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Offshore Outsourcing of Customer Relationship Management: Conceptual Model and Propositions

Abstract

Customer relationship management (CRM) refers to a firm's activities relating to the establishment and maintenance of relationships with its customers. Outsourcing refers to a firm contracting with another firm to perform activities that were erstwhile performed within the firm. The emergence of a low cost, high speed, global communication network and information processing network has enabled an increasing number of firms based in more industrialized market economies to outsource specific elements of their CRM to offshore vendors located in countries with significantly lower labor costs. Building on scholarly insights from multiple literature streams, we present a conceptual model delineating the antecedents and consequences of CRM offshore outsourcing intensity. We discuss in brief the location choice decision for offshore outsourcing, an issue that's closely linked to the offshore outsourcing decision. The growing tend toward offshore outsourcing of CRM also serves to bring to light issues that merit careful managerial consideration such as customers' perceptions of the customer orientation of firms that offshore outsource their CRM versus the firm's espoused customer orientation, the economics of CRM offshore outsourcing versus CRM automation, and the evolution of hierarchical CRM organizations toward market based CRM business systems.

Keywords: Offshore outsourcing, cross-border outsourcing, offshoring, customer relationship management, global marketing, international marketing

Introduction

Customer relationship management (CRM), broadly construed, encompasses a business' processes and activities directed at establishing and maintaining relationships with customers. Kumar and Ramani (2004) view CRM as the process of achieving and maintaining ongoing relationships with customers across multiple customer touch points, and entailing differential and tailored treatment of individual customers based on their expected response to specific marketing initiatives, such that the contribution of each customer to the overall profitability of the firm is maximized. Recent research focusing on the effect of CRM processes and technology on market-based performance outcomes (Reinartz, Krafft and Hoyer 2004; Mithas, Krishnan and Fornell 2005; Jayachandran et al. 2005), and the mediating roles of business strategy (Reimann, Schilke and Thomas 2010) and new product performance (Ernst, Hoyer, Krafft and Krieger 2011) on the relationship between CRM and firm performance highlight the importance of CRM related issues to achieving and sustaining superior performance.

An important issue in regard to the organization of CRM is whether specific CRM related activities should be performed in-house or outsourced. In the aftermath of the emergence of a low cost, high speed, global communication network and information processing network during the past decade, a growing number of firms, particularly those based in more industrialized market economies such as the U.S., Canada, Japan and Western European countries, have outsourced specific modules of their CRM to firms located in countries with significantly lower labor costs (i.e. offshore outsourcing or cross-border outsourcing of CRM). However, there is a dearth of research that sheds insights into how factors such as firm characteristics and industry characteristics influence the extent to which individual firms outsource offshore their CRM related business processes and activities and the performance consequences of their behaviors.

Against this backdrop, this paper proposes a model delineating the antecedents and outcomes of CRM offshore outsourcing intensity. Outsourcing intensity has been conceptualized and operationalized as the ratio of a firm's fixed assets to sales (*Economist* 2000), a measure of the degree of *weightlessness of the firm.* Along similar lines, we conceptualize *CRM offshore outsourcing intensity* as the *ratio* of a business' expenditures accounted for by CRM offshore outsourcing to its total CRM related expenditures. Our exploration of the antecedents and consequences of CRM offshore outsourcing intensity builds on and complements some of the other business contexts in which researchers have explored outsourcing related issues, such as global sourcing strategies for knowledge intensive business services (Murray, Kotabe and Westjohn 2009) and offshoring of information technology services (Bhalla, Sodhi and Son 2008; Zaheer, Lamin and Subramani 2009).

A number of recent studies pertaining to the size of the market for information technology (IT) services, business process outsourcing (BPO) and CRM software also serve to highlight the need for research in the area. For instance, according to a 2011 report by the Gartner Group, worldwide end-user spending on IT services during 2010 totaled $793 billion (Gartner Group 2011). A recent study by the International Data Corporation (IDC) projects the BPO market to grow at a five-year compounded annual growth rate (CAGR) of 5.3%, reaching $191 billion in 2015, and the U.S. market at a five-year CAGR of 3.3%, reaching $85.2 billion in 2015 (International Data Corporation 2011). Another study by IDC reports that the global market for CRM software grew to $8.5 billion in the first half of 2010, a 12.8% increase compared to the first half of 2009 (International Data Corporation 2010)[1].

The remainder of the paper is organized as follows. First, we first present a brief overview of outsourcing, offshore outsourcing, CRM offshore outsourcing, and location choice

for offshore outsourcing. Next, we propose a conceptual model delineating the antecedents and consequences of CRM offshore outsourcing intensity. Scholarly insights from *accounting* (Abbott 1988; Rittenberg and Covaleski 1997), *economics* (Williamson 1975; Eisenhardt 1985), *information technology* (Clemons, Reddy and Row 1993; Gurbaxani and Whang 1991), *manufacturing* (Lonsdale and Cox 2000; Chan and Chung 2002), *marketing* (Reinartz and Kumar 2003; Zeithaml, Rust and Lemon 2001) and *supply chain management* (Sterman 1989; Lee, Padmanabhan and Whang 1995) literature provide the theoretical and contextual underpinnings for development of the conceptual model. In their paper on international outsourcing of services (IOS), Kedia and Lahiri (2007, p. 24) note: "Significant attempts have been made by scholars to explain the practice of outsourcing and IOS utilizing various theoretical perspectives. … In this regard, we concur with Niederman et al. (2006) that it is practically impossible to understand IOS through the use of a single theoretical lens." In this vein, this paper draws on agency theory, institutional theory, resource dependence theory, transaction cost economics, the structure-conduct-performance paradigm and other relevant literature to shed insights into the antecedents of CRM offshore outsourcing intensity.

Outsourcing, Offshore Outsourcing, CRM Offshore Outsourcing and Location Choice for Offshore Outsourcing: An Overview

Outsourcing and Offshore Outsourcing

Outsourcing refers to the practice of a firm contracting with an external organizational entity to perform an activity that was erstwhile performed in-house. The outsourced activity could either be the manufacturing of a *good* or the performance of a *service*. Outsourcing to third-party firms based in other countries is commonly referred to as *offshore outsourcing*, and sourcing from a firm's subsidiaries located in other countries as *offshoring*. *Cross-border*

outsourcing, international outsourcing and *transnational outsourcing* are some of the other terms that have been used in literature interchangeably in reference to *offshore outsourcing*. Both offshore outsourcing and offshoring essentially constitute international trade in goods and services (Mankiw and Swagel 2006). The term outsourcing is generally used only in reference to performance of activities that were *erstwhile* performed within the boundaries of the firm and not those which have been *traditionally* sourced by firms to external entities. Cases in point in a marketing context include the widespread practice of firms contracting with advertising agencies and public relations firms to provide specific services. In contrast, in recent years, a growing number of firms have resorted to offshore outsourcing of specific modules of CRM that were erstwhile performed within the boundaries of the firm.

Outsourcing *per se*, is not a fundamentally new organizational phenomenon. The outsourcing of specific business processes and activities and their impact on organizational performance have been extensively examined in a number of disciplines including accounting, economics and information technology under the rubrics of transaction cost economics and sociology of professions. Framing the outsourcing decision as a variant of the *make versus buy* decision, researchers have argued that the outsourcing decision is essentially a tradeoff between diseconomies of scope and the transaction costs that stem from search frictions and incomplete contracts (Abraham and Taylor 1993). Prior research on the drivers of outsourcing identify lower wages, transfer of demand uncertainty to the vendor and access to specialized skills and resources as the key factors influencing a business' decision to outsource (Abraham and Taylor 1993). Empirical research provides evidence of a positive relationship between outsourcing and the financial performance of firms (Gao 2005; Friedrich and Gellrich 2004).

Authors have also focused on the potential shortcomings of viewing the outsourcing decision as essentially a *make versus buy* decision. For instance, Contractor et al (2010) contend that the outsourcing decision is more than a make versus buy decision; it also encompasses issues such as technology access, risk sharing, joint development and comparative economies of scale in the outsourcing organization versus the organization to which performance of specific business processes and activities are outsourced. In specific reference to knowledge process outsourcing (KPO), Mudambi and Tallman (2010) contend that characterization of KPO as a *make-or-buy* decision may be inappropriate, and that it should be viewed as a *make-or-ally* decision. Mudambi and Venzin (2010) note that offshoring and outsourcing are best analyzed as an aspect of the global disaggregation of the value chain and as an attempt by firms to combine the comparative advantages of geographic locations with their own resources to maximize their competitive advantage. Along similar lines, Contractor, Kumar, Kundu and Pederson (2010) characterize the task faced by firms in a global competitive strategy context as entailing two inter-related decisions: (1) optimal disaggregation of a firm's value chain into as many constituent activities as organizationally and economically meaningful; and (2) deciding on the geographic location for performing for each value chain activity and the organizational mode for performing the activity.

Authors have also drawn attention to the potential limitations of basing the make versus buy decision solely on cost considerations to the exclusion of other considerations such as the overall strategy of a business (see McIvor 2008). Extant literature suggests that the sustainability of competitive positional advantages (i.e. cost and differentiation advantages) is a function of the extent to which businesses are able to erect mobility barriers that make it difficult for competitors to imitate (Reed and DeFillippi 1990). This, in turn, depends on the extent to which

the skills and resources underlying the positional advantages are valuable, rare, inimitable, and non-substitutable (see Barney 1991). In this regard, Porter (2001) draws attention to whether increased outsourcing poses the risk of eroding the differentiation advantages that a business might strive to accrue, as a consequence of the greater likelihood of homogenization of skills and resources.

CRM Outsourcing and CRM Offshore Outsourcing

Customer relationship management outsourcing (CRM outsourcing) refers to a firm contracting with other firms to perform activities relating to the establishment and/or maintenance of relationships with its customers that were erstwhile performed within the boundaries of the focal firm. In line with prior research (Reinartz, Krafft and Hoyer 2004; Mithas, Krishnan and Fornell 2005; Jayachandran et al 2005), we conceptualize CRM as encompassing both *customer interfacing activities* (e.g., direct marketing, sales, customer support and customer service, and frequency/loyalty programs) and *customer non-interfacing, back office activities* (e.g., customer analytics, data mining and data warehousing) that serve as a backbone for effective management of a firm's customer interfacing relationship management activities. A firm's customer non-interfacing back office CRM activities (e.g. analysis of the relationship history of individual customers for purposes such as classifying them as high versus low profit customers, and high versus low transaction volume customers) are often the basis for its decisions pertaining to customer interfacing CRM activities (e.g. whether to route an incoming telephone call from a customer to an in-house CRM staff or to the CRM staff of the outsourced vendor firm and speed of response).

During the past decade, the confluence of several technological forces at a global level has enabled firms to outsource to offshore vendors a broad range of business processes and

services including CRM. In particular, the emergence of a low cost, high speed, global communication network and information processing network has been conducive to offshore outsourcing of businesses processes and services that are amenable to being decomposed into discrete modules. The *information-centric modules* of such services, by virtue of their digitizability, lend themselves to being outsourced to vendors based in countries with significantly lower labor costs and/or off-shored to overseas subsidiaries located in countries with significantly lower labor costs. A low cost, high speed, global communication network and information processing network is particularly conducive to information-centric services and information-centric modules of services being outsourced offshore. The potential to achieve significant cost reductions through offshore outsourcing spans digitization of information (e.g. image scanning from analog to digital, text scanning from analog to digital, text reentry from analog to digital, text transcription from analog [voice] to digital form), information storage and retrieval, and information analysis based actionable knowledge creation.

Offshore Outsourcing: Determinants of Location Choice

Closely linked to the offshore outsourcing decision is the location choice decision for offshore outsourcing. Graf and Mudambi (2005; p. 258) present a model for location decisions for outsourcing of IT-enabled business processes, with *location attractiveness* as the dependent variable, variables relating to *infrastructure* (infrastructure quality, infrastructure cost, and geographic distance), *country risk* (economic risk and political risk), *government policy* (tax rate and investment incentives), and *human capital* (workforce size and availability, business processes outsourcing experience, technical and language skills, compensation levels and cultural distance) as predictor variables, and *firm-specific factors* (outsourcing objectives and experience) and *situation-specific factors* (nature of the business process and customer

expectations) as moderator variables. While Graf and Mudambi (2005) examine the location choice issue in the broad context of IT-enabled business processes, in more recent studies, authors have focused on the issue in the context of more specific IT-enabled services (ITES). For instance, Zaheer, Lamin and Subramani (2009), distinguish between ITES on the basis of the following task characteristics:

- *System-intensiveness*: Tasks that entail significant levels of support in task execution with computer-based applications or processes.
- *People-intensiveness*: Tasks that need to be performed by individuals and tasks that involve specialized skills and the application of intuition and judgment.
- *Routineness and repetitiveness*: Tasks that can be well described in an abstract form and codified in the form of standard operating procedures.
- *Creativity and imagination*: Tasks that involve specialized knowledge, problem solving, judgment and expertise.

Based on the above distinctions, the authors develop a three-way typology of cluster capabilities -- (1) system-based capabilities, (2) people-embedded routine capabilities, and (3) people-embedded creative capabilities -- and posit that in the aggregate, firms can be expected to locate in clusters with greater levels of all three of these capabilities. As regards the likely differential effects of these capabilities, they posit that the effect of access to system-embedded capabilities on location choice will be greater than the effect of people-embedded capabilities. The rationale being, while the former exhibit externalities which are likely to be win-win for all firms (e.g. aggregation of firms with intensive system needs attracting system providers, and competition between system providers raising quality and/or lowering prices for all firms), the latter may have the property of a zero-sum game (i.e. new entrants acquiring people-embedded capabilities

at the expense of incumbent firms by recruiting from incumbent firms, and in turn facing the risk of losing them to future entrants).

Doh, Bunyartatavej and Hahn (2009) distinguish between three broad groups of offshore outsourced services based on their: (1) *interactivity* – services that entail real-time person-to-person information exchanges; (2) *repetition* – the degree to which providers replicate, produce and perform services in quantity; and (3) *innovativeness* – the degree to which firms apply new ideas and approaches to the processes in question. They posit that offshore outsourcing of services that are salient on the (a) *interactive dimension* will gravitate to country locations with relatively higher levels of *information and communication infrastructure* investment and relatively high *use of the home-country language of the foreign investing firm*, (b) *repetitive dimension* will gravitate to country locations with relatively low wages and relatively *stable political environments*, and (c) *innovative dimension* will gravitate to country locations with relatively higher levels of a *well-educated workforce*.

Mudambi and Venzin (2010) highlight the interplay of comparative advantage and competitive advantage in determining the optimal location for performing value chain components (offshoring decision) as well as the boundaries of the firm (outsourcing decision -- control decision). They posit that: (1) under conditions of erosion of the comparative advantage of the home country for performing a specific activity, the location decision is likely to have primacy over the control decision; and (2) under conditions of the erosion of the competitive edge of a firm in performing a specific activity or the activity being identified as a core competence that defines a firm's business model, the control decision is likely to have primacy over the location decision.

Based on an in-depth analysis of offshoring and outsourcing in a manufacturing industry and a service industry, Mudambi and Venzin (2010) highlight the static and dynamic aspects of value chain location and control. They note that based on cost and competency considerations, firms locate low-value activities in emerging markets and developing economies, and high-value activities in advanced economies (static). High-valued added activities migrate to emerging markets and developing economies due to the effects of *spillover processes* (advanced market economy firms moving more sophisticated activities to emerging market economies) and *catch up processes* (firms in emerging economies, in their roles as outsourcers for firms in advanced economies undertaking more sophisticated tasks and learning from them through technology spillovers due to mobility of personnel and observation of business practices) (dynamic). With the preceding literature overview as a backdrop, in the next section, we present a conceptual model and propositions with CRM offshore outsourcing intensity as the focal construct.

Antecedents and Consequences of CRM Offshore Outsourcing Intensity: Conceptual Model

Figure 1 presents a conceptual model delineating the antecedents and consequences of CRM offshore outsourcing intensity. Here, with the outer denoting the recent emergence of an infrastructural environment conducive to increased offshore outsourcing of CRM (i.e. a low cost, high speed, global communication network and information processing network), 12 characteristics spanning the macro environment, industry, firm, product-market and task (Boxes A to E) are modeled as drivers of CRM offshore outsourcing intensity. In the sections that follow, we elaborate on the conceptual rationale underlying specific linkages delineated in Figure 1 and formally state the research propositions. For greater clarity, the specific linkages that the various sections relate to are shown parenthetically. For example, the hypothesized link

between the IT standardization characteristic of the macro environment (item #1 in the box labeled "A") and CRM offshore outsourcing intensity (box labeled "F") is shown in Figure 1 as link "A1 → F."

Given that the *prototypical* 21st century, multinational firm is a *multi-business* firm, the propositions are stated at the business unit level. The portfolio of large multi-business firms is generally comprised of businesses that compete in industries which differ in respect of characteristics such as competitive intensity (Proposition 2), and the nature of their product offerings (Proposition 9). Although some of the propositions make reference to firm level constructs (constructs pertaining to organizational phenomena which permeate across all businesses in a firm's portfolio, such as organizational culture in P5), their use in a model in which the unit of analysis is a business unit is defensible. All of the propositions also hold for single business firms, since in these firms, the firm and business refer to one and the same entity. We assume the business unit as the managerial level at which the CRM offshore outsourcing decisions are made in multi-business firms. However, an outcome of CRM offshore outsourcing intensity modeled in Figure 1 pertains to decisions that are likely to be made at the corporate rather than the business unit level (see: P15 -- propensity to acquire vendors to whom CRM is outsourced). Also, the propositions pertaining to the financial performance consequences of CRM offshore outsourcing intensity of a business modeled in Figure 1 (P14 and P17) are measured as effects at the firm level (holding, all else constant).

Insert Figure 1 about Here

Antecedents of CRM Offshore Outsourcing Intensity

Macro environment characteristic: Information technology standardization (Link A1→ F). The macro environment in which a business competes encompasses multiple dimensions such as

economic, political, social, and technological environment. While some of these, such as the economic, political and social environment can be idiosyncratic to individual country markets, the information technology (IT) that undergirds cross-national inter-firm relationships transcends individual country markets. We define *information technology standardization* as, the degree of compatibility of information technology (IT) systems employed in an inter-firm relationship with the larger universe of inter-firm relationships. Issues linked to the degree of outsourcing or the boundaries of the firm have been extensively researched in the fields of economics, manufacturing and strategic management. Amongst the myriad explanations advanced, the transaction cost economics (TCE) framework has received considerable attention in marketing. TCE predicts that the structure of the firm evolves in a manner that minimizes the sum of the production and transactions cost (Williamson 1975). As outlined in the TCE-based framework by Anderson and Gatignon (1986), the efficiency of an entry mode is a function of transaction-specific assets, external uncertainty, internal uncertainty and free-riding potential. The make or buy decision has been traditionally considered as a tradeoff between economies of scale of outside procurement and the transaction cost advantages of internal production. Providing a point of departure from classical thinking in production economics, TCE predicts that the decision to procure from the market could have adverse effects in situations where the asset specificity of investments made by a firm (buyer) to coordinate with suppliers could spark opportunistic behaviors by suppliers. In other words, the prospect that relationship specific investments needed to coordinate with the market could have negligible value outside of the relationship raises the specter of the firm (buyer) being held hostage by suppliers during contract renegotiations.

Advances in information technology and the Internet infrastructure, in recent years, have made possible transmission of vast amounts of information at a fraction of the costs that

prevailed prior to these advances. This implies a substantial reduction in transaction costs incurred by firms in monitoring, communicating and renegotiating with the market. Furthermore, due to the development of common standards or open systems infrastructure (e.g. the Internet), investments made by the outsourcing firm to coordinate specific activities with the firm to which it outsources specific CRM related activities are less transaction specific. This mitigates concerns about opportunistic behavior by suppliers. Hence:

P1: The greater the degree of IT standardization at the macro environment level, the greater the intensity of CRM offshore outsourcing by businesses.

Industry characteristic: Competitive intensity (B1→ F). *Competitive intensity* refers to the magnitude of effect that firms have on the prospects of survival of their rivals (Barnett 1997). Research on the influence of industry characteristics on the behavior of firms in the industry has a long tradition in economics and strategic management (Bain 1956; Porter 1980). According to the industrial organization economics school of thought, industry structural characteristics (e.g. intensity of competition) determine the conduct of businesses in an industry and conduct determines industry performance (Bain 1956). In other words, competition is a form of market structure determined behavior (i.e. behavior determined by exogenous factors not directly under the influence of the firm). Highly competitive industries are typically characterized by excess capacity, which forces firms to resort to frequent price cuts in order to wrest market share from competitors. Key to the long-term viability of price reductions is the ability of the firm to achieve cost reductions through actions such as offshore outsourcing. Case in point, in order to stay competitive in the realms of manufacturing and product development in an environment of excess manufacturing capacity, firms are faced with the imperative to outsource to offshore vendors specific assembly operations. This suggests that CRM offshore outsourcing will be

pursued to a greater extent in industries characterized by higher levels of competitive intensity. Hence:

P2: The greater the intensity of competition in an industry, the greater the intensity of CRM offshore outsourcing by businesses in the industry.

Industry characteristic: Technological intensity (Link B2→ F). *Technological intensity* refers to the breadth and depth of scientific and technical knowledge involved in the creation of an industry's product offerings (Srinivasan, Lilien and Rangaswamy 2004). Swan and Ettlie (1995) note that firms in technology intensive industries tend to rely on joint ventures and strategic alliances in order to compete in the marketplace. This is because, businesses competing in technology intensive industries need to commit to specialized assets, which are deployed in a series of upstream and downstream technologies along the value chain. As a result, firms tend to be more dependent on external entities for requisite resources (Pfeffer and Salancik 1978). Researchers have also argued that firms competing in industries characterized by low technological intensity may be viewed as stable in terms of their core transformational processes upon which their infrastructure is based (Lepak, Takeuchi and Snell 2003). This is because job demands associated with such industries are standardized and repetitive. In contrast, as technological intensity increases, there is a growing need for proprietary knowledge that places a premium on the ability to adapt to different task requirements. As a consequence, firms tend to gravitate toward flexible arrangements such as outsourcing in order to combat uncertainties associated with high-technology environments (Lepak, Takeuchi and Snell 2003).

A related literature stream in strategic management argues that the rationale underlying the outsourcing of functional activities by a firm is to focus on its core competencies. According to this school of thought, the real sources of advantage for firms are found in the management's

ability to consolidate corporate wide technologies and production skills into competencies that empower businesses to compete effectively in changing environments (Prahalad and Hamel 1990). Based on the preceding arguments, we propose the following:

P3: The greater the technological intensity of an industry, the greater the intensity of CRM offshore outsourcing by businesses in the industry.

Industry characteristic: Mimetic isomorphic behaviors (Link B3→ F). *Mimetic isomorphism* refers to the behavior of firms to achieve conformance through imitation of behaviors of successful benchmarked groups (DiMaggio and Powell 1983). Drawing from organizational sociology and economics, this stream of research contends that under conditions of uncertainty, social influence processes lead firms to imitate the policies of firms with whom they are connected through social ties. Organizations mimic the behaviors of other reputable organizations, since doing so enables managers to legitimize their actions. The presence of such mimicking behaviors or bandwagon effects has been observed in diverse organizational settings and contexts. For example, U.S. health care providers have been observed to demonstrate high levels of "me too" behaviors (see Fiol and O'Connor 2003).

Extant research, though sparse, has investigated outsourcing and inter-firm alliances under the rubric of mimetic isomorphism (Lacity and Hirschheim 1993; Pangarkar and Klein 1998). According to these studies, the widespread outsourcing to offshore destinations, as evidenced in the popular press, is a reflection of managers justifying or legitimizing their actions to stakeholders (e.g. top management, board of directors, investors) by virtue of the mimetic nature of their behaviors. For instance, according to the managing partner of a leading venture capital firm, in an environment in which a large percent of the companies it funds pursue offshore outsourcing, a firm not seeking to employ offshore resources in its business operations would

need to provide a very compelling case to its board members (*Business Week* 2004).This provides a plausible explanation of the prevalence of outsourcing arrangements to a greater degree in some industries than in other industries.

P4: The greater the propensity among managers to seek legitimacy for their actions with stakeholders by engaging in conformable behaviors, the greater the intensity of CRM offshore outsourcing by businesses in the industry.

Firm characteristic: Organization culture (Link C1→ F). O*rganizational culture* refers to shared values and beliefs that provide norms for behaviors in organizations (Deshpande, Farley and Webster 1993). Studies investigating inter-firm cooperation suggest that organizational culture is a key variable that impacts on sourcing arrangements (i.e., start-up ventures, joint ventures, acquisitions, licensing or internal development) sought by the firm (Barkema and Vermeulen 1998). Although, organizational culture has been conceptualized in myriad ways, there seems to be a broad consensus that at a fundamental level, organizational culture encompasses the basic underlying assumptions and espoused values that manifest as organizational behaviors and artifacts. Based on differences in respect of two key dimensions (formal versus informal and internal focus versus external focus), the competing values framework (CVF) distinguishes between four organizational cultures: market (external and formal), adhocracy (external and informal), hierarchy (internal and formal), and clan (internal and informal).

In reference to differences in their strategic emphases, Deshpande, Farley and Webster (1993) note that market cultures tend to emphasize competitive advantage and market superiority, adhocracy cultures innovation, growth and new resources, hierarchy cultures stability, predictability and smooth operations, and clan cultures developing human resources,

commitment and morale. They further note that in market cultures, transactions are governed by market mechanisms and the key measure of organizational effectiveness is productivity achieved through these market mechanisms. The competing set of values is found in clan cultures, with the emphasis being on cohesiveness, participation and teamwork. Adhocracy cultures, according to Deshpande, Farley and Webster, emphasize entrepreneurship, creativity and adaptability and key measures of organizational effectiveness are finding new markets and new direction for growth. The competing set of values is found in hierarchy cultures that stress order, rules and regulations. Transactions are under the control of surveillance, evaluation and direction. These differences suggest that organizations characterized by a market based culture will pursue CRM offshore outsourcing to a greater degree relative to organizations characterized by an adhocracy, clan or hierarchy based cultures. Hence:

P5: The intensity of CRM offshore outsourcing will be greater in businesses with a market based culture than in businesses with an adhocracy, hierarchy or clan based culture.

Firm characteristic: Self-service technologies (Link C2→ F). Self-service technologies (SST) refer to technology interfaces that enable customers to utilize services without the direct involvement of employees of the service provider in service delivery (see: Zhu, Nakata, Sivakumar and Grewal 2007, p. 492). Emerging research in marketing and related fields (e.g., information systems) point to the increasing use of Internet as a self-service technology (SST) tool in order to lower costs of sales and service operations (Meuter et al. 2000). Insights gleaned from the business press reveal that an increasing number of businesses are actively promoting web based customer self-service by employing carrots and stick strategies (i.e. providing incentives and/or imposing penalties) in an effort to promote the migration of customers to the online environment. For instance, a number of businesses in the airline and financial services

industries levy an additional fee for sales transactions handled by human agents. In the limit, CRM in a business is likely to be dispersed across multiple entities: (1) CRM activities performed within the boundaries of the firm, (2) CRM activities outsourced to vendor firms within border and across borders, (3) CRM activities offshored to subsidiaries of the firm, and (4) CRM activities transformed into self-service eCRM (Electronic Customer Relationship Management) activities in an Internet-enabled online interactive environment. To the extent more of the CRM activities are transformed into self-service technologies enabled CRM activities, fewer CRM activities need to be outsourced. Hence:

P6: The greater a business' investment in self-service technologies, the lower the intensity of CRM offshore outsourcing.

Firm characteristic: Customer equity (C3→ F). *Customer equity* refers to the aggregate of the net present value of all future cash flows accruing from all customers after accounting for the costs incurred (Blattberg and Deighton 1996; Hogan et al. 2002). There is growing interest amongst researchers and practitioners in marketing to link customer assets to financial performance (Blattberg and Deighton 1996; Hogan et al. 2002; Rust, Lemon and Zeithaml 2004; Kumar and Morris 2007). This stream of research with theoretical underpinnings in the resource based view of the firm (Barney 1991; Hunt and Morgan 1995) and capital asset pricing models (Merton 1973) argues that customers are risky assets providing variable cash flows over their lifetime. Consequently, firms need to allocate their resources judiciously amongst high, moderate and low value customer groups rather than offering the same level of service to all customer groups. Some of the traditional techniques employed to delineate customer groups include segmentation of customers based on demographics / psychographics, the recency-frequency-monetary value (RFM) framework, customer tenure and customer inter-purchase time (Kelly and

Thibaut 1987; Bolton 1998). With rapid developments in information technology, individual level customer-centric measures such as customer lifetime value, the net present value of all future cash flows accruing from current customers, has been receiving increasing attention (Reinartz and Kumar 2003). In a related vein, researchers have proposed customer equity, a firm level measure, as a metric to guide the firm's strategic marketing actions (Rust, Lemon and Zeithaml 2004).

Recent developments in information technology, communication technology and the Internet infrastructure have made it possible for firms to make better decisions by mining vast amounts of customer information emerging from multiple channels such as telephone and e-mail. For instance, mobile phone service providers tend to offer different levels of customer service depending on the profitability tier of the customer group. While highly profitable customers receive highly personalized service, less profitable customers are offered an automated menu-driven service. In other situations, the firm's state-of-the art call centers, after identifying the tier that the individual customers belong to, manage customer relationship in-house or route calls to outsourcing partners (Zeithaml, Rust and Lemon 2001; Winer 2001).

Firms vary considerably in their ability to attract and maintain customers with high potential value because of the skills and resources required to integrate information from various functions (e.g. sales, service and marketing). Research suggests that some firms capture only a small part of a relatively large group of customers with high potential value (Verhoef and Donkers 2001). Because, a firm's growth pattern and its customer base profiles are closely related, how a firm organizes its CRM functions (i.e., in-house versus outsource) assumes greater importance (Dickson et al. 2005). Therefore, we expect that firms with higher customer equity are more

likely to rely on in-house personnel for CRM whereas firms with lower customer equity would outsource offshore more aspects of CRM. Hence:

P7: The greater the customer equity of a business, the lower the intensity of CRM offshore outsourcing.

Product-market Characteristic: Extent of opportunities for product bundling (Link D1→ F). *Product bundling opportunities* refer to the extent of availability of products that have the potential for being promoted together with the focal product, in addition to being marketed as a standalone product[2]. For example, a business with a presence in the computer hardware and software sectors has the choice of promoting its computer hardware and software together as a bundle, and/or as separate products. Furthermore, with increasing product digitizability, the product complementarity space has expanded beyond analog primary and analog complementary products to include numerous other combinations of analog and digital offerings (Varadarajan and Yadav 2002).

Marketing of product bundles can enable firms to achieve higher revenues in the face of consumers' willingness to pay for added value (Stremersch and Tellis 2002). In addition to the potential for higher revenues, the information collected about customers can also be valuable to a business by virtue of the insights it offers into the reservation prices of customers. To the extent products that have the potential for being promoted together with the focal product are available (in addition to the focal product being marketed as a standalone product), successful cross-selling will require close integration between the sales and the service components of CRM because of information interdependencies (see: Thomas, Blattberg and Fox 2004). Consequently, CRM activities for products characterized by high bundling opportunities are likely to be performed in-house rather than outsourced.

P8: The greater the degree of product bundling opportunities available to a business, the lower the intensity of CRM offshore outsourcing.

Product-market characteristic: Tangibles-dominant versus intangibles-dominant products (Link D2→ F). Tangibles-dominant and intangibles-dominant products differ in respect of equipment intensity (the former being relatively more equipment intensive) and people intensity (the latter being relatively more people intensive). Such differences are likely to be manifested in different competitive strategies pursued by businesses (see Bharadwaj, Varadarajan and Fahy 1993). The possibility of centralizing production facilities and decentralizing customer contact facilities is conducive to the achievement of scale economies to a greater extent in tangibles-dominant product categories (Upah 1980). In contrast, the inseparability of the production and consumption of services in intangibles-dominant products renders centralization of production difficult. The diminished potential for achieving economies of scale in intangibles-dominant products further implies constant pressure on businesses to contain costs while continuing to offer quality customer service. Thus, compared to producers of tangibles-dominant products, producers of intangibles-dominant products are more likely to strive to more optimally allocate customer service resources (e.g., call center, labor) across various customer segments. Therefore, we expect such producers to partially dismantle integrated customer service and support centers and migrate to decentralized structures.

P9: The intensity of CRM offshore outsourcing will be greater in businesses that are primarily producers of intangibles-dominant products compared to businesses that are primarily producers of tangibles-dominant products.

Product-market characteristic: Demand cyclicality (Link D3→ F). *Demand cyclicality* refers to the degree of variability in consumer demand. Product-markets characterized by greater

fluctuations in consumer demand increase the volatility of cash flows and also the risk to the firm. Traditionally, businesses have combated supply chain distortions by fine tuning different elements of the marketing mix. Case in point is the *'Everyday Low Pricing'* (EDLP) strategy employed by retailers (e.g. Walmart). The rationale underlying pursuit of an EDLP strategy is to ensure a smooth flowing supply chain by minimizing the fluctuations in consumer demand, or in other words minimizing the 'Bullwhip effect' (Lee, Padmanabhan and Whang 1997)[3]. Research in the fields of supply chain management, manufacturing and production suggests that firms typically tend to build their production capacity to meet steady demand and outsource production to cover uncertain demand (see Srivastava, Shervani and Fahey 1998). Similarly, in regard to CRM, in cyclical markets, there will be a greater tendency amongst firms to outsource CRM activities because of the recurring need to scale up operations to meet the seasonal demand.

P10: The greater the degree of demand cyclicality of the product offerings of a business, the greater the intensity of CRM offshore outsourcing by the business.

Task characteristic: Programmability (Link E1→ F). Among the theoretical explanations that have been advanced relating to whether firms should perform tasks in-house or contract it from the market, agency theory and transaction cost economics (TCE) have generated widespread interest in marketing (Bergen, Dutta and Walker 1992; Rindfleisch and Heide 1997). Agency theory seeks to resolve problems that occur when the goals of the principal and the agent diverge and it is difficult and expensive for the principal to verify the behavior of the agent (Eisenhardt 1985). In marketing, issues investigated under the rubric of agency theory include a firm's relationships with advertising agencies, market research suppliers, retailers' agents and manufacturers' representatives (Bergen, Dutta and Walker 1992; Anderson 1985).

The outsourcing of CRM can be conceptualized as an agency problem, with the outsourcing firm being the principal, and the vendor that performs the tasks of establishing and maintaining customer relationships on behalf of the firm, the agent. CRM activities span a wide spectrum ranging from routine provision of product information, executing promotional campaigns and responding to account queries to complex tasks for which script development (or codification) is inherently difficult. Stated differently, while several activities in the realm of CRM are inherently programmable (e.g., direct mail, marketing promotions), they differ in respect of their levels of programmability -- the degree to which the behavior that the agents should engage in can be specified in advance. Firms are more likely to outsource CRM related tasks characterized by high levels of programmability compared to tasks characterized by low levels of programmability. This is because, vendor behavior for tasks characterized by high levels of programmability approach the full information situation, thereby facilitating relatively easier monitoring of vendor behavior and closer alignment of the goals of the firm and the vendor (principal and agent).

P11: The greater the degree of task programmability in a business, the greater the intensity of CRM offshore outsourcing by the business.

Task characteristic: Outcome measurability (Link E2→ F). *Outcome measurability* refers to the degree of difficulty involved in measuring the output of the tasks performed by agents on behalf of the principal (Eisenhardt 1985). According to agency theory, performance assessment related difficulties complicate attempts to write an incentive based contract, which in turn renders the market mechanism less efficient (Bergen, Dutta and Walker 1992). This problem is less acute for hierarchically managed tasks, where periodic performance reviews of agents could enable better evaluation of soft outcomes, in turn facilitating the design of superior compensation

systems. Behavior based contracts and outcome based contracts constitute alternatives available to a principal to align the goals and risk preferences of the principal and the agent.

In a sales context, whereas behavior based contracts would entail use of call reports, field observations and narrow spans of control to evaluate agent behavior, outcome based contracts would entail compensating agents based on a commission based compensation structure tied to outcome measures such as number of units sold (Bergen, Dutta and Walker1992). In a study involving a choice between direct sales force versus manufacturer's representatives, Anderson (1985) notes that difficulty in evaluating sales performance is likely to influence firms to employ direct sales force to achieve desired objectives. Along similar lines, firms are likely to employ outcome based contracts to compensate agents based on tangible outcomes in the realm of marketing (e.g. response rate of direct mail campaigns, coupon redemption rates of promotional offers) and customer service (e.g. problem resolution time, first call resolution, e-mail response time and chat abandonment rates). At the same time, tasks whose outcomes tend to be soft (e.g. resolution of complex customer complaints) are likely to be managed in-house through behavior based contracts. Hence, we expect CRM tasks characterized by higher outcome measurability to be associated with higher levels CRM offshore outsourcing intensity.

P12: The greater the degree of outcome measurability of a CRM task, the greater the intensity of CRM offshore outsourcing by the business.

Consequences of CRM Offshore Outsourcing Intensity

Customer relationship performance (Link F → G). An outcome of particular relevance from the standpoint of research in marketing and marketing practice is whether CRM offshore outsourcing intensity has a positive or deleterious effect on *customer relationship performance* defined as the affective, cognitive and behavioral outcomes of customers' CRM related

interactions with a firm. The reputational implications of offshore outsourcing of CRM have been examined in marketing literature from a stakeholder theory perspective (Tate, Ellram and Brown 2009) and information integration theory perspective (Roggeveen, Bharadwaj and Hoyer 2007). Tate, Ellram and Brown point out that since offshore outsourcing directly affects consumers' interactions with the firm, there is a risk of damage to the reputation of the firm as a consequence of customers viewing the offshore service provider as the face of the focal firm. Roggeveen, Bharadwaj and Hoyer note that the consequences of migrating call service centers to offshore locations are greater for less well known firms compared to well known firms. They suggest that while migrating call service centers to offshore locations may be an acceptable strategy for well known firms, less well known firms should exercise greater caution in pursuing such a course of action. Summarizing prior research on the topic, Thelen, Yoo and Magnini (2011) note that front-office offshoring has been found to negatively impact perceived service quality, customer satisfaction and customer loyalty. Although, it is conceivable that CRM outsourcing can enhance a business' customer relationship performance as a result of the specialized CRM skills and infrastructure of third-party vendors, the preponderance of arguments suggest a negative relationship between CRM offshore outsourcing intensity and customer relationship performance. Hence P13:

P13: There will be a negative relationship between CRM offshore outsourcing intensity of a business and its customer relationship performance.

Financial performance (Link F → H). Researchers have evinced interest in relating marketing actions to financial metrics in order to demonstrate the value added by marketing actions (Srivastava, Shervani and Fahey 1998; Rust, Lemon and Zeithaml 2004). According to the shareholder value framework, marketing activities contribute to financial performance by

enhancing cash flows and reducing risks associated with future cash flows (see Srivastava, Shervani and Fahey 1998). A review of extant research on the stock market response to information systems outsourcing suggests that such arrangements does create shareholder value (Loh and Venkatraman 1992; Gao 2005). Along similar lines, CRM offshore outsourcing intensity can be expected to positively impact on the financial performance of the focal firm. Offshore outsourcing of key CRM activities, enables businesses to create value by migrating from a fixed cost regime to a variable cost (pay-as-you go) regime. The financial gains accruing to the focal firm is therefore a consequence of investors expecting a reduction in the firm's fixed assets and fixed expenses (e.g. number of call centers and in-house CRM personnel). In addition, higher degrees of CRM offshore outsourcing intensity also provides a signal that the risk faced by the business is likely to diminish because of easier scalability (e.g. call overflow capabilities) offered by outsourcing vendors. Hence:

P14: There will be a positive relationship between the CRM offshore outsourcing intensity of a business in a multi-business firm and the financial performance of the firm.

Given that P13 posits an inverse relationship between CRM offshore outsourcing intensity and customer relationship performance, a negative relationship between CRM offshore outsourcing intensity merits and financial performance is within the realm of possibilities. This would be the case, if the negative effect of CRM offshore outsourcing on a business' customer relationship performance leads to a sizeable number of customers terminating their relationship with the business. This would result in the business experiencing a sharp decline in revenues and in turn profits. Proposition P14 is predicated on the assumption that the positive effect on profit of the cost savings that a business achieves through offshore outsourcing of CRM will more than

offset the negative effect of CRM offshore outsourcing on customer relationship performance (P13) on financial performance.

Propensity to acquire suppliers of CRM services (Link F → I). As the intensity of CRM offshore outsourcing increases in scope and magnitude, information shared by a business with its vendor becomes increasingly strategic because of the vendor's expertise in managing customer relationships. Aron and Singh (2002) use the concept of *revenue distance,* the distance between the locus of revenue capture by the business and the process that supports the capture of revenue, to gain insights into the migration path of business processes. They predict that with increased outsourcing, firms will have a tendency to opt for captive or fully owned service centers rather than relying on contract based partnerships.

On the one hand, recent CRM offshore outsourcing related trends suggest that the boundaries of firms may be shrinking due to breakdown of hierarchically organized tasks. On the other hand, over time, the size of firms could conceivably increase as they acquire vendors in an effort to create captive CRM handling capabilities by leveraging a global workforce. Such possibilities are suggestive of the need for managers to anticipate the end game while structuring the outsourcing arrangement by including exit provisions in order to prevent unplanned acquisitions that might erode shareholder value (see Bleeke and Ernst 1995). These arguments suggest:

P15: The greater the intensity of CRM offshore outsourcing by a business, the greater the propensity to acquire vendors providing CRM services for the business.

Moderating Effects

Moderating effect of relational information processes on relationship between CRM outsourcing intensity and customer relationship performance (J on Link F → G).

Information technology based CRM enables businesses to acquire customer knowledge from

interactions, disseminate this knowledge to employees, and access and use this knowledge for customizing product offerings and forecasting product demand (Mithas, Krishnan and Fornell 2005). A report by Gartner notes that a significant number of failures related to CRM outsourcing are primarily attributable to businesses outsourcing CRM ceding control to the vendor resulting in poor mapping of the customer information processes from the customer's perspective. Along similar lines, it has been observed that outsourcing CRM could disrupt a firm's information processes resulting in the CRM strategy and implementation to diverge (*CRMToday* 2005). Therefore, we expect CRM offshore outsourcing intensity to have a less positive impact on customer relationship performance when a business' relational information processes (i.e., information reciprocity, information capture, information integration, information access, and information use) deteriorate, thus affecting its speed and effectiveness of customer response (see Jayachandran et al. 2005). Hence:

P16: The negative relationship between intensity of CRM offshore outsourcing and customer relationship performance will be moderated by a business' relational information processes. The relationship will be less negative for businesses with greater relational information processes than for businesses with lower relational information processes.

Moderating effect of propensity to acquire suppliers of CRM services on relationship between CRM outsourcing intensity and financial performance (I on Link F → H). A review of extant literature on mergers and acquisitions suggests that acquisitions tend to result in the erosion of value for the acquirer (Datta, Pinches and Narayanan 1992). This is primarily because the acquiring firm may have to contend with the indigestibility of assets owned by the target firm in addition to the post-integration problems (e.g. mismatch of organizational cultures, organization resizing) that usually accompanies acquisitions (Hennart 1988). Therefore, we

expect that the propensity of the focal firm to acquire vendors with specialized CRM capabilities would potentially dissipate the value created through CRM offshore outsourcing intensity.

P17: The positive relationship between intensity of CRM offshore outsourcing by a business in the portfolio of a multi-business firm and financial performance of the firm will be moderated by the firm's propensity to acquire vendor(s) to whom CRM activities are outsourced by the business. The strength of the relationship will be weaker under conditions of greater propensity to acquire vendor(s).

Discussion

Directions for Future Research

Empirical testing of model, operationalization of constructs and data sources. Empirical testing of the proposed model encompassing both antecedents and outcomes of CRM offshore outsourcing intensity, as well as a truncated model whose scope is limited to the antecedents of CRM offshore outsourcing intensity (P1 to P12) constitute potential avenues for future research. In addition to CRM offshore outsourcing *intensity* as the focal construct, the truncated model can also be empirically tested with CRM offshore outsourcing *propensity* (the predisposition of a business to outsource offshore its CRM) as the focal construct.

Empirical testing of specific linkages delineated in the proposed model or a truncated model can be achieved through a combination of primary (e.g. use of extant scales for measuring organizational culture) and archival data (e.g. objective measures of technological intensity). Table 1 provides an overview of potential measures for operationalization of constructs delineated in the proposed model. Our intent here is to provide broad directions in regard to empirical testing of the model. A detailed discussion of issues relating to validity and reliability of specific measures is beyond the scope of this paper.

CRM offshore outsourcing intensity is defined as the *ratio* of a business' expenditures accounted for by CRM offshore outsourcing to its total CRM related expenditures. Alternatively, the ratio of a business' CRM offshore outsourcing related deal values to sales can be employed as a measure of CRM offshore outsourcing intensity. Researchers have employed the signed contract value between the business and the vendor as a proxy for the outsourcing intensity for various business processes (Friedrich and Gellrich, 2004). Alternatively, as detailed in Table 1, ordinal measures can also be employed to elicit information about the extent to which a business' CRM activities are outsourced offshore.

Insert Table 1 about Here

Empirical settings for model testing. In addition to testing the proposed model using cross-sectional data at a given point in time, it may also be desirable to test the model employing a longitudinal design that allows sufficient variance in certain constructs, in turn allowing the effect of the phenomenon to be reflected in the findings. For example, having sufficient variance in the information technology standardization construct might require measuring this variable at different points in time. A multi-country study would provide sufficient variance in the focal construct of CRM outsourcing intensity, along with more generalizable results.

Model refinement and extension. With the exception of P16 and P17, the proposed conceptual model primarily focuses on main effects. Further refinement of the proposed model, building on literature insights on organizational and environmental contingencies that might moderate these relationships, constitutes a potential avenue for future research. Consider for instance, P1 which posits that the *greater the degree of IT standardization at the macro business environment level, the greater will be the intensity of CRM offshore outsourcing by businesses.* An organizational characteristic that's potential moderator of this relationship is the degree of internationalization

of the firm. That is, *the greater the degree of internationalization of the firm, the stronger will be the positive relationship between IT standardization at the macro business environment level and CRM offshore outsourcing intensity*.

Location choice model for CRM offshore outsourcing. While the proposed model focuses on drivers of CRM offshore outsourcing intensity, as noted in an earlier section, a related issue is location choice for performing specific CRM related business processes and activities. Developing a model focusing on location attractiveness for CRM offshore outsourcing as a complement to the proposed model constitutes a potential avenue for future research. As summarized in an earlier section, extant literature on location choice suggests that the drivers of *location attractiveness* are *location specific* [e.g. infrastructure, country risk, government policy, human capital, firm-specific factors and situation-specific factors in Graf and Mudambi (2005)]. In contrast, as proposed in Figure 1, the drivers of *CRM offshore outsourcing intensity* (e.g., macro-environment characteristics, industry characteristics, firm characteristics, product-market characteristics and task characteristics) are *focal business specific*. A number of studies focusing on outsourcing and location issues in specific reference to services in general, as well as specific services [e.g., business process (BP) services and information technology enabled services (ITES)] (see: Graf and Mudambi 2005; Doh, Bunyartatavej and Hahn 2009; Zaheer, Lamin and Subramani 2010) serve to provide the conceptual underpinnings for developing a model on drivers of location choice for CRM offshore outsourcing. The commonalities between offshore outsourcing of IT-enabled business processes and CRM offshore outsourcing (broadly construed, the former subsumes the latter) suggest that the model advanced by Graf and Mudabmi for location decisions for outsourcing of IT-enabled business processes may also hold in the context of location decisions for CRM offshore outsourcing.

Managerial Implications

Extant literature on information and knowledge use in organizations broadly distinguishes between *instrumental use* (e.g. action oriented use of information, such as using the findings of a marketing research study to decide whether or not to introduce a new product), *conceptual use* (e.g. use of information for general enlightenment such as developing a knowledge base of a marketing phenomenon) and *symbolic use* (e.g. use of research findings reported in a scholarly journal article or a consultant's report to justify a course of action that a decision-maker has already decided to pursue (see: Menon and Varadarajan 1992).In empirical research studies, the scope of managerial implications can span both potential instrumental use (i.e. implications for marketing practice) and conceptual use. Chief among the issues generally addressed under the rubric of implications for marketing practice are the nature and scope of changes that organizations should consider making in areas such as their marketing strategies (e.g. changes that organizations should consider making in their channel strategy, innovation strategy, pricing strategy, etc.), policies, systems and structure in light of the research findings. However, in the absence of supporting empirical evidence for any model that may have been proposed and/or research propositions advanced, conceptual papers do not lend themselves to addressing action implications. Although potential implications for marketing practice can be addressed in a conceptual paper by qualifying them as contingent upon the model and research propositions being empirically supported in follow-up studies, such qualification implies that conceptual use is the only appropriate during the intervening period. Realistically, even in empirical studies, it may be appropriate to qualify the discussion of implications for marketing practice stemming from the research findings as contingent upon the findings being corroborated in follow-up replication and extension studies. The rationale for the above caveat is the inherent

risks in viewing the findings of a single empirical study as conclusive evidence of cause and effect or the direction and strength of a relationship. In a conceptual paper, under the rubric of managerial implications, it may be more appropriate to elaborate on issues that managers should give further thought to in the broader context of the phenomenon that's focus of the study, the proposed model and propositions. Perhaps, it may be more apt to characterize issues addressed from this vantage point as *managerial ruminations* (issues that managers should reflect on or ponder about) than as *managerial implications*.

CRM offshore outsourcing and customer orientation: Espoused versus perceived. Narver and Slater (1990, p. 21) conceptualize *market orientation* as the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers, and thereby enables a business to achieve superior performance. They further distinguish between three behavioral components of market orientation – customer orientation, competitor orientation and inter-functional coordination. Deshpande, Webster and Farley (1993, p. 27) conceptualize *customer orientation* as an organization's set of beliefs that assign primacy to customers' interest, while not excluding those of other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise. Deshpande, Webster and Farley make a distinction between an organization's espoused customer orientation and customers' perceptions of the organization's customer orientation, and note that the latter is a more important determinant of a business' performance than the former.

As may be recalled, while P13 posits a negative relationship between CRM offshore outsourcing intensity and customer relationship performance, P14 posits a positive relationship between CRM offshore outsourcing intensity and financial performance. However, as noted earlier, P14 is predicated on the assumption that the positive effect on profit of the cost savings

that a business achieves through offshore outsourcing of CRM will more than offset any negative effect of CRM offshore outsourcing on financial performance, due to the negative effect of CRM offshore outsourcing on customer relationship performance.

P13 and P14, viewed in the context of a business' espoused customer orientation and customers' perceptions of the business' customer orientation serve to highlight the need for managers to reflect on issues such as (1) the organizational and environmental conditions under which CRM offshore outsourcing is likely to have a deleterious effect on a business' customer orientation, and (2) the policies, procedures and practices that may enable a business to realize the potential cost savings and associated profits from CRM offshore outsourcing while at the same time guarding against CRM offshore outsourcing having a deleterious effect on customers' perceptions of its customer orientation.

Besides customer orientation, as enumerated in Table 2 (second column), a number of other customer centric issues are also of principal concern to organizations. In Table 2, the first column serves to highlight the potential cost savings that a business may be able to achieve by offshore outsourcing of specific CRM related processes and activities. *Ceteris paribus*, lowering the cost of doing business would enable a business to achieve higher profits. Realistically however, *ceteris paribus* is a tenuous assumption here, and organizations can ill afford to overlook the potential deleterious consequences of offshore outsourcing of CRM. In this context, in the second column of Table 2, a number of representative customer centric issues of concern to organizations are enumerated. The probability of offshore outsourcing of CRM having an adverse effect on various customer-centric issues listed here and the severity of potential adverse effect merit careful consideration in the CRM offshore outsourcing decisions of organizations.

Insert Table 2 about Here

CRM offshore outsourcing versus CRM offshore in-sourcing. Based on whether an activity is performed in-house or outsourced and the geographic location at which the activity is performed, a distinction can be made between four broad sourcing options available to firms (see: Konana et al. 2004; Murray, Kotabe and Westjohn 2009):

1. *Domestic In-sourcing:* Processes are done in-house in the home country (Location: Domestic. Ownership: In-house)

2. *Offshore In-sourcing:* Processes are done in-house at an offshore or near shore subsidiary of the firm (Location: Offshore. Ownership: In-house)

3. *Domestic Outsourcing:* Processes are sourced from domestic vendors in the home country (Location: Domestic. Ownership: Outsourced)

4. *Offshore Outsourcing:* Processes are sourced from offshore or near shore vendors (Location: Offshore. Ownership: Outsourced).

A low cost, high speed, global communication network and information processing network infrastructure environment can be leveraged by a firm to either outsource offshore or in-source offshore specific CRM related activities. This brings to fore the question of the organizational and environmental conditions under which pursuit of offshore outsourcing may be beneficial to a firm compared to offshore in-sourcing, and vice-versa. Among the relevant considerations in this context is the current degree of internationalization of the firm. On the one hand, greater degree of internationalization (specifically, market presence in low wage countries) can be conducive to

the firm establishing offshore subsidiaries for performing specific CRM related activities (i.e. offshore in-sourcing). On the other hand, notwithstanding greater the degree of internationalization and market presence in low wage countries, the perceived benefits of offshore outsourcing (the potential to benefit from the specialized skills and scale of operation of third party vendors) may predispose a firm to opt for CRM offshore outsourcing.

P15, stated specifically in reference to CRM offshore outsourcing, posits that *the greater the intensity of CRM offshore outsourcing by a business, the greater will be the propensity to acquire vendors providing CRM services for the business.* Similar end game scenarios can also be envisioned in the context of firms that offshore in-source their CRM. Recent case histories are indicative of the prevalence of the following practices: (1) firms selling-off their offshore subsidiaries to upstream firms that specialize in providing offshore outsourcing services, and (2) firms spinning off their offshore subsidiaries as independent entities, so as to enable them to derive the benefits of scale and specialization by also serving other customers who outsource their CRM related activities.

Economics of CRM offshore outsourcing versus CRM automation. As argued in this paper, the emergence of a low cost, high speed, global communication network and information processing network has fostered an environment conducive to offshore outsourcing of certain CRM related processes and activities. A relevant issue in this regard is the economics of CRM offshore outsourcing versus CRM automation. Offshore outsourcing of labor-intensive CRM related processes and activities such as call center operations represents a move from a fixed cost structure to a variable cost structure. In contrast, leveraging the Internet to automate CRM represents a shift in the reverse direction to a *one time fixed cost* structure. The implication of this shift is that unlike earlier situations where the fixed costs were in reality 'fixed' only over a

certain range of users, the high scalability characteristic of the Internet makes the unit costs of CRM to rapidly approach zero even with modest increases in the size of the customer base (see Zettelmeyer 2000).

CRM outsourcing to upstream suppliers versus downstream customers. For the most part, the focus of outsourcing in scholarly literature as well as in the business press has been on outsourcing by firms to upstream *supplier firms*. However, upstream suppliers constitute only one of the many external entities with whom firms establish outsourcing relationships. Based on the external entity to whom a firm outsources specific business processes and activities, a distinction can be made between the following types of outsourcing: (1) *upstream vertical outsourcing* -- to a firm's current and/or new suppliers; (2) *downstream vertical outsourcing* -- to a firm's intermediate customers (e.g. retailers); and (3) *horizontal outsourcing* -- to a firm's direct, peripheral or potential competitors, or strategic alliance partners. To varying degrees, finer nuances such as quasi or partial outsourcing, joint outsourcing and reciprocal outsourcing exist in a firm's outsourcing relationships with these entities (Varadarajan 2009). The distinction between upstream and downstream vertical outsourcing is particularly pertinent in the context of CRM outsourcing, given the widespread practice of firms outsourcing certain aspects of CRM to their intermediate customers (retailers).

Hierarchical CRM organizations versus market based CRM business systems. During the past decade, the confluence of several environmental forces at a global level have been conducive to offshore outsourcing of a number of CRM processes and activities by firms based in more industrialized countries to vendors based in countries at a comparative advantage in respect of labor costs. The wide range of activities within the realm of CRM that are being outsourced offshore rather than being performed in-house is indicative of a fundamental change

in the organization of CRM. Outwardly, the competitive landscape appears to be evolving from an era of *hierarchical CRM organization*s toward *market based CRM business systems* in which a firm and its vendors band together to manage customer relationships. However, issues such as the interplay of comparative advantage and competitive advantage considerations in determining the optimal location for performing value chain activities as well as the boundaries of the firm suggest that the problem is more nuanced.

NOTES

[1] Although none of these studies specifically pertains to the size of the market for CRM offshore outsourcing and/or projected rate of market growth, by virtue of their close inter-connectedness, they are indicative of the size and importance of the market for CRM offshore outsourcing.

[2] Product bundling is defined as the "integration of two or more separate products at any price such that it yields added value to at least some consumers" (Stremersch and Tellis 2002, p.57). Our conceptualization does not include price bundling because the absence of demand interdependencies among the separate products is unlikely to create opportunities for up-selling and cross-selling.

[3] Bullwhip effect refers to the information distortion that occurs in a supply chain when variation in prices (or fluctuations in demand) result in each downstream member distorting information when placing orders with upstream partners. This effect gets magnified as one moves up the supply chain resulting in the variance of the placed orders differing considerably from the demand variance (see Lee, Padmanabhan and Whang 1997).

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TABLE 1

Antecedents and Consequences of CRM Outsourcing: Operationalization of Constructs [1, 2]

Construct	Operationalization
CRM offshore outsourcing intensity (P1 to P17)	Ratio of CRM offshore outsourcing expenditures to total CRM expenditures Percent of CRM offshore outsourcing expenditures to total CRM expenditures: *Less than 20%, 21-40%, 41-60%, 61-80%, and more than 80%.* Current level of CRM offshore outsourcing expenditures relative to past: *Considerably less, less, about the same, more, and considerably more than in the past.*
Information technology standardization (P1)	Six-item measure (King and Sethi, 1999)
Competitive intensity (P2)	Six-item measure (Jaworski and Kohli, 1993)
Technological intensity (P3)	Ratio of R&D expenditure to sales (Osborn and Baughn, 1990)
Mimetic isomorphic behaviors (P4)	Percentage of firms in an industry engaging in similar behaviors (i.e. engaging in offshore outsourcing of CRM)
Organization culture (P5)	Measure of adhocracy, clan, market and hierarchy cultures (Deshpande, Farley and Webster, 1993)
Self-service technology intensity (P6)	Perceptual measure of the ratio of the firm's investments in self-service technology to total

	investments in information technology
Product bundling opportunities (P7)	Count measure of the number of products with the potential to add value to the primary product
Tangibles/intangibles dominant (P8)	Ratio of material costs to cost of goods sold
Demand cyclicality (P9)	Variance in monthly sales
Customer equity (P10)	Average of customer lifetime values of all customers currently served by the firm (Rust, Lemon and Zeithaml, 2004)
Task programmability (P11)	Four-item measure of job programmability (Eisenhardt, 1985)
Outcome measurability (P12)	Measure of cost of outcome measurement (Eisenhardt, 1985)
Customer relationship performance (P13)	Two-item measure of customer relationship performance (Jayachandran et al, 2005)
Financial performance (P14)	Number of outstanding shares X Share Price X Abnormal returns
Propensity to acquire vendor (P15, P17)	Equity percentage in vendor
Relational information processes (P16)	24-item measure of relational information processes (Jayachandran et al, 2005)

[1] The proposed operationalizations are intended to be illustrative and suggestive of the empirical testability of the proposed model. Extant literature provides evidence of alternate operationalizations for some of the constructs. For example, competitive intensity has also been operationalized in terms of industry concentration indices (e.g., Herfindahl index) (Gatignon and Robertson, 1989).

[2] The propositions that the various constructs relate to are shown in parentheses.

TABLE 2

Offshore Outsourcing of CRM: Weighing Profit Impact of Potential Cost Savings against Likely Adverse Effects

Profit Impact of Potential Cost Savings from Offshore Outsourcing of:	**Probability and Severity of Adverse Effects on Other Customer Related Issues of Concern to Organizations [1, 2, 3]**
Specific CRM Processes and Activities	Customer Advocacy, Customer Analytics[4]
	Customer Bonding
	Customer Care, Customer Centricity, Customer Championing, Customer Commitment, Customer Connectedness
	Customer Delight
	Customer Empowerment, Customer Engagement, Customer Equity, Customer Expectations, Customer Experience
	Customer Feedback, Customer Focus
	Customer Insights[4], Customer Interaction, Customer Intimacy, Customer Involvement
	Customer Knowledge[4]
	Customer Lifetime Value (CLV), Customer Loyalty
	Customer Orientation
	Customer Participation
	Customer Relationship Quality / Customer Perception of Relationship Quality[4]
	Customer Satisfaction, Customer Service
	Customer Touch Points
	Customer Value Perception, Customer Value Proposition

[1] The customer related constructs listed here are intended to be representative and not comprehensive.

[2] Some of the constructs listed here are characterized by high conceptual overlap (e.g. customer advocacy and customer championing; customer involvement and customer participation).For instance, both customer advocacy and customer championing essentially refer to the role of the marketing function as an advocate or champion of the customer (the customers' best interest) within the organization.

[3] In respect of some of the constructs, literature provides evidence of a number of minor variations of the construct in vogue (e.g. customer connectivity, customer connectedness and connecting with customers). In respect of certain other construct, literature provides evidence of refinements and extensions in vogue (e.g. customer experience → customer experience management; customer engagement → customer engagement management across multiple customer touch points).

[4] CRM broadly construed, encompasses constructs such as customer analytics, customer insights, customer knowledge, CLV and customers' perceptions of relationship quality. Offshore outsourcing of CRM can potentially have an impact on these.