Industrial Marketing Management 41 (2012) 639–648

Contents lists available at ScienceDirect

Industrial Marketing Management

Role of quality management capabilities in developing market-based organisational learning capabilities: Case study evidence from four Indian business process outsourcing firms

Ashish Malik [a,*], Ashish Sinha [b,1], Stephen Blumenfeld [c,2]

[a] Lecturer, Newcastle Business School, University of Newcastle, Australia
[b] School of Marketing, University of New South Wales, Australia
[c] Senior Lecturer, Victoria University of Wellington, New Zealand

ARTICLE INFO

Article history:
Received 10 October 2010
Received in revised form 14 April 2011
Accepted 25 June 2011
Available online 28 July 2011

Keywords:
Quality management capabilities
Market orientation
India
Market-based organizational learning capabilities
Business-to-business marketing

ABSTRACT

Business-to-business marketing literature acknowledges the value firms, including business process outsourcing firms, realise through their supplier networks. Such value realisation is often possible through a dynamic exchange of complementary organisational capabilities between a firm and its network partners. However, little is known about how outsourcing firms develop these capabilities and thus realise value. This paper addresses an unexplored theoretical gap of developing market-based organisational learning capabilities in business process outsourcing firms. Using a capabilities lens, this study assesses the impact of quality management capabilities in developing market-based organisational learning capability. Findings from a case study of four business process outsourcing firms in India suggest that effective knowledge transfer, diffusion and the development of market-based organisational learning capabilities are contingent upon the strength of a firm's quality management capabilities. Implications for theory and practice are discussed.

1. Introduction

Of an estimated global expenditure of US$ 1.5 trillion on technology and related services, software, information technology and business process outsourcing services account for US$ 1.0 trillion (NASSCOM, 2010). Although there was a 3% decline in the total expenditure following the global financial crisis in 2008, industry estimates suggest a positive growth of between 3–4% in the 2010 to 2012 period (NASSCOM, 2010), a significant percentage of which is likely to come from developed countries. Although the USA and Western Europe account for nearly 80% of all IT spend, a significant proportion of IT and BPO services is being outsourced to offshore locations in developing Asian countries. India currently accounts for 51% of the global offshore market share, thought to be worth of about US$94 billion (NASSCOM, 2010), which is expected to grow at a rate of 7–9% in the 2010–12 period. Given the increasing incidence of outsourcing and the need to understand its nature and extent, management and business-to-business marketing journals have suggested frameworks and reported empirical studies on outsourcing (see for example Special Issues on outsourcing in the Journal of Management Studies, 2010 and Industrial Marketing Management, 2009).

Recent literature on business-to-business marketing acknowledges the value firms realise through their network of suppliers in an outsourcing relationship (Ahearne & Kothandaraman, 2009). Such value realisation is made possible through a dynamic exchange of complementary organisational capabilities between a firm and its network partners (Banerjee, 2004). However, little research has been undertaken in business-to-business outsourcing firms to examine the capabilities that are relevant in such environments. Given that there are significant differences in firm-level performance (Ethiraj, Kale, Krishnan, & Singh, 2005) there remains a paucity of empirical studies and frameworks that help understand the complexity of services and the capabilities these firms develop for sustained high performance. Research is needed in areas such as organisational capabilities and the coordination of supplier–vendor relationships in global supply chains. For effective coordination in global supply chains and to ensure efficient and timely service delivery, large Indian outsourcing firms have invested in capabilities that are becoming the benchmarks in the outsourcing industry. These include: project management and client-specific capabilities, and technological and quality management capabilities for improved market signalling and firm performance (Arora & Asundi, 2000; Ethiraj et al., 2005).

* Corresponding author. Tel.: +61 2 4348 4133.
E-mail addresses: ashish.malik@newcastle.edu.au (A. Malik), a.sinha@unsw.edu.au (A. Sinha), stephen.blumenfeld@vuw.ac.nz (S. Blumenfeld).
[1] Tel.: +61 2 9385 9699.
[2] Tel.: +64 4 4365706.

0019-8501/$ – see front matter © 2011 Elsevier Inc. All rights reserved.
doi:10.1016/j.indmarman.2011.06.037

The extant literature from strategic marketing suggests that a firm's market-based organisational learning (MBOL) capability is a critical market-sensing capability (Morgan, 2004; Sinkula, Baker, & Noordeweir, 1997). However, little is known about how this capability is developed, especially in the context of the outsourcing sector. The purpose of this paper is to understand how MBOL capability is developed and the role a firm's quality management capabilities (QMC) play in outsourcing environments. Although earlier research has looked at the relationship between learning orientation (LO) and market orientation (MO) (Sinkula et al., 1997) and its impact on performance, the literature on LO and MO presents competing views – theoretically and empirically – thus, suggesting the need to unbundle the relationship between LO and MO and its antecedents. Similarly, inconsistent findings exist in the relationship between market orientation (MO) and a firm's quality management capabilities (QMC) (Demirbag, Koh, Tatoglu, & Zaim, 2006; Day, 1994; Lai, 2002; Kordupleski, Rust, & Zahorik, 1993; Sittimalakorn & Hart, 2004; Zelbst, Green, Abshire, & Sower, 2010) and between a firm's learning orientation (LO) and organisational learning capability (OLC) (Jerez-Gomez, Cespedes-Lorente, & Valle-Cabrera, 2004; Sinkula et al., 1997; Yeung, Ulrich, Nason, & Von Glinow, 1999) and quality management (Gutierrez, Llorens-Montes, & Sanchez, 2009; Sohal & Morrison, 1995; Wiklund & Sandvik Wiklund, 2002).

The above studies have mostly been undertaken in manufacturing environments of developed countries. Except for Wang and Wei (2005), which focuses on Taiwanese software firms, no research has considered the intersection of the three threads in the literature on a firm's market and learning orientations and its quality management capabilities in an outsourcing environment. Owing to India's spectacular growth, and its increasing market share of the global outsourcing sector, and the high degree of proliferation of quality management practices in the Indian BPO sector (NASSCOM, 2006), we consider India to be a fertile research setting to explore the research problem identified above. Using a case study research methodology, our study contributes to the literature in the following manner. Firstly, we extend Sinkula et al.'s (1997) theoretical framework by incorporating the effects of a firm's QMC in the development of MBOL capabilities, and its subsequent impact on sustained competitive advantage. Secondly, we test the application of the MBOL framework in the context of outsourcing firms. Finally, this study explores whether any theoretical generalisations from Sinkula et al.'s framework are applicable to the outsourcing industry in a developing country context. In addition to exploring the above gaps, our study also addresses the call for undertaking research in contexts specific to industries and firms (Collis, 1994; Oliver, 1997) by focusing on India's BPO firms. Such research will be of direct relevance to practitioners in this industry group. In view of these above gaps, this study seeks to answer: (1) does an organisation's quality management capabilities help in enhancing or deterring its MBOL? If so, *how*?; And (2) how do quality and MBOL capabilities in BPO firms affect firm performance and sustained competitive advantage (SCA)?

The rest of the paper is organised as follows. First, we provide a brief overview of India's business process outsourcing (BPO) industry. Second, the literature review leads to the development of the study's conceptual framework and the research questions. Third, we present an overview of the methodology employed and a brief description of the research setting. We then present the analysis and findings. Finally, we conclude with implications for practice and directions for future research.

2. India's BPO industry

India's BPO sector has been characterised by a high growth rate of 30% per annum over the last decade and dramatic shift from mass-service to value-added service environments (NASSCOM, 2010). The diverse geographic spread of client firms and the varied and complex nature of the services provided pose new challenges for firms to embed organisational learning, deliver predictable service, and ensure sustainable growth. The services vary in process complexity, ranging from simple call centres to extremely complex business processes (business consulting and market analytics). Firms' business models include third-party service providers (mostly large domestic outsourcing firms), wholly owned offshore centres of MNCs (commonly referred as 'captives') and joint venture partnerships between the two.

Unlike the traditional manufacturing industry, where gaps often exist in fulfilling customer needs based on the information received from marketing teams (outsidein), or by a firm's quality or operations teams (insideout) (Kordupleski et al., 1993), firms operating in the BPO sector adopt an integrated co-design and development approach. This approach is evident, for example, in most call centres around the world, when a customer contacts a customer contact centre, a common message is heard, "your call may be recorded for quality and training purposes." Input from business development teams and customers is inextricably intertwined with a firm's operations and, cross-functional teams comprising of operations, human resources and business development work together in designing and developing solutions for clients. In most cases, the solutions are designed and developed leveraging firms' understanding of *what can be developed* within the clients' cost and quality parameters through the strength of its existing organisational capabilities. Banerjee (2004) suggests that capabilities in such an environment co-evolve through a dynamic coordination between the client and service provider. Thus, by studying firms operating in this sector, we can understand how they develop their organisational capabilities. Such explanations can inform future theory-building and practice needs of this industry.

3. Review of literature

We begin the review by considering the role intangible assets and knowledge-based resources play in developing a firm's competitive advantage (Grant, 1996a,b; Spender & Grant, 1996). This is followed by a short review of Sinkula et al.'s (1997) MBOL framework and its relationship with quality management capabilities. Lastly, we present a critical review of the three intersecting literatures of market orientation, organisational learning and quality management and capture the debate and tensions in this stream of inquiry, which provides the motivation for engaging in this research and in developing the study's conceptual framework.

In dynamic service environments, knowledge developed from customers, suppliers, and network partners is of critical importance in developing tangible and intangible assets necessary for securing competitive advantage (Argote & Ingram, 2000; Morgan, 2004). Exploiting organisational capabilities and resources for sustained competitive advantage is the core argument of the resource- and knowledge-based view of the firm (Barney, 1991; Dickson, 1996; Hunt & Morgan, 1996; Spender & Grant, 1996).

3.1. The MBOL framework and QMC

Applying LO and MO constructs, based on the assumption that *values* drive *behaviour*, Sinkula et al.'s (1997) MBOL framework explicates the influence of an organisation's LO in developing marketing information processing (MIP), and consequently, its actions. LO is conceptualised as a *knowledge questioning value* (Argyris & Schon, 1978; Senge, 1990). Market information processing (MIP), which is derived from the key construct of market orientation (MO) (Kohli, Jaworski, & Kumar, 1993) is conceptualised as a firm's *knowledge producing behaviour*. Although MO has been conceptualised as a behavioural (Kohli et al., 1993) and cultural (Narver & Slater, 1990) construct in the extant literature, this paper follows Kohli et al.'s behavioural conceptualisation.