Consumer Ethnocentrism Towards Outsourced Services

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Abstract

The trend in outsourcing of services by U.S. firms has been a major concern for politicians and labor leaders alike. While there are negative aspects to outsourcing, it is generally felt that the consumers in the United States who make use of these services benefit tremendously. This paper attempts to address the outsourcing issue through the perspective of ethnocentrism.

Previous research on measuring consumer ethnocentricity focused around the imported foreign goods and not much has been written pertaining to services or the service industry. This paper aims to review the literature on the effects of customer attitudes on buying foreign goods and review the characteristics of the services that differentiate them from goods. Since outsourcing of services is the subject being discussed, the focus will be upon the issues faced by the customers and businesses that are the receivers and providers of these services. This paper draws on past research and identifies behavioral issues concerning consumer ethnocentrism in the use of services.

Introduction

The major move by many United States businesses today, as a cost saving strategy, is to outsource back office processing to cheaper locations overseas. This includes technical services and call center divisions. The outsourcing initiatives are not only practiced by firms from industrialized countries such as Germany, France, and the United States, but also by some developing countries like China, India and South Korea. Global competitiveness and advances in technology have forced international companies to be cost effective and outsourcing seems to provide this benefit.

The detractors of outsourcing are quick to point out some of the problems that are part of the outsourcing debate. For those against outsourcing, the cost advantage of outsourcing is outweighed by some of the drawbacks including loss of domestic jobs, security and privacy issues, and the ballooning trade deficit faced by the United States. In addition, due to cultural and language differences, the service quality itself may be at issue resulting in customer dissatisfaction (Read 2004). A fair amount of research has been done on measuring and analyzing the consumer ethnocentric behavior towards foreign made goods but the area of “foreigner provided services” is still a developing model. There is not enough quantitative data that confirms the presence of antecedents to consumer preferences towards offshore-outsourced services on an international level.

The existing research in the service sector describes and explains the complexity of marketing an intangible item that is consumed as it is purchased and has no inventory provisions to take care of high demand situations. The studies conducted showed the customers’ response to services in the banking, hospitality, entertainment industries where the recipients had access to the facilities that provided these services. Consumers of these services had visual presentation of the conditions under which the services were offered and the facilities were all local without any “foreignness” to them.
The research conducted so far has not included the effects of services that are offered over long distances, or accessed by consumers from foreign locations affecting the user’s perceptions and usage. The current studies lack an understanding of how the presence of the consumer ethnocentrism will alter consumer preferences towards outsourced services in a domestic economy.

Background

The rise in globalization in the last two decades has made consumers at the global level to consider buying imported goods and services to benefit from better prices and a wider variety of choices. In a competitive environment, companies have used outsourcing to cut costs and offer goods and services at lower prices. The competition in the local market drives the companies to find locations with cheaper resources, which will enable them to produce products at a much lower cost than they would locally. The result of outsourcing in most instances is loss of jobs in the domestic economy. Though this shift, benefits the recipient country by creating jobs.

Currently the statistics on the number of U.S. firms outsourcing their service divisions seem to be rising every year. Based on a survey conducted by Business Week, it appears that the target countries for outsourcing are: China for electronics, hardware design and embedded software, India for IT services, chip design and call centers, the Philippines for its IT related firms, Mexico for major engineering works, Costa Rica for bookkeeping and IT/call centers, and South Africa for call centers (Syed et. al 2004).

Literature search

The term “consumer ethnocentrism” is defined as “the beliefs held by American consumers about the appropriateness, indeed morality, of purchasing foreign-made products.” (Shimp et. al 1987). Studies conducted over the past couple of years confirm that the ethnocentric tendencies of the consumers affect their buying behavior of foreign goods. These studies measured consumer perceptions towards buying foreign goods and focused on the country of origin effects. Shimp and Sharma in their study identified three major reasons why domestic consumers resent foreign made goods: 1) Loss of control of the local economy (as a result of loss of local jobs), 2) personal prejudices against imports (based on stereotypical perceptions like lower quality) and 3) moral obligation to buy local goods and to show their support towards their country. “The consequences of consumer ethnocentricity include overestimation of domestic products and underestimation of imports, a moral obligation to buy domestic products, and preference for domestic products.” (Sharma et.al 1995).

Purchasing imported products is viewed as immoral as it will hurt the domestic economy, by adversely affecting the country’s domestic employment. To explain the concept and measure ethnocentrism, Shimp and Sharma came up with the CETSCALE, which measures the ethnocentric behaviors of consumers i.e. the attitudes that cause consumers to value domestic goods over foreign imports. Various factors were considered while evaluating consumer ethnocentric tendencies in different countries. The factors studied included nationalism, patriotism, internationalism. socio-economic status, animosity towards the foreign nation(s), availability of alternative products locally, and personal characteristics of the subjects including demographic variables. Many
consumers across the nations hold stereotypical perceptions about other countries, which affected their buying behavior of imported goods.

The studies on ethnocentrism helped international managers to understand consumer attitudes thereby helping them to make better marketing decisions based on their country of operations. Companies marketing imported products on local/global level found it necessary to understand the local customer preferences and their feelings towards imports in order to channel their resources efficiently. A few studies have compared consumer behavior across two or three countries in Europe and Asia but, the results are not particularly conclusive. The results of the studies varied from one country to another. Some factors were unique to some countries, while others were not significant enough to be included in the study. For example, strong feelings of nationalism was reflected in the results of the study for one country and patriotism for others depending on the economic status and the domestic country’s past political relationship with other nations. Results of the study conducted by Balabanis, Diamantopoulos, Mueller and Melewar to measure consumer ethnocentrism towards foreign goods showed patriotism caused ethnocentric behavior among consumers in Turkey, whereas the same study in Czech Republic showed strong feelings of nationalism leading to consumer ethnocentric tendencies.

Klein and Ettenson conducted a study in 1993, to compare consumer animosity and consumer ethnocentricity among the US consumers towards goods imported from Japan. This study showed that animosity and ethnocentricity had a different set of antecedents, and the results reflected that consumers with feelings of animosity were country-specific and consumers with ethnocentric tendencies held beliefs on the quality of the goods as well as their country of origin while making purchasing decisions. A correlation between consumer ethnocentrism and demographic factors was found to exists, with the older people, females, less educated and low-income consumers exhibiting more ethnocentric behavior. The results confirmed most of the a priori hypotheses on demographics, except for the age, which showed a negative correlation in the studies conducted in Korea by Shimp and Sharma.

Lee, Hong and Lee conducted a study of U.S. consumers to determine whether their political views affected their consumption preferences after 9/11 terrorist attacks. The antecedents studied in the study were patriotism, nationalism and internationalism. The study results showed that the American consumer’s preferences were affected by feelings on nationalism and internationalism more than patriotism “In other words, when American consumers exhibited ethnocentric tendencies, they did so out of their perception of national superiority and an orientation towards national dominance.”(Lee 2003).

A new trend has arisen in the recent past with businesses outsourcing the services to foreign countries to acquire the same benefits as they did with the manufacturing industry. The outsourcing of the service industry has sparked a lot of economic and political debate in the US and the rest of the world causing the US government to consider restricting business from outsourcing over a certain limit.

Characteristics of Services

Studies conducted on the service industries indicates that the services are distinctively different from goods in four areas - services are intangible, whereas, goods are not; services are perishable whereas, goods could be stored; services are inseparable from their transactions whereas, goods could be consumed at a later time; and finally...
services vary in quality and other factors each time a consumer uses them whereas, goods within limits remain of the same quality across customers and sellers. Due to the intangibility feature of services, they do not have a physical form like goods do, the customers cannot perform physical assessment of the services before its consumption therefore the quality of the service or the satisfaction it provides ultimately rates the service. Intangibility makes services difficult, sometimes impossible, to evaluate before purchase and, in many instances, after purchase and use. “Complaining about an unsatisfactory service, which only exists while it is being performed, is much more difficult and problematic. The complainant has limited physical evidence and memory generally serves as the only source of evidence” (Mitchell 1993).

The perishability characteristic of services may also increase the perceived risk by the consumers, as services cannot be stored like goods and therefore they need to be available on demand by the consumers. This perishability characteristic of services is more important to the provider than the consumer as the customer only realizes it in its absence whereas the provider has to make sure of service availability on a timely basis. The inseparability feature of services reflects the simultaneous nature of services where the service is produced and consumed concurrently. “The inseparability characteristic means that the consumer is personally involved with the purchase and must usually be present when the service is being purchased. As a result, there is an element of ‘conspicuous consumption’ about the purchase of services.” (Mitchell 1993). The inseparability feature of services is said to increase the buyer involvement thereby increasing the risk perceptions held by the consumer.

The last of the four features mentioned, as characteristic of services is the heterogeneity and this attribute creates a higher possibility for variations in service performance. The delivery of the services varies as the individual (ex. customer service representative) providing the services could vary on a regular basis and therefore the consumer cannot expect the consistent delivery (ex. product knowledge of the provider) and performance (ex. rate of issue resolution) of the services. The outsourcing feature when added to the already existing characteristics of services makes the marketing of services even difficult also resulting in increased risk perceptions held by the consumers.

The following section discusses the impact of outsourcing from the following points of view:

- Consumers
- Economy
- Service quality
- Data security
- Social concerns
- Industry concerns

Consumer Concerns

The most important issue at hand with the increased outsourcing of services that needs to be addressed is the domestic consumer concerns and the reasons leading to their ethnocentric behavior towards “foreigner provided services”. The globalization of the markets has resulted in increased interaction of individuals/businesses with other countries and cultures creating a global marketplace. Businesses have seen the profits and realized their competitive advantage by setting up offshore locations competing on cost
and quality, they have acquired new customer base as well as developed relationships with the foreign countries. What does this mean to the local consumers? It could mean they now have increased availability of services, can a select from a wider set of choices, and enjoy lower prices.

The major concerns of outsourcing are loss of domestic jobs, domestic economic instability, quality of the services, security, and privacy concerns. Similar to the reason stated in the study of the consumer ethnocentrism towards foreign goods by Shimp and Sharma loss of domestic jobs is one of the major concerns of the American consumers today. Even though there is a lack of quantitative evidence to substantiate this claim, it is clearly evident from the popular press that US consumers are apprehensive of losing jobs in the service sector to foreign nationals who are ready to provide the services for lower cost.

Economic Instability

If the outsourcing of services becomes epidemic, the loss of jobs created by this exodus, could lead to unstable domestic market and some financial distress to the US economy causing ethnocentric behavior of US consumers towards outsourced services. Employees in the US have been laid-off in large numbers in the service industries over the last couple of years and it has been quite a painful experience for many US households to manage the economic hardship and the inability to find new jobs that paid them as well as in the past. When the US companies outsourced the manufacturing industries to foreign countries, it was tempered with the rise in employment in the service industries. “One recent study predicts that there will be loss of 3.3 million U.S jobs-or $136 billion worth of wages-as a result of offshore outsourcing during the next 15 years.” (HR Briefing 2003).

The recent push to limit offshore outsourcing by U.S. consumers is felt in the congress. There are many legislative proposals that are being discussed to limit the ability of U.S. companies to outsource, especially if they are recipients of government contracts. This growing concern of US consumers over job losses could have an enormous impact on their consumption behavior towards outsourced services. From a recent survey conducted by American Banker/Gallup, it was found that eighty percent of the respondents would feel more open to outsourcing if it did not threaten the domestic jobs; the study further showed women were more unfavorable towards outsourcing compared to men. (American Banker 2004).

Service Quality

The quality of the services provided by the offshore providers is another reason that may cause US consumers to resent outsourced services. Consumers have predetermined opinions of other countries and the people living in them and they rank the quality of their services based on these perceptions. The poor quality of goods/services produced and exported from the developing nations is another common concern of the consumers of more developed nations. The customer’s reservations are based on the understanding that the low wage labor may result in lower quality service (Selland 2004).

In general customers value quality and if they do not receive the most value for their money they often tend to find alternatives that can better serve their needs.
Customer retention is a major issue with many US companies as they invest a lot of resources monetary and non-monetary to keep their customers happy and not lose them to their competitors. With the rise in service providers located internationally, there are bound to be changes in the delivery and performance of these providers that may cause dissatisfaction and discontent resulting in ethnocentric behavior. Some of the issues highlighted in the popular press that influence quality of service are language barriers, distances, technical difficulties, cultural differences, lack of product knowledge, lag on response time for time-sensitive issues among others. The language is an important medium for successful communication and the US consumer complaints usually are a result of the language issues that they have with the service providers from international locations.

The customer service representative on the other side of the world needs to understand the customer issue at hand and if there is language barrier that impedes the issue resolution process then it definitely is a concern. Even though there are English speaking skilled labor in countries like India and Philippines there may still be differences in the language, accents, and cultural nuances that result in bad experiences for the US consumers. “Service brands are supposed to be about delivering the brand experience. No matter how much training the staff gets, nor how intelligent they are, there are big differences between the occidental and oriental perspectives on life, culture and way of dealing with people” (Simms 2004). For example, the customer service representatives at Dell support center overseas are said to have depended on “scripted answers” and could not provide feedback on issues that were not standard or routine. The distance and technical troubles adds to the already existing communication barriers between the consumer and the provider in the form of static on the telephone lines, lack of compatible technology etc. Similarly, customers noted a considerable change in the quality of the services offered by a company named Everdream located in the US and its operations of helpdesk support in Costa Rica, this setup resulted in dissatisfied customers leading to erosion of the company’s excellent customer service track record. (Rod Kurtz, INC). From the few illustrative examples, it is evident that a certain level of consumer ethnocentrism plays a role in evaluating how the US consumers view the services provided by the foreign labor at offshore locations and perceptions on service quality could build these concerns.

Information/Data Security

In addition to the above mentioned fears felt by consumers affecting their purchasing patterns information security is a prominent and growing issue that needs to be addressed by the organizations. A number of financial institutions, accounting firms, credit card companies, insurance companies, healthcare (hospitals) has moved their helpdesk, customer support, insurance claims, and other services to offshore locations. Many accounting firms have started outsourcing their tax preparation services to overseas locations with lower labor costs. “Up to 200,000 U.S tax returns are expected to be prepared by Indian Chartered Accountants this year, up from 20,000 a year ago”(Reeves 2004).

Consumers in general, dislike sharing sensitive information be it medical, financial or other personal data with service representatives even domestically. This concern is magnified with the addition of offshore outsourcing as now the customer information has crossed their country’s borders and is handled by foreign representatives.
It raises fears due to consumers lack control of control because of the increased distances, the inconsistency of foreign country's security laws, and lack of accountability of how their personal data is being handled overseas.

A number of companies outsourced their back-office and financial services over to countries like India and China but the privacy and security laws of these countries may not be up to the same standards as the US, leading to consumer apprehension. These fears are quite valid as there have been incidents reported where sensitive information like the consumer's medical records and credit card information has been misused by the employees at these foreign locations. "This year Wipro Spectramind, an Indian call-center firm, caught some of its workers making unauthorized offers in phone call marketing services for its client, Capital One, an American financial-services firm ("Safety Matters 2004)."

A number of software development projects have been contracted out to Russia, India, and Israel to take advantage of the intellectual talent in the form of their educated local labor force. Most of the application development for major software companies in the US is conducted at these offshore locations creating potential risks in the form of duplication of software code, illegal use and distribution, adding malicious code that could subject the applications to additional risks. Many American companies use these applications with domestic customer data thereby indirectly affecting the consumer's confidentiality and exposing themselves to lawsuits.

In case of importing of goods, they have to pass a certain level of standards to be qualified to enter the country and therefore the security is taken care of at certain points in the process but with the intangible nature of the services security is quite tricky. The US consumers proposing to bring back the domestic jobs that were lost due to offshore outsourcing are using privacy concerns to support their argument. Many European and US customers view outsourcing as illegal as the customer data may not be subjected to the same security protocols globally breaching consumer privacy laws. The businesses on the other hand argue that no matter which global location the customer data is used it is subjected to the same security laws and regulations as it does domestically.

The security services manager at Wells Fargo bank whose company has outsourced some of its back office operations to India states that the US domestic privacy law such as the Sarbanes-Oxley also applies to the operations conducted at the foreign location (Messmer 2004). The Businesses claim that other measures such as employee background checks, binding employees through contracts, and others are in place to avoid security violations but the political and legal structures of the offshore locations still have inherent risks that are hard to overlook. Therefore, based on the risk perceptions held by US consumers towards the outsourced services, has given way to resentment and increased apprehension potentially leading to their ethnocentric behavior.

**Societal Issues**

Other general issues about the outsourcing theory that are critical to the US consumers are the long-term effects that it could have on the domestic work force. The American universities are churning out graduates in large numbers every year and these graduates are finding it difficult to find jobs in the current economic setting where those with significant experience have been laid off. This issue corresponds with the reasons given by Shimp and Sharma (in their study of consumer ethnocentric tendencies), which is, the loss of local jobs is a major concern for domestic consumers. Since this paper
analyzes the behavior of the US consumers towards outsourced services the current political and economic conditions of the country cannot be ignored in the analysis. The September II attacks have lead to tightening of the US immigration laws restricting the foreign talent that we used to attract before in the form of international students and scholars, and with the increased outsourcing in many major industries the nation fears a future brain drain.

Even though the involvement of the US in the current warfare is not directly connected to the topic on outsourcing, but there is a possibility that the current political conditions may influence and shape the perceptions of the US consumers towards services provided from countries that may or may not be directly involved in the struggle.

Concerns of Businesses

Businesses direct their efforts to achieve efficiencies through cost reduction. Outsourcing is an excellent form of cost reduction strategy. Companies evaluate all scenarios, and based on their experiences settle on strategic actions that provide them with a competitive advantage. Internationally, because of unknown factors and conditions, these companies have to deal with situations that are not common in their domestic markets. They unknowns in the international environment are difficult to predict. Factors such as, political, social, economic etc. exert tremendous influence in the operations of these companies. To reduce the risks of these factors, companies invest considerable amount of resources into offshore locations to form a successful outsourced model, which includes training the new staff, transaction costs, laying the required infrastructure needed to operate (buildings, technology) and to secure their technology.

One of the major issues that the US businesses face in their outsourced operations are, ‘how to simulate the foreign setup just as if it were in the domestic market’? Keeping up the quality of service provided from these foreign locations could either make or break an offshore-outsourced model. Dell computers taken as an example shows that the quality of service provided is critical in determining the local consumer’s acceptance of the outsourced services. Dell outsourced its customer service support to India and was forced to bring it back to the US due to increased customer complaints.

With the abuse of the technology in the recent years corporations with offshore locations are required to invest resources to place security measures protecting consumer data and privacy. Businesses are liable to costs that may result due to security breaches resulting from intentional and unintentional violations of consumer privacy. The organizations should watch out for currency fluctuations, political instabilities, religious factions that are common in some foreign countries like India, Pakistan, and Indonesia which have the most outsourced locations.

Some corporations have come up with successful models for outsourcing in different foreign nations and their recommendation to companies planning to outsource are start small, keep up the quality of the services, and tell their customers how they are securing their privacy at an overseas location. Businesses claim that as long as the customers receive good quality service they really don’t care where and by whom the services are provided. “In other words, offshoring will succeed if it results in a more productive customer service operation. This means higher quality and lower cost. One without the other will not be successful. But both together will continue to succeed” (Selland 2004). This claim may not be true considering the current economic and political conditions it may be of substantial importance of where the services are coming from.
There have been stories of successes and horrors on the outsourcing ventures in various industries and the companies planning to outsource or are in the process of outsourcing should thoroughly analyze the market before making decisions.

Conclusion

This paper examined the effects of outsourcing through the ethnocentrism. The major concerns of U.S consumers to outsourcing are that it takes away jobs, the quality of services provided is poor, they have privacy and security concerns, and they are unwilling to use services from countries that they have negative perceptions about.

This paper provides an understanding of outsourcing models for various audiences including marketing managers, public policy makers, domestic service providers, domestic consumers among others. Marketing managers and public policy makers can base their outsourcing decisions and the laws governing offshore outsourcing of services based on the consumer ethnocentric trends. The marketing managers can segment their consumers depending on the ethnocentric tendencies towards outsourced services and cater to their needs accordingly. The marketers on a local/global level would have a better understanding of the reasons for domestic consumers preferring locally provided services due to the issues analyzed in the study. This also provides an insight to decision makers to attract the market segment who may prefer domestically provided services avoiding the outsourced model.

In addition, from the review of the literature on outsourcing of services it is evident that not every business should outsource and the quality of service as perceived by the consumer is an important factor in the success of outsourcing model. There is a definite need for further study on this topic to validate the assumptions and develop a certified model with relevant data to measure this behavior which in turn could help businesses to make more informed foreign outsourcing decisions.
References


Table showing the estimated number of jobs lost to outsourcing in the US.

<table>
<thead>
<tr>
<th>Jobs Lost to Date*</th>
<th>Projected Job Loss</th>
<th>Jobs at Risk</th>
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</thead>
<tbody>
<tr>
<td>300,000-995,000</td>
<td>3.3 million-6 million</td>
<td>14.1 million</td>
</tr>
<tr>
<td>300,000-500,000</td>
<td>3.3 million over 15 years</td>
<td>14.1 million</td>
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<tr>
<td>(Goldman Sachs)</td>
<td>(Forrester Research)</td>
<td>(UC Berkeley)</td>
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<tr>
<td>400,000-500,000</td>
<td>6 million over 10 years</td>
<td></td>
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<tr>
<td>(Business Week)</td>
<td>(Goldman Sachs)</td>
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<tr>
<td>995,000</td>
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<td>(economy.com)</td>
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* The total size of the U.S. Labor Force is 140 million jobs

Source: http://www.americanprogress.org/site/pp.asp?c=bjJRJ8QVF&b=38081
Chart of the various industries currently outsourced in the US.

IT Leading As Most Active Area of Outsourcing

Source: http://offshoreitoutsourcing.com/Pages/outsourcing_statistics.asp
The estimates of future outsourcing projects

**Impact of Offshoring on Cost Base**

According to Deloitte Research, 10 percent of the financial services industry's total cost base will be moved offshore by 2005. That percentage is expected to double by 2010. But, due to cost savings generated by offshoring, the industry's total cost base will actually decline.

**2005**

- $2.15 trillion financial services cost base
- $215 billion will be shifted offshore by the end of the year

**2010**

- $2.66 trillion financial services cost base
- $414 billion will be shifted offshore by the end of the year

Source: Bank Systems & Technology; Sep2004, Vol. 41 Issue 9, p16, 2/3