Chapter 1.10
Understanding Consumer Reactions to Offshore Outsourcing of Customer Services

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ABSTRACT

Offshore outsourcing is a fast-growing aspect of the world economy today and it has drawn attention from policy makers as well as public at large in many developed countries. However, there is hardly any research on how outsourcing of customer services may influence individual consumers, their perceptions, attitudes and behaviors. In this chapter, the authors first review the extant literature in the country-of-origin and services marketing areas to highlight key concepts and theories relevant to this area. Next, they show how offshore outsourcing of customer services may influence consumer perceptions about service quality, brand image and brand loyalty on one hand and impact customer satisfaction, complaint behavior and repurchase intentions on the other. The role of several relevant demographic and psychographic variables is also discussed. Finally, the findings from a survey-based study among customers in three developed countries (U.S., UK and Australia) are reported along with a discussion of managerial implications and future research directions in this area.

INTRODUCTION

Background

Outsourcing is a fast-growing aspect of the world economy with worldwide spending on outsourcing estimated to cross $6 trillion by the end of 2005 (Corbett, 2002). Forrester Research estimates that by 2015, 3.3 million jobs accounting for $136 billion in wages will move offshore to countries such as India, China and Russia (McCartney, 2003). According to latest estimates by Gartner, IT outsourcing global revenue alone was predicted to grow from $184 billion in 2003 to over $256 billion in 2008 (Blackmore, DeSouza, Young, Goodness, & Silliman, 2005) and IDC estimates business process outsourcing (BPO) in Europe to grow from $43 to $72 billion Euros between 2002 and 2005. Clearly these are very large numbers and companies around the world seem to be relentlessly pursuing outsourcing to benefit the end customers by reducing cost and improving productivity.

However, existing research on offshore outsourcing is primarily focused on the labor and ethical issues of outsourcing and effects of strategic outsourcing decisions on organizations with hardly any attention on how it may influence individual customers (Clott, 2004). Similarly, critics of outsourcing have so far focused on the changing employment patterns, globalization of the labor force, and its effects on individual employees and organizations with little consideration to the end-customers. On the other hand, based on their experience in recent years organizations have already become more cautious about outsourcing and conscious of the need to protect their reputation, brand image, core skills and property rights (Reilly, 1997). Some of the emerging potential downsides of outsourcing include dilution of company's image, lower customer satisfaction, reduced brand loyalty and an increase in customer complaints due to real or perceived concerns about cultural differences, lower service standards and loss of privacy (Cornell, 2004; "Axa Abbey", 2004; "Back office", 2001; Kennedy, 2002; Roy, 2003).

Consumers and Offshore Outsourcing

In a recent customer survey by American Banker/Gallup (2004) it was found that two-thirds (71%) of the respondents were aware of offshore outsourcing to lower-cost countries. Among those aware, a whopping 78% held an unfavorable opinion about it and more than 80% said they would feel better if outsourcing did not take away American jobs and only less than half would feel better if it made American companies more competitive in the global marketplace (51%) or if it improved American companies' profits (46%). However, besides these general surveys, there is very little research that could specifically help organizations understand the effects of offshore outsourcing of customer service on individual customers, their perceptions, attitudes and behavior.

On the other hand, there is a large body of knowledge in the area of country-of-origin (COO) phenomenon which demonstrates that customers have distinctly different perceptions and attitudes about foreign products and services (Gronroos, 1999; Javalgi, Cutler, & Winans, 2001; Javalgi, Griffith, & White, 2003; Kotabe, Murray, & Javalgi, 1998; Lovelock, 1999; Nicoulaud, 1989; Ruyter, Birgelen, & Wetzels, 1998). Specifically, it is shown that products and services from less-developed countries are evaluated unfavorably by customers in developed countries due to negative perceptions about their quality. In the context of offshore outsourcing of customer services, it is shown that some customers may not want to speak to a customer care representative from a particular country (Briggs, 2005) and some of them believe that continuing outsourcing of call centres abroad will diminish customer satisfaction (Hayward, 2004). However, there is little research in consumer behavior or marketing literature about

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