often, the popular debates on offshoring gets mired in a nationalist dilemma (in particular, the popular press in the United States resorts to China-bashing as a means of presenting a critique of offshoring and its deleterious effects). The reality is that offshoring benefits corporations and elites in both the source and destination countries, while creating an underclass in both the first and third worlds.

In light of these issues, it may be pertinent to revisit some of our initial concerns regarding the employee-organization relationship. We had wondered whether the dominant paradigm of the employee-organization relationship had begun to shift from a psychological contract (Rousseau, 1995) to a model of economic exchange (Williamson, 1985). Unfortunately, our theoretical understanding, survey of existing empirical research, and our own empirical research on this issue all point towards such a trend. In their rush to achieve immediate gains, or perhaps under pressure from stockholders to meet quarterly earnings, employers are in danger of completely reconstituting their psychological contracts with employees. Such a situation, if it translates into higher HR costs, is likely to prove economically unsuitable in the long run.

Additionally, in the face of increasingly ideological representations of offshoring, organizational researchers and management academics face a significant ethical challenge. They need to marshal their analytical tools to go beyond the hype and uncover the class character of the dilemma in a manner that respectfully theorizes the hesitant and inchoate voices of those who resist exploitation by corporations, on both sides of the offshoring space.

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APPENDIX

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FIGURE 1
THE OFFSHORING-DOWNSIZING RELATIONSHIP

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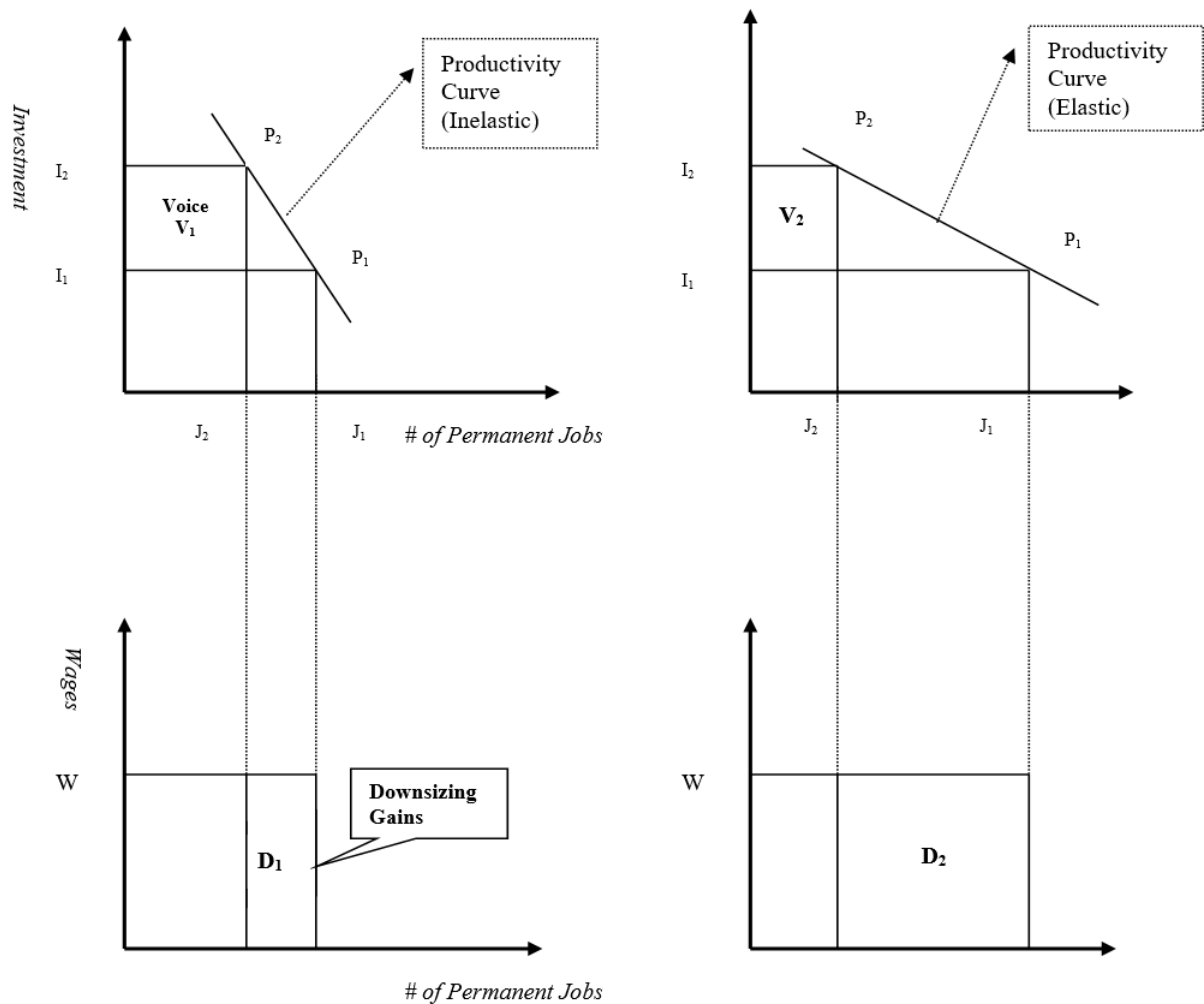
Scenario A: In an economy characterized by domestic production, the productivity curve is inelastic, and labor voice is a more powerful force.

Scenario B: As offshoring increases, the productivity curve gets more elastic. Managerial options to downsize in domestic market gain upper hand over labor voice.
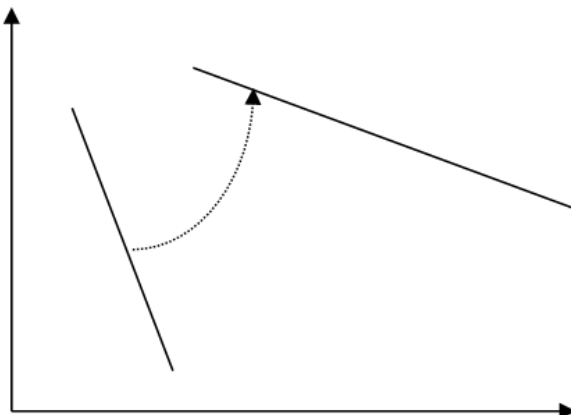
FIGURE 2
POSSIBLE TRENDS IN THE SHIFTING PRODUCTIVITY CURVE
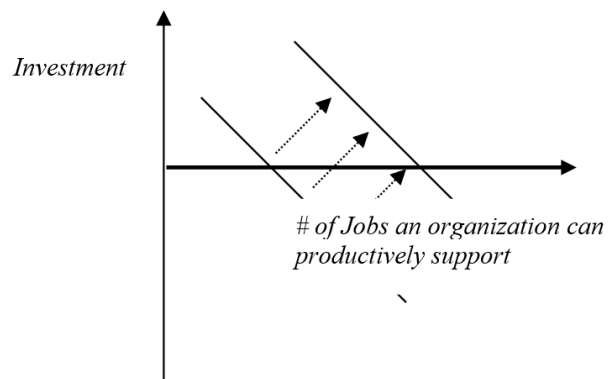
2. A. Productivity remains constant, but market size increases (e.g. due to global markets).
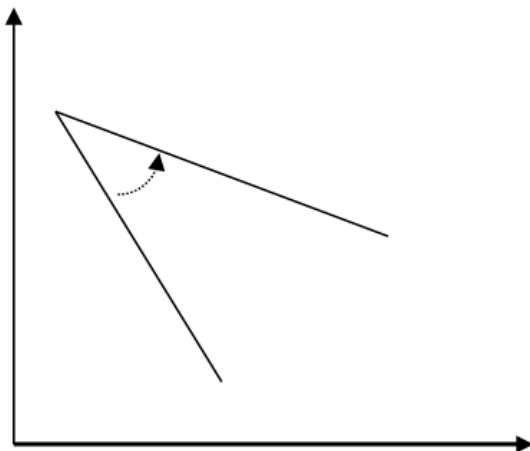
2. B. Market size remains similar, but productivity gains reduce labor need

2. C. A combination of productivity increase and market increase, augments revenue and reduces wage bill

FIGURE 3
A FRAMEWORK OF HR POSSIBILITIES IN A POST-OFFSHORING WORKPLACE

Factors Influencing Employee Attitudes and Performance in the Post-Offshoring Age

Greater emphasis on

- Opportunity to enhance skills
- More flexible work environment
- Access to state-of-the art processes and training
- Horizontal mobility

Lesser emphasis on

- Job continuity
- Organizational culture
- Geographical stability
- Job security

Equal emphasis on

- Hygiene factors
- Monetary compensation
- Vertical mobility

Recruiting

- Internet-based search
- Employee referral
- Focus on specific skills
- Decentralized recruitment
- Customized pay and benefits package

Training

- Customized training
- Focus on flexibility
- On-line training materials
- Continuous training
- Lesser investment on organization-wide issues

Employee Retention

- Inducements to learning
- Job rotation
- Geographic flexibility
- More philosophical approach to turnover