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

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Research Highlights

- We present qualitative data from four Indian Business Process Outsourcing firms.
- A conceptual model analysing relationships between quality management, learning and market orientation on performance.
- We found a firm's quality management capability develops learning and market orientation and subsequently, its performance.

ABSTRACT

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

KEYWORDS: Quality management capabilities, market orientation, India, market-based organizational learning capabilities, business-to-business marketing.

1. Introduction

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

Recent literature on business-to-business marketing acknowledges the value firms realise through their network of suppliers in an outsourcing relationship (Ahearne & Kothandaraman, 2009). Such value realisation is made possible through a dynamic exchange of complementary organisational capabilities between a firm and its network partners (Banerjee, 2004). However, little research has been undertaken in business-to-business outsourcing firms to examine the capabilities that are relevant in such environments. Given that there are significant differences in firm-level performance (Ethiraj *et al.*, 2005) there remains a paucity of empirical studies and frameworks that help understand the complexity of services and the capabilities these firms develop for sustained high performance. Research is

needed in areas such as organisational capabilities and the coordination of supplier-vendor relationships in global supply chains. For effective coordination in global supply chains and to ensure efficient and timely service delivery, large Indian outsourcing firms have invested in capabilities that are becoming the benchmarks in the outsourcing industry. These include: project management and client-specific capabilities, and technological and quality management capabilities for improved market signalling and firm performance (Arora & Asundi, 2000; Ethiraj *et al.*, 2005).

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

The above studies have mostly been undertaken in manufacturing environments of developed countries. Except for Wang and Wei (2005), which focuses on Taiwanese software

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

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

2. India's BPO industry

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

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

understand how they develop their organisational capabilities. Such explanations can inform future theory-building and practice needs of this industry.

3. Review of Literature

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

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

3.1 The MBOL framework and QMC.

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

1993) and cultural (Narver & Slater, 1990) construct in the extant literature, this paper follows Kohli *et al.*'s behavioural conceptualisation.

LO has been defined in different contexts but, in general, it involves three sets of organisational values associated with an organisation's tendency to learn: *commitment to learning*, developing a *shared vision* and demonstrating *open-mindedness* (Sinkula *et al.*, 1997). Similarly, MIP is the process by which external market information is transformed into knowledge (Sinkula, 1994). MIP is developed from the strategic marketing construct of MO (Kohli *et al.*, 1993): *information sensing*, *dissemination* and *response*. Of more importance is information sensing or generation, which involves capturing precise and critical information about a customer's needs and the external competitive environment. If information acquisition is done well, disseminating it horizontally and vertically in the organisation and subsequently framing a response should, at least theoretically, be simple. However, if an organisation's information dissemination and response framing ability are inefficient and ineffective, changes to its theory in use will be limited, thus, limiting the extent to which new learning can occur.

Similar to Foley and Fahy (2004), Sinkula *et al.* (1997) found that a more positive LO will lead to increased market information generation and dissemination, which, in turn, will affect the degree to which an organisation makes changes to its strategies, as the firm is more likely to question their currently used theory, challenge their own and clients' assumptions and demonstrate open-mindedness to new ideas and knowledge. While new knowledge is procured through an organisation's market orientation (MO) abilities, it can be refined, redefined, and challenged through its LO, depending on the extent to which its LO is developed. From the above review it is apparent that LO is an antecedent for developing MO (e.g. Foley & Fahy, 2004). However, the literature on quality management and organisational learning suggests that LO is a natural outcome of a strong quality management approach

(Gutierrez *et al.*, 2009; Sohal & Morrison, 1995; Wiklund & Sandvik Wiklund, 2002). This would suggest there is a link between TQM and MO, through LO. However, it is not known what processes or conditions make these interactions more effective.

3.2 *Quality management capabilities (QMC).*

We begin by explicating what constitutes having a quality management capability and then review its relationship with MBOL capability and sustained competitive advantage.

Development of QMC requires a quality management philosophy that focuses on customer satisfaction, continuous improvement and treating the organisation as a total system (Dean & Snell, 1991; Sitkin, Sutcliffe & Schroeder, 1994). Reed, Lemak and Mero (1996; 2000) have identified customer satisfaction and focus, team work, cost reduction, continuous improvement, top leadership commitment, training and education, and an appropriate work culture as key components of a TQM approach. There is some agreement that TQM constitutes: a *commitment to quality and information sharing, customer orientation, continuous improvement, and team working* (Reed *et al.*, 2000; Prajogo & McDermott, 2006)

Reed *et al.* (2000) distinguish between TQM *content* and *process* and suggest that while the TQM content can be a source of competitive advantage, it is *how* organisations deploy their TQM practices that can potentially create sustained competitive advantage. Most quality management practices have an *internal* and *external* orientation. An internal quality orientation provides a strong focus on statistical process control, minimising the variance by using a range of sophisticated statistical techniques for monitoring the quality of the product or service deliverable as in conformance to standards. QMC with a strong external orientation considers product and service quality and latent needs from the customers' perspective.

The extant literature explicates the links between product and service quality, cost leadership and differentiation strategies (Belohlav, 1993; Prajogo, 2007). For example, Belohlav (1993) suggests that by achieving high quality, firms can pursue both differentiation

and cost leadership strategies. By focusing on the external dimensions of quality (customer satisfaction and innovation) differentiation can be achieved. Similarly, by focusing on internal aspects of quality (process improvement, waste reduction, cost reduction, and so on) cost leadership strategy and competitive advantage can be achieved. Prajogo (2007) explains:

the synergy between external differentiation and internal cost leadership provides firms with flexibility to select the scheme of competition they want to pursue by charging premium price with high quality or offering lower price with relatively equal quality level to competitors.(p. 78)

The above distinction is critical to our understanding of how firms can adopt an integrated quality management approach for achieving better functional integration between a firm's marketing, human resource and operations management functions. Firms in the BPO sector can select quality management frameworks for delivering both strategic (cost leadership and differentiation) and operational (cost and waste reduction, functional integration, capability development, customer satisfaction, and process improvement) outcomes. Such an approach also helps in identifying and developing organisational capabilities for serving unique competitive positions. Using Motorola as a case study, Belohlav (1993) argues that a low sigma level manufacturer, for example, a Level 4 Sigma firm, cannot directly compete with a 6 sigma supplier. Thus, we argue that strong QMCs are critical in developing and realising value and that they positively affect firm performance and SCA. Furthermore, in the strategic marketing and quality management literature, it has been argued that there are synergies between TQM philosophy and MO, as both focus on continuous improvement, functional integration, team work, customer satisfaction and information sharing (Day, 1994; Reed *et al.* 1996; 2000).

Although Porter (1985) has argued that cost leadership and differentiation are the two generic, albeit incompatible strategies, others (Hill, 1988 for instance) have rejected this assertion, and point to the co-existence of these two strategies. QMC is one such capability that serves both differentiation and cost leadership strategies, and has been linked to

providing SCA (Morgan & Piercy, 1996). This leads us to explore and develop the measures of high firm performance or SCA, as applied to this study.

3.3 Performance and sustained competitive advantage.

The BPO industry is people-intensive and most outsourcing work that is received is in the form of short- to medium-term contracts. Although there is a continuum of services from simple to complex in the outsourcing industry, the BPO industry typically falls in the relatively simple to medium complexity of services continuum in the Indian IT-BPO industry. The nature of firm ownership, mostly wholly owned MNC subsidiaries and joint ventures with domestic private limited service firms, renders it extremely difficult to collect hard performance metrics, such as revenues and profitability. Moreover, a number of firms are cost centres of large MNCs and operate on a cost-plus-mark-up basis or on a simple cost transfer to head office model. A tangible measure and good proxy for growth and performance is the growth in number of employees in a firm. This measure is valid because, in most cases, BPO firms ‘bill’ the bulk of their expenses and record their revenues on the basis of ‘service seats’ or ‘per head’ cost of employees and often cannot afford excessive ‘fat’ (in the form of non-billable human resources. BPO sector firms usually have between 3-5% of their workforce as non-billable). Thus, for the purposes of this study, we have employed ‘the increase in the number of employees’ in two periods: in 2005, at the time of data collection, and three years later, in 2008, as a proxy measure of firm performance (PERF). Where available, additional information regarding firms’ service diversification is also considered in our analysis (see Table 1).

Place Table 1 Here

3.4 Critical review.

Strategic marketing and management literatures have highlighted the role market and learning orientations play in developing intangible assets and resources and, therefore, in being able to realise high organisational performance (Baker & Sinkula, 1999; Deshpande, Farley, & Webster, 1993; Hunt & Morgan, 1996; Kohli *et al.*, 1993; Narver & Slater, 1990; Sinkula *et al.*, 1997). However, several conceptual and empirical gaps exist in this stream of research.

First, the empirical findings are equivocal about the link between market orientation and performance: the findings report mixed results and often show the reliance market orientation has on other constructs and contingency factors (Cano, Carrillat, & Jaramillo, 2004; Gray & Hooley, 2002; Langerak, 2003; Menguc & Ash, 2006). Second, further gaps in the literature relate to the antecedents of market orientation. Although Jaworski and Kohli (1993) have specified three antecedents of MO, including senior management commitment, inter-departmental connectedness and incentive management—subsequent research has highlighted the need to better understand the antecedents of market and learning orientations, preferably by undertaking qualitative and longitudinal research (e.g. Avlontis & Gounaris, 1999; Crossan, Lane & White, 1999; Gray & Hooley, 2002; Huber, 1991), to understand how firms can become market-oriented (Greenley, 1995; Harmen & Jensen, 2004). Third, although Day (1994) advanced a strong case for utilising the tools available under the umbrella of total quality management (TQM) for developing capabilities of market-driven organisations, the research in this stream is still in its infancy.

Research by Sittimalakorn and Hart (2004) found that a quality orientation is related to MO and has direct and indirect effects on firm performance. Their results suggest that firms with strong MO tend to have higher competitive superiority based on the high quality of their product or services. Demirbag *et al.* (2005) found that marketing activities improved performance only through the mediating role of TQM, especially where TQM plays the role of inter-functional coordination by acting on the information that improves customer

satisfaction, a view also shared by others (Kordupleski *et al.*, 1993; Lai, 2002). Samat *et al.* (2006) found the quality of information sensing and dissemination is enhanced through TQM practices such as empowerment and customer focus, which provides a firm the basis for competitive differentiation. Although earlier research points to the critical role TQM and Six Sigma plays in developing LO or a firm's OLC (Gutierrez *et al.*, 2009; Sohal & Morrison, 1995; Wiklund & Sandvik Wiklund, 2002), Wang and Wei (2005) found that MO activities should be linked to internal processes of LO and quality orientation for improved firm effectiveness and profitability. Although the above review points to numerous empirical inconsistencies and diversity in theoretical arguments, there is support for the importance that LO and elements of TQM have, in developing MO.

Although most studies examining the relationship between QMC and MO are descriptive in nature, where empirical evidence is presented, the findings are inconsistent (see for example, Demirbag *et al.*, 2006; Kordupleski *et al.*, 1993; Lai, 2002; Mohr-Jackson, 1996; Samat *et al.*, 2006; Sittimalakorn & Hart, 2004; Wang & Wei, 2005; Witcher, 1990; Zelbst *et al.*, 2010). The nature of relationship shows QMC as an antecedent, moderator and mediator of MO and/or the MO-performance link. As such, findings warrant further investigation for advancing the state of the current theory.

Foley and Fahy (2004; 2009) make a case for modelling market orientation as a market-sensing capability to better understand its linkages with firm performance. Using a resource-based view, others have also situated MO within the capabilities literature, as a market-learning capability (Weerawardena, 2003) for achieving competitive advantage. Foley and Fahy's (2004; 2009) conceptualisation is consistent with Day's (1994, 1999) assertions and argues that decomposing this marketing capability will further the research on MO's antecedents. Similar to Day (1994), Foley and Fahy (2004) concluded that a LO precedes

MO. Thus, there exists significant support in adopting a capabilities view and the need to understand its antecedents.

It is surprising to note that despite the overlap that exists between QMC and LO, QMC and MO, and LO and MO, limited research has looked at the relationship between QMC, LO and MO. Our review points to the role QMC plays in developing firms' LO. A firm's LO is an antecedent for developing its MO (Sinkula *et al.* 1997) MBOL framework. To summarise, QMC, MO and LO are related to each other. In the next section, we develop a model that attempts to address the limitations identified in the review so far.

4. Conceptual model

Following the gaps identified above, we explore the linkages between a firm's QMC and its MBOL capabilities and investigate how MBOL capabilities can be developed. In order to fully understand the nature of this capability, we need to unbundle this capability and how firms develop it. We argue that LO as a set of *knowledge questioning values* is not sufficient to drive *knowledge producing behaviours* (MO). For the purposes of this study, and following Sinkula *et al.*, LO has three values-based sub-constructs: *commitment to learning* (LO1), *open-mindedness* (LO2), and developing a *shared vision* (LO3) which influence a firm's ability to create and use knowledge (Argyris & Schon, 1978; Senge, 1990). The three behavioural sub-constructs of MO are labelled as *information sensing* (MO1), *information dissemination* (MO2), and framing appropriate organisational *responses* (MO3). See Table 2 for a further description of these sub-constructs (Kohli *et al.*, 1993; Narver & Slater, 1990).

Place Table 2 Here

Another set of values, such as a firm's QMC, is needed to create and use new knowledge of *what is doable* in a given context. Such knowledge is a decision rule that guides *knowledge*

questioning values (LO) and shapes *knowledge producing behaviours* (MO) for framing practical and prudent responses. We build this assumption on the hierarchy of knowledge (data, information, knowledge, understanding, and wisdom (Ackoff, 1999)), and argue that it is through the application of a strong QMC that firms can successfully apply their collective wisdom for creating value and SCA. For the purposes of this study, based on research undertaken in Australia (Prajogo & McDermott, 2006), the common quality management content areas are encapsulated into three broad areas. This study views quality management as a philosophy that guides organisational action and behaviour through certain values. These values are labelled as follows: QM1 *commitment to investment in quality and information sharing*; QM2 – focus on *continuous improvement*; and QM3 – *team working* (Figure 1).

Place Figure 1 Here

While customer feedback provides a firm with some indicators of service or product performance, it is only through a firm's process experience and by benchmarking performance metrics that continuous improvement can take place. Firms need to know what is doable in a given context, highlighting the need for a set of prudent values that help shape the nature and extent of information sensing, dissemination and response (MO).

Informed by the above review, given the diverse relationships noted in the extant literature between QMC, LO, MO and firm performance, we argue that three quality management values: QM1, QM2 and QM3, are critical in developing a firm's MBOL capability. QMC affects MBOL capability in the following manner. First, a strong *commitment to quality* and a culture of *information sharing* (QM1) is critical to the development of a strong *shared vision* (LO3) because knowing what is critical to quality and hence the performance of the process helps firms focus their learning and information sharing mechanisms. Similarly, QM1 is also

critical at the time of *disseminating* the information (MO2) collected from clients and competitors within the organisation. QM1 cannot fully support the identification of focused learning and develop a culture of open-mindedness until firms learn through its *continuous improvement* (QM2) capabilities, the precise nature of learning needs and thus the knowledge of how to engage in a *open-minded* way to existing and new information received from its external and internal milieus. Thus, QM2 develops a strong *commitment to learning* (LO1) and *open-mindedness* (LO2) by focusing on learning that is critical to quality. Through QM2, firms' business development managers are able to identify the critical to quality performance metrics and information they need to negotiate or *sense* (MO1) at the time of pitching to their clients, as knowledge of what is doable and its likely cost will be helpful in better competitive positioning and targeting. High levels of QM2 also help in *disseminating* critical to quality information (MO2) to project teams. Thus, QM2, MO1 and MO2 help in framing appropriate marketing and operational *responses* (MO3). Finally, strong team working (QM3) and top management commitment to quality and information sharing (QM1) helps in increasing a firm's ability to develop a shared vision (LO3). Team working (QM3) is also critical in disseminating key information and thus, a response. If a firm has strong mechanisms for team working, and has established cross-functional dissemination platforms rather than group working or operational silos, the likelihood of better cross-functional information dissemination (MO2) will be higher. These relationships are depicted in the conceptual model. It is through the interaction between the QMC values, knowledge questioning values (LO) and knowledge producing behaviours (MO1 and MO2) that an appropriate marketing response (MO3) can be framed, which may ultimately affect a firm's SCA and performance (PERF).

5. Research methodology

A case study research strategy (Eisenhardt, 1989; Yin, 2003) is employed to uncover the interactions that occur in the phenomenon under study. Owing to the nature of the research questions, an evolving state of theory of market-based assets and capabilities, and a relatively unexplored industry sector (BPO), a case study research design was the obvious choice (Eisenhardt 1989; Yin 2003). Our study satisfies Yin's (2003) three conditions for a case study design: (i) the nature of the research question deals with the what, how and why of a phenomenon; (ii) the research requires no control over behavioural events; and (iii) it focuses on contemporary events. Owing to the diversity of business models, the uneven profile of India's IT sector (Heeks, 1998), and use of new and unfamiliar industry terminologies, the phenomenon needs to be studied in its real-life context, using data from multiple informants and sources (Eisenhardt 1989; Yin 2003). The *validity* and *reliability* of the research design was ensured as follows. The use of a case study protocol and the development of a database ensured the general *reliability* of the study. *Internal construct validity* was ensured by the use of *a priori concepts* and analysing the inter-relationships at a sub-construct level. Using multiple sources of evidence, establishing a chain of evidence, and asking participating firms to review and give feedback ensured *external validity* (Yin 2003; Miles & Huberman 1994).

5.1 Sampling criteria

In this paper, we present findings from four BPO firms in India's IT sector. The sample was selected based on organisations' willingness to participate and the extent to which they satisfied the theoretical criteria of interest (Table-1). The case organisations were approached with details of the project, of the data to be collected and its likely sources, and of the people to be interviewed. Participation consent was obtained before entering the work-sites. The respondents (a total of 41) (see Table- 3) represented diverse employee groups. The case-study protocol was finalised after receipt of feedback from senior academics in the fields of marketing and employment relations.

Place Table 3 Here

5.2 Data collection and analysis.

Semi-structured interviews were the main source of data collection. In this study information was sought from HR and/or industrial relations managers, CEOs, operational or functional heads, union delegates, employees, and their immediate supervisors (Ashton & Sung, 2006; Smith & Hayton, 1999). The questions were developed primarily from *a priori* concepts and from the gaps identified in the literature. Following careful content analysis and the review of literature, the main elements of each concept/theory was noted and semi-structured questions were developed for each sub-construct. Additional questions were included that were critical in answering the study's research questions and maintaining *construct validity*. Following an analysis of the main themes, excerpts of the interviews are provided in Table 4.

Place Table 4 Here

Place Table 5 Here

The use of an interview schedule helped in collecting and cross-checking the data from different informants. Table 5 shows a conceptually clustered matrix of the key constructs analysed, the sample questions asked of different respondents, and the nature and extent to which QMC, LO or MO was present in the case organisations. Additional data sources included: information from organisational websites, organisational documents, policies, records, and non-participant observation of the firms' daily routines. All interviews were

conducted in English and their duration varied between 60 – 120 minutes. Verbatim transcription followed. Data analysis and coding followed a combination of *a priori* and *a posteriori* approaches.

While *a priori* codes were identified from the theoretical framework and literature review above, new categories such as geographic dispersion of MO capabilities (between the client and the service provider sites), open-mindedness to clients' specifications as well as internal business assumptions, were added during the course of data collection and through iterative data analysis and cross-checking by two co-authors. Separate within- and cross-case analysis was carried out using pattern-matching and explanation-building analytic strategies (Yin, 2003). Explanatory maps, conceptually clustered matrices, and case reports were developed for within- and cross-case analysis (Miles & Huberman 1984). Case reports were sent to participating firms for validation and feedback. Cross-case analysis of the themes followed. To ensure confidentiality, firms are labelled as Organisation A, B, C and D.

6. Findings and discussion

Our findings indicate that all four firms were competing on the basis of price (cost leadership) *and* quality (differentiation) of the services provided. The extent to which they were able to define their competitive position was influenced by their initial competitive strategy, which coevolved with the evolving nature of their quality management capabilities, and the nature of their service contracts. The findings indicate the presence of a strong metrics-driven quality culture within Organisation A which strengthened its LO and MO, thus supporting our proposition that QMC helps in developing MBOL capabilities. Organisation A's core solutions' team, which comprised of operations and marketing managers, and quality management experts was involved right from the time the information was *sensed* from current and potential clients and competitors, to the time it was *disseminated* to process delivery, marketing, and HR teams for *framing* appropriate service responses. Sharing

knowledge of internal quality management benchmarks and performance metrics (QM1 and QM2) for processes that can be outsourced with teams is critical in deciding the scope of outsourcing solutions proposed. Process metrics and experience from internal benchmarks were employed by the solutions team at the time of negotiating service level agreements with new and existing clients (QM1 and QM2). Thus, the solutions team (QM3) would know which process metrics were critical to quality and thus the performance of the process and service delivery. Such metrics have evolved through firms' process experience and expertise in Lean Six Sigma methodologies. Subsequently, such metrics are embedded in its quality management philosophy (QM1) and daily routines. It is through the strength of a firm's QMC that firms know where and when additional units of learning and process improvements do not have a proportionate impact on performance. Strong QMC also suggests the stage at which the learning between inter- and intra-organisational partners can be optimised. Thus, our findings provide insights into how the gaps identified by Morgan (2004) be addressed. An Organisation B Manager noted:

At times the client does not have an idea of what the specifications should be; so we contribute from our own standards....

Organisation A's VP — Six Sigma emphasized, "there has to be a business impact for any new learning and process improvement initiative". The presence of such a work ethos (QM3) was noted by Organisation A's respondents saying they have a special "*Lean/Six Sigma DNA*"—one that suggests what is *doable* for each client within their service performance agreements. The central and pervasive role played by QMC was evident.

To answer the second question of whether strong QMCs improved organisational performance and consequently SCA, we looked at the reported benefits of QMC by case organisations and their growth in terms of the number of employees engaged over two time periods: December 2005 and December 2008. Our analysis indicates that two of the four firms that reported growth in employee numbers over the December 2005–2008 period, also

had high (Organisation A) or medium-to-high (Organisation B) QMCs (Table 1). These firms reported adding value through cost reduction in their internal process, using Lean and Six Sigma methodologies, as well by offering better quality of service with extremely low error rates, thus contributing to improved client-value proposition and consequently improved performance and SCA. There were cases where high service quality and differentiated services were not on the clients' agenda. In such cases, for example, at Organisation A's insurance business line, the focus shifted to increasing its internal process productivity. Such productivity gains are either shared with firms' clients, retained by the firm, or used to cross sell, and strengthen the firms' competitive position. For improving firms' MBOL, QMC provide the necessary tools and practical wisdom to engage in learning that is relevant, thus improving an organisation's *commitment to learning*, engaging in *open mindedness* and representing a dynamic view of its learning and renewal. For developing a *shared vision* (LO3), the standards of performance that are critical to quality from a service viewpoint are widely communicated. Organisation A, through its cross-functional teams and standardised metric-oriented performance dashboards, shared market intelligence through various weekly, monthly and quarterly forums. Organisation A's ability to demonstrate *open-mindedness* (LO2) to new processes and information received from clients was strengthened by its internal standards of performance, which, also helped in negotiating with its clients what was doable and what was not. Using established quality metrics, internal business and clients' assumptions are challenged prudently. However, the extent to which a firm can challenge their business and clients' business assumptions varies according to the strength of its QMC. Differences in QMC are due to the varying levels of process maturity, experience and the orientation of the firms' quality management approaches—internal, external, or both. For example, because Organisation B's QMC was not fully developed, its quality management resources were utilised in a decentralised, inconsistent and uncoordinated way. For example,

although a combination of Six Sigma tools and COPC (Customer Operations Performance Centre) standards was used for its customer contact centre, the same approach was not fully evident in its F&A (Finance and Accounts) service line. Owing to the evolving state of Organisation B's QMC, the extent to which its MBOL capability could be developed and SCA realised was also limited. Similarly, Organisation C, which had a low-cost outsourced vendor distributed model (with no permanent process staff) for its medical transcription service line, also had a low MBOL and quality management capability. QMC here focused only on the internal dimension of quality — cost and process efficiencies. Nevertheless, to deliver sustained cost advantage, it employed a core team of quality management resources to monitor service delivery of its outsourced vendors by developing contracts that were based on the quality of their service delivery. Although Organisation D had medium to high QMC, a dual structure of centralised and decentralised quality management team did not help it in developing strong MBOL capabilities. Problems were evident in developing a shared vision due to poor inter-functional coordination as a result of this dual structure. Subsequently, Organisation D made a strategic decision to lease its BPO services to another provider.

7. Conclusion

Although this study confirmed the earlier known relationships between LO and MO, QMC and LO, and performance, understanding the relationship between LO, MO and QMC, in the context of outsourcing firms is an added contribution of this study. This study's distinctive contribution lies in analysing a critical and an unexplored link between a firm's QMC and its MBOL capability and, subsequently, performance and realisation of SCA. Future research can be directed at testing the above relationships. This research is critical for practitioners from different disciplines as it suggests, consistent with the original thesis of Relationship Marketing (Gronroos 1994), the need for managers to adopt an inclusive and integrated approach to their marketing, people development and operations management approaches. It

is interesting to note that even in a highly dynamic and a high growth B2B market, the need to maintain good relationships is paramount for success. Moreover, the study points to some key marketing capabilities, which high-tech service organisations can benefit from. By employing quality management tools, HR and marketing practitioners can engage in evidence-based practice. Practitioners should pay special attention to structuring their quality management processes and a full scale development of QMC to avoid issues of poor inter-functional coordination and team working. Finally, thinking of QMC as a capability that introduces value-rationality for balancing analytical and instrumental rationality is highly relevant to extending research into the fields of TQM and marketing. Such an approach will enable marketing practitioners and academics to demonstrate which capabilities matter and why.

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Table 1: Descriptive details of case organisations

Description	Organisation A	Organisation B	Organisation C	Organisation D
Enterprise size (December, 2005)	26,000+ employees.	About 250 employees.	Nearly 50 core employees in India and an outsourced vendor model of about 550 staff in different cities in India.	1500+, of which, 900 employees are in BPO service lines; the rest (600) are in high-value added IT networking services.
Enterprise size (December, 2008) and expansion details	37,500+ employees. Upbeat on future expansion. New client accounts and business lines added. Additional markets and service portfolio expanded since 2005.	450+ employees. Main growth coming from new service lines from its UK-based parent. Service portfolio nearly doubled in volume. A range of services were added in mid 2006 in the real estate vertical.	No information on employee numbers because following the departure of key senior management, its operations were sold to a small venture capitalist.	No information on employee numbers as Organisation D is now a new legal entity. It has leased its BPO business line in mid-2006 to another provider for a period of 10 years. High-value networking services are retained.
Location visited	Gurgaon	Gurgaon	New Delhi	Mumbai
Ownership	Multinational	UK Joint-venture	Indian	Indian
Industries served	Seven industries, multiple countries.	Telecommunication and Real Estate for UK firms.	Hospitals, SMEs in the US.	F&A, Insurance, and Telecom.
Key Services	Customer care, finance and accounts (F&A), insurance, and market analytics.	Customer care and F&A.	Medical Transcription (MT) & F&A.	IT networking, knowledge process outsourcing and call centres.
Competitive strategy	Highly differentiated services.	Slightly differentiated.	Mass-service and slightly differentiated	Slightly differentiated.
Enterprise age	Established in 1997 as captive.	Established in 2004 as third party.	Established in 2000.	Established in early 1990.
Quality management capability	Team of 200+ Six Sigma black belts. Strong TQM and Lean Six Sigma culture.	Small but growing quality management team and capabilities. Six Sigma and COPC certification.	Six Sigma staff & quality staff (QAs) monitor MT work from vendors. No QAs in F&A service line.	Centralised and decentralised team of quality managers.

Table 2: Key capabilities, sub-constructs and a short description

Key Capabilities	Sub-constructs	Description
Quality management capabilities (QMC)	QM1	<i>Commitment to quality & info sharing</i> - focusing on leadership commitment, shared beliefs, and values regarding systematic information sharing
	QM2	<i>Continuous improvement</i> - comprising of internal and external customer focus and process management values
	QM3	<i>Team working</i> - emphasis on functional and cross-functional team integration
Market-based organisational learning capabilities (LO and MO)	LO1	<i>Commitment to learning</i> is the extent to which an organization fosters learning and development activities
	LO2	<i>Open mindedness</i> requires affirm to challenge its theory in use and any new information from its internal and external environment
	LO3	<i>Shared vision</i> encompasses firm's ability to communicate its theory in use throughout the organisation
	MO1	<i>Sensing</i> - Information acquisition from an organisation's customers/ competitors
	MO2	<i>Dissemination</i> of information horizontally and vertically throughout the organisation
	MO3	<i>Framing</i> appropriate organisational response

Table 3: Details of informants

Informants BPO Firms	CEO/ Country Manager	HR Manager	T&D Manager	Project Manager	Quality Manager/ Employees	Process or Project Employees	BD	Total
A		2	1	3	2	2 (Informal discussion)		10
B		1	2	2	1	2		8
C	1*			2	1	6	1*	10
D	1	1	1	2	1	6	1	13
Total	1	4	4	9	5	16	2	41

Note: 1. BD= Business Development, HR=Human Resource, T&D=Training and Development

2. * is only counted once as the CEO/Country Manager was also the Business Development Manager

Table 4: Excerpts of themes from case organisations

Organisation	A	B	C	D
Categories and themes				
QMC <i>-Team structures in outsourcing</i> <i>-Commitment to customer and internal efficiency</i> <i>-Interaction with MO during solution design, development, and delivery</i>	<p>With the help of our Six Sigma team we are focusing on the quality of the solutions that we churn out in the end, and the quality of the solutions architecture that we are recommending at the beginning.... Everything is metric driven, without that people won't survive.</p> <p>Process Head—Content Solutions</p>	<p>if I don't follow the parameters laid down by quality people or if they get customer complaints, then you are out of work. It's very straight. I can assure you that no one here would cut corners, they would rather work hard and brush up their skills and get into more training programmes.</p> <p>Process Manager—Voice</p>	<p>We employ a three-tier QA process that enables us to meet or exceed our clients' expectations. Ongoing/periodic training programs and workshops keep the team abreast of the developments in this so very dynamic healthcare industry.</p> <p>COO—Medical Transcription and F&A</p>	<p>.... at an organizational level you name the quality certificate...we have it. So ...top management commitment to our clients ...would be quality services.</p> <p>VP- HR</p> <p>IT has developed so much that we get reports of agents' performance on an hourly basis. The feedback is instant, so you can check for yourself how much have you done and what is required to be done...quality and TL's[team leads] work hand in hand and ...for feedback we don't have to wait for one day also. It is instantly given. If you are in a hardcore sales campaign, quality is the most important thing. So it may be a TL, trainer or QE, we have hourly snapshots.. Manager Voice Process</p>
MO & QMC <i>QMC's role in sensing, disseminating and responding to clients' needs</i> <i>Use of internal continuous</i>	<p>We are also now into reengineering ... we help the customer streamline the processes ... this becomes part of the solutioning and helps in streamlining the migration.... customer sees the maximum benefit as the process is simplified ...the value to the customer is immense, you land up giving value added ..., this is our differentiator. ...add</p>	<p>Going from the proposal stage...we have our team of consultants here, back office consultants who usually go over to the clients facility, spend time there, learn about the company and understand all about the</p>	<p>There is BD team who works with the client location in the US... who actually goes to the client and actually brings the process and, depending upon what process is, we go for a...test run...then, the pilot run will go and</p>	<p>Any business that comes through the BDM it first comes to the transition manager, they get in touch with the clients and the BDMs are also always in touch with the client. Pre-sales people are basically people identifying the leads etc RFP/RFI etc; and</p>

<i>improvement benchmarks in co-design and development</i> <i>Importance in cross-functional teams and close working</i>	value to the customer, and reduce the non-value add. Black Belt- Six Sigma	processes, prepare a detailed report and submit it to the client. Manager—F&A. At times the client does not have an idea of what the specifications should be so we contribute from our own standards.... Manager—Quality	then we go for full production. So there is a BD team that is involved right from brining the client to the testing of the data. Process Manager—F&A	then they also interact with the BDMs and its more of a account management role.
QMC and LO -Open-mindedness - Commitment to learning - Information sharing	We have constantly looked at better ways of improving our information gathering tools from the shopfloor level using methodologies such as SS and LEAN. Process Manager	...it's not just that you are doing something in the UK ..., we'll do it ...in India at a cheaper cost.... as we develop greater competencies ... we ...reengineer the processes ...identify where a process can be enhanced. Usually, a QA ...[is] given the responsibility ... Manager-Marketing	Earlier, what we were ... punching the data in the system. But one of the team members from this team...designed a macro in Excel, in which actually you ask when the data has been received from a client in Excel format.... So, earlier it was a six hour job, but now it is a six minute job. Process Manager—F&A	We do give script suggestions, but that's more to do with the selling of the product. ... So there are lots of script suggestions, which go out from us to QAs (Quality Analysts) because they are listening to the calls, in and out. But they [quality] still try to be very cooperative and there have been many changes in the script, which has really helped us. Process Manager- Voice

Table 5. A conceptually clustered matrix: Nature and extent of capabilities developed

Capability	Sub-Constructs	Case Organisations (Strength of the capability from high to low. Figures in parentheses show the number of interviewees supporting the strength/weakness of each capability present)				Sample of interview questions from the case study protocol
		A	B	C	D	
QMC	QM1	H (5)	M-H (4)	M (4)	M (3)	<p>- What is your organisation's overall approach to quality?</p> <p>- Is investment in accredited quality programmes such as ...also seen as a marketing tool?</p> <p>- How does investment in quality improve the organisation's business outcomes</p> <p>- What is the main focus of various quality management initiatives– (explore individually customers-continuous improvement- improved productivity- infusing discipline in routines- looking at the organisation as a system)?</p> <p>How does the organisation ensure quality is implemented at various levels?</p> <p>How does the organisation communicate the awareness across the organisation?</p>
	QM2	H (6)	M-H (5)	H (4)	M (3)	
	QM3	H (5)	M (3)	M (3)	H (3)	
LO	LO1	H (3)	H (6)	M (3)	M-L (3)	<p>- What is your organisation's philosophy towards promoting a learning culture? How is it communicated?</p> <p>- How does the organisation ensure that learning is shared?</p> <p>-Are current knowledge, assumptions, and learning continuously challenged?</p> <p>- Does the organisation critically reflect upon the information sensed and disseminated?</p> <p>-How responsive is it in terms of its actions?</p>
	LO2	H (3)	M (5)	H (5)	M-L (3)	
	LO3	H (3)	M (4)	M (3)	M-L (3)	
MO	MO1	H (4)	M-H (5)	H (5)	M-H (3)	<p>How does your organisation go about collecting market and customer information?</p> <p>What is the focus of sensing this information- e.g. competition, customer needs, etc...</p> <p>Where does the organisation collect this information from- existing customers, recruiting employees from competition, technology updates, etc</p> <p>How does the organisation ensure that the information sensed/collected is disseminated at various levels in the organisation?</p> <p>What sorts of communication strategies are employed for this?</p> <p>In what ways does the organisation respond to the information collected and disseminated – e.g. development of new products/ enhancements, improving processes, team meetings with project managers, HR and other functional policy changes, etc</p>
	MO2	H (4)	M (3)	H (4)	M (3)	
	MO3	H (5)	H (4)	M (5)	M (3)	

Legend: H=High, M=Medium, L=Low, M-H=Medium-to-high, M-L=Medium-to-low

Figure 1: Conceptual Model