

# **Deploying Customer Orientation in Outsourced Customer Support Relationships**

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## **DEPLOYING CUSTOMER ORIENTATION IN OUTSOURCED CUSTOMER SUPPORT RELATIONSHIPS**

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# **DEPLOYING CUSTOMER ORIENTATION IN OUTSOURCED CUSTOMER SUPPORT RELATIONSHIPS**

## **ABSTRACT**

A growing number of firms have begun to outsource a wide variety of customer support functions. According to the extant customer orientation literature, in order to ensure effective support, an outsourcing client should seek a provider with a high level of customer orientation. Providers, however, may be unwilling or unable to effectively deploy this orientation on behalf of clients. Our research examines this issue. In contrast to the extant customer orientation literature, which largely views customer orientation as a first-order capability, we conceptualize provider's customer orientation as a second-order capability, which resides with a provider firm but is deployed for the benefit of its client. We believe this second-order conceptualization helps shed new light on this well established construct. In addition to offering a new conceptualization, our research also examines the effect of three distinct strategic mechanisms that client firms can employ to facilitate the deployment of this second order capability. We test this conceptualization via an initial survey of 135 Indian outsourcing providers as well as a second survey of 175 Dutch client firms. We find broad support for our conceptualization and offer a number of practical implications and theoretical insights.

In order to lower costs and enhance competitiveness, an increasing number of firms are outsourcing key functions and processes traditionally conducted internally, such as transportation, installation, training, and service support. In recent years, this trend has attracted considerable attention from the popular press, which has identified outsourcing as one of the most important economic developments of our new century (Baily and Farrel 2004; Gottfredson, Puryear, and Phillips 2005; Friedman 2005). According to the *Economist* (2005), over 30% of large US firms engage in some form of outsourcing, which represents approximately \$234 billion in service support activity. Outsourcing is expected to experience tremendous growth in coming years, 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). For example, several well-known companies such as IBM, Bank of America, and Dell Computer have recently outsourced their customer service function to providers in India.

Current marketing thought suggests that an outsourcing provider should have a high level of customer orientation in order to effectively sense and respond to the needs of its client's customers (Day 1994; Deshpandé, Farley, and Webster 1993; Kohli and Jaworski 1990; Narver and Slater 1990). Moreover, a considerable body of prior research has found that customer orientation is positively associated both with customer satisfaction and with firm performance (see Kirca, Jayachandran, and Bearden 2005 for a review). While this research has made important contributions, it has largely focused on settings in which firms are in direct contact with their customers. Hence, the role of customer orientation in an outsourcing setting, where a service provider serves customers on behalf of a client, remains largely unknown. This is an important issue, as a growing number of firms appear to be outsourcing their customer

orientation functions to external providers (Angwin 2003; Fielding 2006; Ueltschy, Ryans, and Herremans 2006).

We suggest that in an outsourcing setting, customer orientation takes on the quality of a second-order capability, which we define as a capability held by an external (i.e., provider) firm but deployed on behalf of a focal (i.e., client) firm. The role of second-order capabilities has gained recent attention among inter-organizational network scholars, who suggest that a firm's strategic capabilities can be supplemented and possibly even supplanted by the capabilities of its network partners (Lee, Lee, and Pennings 2001; Lin 2001; Wathne and Heide 2004; Wuyts et al. 2004). Thus, customer service outsourcing provides an opportunity to examine a familiar construct (i.e., customer orientation) from a fresh perspective and presents a new set of questions regarding the deployment of an external provider's customer orientation. First, what effect does an outsourcing *provider's* customer orientation play upon the quality of its customer service provision? Second, what strategies can a client employ to strengthen provider customer orientation deployment? Third, what is the role of a *client's* customer orientation upon customer service provision in an outsourcing setting? Our research addresses all three questions.

In the search for a conceptual response to these questions, we carefully examined the literature on organizational capabilities, with a focus on research examining capability deployment and second-order capabilities in particular (e.g., Barney 1991; Johnson, Sohi, and Grewal 2004; Lee, Lee, and Pennings 2001; Lin 2001; Moorman and Slotegraaf 1999; Slotegraaf, Moorman, and Inman 2003; Vorhies and Morgan 2005; Wathne and Heide 2004; Wuyts et al. 2004). The capability deployment literature suggests that effective deployment depends upon a firm's ability to acquire in-depth, tacit, and context-specific knowledge. The literature on second-order capabilities suggests that possessors of capabilities (such as outsourcing providers) may

lack the motivation to successfully deploy these capabilities on behalf of their relational partners. Consequently, the effect of provider customer orientation on customer service provision is likely to be contingent upon both a provider's ability to acquire context-specific knowledge as well as its motivation to deploy this knowledge on behalf of its client.

Given the uncertain relationship between provider customer orientation and customer service provision, we suggest that outsourcing clients should consider employing various strategic mechanisms for facilitating provider customer orientation deployment. In this paper, we focus on three specific mechanisms: (1) collaborative ties, (2) equity investment, and (3) exclusive contracting. We posit that these mechanisms increase the provider's ability and motivation to deploy its customer orientation on behalf of its client.

In order to empirically test this conceptualization, we conducted a preliminary survey among 135 outsourcing *providers* in India, which is a prime geographic location for customer service outsourcing, as well as a more extensive survey among 175 outsourcing *clients* located in The Netherlands, which contains a large number of firms that outsource customer service activities to external providers. Our findings suggest that provider customer orientation has a modest effect on customer service provision and that its effectiveness is enhanced via mechanisms that increase a provider's ability and motivation to deploy this capability on behalf of its client. In addition, our results indicate that this second order capability should not be viewed as a replacement for a client's internal (i.e., first-order) customer orientation capability. We believe these findings contribute to both marketing theory and practice. From a theoretical perspective, we offer an expanded view of customer orientation by identifying and assessing the second-order nature of this capability. Based on this assessment, we offer research directions for scholars interested in understanding customer orientation and customer service provision in

outsourcing settings and similar types of complex customer relationships. From a practical perspective, our research provides managers with a set of tractable guidelines for enhancing the impact of their providers' customer orientation and obtaining a high level of customer service provision.

## **OUTSOURCING: AN OVERVIEW**

### **The Outsourcing Phenomenon**

We define outsourcing as the external provision of a business activity that a firm used to (or could have) perform(ed) internally. A wide range of activities are outsourced, including, but not limited to, manufacturing, operations, accounting, human resources, legal services, and customer service support. Although outsourcing activities are increasingly conducted in foreign locales, a large amount of outsourcing also occurs within domestic boundaries (Gilson and Khandelwal 2005; Porter 2005). Our focus is on the outsourcing of customer service activities (e.g., installation, maintenance, data management, user training, technical support, etc.) both within and across national boundaries.

Although outsourcing is a phenomenon that has attracted a considerable amount of recent attention, firms have outsourced a variety of activities dating back to the dawn of the industrial era (Davis 2004; Lonsdale and Cox 2000). For example, shortly after the turn of the Twentieth Century, U.S. firms across a wide swath of industries began to outsource their advertising and promotion activities to early advertising agencies such as N.W. Ayer and J. Walter Thompson (Fox 1984). A few decades later, a number of large manufacturers such as Ford Motor Company, General Motors, and Kodak began outsourcing the production and distribution of key components to external firms (Lonsdale and Cox 2000; Thomas and Wilkinson 2006):

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 increased the feasibility of outsourcing information-based activities such as customer support activities by reducing the barriers of geographic distance. Increasingly, these outsourced activities are being conducted by firms in developing economies such as China and India due both to their large educated workforces and to favorable labor costs (Hagell 2004). Consequently, a growing number of firms are jumping on the outsourcing bandwagon. For example, the outsourcing of computer software and services alone is projected to equal \$31 billion by 2008, which would represent a three-fold increase from 2003 (Economist 2004). Similar levels of outsourcing growth are also projected for a number of other industries including financial services, medical records and transcription services, and call center operations (e.g., Allen 2005; GAO 2004).

### **Outsourcing Research**

Given its recent rise as a prominent business phenomenon, outsourcing is just beginning to attract a critical mass of scholarly attention (e.g., Carson 2007; Kotabe and Murray 2004; Leiblein, Reuer, and Dalsace 2002; Mol, van Tulder, and Beijer 2005; Murray and Kotabe 1999; Steensma and Corley 2000). To date, outsourcing scholarship has concentrated on two key issues: (1) identifying the *drivers* of outsourcing activity as well as the types of business activities most amenable to outsourcing, and (2) examining the *consequences* of outsourcing activity. We briefly review both bodies of research.

Research on the *drivers* of outsourcing activity primarily employs a transaction cost approach (Williamson 1985) by characterizing outsourcing as a make or buy decision (e.g., Heide and John 1990; Masters and Miles 2002; Stremersch et al. 2003; Venkatesh 1992; White 2000).

For example, Stremersch and colleagues (2003) develop a comprehensive transaction-cost framework to understand system integration outsourcing. In aggregate, these studies find that firms are more likely to engage in outsourcing if they possess lower levels of specific investments. A related body of research has investigated the specific types of activities most amenable to successful outsourcing, as well as the types of activities and mechanisms that facilitate the outsourcing process (e.g., Kotabe, Murray, and Javalgi 1998; Maltz and Ellram 1999; Quinn 1999). This body of research, based largely on competitive advantage and core competencies theory (Porter 1980; Prahalad and Hamel 1990), broadly recommends that firms should limit outsourcing to secondary functions (e.g., medical transcription services for a health care provider) or to activities in which they lack a competitive advantage.

Research on the *consequences* of outsourcing has examined the influence of this activity upon a broad scope of outcomes including relationship quality, firm profitability, and customer satisfaction using a variety of theoretical paradigms (e.g., Carson 2007; Dahlstrom, McNeilly, and Speh 1996; Gopal et al. 2003; Hult 1998; Leiblein, Reuer, and Dalsace 2002). For example, Gopal et al. (2003) employ a contracting perspective and find that outsourcing is more likely to be profitable if firms employ fixed price contracts with their outsourcing provider, but that many aspects of this profitability depend on client firm- and project-related characteristics. In contrast, Hult (1998) employs an organizational learning perspective and finds that outsourcing clients with stronger learning orientations are more likely to attain higher levels of customer satisfaction compared to customers of firms with weaker learning orientations.

In sum, the collective body of extant research suggests that outsourcing is an activity that demands careful and considerable strategic thought and that outsourcing success is influenced by both a client firm's strategic orientation as well as the nature of its relationship with its

outsourcing provider. Our research seeks to enrich and extend these findings by incorporating these influences (e.g., customer orientation and inter-organizational strategic mechanisms) as part of our conceptual framework.

## **STUDY 1: CONCEPTUALIZATION, METHOD, AND FINDINGS**

In this first study, we conceptualize and empirically examine the relationship between an outsourcing provider's customer orientation capability and the quality of its customer service provision as well as the role that inter-organizational linkages play in terms of facilitating the deployment of this capability.

### **Conceptualization**

Since the early 1990s, a sizeable body of research suggests that firms with a strong customer orientation generally experience high levels of customer satisfaction (see Kirca et al. 2005 for a review). The association between customer orientation and customer satisfaction is largely attributed to the ability of customer-oriented firms to effectively (1) scan environmental changes, (2) interpret the effects of these changes upon customer preferences, and (3) communicate these interpretations throughout their organization (Deshpandé, et al. 1993; Kohli and Jaworski 1990; Moorman 1995). In essence, customer orientation has been regarded as a highly effective organizational capability in terms of sensing and responding to emerging and changing customer needs (Day 1990).

Although there is a strong consensus that developing a customer orientation is a highly effective means of providing superior customer service, the extant customer orientation literature has largely focused on the direct relationship between a firm and its customers (Kirca et al. 2005). Thus, the role of customer orientation upon customer service provision in more complex customer service settings, such as outsourcing, remains an open empirical question. At first

glance, it seems reasonable to expect that highly customer-oriented outsourcing providers would be quite effective in terms of providing customer service due to their superior sensing and responding skills. On closer examination, however, the role of a provider's customer orientation on customer service provision is somewhat uncertain.

Given the second-order nature of provider customer orientation, successful customer service provision requires that an outsourcing provider possesses both the ability as well as the motivation to deploy this capability on behalf of its client. There are reasons to suspect that outsourcing providers may be lacking in this regard.

The emerging research on capability deployment suggests that organizations with localized and tacit knowledge of the settings in which their capabilities are being applied are more effective in terms of their deployment. For example, although the NPD outsourcing provider IDEO is famed for its strong NPD capabilities, its ability to offer effective solutions is highly dependent upon the degree to which it closely collaborates with each client and learns about their specific market needs (Hargadon 2003). Likewise, recent research suggests that customer orientation is most effectively deployed in settings that are congruent with the cultural and historical marketplace experiences that shaped its formation (Gebhardt, Carpenter, and Sherry 2006). Consequently, an outsourcing provider that scores high on customer orientation (e.g., Jaworski and Kohli 1993) may have difficulty deploying this capability to sense and respond to the needs of its client's customers, as it may lack the requisite localized and tacit knowledge.

In addition to these knowledge-based challenges, firms that possess second-order capabilities may also lack the motivation to deploy these capabilities on behalf of their relational partners. Essentially, holders of second-order capabilities can be viewed as agents who may be

reluctant to develop specific investments on behalf of their clients (Bergen, Dutta, and Walker 1992). Indeed, according to several reports, outsourcing providers often appear unwilling to invest in learning about the needs of their client's customers (Preston 2007). Due to these challenges, outsourcing providers may lack the ability and motivation to effectively deploy their customer orientation in support of their clients. Consequently, provider customer orientation may be only weakly related to the effectiveness of their customer service activities.

Despite these concerns, the weight of prior literature leans toward a positive relationship between provider customer orientation and successful customer service provision. Hence, as a baseline hypothesis, we suggest that:

H<sub>1</sub> *Provider customer orientation is positively related to effective customer service provision.*

If an outsourcing provider is lacking in ability or motivation to deploy its customer orientation on behalf of its client, the relationship between provider customer orientation and customer service provision (i.e., Hypothesis 1) should be contingent upon the closeness of the provider-client relationship. Indeed, a growing number of studies in the inter-organizational relationship domain suggest that close relationships increase an organization's ability and motivation to coordinate and cooperate successfully with partners across a wide variety of domains (e.g., Johnson, Sohi, and Grewal 2004; Morgan et al. 2003; Rindfleisch and Moorman 2001). In this first study, we examine two strategic mechanisms for achieving close inter-organizational relations between provider and client.

One key strategic mechanism for achieving close inter-organizational relations is to invest in building and maintaining highly collaborative ties. In an inter-organizational context, collaborative ties are characterized by the development of a norm of reciprocity and feelings of interconnectedness (Gulati 1998; Hansen 1999; Rindfleisch and Moorman 2003). Prior research

suggests that high levels of collaborative ties enhance the transfer of embedded knowledge by making partners more psychologically comfortable and establishing expectations of mutual disclosure (Hansen 1999; Szulanski 1997; Wuyts et al. 2004). For example, Darr, Argote and Epple (1995) find that embedded know-how is more easily transferred between firms that share collaborative ties. Similarly, Rindfleisch and Moorman (2001) show that the norm of reciprocity facilitates the flow of organizational processes between alliance partners. In sum, highly collaborative ties enhance the transfer of embedded knowledge. Translated to our setting, high levels of collaborative ties should improve a provider's access to its client's localized and tacit customer knowledge as well as the provider's firm motivation to effectively deploy its customer orientation, which in turn, should enhance the effectiveness of its customer orientation capability. Thus, we suggest that

H<sub>2</sub> *The positive relationship between provider customer orientation and customer service provision is stronger if the client and provider have high levels of collaborative ties.*

Although establishing collaborative ties may indeed yield substantial benefits in terms of enhanced customer service provision, the development of these ties requires a considerable investment in terms of time and energy. Indeed, the inter-organizational literature broadly views collaborative ties as slowly unfolding as firms engage in repeated interactions over time (Tallman et al. 2004; Zucker, Darby, and Armstrong 1998). Moreover, prior research suggests that the psychic distance that characterizes many cross-country inter-organizational ties can degrade inter-organizational communication (Bello and Gilliland 1997), which may complicate the establishment of collaborative ties. Thus, building collaborative ties is an important but limited strategic mechanism of enhancing the effectiveness of a provider's customer orientation.

As an alternative strategic mechanism, an outsourcing client may elect to obtain an equity stake in its provider. Prior research suggests that shared ownership in the form of equity investment helps inter-organizational partners align their incentives and gain protection against the misappropriation of sensitive embedded knowledge (e.g., Gulati and Singh 1998; Oxley and Sampson 2004). The confluence of aligned incentives and increased protection should, in turn, lead to enhanced disclosure of valuable information due to reduced concerns about the risk that this knowledge will be opportunistically expropriated by one's partner (Pisano 1989; Rindova and Kotha 2001). Moreover, equity investment provides a client firm with some of the governance benefits of internal organization in terms of encouraging cooperation via fiat and forbearance (Williamson 1996). In sum, a client firm's equity investment in its outsourcing provider can serve as an effective strategic mechanism for facilitating the flow of localized and tacit knowledge and reducing the risk of opportunistic exploitation, which in turn, should enhance the provider's ability and motivation to effectively deploy its customer orientation on behalf of the client. We therefore suggest

H<sub>3</sub> *The positive relationship between provider customer orientation and customer service provision is stronger if the client has an equity stake in its provider firm.*

### ***Method***

*Subjects and Procedures.* We examined these first three hypotheses by conducting a survey of customer service providers in India. We selected this context because India has a large number of firms that provide customer services for western clients (Charmichael 2003; Friedman 2005; Thottam 2004). Using a variety of publicly available business directories, we identified 259 Indian outsourcing providers for possible inclusion in our study. In order to minimize geographic and cultural distance, we hired a well-known Indian research firm to pre-contact these

providers and administer our survey instrument. Of these 259 firms, 135 provided complete responses, for an effective response rate of 52%.

Prior research suggests that firms in developing nations such as India seldom respond to mail surveys (Hoskisson et al. 2000). Thus, we employed a structured interview technique. This technique, which orally elicits respondents' reactions to survey items by employing trained interviewers, has been employed in prior studies of firms located in developing nations (e.g., Grewal and Tansuhaj 2001; Li and Atuahene-Gima, 2001; Zhou, Yim, and Tse 2005).

Following the key informant approach (Campbell 1959), we targeted individuals who were likely to be knowledgeable about their firm's outsourcing services. Our sample characteristics suggest that our approach was successful, as over 90% of our respondents were either the owner or managing director of their firm. As an additional check, we asked respondents to report their degree of familiarity (on a 7-point scale where 7 = extremely high and 1 = extremely low) with their firm's outsourcing activities. The mean response to this item was 6.37, which suggests that we were successful in locating knowledgeable key informants. Additional sample characteristics are reported in Table 1.

*Measures.* This study was conducted in English because it is widely employed in Indian commerce and Indian outsourcing providers serve a large number of American and British clients. Our survey instrument used existing measures (adapted for our specific context) whenever possible. In order to enhance our measurement validity, we pretested this instrument among four Indian outsourcing providers. All of our pretested measures appeared to work well, and thus, were retained for use in our main study. Our key measures are reported in the Appendix. As shown in this Appendix, our Indian study assessed provider's customer orientation using an adapted four-item version of Kohli, Jaworski, and Kumar's (1993) market orientation scale and

collaborative ties using an adapted four-item version of Rindfleisch and Moorman's (2003) relational embeddedness scale. Both of these measures display excellent psychometric properties and have been employed in several prior studies.

Initially, we intended to assess customer service provision by surveying our respondent's customers. Unfortunately, our pretesting revealed that our respondents were unwilling to reveal the identities of their customers due to confidentiality agreements with their clients (cf. Carson 2007). Given these restrictions, we constructed a six-item scale to assess our respondents' perceptions of how well they serve their client's customers. This measure captures several aspects of customer service provision, including responding to customer needs, serving customers, and proactively developing customer solutions. We assessed equity investment via a single-item question that asked respondents if their firm is owned (either partly or wholly) by their client.

In addition to these key measures, our survey also included a number of control variables including a categorization of the type of outsourced activity (i.e., product vs. service), client firm size, and degree of knowledge-sharing propensity (see the Appendix for more details). The latter variable assesses the propensity of both firms to engage in regular information exchange and joint problem solving. These control variables were selected because prior research suggests that they may be significantly related to outsourcing activity (e.g., Murray 2001; Poppo and Zenger 1996). Summary statistics for both our key and control measures are displayed in Table 2a.

*Psychometric Assessment.* We began our psychometric assessment by examining the dimensionality of our key measures. Following confirmatory factor analysis (CFA) procedures established by Gerbing and Anderson (1988), we established a CFA model that specified each item as loading on its latent construct while allowing these constructs to covary. The fit indices

for this model met or exceeded the recommended levels (CFI = .90, NNFI = .92, RMSEA = .06), and all items displayed strong loadings (average loading = .74) on their respective constructs. Next, we calculated the composite reliabilities of each construct and found that they exceed recommended levels (range: .72 to .80). Likewise, as shown in the Appendix, these measures also display solid coefficient alphas (i.e.,  $\alpha > .70$ ).

We tested the discriminant validity of our multi-item measures by employing Fornell and Larcker's (1981) test of shared variance between pairs of latent constructs. The results of this test reveal that the squared correlations between these pairs do not exceed the average variance extracted for any single latent construct ( $p < .001$ ). Thus, our key measures display adequate discriminant validity.

Finally, we assessed potential common method variance (CMV) bias by employing a modified marker variable analysis as recommended by both Lindell and Whitney (2001) and Malhotra, Kim, and Patil (2006). Essentially, this approach attempts to control for CMV bias by estimating a dataset's second lowest bivariate item-to-item correlation (.02 for this particular dataset) and then discounting this level of correlation from all of the dataset's other item-to-item correlations. Following this discounting, the overall correlations are then reestimated and compared (via a structural equations model) against the original correlations. If this comparison of discounted *vs.* observed correlations reveals no differences in sign or significance levels, CMV bias is unlikely. We employed this analysis and found that the observed and discounted correlations are closely matched in terms of sign and significance. For example, the observed correlation between provider customer orientation and customer service provision was .42 ( $p < .05$ ), while the discounted correlation was .36 ( $p < .05$ ). This suggests that CMV bias is not an issue. This finding is congruent with a growing body of evidence which suggests that the degree

of CMV bias is often quite low in organizational research (e.g., Doty and Glick 1998; Malholtra et al. 2006; Rindfleisch et al. 2007).

### ***Findings***

We tested our first three hypotheses via multiple regression analyses with customer service provision as our dependent variable and provider customer orientation, collaborative ties, equity investment, and the interaction of provider customer orientation with both collaborative ties and equity investment as the key predictor variables. In addition, we also included service type, firm size, and knowledge sharing propensity as control variables.<sup>1</sup> As recommended by Aiken and West (1991), we mean-centered provider customer orientation and collaborative ties prior to constructing their interactions in order to reduce multicollinearity. The maximum variance inflation factor was 1.64, which is well below the threshold value of 10. This suggests that our results are not influenced by multicollinearity (Mason and Perreault 1991).

The estimation results are displayed in Table 3a.<sup>2</sup> As posited in Hypothesis 1, we find that provider customer orientation has a positive but modest effect on customer service provision ( $\beta = .10, p < .10$ ). The results of this model also support Hypothesis 2, as collaborative ties appear to strengthen the positive effect of provider customer orientation on customer service performance ( $\beta = .12, p < .01$ ). In order to better understand the nature of this interaction, we conducted a slope analysis to estimate the effect of provider customer orientation at different levels of collaborative ties (Aiken and West 1991; Jaccard, Turrisi, and Wan 1990). This analysis reveals that for low levels of collaborative ties (i.e., one standard deviation below the mean), the effect of provider customer orientation is not significant ( $\beta_{\text{Low}} = -.03, \text{ns}$ ). In contrast, for high levels of

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<sup>1</sup> Service type is a dummy variable that indicates whether the outsourced customer support was for a product (0) or a service (1).

<sup>2</sup> We employed two-tailed tests for our hypothesis testing in both Study 1 and Study 2.

collaborative ties (i.e., one standard deviation above the mean), the effect of provider customer orientation is positive and significant ( $\beta_{\text{High}} = .22, p < .01$ ).

Finally, we find modest support for Hypothesis 3, as a client's equity investment in their provider appears to strengthen the positive effect of provider customer orientation on customer service provision ( $\beta = .21, p < .10$ ). We conducted a slope analysis that compared the effect of provider customer orientation on customer service provision for providers that are at least partially owned by the client versus those that are independent. This analysis indicates that the effect of provider customer orientation is considerably stronger when a client firm possesses an equity investment in its provider ( $\beta_{\text{Equity}} = .30, p < .01$ ), compared to clients without such an investment ( $\beta_{\text{No Equity}} = .10, p < .10$ ). In sum, the results of Study 1 indicate that although customer-orientation is positively related to customer service provision among outsourcing providers, this effect is enhanced via high levels of collaborative ties and equity investment. In addition to these hypothesized relationships, our analysis also reveals that both collaborative ties ( $\beta = .24, p < .01$ ) and client size ( $\beta = .08, p < .09$ ) have a positive direct effect on customer service provision.

Although this first study broadly supports our conceptual framework, its contribution is constrained by a number of limitations. First, our measure of customer service provision was a self-evaluation scale and hence may be tainted by socially desirable responding. Second, our theoretical framework suggested that provider customer orientation is a second-order capability whose deployment is dependent upon the nature of the relationship between a client and its provider. However, our study examined only one side of this dyad with no attention to the *client's* degree of customer orientation. Third, a provider's customer orientation is partly under the control of the client firm, as clients likely select providers based precisely on this capability.

Unfortunately, Study 1 is unable to account for this endogeneity. Finally, Study 1's generalizability is limited by its focus on a single nation. To alleviate these concerns, we conducted a second study designed to address these limitations.

## **STUDY 2: CONCEPTUALIZATION, METHOD, AND FINDINGS**

The objective of Study 2 is to replicate our earlier findings while also enriching our theory and results. This enrichment comes in two main forms: (1) examining a third strategic mechanism for transferring embedded customer knowledge from client to provider (i.e., single sourcing strategy), and (2) examining the role of a *client's* degree of customer orientation on customer service provision in an outsourcing setting.

In addition to establishing high levels of collaborative ties and acquiring an equity investment in its provider, an outsourcing client may also seek to foster provider customer orientation deployment by employing a single provider firm (i.e., single sourcing strategy). For example, according to a recent study, approximately 30% of Canadian firms engaged in foreign outsourcing use a single sourcing approach (Core 2007). This strategy has some detractors, who suggest that outsourcing clients should actually employ a multiple sourcing strategy instead. This argument is based on the assumption that multiple sourcing enhances firm performance by encouraging price competition and providing a client with greater control and bargaining leverage (Seshadri, Chatterjee, and Lilien 1991; Tullous and Utecht 1992). However, each new outsourcing relationship adds coordination costs (Chalos and Sung 1998), which reduce the resources available for each individual relationship. Hence, clients that engage in multiple sourcing have fewer resources to devote to the complex and time-consuming process of transmitting localized and tacit customer knowledge to their outsourcing providers. In contrast, the use of a single supplier should enhance both communication frequency and the development

of cooperative norms (Stremersch et al. 2003), which in turn should facilitate the exchange of embedded know-how (Teece 1980). Hence, a single sourcing strategy may not only increase a provider's motivation to deploy its capability on behalf of its client, but it may also be a particularly effective mechanism for transferring localized and tacit customer-related know-how between a client and its provider. Thus, we hypothesize:

H<sub>4</sub> *The positive relationship between provider customer orientation and customer service provision is stronger if the client follows a single sourcing strategy.*

Up to this point, our conceptualization has assumed that an outsourcing client possesses a high level of localized and tacit customer knowledge that is not readily available to an outsourcing provider. However, the extent to which this knowledge exists should be highly dependent upon the degree to which a client possesses a strong customer orientation. Customer orientation entails gathering detailed information about customers and adapting to their needs (Franke and Park 2006). Over time, this acquisition and utilization of customer knowledge becomes embedded into an organization's culture, belief systems, and decision-making processes (Deshpandé et al. 1993; Gebhart et al. 2006). Thus, client firms that lack a strong customer orientation are likely to have poor localized and tacit knowledge. Conversely, client firms with a high level of customer orientation should have a large store of localized and tacit knowledge which enables them to enhance the provider's ability to effectively deploy its customer orientation. In sum, we suggest that:

H<sub>5</sub> *The positive relationship between provider customer orientation and customer service provision is stronger if the client firm has a high level of customer orientation.*

## **Method**

*Subjects and Procedures.* In contrast to our first study of outsourcing providers, there is no readily available database of outsourcing clients. Thus, our first task was to construct a list of

potential participants. Prior research suggests that many customer service outsourcing clients come from the manufacturing sector (Lei 2007). Thus, our second study focuses on this sector. As a first step, we contacted (by telephone or email) an initial sample of 713 Dutch firms in SIC codes 29-33 (manufacturers of various types of machinery) to determine if they met two qualifications: (1) their firm outsources some type of customer support and (2) they were primarily responsible for managing this outsourced service. Each potential respondent received both a letter and an email that contained a link to an on-line survey. As an incentive, we promised to donate \$5 to a charity of the respondent's choice.

Of our 713 potential respondents, 181 participated, for a response rate of 25%. This response rate compares favorably with recent surveys of customer orientation and other organizational capabilities and processes (e.g., Johnson, Sohi, and Grewal 2004; Rindfleisch and Moorman 2003). Six respondents were excluded from the analyses because of excessive missing data, leaving us with a final sample size of 175 client firms. As before, we followed the key informant approach (Campbell 1959) by identifying an individual who was likely to be knowledgeable about their firm's outsourcing services. Our sample characteristics suggest that our approach was successful, as over 80% of our respondents occupied high level managerial positions such as managing directors or chief executive officer. The sample characteristics for these firms are provided in Table 1b.

*Measures.* The survey began by asking respondents to identify a specific customer service activity for one of their major products or services that is currently being outsourced to an external provider. Respondents were then asked to evaluate the primary outsourcing provider of this activity on a broad number of dimensions, including their degree of customer orientation and customer service provision.

Because this survey was directed at respondents located in The Netherlands, it was administered in Dutch. In order to ensure proper translation, we first wrote our survey in English, translated it into Dutch, and then back-translated it into English using two native Dutch speakers who are fluent in English (Brislin 1970). This procedure revealed a few minor wording discrepancies, which were easily rectified. We assessed provider customer orientation and collaborative ties using the same measures employed in Study 1. Because we asked our respondents to select an outsourcing provider that was an external firm, we did not assess level of equity investment. We adopted this focus in order to avoid confounding our assessment of single versus multiple providers, as a client should be more likely to adopt a single source strategy when it has ownership of its provider.

This survey also contained several new scales. First, we assessed single versus multiple sourcing by asking if more than one firm provides outsourcing for the focal product or service. Second, we assessed client's customer orientation by slightly adapting the phrasing of our four-item measure of provider customer orientation to customize it towards the client's perspective (see the Appendix). Third, we assessed customer service provision using a five-item adapted version of Kumar, Stern, and Achrol's (1992) customer satisfaction scale. This scale differs from the measure of customer service provision in our first study because the respondent is now the client firm. Recall that our measure of customer service provision in the first study was indirect in order to minimize the risk of socially desirable responding bias. The measure employed in this second study, however, is considerably more direct, because the risk of this bias is substantially lower in this context due to the fact that our respondents are rating the performance of their provider rather than their own.

Finally, our survey included a number of control variables. As in Study 1, we assessed the type of outsourced service (i.e., product *vs.* service), firm size, and knowledge sharing propensity. This study also incorporated a number of additional control variables. First, we asked respondents to report the *location* of their outsourcing provider (i.e., within *vs.* outside the European Union) because prior research suggests that embedded knowledge is more easily transferred between entities located in similar economic, political, and cultural conditions (Hansen 1999; Poppo and Zenger 1996). Second, we assessed (using a new four-item scale) our respondent firm's level of *explorative learning* because the desire to learn and improve should motivate firms to seek an outsourcing provider with a high level of customer orientation (Rindfleisch and Moorman 2003). Finally, we assessed (using a new 5-item scale) our respondent firm's level of financial, human, physical, and technological *resources* because prior research suggests that these resources influence a firm's ability to develop and deploy its capabilities (Eisenhardt and Martin 2000).

*Psychometric Assessment.* The psychometric assessment conducted for this second study largely mirrors the steps conducted for our first study. Thus, we began by assessing the dimensionality of our key measures by forming a CFA model that specified each item as loading on its latent construct while allowing these constructs to covary. The fit indexes for this model met or exceeded recommended levels (CFI = .93, NNFI = .92, RMSEA = .05), and all items displayed strong loadings (average loading = .76) on their latent constructs. We then calculated the composite reliabilities of each construct and found that they exceeded the recommended standard (range: .77 to .87). Likewise, as shown in the Appendix, these measures also display solid coefficient alphas (i.e.,  $\alpha > .70$ ).

We tested the discriminant validity of these measures by employing Fornell and Larcker's (1981) test of shared variance between pairs of latent constructs. The results of this test reveal that the squared correlations between these pairs of constructs do not exceed the average variance extracted for any single latent construct ( $p < .001$ ). Thus, our key measures display adequate discriminant validity. We assessed potential common method variance (CMV) using the modified marker variable technique employed in Study 1. As before, our discounted correlation analysis partialled out the effect of the second lowest item-to-item bivariate correlation among our key measures (in this case,  $r = .02$ ). A comparison of the full versus discounted correlations for our key measures showed that the results were again similar in sign and significance. For example, the full correlation between provider customer orientation and customer service provision was .46 ( $p < .05$ ), while the discounted correlation was .42 ( $p < .05$ ). Hence, it appears that our results are not confounded by CMV bias

Finally, in order to validate our perceptual measure of customer service provision, we asked respondents to report two objective indicants of customer service provision (i.e., the number of monthly customer complaints received about the service provider and the average time the service provider takes to respond to a customer request). Both of these two objective indicants were negatively correlated with customer service provision (complaints:  $r = -.21$ ,  $p < .05$ ; time:  $r = -.30$ ,  $p < .05$ ). This pattern of results increases confidence in the construct validity of our key dependent variable.

### ***Findings***

In Study 1, our key predictor variable was outsourcing provider customer orientation. In contrast, Study 2 assesses the customer orientation of both the outsourcing provider and its client. According to the principle of homophily (Brown and Reingen 1987; McPherson, Smith-Lovin

and Cook 2001), highly customer-oriented client firms are more likely to select more highly customer-oriented provider firms. In other words, provider customer orientation is endogenously related to client customer orientation. In order to account for this endogenous quality, we employ a full information maximum likelihood approach (Maddala 1977). This approach seeks to maximize the full log-likelihood function via the simultaneous estimation of two regression models: (1) predictors of the level of provider customer orientation, and (2) predictors of the level of provider customer service provision. The results of both models are displayed in Table 3.

As shown in our first regression model (Table 3b), client customer orientation is positively related to provider customer orientation ( $\beta = .18, p < .01$ ). This suggests that highly customer-oriented clients are more likely to select highly customer-oriented providers. This finding is consistent with prior research in the inter-organizational domain, which indicates that firms prefer to cooperate with similar rather than dissimilar partners (Brown and Reingen 1987; McPherson, Smith-Lovin and Cook 2001). Among our control variables, only explorative motives ( $\beta = .42, p < .01$ ) and provider resources are associated with provider customer orientation ( $\beta = .22, p < .01$ ). These findings are congruent with the notion that customer-oriented firms display a high level of learning capacity and have strong organizational resources (Day 1994; Kohli and Jaworski 1990).

We now turn to our second regression model, which provides our hypotheses testing. As shown in Table 3c, provider customer orientation is positively related to customer service provision ( $\beta = .73, p < .01$ ). This finding replicates our Study 1 results and lends further verification to Hypothesis 1. Moreover, consistent with our findings from Study 1, the effect of provider customer orientation is strengthened by the presence of high levels of collaborative ties between client and provider ( $\beta = .20, p < .01$ ). As before, to understand the nature of this

interaction, we conducted a slope analysis (Aiken and West 1991; Jaccard et al. 1990). This analysis reveals that the effect of provider customer orientation is substantially weaker for low levels (i.e., one standard deviation below the mean) of collaborative ties ( $\beta_{\text{Low}} = .52, p < .05$ ) than for high levels (i.e., one standard deviation above the mean) of collaborative ties ( $\beta_{\text{High}} = .93, p < .01$ ). This finding provides added verification for Hypothesis 2.

In this second study, we suggest (Hypothesis 4) that single sourcing would enhance the impact of provider customer orientation on customer service provision. Our results confirm this hypothesis ( $\beta = .34, p < .05$ ). As expected, a slope analysis indicates that the effect of provider orientation is substantially stronger under conditions of single sourcing ( $\beta_{\text{High}} = 1.07, p < .01$ ) than under conditions of multiple sourcing ( $\beta_{\text{Low}} = .73, p < .01$ ). In sum, single sourcing appears to be an effective mechanism for enabling the transfer of localized and tacit knowledge between an outsourcing client and its provider and stimulating the provider firm to effectively deploy its customer orientation.

Our final hypothesis posited that the relationship between provider customer orientation and customer support provision is stronger when the client firm possesses a high level of customer-orientation. Our results support this hypothesis ( $\beta = .19, p < .05$ ). A slope analysis reveals that the effect of provider customer orientation is considerably stronger for clients with a high level (i.e., one standard deviation above the mean) of customer orientation ( $\beta_{\text{High}} = .92, p < .01$ ) than for clients with low levels (i.e., one standard deviation below the mean) of customer orientation ( $\beta_{\text{Low}} = .54, p < .05$ ). Thus, although a client firm outsources its customer service activities to an external provider, it still benefits from maintaining a strong customer focus in house.

As shown in Table 3c, among our three moderating variables, only collaborative ties displayed a significant direct effect upon customer support provision ( $\beta = .41, p < .01$ ). Among our control variables, only knowledge sharing propensity ( $\beta = .14, p < .05$ ) and provider location (i.e., non-EU) ( $\beta = -.51, p < .05$ ) had a significant effect on customer service provision. We examine the implications of both of these relationships in our General Discussion.

## **GENERAL DISCUSSION**

Our research objective was to obtain a better understanding of the role of provider customer orientation in outsourcing relationships. We suggested that in complex service settings such as outsourcing, a provider's customer orientation assumes the role of a second-order capability. In addition, we posited that the deployment of this second-order capability is facilitated via various strategic mechanisms that establish close linkages between client and provider. We examined this conceptual framework using two separate studies across two different cultural settings (i.e., India and the Netherlands) and two different viewpoints (i.e., provider and client) of the outsourcing relationship. Despite their different settings and viewpoints, both studies provide broad support for our core thesis that, in complex customer relationships, such as outsourcing, customer orientation is a second-order capability that is more effectively deployed when the client and provider are closely linked via high levels of collaborative ties, equity investment, or single sourcing. In this final section, we discuss the implications of our findings for both marketing thought and practice and also identify the limitations and future directions that emanate from our research.

### **Theoretical Implications**

In order to understand the role of provider customer orientation in an outsourcing setting, our conceptualization blends two major theoretical streams: customer orientation and resources

and capability theory. We believe that our findings hold relevance for both of these important areas of research.

Marketing scholars have traditionally viewed customer orientation as either an organizational process (e.g., Jaworski and Kohli 1993) or as an element of an organization's culture (e.g., Narver and Slater 1990). An emerging body of research, however, suggests that customer orientation can also be conceptualized as an organizational capability (e.g., Gebhart et al. 2006; Grewal and Tansuhaj 2001; Menguc and Auh 2006). Our research lends additional support to this emerging perspective and helps reveal some interesting new features. Most importantly, our research suggests that, much like other key strategic capabilities, the effective deployment of a provider's customer orientation requires access to localized market knowledge. In an outsourcing setting, however, this access is complicated by the fact that the bulk of this market knowledge may reside within the client firm's tacit organizational routines and processes. Due to these tacit qualities, a firm's investment in building its customer orientation capabilities may be a specific investment that is more difficult to transfer to relationship partners than commonly believed. Thus, complex customer service settings such as outsourcing present a formidable challenge in terms of ensuring that this localized and tacit knowledge can be effectively transmitted to relationship partners to maximize customer orientation deployment.

As noted earlier, the customer orientation literature has mainly focused on the importance of a firm's *internal* ability to effectively sense and respond to their customer's dynamic and evolving needs (e.g., Day 1994; Deshpandé et al. 1993; Kohli and Jaworski 1990; Narver and Slater 1990). Thus, while a large body of research indicates that this capability is positively related to performance in cases where firms are directly serving their clients (e.g., Kirca et al. 2004), the role of customer orientation in more complex customer service settings has received

scant attention. We believe that this is an important research gap, as the connection between firms and customers is increasingly being mediated by external providers. Our research addresses this gap and finds that while highly customer-orientated outsourcing providers appear to be more effective at meeting customer needs, client firms can adopt a variety of strategic mechanisms (i.e., collaborative ties, equity ownership, single sourcing) to bolster their partner's effectiveness in deploying their customer orientation. Thus, our research introduces a new class of intermediate (i.e., inter-organizational) level moderators to the customer orientation literature, which to date, has largely focused on micro (e.g., firm innovativeness) or macro (e.g., environmental turbulence) level moderators (Han, Kim, and Srivastava 1998; Im and Workman 2004; Kirca et al. 2005). These types of intermediate level moderators may be particularly important for firms in a variety of complex organizational settings beyond outsourcing, such as joint ventures, alliances, and acquisitions.

We believe that our findings also present theoretical implications for research on resources and capabilities. Much like the customer orientation literature, research on resources and capabilities has largely focused on a firm's internal assets and routines (e.g., Grewal and Tansuhaj 2001; Morgan, Kaleka, and Katsikeas 2004 ; Slotegraaf, Moorman, and Inman 2003; Vorhies and Morgan 2005). However, in recent years, a growing number of scholars have recognized that firms may also benefit from access to resources and capabilities held by external partners (e.g., Johnson, Sohi, and Grewal 2004; Lee, Lee and Pennings 2001; Park, Chen and Gallagher 2002). An emerging stream of research has adopted the term, "second-order" to describe this type of externally-held resources and capabilities (Lin 2001; Wuyts et al. 2004). Our research enriches and extends this emerging perspective by indicating that outsourcing represents an important setting in which firms can benefit from leveraging the second-order capabilities of

their outsourcing providers. Hence, our research suggests that outsourcing providers represent not just a cost minimization tactic but also a means of enhancing a firm's own strategic capabilities.

Our research also highlights a heretofore hidden aspect of second-order capabilities; their optimum deployment may be at least partially dependent upon the internal (i.e., first-order) capabilities of the focal firm. In other words, first-order and second-order capabilities appear to share a synergistic relationship. This synergy is exemplified in our Study 2 finding that client customer orientation is positively related to provider customer orientation and that outsourcing relationships characterized by high levels of both types of customer orientation are particularly effective at customer service provision. Likewise, a synergistic relationship between client and provider knowledge is evident in our finding (in Study 2) that the ability of an outsourcing provider to serve its client's customer is enhanced by its client's propensity to engage in knowledge sharing activities. This synergistic relationship is also likely to apply to other types of situations in which both first-order and second-order capabilities are operative such as product development outsourcing or new product alliances.

### **Managerial Implications**

In addition to enhancing theoretical understanding of customer orientation deployment, we believe that our research also presents a number of implications for firms interested in outsourcing their customer service activities or engaging in other forms of complex customer service relationships (e.g., consulting arrangements, alliances, acquisitions). Most importantly, our findings suggest that although client firms may successfully outsource customer support, they benefit from maintaining a strong customer orientation in-house. We suggest that a strong internal customer orientation is likely to enhance outsourcing success in at least two distinct ways. First, according to the principle of homophily (i.e., the intrinsic tendency of social actors to locate

and bond with actors with similar characteristics), highly customer-oriented client firms should be better able to *identify* and select highly customer-oriented service providers (Brown and Reingen 1987; McPherson et al. 2001). Second, research on organizational learning suggests that a common vision, congruent goals, or similar cultures facilitate inter-organizational knowledge sharing (Lee 2001; Lee and Kim 1999; Nonaka and Takeuchi 1995). Thus, a highly customer-oriented client firm should be better able to *educate* a highly customer-oriented provider about its customers' needs. In other words, while a firm may be able to successfully outsource its customer service function, it should not outsource its customer orientation capability.

Our findings also suggest that although outsourcing clients should search for providers with a strong customer orientation, they also need to establish close linkages with their providers in order to maximize customer service provision. Our findings indicate that these linkages can be established via a variety of strategic mechanisms, including both relational-based mechanisms such as the establishment of high levels of collaborative ties as well as structural-based mechanisms such as acquiring an equity investment in one's provider or employing a single sourcing strategy. All of these linkages represent mechanisms through which a client firm can effectively transmit and share its accumulated and embedded customer knowledge with its provider. Thus, we suggest that client firms should consider the feasibility of each of these various strategic mechanisms when evaluating a potential outsourcing provider.

Finally, although it was not our main focus, our research provides some guidance in terms of helping managers decide where to locate their outsourcing operation. In recent years, there has been considerable political debate about the negative implications of outsourcing operations to providers located in remote countries populated by cheap labor (Davis 2004; Economist 2003; 2001b; Kinetz 2003). Our findings unveil a new consideration for this debate, as our findings

from Study 2 suggest that providers located in remote locales (i.e., non EU nations) appear to be less capable in terms of service provision compared to providers located in proximate locales (i.e. EU nations). Compared to providers in proximate locations, those located more distally to their client likely face stiffer cultural and linguistic barriers, which should increase the costs of coordination. This finding is particularly intriguing, as it challenges the popular notion that physical distance is increasingly irrelevant and that work is a fully fungible endeavor (Friedman 2005; Ganesan et al. 2005). Indeed, in terms of customer service provision, the world has not yet flattened and there still appears to be some important distinction between Bangalore versus Bethesda (cf. Friedman 2005). Thus, while the current trend of outsourcing customer support activities to inexpensive and remote locations may produce cost savings, this savings may come at the expense of effective customer service provision.

### **Limitations and Future Research Directions**

Although our findings are based on two distinct studies with strong psychometric properties, we acknowledge that these studies have limitations in terms of both sample and measures. These limitations point toward promising directions for future research.

First, we recognize that our findings are constrained by the fact that we were unable to obtain a matched sample of clients and providers given outsourcing providers' reluctance to identify their outsourcing partners (cf. Carson 2007; Engardio et al. 2005). Although matched dyads are rare in the marketing literature, they are highly desired due to their ability to examine the congruence (and deviations) in partners' perceptions (Anderson and Weitz 1992). These types of studies, however, are extremely difficult to conduct and seldom seen in the marketing literature (for exceptions, see Homburg and Furst 2005; Johnson et al. 1996). As an alternative, our two studies provide an expansive examination of the role of customer orientation in a wide

variety of outsourcing settings across multiple nations and a diverse array of customer service functions. Moreover, in spite of the differences in organizational level (i.e., client vs. provider) and cultural setting (India vs. Europe), the results of our two studies display a high degree of congruence, which enhances the generalizability of our findings.

In addition to the constraints of our sample, we also recognize the limitations of our measures. Perhaps most importantly, we acknowledge that our measures of customer service provision came from either the provider (i.e., Study 1) or the client (i.e., Study 2). Ideally, we would have preferred to obtain a customer-based measure such as customer satisfaction scores. Unfortunately, due to confidentiality concerns, we were unable to obtain this type of data. While we acknowledge this limitation, we also believe that our assessments of customer service provision are positively correlated with customers' perceptions, as customer satisfaction is a commonly tracked statistic and likely to be top of mind among managers involved in customer support activities. Moreover, prior research suggests that managers often track customer perceptions and thus, have a fairly accurate understanding of how their customers perceive them (Im and Workman 2004). Nevertheless, future research would be helpful in terms of validating our findings by collecting customer satisfaction (as well as other relevant metrics) at the level of the individual customer.

## **CONCLUSION**

Based on both current trends and future predictions (e.g., Farrell, Laboissiere, and Rosenfeld 2006; McGovern and Quelch 2005), the outsourcing of customer service activities will experience steady and continued growth in the near future. To date, this phenomenon has received scant attention from marketing scholars. Our research suggests that outsourcing is an intriguing research topic, as it presents a host of new challenges and opportunities. In particular,

our theory and findings indicate that outsourcing presents added complexities to our traditional understanding of customer orientation, as a client firm must (1) maintain a high level of in-house customer orientation, (2) seek out highly customer-oriented providers, and (3) establish strategic mechanisms for ensuring that these providers are able and willing to effectively deploy their customer orientation on its behalf. Thus, in order to maximize their likelihood of successful customer service provision, outsourcing clients should adopt an expanded view of customer orientation as a second-order capability that resides within both client and provider processes and routines, as well as within their strategic inter-organizational linkages. Thus, our research elevates outsourcing from its commonly held perception as a mere economic consideration to an important strategic challenge that is relevant to a broad domain of marketing phenomena, including customer orientation, strategic capabilities, and inter-organizational relationships. We hope that this expanded view of both outsourcing and customer orientation stimulates marketing thought while enriching marketing practice.

## APPENDIX

### Key Measures

| Measure   | Study                         | Items  |
|---|-------------------------------|--|
| Provider<br>Customer<br>Orientation                                       | India<br>$\alpha = .75$       | <i>Based on your experiences with this service provider, please rate to what extent you agree with the following statements regarding the service provider's internal processes and routines.</i>  |
| <i>Source:</i><br>Adapted from<br>Kohli, Jaworski,<br>and Kumar<br>(1993) | Netherlands<br>$\alpha = .80$ | <ol style="list-style-type: none"> <li>1. This (Our) firm has procedures in place to help us understand and address different types of customer support issues</li> <li>2. This (Our) firm has processes to systematically analyze customer information</li> <li>3. This (Our) firm has interdepartmental meetings at least once a quarter to discuss market trends and developments</li> <li>4. Data on customer satisfaction are disseminated at all levels in this (our) firm on a regular basis</li> </ol>   |
| Client<br>Customer<br>Orientation   | Netherlands<br>$\alpha = .82$ | <i>Please rate to what extent you agree with the following statements regarding your firm's existing internal processes and routines.</i>  |
| <i>Source:</i><br>Adapted from<br>Kohli, Jaworski,<br>and Kumar<br>(1993) |                               | <ol style="list-style-type: none"> <li>1. Our firm has procedures in place to help us understand and address different types of customer support issues</li> <li>2. Our firm has processes to systematically analyze customer information</li> <li>3. Our firm has interdepartmental meetings at least once a quarter to discuss market trends and developments</li> <li>4. Data on customer satisfaction are disseminated at all levels in our firm on a regular basis</li> </ol>   |
| Customer<br>Service Provision   | India<br>$\alpha = .79$       | <i>Please focus on your firm's customer-related capabilities since you began providing the customer support activities for this particular client firm.</i>  |
| <i>Source:</i><br>New scale   |                               | <ol style="list-style-type: none"> <li>1. We have become effective in terms of translating customer needs into specifications for new products</li> <li>2. We are effective in terms of communicating customer needs to the client for which we provide customer support</li> <li>3. In general, our customer-serving abilities are excellent</li> <li>4. In general, our market-response abilities are excellent</li> <li>5. We are able to offer services that help attract new customers</li> <li>6. Our knowledge of our client's needs allow us to proactively develop and offer solutions to their problems</li> </ol> |

**APPENDIX**  
**Key Measures (continued)**

| <b>Measure</b>  | <b>Study</b>                  | <b>Items</b>  |
|---|-------------------------------|---|
| Collaborative ties  | India<br>$\alpha = .77$       | <i>Please rate the degree to which the following statements describe the current status of your firm's relationship with this service provider</i>  |
| <i>Source:</i><br>Adapted from Rindfleisch and Moorman (2003) | Netherlands<br>$\alpha = .84$ | <ol style="list-style-type: none"> <li>1. Our interactions with this organization can be defined as "mutually gratifying"</li> <li>2. We expect to be interacting with this organization far into the future</li> <li>3. We would be willing to make adjustments to help out our service provider when faced with special problems/circumstances</li> <li>4. Our service provider would be willing to make adjustments to help out when we are faced with special problems/circumstances</li> </ol> |
| Provider Resources  | Netherlands<br>$\alpha = .83$ | <i>Based on your experiences with this service provider and your own estimation of their organization compared to other potential service providers, please rate this service provider's abilities in the following areas:</i>  |
| <i>Source:</i><br>Adapted from Moorman and Rust (1999)        |                               | <ol style="list-style-type: none"> <li>1. Technology to support service delivery</li> <li>2. Employee knowledge of customer needs</li> <li>3. Quality of technical support personnel</li> <li>4. Availability of funds to pursue new developments in customer support delivery</li> <li>5. Physical infrastructure and facilities</li> </ol>  |
| Explorative Learning  | Netherlands<br>$\alpha = .84$ | <i>How important were each of the following factors in your decision to outsource this activity?</i>  |
| <i>Source:</i><br>New Scale                                   |                               | <ol style="list-style-type: none"> <li>1. Enhancing long-term customer orientation</li> <li>2. Accessing new skills and technology</li> <li>3. Improving the quality of customer service</li> <li>4. Exploring ways to offer enhanced service to customers</li> </ol>   |
| Knowledge Sharing Propensity                                  | India<br>$\alpha = .71$       | <i>Please rate the degree to which the following statements describe the current status of your firm's relationship with this service provider/client firm:</i>   |
| <i>Source:</i><br>New Scale                                   | Netherlands<br>$\alpha = .74$ | <ol style="list-style-type: none"> <li>1. Our organizations regularly exchange information related to changes in the technology of this product or service</li> <li>2. Our organizations exchange information about unexpected problems as soon as possible</li> <li>3. It is common to establish joint teams with our outsourcing partner to solve operational problems in this relationship</li> </ol>  |

Note: All measures were assessed on a 7-point Likert scale.

**TABLE 1****Sample Description**

|                                       | <u>Study 1 (India)</u> | <u>Study 2 (The Netherlands)</u> |
|---------------------------------------|------------------------|----------------------------------|
| <b>Firm Size (employees)</b>          |                        |                                  |
| Less than 1000 employees              | 50%                    | 95%                              |
| 1000-5000                             | 20%                    | 5%                               |
| Over 5000                             | 30%                    | 0%                               |
| <b>Industry</b>                       |                        |                                  |
| Business products & services          | 69%                    | 88%                              |
| Consumer products and services        | 31%                    | 12%                              |
| <b>Outsourcing Experience</b>         |                        |                                  |
| Less than 2 years                     | 43%                    | 30%                              |
| 2-5 years                             | 45%                    | 31%                              |
| 5+ years                              | 12%                    | 39%                              |
| <b>Ownership</b>                      |                        |                                  |
| Equity participation                  | 22%                    | na                               |
| No equity participation               | 78%                    | na                               |
| <b>Number of Outsourcing Partners</b> |                        |                                  |
| Single outsourcing partner            | na                     | 43%                              |
| Multiple outsourcing partners         | na                     | 57%                              |

**TABLE 2**

**Measurement Statistics**

| <b>Study 1 (India)</b>              |  |            |            |            |            |            |            |            |            |            |             |
|-------------------------------------|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|
| <i>Measure</i>                      | <i>Mean<br/>(Standard<br/>Deviation)</i> | <i>(1)</i> | <i>(2)</i> | <i>(3)</i> | <i>(4)</i> | <i>(5)</i> | <i>(6)</i> |            |            |            |             |
| (1) Provider's customer orientation | 5.86<br>(.82)                            | .77        |            |            |            |            |            |            |            |            |             |
| (2) Collaborative ties              | 5.98<br>(.83)                            | .48*       | .77        |            |            |            |            |            |            |            |             |
| (3) Customer service provision      | 6.05<br>(.62)                            | .42*       | .49*       | .80        |            |            |            |            |            |            |             |
| (4) Ownership                       | na                                       | -.19*      | -.17*      | -.12       | -na        |            |            |            |            |            |             |
| (5) Knowledge sharing propensity    | 5.80<br>(.83)                            | .54*       | .58*       | .50*       | .11        | .72        |            |            |            |            |             |
| (6) Firm size                       | na                                       | .06        | .12        | .18*       | .13        | -.02       | na         |            |            |            |             |
| <b>Study 2 (The Netherlands)</b>    |  |            |            |            |            |            |            |            |            |            |             |
| <i>Measure</i>                      | <i>Mean<br/>(Standard<br/>Deviation)</i> | <i>(1)</i> | <i>(2)</i> | <i>(3)</i> | <i>(4)</i> | <i>(5)</i> | <i>(6)</i> | <i>(7)</i> | <i>(8)</i> | <i>(9)</i> | <i>(10)</i> |
| (1) Provider's customer orientation | 4.71<br>(.79)                            | .81        |            |            |            |            |            |            |            |            |             |
| (2) Client's customer orientation   | 4.61<br>(1.32)                           | .26*       | .82        |            |            |            |            |            |            |            |             |
| (3) Collaborative ties              | 4.84<br>(1.22)                           | .53*       | .24*       | .77        |            |            |            |            |            |            |             |
| (4) Customer service provision      | 4.09<br>(1.28)                           | .46*       | .25*       | .50*       | .87        |            |            |            |            |            |             |
| (5) Exclusive sourcing              | na                                       | -.01       | .15*       | -.04       | -.07       | na         |            |            |            |            |             |
| (6) Explorative motive              | 4.01<br>(1.53)                           | .51*       | .09        | .30*       | .37*       | -.09       | .85        |            |            |            |             |
| (7) Provider resources              | 4.37<br>(1.01)                           | .40*       | .19*       | .45*       | .40*       | -.01       | .34*       | .83        |            |            |             |
| (8) Knowledge sharing propensity    | 4.31<br>(1.38)                           | .49*       | .29*       | .51*       | .45*       | .05*       | .30*       | .29*       | .80        |            |             |
| (9) Location                        | na                                       | .09        | .14        | .05        | .00        | -.03       | .13        | .10        | -.08       | na         |             |
| (10) Firm size                      | na                                       | .04        | -.13       | .10        | -.04       | 0.11       | .00        | .08        | -.06       | .04        | na          |

\*Correlations are significant at  $p < .05$ ; Diagonals contain construct composite reliabilities

**TABLE 3**  
**Estimation Results for Study 1 and Study 2**

**A) Study 1 (Dependent variable = Customer service provision)**

| Variable                             | Coefficient<br>(standard error) | p-value |
|--------------------------------------|---------------------------------|---------|
| Provider customer orientation (PROR) | .10 (.05)                       | .08     |
| Collaborative ties (COT)             | .24 (.05)                       | .01     |
| Ownership (OWN)                      | -.01 (.11)                      | .95     |
| PROR x COT                           | .12 (.05)                       | .01     |
| PROR x OWN                           | .21 (.12)                       | .09     |
| Knowledge sharing propensity         | .09 (.06)                       | .19     |
| Product-service dummy                | .01 (.09)                       | .93     |
| Client size                          | .08 (.05)                       | .09     |
| Constant                             | 5.38 (.39)                      | .01     |

$R^2_{\text{adjusted}} = .39$

**B) Study 2 (Dependent variable = Provider customer orientation)**

| Variable                    | Coefficient<br>(standard error) | p-value |
|-----------------------------|---------------------------------|---------|
| Client customer orientation | .18 (.07)                       | .01     |
| Explorative motive          | .42 (.07)                       | .01     |
| Provider resources          | .22 (.07)                       | .01     |
| Product-service dummy       | .04 (.14)                       | .79     |
| Client size                 | .01 (.01)                       | .75     |
| Constant                    | -.04 (.10)                      | .72     |

$R^2_{\text{adjusted}} = .31$

**C) Study 2 (Dependent variable = Customer service provision)**

| Variable                             | Coefficient<br>(standard error) | p-value |
|--------------------------------------|---------------------------------|---------|
| Provider customer orientation (PROR) | .73 (.19)                       | .01     |
| Collaborative ties (COT)             | .41 (.10)                       | .01     |
| Exclusive sourcing (EXCL)            | -.20 (.16)                      | .22     |
| Client customer orientation (CLOR)   | -.04 (.09)                      | .68     |
| PROR * COT                           | .20 (.08)                       | .01     |
| PROR * EXCL                          | .34 (.17)                       | .05     |
| PROR * CLOR                          | .19 (.09)                       | .03     |
| Provider location                    | -.51 (.26)                      | .05     |
| Knowledge sharing propensity         | .14 (.06)                       | .03     |
| Product-service dummy                | .20 (.19)                       | .29     |
| Client size                          | .01 (.01)                       | .81     |
| Constant                             | 3.20 (.35)                      | .01     |

$R^2_{\text{adjusted}} = .35$

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