Industrial Marketing Management 38 (2009) 376–378

Contents lists available at ScienceDirect

Industrial Marketing Management

Impact of outsourcing on business-to-business marketing: An agenda for inquiry

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ARTICLE INFO

Available online 22 April 2009

Keywords:
Outsourcing
Business Marketing Strategy
Value Creation

ABSTRACT

Increasing globalization has made companies focus more on their outsourcing decisions. Moving beyond the tactical companies have begun to incorporate outsourcing as a strategic weapon in their armory. This article expands on this theme by highlighting the need for understanding this key issue from business marketing and sales perspective and pointing to some interesting research issues on the topic. The article also introduces this special issue, briefly discusses the six special issue articles and provides a framework that integrates their contributions to our understanding of strategic outsourcing.

1. Introduction

Since the last two decades, organizations have sought to enhance efficiencies and expand their capabilities by giving larger role to their suppliers in creating and delivering value to their end customers (Liker and Choi, 2004). Moving beyond the traditional 'make' or 'buy' decisions, companies sought to view their vendors as partners that signaled a shift from adversarial arms length relationships to deeper cooperative relationships. Many scholars have captured this phenomenon both here in North America and in Europe where the IMP Group focused much of its research on this new paradigm using a network approach. Business marketers also readily embraced shift in buyer perspective by investing in long-term buyer–seller relationships. Much of the focus in researching buyer–seller relationships has focused on the logic, choice of partner, and governance issues related to such partnerships.

We view outsourcing as a practice by which an organization seeks outside vendors to perform a set of discrete activities that support its core business mission. Outsourcing tends to cover a broad rubric of organizational activities that include core activities such as new product development (e.g. Sun Java) and supportive, but crucial organizational activities such as IT infrastructure development, maintenance, and support, and peripheral activities such as training, payroll, accounting, data entry etc. Importance of outsourcing to businesses has been long recognized by practitioners. In the academic domain outsourcing has been examined mainly by scholars in management discipline using a range of management theories and in marketing, it has been highlighted in specific activities such as new product development (Carson, 2007), sales and marketing function (McGovern and Quelch, 2005). Against this backdrop, in this special issue of *Industrial Marketing Management* on 'Impact of Outsourcing on Business Marketing Strategy', we spotlight an important trend of this new millennium, outsourcing, on business marketing. In this paper we provide a brief overview on the five articles that appear in this special issue and set up a research agenda for future work on this topic. We hope you find these stimulating articles interesting and thought provoking.

2. Articles in the special issue

Research in the area of outsourcing has traditionally mirrored inquiry into alliances in that they have focused mainly on identifying activities that can be outsourced, partner characteristics and implementation issues. A vast body of work that uses this approach relates to IT outsourcing services and is dominated by best practices reporting for managerial consumption (Rottman and Lacity, 2006). Building on this theme, the articles in this special issue of Industrial Marketing Management view impact of outsourcing on three key dimensions (Fig. 1) that are interrelated. They are: (1) scope of outsourcing (2) act of outsourcing and (3) impact of outsourcing. The first dimension of scope or 'what to outsource?' is an important issue that companies often face at the beginning of an outsourcing decision. Often, obvious cost savings may be offset by hidden transaction costs (Rottman and Lacity, 2006) and there may be other key factors driven by outsourcer's customers' needs that determine the suitability of outsourcing activity. There is a strategic element of choice that is involved in this issue. A company like Bank of America that sees IT as its core to offering innovative customer solutions may choose to outsource it so that its IT organization is always at the cutting edge of technology. Being core to its business, it sees IT outsourcing as strategic. On the other hand, Dell too sees IT as core to its business model. However, precisely for this reason they choose to do it in-house (McCue, 2004). The second issue of how the outsourcing is implemented or managed is critical to its success. UK's retail chain Sainsbury found, at a cost of 550 million pounds, that its IT outsourcing relationship with a leading IT global IT outsourcing service provider didn't yield results. Poor management of the outsourcing relationship led to a complete relationship failure (Martin, 2007). The final

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0019-8501/$ – see front matter
doi:10.1016/j.indmarman.2009.03.004

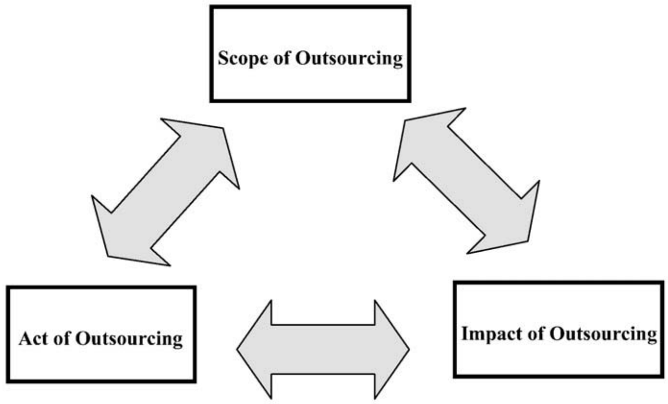

Fig. 1. Three dimensions of inquiry into outsourcing.

dimension of outsourcing relates to the overall impact of outsourcing on the business and its environment that is beyond the realm of performance in a particular outsourcing contract. Dell had to discontinue its outsourcing of customer technical support operations under customer protests and service failures (McCue, 2004). In this special issue we present five articles that examine the three dimensions of the outsourcing framework presented above.

The first article in this special issue examines the scope of outsourcing in business-to-business relationships. In their article, "A Framework for Offshoring Marketing Processes in Business-to-Business Marketing Relationships", Arun Sharma and Gopalkrishnan Iyer focus on the type of marketing interactions and processes that can be outsourced. The authors make an important distinction between 'outsourcing' and 'offshoring' and develop a model to examine issues that are specific to offshoring business-to-business relationship activities. Building on prior research, the authors use customer preference for a particular type of relationship interaction and the importance of interaction to the inter-firm relationship as two dimensions to examine suitability of outsourcing relationship activities. Using two case illustrations the authors develop a model that seeks to identify the most profitable scenario with respect to outsourcing business-to-business relationship activities. According to the authors, when customers feel comfortable with technology-mediated relationship interactions companies can benefit the most when the important of interaction is low. They add that outsourcing returns could also be high for this category of customers if technology used to interact is implemented properly. For those customers that do not prefer technology-mediated interactions, outsourcing is not the answer when the importance of interaction is high and at best it is medium even when the interaction is less important for that relationship.

The second article by Adam Rapp titled, "Outsourcing the Sales Process: Hiring a Mercenary Sales Force," provides a framework for sales force outsourcing decision associated with a firm's strategic orientation in the marketplace. Rapp develops theoretical arguments to propose hypotheses that deal with a firm's use of mercenary sales force and its field strategy involving customer, brand , competition and production orientation. Finally the author also presents the framework in the context of turbulence the in the marketplace a firm operates in.

The third and fourth articles focus on doing outsourcing right through a set of ground rules and control mechanisms that buyers tend to employ in business-to-business outsourcing relationships. Here the special issue shifts its focus to doing the outsourcing right. In the second article of this special issue, "Portfolio of Controls in Outsourcing Relationships for Global New Product Development", Nukhet Harmancioglu develop a conceptual model to study choice of control mechanisms that the buyer might employ while outsourcing new product development activities. Drawing upon agency, resource dependence, and transaction cost economic theories, the author analyzes two broad forms of control mechanisms employed in outsourcing relationships i.e. formal and informal. The author then proceeds to develop a contingency framework of control mechanism use by classifying NPD relationships under varying degrees of task characteristics, environmental uncertainty and switching costs. The author also puts forward ten propositions using theoretical arguments. In the next article, "Use of rules in Decision-Making in Government Outsourcing", Shahadat Khan reports that findings from a study that looks into the use of rules involving outsourcing decision by actors involved outsourcing by government in a South Asian Country. Using interviews from 43 executives belonging to 18 different organizations, the author finds that unwritten ground rules may be more important than the written rules in managing outsourcing relationships while written rules may be important while initiating outsourcing relationships. Further, he also finds that written rules are often interpreted differently by different decision makers and cautions marketers to look carefully at each of the steps in decision making process to understand the subjective nature of rule interpretation.

The final section of this issue focuses on the impact of outsourcing. In their article, "Outsourcing, Supply Chain Upgrading and Connectedness of a Firm's Competencies", Salla Lutz and Thomas Ritter bring to focus the importance of analyzing *ex ante* all possible business consequence of entering into outsourcing partnerships that are seemingly isolated contracts. Using an in-depth case study of a Danish pine furniture manufacturing company, the authors trace the shifting value chain of the focal company over three years to demonstrate the impact of outsourcing on various elements of the chain owing to the connectedness of the firm's competencies. Specifically, they allude to potential loss of competencies that firms may suffer as a consequence of potentially 'reactive' outsourcing strategies. They recommend that firms map their value chain in order to understand how outsourcing of one element of the chain may impact other elements and caution that often firms may need to develop and protect key in-house competencies in order to survive.

The last article in this special issue tackles the issue of backlash as a consequence of outsourcing. Joel Lebon and Douglas E. Hughes, in their article, "The Dilemma of Outsourced Customer Service and Care: Research Propositions from a Transaction Cost Perspective", develop a conceptual model of drivers of backlash in customer service outsourcing. Defining backlash as a negative consequence of the risks associated with the firm's decision to outsource, the authors, using the transaction cost analysis theory, develop six propositions that identify smaller number of competing providers of customer service, specific assets, and uncertainty of contract enforcement as potential influencers of backlash due to vendor's opportunistic behavior. Further, they also point to potential negative impact of backlash on its perceived competence to care for its customers and call upon managers planning to outsource customer care services to be aware of the overall impact of their outsourcing strategy.

3. Agenda for future research

Despite the growing interest in outsourcing and the potential impact on businesses, there is yet to be a concerted effort to integrate the learning from diverse attempts by scholars and practitioners to understand the phenomenon (Gottfredsen, Puryear, and Phillips, 2005). Developing such an integrated paradigm is crucial for business marketers as they grapple with increasing competition from vendors from emerging markets and feel the need to look at their own value chain activities to identify potential outsourcing opportunities to either cut costs or enhance capabilities. In pursuing their agenda to better understand outsourcing, marketing scholars can find support from the rich body of literature that is already available in the field of buyer–seller relationships. These include several empirical studies in