

The impact of offshored and outsourced call service centers on customer appraisals

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Abstract Firms are increasingly relying upon offshored and/or outsourced call centers to provide post-sales assistance to their customers. Although the motivation to engage in these practices is efficiency gains, the possibility exists that offshored and outsourced call centers may have a detrimental impact on customer appraisals. The aim of this research is to posit the conceptual reasons as to why differences may arise in customer evaluations from these practices. To this end, we rely on the homophily principle and hybrid organization theory to provide conceptual grounding, and utilize a company dataset of customer post-call evaluations to offer an initial test of the hypotheses.

Keywords Call centers · Customer relationship management (CRM) · Marketing strategy · Offshoring · Outsourcing · Voice-to-voice service encounters

1 Introduction

Cost reduction has become a preeminent goal in today's marketplace (Cannon and Homburg 2001; Bharadwaj and Matsuno 2006). Some firms, lured by the fact that wages are 30–70% lower in developing countries (Otterman 2004), are relying upon call service centers (CSCs) located offshore to provide customer support. Others,

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believing that a collaborator can provide post-sales assistance more efficiently, are outsourcing the customer support responsibility to an external firm.¹

While the potential for cost savings may be intriguing, the implications of offshoring and outsourcing CSCs on customer perceptions are not fully understood. As recent research in customer relationship management (CRM) reports the importance of remaining cognizant of the impact of employee-related issues on customer appraisals (Reinartz et al. 2004), it becomes necessary to examine how offshoring and outsourcing impact customer perceptions towards the firm. Indeed, the possibility exists that these practices may result in a firm's service quality as being perceived sub-par, which in turn, can have deleterious effects on customer evaluations, their loyalty to the firm (Zeithaml et al. 1996), and the firm's long-term financial health (Heskett et al. 2003). Despite the importance of learning if and why customer perceptions may be impacted by offshoring and outsourcing, surprisingly little academic attention has been devoted to these practices in marketing.

Our aim is to posit the conceptual reasons as to why differences may arise in customer appraisals from these practices. To this end, we rely on the homophily principle and hybrid organization theory to provide conceptual grounding, and utilize a company dataset of customer post-call evaluations to offer an initial test of the hypotheses. We conclude with a discussion of the limitations and identify promising avenues for future research.

2 Background

The management of customer relationships is at the core of marketing (Day 2003; Dwyer et al. 1987; Morgan and Hunt 1994; Webster 1992). The call service center, a dedicated operation via which firms can generate leads, fulfill orders, and offer post-sales assistance, can play an important role in the initiation and maintenance of customer relationships.

Firms that handle post-purchase customer-initiated contacts (cf. Bowman and Narayandas 2001) via a call center must make two critical choices—the geographic location of the CSC and the ownership (i.e., control) of the CSC. Regarding the former, advances in information and communication technology coupled with the lower wage rates and skilled labor pool found abroad have enticed firms to explore the possibility of providing post-sales assistance from overseas. Thus, firms can elect to rely upon CSCs based either domestically or offshore. Firms must also choose whether the post-sales service assistance will be provided by personnel belonging to the focal firm (i.e., company-owned) or whether it will be outsourced (i.e., contracted

¹ Outsourcing and offshoring, although often used together in the popular press, are conceptually distinct. The practice of outsourcing refers to a firm relying on or contracting with external entities to perform CRM activities. In an outsourcing arrangement, the collaborator is a firm external to the boundaries of a focal firm, and can be based in either the same country as the focal firm or in some other nation. In other words, outsourcing examines issues pertaining to ownership (i.e., company-owned vs. outsourced). Offshoring, on the other hand, entails that the CRM activities must transpire abroad. Offshoring, however, does not stipulate whether the CRM activities provided are by a company-owned operation or one in which the chosen collaborator is a distinct, separate organization. Offshoring, therefore, focuses upon where the CRM operation is geographically located (i.e., domestic vs. offshore).

out to a collaborator exogenous to the focal firm's organizational boundary). Therefore, these two choices introduce the possibility that the CSC may differ along two characteristics, namely: geographic location (domestic vs. offshored) and ownership (company-owned vs. outsourced).

The Impact of CSC Location In voice-to-voice encounters, such as when a customer calls a CSC for post-sales assistance, there are fewer cues available to form evaluations about the encounter compared with a service encounter transpiring in a physical space (Bitner 1990; Burgers et al. 2000). Prior research has noted that the effectiveness of the verbal communication between the customer and the CSC employee is a critical aspect of a telephone encounter and is in need of further inquiry (de Ruyter and Wetzels 2000).²

We expect that the effectiveness of the communication will be impacted by perceived similarity between the customer and the CSC representative—the greater the similarity within the dyad, the more effective the communication ought to be. The homophily principle, which is based on the intuitive notion that like attracts like (long captured by the adage “birds of a feather flock together”) and posits that people have a tendency to prefer interaction with those similar to themselves (Ibarra 1992; Lazarsfeld and Merton 1954; Rogers and Kincaid 1981), offers a plausible explanation. The principle posits that interpersonal communication will be perceived as more effective when the customer is similar in nationality to the CSC employee due to the fact that the two are more likely to share a common language and worldviews (Marsden 1988). In contrast, when the nationality of the customer and the CSC employee differs, it is more likely that less effective communication will result due to message distortion, delayed transmission, restriction of communication channels, or cognitive dissonance (Rogers and Bhowmik 1970).

An important point to note is that the level of analysis in our study is the similarity within the dyad. This approach is a departure from the traditional emphasis on the individual in the communication literature (i.e., the characteristics of the source or the characteristics of the receiver). A *relational analysis* approach (cf. Rogers and Bhowmik 1970), in which the emphasis is upon studying the interactive process of communication flows between two or more individuals (Emirbayer 1997), is utilized here.

In examining the degree of perceived similarity through relational analysis, we would expect that a customer seeking to get a technical question answered is likely to have better success with a representative with whom s/he can interact more effectively. That would suggest that the interaction with someone at a domestic CSC is likely to be more effective and satisfactory to the U.S.-based customer than an interaction with an offshore CSC representative. Although the offshore CSC representatives will have gone through extensive language training (and may have even adopted an Anglo name) (Mahapatra 2006), we would expect that the offshore CSC representative's accent, use of different words and sentence structures, and inability to understand culturally derived nuances of words will impair his/her ability to communicate effectively and assist the customer in resolving their technical problems. Consistent

² Effective communication occurs when “the transfer of an idea from a source to a receiver results in a change in knowledge, attitude, or overt behavior on the part of the receiver” (Rogers and Bhowmik 1970, p. 529).

with the relational approach, we focus upon the communication flows between customers and CSC representatives in order to empirically examine how the geographic location of the call center affects the individual's appraisal of the CSC encounter. We, therefore, propose:

H_{1a}: Customers will experience greater satisfaction with the CSC representative's communication skills when the call center is located domestically versus abroad.

H_{1b}: Customers will experience greater satisfaction with the CSC representative's problem-solving ability when the call center is located domestically versus offshore.

Although there may be a perceived difference in the quality of communication when a customer interacts with an individual located in another nation, firms can undertake actions in an attempt to enhance the interface. One such measure is to anticipate the customer queries that are likely to be received at their CSCs, and develop formal scripts and provide training to ensure homogeneity in the responses provided by their CSC representatives (Levin 2006). Since evidence exists that consumers are likely to perceive reputable firms as providing training to their CSC representatives (Roggeveen et al. 2007), we would expect that a well-known firm is likely to have CSC representatives that understand how to proceed in handling customer calls. The presence of a similar protocol at domestic and offshore call centers is likely to reduce discrepancies in the handling of customer calls, thereby leading us to predict that:

H_{1c}: Customers will experience no difference in the ease of troubleshooting steps required of them when the call center is located domestically versus abroad.

The Impact of CSC Ownership Whether the focal firm owns and operates the CSC or outsources that responsibility to an outside firm is akin to the "make" (hierarchy) or "buy" (market) distinction in organizational theory (Williamson 1985). The hierarchy-market dichotomy, however, does not recognize the newer organizational forms which are characterized by deeper and more complex arrangements between sovereign firms (e.g., joint ventures, R&D partnerships, supplier arrangements, and other strategic alliances) (Bradach and Eccles 1989). Thus, the term "hybrids" is used to refer to those "organizational arrangements that use resources and/or governance structures from more than one existing organization" (Borys and Jemison 1989, p. 235). As firms can elect to develop their own CSCs internally and/or rely upon a hybrid arrangement with an exogenous firm to provide ongoing technical support to the focal firm's customer base, it becomes theoretically interesting to explore whether CSC ownership can also impact customer appraisals.

In hybrid arrangements, value creation is a product of sovereign organizations in that the focal firm may create the initial value (e.g., designing, producing, and selling products) and the partner firm is expected to carry out the post-sales support in the value creation process (Thorelli 1986). This "handing off" is referred to as "sequential interdependence" as both the focal firm and the collaborator become involved in co-creating value for the customer (Thompson 1967). Although relying upon an external organization can offer cost savings and allow the focal firm and the external specialist to concentrate upon their respective core competencies (Quinn 1999), some research has noted that a hybrid inter-organizational arrangement may give rise to coordination problems (Van de Ven et al. 1976; Heide 2003). As such, information asymmetry may

arise because the focal firm may be better informed about the exchange relationship with its customer than the collaborator (Mohr et al. 1996).

Difficulties may, therefore, arise in coordinating the activities of the partners due to the host of operational, technical, and/or administrative problems that may prohibit a seamless interface across the boundaries of the firms (Borys and Jemison 1989). Critical customer information residing in the CRM databases of the focal firm, for instance, may not be readily accessible to the business partner, thereby attenuating the CSC representative's ability to possess a holistic understanding of the customer's purchase history and/or required post-purchase support. Given the greater likelihood of coordination problems in outsourced arrangements, we expect that potential problems may arise and those may impact customer appraisals in terms of the customer's evaluation of the CSC representative's ability to resolve the problem, and in terms of the steps required to solve the problem. However, regardless of whether the CSC is firm-owned or outsourced, we do not expect any differences in communication skills as this is unlikely to be affected by whether the representative works for a firm-owned call center or an outsourced operation. More specifically, we hypothesize:

H_{2a}: Customers will experience no difference with the CSC representative's communication skills when the call center is owned by the firm versus outsourced.

H_{2b}: Customers will experience greater satisfaction with the CSC representative's problem-solving ability when the call center is owned by the firm versus outsourced.

H_{2c}: Customers will experience greater satisfaction with the troubleshooting steps required of them when the call center is owned by the firm versus outsourced.

Initial tests of these hypotheses are conducted using data from a well-known, U.S.-based computer manufacturer that utilizes CSCs to provide post-sales assistance to its customers.

3 Methodology

3.1 Sampling frame

In order to undertake a preliminary test of the hypotheses, we contacted a U.S.-based computer manufacturer that utilizes CSCs to provide post-sales assistance to its customers. The firm relies upon three types of call centers (see Fig. 1), thereby enabling us to test the preceding hypotheses. The three types of CSCs are: located in the U.S. and owned by the company (Type A), located overseas and owned by the company (Type B), and located overseas and owned by another company (Type C). Since this firm has elected to rely upon CSCs based in the country of India due to the availability of highly-educated, English speaking employees that can be hired at a fraction of the cost, we requested surveys that were completed by customers who received post-sales support from CSCs based in India as well as domestically. Furthermore, we requested surveys completed by customers who received post-sales support from CSCs owned by the company as well as outsourced. This resulted in a quasi-experimental design in which calls were assigned to one of the three types of CSCs.

		Location	
		Domestic	Offshore
Ownership	Company-Owned	Type A: Domestic, Company-Owned CSC	Type B: Offshored, Company-Owned CSC
	Outsourced	NA	Type C: Offshored, Outsourced CSC

Fig. 1 CSC characteristics

The sample consisted of the computer manufacturer's small and medium-sized enterprise customers (< than 500 employees) from an array of industries (i.e., finance, consulting, real estate, manufacturing, and internet-related service providers) that had purchased computer equipment from the firm. After receiving the equipment, one of the customer's employees placed a call to the CSC to receive post-sales assistance (e.g., my monitor is not working). To address the customer's problem, a CSC representative proceeded through a series of scripted diagnostic questions. Five days later, the customer was sent a follow-up email asking him/her to complete a brief web-based survey created by the firm about the CSC interaction.

All surveys that were provided to us ($n=3,484$) were completed by a subset of the firm's small and medium-sized business customers between July 1, 2003 and February 2, 2004. We were told by the firm that the completed surveys that were provided to us were roughly proportionate to the percentage of customers receiving post-sales assistance from each of the three types of CSCs (Type A: $n=406$ (11.7%); Type B: $n=1,046$ (30.0%), and Type C: $n=2,032$ (58.3%)).³ Approximately 20% of these surveys were incomplete and hence could not be used in all analyses, but again this was fairly evenly distributed among the CSC types.

3.2 Survey questions

The questions contained in the brief online survey pertained to the customer's experience with the firm's products and services in general and the customer's experience with their most recent CSC interaction. The specific items of interest to us were those which tapped into the customer's experience with their call to the CSC. For these questions that pertained to the transaction-specific evaluation, the respondents were asked to indicate their level of satisfaction using a nine point rating scale (1 = extremely dissatisfied to 9 = extremely satisfied) regarding the: CSC representative's communication skills, CSC representative's ability to resolve their problem, and ease of the troubleshooting steps that were required of them during the phone call.

³ The firm would not provide us with the decision rule for which calls were routed to each of the three types of CSCs due to the sensitivities surrounding the topics of offshoring and outsourcing. However, based on information contained in the dataset, we were able to rule out any impact of firm size, amount of money spent, or whether the purchase was made online or via a sales agent on the type of call center to which the call was routed.

We note that customers were unaware of which type of CSC they were calling (i.e., they did not know if it was owned by the firm or its geographic location), and hence any differences between the CSC types occurs mainly below the conscious awareness of the customer.

4 Results

H_{1a} and H_{1b} predict that customers receiving post-sales assistance from a CSC located domestically (vs. offshore) are likely to experience greater levels of satisfaction with the agent's communication skills and problem-solving ability. To test this, the sample was classified into three distinct groupings: those who received post-sales assistance from a domestically-based, company-owned CSC, those who were serviced by an offshored, company-owned CSC, and those who were serviced by an offshored, outsourced CSC. We then conducted contrasts comparing domestically-based CSCs and offshored CSCs. Results supported the prediction that, compared to those receiving service from an offshored CSC, customers who received service from a domestically based CSC were more satisfied with both the agent's communication skills ($M_d=5.99$ vs. $M_o=5.19$, $p<0.001$; $M_d=5.99$ vs. $M_o=5.06$, $p<0.001$) and his/her problem-solving ($M_d=5.34$ vs. $M_o=4.95$, $p<0.05$; $M_d=5.34$ vs. $M_o=4.60$, $p<0.001$; see Table 1). H_{1c} proposes that the location of the CSC will not impact satisfaction with the ease of troubleshooting steps required to resolve the problem. Results comparing domestically based CSCs and offshored CSCs support this hypothesis ($M_d=5.90$, $M_o=5.71$, $F<1$).

H_{2b} and H_{2c} predict that customers receiving post-sales assistance from a CSC that is owned by the company (vs. outsourced) are likely to be more satisfied with

Table 1 Means

	Communication skills ^a	Ability to resolve problem ^b	Ease of troubleshooting steps ^c
Type A Domestic, company-owned	5.99	5.34	5.90
Type B Offshored, company-owned	5.19	4.95	5.71
Type C Offshored, outsourced	5.06	4.60	5.49

^a Communication skills:

Type A vs. Type B, $F(1,2604)=16.39$, $p<0.001$;

Type A vs. Type C, $F(1,2604)=25.80$, $p<0.001$

Type B vs. Type C, $F=1$

^b Ability to resolve problem:

Type A vs. Type B, $F(1,2570)=2.80$, $p<0.05$ (one-tailed)

Type A vs. Type C, $F(1,2570)=11.93$, $p<0.001$

Type B vs. Type C, $F(1,2570)=5.73$, $p<0.05$

^c Ease of troubleshooting steps

Type A vs. Type B, $F<1$

Type A vs. Type C, $F(1,2393)=4.37$, $p<0.05$

Type B vs. Type C, $F(1,2393)=2.77$, $p<0.05$ (one-tailed)

the representative's problem-solving ability and the troubleshooting steps required of them. To test these hypotheses, the sample was once again classified into the three groupings noted above and contrasts comparing company-owned versus outsourced CSCs were run. Results supported the prediction that, compared to those receiving service from an outsourced CSC, customers who received service from a company-owned CSC were more satisfied both with the agent's problem-solving ability ($M_c=5.34$ vs. $M_o=4.60$, $p<0.001$; $M_c=4.95$ vs. $M_o=4.60$, $p<0.05$) and the troubleshooting steps required ($M_c=5.90$ vs. $M_o=5.49$, $p<0.05$; $M_c=5.71$ vs. $M_o=5.49$, $p<0.05$). H_{2a} proposes that ownership of the CSC will not impact satisfaction with the CSC representative's communication skills. Results support this hypothesis ($M_c=5.19$, $M_o=5.06$, $F=1$).

5 Discussion

Results from this preliminary study support the hypotheses extended on the basis of our theoretical conceptualization. We found that customers were more satisfied with the CSC representative's communication skills and problem-solving ability if both the customer and the agent were based in the same country. We hypothesized that this would result due to the greater degree of homophily within the dyad. We also found that location had no impact on the ease of troubleshooting steps required by the customer. We expected this to be the case because companies often develop scripted protocols to ensure consistency regardless of the CSC location.

As far as ownership, we found that customers were more satisfied with the representative's problem-solving ability and the effort that was required of them during troubleshooting if the company owned the CSC than if it was outsourced to another firm. We hypothesized that this would result due to the greater degree of control and shared systems and processes that exist within the contiguous boundaries of the organization. Finally, we hypothesized and found that ownership had no impact on how satisfied customers were with the CSC representative's communication skills.

Building upon homophily and hybrid theory, our conceptualization and preliminary results represent the first academic research to understand if and why differences in customers' perceptions of their CSC encounter may vary as a function of outsourcing and/or offshoring. These results are especially interesting considering that customers were unaware of the type of CSC with which they were interacting. Hence, the differences observed between the CSC types appear to occur below the conscious awareness of the customer.

Future research should examine homophily along dimensions other than geographic location alone. Examples would include age, gender, and education in conjunction with nationality to study its impact upon critical marketing outcomes. The utilization of additional attributes to delineate category membership will result in deeper insight. Additional research should also explicitly examine the relationship within the dyad (i.e., relational analysis) rather than focusing only on one individual's evaluations.

Theory and practice will also benefit from more systematic examinations regarding the coordination between the focal firm and the collaborator in co-creating value for the customer. To the best of our knowledge, we are the first to devote attention to the

provision of post-sales assistance by hybrids and compare customer perceptions regarding both company-owned and outsourced arrangements. Given the increasing prevalence of relying on other collaborators to carry out important business processes (Venkatraman 2004), we need to learn more about these emerging organizational forms. Especially interesting would be to examine conditions in which outsourcing actually performs better than retaining the operations in-house. This is expected in some situations given that specialists are available to provide an array of value-adding services to firms and “can develop greater knowledge depth, invest more in software and training systems, be more efficient, and hence offer higher wages and attract more highly trained people than can the individual staff groups of all but a few integrated companies” (Quinn 1999, p. 10).

We acknowledge that this effort is only a preliminary study with a limitation based around the fact that we do not know the decision rule used to assign customers to the different locations. It is possible that there is a confounding variable which could account for the results found. We were, however, able to rule out any impact of firm size, amount of money spent, or the channel through which the purchase transpired (i.e., online vs. direct sales force). Future research should rely upon a true experimental design where calls are randomly assigned to the different types of CSCs.

A tightly designed experimental study can also be undertaken to examine how pre-encounter expectations are updated. As lower perceptions about the service quality provided by offshore operations may have deleterious behavioral and financial consequences, it is necessary to better understand the underlying cues (signals) that can shape a consumer’s initial evaluations, and examine how those expectations are updated following additional cues and direct experience. One study, for example, suggests that the reputation of the company influences expectations regarding offshored CSCs (Roggeveen et al. 2007).

Another opportunity for research is to examine the post-sales assistance which is a critical part of a firm’s CRM effort in conjunction with the firm’s offering and tease apart the extent to which each impacts future purchases and firm profitability. In essence, is it the service and/or the core product which is most instrumental in shaping future behavioral outcomes? This would help the field to adopt a more holistic appraisal of the customer experience, and address Vargo and Lusch’s (2004) contention that marketing must evolve towards embracing a more comprehensive and inclusive dominant logic that integrates goods with services.

Lastly, it has been noted that firms in general (e.g., Day 1999) and marketers in particular (e.g., Thomas et al. 2004) tend to overemphasize short-term cost savings over long-term gain. This may be problematic as we found differences do in fact exist in customer appraisals when comparing the post-sales assistance provided by domestic CSCs versus offshore CSCs. Future research should evaluate the potential tradeoff between the initial cost savings emanating from outsourcing and/or offshoring post-sales activities and the financial impact of the deterioration in service quality that may result from these practices.

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