Chapter 2
Are Strong Brands a Source of Competitive Advantage in the Virtual World?

Piyush Sharma
The Hong Kong Polytechnic University, Hong Kong

ABSTRACT
Offshore outsourcing is a fast-growing trend in the world economy today, and it is changing the way business is done across national boundaries. Specifically, customers are increasingly interacting with service employees located in other countries resulting in many instances of customer backlash due to poor perceived service quality and dissatisfaction. Prior research argues that service firms with strong brands may be less vulnerable to such negative reaction from customers. However, recent studies show that consumer ethnocentrism and unfavorable attitudes towards offshore outsourcing may adversely impact perceived service quality, satisfaction, complaint behavior, brand image, brand loyalty, and repeat purchase intentions. This chapter summarizes these diverse findings and highlights the importance of customer education and employee training to prevent the erosion of brand image and loyalty on one hand, and improve perceived service quality and customer satisfaction on the other, for companies using offshore outsourcing of customer services.

INTRODUCTION
Offshore outsourcing is one of the most controversial yet fast-growing trends in the world economy today; the worldwide spend on global outsourcing of services was estimated at just under US$ 1 trillion in 2006 and is expected to grow by 50% to about US$ 1.5 trillion by end 2010 (Frost & Sullivan, 2007). In an alarming report, Forrester Research estimated that 3.3 million jobs worth about $136 billion in wages will move offshore to countries such as India, China and Russia by 2015, causing wide-spread concern among average Americans (McCartney, 2003; Ross, Temkin, & Herbert, 2003). In fact, Gartner estimated that the global IT outsourcing revenues grew from $184 billion in 2003 to almost $300 billion in 2010 (Blackmore, DeSouza, Young, Goodness, ...
& Silliman, 2005) and IDC estimated business process outsourcing (BPO) in Europe to grow from $43 in 2002 to almost $100 billion Euros in 2010 (Corbett, 2002, 2003).

Offshore outsourcing is expected to benefit not only the service companies but also their end-customers by reducing costs and improving productivity in the long run. However, based on their experience in recent years, firms have become cautious about offshore outsourcing of their service because of its ‘invisible’ costs (Stringfellow, Teagarden, & Nie, 2008), including threats to the firm’s reputation, brand image, core skills and intellectual property (Reilly, 1997; Swartz, 2004a, 2004b). Besides these concerns, offshore outsourcing may also lead to lower customer satisfaction, reduced brand loyalty, increase in customer complaints, and lower service standards (Cornell, 2004; Data-Monitor, 2004; Economist, 2001; Kennedy, 2002; Roy, 2003).

A customer survey by American Banker/Gallup (2004) showed that two-thirds (71%) of the respondents were aware of offshore outsourcing to lower-cost countries. Among those aware, a whopping 78% held an unfavorable opinion about it and more than 80% said they would feel better if outsourcing did not take away American jobs and only less than half would feel better if it made American companies more competitive in the global marketplace (51%) or if it improved American companies’ profits (46%). Similar results have been reported by market research firms about the consumers in UK (ContactBabel, 2004; Mintel, 2007).

Most of the early research on offshore outsourcing in the management and human resources areas focused on issues such as the labor costs and ethical issues, effects of strategic outsourcing decisions on organizations, and operational issues related to offshore outsourcing (Clott, 2004). Similarly, criticism of outsourcing is restricted to the changes in the employment patterns and the globalization of labor force, and their adverse impact on employees and organizations with little consideration to the end-customers (Briggs, 2005; Cornell, 2004). However, there is now growing research on the impact of offshore outsourcing on the attitudes and behavior of the end-customers (P. Sharma, Mathur, & Dhawan, 2006, 2008a, 2008b, 2009).

For example, Sharma et al. (2006, 2008a, 2008b) show that ethnocentric customers in three developed countries (Australia, UK, and USA) had distinctly less favorable perceptions about service quality, lower customer satisfaction and greater complaint behavior towards firms using offshore outsourcing of customer services. However, the findings on brand image, brand loyalty and repurchase intentions were mixed, with customers in US and Australia showing lower brand image, those in Australia showing lower repurchase intentions and those in UK showing a less favorable brand image for companies using offshore outsourcing (P. Sharma, et al., 2006). Others use the homophily principle and hybrid organization theory to show that customers experience greater satisfaction with the communication skills and problem-solving ability of domestic vs. offshore customer service representative (Bharadwaj & Roggeveen, 2008).

In contrast, recent research using the information integration theory shows that firm reputation may moderate the influence of call center location on customers’ pre-encounter expectations and that their beliefs about the training provided by the firm mediates this process (Roggeveen, Bharadwaj, & Hoyer, 2007). Similarly, Sharma et al. (2009) use a field survey-based study show that attitude toward offshore call centers may moderate the link between service quality and customer satisfaction. Moreover, they find that the brand image of the service provider firm may also moderate the influence of customer satisfaction negatively on customer complaints and positively on repeat purchase intentions (P. Sharma, Mathur, et al., 2009).

In view of the above mixed evidence, it is still not clear to what extent is the brand image or reputation of a service firm helps in over-