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**Success factors between suppliers
and customers in service
outsourcing activities.**

By

**Peter CW Lok, Wilson Wee-Seng Loh¹ &
Jo H Rhodes²**

¹Oracle, Singapore

²Macquarie Graduate School of Management,
Macquarie University

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ABSTRACT: This study examines the relationship between outsourcing motives, supplier-customer relationship and perceived value in non-core service outsourcing. That is, key factors responsible for supplier-customer relationship which provide customer value in service outsourcing is still unclear. A total of 1,757 companies were randomly selected for the survey. 234 valid questionnaires were returned (13.4% response rate). The structural equation method was used to obtain the best fit model. The most significant contribution of this study is that, 'relationship interaction' has a greater impact on customer perceived value than 'relationship quality' in service outsourcing. That is, customer-supplier 'relationship interaction' that enhances communication, cooperation, coordination, conflict resolution, and integration activities rather than 'relationship quality' such as loyalty and trust, would exert the greatest effect on perceived customer value.

KEY WORDS: *Service outsourcing; customer value; relationship interaction; relationship quality; outsourcing motives.*

AUTHORS: **Lok, Loh & Rhodes**

CONTACT: INSTITUTE of TRANSPORT and LOGISTICS STUDIES (C37)
The Australian Key Centre in Transport and Logistics Management

The University of Sydney NSW 2006 Australia

Telephone: +612 9351 0071
Facsimile: +612 9351 0088
E-mail: business.itlsinfo@sydney.edu.au
Internet: <http://sydney.edu.au/business/itls>

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1. Introduction

In today's economies of the world, businesses have become increasingly interdependent, and companies are facing tremendous pressure to maximize productivity and profitability. Meanwhile, the standardization and industrialization of business services enable outsourcing, a means by which firms can focus on their core activities and extend their capabilities by leveraging vendors (Sharma & Loh, 2009; Weidenbaum, 2005). However, high percentage of outsourcing efforts fail to achieve the desired objective, as the complexity of service delivery spanning multiple vendors and/or countries produces unexpected costs and incurs the complication of managing vendors (Sharma & Loh, 2009).

In the past decade, the outsourcing of business services has grown tremendously in both scale and scope, and firms are now demanding more than just cost advantage (Bunyaratavej, Hahn, & Doh, 2007; Farrell, 2005; Lewin, Massini, & Peeters, 2009). In the context of this study, the outsourcing of business services are mainly related to non-core business activities such as call centres, back office activities, information technology (IT) support, accounting, legal, logistics and others. These service outsourcing firms are looking for extra values such as quality, performance, reduction in capital and risk, flexibility and scalability, know-how, long-term relationship and time to market. Although key drivers (as stated above) for outsourcing have been discussed in past studies, and the issues of trust and relationships in partnerships have been explored (Han, Lee, & Seo, 2008; Rauyruen & Miller, 2007; Svensson, Mysen, & Payan, 2010), however, how to manage the supplier-customer relationship effectively is still uncertain. That is, previous studies failed to explore deeper into the relationship construct between outsourcer and customers. It is the 'partnering role' (Kedia & Lahiri, 2007; Lacity et al., 2008) which focuses on the relative importance of 'relationship quality' (Ulaga & Eggert, 2006) or 'relationship interaction' (Goles & Chin (2005) between supplier-customers that has largely been ignored. Previous studies have mainly focus on trust and commitment as the key success factors in the relationship construct (Han et al. 2008, Ulaga & Eggert 2006). However, others (Goles & Chin 2005, Kedia & Lahiri (2007) have argued that how the two parties interacts to create value would be more important than heavily dependent on trust and commitment to bond the relationship. That is, how the two parties communicate, cooperate, manage conflict and integrate activities to create interdependence and mutual benefits would have a greater impact on relationships. Furthermore, although previous studies have suggested that cost reduction may not be a major factor in outsourcing (Williamson 2008, Fill 2000), there is still a lack of empirical evidence to suggest that is happening with service outsourcing.

It is the intention of this study to provide a conceptual framework to examine the impact of key outsourcing motives on supplier-customer relationship and their influences on customer perceived value in the service industry. That is, the relative effect of 'relationship quality' and 'relationship interaction (process)' on customer perceived value can be determined. The result of this study would enhance our theoretical insight on relationship management particularly in the service industry for outsourcing. Finally, service outsourcing is a major component of the outsourcing industry. Although previous findings in relationship management were mainly focus on the manufacturing outsourcing sector, this study will provide the empirical evidence for the service outsourcing sector.

2. Literature review

A review of the outsourcing literature has identified many factors and processes for effective outsourcing. Overall, there can be grouped into three major components: why, how and outcome. They 'why' is mainly concern with motives, the 'how' is mainly concern with 'relationships', and the 'outcome' is mainly concern with value. This literature review is focussed on the conceptual service-outsourcing framework consisting of outsourcing motives, supplier-customer relations, and customer perceived values, First, outsourcing motives were

identified as a critical factor influencing the supplier-customer relationship strategy (Daly & Nath, 2005; Henke Jr, Parameswaran, & Pisharodi, 2008). Second, past studies in supplier-customer relations factors and their characteristics were closely focussed in the areas of trust, loyalty and commitment (Han et al. 2008, Ulaga & Eggert 2006) and these findings were mainly from the manufacturing industry. Furthermore, the link between different perspectives of relationship management and customer perceived value (Donada & Nogatchewsky, 2009; Lisa M. Ellram, Tate, & Billington, 2007; Field & Meile, 2008; Fisher, Hirschheim, & Jacobs, 2008) in outsourcing is still limited. The literature shows that the understanding of the perceived value from the relationship perspective is still limited (Ulaga & Eggert, 2005). Third, the definition and measurement of customer perceived value in service outsourcing remain unclear. Consequently customer perceived value in areas such as sourcing, and operational and cost benefits could be of significant importance in formulating the firm's competitive advantage strategy (Hamel & Prahalad, 2005; Khalifa, 2004).

3. Outsourcing motives

The outsourcing decision is related to a firm's goals and strategies, and is driven by several aspects ranging from: cost reduction, focus on core business, securing business flexibility, expansion, and obtaining strategic advantage to support the business goals (Kroes & Ghosh, 2010; Varadarajan, 2009). It has been suggested that outsourcing motives are similar for both manufacturing and service businesses (Reinstaller and Windrum(2009)

Economic factors often dominate the outsourcing motivation debate (Holcomb and Hitt(2007). First, strategic outsourcing improves production economies in which cost advantages can accrue through sufficient product scale from suppliers. Second, as outsourcing can reduce bureaucratic complexity, it can therefore eliminate excessive costs. Lastly, firms can achieve a lower break-even point by reducing overheads and avoiding investments in certain facilities and equipment (Bunyaratavej, et al., 2007; Farrell, 2005; Lewin, et al., 2009). In addition, by leveraging external supplier economies of scale, responsiveness to variability in demand can be achieved whilst minimizing financial investments (Bengtsson & Dabhilkar, 2009). Consequently, the optimal supplier-customer relationship management strategy can sustain or gain the desired value from the outsourcing program (Fisher, et al., 2008; Handley & Benton, 2009).

In conclusion outsourcing decisions should be assessed and evaluated through a multitude of factors (motives) that may be strategic (e.g., cost competitiveness and specific capabilities, risk sharing), as well as tactical (e.g., meeting conformance quality requirements, lack of in-house expertise, lack of capital). A review of the manufacturing and service related outsourcing literature identified 14 common motives grouped into five categories as listed in Table 1.

Table 1: Categorization of service outsourcing motives

Motives	Sources
<p>Cost Related Motive</p> <ul style="list-style-type: none"> • Lower total cost • Cost Reduction • Cost Control / Reduce Operating Cost • Improve the efficiency of operations. 	<p>(Kroes & Ghosh, 2010; Paul & Wooster, 2010) (Marshall, McIvor, & Lamming, 2007; Neureiter & Nunnenkamp, 2010) (Bengtsson & Dabhilkar, 2009; Maskell, Pedersen, Petersen, & Dick-Nielsen, 2007) (Yan, Shihong, Jiong, & Daoli, 2009)</p>
<p>Focus Related Motive</p> <ul style="list-style-type: none"> • Allow resources to focus on core competencies • Release resources for other business 	<p>(Gottfredson, Puryear, & Phillips, 2005) (Bengtsson & Dabhilkar, 2009)</p>
<p>Quality Related Motive</p> <ul style="list-style-type: none"> • Improve conformance quality • Prompt resolution of customer complaints/inquiries 	<p>(Bengtsson & Dabhilkar, 2009; Maskell, et al., 2007) (Kroes & Ghosh, 2010)</p>
<p>Flexibility Related Motive</p> <ul style="list-style-type: none"> • Increase volume flexibility • Lack of Capacity • Ability to adjust deliverables 	<p>(Bengtsson & Dabhilkar, 2009) (Kroes & Ghosh, 2010)</p>
<p>Innovativeness Related Motive</p> <ul style="list-style-type: none"> • Access to specific labor and/or technology expertise • Supplier innovation capabilities • Lower development cost 	<p>(Lewin, et al., 2009) (Bengtsson & Dabhilkar, 2009; Maskell, et al., 2007)</p>

4. Supplier-customer relations

Lacity et al. (2008) examined over 500 companies globally, in a wide range of industries and concluded that managing supplier-customer relationship effectively is the most important factor in outsourcing success. This finding is supported by other studies (Chen & Paulraj, 2004; Lisa M Ellram, Tate, & Billington, 2004; Lisa M. Ellram, et al., 2007; Pei, Zhen-xiang, & Chun-ping, 2007). Although contractual agreements between the supplier and customer are still a standard practice in outsourcing, the dependence on its contractual nature may not be the best option. For example, depending on where the contract is breached the country may not have an efficient and fair legal system to obtain timely and fair compensation. Whilst managing supplier-customer relations successfully is an acknowledged priority in outsourcing, how to manage supplier-customer relations successfully is still unclear.

Kedia and Lahiri (2007) suggested that there are three types of supplier-customer relationships in service outsourcing. First, tactical arm's length relationships are used mainly for firms attempting to achieve cost reduction and higher quality. Second, strategic relationships tap into a vendor's cumulative experience and learning for acquiring new capabilities and resources.

Lastly, transformational relationships can help firms share risks while increasing flexibility and business transformation.

The role of service providers has evolved from the traditional role of an “agent,” where firms achieve cost advantage by delegating the responsibility for business process operations into a “partnering” role where the service providers ensure competency-based service delivery to help firms strategically improve their competitiveness (Kedia & Lahiri, 2007; Lacity, et al., 2008). Successful management of a service business requires an integrated relationship management approach, including a high involvement in the value chain, and close relations with both suppliers and customers, to gain the synergy advantage of cooperation in the chain. It is no longer simply cost driven (Baltacioglu, Ada, Kaplan, Yurt, & Kaplan, 2007).

4.1 Relationship interaction (process)

Vachon et al (2009) discuss two types of supplier interactions: cooperative relational interactions and arm’s length transactional based interactions. The former covers conflict resolution mechanisms and common goal setting where agreement of performance is associated with mutual support and benefits. Goles and Chin (2005) adopted the following five factors of communication, conflict resolution, coordination, cooperation, and integration to explore the cooperative relationship interaction processes between suppliers and customers in service outsourcing.

Inter-organizational communication is a critical factor in promoting strategic collaboration among firms, and in enhancing customers’ and suppliers’ performance (Paulraj, Lado, & Chen, 2008). In particular conflict resolution may enhance communication by signalling that both suppliers and customers are committed to the relationship (Ambrose, Marshall, Fynes, & Lynch, 2008). In view of this, supplier-customer relations in cooperative relationships tend towards joint problem solving to achieve their outcomes, which can better satisfy the needs and concerns of both parties. This is a more constructive approach than the use of coercion as there is a positive effect where a consensus can be reached to resolve problems. As both parties continue to learn from the experience, they further contribute to the success of the entire service outsourcing venture (K Wullenweber, Beimborn, Weitzel, & Konig, 2008). Other studies (Payan & Svensson, 2007; Svensson, Mysen, & Payan, 2010) reported that commitment between organisations had the stronger effect on supplier-customer relations when compared with co-operation and co-ordination. Furthermore, integration activities whilst more costly and complex, ensured more control critical to the enhancement of supplier-customer relations and mutual benefits (Suh and Houston, (2010).

The arm’s length approach is a contractual transactional-based arrangement mainly used for short-term economic efficiency with little involvement or integration between the two parties, and no long-term, strategic focus (Gupta et al. 2007, Vachon et al, 2009). Organisations are more likely to have a long-term, strategic focus, with the trend being more towards the cooperative relational interactions approach or transformational approach as suggested by Kedia and Lahiri (2007).

4.2 Relationship quality

Relationship quality is referred to as “how well the outcome of a partnership delivered matches the participants’ expectation” (Jae-Nam & Young-Gul, 1999, p. 57). Factors such as benefit and risk sharing, conflict, commitment, mutual business understanding and trust have a significant influence on relationship quality and the service outsourcing success, as seen from the perspective of both the firm and the relationship. A review of the literature on relationship quality suggested the following key attributes: commitment, trust, consensus, culture compatibility, flexibility and interdependence as being the most commonly used elements to operationalize relationship quality (Goles & Chin (Han, et al., 2008; Rauyrueen & Miller, 2007; Svensson, et al., 2010).

Relationship quality is a higher order construct which has an influence on the long-term stability of customer–supplier relations (Ulaga & Eggert, 2006). However, the simple existence of longer-term relationships does not necessarily mean that the relationship quality is stronger. As customers and suppliers enter into contractual relationships, the inter-organizational relationships begin to build, but such outsourced inter-organizational relationships are not static, and are likely to evolve over time due to changes in the external and internal environment of both parties. (Pei, et al., 2007).

Trust and commitment are the two main dimensions of the higher order Relationship Quality (RQ) variable in inter-organizational business relationships (Han, et al., 2008; Rauyruen & Miller, 2007; Svensson, et al., 2010). Trust is a feature of relationship quality conceptualized in the outsourcing literature as “the firm’s belief that the other firm will perform actions that will result in positive outcomes for the firm” (Jae-Nam & Young-Gul, 1999, p. 32). However, if suppliers and customers are not sufficiently compatible it is challenging to build a trust relationship.

In service outsourcing, firms prefer their suppliers to be committed and to conform as this reduces the risk of opportunistic behaviour, enhances the effectiveness of cooperation and controls the negative effects of the dependence of the vendor. Nevertheless, the understanding of commitment for both parties then requires some firm definitions and an understanding of the effects different outsourcing policies can have on commitment (Walker, Sartore, & Taylor, 2009). According to Krause et al. (2007), commitment between the two firms is an important complementary condition to establishing performance goals, and provides value to buying firms that seek social capital accumulation with suppliers to achieve the performance gained from the outsourcing.

The impact of culture compatibility is highlighted by Ellis et al. (2006), who notes that a high degree of cultural compatibility can positively influence the atmosphere of the supplier-customer relations. Cultural difficulties between supplier and customer can result in invisible costs which may derail the desired outcomes (Stringfellow, Teagarden, & Nie, 2008). Managers need to conduct cultural due diligence to ensure that the right culture exists with their service provider, especially for offshore services delivery, as this may impact the level of quality and innovation (Youngdahl, Ramaswamy, & Dash, 2010).

According to Hansen et al. (2008), flexibility, the supplier’s ability to adapt to a changed situation where it deviates from the norm or existing standards, positively influences customer perceived value (CPV). Changes in a customer's environment may necessitate changes in the services from a given supplier, and the supplier's ability to adapt to such changes demonstrates that the supplier is responsive to changing customer needs. When customers face this kind of flexibility and responsiveness, the perceived value of the relationship partner is likely to increase because economic losses faced due to unexpected external changes might be reduced. Interdependent relationships are essential in moving away from the traditional adversarial model, which is grounded in power-based bargaining. This requires frequent communication and co-operation on issues such as product and process design, quality and scheduling, all of which are evidenced by increased adaptation on the part of both customer and supplier (Fynes, de Búrca, & Mangan, 2008).

4.3 Customer perceived value

Recently, the customer perceived value (CPV) concept, where firms can match value delivered by their service provider with their business value chain concept has become one of the most popular approaches among business managers. Several studies have been conducted in a business-to-business context to discuss the benefits and sacrifices affecting CPV. Lapierre (2000), Ahola et al. (2008) and Gronroos (2011) argue that some benefits and sacrifices are not always immediate but may take a longer period of time to realize. CPV is time-dependent, and to avoid short-term optimization, customers should consider both short-term and long-term benefits and sacrifices in order to understand how value is realized over time (Ahola, et al.,

2008; Gronroos, 2011; Lapierre, 2000). According to Ulaga and Eggert's (2006; Ulaga & Eggert, 2006) study on manufacturing outsourcing a promising framework regarding relationship value can be established and potentially extended to services and more cultures.

Although research on the customer perceived value (CPV) concept of relationships in business-to-business markets has increased in recent years (Eggert, et al., 2006; Forsstrom, 2004; Gronroos, 2011; Lapierre, 2000), there is no generally accepted measure of the CPV concept in supplier-customer relations. Fundamental to the concept of perceived value in business relationships is the recognition that customers and supplier firms do not trade with each other solely on the basis of the value of the good or service being exchanged as there are other social elements of the relationship that make one service provider more attractive or more valuable than another (Lindgreen & Wynstra, 2005).

Literature review identifies the customer value of supplier-customer relations in various settings, as shown in Table 2.

Table 2: Review of empirical studies of customer value of supplier-customer relations

Author	Perspective	Benefit Dimensions	Sacrifice Dimensions
Lapierre (2000)	Customer Value	Product Related Benefits Service Related Benefits Relationship Benefits	Price Relationship Related Sacrifices
Walter et al. (2001)	Supplier Value	Direct Outcomes: Profit Function Volume Function Safeguard Function Indirect Outcomes: Innovation Function Market Function Scout Function Access Function	
Walter et al. (2002)	Customer Value	Direct Outcomes: Cost Reduction Function Quality Function Volume Function Indirect Outcomes: Market Function Scout Function Innovation Development Function	
Ulaga and Eggert (2003)	Customer Value	Product Benefits Service Benefits Know-How Benefits Time-To-Market Benefits Social Benefits	Process Costs Price

Author	Perspective	Benefit Dimensions	Sacrifice Dimensions
Ulaga and Eggert (2006)	Customer Value	Quality Performance Support Services Interaction Time To Market Know-How	Purchase Cost Process Costs Downtime Costs Hidden Costs Coordination Costs
Ulaga and Eggert (2008)	Customer Value	Core Benefits Quality Performance Sourcing Benefits Support Services Interaction Operation Benefits Time To Market Know-How	Purchase Cost Process Costs Downtime Costs Hidden Costs Coordination Costs

Customer firms considering an ongoing service outsourcing relationship have results or outcomes expectations. Firms will cease to continue an outsourcing program with a service provider who is not delivering the desired direct and indirect net benefits, particularly when there are alternatives to choose from. Interestingly, non-financial outcomes of outsourcing appear hardly to have been studied at all in the literature (Agndal & Nordin, 2009).

Customer perceived value (CPV) is multidimensional and most often defined in terms of benefits and sacrifices (Eggert, et al., 2006; Gronroos, 2011; Lapierre, 2000; Ulaga & Eggert, 2008; Walter, Holzle, & Ritter, 2002). Although service providers may create benefits for outsourcing firms, or by the relationship itself, what counts as a benefit is defined through the customer's perceptions (value expectations). Sacrifices are the economic and non-economic costs that are required to gain access to the relationship benefits. Developing and sustaining supplier-customer relations in service outsourcing is resource intensive and is only viable when negative value components (costs/sacrifices) are exceeded by positive value components (benefits) (Pardo, Henneberg, Mouzas, & NaudÉ, 2006). Consequently, the CPV construct developed for this research identifies the two dimensions of "relationship benefits" and "relationship sacrifices."

Calculation of CPV is not merely a way to indicate a company's competitive advantage relative to competitors, but it may also become a driving factor to continuously improve product and process quality (Setijono & Dahlgaard, 2007). Value is a useful basis for determining the relative importance of business processes. A useful approach for understanding value is the "perceived use value" approach, which defines the value of a product or service as the perceptions that a customer has of the usefulness of the product or service (McIvor, 2005). Ulaga and Eggert (2006) have investigated both the cost and the benefit dimensions of key supplier relationships. On the basis of their empirical findings, they define CPV in a key supplier relationship as a formative, higher-order construct that represents the trade-off between the benefits and costs perceived from the supplier's core offering, the sourcing process, and at the level of a customer's operations, taking into consideration the available alternative supplier relationships (Ulaga & Eggert, 2006).

The emergence of such multi-dimensional models of perceived value has generated considerable debate among researchers. Although multi-dimensional constructs provide holistic representations of complex phenomena, and enable researchers to match broad predictors with broad outcomes, critics have contended that multi-dimensional constructs are conceptually

ambiguous, explain less variance than explained by their dimensions taken collectively, and confound relationships between their dimensions and other constructs. Another interesting issue that needs to be addressed is the extent to which perceived value is situational and context-dependent. Therefore, we study CPV in the service outsourcing context (Sanchez-Fernandez & Iniesta-Bonillo, 2007). Among the various multidimensional proposals, this research favours Ulaga’s typology (see Ulaga 2005, 2006 and 2008) by virtue of its scope in capturing customer perceived value in the supplier-customer relation aspects of the outsourcing experience. In this study, the CPV model is adapted from Ulaga & Eggert’s (2008) empirical study. Their research studies have contributed frameworks for studying the CPV of manufacturing outsourcing relationships, as shown in Figure 1.

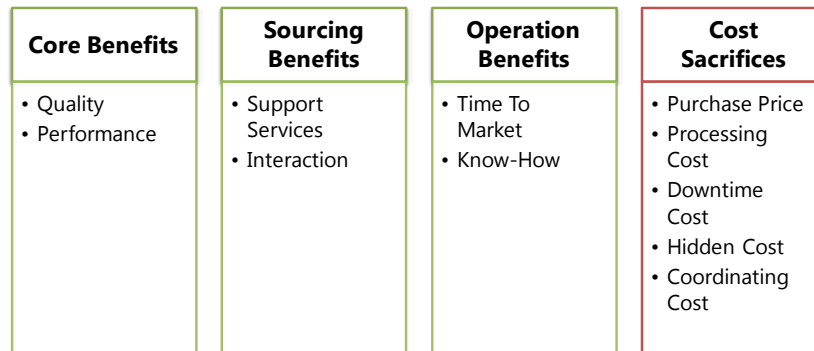


Figure 1: Customer perceived value framework from Ulaga & Eggert (2008)

4.4 Research questions and hypotheses and conceptual framework

Outsourcing is a key strategy for a company to improve its competitive advantage, which stems from its own ability to create and sustain value for its customers/clients that exceeds the firm’s cost of creating it (Kroes & Ghosh, 2010; Vachon, Halley, & Beaulieu, 2009). This study seeks clarification and offers an integrative view of outsourcing motives, supplier-customer relations, and customer value of the service outsourcing from the relational perspective. Thus, this study is designed to answer three key questions:

1. What is the impact of outsourcing motives on supplier relationship management in service outsourcing?
2. What are the key variables of supplier-customer relations and their influences in service outsourcing when organizations invest resources to develop them?
3. How can the supplier-customer relations impact the customer perceived value in service outsourcing?

Based on literature review, this study developed the following constructs, variables and dimensions (Table 3).

Table 3: Constructs, variables and dimensions

Construct	Variables	Dimensions
Outsourcing Motive	Outsourcing Motive (independent variable)	Cost Reduction
		Increased Company Focus
		Improved Quality
		Increased Responsiveness to Variability in Demand
		Innovation Capability
Supplier-Buyer Relations	Relationship Interaction (mediating variable)	Communication
		Cooperation
		Coordination
		Conflict Resolution
		Integration
Supplier-Buyer Relations	Relationship Quality (mediating variable)	Trust
		Commitment
		Flexibility
		Consensus
		Interdependence
		Culture Compatibility
Customer Perceived Value	Core Benefits (dependent variable)	Quality
		Performance
Customer Perceived Value	Sourcing Benefits (dependent variable)	Support Services
		Personal Interaction
Customer Perceived Value	Operations Benefits (dependent variable)	Know-how
		Time-To-Market
Customer Perceived Value	Cost Sacrifices (dependent variable)	Purchase Cost
		Ordering Processing Cost

Construct	Variables	Dimensions
		Hidden Cost
		Downtime Cost
		Coordination Cost

4.5 *The relationship between outsourcing motive and relationship interaction*

Organizations typically outsource non-core activities to gain lower labour costs and other benefits. Gopal et al.'s (2003) study indicates that outsourcing more complex and strategic business activities is often more profitable. In view of this, the long-term relationship instead of arms-length contractual relationship with service providers will be the enabler for firms to gain the right partners to handle more complex outsourcing projects (Gupta, et al., 2007). Ketchen et al. (2008) share this viewpoint, that executives determine the best relationship to develop between themselves and suppliers, which is based on the value each party delivers in the business value chain.

In this study outsourcing motives as higher order variables comprise cost reduction, focus on core competency, better quality, flexible on demand changes and innovation capabilities. These dimensions of the outsourcing motive can reasonably explain the influence of supplier-customer relations and customer perceived value. Thus, based on the foregoing discussion, the following hypothesis is given:

***Hypothesis 1:** Increased outsourcing motive will be positively associated with relationship interaction.*

4.6 *The relationship between 'relationship interaction' and 'relationship quality'*

In Goles and Chin's (2005) empirical study on outsourcing to systematize the supplier-customer relations constructs, all factors were grouped into either an attributes group (inherent characteristics or properties that contribute to the functionality and harmony of the relationship) or a processes group (the means by which the attributes are developed from the interaction between supplier and customer). The Goles and Chin (2005) model provides a starting point to examine the two important variables - relationship quality (attributes) and relationship interaction (processes) together with their dimensions in this study.

Previous studies showed that there is a lack in consensus on whether relationship interaction could influence relationship quality or vice-versa. Since the evidence from previous studies (Han, et al., 2008; K. Wullenweber, Jahner, & Krcmar, 2008; Zhijian, Loch, Grossmann, & Ru, 2009) suggested that relationship interaction is more likely to be an antecedent to relationship quality, hence, it is reasonable to explore their relationships as stated in H2.

***Hypothesis 2:** Relationship interaction will positively influence relationship quality.*

4.7 *The relationship between relationship quality and customer perceived value*

Relationship quality is one of the two supplier-customer relations variables in the study, which are higher order variables comprising commitment, consensus, culture compatibility, flexibility, interdependence and trust. These dimensions of relationship quality can reasonably explain the influence of supplier-customer relations to customer perceived value. From Ulaga and Eggert's (2003; 2006, 2008) multiple studies on manufacturing outsourcing in supplier-customer relations management, four variables (three benefit variables and one sacrifice variable) are identified for customer perceived value; they are core benefits, sourcing benefits and operations benefits each with two dimensions and cost sacrifices variable with five dimensions. Therefore, there are four hypotheses between the intervening variable and the four dependent variables.

Charkrabarty et al. (2007) concur that service quality and relationship quality are significantly and positively related to each other, and that both have a significant impact on user satisfaction. In addition, forty five per cent of the variances are found in Jahyun and Kichan's (2007) quantitative study on information technology (IT) outsourcing, where trust and commitment elements of supplier-customer relations are central to the outsourcing. This is strong evidence that both trust and commitment are key components to management of outsourcing success, and that they have a strong effect on service performance.

The supplier's ability to adapt to such changes in a short time will be an indication of flexibility, and will show that the supplier is providing the necessary support to meet the changing customer needs. When customers face this kind of flexibility and responsiveness, the perceived value of the relationship partner is likely to increase because economic losses faced due to unexpected external changes might be reduced (Hansen, et al., 2008). In most cases, these support services will be considered as important value in the supplier-customer relations.

Aubert and Rivard (2004) have studied conditions of success related to two phases of the IT outsourcing relationship: the relationship formation phase and the relationship management phase. Flexibility is one of the four conditions of relationship success on the relationship management phase. According to Hansen et al. (2008), flexibility is the supplier's ability to adapt to changed situations, especially to meet tight timelines. In their study, flexibility positively influences the customer value of both parties of the relationship.

According to Zeithaml (1988), Woodruff (1997), and Ulage & Eggert (2006, 2008), customer value is the net difference between perceived benefits and sacrifices. Obtaining benefits from service providers may require substantial involvement with them, which, in turn, increases relationship costs. Relatively new relationships may impose substantial costs for supplier development, and relationship costs include structural costs, i.e., communications links and administrative systems and general process adaptations. In close long-term relationships, firms will seek a greater efficiency in the alignment of the business processes that tie them to the partners involved.

Thus, four hypotheses between relationship quality and customer perceived value constructs are as follows:

- Hypothesis 3:** *Relationship quality will be positively associated with core benefits.*
- Hypothesis 4:** *Relationship quality will be positively associated with sourcing benefits.*
- Hypothesis 5:** *Relationship quality will be positively associated with operation benefits.*
- Hypothesis 6:** *Relationship quality will be negatively associated with cost sacrifices.*

Figure 2 summarizes the hypotheses within the conceptual framework of this study. A plus sign (+) indicates a positive influence and a minus sign (-) indicates a negative relationship between the two variables.

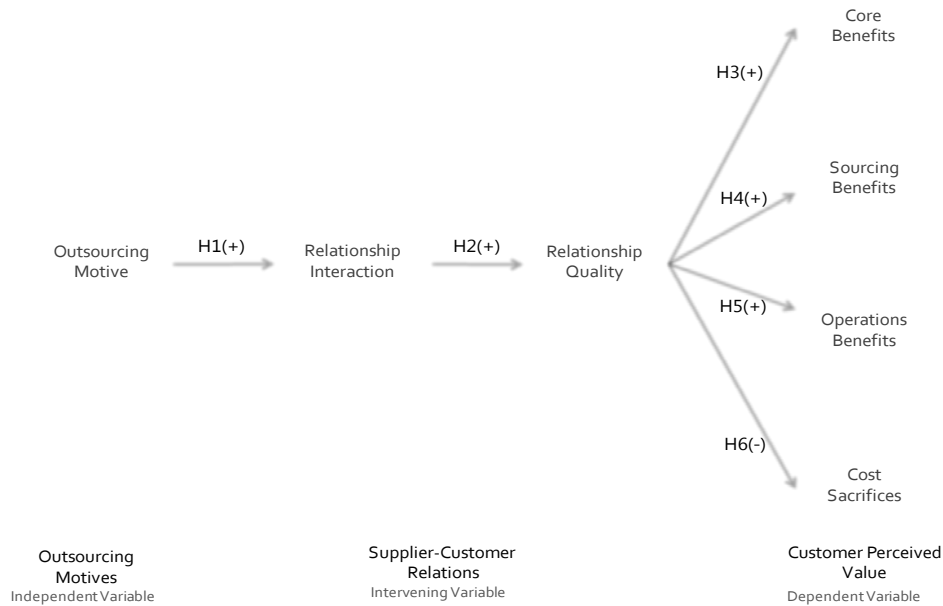


Figure 2: Conceptual framework and hypotheses for this research

5. Research design

5.1 Sampling and data collection

The rationale to use the Singapore sample to determine the relationships of variables in this service outsourcing framework is that Singapore is a developed economy, and firms in Singapore are on the leading edge in adopting service outsourcing. Hence, the results and framework derived from this study could be generalised to other developed nations. All companies in both the Fortune 150 companies with offices in Singapore, and the Singapore Stock Exchange (SGX) listed companies were included in this study. These 11,900 companies (all listed firms in Singapore) were grouped and sorted in alphabetical order, and assigned a serial number. Companies with serial numbers ending with 1 (for instance 1, 11, 21, 31 etc) were selected for the questionnaire survey. A sample total of 1,757 companies were randomly selected for the survey (Table 4).

Table 4: Selection of survey companies from three business directories

Directories	Number of Companies	Selected Sample
Fortune 150 companies with offices in Singapore	96	96
Singapore Stock Exchange Listed Companies	468	468
Singapore Business Foundation (Association of Small Medium Enterprise)	> 11,900	1,193 (12 sectors)

A structured questionnaire was mailed with a self-addressed return envelope, and a covering letter stating the purpose; confidentiality was ensured via the anonymously returned questionnaire. A second round of the survey was sent out to the total sample four weeks after the initial one as a reminder to the non-returns. 234 valid questionnaires were returned after the second round (i.e., 13.3% response rate). This response rate is considered to be acceptable in Singapore where the average response rate for similar survey studies is around 13.6% (Harzing, 1997, 2000).

5.2 Instrument design

A five-point Likert scale ranging from strongly agree (5) to strongly disagree (1) was used in all questions. All items in this questionnaire were reviewed by five senior executives from five different companies (who had managed service outsourcing for more than five years), and eight PhD candidates were invited to review the survey for clarity and meaning. No modification was required after their feedback.

A 5-item scale adopted from Dabhilkar et al. (2009) was chosen to measure outsourcing motive. The wording was modified slightly to suit the context of this study (but not the content and meaning). That is, changing of the word manufacturing to service outsourcing only. Goles and Chin (2005) 11 items scale on relationship interaction variable and 12 items scale on relationship quality variable were adopted respectively in this study. Ulaga & Eggert’s (2006) items scale was adopted for customer value in this study. The measurement was on perceived value. This is an acceptable approach when objective data are not available in research (Barry & Terry, 2008; Corsaro & Snehota, 2010; Ulaga & Eggert, 2006, 2008). Details of the variables, code name and items are provided in Table 5.

Table 5: Variables and survey items

Variable	Code Name and Survey Item	
Outsourcing Motive	COST	Reduce cost for outsourced component/activity
	RESP	Increase responsiveness to variability in demand
	QLTY	Increase service quality.
	FOCS	Improve company focus
	INNO	Take advantage of supplier's greater innovation capability.
Relationship Quality	COMT1	Both parties are highly committed to the relationship.
	COMT2	Both parties are willing to commit resources to sustain the relationship.
	INTD2	Both parties in the relationship successfully complete tasks that the other relies on.
	CONS1	The two parties are able to reach agreement on most matters.
	TRUS1	Both parties in the relationship can be trusted to behave fairly.
	TRUS2	Both parties in the relationship can be trusted not to take advantage of the other.
	INTD1	Both parties in the relationship effectively carry out activities that the other is dependent on.
	CULT2	Both parties in the relationship accept the other's culture.
FLEX2	Both parties in the relationship are willing to accommodate each other as conditions change.	

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	FLEX1	Both parties in the relationship are highly flexible when circumstances change.
	CONS2	Both parties in the relationship agree on nearly all issues.
	CULT1	Both parties in the relationship have compatible corporate cultures.
Relationship Interaction (RI)	COMM1	Both parties in the relationship communicate well with each other.
	COOP2	Both parties in the relationship cooperate well with each other.
	INTG1	Relationship management has become an integral part of my organization's administrative routine.
	COOP1	Both parties in the relationship willingly help out each other.
	COMM2	Both parties in the relationship effectively exchange information with each other.
	COOR1	Each party in the relationship coordinates activities well with the other.
	CONF2	The process of resolving conflicts between both parties in the relationship is effective.
	INTG2	Mechanisms for managing the relationship have become successfully integrated into my organization's standard operating procedures.
	COOR2	Both parties in the relationship effectively synchronize tasks with the other.
	CONF1	Disagreements between both parties in the relationship are almost always successfully resolved.
	INTG3	My organization has effectively incorporated methods of managing the relationship into our policies and procedures.
Core Benefits	QLTY1	The supplier provides us with better service quality.
	QLTY5	The supplier provides us with more consistent output quality over time.
	PERF1	The supplier performs better in meeting due dates.
	QLTY2	The supplier meets our quality standards better.
	PERF2	We have less deliverable errors with the supplier.
	PERF3	Deliverables from the supplier are more accurate.
	QLTY6	We have less variation in output quality with the supplier.
	QLTY3	The supplier's service is more reliable.
	QLTY4	We reject less output from the main supplier.
Sourcing Benefits	SUPP2	The supplier is more available when we need information.
	SUPP1	The supplier provides us with better support services.
	SUPP4	The supplier responds faster when we need information.
	SUPP3	The supplier provides us with more appropriate information.
	INTR6	We can discuss problems more freely with the supplier.

	INTR1	It is easier to work with the supplier.
	INTR3	There is a better interaction between the supplier's people and ours.
	INTR2	We have a better working relationship with the supplier.
	INTR5	We can address problems more easily with the supplier.
	INTR4	We interact better with the supplier.
	INTR7	The supplier gives us a greater feeling of being treated as an important customer.
Operations Benefits	TIME4	The supplier performs better in helping us speed up product/service development.
	TIME2	The supplier helps us more in improving the cycle time of the service.
	KNOW1	The supplier provides us better accesses to his or her know-how.
	KNOW2	The supplier knows better on how to improve our existing service.
	KNOW3	The supplier performs better at presenting us with new service improvement.
	KNOW4	The supplier knows better on how to help us drive innovation.
	TIME3	The supplier helps us more in getting our product/service to market faster.
	KNOW5	The supplier knows better on how to assist us in new service development.
	TIME1	The supplier performs better in helping us improve our time-to-market.
Cost Sacrifices	CORD	Coordination and communication costs
	HIDD	Service delivery costs (hidden costs)
	PURC	Purchase price
	ORDR	Ordering and processing costs
	DOWN	Downtime costs

5.3 *Data analysis*

Structural Equation Modelling (SEM) was used to analyse the data collected from the survey using the SPSS 18 and AMOSTM (Analysis of Moment Structure) 18.0 software package. A recommended two step model-building approach was adopted (Anderson & Gerbing, 1988; Hair, Anderson, Tatham, & Black, 2009; Kline, 2010).

6. Results

6.1 Descriptive statistics

Data were collected from more than twelve industries, where the Information Technology industry had the highest rate of response (38 per cent), and office equipment had the lowest, with three respondents (1.3 per cent); the sample had a good balance of small medium enterprise (less than 600 employees) (59 per cent) and large companies (600 and more employees) (41 per cent). Table 6 showed the different activities outsourced by firms, ranging from the highest in Information Technology (28.4%) to the lowest in Research and development (1.7%).

Table 6: Percentages of outsourcing activities by firms

Variables	Categories	Percentage (%)
Outsourced Activity	Accounting / Financial / Taxation	10.80
	Advertising / Public Relations Agency	3.40
	Customer Service	10.80
	Executive Training	3.00
	Facility Management	0.90
	Human Resource Management	8.20
	Information Technology	28.40
	Legal Service	1.70
	Logistics / Transportation / Warehousing	15.10
	Marketing Research	2.20
	Research and Development	1.70
	Sales / Telesales	5.60
	Others	8.20

Nearly 80 per cent of respondents held managerial positions with 31.6 per cent in senior positions (director level and above). In addition, 68.8 per cent of respondents (direct or mixture of responsibilities of managing the outsourced service) were responsible for outsourcing day-to-day operations or decision making. The result also reveals that 57.80 per cent of the companies had outsourcing relationships with their service providers for over 3 years and that more than half of the respondents (51.30 per cent) had been involved in outsourcing operations for more than 3 years. The data collected for service outsourcing engagements were generally in the stable managed phase of service outsourcing.

6.2 Analysis of measurement model

This part of the analysis examines the uni-dimensionality and reliability of the measurement scales. Bagozzi (1994) suggests that a multi-factor measurement model (i.e., testing a number of constructs together at a time) can be employed if each construct contains fewer than four items. As most of the factors in the model comprised of more than four items, an initial step involved drawing seven congeneric measurement models for each of the seven latent variables.

The resulting thirty-three items were submitted to confirmatory factor analysis (CFA). The maximum likelihood estimation method was employed. On examining the remaining indicators

for each underlying construct, they were all well represented in measuring what they intended to measure. The hypothesized model was first tested with goodness of fit statistics. Finally, an adjusted measurement model with 28 items was retained in the model after seven iterations, as shown in Figure 3.

The new measurement model using bootstrapping procedure had maximum likelihood estimation (MLE) chi-square of 391.830 with p-value of 0.074 and degrees of freedom of 329 therefore indicative of a model that fits the data well (Weston & Gore, 2006). Two other absolute fit measures were checked (RMSEA, TFI, CFI, IFI and χ^2/df) as shown in Figure 3. Overall, the fit statistics suggest that it can be considered as a good fit measurement model.

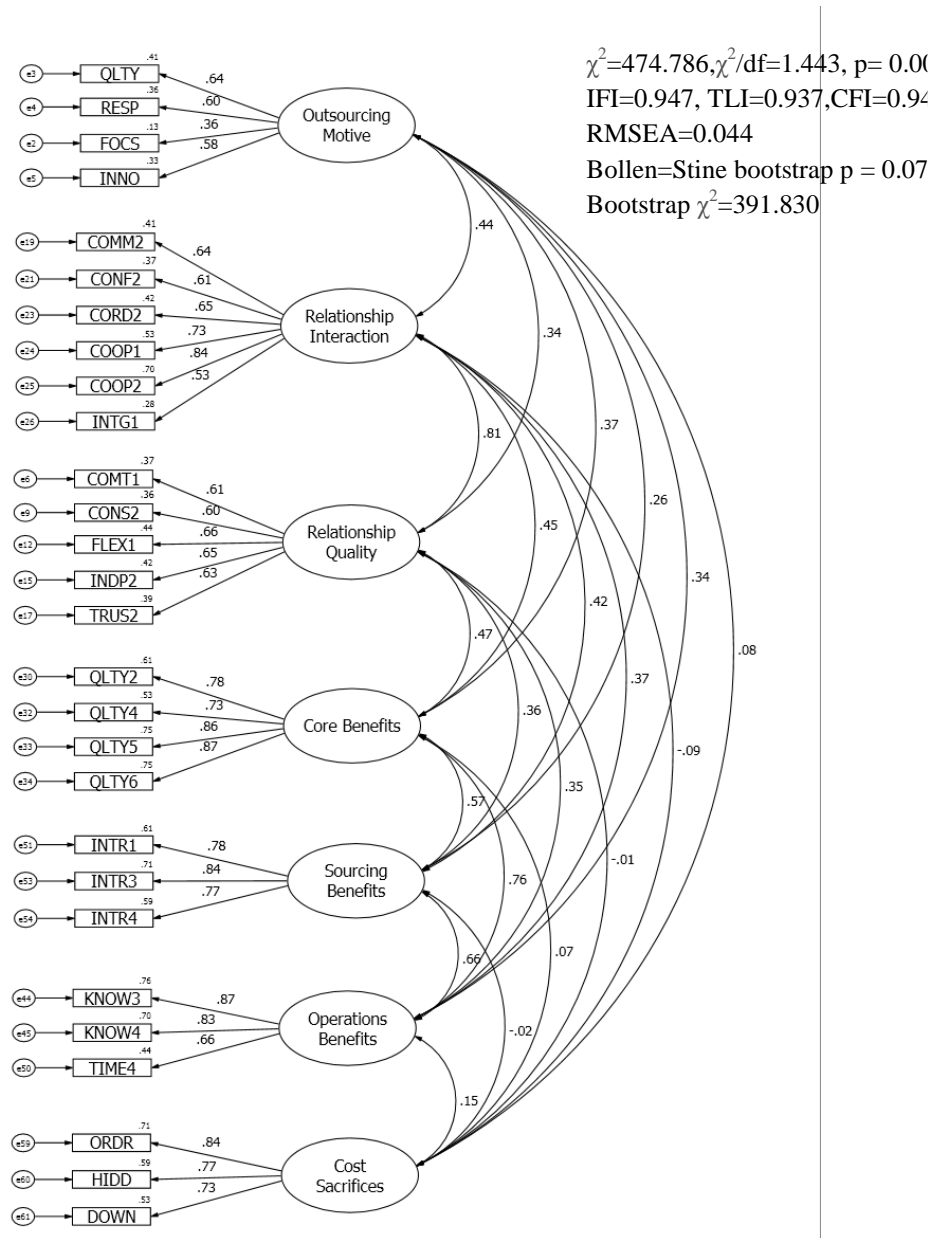


Figure 3: Final measurement model after re-specification (28 items)

6.3 Analysis of structural model

The testing of the structural model employed a model development methodology that combined the confirmatory and exploratory approach. The initial model (Model A) as shown in Figure 4 has $\chi^2 = 497.098$, degree of freedom = 341 and Bollen-Stine bootstrap $p = 0.058$. The goodness of fit measures (RMSEA = 0.045, CFI = 0.942, TLI = 0.935 and $\chi^2/df = 1.458$) suggest that the model is a well-fitted model. Since model A is a good fit and acceptable in all the calculation modes, the individual paths can be examined in more detail and used to test the hypotheses.

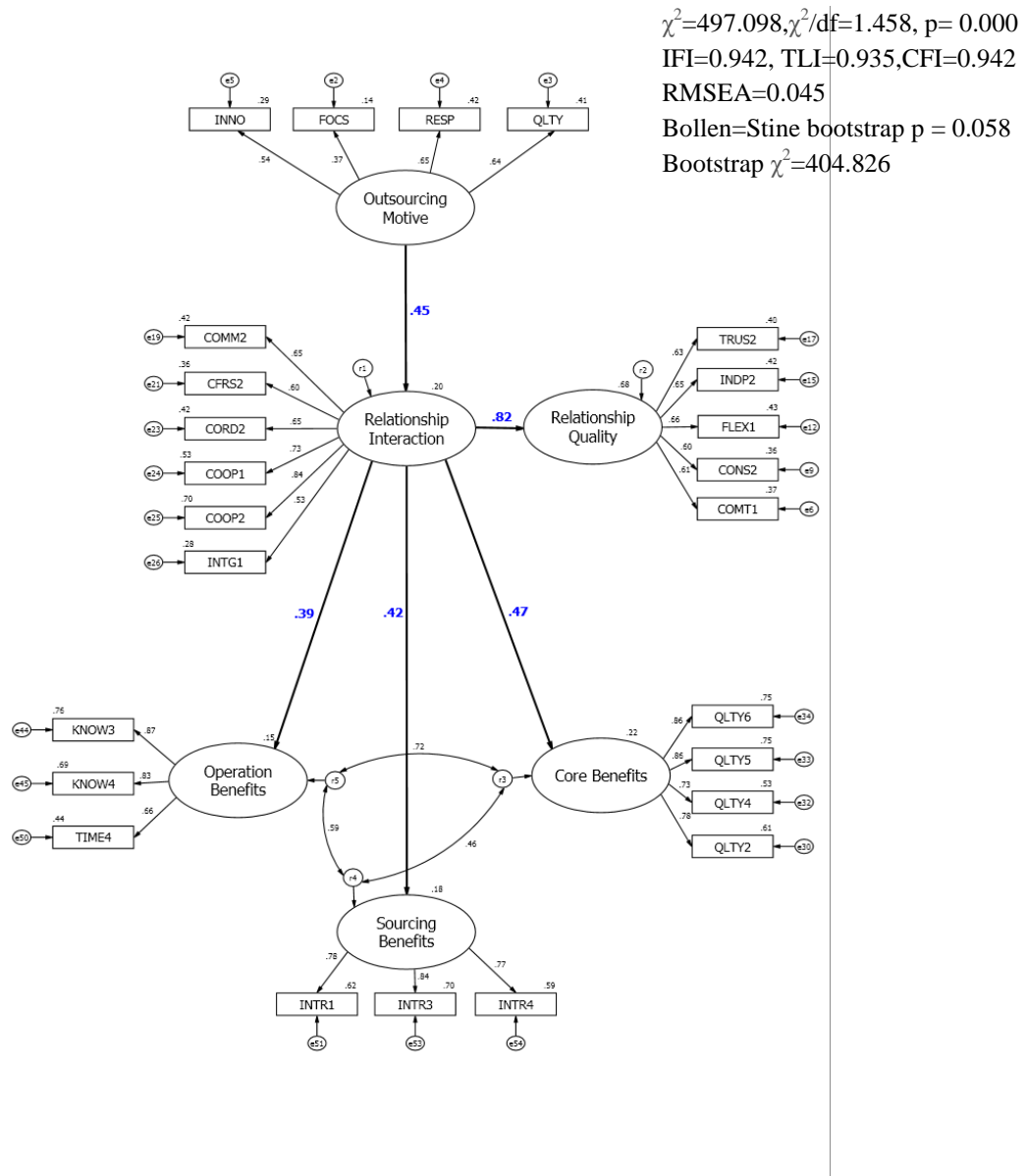


Figure 4: Structural model B

The research framework has a total of 6 hypotheses representing the causal relationships among an independent variable, two intervening variables, and the four dependent variables. Table 7 provides parameter estimates and the critical ratio (t-value) for each hypothesis path in the SEM on Model A. Parameters with the critical ratio greater than ± 1.96 signify a significant path at the $p < 0.05$ level. The last two columns of Table 7 specify the hypothesized relationships in the conceptual model, as opposed to the results found in the SEM. This table shows that five out of the six paths in the proposed model are significant ($p < 0.05$) in the hypothesized positive direction. Non-significant parameters (relationship quality \rightarrow cost sacrifices) with the t-value

less than 1.96 can be considered unimportant to the model; accordingly, they can be excluded. Finally, dimensions in conceptual framework after SEM analysis were shown in Table 8.

Table 7: Model A (conceptual framework in this research) and its path coefficients

Hypotheses	Path Relationship	Std. Estimate	Unstd. Estimate	t-Value	Hyp. Direction	Result
H1	Motive → Relationship Interaction*	0.442	0.387	4.091	+	Supported
H2	Relationship Interaction → Relationship Quality*	0.836	0.811	7.353	+	Supported
H3	Relationship Quality → Core Benefits*	0.495	0.735	5.606	+	Supported
H4	Relationship Quality → Sourcing Benefits*	0.409	0.569	4.657	+	Supported
H5	Relationship Quality → Operations Benefits*	0.385	0.638	4.554	+	Supported
H6	Relationship Quality → Cost Sacrifices**	-0.029	-0.049	-0.360	-	Not Supported

* p < 0.001, and ** p > 0.1

Note: Std. – standardised, Unstd. – unstandardised, Hyp - hypothesis

Table 8: Constructs, variables and dimensions in the conceptual framework before and after SEM analysis

Construct	Variables	Dimensions	After SEM Analysis
Outsourcing Motive	Outsourcing Motive	Cost Reduction	Eliminated
		Increased Company Focus	Validated
		Improved Quality	Validated
		Increased responsiveness to variability in demand	Validated
		Innovation Capability	Validated
Supplier-Buyer Relations	Relationship Interaction	Communication	Validated
		Cooperation	Validated
		Coordination	Validated
		Conflict Resolution	Validated
		Integration	Validated
		Trust	Validated

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Construct	Variables	Dimensions	After SEM Analysis
Supplier-Buyer Relations	Relationship Quality	Commitment	Validated
		Flexibility	Validated
		Consensus	Validated
		Interdependence	Validated
		Culture Compatibility	Eliminated
Customer Perceived Value	Core Benefits	Quality	Validated
		Performance	Eliminated
Customer Perceived Value	Sourcing Benefits	Support Services	Eliminated
		Personal Interaction	Validated
Customer Perceived Value	Operations Benefits	Know-how	Validated
		Time-To-Market	Validated
Customer Perceived Value	Cost Sacrifices	Purchase Cost	Eliminated
		Ordering Processing Cost	Validated
		Hidden Cost	Validated
		Downtime Cost	Validated
		Coordination Cost	Eliminated

Based on Model A, the AMOSTM software specification search feature was used to find the optimized model from the data. All the possible causal relationships were set as optional; AMOSTM was then programmed to build all the possible models. Model B, as shown in Figure 4 yields the best-fit model, as it has the highest goodness of fit number. The structural model B has χ^2 (MLE) of 319.861 with Bollen-Stine bootstrap p-value of 0.066 and degrees of freedom of 267. The goodness of fit measures were $\chi^2/df = 1.475$, TLI = 0.941, CFI = 0.947, IFI = 0.948 and RMSEA = 0.045. A significant mean χ^2 (bootstrap) with the Bollen-Stine bootstrap p-value more than 0.05 ($p = 0.066$) implies that the structural model B (Figure 4) fits well with the data.

From both SEM structural model A and B, which tested the H2 in both direction. Both H2 directions are supported. However, Model B produces Bollen-Stine bootstrap p-value less than 0.05 ($p = 0.046$) implies that the structural model B cannot be accepted. However, Model A has $\chi^2 = 497.098$, degree of freedom = 341 and Bollen-Stine bootstrap $p = 0.058$ ($p \text{ value} > 0,05$). Additionally, the goodness of fit measures (RMSEA = 0.045, CFI = 0.942, TLI = 0.935 and $\chi^2/df = 1.458$) suggest that the model is a well-fitted model and accepted.

Discussion

The results shown in Model A reveal three constructs: motive of outsourcing (with one variable and four dimensions), supplier-customer relations (with relationship interaction and relationship quality variables, each with five dimensions) and customer perceived value (with four variables, each with multiple dimensions) (as shown in Figure 6)

From the conceptual framework shown in Figure 6, the outsourcing motive factor has a positive influence on relationship interaction, with a beta coefficient (regression weight) of 0.44 and critical ratio = 4.091; hence H1 is supported. This is consistent with Ketchen et al.'s (2008) study, which reported that managers determine the best relationship to develop with suppliers on the basis of the value of the outsourced service activity in the business value chain.

Hypothesis H2 was supported, and the results showed that the relationship interaction factor has a strong positive influence on the relationship quality factor in the supplier-customer relations construct, with a beta coefficient (regression weight) of 0.836 and critical ratio of 7.353. The current results are consistent with those of other information system (IS) outsourcing studies: the customer and service provider interface is critical to build a progressive partnership, with sub-processes working together simultaneously (Albert Sargent, 2006; Cai & Yang, 2008).

Relationship quality (one of the two variables in the supplier-buyer relation construct) has a positive influence on core benefit variables (one of the four variables of the customer perceived value construct). Hypothesis H3 is supported with beta coefficient (regression weight) of 0.495 and critical ratio = 5.606. The present results are consistent with those of some recent studies on customer perceived value: the supplier-customer relation is significantly and positively related to the quality outcomes of the supplier (Chakrabarty, et al., 2007; Eisingerich & Bell, 2008; Goo, Kishore, Nam, Rao, & Song, 2007). Relationship quality has a positive influence on sourcing benefits, with a beta coefficient (regression weight) of 0.409 and critical ratio = 4.657. Hence, H4 is supported. That is, the higher the relationship quality between suppliers and customers of a service outsourcing engagement, the better will be the sourcing benefits for the customer, is supported.

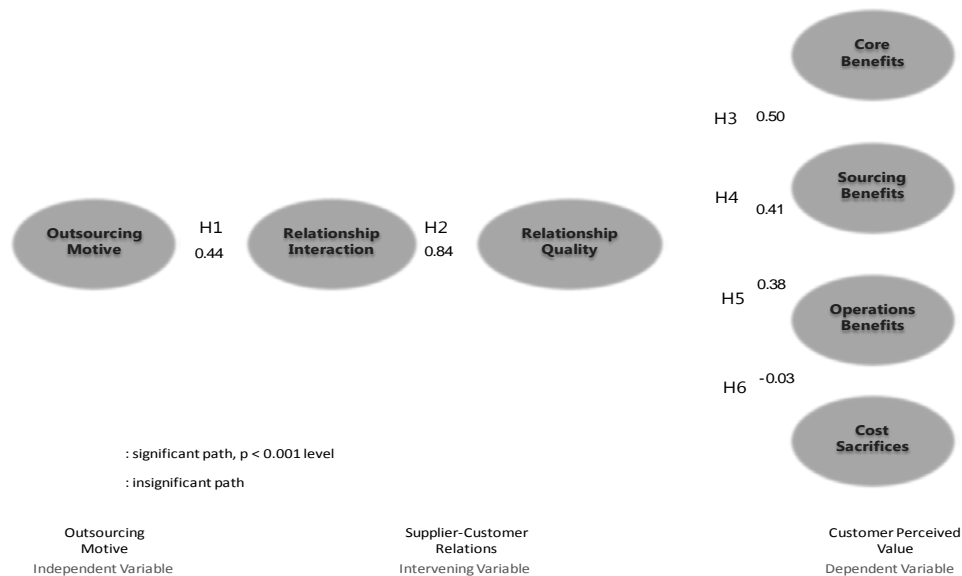


Figure 6: The conceptual framework with path coefficients

This finding is consistent with Lundgreen and Wynstra (2005) finding, which shows that in business relationships, the customer and supplier companies do not trade with each other solely on the basis of the value of the goods or services being exchanged. As shown in Figure 6, the relationship quality factor has a positive influence on operations benefits (H5), with a beta coefficient (regression weight) of 0.385 and critical ratio = 4.554; hence H5 is supported. This finding is consistent with those of previous studies: the trust-based relationship between service providers and customers is very important for knowledge sharing, which contributes significantly to outsourcing success (Lee, Huynh, & Hirschheim, 2008). Similarly, evidence from Willcocks et al.'s (2004) study confirms that companies interact more with their vendor, especially in understanding the vendor capabilities, which can elevate their own core knowledge capabilities.

Figure 6 clearly shows an insignificant path between relationship quality and cost sacrifices, with a beta coefficient (regression weight) of -0.03 and critical ratio = -0.360. The result indicates that H6 is rejected, i.e. the higher the relationship quality between suppliers and customers of an outsourcing engagement, the lower will be the cost sacrifices, is not supported. This result is contrary to those of previous studies using the same measurement items in the manufacturing context; the studies showed that a strong supplier-customer relations can better align the resources of both the customer and service provider and this can prevent or reduce unexpected requirements from the outsourcing engagement (Ulaga & Eggert, 2006).

In summary, the result in this study has provided findings for the following research questions:

Research Question 1: What is the impact of outsourcing motive on supplier-customer relations management in service outsourcing?

The outsourcing motive has a positive impact on supplier-customer relations management, as demonstrated in Hypothesis H1. When the company has a strong outsourcing motive, it invests resources to develop relationship interaction processes (communication, cooperation, coordination, conflict resolution and integration) with their service providers. The result is consistent with those of Ketchen et al. (2008) and Vachon Halley and Beaulieu (2009): a company's supplier-customer relations management is highly aligned with its outsourcing motive, which is linked to the company's business value chain or competitive priorities.

Research Question 2: What are the key variables of supplier-customer relations and their influences in service outsourcing when organisations invest resources to develop them?

Two important variables were identified in supplier-customer relations management; they are relationship interaction and relationship quality. The final framework (Figure 35) for outsourcing motive, supplier-customer relations and customer perceived value further explains that supplier-customer relations can be developed and sustained by focusing on the five elements of relationship interactions: communication, cooperation, coordination, conflict resolution and integration. This is consistent with the findings of other IS outsourcing studies: relationship interaction processes are important to develop a stronger relationship between the supplier and customer (Albert Sargent, 2006; Cai & Yang, 2008).

Research Question 3: How can the supplier-customer relations affect customer perceived value in service outsourcing

In this research, four variables with eleven dimensions were adapted from Ulaga and Eggert's (2003, 2006) studies of customer perceived value. There are four hypotheses, H3, H4, H5 and H6, for research question Q3, and the results reveal dissimilarities in the customer perceived value construct between manufacturing and service outsourcing from the relationship management viewpoint. The differences are as follows:

1. The cost sacrifices variable and its five dimensions are not perceived as negative in service outsourcing.
2. The performance dimension is eliminated from core benefits variable.
3. The support services dimension is eliminated from sourcing benefits variable.

Discussion on the Final Framework

The main contribution of the final framework is the development and confirmation of a theoretical construct to describe outsourcing motive, supplier-customer relations and customer perceived value and their interrelation in service outsourcing as presented in Figure 5 (Model B). Figure 7 presents the final framework with path coefficients, there is only one intervening variable (relationship interaction) in the final framework that links the outsourcing motive variable and the three customer perceived value variables. This study emphasises interaction in a supplier-customer relations, where managers striving to achieve customer perceived value are required to pay attention to all the five dimensions of interaction processes: communication, cooperation, conflict resolution, coordination and integration.

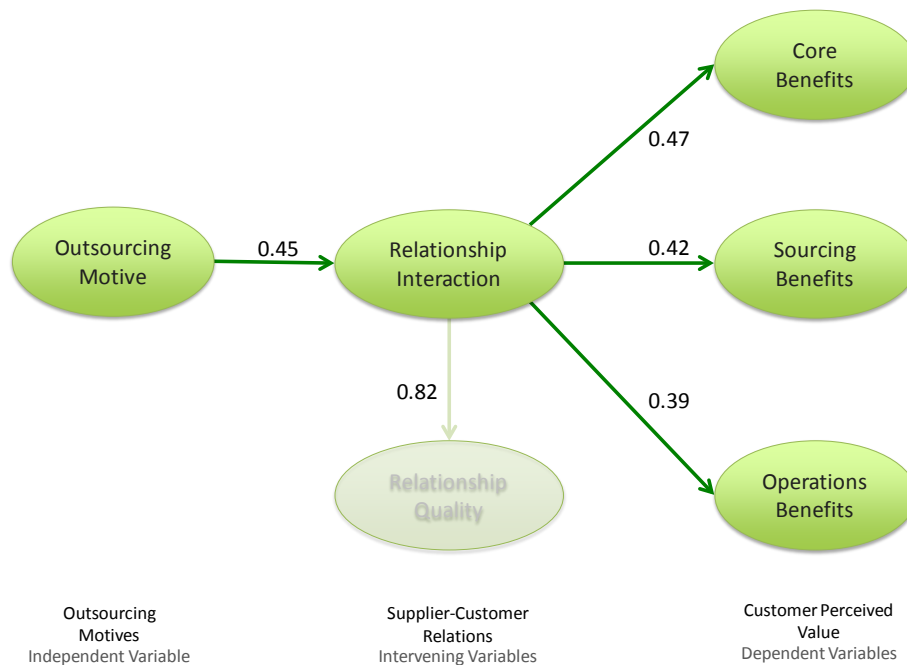


Figure 7: The final framework with path coefficients

The customer perceived value construct has only three benefits variables (core benefits, sourcing benefits and operations benefits), and the cost sacrifices variable was eliminated in the final framework. Some interesting findings have emerged in this research, although no specific hypotheses were proposed. There are three new paths in the final framework as shown in Figure 7, which directly link relationship interaction variable to core benefits, sourcing benefits and operations benefits.

The findings of the final framework indicated that relationship interaction has a positive influence on the core benefits variables of the customer perceived value construct, with a beta coefficient (regression weight) of 0.474. Hence, this path is supported and is statistically significant. The result is consistent with that of studies where the interaction process, especially communication (one of the dimensions of relationship interaction) between supplier and customers in outsourcing can reduce product and performance-related errors, thereby enhancing

quality, time-to-market and customer responsiveness (Paulraj, et al., 2008). Similarly, Elmuti (2003) also provided empirical evidence that coordination and communication (two other dimensions of relationship interaction) in the manufacturing outsourcing context; he found an association between these dimensions and quality improvement.

According to the final framework (Figure 7), relationship interaction has a positive influence on the sourcing benefits variable of the customer perceived value construct, with a beta coefficient (regression weight) of 0.424. Hence, this path supports that a better relationship interaction between suppliers and customers leads to better sourcing benefits for the customer. The present findings are consistent with Rajamani et al.'s (2010) work, which suggested that customers and suppliers would like to maintain the right level of relationship through beneficial interaction, and this is driven by appropriate incentives.

The relationship interaction factor has a positive influence on operations benefits with a beta coefficient (standardised regression weight) of 0.390. The result proves that the greater the relationship interaction between the suppliers and customers in a service outsourcing engagement, the better will be the operations benefits for the customer. The finding is consistent with those of previous studies from the angle of service provider. Ochel (2002) highlighted the importance of a close interaction between service providers and outsourcing companies, particularly in knowledge-intensive industries, where service providers must provide not only cost-effective solutions but also creative problem solving as well as specialised know-how in order to compete in the marketplace.

The results of the final framework also show that the cost sacrifices variable does not have any impact on the level of the relationship interaction between supplier and customer. It is generally perceived by managers that the magnitude of the supplier-customer relations does not reduce the cost sacrifices in service outsourcing. The final framework demonstrates that the outsourcing of services or business processes will depend on the strategic value of the resources constituting them. That strategic value can be enhanced by the supplier-buyer relationship, especially with the relationship interaction processes. For instance, when a company chooses to outsource an activity in the business value chain, if the desired value is equivalent to that of the four dimensions shown in the integrative framework, managers can develop stronger relationship with their suppliers to enhance these value or benefits. Previous studies have not collectively considered these aspects in order to explain service outsourcing decisions, which give this research certain additional value.

Management Implication

From the managerial contribution perspective, the implementation diagram derived from the final framework in this study is shown in Figure 8. This provides the operational framework for both customers and service providers to achieve better inter-organisational business relationships with better understanding of both the outsourcing motive and of customer perceived value. The strategic element of outsourcing motive systematically requires an integrated supplier-customer relations management approach to achieve the potential benefits and improve the overall business value chain. Thus, the results of this final framework where the supplier-customer relations and its association with motives and perceived value is empirically tested should enrich a company's value creation process.

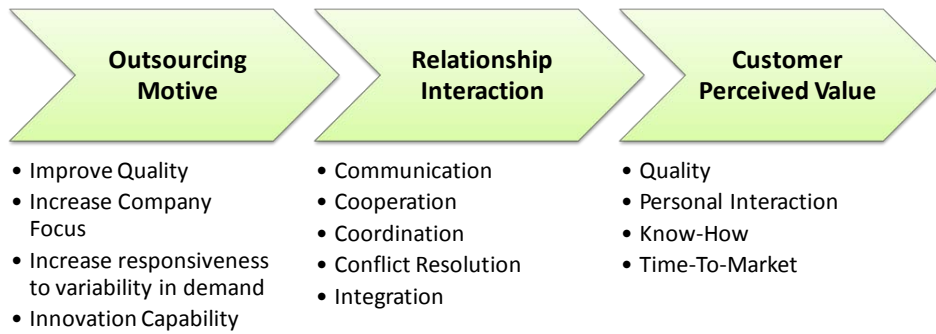


Figure 8: Implementation diagram based on final framework

Limitation of the study and future research

This research makes important theoretical and empirical contributions to the literature on supplier-customer relations and customer perceived value in service outsourcing. Nevertheless, the validity of the implied causal ordering of pathways in the final conceptual framework is limited by the cross-sectional nature of the research design. Naturally, a longitudinal study would enable stronger inferences to be made about the directions of the causal sequencing of model constructs. In addition, this study examines the framework from the customer perspective and utilises a single respondent for each company. The supplier-customer relation is a problem that involves both the supplier and the customer, and a study to combine the supplier's and the customer's perspectives will provide more information. These may require paired sampling methods to collect data and analyse the data.

Future research may examine some of the constructs that are not included in the final analysis. For example, the organisation structure effect and the business environment may require new measuring instruments that function better in the service outsourcing context. Further, from the time perspective, it is possible to determine how key conditions influence the successful outcome of the service outsourcing over time. The findings of this research confirm that some key elements in both relationship interaction and quality variables in the supplier-customer relations construct vary depending on either the duration of the outsourcing engagement or duration of the interface with the service provider. A focus on time also makes it possible to study the institutionalisation of the customer-supplier relationship.

Conclusions

The main contribution of this study is the development of a conceptual framework in outsourcing motives, supplier-customer relations and customer perceived value in the service industry. In particular, supplier-customer 'relationship interaction' is more important than 'relationship quality' in service outsourcing. Management may need to focus and direct more resources into 'relationship interaction' activities for effective service outsourcing. This is a significant finding particularly for outsourcing in the service industry. Furthermore, this relationship interaction further enhances mutual benefits in cost-effective solutions, creative and strategic outcomes.

From a pedagogical perspective, it is considered that findings in this study showed how inter-organisational relationships within a service supply chain are structured, how they affect value and, ultimately, how these service supply chains can be managed. Finally, this paper also provides significant contributions to future research, particularly in the area of inter-organisational relationships within supply chain management.

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