Outsourcing customer support: The role of provider customer focus

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ABSTRACT

An increasing number of firms are outsourcing customer support to external service providers. This creates a triadic setting in which an outsourcing provider serves end customers on behalf of its clients. While outsourcing presents an opportunity to serve customers, service providers differ in their motivation and ability to fulfill customer needs. Prior research suggests that firms with a strong customer focus have an intrinsic motivation to address customer needs. We suggest that in an outsourcing context, this intrinsic motivation does not suffice. Using a Motivation–Opportunity–Ability framework, we posit that the effect of a provider's customer focus will be moderated by a set of relational, firm, and customer characteristics that affect its ability to serve end customers. We test our conceptualization among 171 outsourcing clients from the Netherlands and then validate these results among 135 Indian outsourcing providers. The findings reveal that customer-focused providers achieve higher levels of customer need fulfillment but this effect is contingent on their ability to serve end customers. In particular, customer-focused providers more effectively fulfill customer needs when clients and providers share close relational ties, when clients also have a high level of customer focus, and when end customer needs exhibit a low degree of turbulence. In addition, we find that, in turbulent markets, equipment-related services offer greater opportunity for effective customer need fulfillment than other outsourced services.

1. Introduction

In order to lower costs and enhance competitiveness, an increasing number of firms are outsourcing a variety of customer support services traditionally conducted internally, including equipment services such as installation, maintenance, and repair, distribution services such as logistics and transportation, and other client services such as training and system integration. This trend has attracted considerable attention from the popular press, which has identified outsourcing as one of the most important economic developments of this century (Economist, 2013; Friedman, 2005; Gottfredson et al., 2005). Outsourcing is experiencing tremendous growth due to the rapid advances in information technology and an increasing pool of educated workers across a number of developing countries, including India, China, and Malaysia (Garten, 2004; Lohr, 2006). In particular, the market for outsourced customer support services is growing steadily and is expected to reach $81.3 billion by 2018 (IDC, 2014). Several well-known companies such as IBM, Barclays, and T-Mobile have recently outsourced customer service functions to external providers (Cellular News, 2008; ComputerWeekly, 2011; Raassens et al., 2014; Time, 2009).

The phenomenon of customer support outsourcing is intrinsically triadic in nature: an outsourcing provider delivers support to end customers on behalf of a client firm. Unfortunately, outsourcing firms appear to have difficulty managing the complexities of triadic exchange and often focus on immediate cost savings while overlooking outsourcing's hidden costs (Ren and Zhou, 2008). On the academic side, supply chain, operations management, and marketing scholars have identified triadic exchange as a topic of considerable academic interest (e.g., Choi and Wu, 2009; Gunawardane, 2012; Wathne and Heide, 2004; Wuyts et al., 2004). Thus, the triadic nature of outsourcing is an important topic for both scholars and practitioners. Prior studies have examined the triadic nature of customer service outsourcing and have developed theoretical expositions of these service triads primarily inspired by agency theory (Gunawardane, 2012; Tate et al., 2010; Van der Valk and van Iwaarden, 2011). According to this perspective, outsourced customer support creates an agency situation: the provider (agent) acts on the client's (principal) behalf, which carries the risk of moral hazard.

We seek to enrich and extend this body of research, starting from the baseline expectation that an outsourcing provider's degree of customer focus reduces this motivational hazard, and hence, enhances customer need fulfillment. We define customer need fulfillment as an outsourcing provider's performance in terms of addressing end customer needs through information provision, service support, and problem solution. We then hypothesize that even a motivated provider is not necessarily *able* to fulfill end customer needs. We also examine the degree to which certain services provide a better *opportunity* for improved customer need fulfillment through outsourcing. Our conceptual lens is informed by the Motivation–Ability–Opportunity (MOA) framework and employs a contingency perspective (Boudreau et al., 2003; MacInnis et al., 1991). In brief, we suggest that while an outsourcing arrangement provides an *opportunity* for effective customer need fulfillment, the degree to which this opportunity is realized depends upon both a provider's *motivation* and *ability* to serve its client's customers.

Specifically, we argue that customer-focused service providers are better *motivated* to serve end customers than service providers that lack this focus (Deshpandé et al., 1993; Franke and Park, 2006). Customer focus, the central element of a market orientation, refers to the institutionalization of firm-based processes that strategically leverage information about customers (Kohli and Jaworski, 1990, p. 3). These "customer-focused" processes include the collection, interpretation, analysis, and dissemination of customer information and reflect a provider's intrinsic motivation to address customer needs (Cadogan and Diamantopoulos, 1995).

We also suggest that the strength of the relationship between a provider's customer focus and customer need fulfillment is contingent on the provider's *ability* to serve end customers. Our key assertion is that customer-focused service providers are better able to serve end customers if they have access to customer insight. We propose that this ability is a function of (1) the relational tie between provider and client (which enhances the accessibility of customer insight), (2) the degree to which a client itself is customer-focused (which reflects the availability of customer insight), and (3) market turbulence (which increases the obsolescence of customer insight). In sum, we expect that relational tie, a client's customer focus, and market turbulence moderate the relationship between provider customer focus and customer need fulfillment. In addition, as a follow-up analysis, we explore the possibility that certain services provide greater opportunity for successful customer need fulfillment via outsourcing. In particular, we distinguish between equipment-related services (i.e., installation, maintenance, and repair) versus other types of support services.

We test our conceptual model via a survey study among 171 outsourcing clients from the Netherlands, a country where many firms have outsourced customer service activities to external providers (Computerworld, 2004; Mol, 2007). The results of this study confirm our expectation that provider customer focus is associated with higher levels of customer need fulfillment and provide strong support for our MOA framework and contingency perspective. The results are robust across alternative methods and various model specifications. As a means of providing added verification, we conduct a validation study among 135 outsourcing providers in India. The results of this study lend additional support for our conceptualization.

Theoretically, our research contributes to the literature on service triads by developing and validating a conceptual framework, grounded in the Motivation–Ability–Opportunity framework, which encompasses characteristics of outsourcing clients, providers, and end customers, and distinguishes between different types of services. Among our insights, we find that customer-focused providers deliver better service toward end customers if their upstream tie to a client firm is strong. We also find that end customers benefit less from a provider's customer focus under conditions of higher market turbulence, however this moderating effect does not apply for clients outsourcing the installation, maintenance or repair of equipment, as these physical assets appear rather immune to market fluctuations. Our research also contributes to the market orientation literature by examining the effect of customer focus on customer need fulfillment in a triadic outsourcing setting where relevant customer insight resides with a client firm rather than the service provider. Managerially, our research provides outsourcing firms with a set of actionable recommendations regarding partner selection and relationship management. For example, our results suggest that a customer-focused provider can more effectively address customer needs when its client firm is also customer-focused.

2. Conceptual framework

2.1. Customer support outsourcing

We define outsourcing as the external delivery of a business activity that a firm used to (or could have) perform(ed) internally. Firms have outsourced a variety of activities such as advertising and production dating back to the dawn of the industrial era (Davis, 2004; Lonsdale and Cox, 2000). In recent years, outsourcing has expanded considerably beyond these traditional domains, as rapid and significant technological advances in communications (e.g., satellites, fiber optics, email, instant messaging, and teleconferencing) have reduced the barriers of geographic distance (Liu et al., 2011; Metters and Verma, 2008). Our focus is on the outsourcing of customer support services (e.g., installation, maintenance, transportation, user training, technical support, etc.), which are increasingly being conducted by firms in developing economies such as China and India due to both their large educated workforces and favorable labor costs (Hagel, 2004; Metters and Verma, 2008).

The phenomenon of outsourcing customer support services differs fundamentally from outsourcing other services such as IT or advertising, as it creates a triadic situation where a client firm calls upon an external agent to deliver customer support to end customers. This setting entails significant risk: if customers are dissatisfied with a provider's service delivery, they may develop an unfavorable perception about the client firm, engage in negative word-of-mouth, and possibly terminate their relationship (Thelen and Shapiro, 2012). Hence, it is crucial that an outsourcing service provider is both motivated and able to effectively fulfill end customer needs.

2.2. Motivation, opportunity, and ability as an organizing framework

The MOA perspective has served as a useful organizing framework for understanding knowledge-sharing and information-processing behaviors across a variety of organizational settings (e.g. Argote et al., 2003; Boudreau et al., 2003; MacInnis et al., 1991; Siemsen et al., 2008). According to this theoretical perspective, *motivation* captures willingness to act, *opportunity* refers to the contextual factors that surround an action, and *ability* represents skills or knowledge bases related to an action (Boudreau et al., 2003; Siemsen et al., 2008). The MOA framework has been used to explain not only individual behavior, but also organizational action (e.g., Clark et al., 2005; Wu et al., 2004).

While our theory development and hypotheses focus on motivation and ability, we also explore the impact of opportunity as part of our analysis. Specifically, we propose that a provider's customer focus is an indicator of its motivation to serve end customers. However, the effect of provider customer focus upon customer