

# Managing Customer Uncertainty in Making Service Offshoring Decisions

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## Abstract

Despite a long-standing interest in service offshoring from both academics and practitioners, the questions how and under what conditions customers react when a well-known national brand decides to outsource its services to an offshore service provider (OSP) is an understudied area. Drawing on cognitive consistency theory, we test a new construct called, “service offshoring fit” (SOF) that captures *customer overall perceptual consistency in their memory networks between the focal firm and the OSP as indicated by the suitability, appropriability, and logicity of the alliance*. Using 393 responses from a panel of customers of focal brands, we show that customer certainty mediates the relationship between SOF and intention not to switch by current customers. Our findings also reveal an inverted U-shaped relationship between marketing communications and customer certainty at different levels of SOF. Specifically, if firms communicate consumers’ benefits associated with offshoring, they can mitigate or avoid negative customer reactions (and subsequently increase customer certainty); however, after a certain point, such effects are reduced.

## Keywords

offshoring, outsourcing, services, customer certainty, marketing communication

Service offshoring—the international relocation of service activities from one country to another—is on the rise. AT&T, the largest telecommunications company in the world by revenue, has cut 16,000 jobs and closed 44 call centers in the United States over the period 2011–2018, offshoring its call center jobs to other countries such as India and the Philippines (Depillis 2018). Despite obvious cost advantages, managing offshoring services has faced considerable challenges. Research has shown that service offshoring elicits a number of concerns such as ethical and moral reactions, negative sentiments among consumers, job losses, perceptions of lower quality of service, difficulties in communication with foreign service partners, and data security risks (Grappi, Romani, and Bagozzi 2013; Thelen and Shapiro 2012, Thelen et al. 2008). Unlike product offshoring, customers engage with the offshore service providers (OSPs) directly. Research in this growing field suggests we focus our attention on the effects of offshore outsourcing on customers’ reactions (Grappi, Romani, and Bagozzi 2013; Thelen and Shapiro 2012), particularly in relation to their interactions with frontline service providers (Wuyts, Rindfleisch, and Citrin 2015). Understanding the underlying bases of customer concerns and how companies can mitigate negative perceptions is a necessary first step in managing service offshore strategy.

To understand customer reaction when their current brand decides to offshore its service component to an OSP, we developed a construct called “service offshoring fit (SOF).” Consistent with the definition of fit from associative network theory, we defined SOF as *customer overall perceptual consistency in*

*their memory networks between the focal firm and the OSP as indicated by the suitability, appropriability, and logicity of the alliance*. The perceptual consistency is determined by the OSP’s ability to provide service value that customers perceive is consistent with the value of focal firm’s products/services. Unlike brand fit, which is conceptualized at the *product/brand consistency level*, we conceptualized SOF at the *value consistency level*, that is, the OSP’s ability to provide service value consistent with the value of focal firm’s products/services. SOF is more relevant than brand fit or other types of fit constructs in studying service offshoring, because customers face substantial risk of reduced value; whether OSPs are able to maintain the value that matches that of the focal firm. And consistent with past research, we argue this perceived consistency in value becomes more salient in forming attitudes and intentions.

We investigate the effects of consumer perceptions of overall SOF between services provided by an OSP and a focal brand on intentions not to switch patronage from the focal brand. To address these effects, we ask two broad questions. First, we ask *how* SOF influences intentions not to switch. We answer this

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question by proposing a mediation model wherein customer certainty (i.e., customer confidence that OSPs will perform according to current service standards) channels the effect of SOF on intentions. Second, we ask *when* SOF influences intentions (i.e., under what conditions SOF affects intentions). We answer this question by proposing a moderation model wherein the effects of SOF on certainty depend on the nature of communication from the offshoring company, in particular, the benefits customers will receive as a result of offshoring services.

Our research makes three important contributions to current knowledge on service offshoring. First, drawing upon cognitive consistency theory (Levin, Davis, and Levin 1996), we test a new SOF construct that captures customer's overall perceived alignment between focal firms and OSPs. SOF indicates the perceptual consistency between the focal firms and the OSPs in consumers' associative memory network in terms of value as provided by the OSPs relative to focal firms. Unlike other types of fit, such as brand name fit (Lafferty, Goldsmith, and Hult 2004), product fit (Simonin and Ruth 1998), brand fit (Simonin and Ruth 1998; Yan and Cao 2017), and product category fit (Lafferty, Goldsmith, and Hult 2004; Lanseng and Olsen 2012), which primarily focus only on the consistency at the product-brand level, SOF focuses on the perceptual consistency of the alliance in terms of service value provided. We advance the existing service offshoring literature by examining the activation of SOF, allowing firms to consider not only how their customers react to service offshoring choices in high-fit conditions but also what (if anything) they can do to manage customer certainty in lower fit conditions.

Second, we shed new light on the mediating role of customer certainty in the relationship between SOF and customers' responses. Research in the field of brand alliance and in the context of service offshoring primarily focuses on the attitudes of customers in terms of valence (e.g., Grappi, Romani, and Bagozzi 2013; Lafferty 2007; Lafferty, Goldsmith, and Hult 2004; Simonin and Ruth 1998), while the strength of attitudes has not yet been well examined (Park et al. 2010). While attitude valence is the degree of positivity or negativity, attitude strength is the certainty of that attitude being held (Petty, Briñol, and DeMarree 2007). Attitude valence and attitude strength are equally important in determining customers' behaviors (Park et al. 2010). Further, prior research investigated the effects of fit on attitude valence (e.g., Lafferty 2007; Lafferty, Goldsmith, and Hult 2004; Simonin and Ruth 1998), while the effect of fit on attitude strength (i.e., certainty) is not well addressed. While SOF is the assessment of perceptual consistency, customer certainty, as a form of attitude, represents the result of such assessment and in turn predicts customers' behavioral consequences. We applied the classical stimulus-organism-response paradigm: stimulus (SOF) → attitude (customer certainty) → behavior (intention not to switch); we also extend the current understanding of the role of attitudes from evaluation to strength and demonstrate how important it is in explaining the mediational relationship between SOF and intentions.

Third, we examine the effects of SOF on an important customer behavioral measure (i.e., intention not to switch). Up to the present, most of the literature of service offshoring and, more broadly, of brand alignment, primarily focus on attitudinal consequences, such as attitudes toward brands (e.g., Grappi, Romani, and Bagozzi 2013; Simonin and Ruth 1998), satisfaction toward brands (e.g., Bharadwaj and Roggeveen 2008), and evaluations of service-offshoring or brand alliance (Honeycutt, Magnini, and Thelen 2012; Lanseng and Olsen 2012), while very few have investigated decision or behavioral consequences. Customers' intention not to switch is an extremely important behavioral consequence for firms with services that are competitive and commonly delivered, such as telecommunication, insurance, or banking (Keaveney and Parthasarathy 2001). Firms in these industries would not only lose future cash inflows but also incur additional costs of finding new customers (Keaveney 1995). Therefore, by investigating the effects on intention not to switch, we empirically capture how service offshoring leads to customers' behaviors and how it does this by affecting SOF and customer certainty.

Finally, we further advance our understanding of the effects of SOF by examining which marketing activities interact with fit and which strategies firms can adopt to manage customer uncertainty. Marketing communication is one such strategy and has played a key role in reducing customer uncertainty in the quality and performance of products and services (Murray 1991). Firms communicate offshoring decisions to both shape customers' attitudes toward service offshoring and/or neutralize possible negative customer reactions to decisions to relocate services to offshore locations (Falkheimer and Heide 2006). To date, very little research has looked at how firms communicate offshoring decisions to customers and whether or not communication of customer-oriented benefits can reduce customer uncertainty (Grappi, Romani, and Bagozzi 2013). To address this research gap, we examine how marketing communication strategies interact with SOF to affect customers' responses. Our findings suggest that communication of customer-oriented benefits plays an important role in managing customer certainty in service offshore strategy.

## Conceptual Background and Hypotheses

### SOF

Initially developed from associative network theory, schema congruity fit reflects the consistency between two objects in an individual's memory association network (Loken, Barsalou, and Joiner 2008; Macrae, Mitchell, and Pendry 2002; Meyers-Levy and Tybout 1989). More specifically, fit reflects the assessment of attributes between two objects in relation to each other to see whether the connection between two objects "makes sense" and feels logical, appropriate, or suitable (Keller and Aaker 1992). If the connection between two objects in the memory network is logical, appropriate, or suitable, then it will result in a high felt fit; on the other hand, if the connection is illogical, inappropriate, or unsuitable, it will result in a low

**Table 1.** Construct differences Between Service Offshoring Fit (SOF) and Other Fit Constructs.

Construct	Definition	Source	Scope of Focus	Impact	References
Brand fit	Consumer's perception of brand image cohesiveness and associative consistency between the brands of the marketing alliance	Brand images and associations of both aligned brands	Two aligned brands and the products/services from both of the brands	Customers' attitudes toward both of the brands and products and services from both of the brands	Bluemelhuber, Carter, and Lambe (2007), Lafferty, Goldsmith, and Hult (2004), and Simonin and Ruth (1998)
Country image fit	Consumer's perception of the overall compatibility on images of the two countries of origin involved in the alliance	Country images and associations of both countries of origin involved in the alliance	Two aligned countries of origin and the products/services from both of the countries of origin	Customers' attitudes toward both of the countries of origin and products and services from both of the countries of origin	Bluemelhuber, Carter, and Lambe (2007) and Lee et al. (2013)
SOF	Customer overall perceptual consistency in their memory networks between the focal firm and the offshore service provider (OSP) as indicated by the suitability, appropriability, and logicity of the alliance	OSPs' ability to provide service value that matches the value of focal firm's products/services as perceived by the customers	The focal firms and the products/services offshored from the focal firms	Customers' attitudes toward focal firms and products and services from focal firms	

felt fit (Keller and Aaker 1992; Zdravkovic, Magnusson, and Stanley 2010).

The concept of fit has been applied in many branding studies, such as brand fit and country image fit. Although either brand fit or country image fit could be applied to explain the variations of consumers' attitudes toward service offshoring, we believe they are not sufficient, given the fact that service offshoring has some unique features that a normal brand alliance would not have. For example, brand fit will not be able to capture the brand effects if the partner firm does not have a brand that is familiar to the focal firm's customers. Similarly, while country image fit might be able to capture the effects of countries of origin of both the focal firm and the OSP, it ignores other firm-specific factors that could also impact on the customers' attitudes toward service offshoring. SOF overcomes these shortcomings of adopting existing fit constructs in assessing the service offshoring with a strong focus on the alignment of value consistency at the firm level.

From a higher construal level, SOF and other "fit" constructs share some similarities—all of them indicate the level of consistency between two objects in consumers' associative memory network (e.g., the brand consistency between two allied brands in brand alliance). However, SOF is fundamentally different from other fit constructs. First, SOF compared to other related fit constructs has distinctly different sources. For example, when two brands are allied, the cues to implicate "brand fit" are the similarities or compatibilities among brand associations between two brands (Simonin and Ruth 1998). If the two images are somehow inconsistent, consumers might become skeptical, which result in a negative attribution.

Similarly, consumers would assess the compatibility on images of two countries of origin involved in the alliance to form "country image fit" (J. K. Lee, Lee, and Lee 2013). Both the brand fit and country image fit focus on the image consistency as the primary sources of fit. But for SOF, consumers will primarily focus on the OSPs' ability to provide service value that matches the value of focal firm's products/services as perceived by the customers. This is because when services are provided offshore, customers face substantial risk of getting services with reduced value. Therefore, the perceived abilities of OSPs to provide service value that matches the value of focal firm's products/services become more salient for customers, and consequently, more relevant to becoming the sources of SOF (Roggeveen, Bharadwaj, and Hoyer 2007), and in building brand value and equity (Keller 1993). Second, SOF is different from other fit constructs in terms of its scope of focus. Brand fit focuses on two brands that are aligned together and the impacts on both of the brands. However, SOF focuses on service offshoring itself and the impacts on the focal firms, given most of the OSPs might be unfamiliar to the focal firms' customers. Similarly, country image fit focuses on two countries and the impacts on all the products or services from the two countries. However, SOF only focuses at the firm level but not the country level, so that the impacts of SOF would be more on focal firms but not on all the products or services that are produced in an offshore location. Table 1 summarizes the key construct differences between SOF and other fit constructs. Nevertheless, although SOF is fundamentally different from other fit constructs, it is important to note that location and firm-specific factors (e.g.,

brand effects) are important for customers to construct SOF, which we will discuss below.

### *Customer Construction of SOF*

To assess SOF, customers need to obtain other extrinsic cues, apart from those based on brand associations, to determine how customers draw inferences about an OSP's ability to provide service value that is consistent with that of the focal firm's products/services (Miyazaki, Grewal, and Goodstein 2005). Research on the extrinsic cues in the service offshoring literature, while fragmented, can be broadly categorized into two main sources: the location of the offshore service(s; Bharadwaj and Roggeveen 2008) and the reputation/characteristics of the offshore service firm/brand (Kranzbühler, Kleijnen, and Verlegh 2018; Roggeveen, Bharadwaj, and Hoyer 2007).

The literature on country of origin suggests that important location-specific factors (e.g., language and culture, infrastructure, market, and economic development) affect customers' inference whether the service value as provided from the OSP is equivalent to what they had before (Tate, Ellram, and Brown 2009; Thelen and Shapiro 2012). Sharma, Tam, and Kim (2009) argued that cultural distance could affect the interaction comfort between customers and service providers. The dissimilarities between the host and home country's culture could lead customers to expect the service value from the host country would be inferior to what they have received when it was operated in the home country, as people may believe foreign workers from a dissimilar culture are not able to communicate well or they do not have the context to understand home country customers' needs (Thelen, Yoo, and Magnini 2011).

In addition to location, it is important that customers have confidence that the focal firm has chosen the "right" partner for offshore outsourcing, as a "good" partner has the potential to deliver services equal to that of the focal firm (Hätönen 2009). OSP's firm-specific characteristics as compared with the focal firm's characteristics may also signal its ability to deliver service values. OSP characteristics may include overall reputation, location, the technologies employed, facility used, firm size and age, and experience in the industry. Previous research supports that consumers rely on these characteristics to draw inferences about the quality of products or services (Roggeveen, Bharadwaj, and Hoyer 2007) and assess the level of "fit" (Decker and Baade 2016, Lu, Gregory, and Ngo 2020). Our preliminary research results (see Scenario Development section for details) confirm the importance of three key extrinsic cues of OSPs in forming SOF for offshore services: cultural similarity, OSP reputation, and technical capabilities of the OSP as compared with those of focal firms.

Taken together, we conceptualize SOF as customer overall perceptual consistency in their memory networks between the focal firm and the OSP as indicated by the suitability, appropriability, and logicity of the alliance. It is sourced from OSPs' ability to provide service value consistent with the value of focal firms' products/services as perceived by customers and signaled by OSP's location and firm-specific factors.

### *Intention Not to Switch*

Intention not to switch is defined as consumers' decision to stay with the current brand as a primary choice in the future (Aaker and Keller 1990). Recent studies confirm that customers would prefer to stay with the current brand if their status quo is maintained (Samuelson and Zeckhauser 1998), such as service quality, price, or perceived commitment (Antón, Camarero, and Carrero 2007). However, customers may also be tolerant toward a small change of status quo, as far as it is within their zone of tolerance and the potential benefits of switching minus the cost of switching is still smaller than the current value of staying with the brand. Intention not to switch is different from brand loyalty/brand commitment. While the latter usually involves an emotional bond with the brand and focuses on attitudinal favorability toward the brand and the relationship between the attitude and patronage behaviors (Chaudhuri and Holbrook 2001), intention not to switch may or may not involve such emotional bond or attitudinal favorability and is a decision the customer makes. Some customers may choose to stay with the brand because the switching cost is too high, even though they may not have such an attitudinal loyalty toward the brand or an emotional bond one way or another.

Fit indicates a status quo change. A high fit implies a small or even no status quo change since customers believe the service quality as delivered from the OSPs would be essentially no different to what they have received from the focal firm, resulting in an intention not to switch from the status quo (Levin, Davis, and Levin 1996; Loken and John 1993; Milberg, Park, and McCarthy 1997). Hence, customers' postattitudes and behavioral intentions should be consistent with their preattitudes and behavioral intentions under higher fit conditions. On the other hand, when fit is low, customers incur a status quo change as they believe the service quality would be inferior to their current service offerings, resulting in an intention to switch. Moreover, low fit may also trigger or activate consumers' skepticism about firm's motives to offshore services (Aaker and Keller 1990). As such, this skepticism triggers customers' anger, which leads to a dissolution of a relationship (Roseman, Wiest, and Swartz 1994). Based on this argument, we predict that:

**Hypothesis 1:** SOF has a positive effect on customers' intention not to switch.

### *The Mediating Role of Customer Certainty*

Attitude is formed from the result of assessment of all relevant information (Park et al. 2010). It can be measured in two dimensions: valence of the attitude and strength of the attitude (Park et al. 2010). While attitude valence refers to the overall positivity or negativity of a held attitude, attitude strength refers to the certainty that is related to the attitude being held (Petty, Briñol, and DeMarree 2007). Prior research has shown that attitude strength predicts customer behaviors, including intention to switch, brand consideration, and brand choice (e.g., Fazio and Petty 2007; Petty, Haugtvedt, and Smith 1995).



One of the key measures of attitude strength is customer certainty (Gross, Holtz, and Miller 1995). In the context of service offshoring, customer certainty is defined as the customer's strength of attitude that the service quality as received from the OSPs and from the brand overall will not be negatively affected. We anticipate that there would be a positive relationship between SOF and customer certainty. SOF captures the assessment of the perceptual consistency between the OSPs and the focal firms. It represents consumers' overall assessment of whether it is logical, appropriate, and suitable to offshore to the OSPs. Customer certainty, as a form of attitude, is the result from such assessment that indicates the level of the certainty of the formed attitude. Social psychologists have argued that certainty is the result of a customer's subjective assessment of the consistency (Rucker et al. 2014). Generally speaking, the greater the consistency between two objects, the stronger certainty of holding the attitude (Priester and Petty 1996). Inconsistency effectively induces subjective ambivalence, which in turn reduces customers' levels of certainty (Rucker et al. 2014). Therefore, since fit represents the inconsistency, which is arguably one of the main antecedents to certainty, we hypothesize:

**Hypothesis 2:** SOF has a positive effect on customer certainty.

Certainty is arguably one of the key factors that predicts attitude-behavior consistency (Tormala and Rucker 2007). There is ample evidence that as attitude certainty increases, attitudes become increasingly likely to guide behaviors, such as purchase intentions (Shiu et al. 2011), product trials (R. E. Smith and Swinyard 1983), willingness to pay (Okada 2010), new product evaluations and adoptions (D. C. Smith and Andrews 1995), and customer satisfaction (Homburg, Klarman, and Staritz 2012).

In our current research, a positive relationship between customer certainty and customers' intention not to switch in the future is predicted. Customer certainty can affect customer's intention not to switch. When customers are uncertain about the quality of offshore services that they would receive from the OSPs, the risks of continuing using services from the focal firm/brand are heightened (Snoj, Pisnik, and Mumel 2004). As certainty declines, consumers may perceive high financial, performance, or time loss risks, as they may infer a high possibility of service failure (Snoj, Pisnik, and Mumel 2004). Furthermore, consumers may also incur psychological costs, such as psychological discomfort and tension (Stone and Grønhaug 1993). These potential risks and additional costs of continuing using services from the focal firms/brands would negatively affect their continued usage and is positively associated with their intention to switch in the future. On the other hand, customers' commitment to the brand is determined by their confidence in the customer-brand relationship (Chaudhuri and Holbrook 2001). Low-fit offshoring could erode customers' confidence in this customer-brand relationship as it indicates a weakened relationship commitment from the focal firms/brands side (Antón, Camarero, and Carrero 2007). When

customers become more uncertain and skeptical about the firms'/brands' commitment to the relationship, they should become less interested in continuing this relationship and have greater likelihood to switch to another brand. As follows from this argument, we hypothesize that

**Hypothesis 3:** Customer certainty has a positive effect on customers' intention not to switch in the future.

Given that it is hypothesized that SOF should have a positive effect on customer certainty, which in turn would positively affect customers' intention not to switch in the future, we anticipate that customer certainty should play a mediating role between SOF and intention not to switch. Thus, we hypothesize that

**Hypothesis 4:** Customer certainty mediates the relationship between SOF and customers' intention not to switch.

### *The Moderating Role of Marketing Communications*

When consumers feel uncertain about the quality of services, marketing communications can play an important role in reducing uncertainties (Murray 1991). Research has identified a number of customer-related uncertainties or risks in service offshoring, including service quality and performance (Forman, Thelen, and Shapiro 2015), personal information security (Honeycutt, Magnini, and Thelen 2012; Thelen, Yoo, and Magnini 2011), and costs of the services (Forman, Thelen, and Shapiro 2015).

Consumers are more likely to acquire relevant information as a strategy to reduce uncertainties (Murray 1991). In the context of service offshoring, communicating customer-related benefits (e.g., lower costs, higher quality and performance, and information security) should address consumers' concerns and reduce their perceptions of risks, which, in turn, should strengthen their certainty about service offshoring. However, we argue that the effect of communication is non-linear and depends on the level of fit. Specifically, the effect is in an inverted U-shape manner as SOF increases (i.e., a quadratic relationship).

Whether additional information as provided will have an effect on consumers' attitudes depends on two factors: (1) consumers' motivation to process information and (2) whether it is easy to resolve inconsistency based on additional information. First, the motivation to process additional information increases as the perceptual consistency decreases. This is because when two objects (e.g., focal firm and OSPs) became inconsistent in their memory network of associations, consumers may experience an increasing risk state, which may ultimately increase their willingness to acquire additional information to resolve inconsistencies through cognitive elaboration (Shiu et al. 2011). Inconsistency increases arousal, requiring that greater cognitive resources be assigned to resolve the inconsistency (Meyers-Levy and Tybout 1989), which drives individuals' motivations to scrutinize information (Forgas 1992). Conversely, when consistency is sufficiently high,

consumers are not motivated to resolve small inconsistencies, if any. Consequently, additional consistent messages are less likely to prompt extensive cognitive elaboration (Meyers-Levy and Tybout 1989). This suggests that when fit is high (high consistency), lack of inconsistency is unarousing, and customers have little need to resolve minor differences, and cognitive elaboration with respect to the inconsistency should be low (Mandler 1982). Therefore, in high-fit conditions, customers have low motivation to process information as communicated, so that communication would have little effect on customer certainty nor moderate the relationship between SOF and customer certainty. However, customers' motivation to process additional information as communicated will increase as the fit level decreases.

Second, the difficulty of solving inconsistencies by acquiring and processing additional information increases as inconsistency increases. This is because resolving inconsistency requires cognitive effort to change prior attitudes and knowledge elaborately (Cacioppo and Petty 1982). Therefore, the cognitive effort required to solve the inconsistency increases drastically when the inconsistency increases. When the inconsistency is sufficiently high, consumers would require more additional information and put more cognitive effort to make the fundamental changes of their prior attitudes, which increases the difficulty of solving inconsistency (Meyers-Levy and Tybout 1989). This suggests that when fit is low, customers face strong incongruities, which would activate customers' substantial cognitive elaborations to evaluate the information as communicated (Meyers-Levy and Tybout 1989). With a lot of cognitive effort elaborated, customers should be more likely to question the credibility of the information as communicated due to the fundamental inconsistencies between sources of information (Petty and Cacioppo 1986) and become suspicious of the information communicated (Aaker and Keller 1990). They will be more likely to believe the firm is trying to cover up their true motives (e.g., save costs at the expense of exploiting customer benefits) behind this message. Therefore, communicating customer-related benefits under low fit would have a negative effect on the customer certainty. Moreover, it could even heighten the incongruity, so that individuals would be more sensitive to the incongruity or lack of fit they face (Petty and Cacioppo 1986). Thus, when SOF is low (i.e., strong incongruity), communicating customer-related benefits of offshoring may not assist much in solving the incongruity and may even heighten the incongruity, so that customers would be more sensitive to fit (Wagner, Hennig-Thurau, and Rudolph 2009). In other words, communication would heighten the effect of SOF on customer certainty (i.e., positive moderation).

When fit increases to a moderate level, inconsistency reduces, so that the difficulty of solving perceptual inconsistency reduces. Customers are still motivated to process additional information, while they would be less likely to engage in substantial cognitive effort to resolve the inconsistency (Meyers-Levy and Tybout 1989). Rather, they should be more likely to process information peripherally, such as using biased processing that puts more weight on information that confirms

their knowledge of their prior attitude (e.g., positive attitude toward the focal firms), while neglecting information that disconfirms their knowledge structure (e.g., not well fitted OSPs; Munro and Ditto 1997; Petty and Cacioppo 1986). Information as communicated provides an avenue for consumers to solve moderate incongruent schemas (Dimofte, Forehand, and Deshpande 2003; A. Y. Lee and Aaker 2004). Customers, therefore, should be more likely to focus on positive information from marketing communications and pay less attention to SOF, *per se*. As a consequence, providing communications in the moderate-fit condition will have a positive effect on customer certainty and also reduce the effect of SOF on customer certainty (i.e., negative moderation).

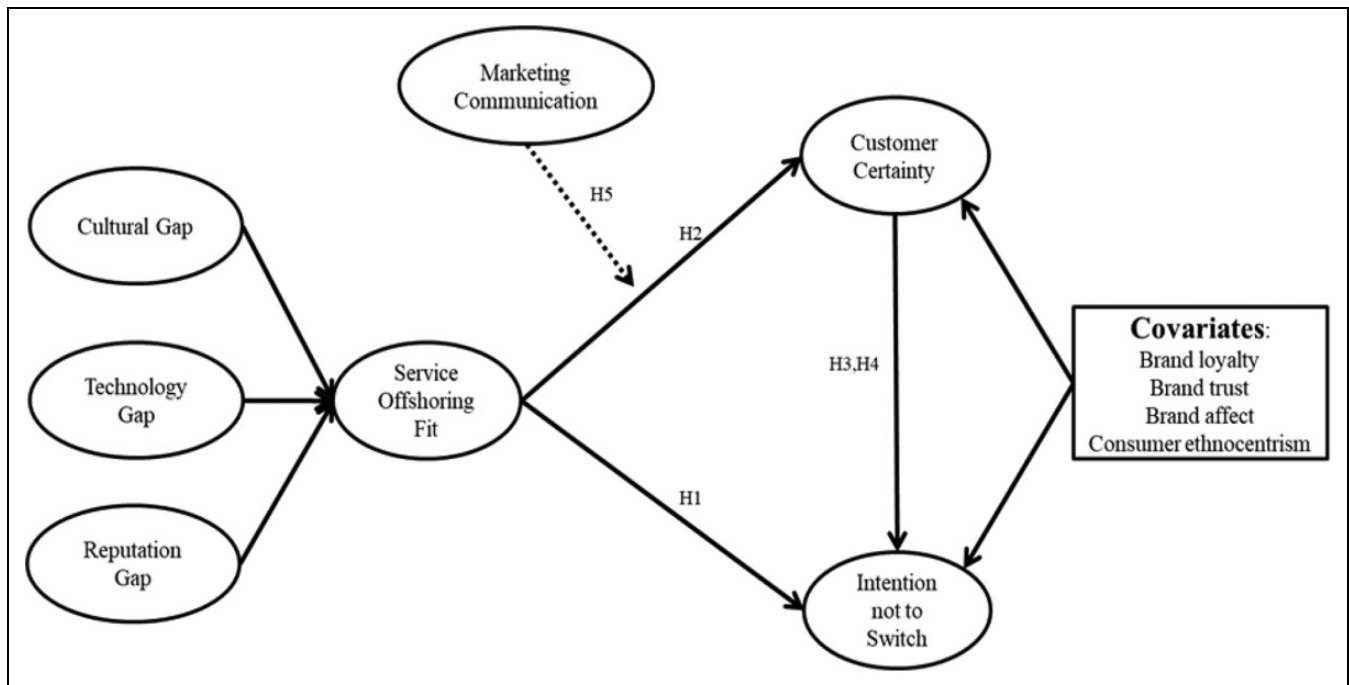
Prior research found that consumers feel more favorable about products that are moderately incongruent with their associated schemas than those that are extremely incongruent or completely congruent (e.g., Meyers-Levy and Tybout 1989). In addition to differences in arousal and the need to resolve incongruity and difficulties in doing so developed above, Mandler (1982) argues that the process of cognitive elaboration is rewarding in and of itself, and therefore, more personal benefits occur for moderate versus low or high incongruity. Based on the aforementioned logic, we hypothesize that

**Hypothesis 5:** Marketing communication moderates the relationship between SOF and customer certainty in an inverted U-shape manner: When fit is high, communication has no effect on certainty nor on the relationship between fit and certainty; when fit is moderate, communication has a positive effect on certainty and negatively moderates the relationship between fit and certainty (i.e., reduces the impact of fit on certainty); and when fit is low, communication has a negative effect on certainty and also positively moderates the relationship between fit and certainty (i.e., increases the impact of fit on certainty).

Figure 1 summarizes the overall research model and hypotheses. We anticipate that activation of SOF should directly affect customer certainty. Customer certainty, in turn, mediates the relationship between SOF and customer responses (intentions not to switch). We further examine the moderating effects of marketing communications on the SOF-customer certainty relationship and control for focal firms' brand effects, such as brand loyalty, trust, and affect as well as consumer ethnocentrism (CET).

## Method

To test our hypothesized research model that examines the effects of SOF, customer certainty, and marketing communications on customer responses (Figure 1), we design a 3 (SOF: high, moderate, or low)  $\times$  2 (service industry: telecommunication call center or mobile phone repair)  $\times$  2 (communication: customer-focus vs. no communication) between-subjects design. Thus, a total of 12 conditions (scenarios) are developed and tested. The following discussion describes the scenario development process and the series of studies conducted to



**Figure 1.** Research model and hypotheses.

develop our research scenarios and test our research hypotheses.

### Scenario Development

**SOF.** In order to develop scenarios that can manipulate the level of SOF, we first conducted qualitative research (depth interviews) to explore OSP's various characteristics that consumers consider as important factors to determine SOF and then nested these factors into scenarios, which were further pretested in a second quantitative study (online panel survey).

A qualitative study was first conducted to explore the key characteristics of OSPs that consumers assess to determine whether these firms are competent or capable of delivering quality services compared to that which they are currently receiving from their current service provider. We conducted 33 in-depth interviews with university students who were asked to read a short scenario about a recent service offshoring activity and then articulate any top-of-mind OSP characteristics that they would like to know to determine whether they would expect the service as delivered by the OSP could be equivalent to the services from focal firms.

The participants were given two different offshoring scenarios, which are widely adopted by Australian companies. The first scenario was an announcement that a leading and renowned telecommunication company had recently made about offshoring their call center services. The second scenario was an announcement by a leading and renowned mobile phone producer that was offshoring their mobile phone repair service. In relation to two service industries (telecommunication call centers and mobile phone repair services), three dominant

factors emerged: the location of the OSP (cultural similarity), the reputation of the OSP, and the technologies or facilities owned by the OSP. The aforementioned extrinsic cues appear to be important stimuli, which individuals use to draw inferences about an offshoring partners' abilities or competence to deliver services.

Using the findings from the qualitative phase, we then conducted a quantitative study that varied levels of culture similarity, technology owned by the OSPs, and the reputation of OSPs across two service industries (i.e., telecommunication call center and mobile phone repair) creating six scenarios. The manipulations of each factor were nested in a news story, which reports that an offshoring decision had recently been made by a leading and renowned company and highlights the manipulated characteristics of the offshoring partner. Location and culture were manipulated by selecting three geographically and culturally different countries according to Hofstede's (1983) cultural dimension index ranging from high similarity to low similarity to Australia, where the data were collected. The countries were Ireland (high similarity), India (moderate similarity), and Indonesia (low similarity). The reputation of the offshoring partner was manipulated by varying the scores of customers' and other institutions' reviews against other firms in the industry (Rindova et al. 2005), as well as the offshoring partner's years of operation within the industry and experience in partnering with other firms (Chen and Dhillon 2003). The advancement of technologies and facilities owned by the partners was manipulated by varying the generation of the information systems (call center scenario) and the generation of the repair platform technologies (repair scenario) of the offshoring partners as compared with other firms in the industry. We also manipulated

information security by varying the possibility of information leakage (see Online Appendix A for scenarios).

To pretest the scenarios, a survey of an online consumer panel in Australia was administered to 195 respondents. The measures for SOF were adapted from Keller and Aaker (1992) (see *Measurements* section for details). The results of a one-way analysis of variance (ANOVA) confirm that there are significant differences among the three groups in terms of the scores of SOF,  $F(2, 194) = 147.0$  ( $p < .01$ ). A further post hoc analysis confirms that the respondents' SOF scores for the three different fit conditions differ significantly. Significant differences were also observed across service offshoring industries (i.e., call center and mobile phone repair; see Online Appendix C). The results of the ANOVA tests confirm that the manipulations were successful and move in the direction predicted.

**Communications.** Two communication scenarios were developed (customer-oriented and no communications) and nested into the focal firms' announcements initiated by the chief marketing and public relation directors of the focal firms. The communication announcement emphasized the benefits (e.g., lower prices, high quality and performance, and security of information) that consumers would receive as a result of the firm's decision to provide the services offshore (see Online Appendix B for scenarios). Previous research has shown that customers are concerned about issues that directly affect them, such as the service quality (Forman, Thelen, and Shapiro 2015), price (Forman, Thelen, and Shapiro 2015), and information security of offshore services (Honeycutt, Magnini, and Thelen 2012; Thelen, Yoo, and Magnini 2011). In the control condition, no communication announcement was presented to respondents.

**Brands.** In order to make our scenarios more relevant to the respondents and thus increase the external validity of the research, we recruited only current customers of leading telecommunication and mobile phone brands in Australia and nested their corresponding brand names in the scenario. For example, an Apple customer would see scenarios describing that Apple offshored its call center/mobile phone repair center and made announcements. We targeted the three leading telecommunication brands (i.e., Telstra, Optus, and Vodafone) and their customers and three leading mobile phone brands (i.e., Apple, Samsung, and Google) and their customers as our manipulated brands and target respondents, respectively.

## Measurements

**SOF.** The SOF measures were adapted from Keller and Aaker (1992). Four different items were anchored to measure SOF: appropriateness, suitability, and logicity of the offshore partnerships, along with overall fit between the focal firm and the OSP. As we developed SOF from its generic and global definition, to keep consistency in conceptualization and operationalization of SOF, we adopted the generic measures to anchor how these two objects (e.g., focal firms and OSPs) are related

in customers' memory network of associations (e.g., logicity, appropriateness, suitability, and overall fit). The operationalization of SOF using the generic measures has some benefits as compared with other contextual-based measures. First, for future research, it allows some level of flexibility to incorporate many other factors in addition to the previously discovered ones (e.g., culture, technology, and reputation) that may form the level of SOF. Second, by measuring it in a high construal (vs. concrete) level, respondents are able to think and evaluate the relations between the OSP and the focal firm in terms of all the related factors rather than a directed factor (e.g., culture). It reduces the risks of not taking account of the influences of other omitted variables when measuring an abstracted construct using concrete and context-based items.

To further examine the construct validity of the SOF measures, we conducted a convergent validity test and discriminant validity test among SOF and other fit measures (e.g., brand fit and country image fit). We selected the trait-method-error (TME) and correlated uniqueness (CU) model to assess convergent and discriminant validity among the three fit measures (i.e., SOF, country image fit, and brand fit; Bagozzi and Yi 1991; Bagozzi, Yi, and Phillips 1991). A survey was conducted of respondents aged 18 years and older and who could show that they knew what service offshoring is. SOF (four items), brand fit (three items), and country image fit (three items) with each measured with two formats of scales: 7-point bipolar Likert disagree-agree scale and 7-point unipolar does not describe—describe me scale, resulting 20 items in total. Each measurement item is measured twice using the two formats of measurement scales. All respondents answered two versions of the scale, which were presented in counterbalanced order and separated by some random and unrelated questions taking about 3–5 minutes to complete and designed to clear short-term memory. Measurements of brand fit and country image fit are adopted from Simonin and Ruth (1998) and J. K. Lee, Lee, and Lee (2013), respectively. A total of 276 valid cases were collected from the online survey.

We first ran the trait-error model which examines the construct validity of items for the three fit constructs but ignore method biases, if any. This model fit poorly:  $\chi^2(167) = 1,377.43$ ,  $p = .00$ , root mean square error of approximation (RMSEA) = .16, nonnormed fit index (NNFI) = .90, comparative fit index (CFI) = .91, and standardized root mean square residual (SRMR) = .01. Then, we ran the TME model,  $\chi^2(146) = 490.81$ ,  $p = .00$ , RMSEA = .09, NNFI = .97, CFI = .98, and SRMR = .01., and the CU model,  $\chi^2(143) = 474.91$ ,  $p = .00$ , RMSEA = .09, NNFI = .97, CFI = .98, and SRMR = .01. Both fit the data well and show significant improvement of the model fit over the trait-error model. To examine convergent and discriminant validity, we assessed the factor loadings and correlations. Both models show high and significant factor loadings (ranging from .95 to .99 for the TME model and ranging from .94 to .98 for the CU model), indicating the measures have achieved convergent validity. The correlations among the fit factors range from .70 to .72 for the TME model and range from .71 to .73 for the CU model, which are



**Table 2.** Respondent Demographics.

Demographics	Frequency (n = 393)	%	Australia Bureau of Statistics (2016)	Demographics	Frequency (n = 393)	%
Gender				Education		
Male	190	48.3	49.8	Less than high school	18	4.6
Female	203	51.7	50.2	High school degree	51	13.0
Age				Certificates I–IV	62	15.8
18–29	86	21.9	22.7	Diploma	61	15.5
30–39	67	17.0	18.5	Bachelor and honors	114	29.0
40–49	71	18.1	18.4	Graduate certificate	32	8.1
50–59	64	16.3	16.2	Master's degree	44	11.2
Above 60	105	26.7	23.6	Doctoral degree	8	2.0
Residence location				Others	3	0.8
Australian Capital Territory	12	3.1	1.6	Residency status		
New South Wales	96	24.4	32.5	Citizenship	320	81.4
Victoria	132	33.6	24.8	Permanent residence	65	16.5
South Australia	33	8.4	7.4	International student visa	3	0.8
West Australia	38	9.7	10.2	Work visa	3	0.8
North Territory	1	0.3	1.0	Others	2	0.5
Tasmania	3	0.8	2.3			
Queensland	78	19.8	20.2			

significantly less than 1.00, indicating a good discriminant validity among the three fit constructs. Therefore, the measures of SOF achieve internal consistency in the sense of strong convergent validity. The measures also attain discriminant validity from the measures of country image fit and brand fit (see Online Appendix D).

**Customer certainty and intention not to switch.** Three items were adapted from Weathers, Sharma, and Wood (2007) and Homburg, Klarmann, and Staritz (2012) to measure customers' certainty about service offshoring. Measures of intentions not to switch were adapted from Antón, Camarero, and Carrero (2007) to measure customers' intentions to switch in the future.

**Covariates.** As we use current customers of the target brands as our respondents, we need to set up a baseline model which captures their initial feelings, attitudes, and loyalties toward the brand since these factors could significantly affect their future behaviors. Therefore, we measured brand loyalty, brand affect, and brand trust toward the focal firms as three important covariates to control the effect of brand (focal firms) on intentions not to switch. Brand loyalty was measured using four scales from Wagner, Hennig-Thurau, and Rudolph (2009). Brand affect was measured using three scales from Chaudhuri and Holbrook (2001). Brand trust was measured using three items adapted from Chaudhuri and Holbrook (2001). Despite having brand effects, customers may also hold different general attitudes toward service offshoring or foreign products and services. Prior research suggests that CET has a negative effect on consumers' attitudes toward and evaluations of offshore services (Thelen and Shapiro 2012). For highly ethnocentric consumers, purchasing foreign-made products is not only an economic issue but also a moral issue (Shimp and Sharma 1987). Therefore, we also included CET as one of the

covariates in our model to control the effect of it on intentions not to switch. CET was measured using four items adapted from Shimp and Sharma (1987; see Table 2 for the complete list of measurement items).

### Respondents and Procedure

To test our research model and hypotheses, a large-scale online survey was conducted using a nationwide consumer panel in Australia. This consumer panel has more than 120,000 active members with similar demographical characteristics compared to those of the general population. Respondents were randomly selected from the consumer panel and first screened based on their familiarity with the offshoring concept. Screening required respondents to (i) agree that they are familiar with the concept of offshoring and (ii) select the correct definition of offshoring in response to a multiple-choice question. Qualifying respondents were then randomly assigned to one of the 12 scenarios that varied three levels of SOF (high, moderate, and low), two service industries (telecom call center and mobile phone repair), and two forms of marketing communications (customer focus and none) in a between-subjects design.

Before proceeding, respondents were asked to indicate their telecommunication brand/mobile phone brand. If they were a current customer of one of the three top brands selected for use (see *Brands* section), they continued on in the survey and were asked to rate their brand loyalty, brand affect, and brand trust toward their brands before showing the manipulated scenarios to capture their initial brand attitudes. Afterward, the first scenario (news story—see Online Appendix A) was presented to the respondents that manipulates SOF. To identify (and eliminate) those that failed to read the news story carefully, the respondents were first asked to correctly identify the location of the OSP before they proceed. The respondents were then

asked to assess SOF before being shown a second scenario that was designated to manipulate communication strategies. The respondents in the control group did not receive a second scenario on communications. Finally, respondents were then asked, as customers of that brand, to complete a series of questions related to customer certainties and future switching behaviors. Additional demographic questions were also included.

In total, 1,545 respondents participated in the survey and after filtering out those respondents who did not qualify based on the strict selection criteria (demonstrated knowledge of offshoring, customer of top brand used in study, and correctly identifying OSP country location), we collected 393 valid responses. Of the respondents, 48.3% are male and 51.7% are female; 21.9% are aged 18–29, 17.0% are aged 30–39, 18.1% are aged 40–49, 16.4% are aged 50–59, and the remaining 26.7% are aged 60 and above. The demographics of the respondents in this large-scale online survey (Table 2) closely matched the demographics of the Australian population as published by the Bureau of Statistics (2016).

### Manipulation Check

To replicate our findings in our pretesting of scenarios, we again checked whether the manipulations of SOF as indicated by OSP's key characteristics (i.e., culture, technology, and reputation) as compared with those of the focal firms were successful using one-way ANOVA test. Three items (Cronbach's  $\alpha = .95$ ) were used to check the manipulation of culture similarity (e.g., "Australian and Irish culture are similar/comparable/more or less the same"), three items (Cronbach's  $\alpha = .96$ ) to check the manipulation for reputation (e.g., "the focal firm and the OSP's reputation are similar/comparable/more or less the same"), and three items (Cronbach's  $\alpha = .96$ ) to check the manipulation of technology (i.e., "the focal firm and the OSP's technology are similar/comparable/more or less the same"). Results showed that all the manipulations were successful as the ANOVA test and the post hoc comparisons among groups were all significant in terms of culture,  $F(2, 391) = 60.8, p < .01$ ; technology,  $F(2, 391) = 76.8, p < .01$ ; and reputation gaps,  $F(2, 391) < 74.7, p < .01$ . All the post hoc comparisons consistently show significant differences between treatment groups as predicted (see Online Appendix E).

As the purpose of manipulating culture, technology, and reputation is to induce perceptions of SOF, we further examined the mean values of fit under different treatments. We found a significant difference among all three groups of SOF,  $F(2, 391) = 125.8 (p < .01)$ . All the post hoc comparisons also show significant differences between treatment groups as manipulated. Finally, we assessed the effects of culture, technology, and reputation on SOF. Results indicate that culture ( $\beta = 0.27, p < .01$ ), technology ( $\beta = 0.23, p < .01$ ), and reputation ( $\beta = 0.23, p < .01$ ) are all significant and contribute equally and consistently to SOF. Therefore, based on our findings, the manipulations were successful.

To check the manipulation related to communication strategies, respondents were asked to respond to the following

statement using a 7-point Likert-type scale: "The message primarily focused on consumer benefits from offshoring." The respondents in the communication conditions had a significantly ( $p < .01$ ) higher mean score (mean = 5.19,  $SD = 1.34$ ) than the middle value of 4. Thus, the manipulation of communication strategies was considered successful.

## Results

### Measurement Model

The measurement model was assessed, validated, and purified. AMOS was used to test the Confirmatory Factor Analysis (CFA) model. A bootstrapping approach was adopted (with over 5,000 bootstrap samples). Overall, the model statistics gave a  $\chi^2$  value of 456.03 ( $df = 231, p < .01$ ), where goodness-of-fit indices were RMSEA = .05, NNFI (TLI) = .97, CFI = .98, and SRMR = .03, which demonstrate good fit. The CFA results show the convergent validity of all of the measures. Table 3 sets out the scale items and evaluations of the latent variables. All of the estimated loadings for the underlying constructs were large and significant. The AVE values for all of the constructs were uniformly acceptable (ranging from .77 to .89). Additionally, the composite reliability values ranged between .93 and .97, indicating that the scale items possess high reliability.

A  $\chi^2_d$  test was run to assess the discriminant validity of the key variables (Bagozzi and Yi 2012). All of the  $\chi^2_d$  tests verify that the factor correlations were significantly less than 1.00. As shown in Table 3, the square roots of the AVE values are consistently greater than correlation coefficient between pairs, and no absolute values of individual correlations exceeded their respective reliabilities, therefore indicating satisfactory discriminant validity. We also calculated whether the correlation between two paired constructs are significantly less than 1. Results confirmed that all the  $t$  values of comparisons (ranging from 7.07 to 18.13) are consistently greater than the cutting-off value of 1.96, indicating all the correlations between two paired constructs are significantly less than 1.

As we note, correlations between SOF, customer certainty, and intention not to switch are relatively high (ranging from .66 to .79). Also, correlations between three brand-level covariates are also relatively high (ranging from .70 to .75). To further examine discriminant validity among these constructs, we develop a single-factor model and compare it with the three-factor model. For the three-factor model SOF, customer certainty, and intentions not to switch,  $\chi^2 = 80.20 (df = 32, p < .01)$ , with goodness-of-fit indices RMSEA = .06, NNFI (TLI) = .99, CFI = .99, and SRMR = .02, demonstrating good fit. For the single-factor model,  $\chi^2 = 1,382.27 (df = 35, p < .01)$ , the goodness-of-fit indices were RMSEA = .31, NNFI (TLI) = .65, CFI = .73, and SRMR = .11, which demonstrate poor fit. There is a significant improvement of model fit from single-factor model to three-factor model indicating the three-factor model is superior. Similarly, we also found a significant

**Table 3.** Factor Loadings and Construct Correlations.

Construct and Items	Loading	t Value
Service offshoring fit (SOF; AVE = .88, $P_c$ = .97)		
SOF1: It is appropriate for these firms to partner up	.92	—
SOF2: This partnership is logical	.93	34.00**
SOF3: It is suitable for these firms to form a partnership	.95	36.49**
SOF4: Overall fit of this partnership is strong	.94	34.66**
Customer certainty (CC; AVE = .86, $P_c$ = .95)		
CC1: I am certain this offshoring will not affect the quality of services being offshored	.91	—
CC2: I am certain the offshore services will perform quite well.	.94	32.45**
CC3: I am certain this offshoring will not affect the overall service quality that I received from the brand	.93	31.31**
Intention not to switch (INS; AVE = .86, $P_c$ = .95)		
INS1: I will not consider changing companies/brands in the future	.94	—
INS2: I have intention to renew my business relationship with this brand	.92	31.90**
INS3: I will not choose services with another company in the future	.93	33.14**
Brand trust (BT; AVE = .82, $P_c$ = .93)		
BT1: I trust this brand	.91	—
BT2: This brand has a name you can trust	.89	27.06**
BT3: This brand is an honest brand	.91	28.41**
Brand affect (BA; AVE = .88, $P_c$ = .96)		
BA1: I feel good when I use this brand	.91	—
BA2: This brand makes me happy	.95	34.28**
BA3: This brand gives me pleasure	.95	34.37**
Brand loyalty (BL; AVE = .77, $P_c$ = .93)		
BL1: I have a strong preference for this brand	.87	—
BL2: I believe that I would stick to this brand in the future	.87	23.77**
BL3: I would recommend this brand to others (family and friends)	.86	23.20**
BL4: I would continue to be committed to this brand	.91	25.86**
Consumer ethnocentrism (CET; AVE = .77, $P_c$ = .93)		
CET1: Purchasing foreign-made products is un-Australian	.86	—
CET2: Australians should not buy foreign products because this hurts Australian business and causes unemployment	.90	24.12**
CET3: A real Australian should always buy Australian-made products	.89	23.64**
CET4: It is not right to purchase foreign products	.87	22.72**

Construct Correlations

	1	2	3	4	5	6	7	$P_c$	AVE	$\sqrt{AVE}$
1. BA								.96	.88	.94
2. SOF	.13							.97	.88	.94
3. BL	.74	.10						.93	.77	.88
4. CC	.16	.79	.14					.95	.86	.93
5. INS	.19	.66	.23	.77				.95	.86	.93
6. CET	-.05	.01	-.04	.06	.04			.93	.77	.88
7. BT	.75	.09	.70	.13	.21	-.04		.93	.82	.90

Note.  $\chi^2 = 456.03$  ( $df = 271$ ,  $p < .01$ ), root mean square error of approximation = .05, nonnormed fit index (Tucker-Lewis index) = .97, comparative fit index = .98, standardized root mean square residual = .03. AVE = average variance extracted;  $P_c$  = composite reliability; BA = brand affect; BL = brand loyalty; CC = customer certainty; INS = intention not to switch; CET = consumer ethnocentrism; BT = brand trust.

\*Significant at the .05 (two-tailed t test). \*\*Significant at the .01 (two-tailed t test).

improvement of model fit for brand loyalty, trust, and affect from the single-factor model ( $\chi^2 = 1,151.79$ ,  $df = 35$ ,  $p < .01$ , RMSEA = .29, NNFI [TLI] = .66, CFI = .74, SRMR = .09) to the three-factor model ( $\chi^2 = 136.34$ ,  $df = 32$ ,  $p < .01$ ,  $\chi^2/df = 4.26$ , RMSEA = .09, NNFI [TLI] = .97, CFI = .98, SRMR = .03), indicating the three-factor model is superior to the single-factor model.

We also examine the correlations between all constructs and calculate their corresponding VIF values to ensure that there are

no multicollinearity issues. No evidence of multicollinearity was found. Indeed, the VIF scores ranged from 1.01 to 2.56 and thus fall far below the critical value of 10 (Hair et al. 2006).

Data were collected using a single-informant approach. Thus, we used the marker variable (MV) technique (Lindell and Whitney 2001) to rule out common method bias effects. In the survey, a construct about perceptions of the variety of telecommunication services/mobile phone services available was included and is theoretically unrelated to our focal

**Table 4.** Path Coefficients (Main Effects Model).

Dependent Variables Independent Variables	Model 1 Base Model ( $R^2 = .06$ )		Model 2 Main Effects Model					
			Combined ( $R^2 = .62$ )		Telecom ( $R^2 = .73$ )		Mobile Phone ( $R^2 = .55$ )	
	$\beta$	t Value	$\beta$	t Value	$\beta$	t Value	$\beta$	t Value
CC								
SOF			.79	19.21**	.78	13.27**	.80	13.82**
INS								
SOF			.14	2.20*	.04	0.50	.26	2.58**
CC			.65	10.26**	.80	10.12**	.48	4.87**
BL	.17	1.93	.15	2.41*	.13	1.66	.14	1.69
BT	.09	0.97	.08	1.38	.00	0.01	.17	2.16*
BA	.01	0.05	-.09	-1.45	-.04	-0.553	-.13	-1.44
CET	.05	0.86	.01	0.15	.07	1.46	-.04	-0.73
Direct Effect of X on Y								
Effect	SE	t	p		LLCI		ULCI	
.18	.06	3.18	.00		.07		.28	
Indirect Effect of X on Y								
Effect	Boot SE		Boot LLCI		Boot ULCL			
.49	.04		.41		.58			

Note. Model 1:  $\chi^2 = 256.76$  ( $df = 109$ ,  $p < .01$ ), RMSEA = .06, NNFI (TLI) = .98, CFI = .98, SRMR = .03. Model 2:  $\chi^2 = 462.01$  ( $df = 235$ ,  $p < .01$ ), RMSEA = .05, NNFI (TLI) = .97, CFI = .98, SRMR = .04. SOF = service offshoring fit; CC = customer certainty; INS = intention not to switch; BL = brand loyalty; BT = brand trust; BA = brand affect; CET = consumer ethnocentrism; CFI = comparative fit index; NNFI = nonnormed fit index; RMSEA = root mean square error of approximation; SRMR = standardized root mean square residual; TLI = Tucker-Lewis index.

\*Significant at the .05 (two-tailed t test). \*\*Significant at the .01 (two-tailed t test).

constructs. The average absolute correlation between the MV and all of the other constructs in our model was .10 (rm). The average difference between the correlations among all of the constructs in the model after partialling out the effect of rm was .08. This suggests that “the results cannot be accounted for by common method variance” (Lindell and Whitney, 2001, p. 118).

Finally, as we operationalize our survey in two industry settings, it is informative to examine the measurement invariances between the two industries before combining the data and proceeding to the hypotheses testing. We performed a multigroup analysis by first estimating the measurement model freely for each industry group and then restraining the measurement model factor loadings to be equal between the two industry groups. Results confirmed the invariance of measurement loadings across the two industry groups ( $\chi^2_d = 7.51$ ,  $p = .38$ ).

### Structure Model

We developed two models to examine the main effects model. Model 1, the base model, examines only the covariates, while Model 2, the full model, includes SOF, customer certainty, and intention not to switch, as well as the covariates. Both models have a good fit (see Table 4; the base model had a  $R^2$  value of .06 while the full model had a  $R^2$  value of .62).

We predict that there would be a positive and direct relationship between SOF and intention not to switch (Hypothesis 1). The results provide support for this hypothesis (Model 2,  $\beta = 0.14$ ,  $p < .05$ ). Hypothesis 2 predicts a positive relationship between SOF and customer certainty. Again, the results provide support for this hypothesis (Model 2,  $\beta = 0.79$ ,  $p < .01$ ). A positive relationship is also found between customer certainty and intention not to switch (Model 2,  $\beta = 0.65$ ,  $p < .01$ ); thus, support is found for Hypothesis 3. Since there is a direct relationship between SOF and intention not to switch, and an indirect relationship via customer certainty, we can conclude that customer certainty partially mediates the relationship between SOF and intention not to switch ( $\beta_{ab} = 0.52$ ,  $p < .01$ ). Thus, support is found for Hypothesis 4.

To further examine the main effects model, we also run a structure model for each industry setting (see Table 4). We found similarities as well as some differences in terms of the path coefficients between the two service industries. SOF has a positive and direct effect on customer certainty in both service industries ( $\beta_{telecom} = 0.78$ ,  $p < .01$ ,  $\beta_{mobile} = 0.80$ ,  $p < .01$ ). Customer certainty also has a positive effect on intention not to switch in both service industries ( $\beta_{telecom} = 0.80$ ,  $p < .01$ ,  $\beta_{mobile} = 0.48$ ,  $p < .01$ ). Furthermore, SOF has a positive effect on intention not to switch when both industries are combined (Model 2,  $\beta = 0.14$ ,  $p < .05$ ) and for the mobile phone industry



separately ( $\beta_{\text{mobile}} = 0.26, p < .01$ ), but not for the telecommunication industry (i.e., call-center offshoring scenario;  $\beta_{\text{telecom}} = 0.04, p > .05$ ). In other words, while customer certainty partially mediates the relationship between SOF and intention not to switch in the mobile phone industry, it fully mediates the relationship in the telecommunication industry.

Additionally, we ran a structural model (Model 2) with our covariates. Consistent with prior literature, brand loyalty is found to have a positive effect on intention not to switch (Model 2,  $\beta = 0.14, p < .05$ ), while brand trust and brand affect have no effect on no switching intentions. Somewhat surprisingly, CET also has no significant effect on intentions not to switch.

To further validate the mediating effect of customer certainty, we used Hayes's (2018) PROCESS macro Model 7. As the measurement model has achieved satisfactory model fit, we average the mean scores of the measurement items for their corresponding constructs. Results confirmed a partial mediation of customer certainty in the relationship between SOF and intention not to switch ( $\beta_{\text{direct}} = 0.18 [0.07, .28], p < .01$ ;  $\beta_{\text{indirect}} = 0.49 [0.41, .58], p < .01$ ; see Table 4). Therefore, we conclude that customer certainty mediates the effect of SOF on intention not to switch.

To examine the moderation effect of market communications (Hypothesis 5), we use a two-step approach: (1) We examine whether moderation effects occur and (2) we look at the direction and patterns of effects across SOF conditions (high-moderate-low). To determine moderation effects, we use Hayes's (2015) PROCESS macro. As the measurement model has achieved satisfactory model fit, we average the mean scores of the measurement items for their corresponding constructs. We first use the PROCESS macro Model 7 (Hayes, Montoya, and Rockwood 2017) to examine the moderation effect of communications under different SOF conditions (high, medium, and low). Table 5 sets out the results for this model. We found that in the high-fit condition, communication does not affect customer certainty or moderate the relationship between SOF and customer certainty ( $\beta_{\text{comm.}} = 0.08, p > .05$ ,  $\beta_{\text{CxF}} = -0.01, p > .05$ ). However, in the moderate-fit condition, communication has a positive main effect on customer certainty ( $\beta_{\text{comm.}} = 1.57, p < .01$ ) and also moderates (negatively) the relationship between SOF and customer certainty ( $\beta_{\text{CxF}} = -0.20, p < .01$ ). This means that providing market communication to address consumers' benefits from offshoring reduces the effect of SOF on customer certainty. Finally, in the low-fit condition, we observe a significant main effect of market communications on customer certainty ( $\beta_{\text{comm.}} = -0.24, p < .05$ ); we also found a significant (positive) moderation effect ( $\beta_{\text{CxF}} = 0.17, p < .01$ ). This means that providing market communications will not only lower customer certainty but also intensify the relationship between SOF and customer certainty in a low-fit condition.

The above analysis confirmed that the moderation effect of marketing communication is dependent on the level of SOF. To further examine whether this moderation effect is quadratic, we adapted an approach suggested by Hayes (2015) to "hack" PROCESS to get it to estimate the quadratic relationship. As suggested, we create a quadratic component of SOF and then

used Model 2 to estimate the quadratic moderation of linear effects. The quadratic moderation component (i.e.,  $\text{SOF}^2 \times C$ ) is significant ( $\beta = -0.10, p < .01$ ), showing a significant quadratic moderation of marketing communications. We plot the relationship between SOF and customer certainty for the customer-focused communication condition and compare it to the results for the control group (no communications), which clearly demonstrates the moderation effect of communications (see Figure 2, Panel A). We also plot the conditional effect of communications at the values of SOF, which further confirms the inverted U-shaped moderation effect of linear effects (see Figure 2, Panel B). As we can see, the effect of communication is significantly negative when SOF is extremely low. However, when SOF increases toward the moderate level, the effect of communication gradually increases in a positive way and becomes significant. After that, when SOF continues to increase from moderate to high level, the effect of communications gradually decreases, though positive, and becomes insignificant. In sum, our evidence is conclusive that marketing communications moderates the SOF—customer certainty relationship and does so in an inverted U-shape manner; thus, providing support for Hypothesis 5.

## General Discussion

An understanding of what SOF is and how fit can affect customers' attitudes and behaviors in brand relations is imperative to alliances between brands or firms in service offshoring. However, despite the importance of this growing phenomenon, very little progress has been made in the literature beyond examining brand fit, country image fit, or product (category) fit (e.g., Lafferty, Goldsmith, and Hult 2004; Lanseng and Olsen 2012; J. K. Lee, Lee, and Lee 2013; Simonin and Ruth 1998; Yan and Cao 2017). Moreover, studies in brand relations mainly focus on the valence side of attitudes to explain consumers' behaviors (e.g., Lafferty 2007, Simonin and Ruth 1998), while attitude strength has not been explicitly discussed in relation to fit and customer behaviors. In this section, we summarize the key substantive findings and their implications for researchers and practitioners.

### Activation of SOF: Explicit Cues Matter

The current study develops and tests a novel model to advance research on brand relations in the context of service offshoring. The findings show that SOF can be activated by manipulating three critical extrinsic cues (i.e., location, reputation, and technology) that consumers use to form an overall judgment of fit (SOF) between the focal firm and the OSP.

### It Is Certain That Customer Certainty Is an Important Intervener

Our findings support the mediating role of customer certainty. The greater the fit between the OSP and the focal firm in terms of the value attached, the more customer certainty, and certainty, in turn, encourages the customers to stay in the relationship (i.e., intention

**Table 5.** Results for the Conditional Indirect Effects of Service Offshoring Fit (SOF) on Intention Not to Switch.

Independent Variables	Dependent Variable			
	Customer Certainty		Intention Not to Switch	
	$\beta$	SE	$\beta$	SE
<b>Panel A: High-fit</b>				
Constant	0.13	.46	-1.20**	.44
Customer certainty			0.33**	.09
SOF	0.64**	.06	0.25**	.08
Communication (C)	0.08	.26		
C $\times$ SOF	-0.01	.06		
Brand loyalty	0.16	.10	0.36**	.09
Brand affect	0.22*	.10	0.10	.10
Brand trust	-0.10	.09	0.03	.08
Consumer ethnocentrism	-0.01	.01	0.10	.05
	$R^2 = .80$ $F(7, 121) = 31.26^{**}$		$R^2 = .83$ $F(6, 122) = 43.20^{**}$	
<b>Panel B: Moderate-fit</b>				
Constant	1.68**	.57	0.18	.75
Customer certainty			0.63**	.08
SOF	0.46**	.08	0.10	.11
Communication (C)	1.57**	.32		
C $\times$ SOF	-0.20**	.08		
Brand loyalty	-0.10	.09	0.15	.12
Brand affect	0.12	.09	-0.12	.12
Brand trust	0.09	.10	0.10	.13
Consumer ethnocentrism	0.12*	.05	0.03	.07
	$R^2 = .80$ $F(7, 124) = 31.03^{**}$		$R^2 = .64$ $F(6, 125) = 14.69^{**}$	
<b>Panel C: Low-fit condition</b>				
Constant	1.42**	.44	0.70	.61
Customer certainty			0.70**	.12
SOF	0.76**	.06	0.20	.12
Communication (C)	-0.24*	.16		
C $\times$ SOF	0.17**	.06		
Brand loyalty	0.01	.09	0.04	.12
Brand affect	-0.09	.11	-0.13	.14
Brand trust	0.01	.10	0.15	.13
Consumer ethnocentrism	-0.00	.05	-0.08	.07
	$R^2 = .76$ $F(7, 127) = 24.56^{**}$		$R^2 = .70$ $F(6, 128) = 19.96$	

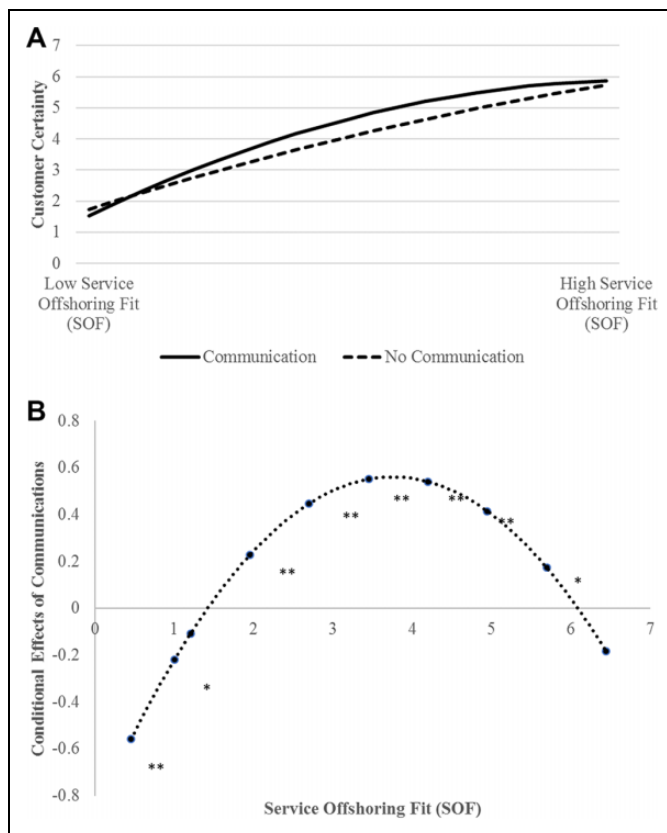
\*Significant at the .05 (two-tailed t test). \*\*Significant at the .01 (two-tailed t test).

not to switch). This finding is consistent with the theoretical arguments from attitude certainty theory that consistent information (as indicated by fit) is one of the most important antecedents to attitude certainty (Rucker et al. 2014; Shiu et al. 2011).

### *Thinking about U: Communications Moderates the SOF–Customer Certainty Relationship in an Inverted U-Shaped Manner*

Our research also examines the contingency effects of marketing communications. In accordance with schema incongruity

theory, we find that the magnitude and valence of effects vary across different levels of SOF. Specifically, we find a negative quadratic moderation effect in relation to marketing communications whereby the moderation effect increases as the fit increases from a low level of fit to a moderate level and then decreases as fit continuously increases from the moderate level to a high level. It appears that when fit is very low, providing contradictory information from marketing communications will not only negatively affect customer certainty but also make customers more sensitive to fit. This is because strong contradictory information presses for a fundamental alteration in



**Figure 2.** Quadratic moderation of the linear effect of communication on consumer certainty as a function of service offshoring fit. Panel A: Total effects on customer certainty. Panel B: Conditional effect of communications at the values of fit. \*Significant at the .05 (two-tailed t test). \*\*Significant at the .01 (two-tailed t test).

cognitive schemas, which customers would eventually become more suspicious toward the information as communicated. In addition, strong incongruity leads to high levels of skepticism about the credibility of information and the true motives of the focal firm, thus heightening their sensitivity to the initial information and leading to a negative attributional process (Foreh and Grier 2003; Wilton and Myers 1986). When SOF approaches a moderate or medium level, customers are more likely to process the information peripherally, so that they favor the information that confirms their prior attitudes and ignore the information that disconfirm their prior attitudes. Therefore, the provision of additional information in the form of marketing communication enables customers to resolve their schema incongruity in a realistic and meaningful way (Dimofte, Forehand, and Deshpande 2003; E.-J. Lee and Schumann 2004). Marketing communications, as a result, will have a positive main effect on customer certainty and also reduce the effect of SOF on certainty (negative moderation). However, as SOF approaches a high level, consumers lack the motivation to scrutinize additional information carefully. Consequently, providing additional information in such circumstances is not diagnostic. Thus, the overall outcome is an inverted U-shaped relationship

between communications and customer certainty at different levels of SOF.

### Theoretical Contributions

Our research makes three important contributions to current knowledge on service offshoring. First, the results of our research shed new light on the literature by introducing the concept of SOF. To date, the majority of studies on service offshoring has adapted concepts from brand fit or country image fit. While these types of fit capture the brand- and product-side effects, in the context of service delivery, customers' judgments about SOF in terms of value as attached in the service are also of paramount importance, especially when leading and well-known service brands offshore critical front-end services to unfamiliar OSPs. SOF reflects customers' perceptual consistency of the alliance in terms of the value as attached to the offshore decisions. We manipulated SOF by varying customer exposure to different levels of three external cues: location and cultural similarity, reputation, and technological and facilities capabilities of OSP as compared with those of focal firms. As we confirmed, culture, reputation, and technology all significantly contribute to the activation of SOF. To the best of our knowledge, this is the first conceptualization of SOF grounded in both academic and managerial practice.

Second, our study examines the importance of customer certainty as a mediating factor in the relationship between SOF and intentions not to switch in the future by current customers. To date, the literature on brand relations has largely focused on the valence side of the attitudes to explain consumers' behaviors (e.g., Lafferty 2007; Simonin and Ruth 1998). We shed new light on this by introducing the strength-side of attitude in examining the effect of fit on customer certainty and its mediating effect on consumer behaviors. By incorporating literature from the attitude certainty realm (e.g., Petrocelli, Tormala, and Rucker 2007), we provide empirical evidence that consistent information as indicated by the level of fit is positively associated with customer certainty. We also extend the current literature by introducing attitude certainty as an alternative path that leads to consumers' behavior in response to firms' strategies.

Furthermore, the introduction of marketing communications in the model to examine contingency effects of SOF on customer certainty also provides evidence that customer certainty can be managed. From a theoretical perspective, attitude certainty is influenced by the consistency of information (Petrocelli, Tormala, and Rucker 2007). We found evidence to support this proposition that customer certainty is negatively affected when the fit is extremely low while communicating customer benefits to customers. Strong inconsistency drives customer cognitive elaboration and leads to a high level of skepticism and uncertainty (Foreh and Grier 2003; Wilton and Myers 1986). However, perhaps counterintuitively, when fit is moderate, providing positive information has a significant positive effect on customer certainty, and this effect shrinks when fit increases to a high level. By incorporating schema-

congruency theory, we argue that customers are more likely to engage in biased processing that puts more weight on information that confirms their knowledge within an existing schema, while neglecting the information that disconfirms their knowledge structure (Munro and Ditto 1997). When fit continues to increase, customers no longer process additional consistent information elaborately, since they have already achieved consistency with their existing knowledge structure. These findings refresh our understanding of attitude certainty theory where it may be concluded that consistency is not so much objectively presented but subjectively processed and assessed. In the case where a moderate level of inconsistency occurs (i.e., moderate fit with positive communications), customers can still achieve a sense of consistency by biased processing of sources of information.

### *Managerial Implications*

The results of our research have several important implications for firms needing to manage customer certainty in decisions to provide offshore services. First, with the aim of helping managers make better decisions on service offshoring, our study suggests that there exists an SOF, which is activated by extrinsic cues such as location, reputation, and technology capability of the OSP. The findings presented in this study can help inform practice about how to manage the issue of fit.

Second, our findings suggest that firms should strive to achieve a high-fit partnership. Specifically, firms should choose partners located in a country with similar cultural values and background, with an above average industry reputation and technologies up to the task. High-fit partnerships enhance consumers' certainty and the perceived value of a brand. Conversely, low-fit partnerships reduce consumers' certainty and the perceived value of a brand. However, it should be noted that high-fit partnerships usually cost firms more than low-fit partnerships. Such costs potentially reduce the benefits (e.g., savings) related to providing services offshore. Thus, firm managers need to think and act from a strategic perspective by comparing the benefits associated with the potential losses and customers' reactions to ensure optimal net gains in the long term. Such an approach could help to mitigate negative perceptions among customers about offshoring, including perceptions about job losses, lower product quality, and issues related to communicating with foreign service providers and data security risks but still enable firms to take advantage of the operational benefits that can be derived from providing services offshore.

Third, some firms may choose to communicate benefits associated with offshoring services to consumers to mitigate potential negative responses. When asked why call center services would remain in India and the Philippines instead of moving them back to Australia, Telstra's CEO recently added that "we made a decision to invest in the underlying infrastructure of the systems and processes" to try and improve the level of service for current customers instead (Sharwood 2019). Telstra went on to publicize that its customers will get better

service from the partnering vendors in India or Manila because of their better technology and innovation, offsetting any potential negative sentiment from relocating customer services offshore. Likewise, Commonwealth Bank Australia also publicly announced that its offshoring move is about ensuring the banking giant has access to the best possible services and skills from offshore providers (Finextra 2017). Additionally, ANZ bank offshores its call centers to New Zealand, India, and the Philippines, looking at the ability to use the talent pool in those countries because there is a lot of expertise and experience in those markets in customer service, in HR, and in processing, gained through years of sourcing from other countries. ANZ executives claim that by tapping into expertise across markets, they can lower their costs while ensuring that they deliver better quality service for its customers (Donaldson 2014). The findings of the present study suggest that decisions to communicate the benefits of offshore alliances (or not communicate) depend on the level of the perceived SOF. Communications could effectively reduce consumers' uncertainties about service offshoring. However, when SOF is low, firms should be cautious as to the information they communicate. Communicating information about customer-related benefits that are directly related to customers' concerns might activate consumers' skepticism about their true motives and lead to negative attributions, which would ultimately serve to worsen consumers' attitudes and reactions. Recent findings suggest that communication of offshoring could have a negative effect on other stakeholders (e.g., shareholder returns), depending on service type and location (Raassens, Wuyts, and Geyskens 2014). Finally, if firms find that their customers perceive high fit, it may not be necessary to provide extra information in marketing communication announcements, as the provision of additional information has very little, if any, effect on consumers' attitudes and reactions over and above that provided by SOF itself.

### *Limitations and Further Research*

Our study has some limitations that future research should seek to address. First, our empirical findings are limited to the context of Australia, where data were collected. Different effects may be observed in different countries, especially as consumers in different countries or cultural zones may perceive service offshoring differently and act differently. Thus, future research should seek to extend the current study to other countries or regions. Second, the stimulus used in this study oversimplifies the complexity of marketing communications used in current business practices. For example, firms communicate messages differently, some communicate information proactively, and others reactively (i.e., only after consumers have already been informed of the information by other nonofficial sources). Similarly, some firms communicate firm-oriented benefits (e.g., cost saving) to justify their decision of service offshoring while others emphasize customer-oriented benefits. Future research should seek to extend the current study by examining various other types of communication strategies or the



approaches of communications. Third, we created overall judgments of SOF by manipulating three characteristics of fit: culture, reputation, and capabilities for needed facilities and technologies. These characteristics emerged from our qualitative study where the sample was representative of the sample in the main study. However, we acknowledge, as one reviewer pointed out, that in different contexts or with different samples, other drivers of overall SOF might be revealed and should be studied. Finally, additional individual-level values and personality measures should be investigated (such as perceived risk, animosity toward out-serviced countries, and cosmopolitanism) to determine whether any important individual-level differences affect consumers' receptiveness to communications and their perceptions about SOF.


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### Supplemental Material

The supplemental material for this article is available online.

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