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The performance implications of outsourcing customer support to service providers in emerging versus established economies

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ABSTRACT

Recent discussions in the business press query the contribution of customer-support outsourcing to firm performance. Despite the controversy surrounding its performance implications, customer-support outsourcing is still on the rise, especially to emerging markets. Against this backdrop, we study under which conditions customer-support outsourcing to providers from emerging versus established economies is more versus less successful. Our performance measure is the stock-market reaction around the outsourcing announcement date. While the stock market reacts, on average, more favorably when customer-support is outsourced to providers located in emerging markets as opposed to established economies, approximately 50% of the outsourcing firms in our sample experience negative abnormal returns. We find that the shareholder-value implications of customer-support outsourcing to emerging versus established economies are contingent on the nature of the customer support that is being outsourced and on the nature of the outsourcing firm. Customer-support outsourcing to emerging markets is less beneficial for services that are characterized by personal customer contact and high knowledge embeddedness than for customer-support services that involve impersonal customer contact and are low on knowledge embeddedness. Firms higher in marketing resource intensity and larger firms benefit more from outsourcing customer-support services to emerging markets than firms lower in marketing resource intensity and smaller firms.

1. Introduction

Increasingly, firms are outsourcing customer support. A research report by IDC (2011) reveals that the worldwide outsourced customer-care services market will grow at a compound annual growth rate of 5% to reach $66.2 billion in 2015. While the large majority of customer-support outsourcing is still done locally (Mudambi & Venzin, 2010), firms in established economies are increasingly considering emerging markets as attractive outsourcing locations (Javalgi, Dixit, & Scherer, 2009). Recent examples include Barclays, a global financial services provider that outsources call-center jobs to India, and T-Mobile UK that outsources part of its customer care to the Philippines.

Although customer-support outsourcing is all the rage, many outsourcing arrangements are not successful. Anecdotal accounts in the business press suggest that organizations can achieve cost savings of 25 to 30% through customer-support outsourcing (Gartner, 2005), especially when outsourcing to emerging markets with lower labor costs (Bharadwaj & Roggeveen, 2008). However, blinded by quick-fix cost savings, many firms forget that there can also be "hidden costs" in outsourcing services (Ren & Zhou, 2008, p. 370). Deloitte Consulting (2005, p. 21) states:

> "50 percent of outsourcing in the near future will be successful, with the failures stemming from clients that don't know what they are doing, don't understand outsourcing, or don't understand their own business."

Against this backdrop, the goal of this research is to understand what distinguishes more versus less successful customer-support outsourcing practices.

We contribute to the extant literature in three ways. First, we study the *financial performance implications* of outsourcing customer support. Recent studies by Thelen and colleagues have focused on the negative consequences of customer-support outsourcing for consumers' service quality perceptions (Thelen, Honeycutt, & Murphy, 2010), sentiments (Thelen, Yoo, & Magnini, 2011), and subsequent (adverse) behaviors toward the outsourcing firm (Thelen & Shapiro, 2012). In contrast, when executives are asked about the financial impact of their outsourcing

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initiatives, they often respond that it cannot be readily quantified (Bryce & Useem, 1998; Jiang, Frazier, & Prater, 2006). To address this gap, our performance measure is the stock-market reaction around the outsourcing announcement dates.

Second, we study the financial performance implications of customer-support outsourcing to service providers from *emerging versus established economies*. Although a growing body of literature has examined customer-support outsourcing, most of this research has not distinguished between service providers from established versus emerging markets (e.g., Ren & Zhou, 2008; Thelen et al., 2011). The recent spread in offshore outsourcing to emerging markets makes it paramount for marketing scholars to shift their attention. As such, we address the call for more research on marketing in emerging markets (Burgess & Steenkamp, 2013; Dekimpe, 2009).

Third, there has been limited research to date that examines how the performance implications of outsourcing customer support to emerging versus established economies may differ across firms. We examine whether these performance implications depend on (1) the *nature of the customer support* that is being outsourced and (2) the *nature of the firm* that is outsourcing the customer-support activities. Specifically, emerging markets present significant departures from established economies in terms of culture as well as regulation (Burgess & Steenkamp, 2006), which may lead to communication-style problems and enforcement problems, respectively. We argue that the extent to which outsourced services are prone to communication-style problems depends on the type of customer support that is being outsourced. Further, the extent to which firms are vulnerable to regulatory problems depends on the nature of the firm that is outsourcing. By comparing the financial performance implications of customer-support outsourcing to providers from emerging versus established economies, and by identifying the factors that distinguish more versus less successful outsourcing practices, we hope to assist executives in avoiding future costly mistakes.

The remainder of this study is organized as follows. We first review the literature on the performance implications of customer-support outsourcing and outline our conceptual framework. Then, we introduce the hypotheses, describe the methodology, and present the results. In the final section, we discuss the study's theoretical and managerial implications and we outline avenues for future research.

2. Theory

2.1. Literature review

Marketing strategy research has long emphasized the importance of studying the performance consequences of customer-support outsourcing. This has fueled a significant, multifaceted literature (see Table 1 for an overview). A first stream of literature has analyzed the performance implications of customer-support outsourcing for the outsourcing firm *analytically*. Hasija, Pinker, and Shumsky (2008) and Ren and Zhou (2008) examine how different contracts enable the outsourcing firm to increase its profits. Milner and Olsen (2008) study how alternate contracts affect service quality in the form of minimal customer delays. None of these studies consider how the performance consequences of customer-support outsourcing may differ across providers from emerging versus established economies.

In addition to the game-theoretical literature, a number of studies have tested the performance implications of customer-support outsourcing *empirically*. These studies can be described along two dimensions: (1) the nature of the performance measure used, and (2) the geographic scope of the study.

Most studies have examined the impact of customer-support outsourcing on consumer perceptions, sentiments, and behavioral intentions. Thelen et al. (2010) show that U.S. citizens' perceptions of service quality vary considerably by the outsourcing provider's country, with providers from established economies (e.g., Canada, Ireland) scoring much higher on perceived service quality than providers from emerging markets (e.g., China, India, Philippines). Roggeveen, Bharadwaj, and Hoyer's (2007) experiments among U.S. MBA students indicate that locating a call center in India or the Philippines as opposed to England impacts anticipated satisfaction negatively, but only for outsourcing firms that are unknown (as opposed to reputable). In a similar vein, Bharadwaj and Roggeveen (2008) find that U.S. customers experience greater satisfaction with a call center representative's communication skills and problem solving ability when a call center is located domestically rather than in India.

Other studies corroborate the finding that consumers harbor negative feelings toward services that are outsourced offshore (i.e. to a country other than the outsourcing firm's domestic market). They find that U.S. consumers' negative sentiments towards offshore outsourcing decrease their satisfaction with the service received (Sharma, 2012; Sharma, Mathur, & Dhawan, 2009) as well as their attitude and commitment towards the offshoring firm (Thelen et al., 2011). Consumers' negative sentiments towards offshoring further affect their behavioral intentions, ranging from decreased positive word-of-mouth intentions and increased intentions to boycott the outsourcing firm (Thelen et al., 2011) to requests for domestic service providers and intentions to stop doing business with the firm (Thelen & Shapiro, 2012). These studies, however, do not compare providers from emerging economies with providers from established economies. For example, Whitaker, Krishnan, and Fornell (2008) contrast domestic outsourcing to offshoring. They show that customer-support outsourcing decreases customer satisfaction in both cases, but they do not consider potential differences between providers from emerging markets and (nondomestic) providers from established economies.

We were able to locate only one study that addresses the financial performance consequences of customer-support outsourcing. Kalaignanam, Kushwaha, Steenkamp, and Tuli (2013) study the effect on shareholder value of outsourcing two types of Customer Relationship Management (CRM) processes—presales CRM (i.e. lead generation and order fulfillment) and postsales CRM (i.e. customer support). Although Kalaignanam et al. (2013) do not explicitly compare the performance consequences of outsourcing to providers from emerging versus established markets, they do study the role of cultural distance between the outsourcing firm and the outsourcing provider. They find that outsourcing customer support (i.e. postsales CRM) to culturally distant outsourcing providers has no adverse effect on shareholder value.[3]

In sum, while firms increasingly outsource to service providers located in emerging markets, research that explicitly compares outsourcing to providers from emerging versus established markets remains scarce (Mudambi & Venzin, 2010). In addition, even though firms primarily pursue cost savings when outsourcing customer support to emerging markets (a supply-side advantage), the scant empirical academic research has almost exclusively focused on the negative consumer appraisals that may result from customer-support outsourcing (a demand-side disadvantage). While it is of interest to quantify the impact on various performance indicators separately, it is first and foremost important to understand the overall net performance impact of outsourcing to emerging versus established economies. Apart from quantifying this net effect, the current study develops a contingency framework for identifying the boundary conditions of the relationship between customer-support outsourcing to emerging versus established economies and the outsourcing firm's performance.

[3] Kalaignanam et al.'s (2013) study differs from our study in two important ways. First, whereas cultural distance is indeed an important dimension along which emerging markets and established economies differ, it is not the only one. As we will argue below, emerging markets are also markedly different from established economies in terms of institutional systems, which may create regulatory problems (Burgess & Steenkamp, 2006). Second, whereas Kalaignanam et al. (2013) analyze the performance consequences of outsourcing postsales CRM to culturally distant countries, we argue for a contingency perspective and hypothesize that the performance consequences of outsourcing customer support to emerging markets (rather than established economies) are contingent on the nature of the outsourced customer-support service and the nature of the outsourcing firm.