



Master Thesis

Ways to mitigate the drawbacks of offshoring while ensuring customer satisfaction



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Preface

Since 2010 I have worked for the large organisation Maersk. In the past six years I have worked here, I have already 'survived' four reorganisations. The main reason for this has been the increase of offshoring to India. All of these reorganisations brought uncertainty, and therefore I decided to start a part-time master in Business Administration at the Erasmus University in Rotterdam in order to further develop myself and differentiate myself from others. Additionally, I think a person can never be over-educated, and obtaining a master has always been one of my ambitions.

Because of my work experience, offshoring has always interested me. As an outside sales representative, I have daily contact with customers who are not always fully satisfied with offshoring, while the organisation continues to offshore more and more activities. This was the reason why I decided to research what organisations can do to keep customers satisfied while offshoring.

During my master study, I specialised in strategic management, management, leadership & governance and change management. My passion for strategic management has been the driver for this research, however it turned out that change management was useful as well. I look back proudly on the past two years, and I am happy that I have succeeded in this study programme. So far, it has already brought me my boyfriend, with whom I am very happy, and of course valuable knowledge which I can use in my daily life.

I could not have made it through the last six months of working on this thesis alone. Therefore, I would like to thank some people. First, I would like to thank my true love Tim, for the support he gave me and for being the one who could make me laugh during periods of stress. Next, I would like to thank my mentor Dr. Frank Wijen for the valuable feedback to bring this research to a higher level. Also, I want to thank the co-reader Dr. Rene Olie for his help during my research. Lastly, I would like to thank all interviewees for their cooperation in this study. You have made this all a success.

I hereby proudly present to you my master thesis and wish you happy reading.

Anouk van Rooyen

Rotterdam, June 2016

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Summary

For more than five decades, companies have engaged in offshoring. Offshoring means that organisations allocate activities to a separately owned company or independent service provider in another country, usually at low costs. Since the late 1990s, however, offshoring of business processes has increased heavily. The greatest advantages of offshoring are that it brings lower costs and gives organisations the opportunity to increase service levels by offering 24/7 services, for example. At the same time, offshoring can also bring several risks and drawbacks, such as poor service levels that dissatisfy customers. For this reason, it can be seen that offshoring organisations are now starting to backshore, which means that offshored activities are brought back to the original location.

Previous research has shown that offshoring only has a negative impact on customer satisfaction when front office activities are offshored and thus the customers have direct contact with people in the back office. Based on this idea, this thesis will analyse what offshoring organisations can do to maintain customer satisfaction. Accordingly, this study focuses only on service organisations, as business processes are offshored within these organisations and there is a high focus on the core business of delivering services.

The research question is the following: *'What strategic measures minimise the drawbacks within offshoring service organisations in order to ensure sustained customer satisfaction?'*

First, customer satisfaction is analysed based on the literature. It is stated that customer satisfaction is dependent on the expectations the customer has of what an organisation should deliver. If the customer has realistic expectations of what the organisation can deliver, there can still be a gap with the perceived quality of the service. This is based on five factors of service quality: reliability, responsiveness, empathy, assurance and tangibles. Not all factors are equally important for every customer, but most – or possibly all – of the factors should be sufficient in order to have satisfied customers. These five factors, together with managing customer expectations, ensure customer satisfaction.

Next, the drawbacks of offshoring that influence customer satisfaction are analysed. Based on the literature, four drawbacks are presented. First, the most acknowledged drawback is the delivery of poor service quality. The second drawback is the inability to measure service performance. Third, offshoring can lead to unexpected costs because of additional coordination or when things go wrong. Last, not all customers accept that the service organisation is offshoring, which is a drawback that can result not only in dissatisfied customers, but also in customer who decide to leave.

For each drawback, a strategic measure is determined. Strategic measures are actions or tactics taken in order to support the company's strategy. The organisation should invest in improving service quality, ensure continuous performance measurement and minimise unexpected costs by monitoring service levels. Furthermore, customer acceptance should be established via a communication plan for the customers. In addition to these measures, companies should invest in creating a new business model or updating the current one, while also adding value to the customers.

The empirical research in this study is carried out through interviews. These are based on the specific context of the Maersk Group in the container shipping industry. Ten customers of the Maersk Group are interviewed, along with five employees from different management levels and two industry experts to triangulate the gathered data. The interviews are used to test the

information found in the literature, and an additional aim is to find new information through the interviews that can be added to the literature.

Based on the empirical results, it is shown that the drawbacks of offshoring have a negative influence on customer satisfaction. If organisations start to offshore, they should realise that their customer satisfaction levels will drop. This is mainly due to the delivery of poor services and because they do not accept offshoring.

The strategic measures to minimise the drawbacks of offshoring have a negative influence on these drawbacks, and therefore have a positive impact on sustained customer satisfaction. Three main strategic measures could be implemented in order to ensure sustained customer satisfaction. First of all, the organisation should improve service quality. Additionally, an emphasis should be placed on customer acceptance and communication with customers. Hereby it is important that there is alignment between the offshoring organisation and its customers. Last, it is important to have a new business model. This could bring additional value to customers, and should be communicated clearly to them. The added value will help to ensure sustained customer satisfaction.

Based on the interviews, it is also important to have continuous performance measurement. The customers may not notice this directly, but if the organisation does not measure performance and is unaware of which offshoring-related activities are not going well, it could harm customer satisfaction.

1. Introduction

1.1 Motivation

For the past 50 years, organisations have been offshoring activities. This means that businesses are allocating activities to a separately owned company or independent service provider in another country, usually at low costs (Feenstra & Hanson, 1996; Doh, 2005). The initial decades of offshoring affected manufacturing work, but offshoring of business processes has increased heavily since the late 1990s (Lewin & Peeters, 2006). It can be seen by reading the newspapers that many organisations are doing this. Offshoring has a negative influence on the labour market in the countries where the offshoring companies are located, and this practice happens in all kinds of sectors and countries. T-Mobile, Deutsche Bank, State Street, Lufthansa and Toshiba are just a few examples of offshoring companies with back offices in other locations with lower wages (Woudt, 2015).

The greatest drivers of offshoring are reduction of costs and increase of service levels (Lewin & Peeters, 2006; Lampel & Bhalla, 2011). Much research has shown the advantages of offshoring, including the wages in the largest offshore location, India (Lewin & Peeters, 2006; Oshri et al., 2015), which are less than 10% of the wages in the USA for similar jobs (Berry, 2006; Lewin et al., 2013). Because of this, fewer jobs are needed in the offshoring country, which saves a significant amount of money. For example, an airline company that offshored its accounts payable auditing recovered \$75 million by doing so (Ellram et al., 2007). Offshoring also gives businesses the opportunity to offer services that are not feasible in European or North American countries, such as 24/7 customer support, which increases service levels provided to the customers (Lewin & Peeters, 2006; Lampel & Bhalla, 2011). Nevertheless, successful realisation of these driving factors can be rather challenging.

Offshoring brings numerous risks and drawbacks. In 2015 alone, offshoring cost the USA 3.3 million jobs (Fulks, 2015), a trend which could harm economies. Internally as well, organisations notice the risk of lost knowledge, decreased levels of service and the loss of control over processes (Lewin & Peeters, 2006; Lampel & Bhalla, 2011). This can lead to poor service delivery and customer dissatisfaction. Lewin and Peeters (2006) showed that about 25% of offshoring endeavours do not reach their targeted cost reductions or expected service level.

Once these risks become reality, alongside offshoring, backshoring can be seen becoming more popular. Backshoring, also known as reshoring, means that offshored activities are brought back to the original location (Kinkel & Maloca, 2009). For example, in an effort to improve service levels towards customers, in January 2016 the telecom group BT announced the creation of 1,000 jobs in the UK to bring back some of the work that had been offshored (Thomas, 2016).

The contrast between offshoring and backshoring is interesting, as improving service levels is a driver for both principles. Two types of organisations can be defined: organisations that sell goods and organisations that sell services (Anderson et al., 1997). Within this research, the focus is on service organisations. These organisations offshore business processes while also focusing on delivering services. The question is therefore: If improving services is a driver for offshoring, then why is a service company like BT backshoring due to poor service? With that being said, it is important to find ways to mitigate the drawbacks of offshoring.

1.2 Current literature

Offshoring studies have indicated that India is by far the preferred offshore location (Henderson, 2015), followed by China (Lewin & Peeters, 2006). The Offshoring Research Network (ORN), a database of offshoring statistics and multi-year international studies on offshoring, shows that this phenomenon occurs in all kinds of business industries, of which banking, telecom services and software are the largest (Lewin et al., 2013). In addition to reducing costs and increasing service levels, competitive pressure and access to new markets are other reasons why companies offshore (Lewin & Peeters, 2006). The risks of offshoring have been acknowledged in previous research. In order to cope with such risks, offshoring organisations need to have more experience with offshoring to minimise its drawbacks (Lampel & Bhalla, 2011; Lewin & Peeters, 2006). An increased level of know-how related to offshoring also helps firms to succeed in their offshoring activities (Hutzschenreuten & Lewin, 2011).

Whitaker et al. (2008) argue that offshoring has a negative impact on customer satisfaction when front office activities are offshored and thus customers have direct contact with people sitting in the service centre. When the back office tasks offshored pertain to activities that the customer does not notice, this does not impact customer satisfaction (Whitaker et al., 2008).

Customer satisfaction is based on the customer's perception of the value of the product or service in relation to the price of the product or service (Cronin et al. 2000; Hallowell, 1996; Jones & Sasser, 1995). Customer satisfaction is linked to customer loyalty, meaning that highly satisfied customers are loyal to their business partners (Jones & Sasser, 1995), which is the key for long-term relationships that result in higher profitability for an organisation (Garbarino & Johnson, 1999). In other words, if customers are dissatisfied, it costs money for the organisation (Anderson et al., 1994). The research of Ellram et al. (2008) states that offshoring is successful as long as costs have been reduced. However, if customers are dissatisfied and therefore leave, will the low costs remain, or are these low costs only a temporary benefit?

When focussing on offshoring of front office tasks, it is interesting to see what organisations can do to minimise the negative impact on customer satisfaction. Therefore, this research will give strategic measures that offshoring organisations can take to minimise these drawbacks while ensuring customer satisfaction. This research is a follow-up to what already exists in the literature, and therefore aims to be innovative by recommending strategic measures that offshoring service organisations can implement in order to keep customers satisfied, which has not yet been analysed before. This is also a new approach, as the study focusses on offshoring service organisations.

1.3 Research question

Based on the above, the research question is as follows:

'What strategic measures minimise the drawbacks within offshoring service organisations in order to ensure sustained customer satisfaction?'

To answer this question, the following research sub-questions are posed:

1. What internal factors drive customer satisfaction in service organisations?
2. What are the outcomes of strategic measures by service organisations to mitigate the drawbacks of offshoring?

1.4 Thesis structure

The structure of this thesis is as follows:

Chapter 1 – Introduction

This thesis begins with an introduction. This includes the motivation for this research as well as the research contributions, which serve as the basis for the formulation of the research question and sub-questions.

Chapter 2 – Literature study

The literature study in chapter 2 starts with a study of customer satisfaction in service organisations. This contains background information on customer satisfaction and drivers of customer satisfaction in service organisations. The second section discusses offshoring and its drawbacks. Additionally, strategic measures to minimise the drawbacks of offshoring are outlined. Both sections end with a summary, in which the sub-questions are answered based on what has been found in the literature. Chapter 2 concludes with the conceptual model derived from the literature.

Chapter 3 – Methodology

This chapter outlines how the research topic was studied. First, the empirical method for this study is explained, including details on which methodology was used and why. This is followed by a description of the research sample, then later the data collection and analysis. The chapter ends with a justification of the reliability and validity of the research.

Chapter 4- Empirical results

Chapter 4 shows the empirical results. First, the relation of the drawbacks of offshoring on customer satisfaction are mentioned, followed by the relation of strategic measures to minimise these drawbacks on customer satisfaction.

Chapter 5 – Discussion and conclusion

The final chapter, chapter 5, presents the discussion and conclusion of this research. Commentary on the study limitations and recommendations for future research are also found in this chapter.

2. Theory

This chapter consists of a literature study on the subject of customer satisfaction in service organisations and strategic measures to minimise the drawbacks of offshoring. Each section is based on one sub-question. With the information found in the literature, the conceptual model which is used to test research in the field is developed.

2.1 Customer satisfaction in service organisations

This section explains what customer satisfaction is and what its drivers are in service organisations.

2.1.1 Customer Satisfaction

The definition of customer satisfaction is given below, along with further explanation of its purpose. The measurement of customer satisfaction is also described.

Definition

There are many definitions of customer satisfaction. Some define customer satisfaction as a standard of the organisation's 'total' service performance in relation to customer requirements and expectations (Oliver, 1999; Hill et al., 2003; Grigoroudis & Siskos, 2010). Others say that customer satisfaction is a final situation or an end-state resulting from the consumption experience (Yin, 2013).

Two types of customer satisfaction are often considered: transaction-specific satisfaction and cumulative satisfaction (Anderson et al., 1994; Johnson et al., 2001). Transaction-specific satisfaction concerns the customer's experience with a service. This type of satisfaction focusses on the relationship perceived between the quality of a service and the satisfaction, as well as on the role of emotions in satisfaction evaluations (Johnson et al., 2001; Oliver, 1993). Cumulative satisfaction involves the total consumption experience with a service and service provider over time (Anderson et al., 1994; Johnson et al., 2001). This type of satisfaction draws more attention to the perceptual, evaluative and psychological processes that combine to generate customer satisfaction (Yi, 1990). The advantage of cumulative satisfaction is that it allows companies to predict subsequent behaviours and economic performance, because customers repurchase evaluations and decisions based on their consumption experience to date and not just a particular transaction (Johnson et al., 2001). Cumulative satisfaction thus emphasises the customer relationship and the likeliness for a customer to come back (Anderson et al., 1994). This research will focus on cumulative satisfaction because it examines the service delivered and the service provider over time. In relation to offshoring, this type of satisfaction allows for comparisons to be made between the customer satisfaction before and after service organisations decide to begin offshoring.

Purpose

Customer satisfaction measurement is important for organisations, and is one of the main principles for continuous improvement of enterprises (Grigoroudis & Siskos, 2010). The average company loses 15-35% of its customers each year, but few know which customers have been lost, when they were lost, why they were lost or how much sales revenue this has cost the company (Kamath & Saurav, 2016).

Losing customers is a fundamental issue for organisations, and can be one of the reasons to measure customer satisfaction. Furthermore, customer satisfaction measurement constitutes market information which allows businesses to evaluate their current position against competitors (Hill & Alexander, 2000). This information can also be used to identify potential market opportunities (Grigoroudis & Siskos, 2010).

Additionally, customer satisfaction measurements help organisations to understand customer behaviour and to identify and analyse customers' expectations, needs and requirements. Of course, the customer's view of the organisation's services is based on a perception and may or may not reflect the reality of the situation. Based on these perceptions, decisions are made and customers could walk away (Hill & Alexander, 2000). Customer satisfaction management therefore involves measuring how customers perceive the organisation's performance. With this information, differences in service quality perceptions between organisations and customers are revealed and actions can be taken (Jones & Sasser, 1995; Hill & Alexander, 2000; Grigoroudis & Siskos, 2010).

2.1.2 Drivers of customer satisfaction within service organisations

Now that a clear definition of customer satisfaction has been established, the drivers of customer satisfaction within service organisations can be analysed. Research shows several elements that affect general customer satisfaction. There are two ways to look at the drivers of customer satisfaction: Some claim that the most important driver for customer satisfaction is the total perceived performance of a service organisation (Grigoroudis & Siskos, 2010; Hill & Alexander, 2000), while others state that customer satisfaction is driven by several factors and, if companies perform sufficiently on most of these factors, the customer is satisfied (Anderson et al., 1994; Jones & Sasser, 1995; Rust & Chung, 2006). The factors that are not good enough according to the customers are compensated by the factors for which the company scores highly. The 'zone of tolerance' captures a range of service within which an organisation meets customers' expectations, including the bad performance which is compromised by the good performance (Zeithaml et al., 1996; Rust & Chung, 2006).

The primary objective for a service organisation is to do its best in what matters most to the customers (Hill & Alexander, 2000). As overall performance is a rather broad concept, the customer satisfaction measurement should identify what customers' performance criteria are when choosing a supplier. Once this is known, customers should explain how important each of the criteria is to them. With this information, organisations can compare their performance with what is important to the customers to see if they are actually doing what matters most to their clients (Hill & Alexander, 2000).

Perceptions & Expectations

Before explaining the criteria for customer satisfaction, it should be noted that customer satisfaction depends on customer expectations (Oliver, 1993; Anderson et al., 1994; Rust & Chung, 2006). Expectation management between the firm and the customers aims to lessen the gaps between what the customer expects and what the organisation delivers (Hill & Alexander, 2000; Gronroos, 2000; Anderson et al., 1994).

Expectation management is possible on individual customer level, but previous studies also show how this relates to other aggregate measures (Rust & Chung, 2006). Rust and Chang (2006) describe a model that includes multiple kinds of expectations gathered on an individual level, combined with a concave utility curve to predict some unintuitive behavioural effects. This model gives organisations the possibility to manage customer expectations for several customers and react accordingly.

With good expectation management, the service gaps of Hill and Alexander (2000) can be overcome. If the customer knows what to expect, research shows that he will be more satisfied (Anderson et al., 1994). Cronin and Taylor (1992) and Zeithaml et al. (1993) define four types of customer expectations. These expectations versus the perceived service can lead to gaps, which in turn causes customer satisfaction. In service environments, Hill and Alexander (2000) propose the 'Theory of Service Gaps', which is the overall gap between the customer's expectations and experience in service quality. Image 1 below provides a visualisation of customer expectations (Zeithaml et al., 1993) and possible gaps that can occur, inspired by the Theory of Service Gaps (Hill & Alexander, 2000).

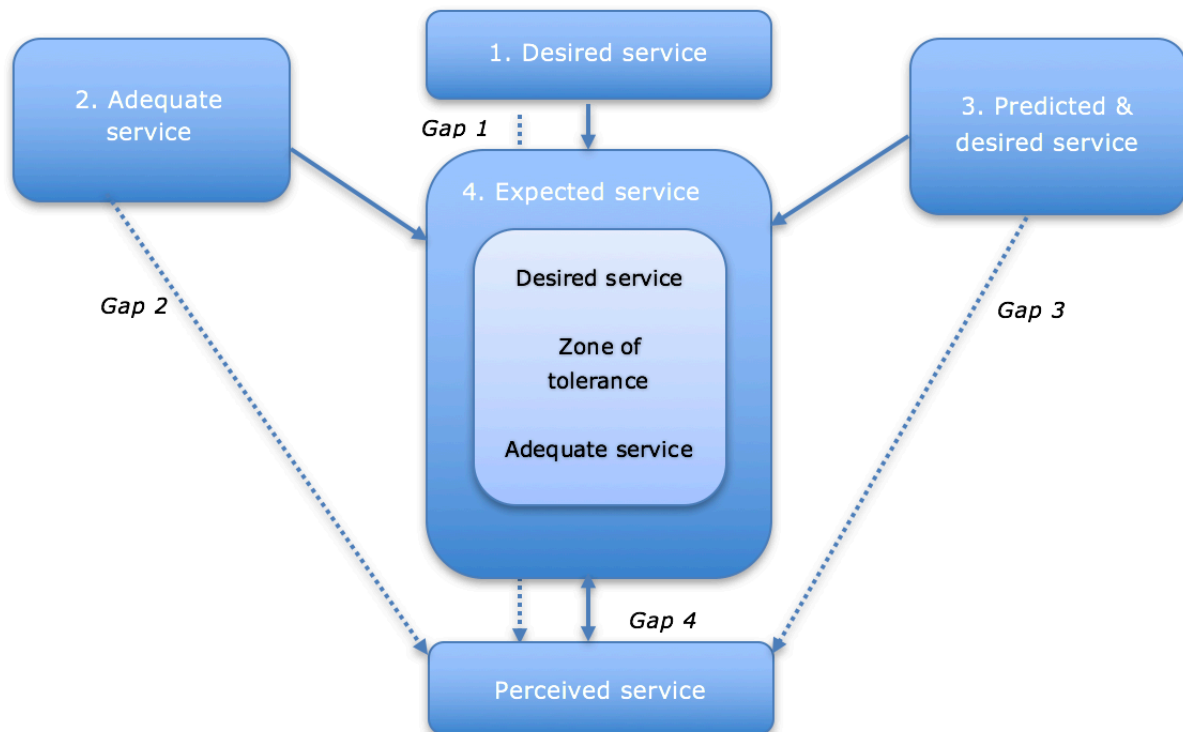


Image 1 – Gaps between customer expectations and service provided

The boxes and gaps in the model are explained as follows:

1. Desired service

The desired service is the level of service that the customer hopes to receive. This is what the customer believes can and should be received, which can vary per customer. This desired service can be driven by other parties, such as the customer's customer, and is influenced by the customer's personal needs, which may be social, physical or psychological (Zeithaml et al., 1993).

The gap that can occur between desired service and the experience in perceived service quality is called the understanding gap. This gap results from the inaccurate understanding of customer needs and priorities by the managers of the organisation (Hill & Alexander, 2000) and can lead to customer dissatisfaction.

2. Adequate service

The adequate service is the level of service that the customer is willing to accept. This is the minimum tolerable expectation or bottom level of performance acceptable to the customer (Berry & Parasuraman, 2002; Zeithaml et al., 1993). The adequate service is influenced by

situational factors that are not the fault of the service provider, and therefore the customer accepts a lower level of service. In personal emergency situations where the customer strongly needs a service and perceives that a company is able to respond, the level of adequate service rises. This type of service also includes the customers' perceptions that self-influence the level of service they receive, especially in emergency situations (Zeithaml et al., 1993).

If the perceived service is below the expected level of adequate service, gap 2 can occur. This gap is split into two parts: the procedural gap and the behavioural gap. The procedural gap arises due to the translation of customer expectations into appropriate operating procedures and systems with the business organisation (Hill & Alexander, 2000). Especially in emergency situations, procedures and systems oppose the realisation of customers' expectations. The other gap is the behavioural gap, which is the difference between customer expectations and the organisation's performance, focussing on service delivered by staff or how procedures adequately cover service delivery requirements.

3 - Predicted & desired service versus perceived service

The expectations for the predicted and desired service are based on explicit service promises, implicit service promises and past experience. Therefore, customers' desired expectations become more realistic (Zeithaml et al., 1993). Explicit service promises consist of both personal and non-personal statements, such as advertising or personal selling.

Implicit service promises are service-related cues that lead to inferences about what the service will be like. This includes factors such as brand or price that give certain expectations to customers. Research shows that price is the factor that can lead to customer dissatisfaction the most, if the service does not align with the price asked for it (Hallowell, 1996; Jones & Sasser, 1995; Anderson et al., 1994). On the other hand, customers are generally willing to pay more for higher quality services than for high quality products, and therefore quality should be a strategic objective for service companies (Cronin et al., 2000).

Expectations are also based on past experience. This can be the past experience of the customer himself, or the experiences of other customers. Word of mouth communication or references of past experiences by other customers influence these expectations (Anderson et al., 2000; Zeithaml et al., 1993).

The gap that can occur between the expectations based on explicit and implicit service promises and past experience, and the perceived service, is the promotional gap (gap 3 in image 2.1.2). This entails the the business organisation's inability to fulfil expectations that have been created in the minds of customers mainly by marketing communications and sales information (Hill & Alexander, 2000).

4 - Expected service versus perceived service

The expected service is based on what customers desire and what they deem acceptable. Between the desired service and the adequate service is the zone of tolerance, representing the difference between these two components (Zeithaml et al., 1993). If the customer has realistic expectations, there can still be a gap between the expected service and the perceived service. This is because of the quality of service. Some studies show that satisfaction drives a general perception of quality, while other research finds that perceptions of quality drive satisfaction (Johnson et al., 2001; De Ruyter et al., 1997).

What is service quality exactly, and how is it distinct from customer satisfaction? In marketing and economics literature, service quality is described as being dependent on the level of

service attributes (Anderson et al., 1994; Zeithaml et al., 1996). Service quality is more difficult to imitate than its service concept (Berry & Parasuraman, 2004). Quality also means that the basic elements of a service are right and all competitors in the industry deliver these elements (Anderson et al., 1997), which is similar to the definition of quality in operational management studies. In this case, quality is defined as the fit for using the service along with its reliability; in other words, the idea is whether the service meets the needs of the customers and is free from discrepancies (Ahire & Dreyfus, 2000; Anderson et al., 1994).

Service quality occurs along five dimensions: reliability, empathy, assurance, responsiveness and tangibles (Parasuraman et al., 1988; Zeithaml et al., 1993; Grigoroudis & Siskos, 2010). These factors are based on the Servqual model (Parasuraman et al., 1988; Zeithaml et al., 1993), which can be seen as the most widely adopted approach for service quality measurement (Grigoroudis & Siskos, 2010).

Reliability

Reliability is the ability to perform the promised service accurately and dependably (Grigoroudis & Siskos, 2010; Hill & Alexander, 2000; Zeithaml et al., 1993). This also involves the customer experience (Hill & Alexander, 2000) and the recovery process followed when the customer has a bad experience (Hill & Alexander, 2000; Jones & Sasser, 1995). If these recovery plans for normal services are extraordinary and customised for a specific customer by appealing to his values or personal preferences, customer satisfaction can increase (Jones & Sasser, 1995). Research shows that reliability is the most important factor for customer satisfaction compared to the other dimensions (Hill & Alexander, 2000). Unreliability can therefore harm customer satisfaction.

Empathy

This is the caring and the individualised attention the organisation provides its customers (Zeithaml et al., 1993; Grigoroudis & Siskos, 2010). Empathy also includes the emotional bond established between the service provider and the customer, both during and after the customer has used the service offered by this provider (Cronin et al., 2000; Butz & Goodstein, 1996; Anderson et al., 1994). This is also known as tacit knowledge that employees need to have, meaning commitment and involvement in a specific context (Nonaka, 1994). A good relationship between the customer and the supplier has a positive effect on the customer's experience and satisfaction (Anderson et al., 1994). Employees will build up customer relationships if they are satisfied with their jobs and have organisational commitment. This job satisfaction and organisational commitment is created if employees are frequently rewarded, receive additional service training and feel empowered to make decisions within their job functions. The more satisfied the employees are, the more willing they will be to help customers and build up relationships, all of which eventually result in higher customer satisfaction (Lee et al., 2006).

Assurance

Assurance describes employees' knowledge and courtesy, as well as their ability to convey trust and confidence towards customers (Zeithaml et al., 1993; Grigoroudis & Siskos, 2010). This is explicit knowledge which can be learned, and is transmittable in formal, systematic language (Nonaka, 1994). Employee knowledge is generated through service training that instructs them on how to handle customers' service requests. Service training has a positive effect on organisational performance, as such training improves service quality and gives employees confidence, which can make them more satisfied with their jobs (Lee et al., 2006). In addition, for some job positions a certain level of education is required, meaning the employee has learned basic elements of that job already (Nonaka, 1994). The more knowledge employees have, the more trust and confidence towards customers they will show.

Responsiveness

Responsiveness is the willingness to help customers and provide prompt service (Grigoroudis & Siskos, 2010; Hill & Alexander, 2000; Zeithaml et al., 1993). If it takes too long before a customer receives a reaction, this can negatively influence the satisfaction of customers (Hill & Alexander, 2000). Responsiveness is influenced by the knowledge and confidence employees have to help the customer. The more knowledge employees have, the faster they can answer. For this reason, service training also helps here to increase responsiveness (Lee et al., 2006). Responsiveness can be increased to achieve key performance indicators (KPIs) as well. This means that responsiveness is translated into a time frame in which the employee must respond to a customer (Cai et al., 2009).

Tangibles

Tangibles refer to the appearance of physical facilities that a company can offer towards its customers. This also includes employees or communication material (Grigoroudis & Siskos). The tangibles are summarised in the marketing mix, which is also known as the seven P's. These are price, the product the organisation sells (this can also be a service), place where the company is located, processes, physical environment, participants and promotion. Processes are the way of working, including procedures, mechanisms and flow of activities; physical evidence entails all physical surroundings and tangible cues; and participants are all human actors in the service delivery, such as the firm's personnel (Bitner, 1990).

Even though these five dimensions of service quality measurement comprise the most frequently used model for customer satisfaction measurement, there is criticism with regard to the fact that customer expectations are not included (Cronin & Taylor, 1992). Therefore, by combining the expectations of Zeithaml et al., the gaps of Hill and Alexander and the dimensions from Parasumaran (1988), satisfaction measurement can be understood at a higher level. This combination of elements will be further developed in this thesis.

The gap that can occur based on the service quality dimensions and the delivered service is the perception gap. This is the difference between the customer's performance perceptions and the reality. The perception gap is the most commonly occurring gap when customer satisfaction surveys show dissatisfaction, and when gaps 1 to 4 do not exist in an organisation (Hill & Alexander, 2000). The question is, are low satisfaction scores caused by poor performance from the organisation, or by a mistaken perception from the customer?

With good expectation management, these service gaps can be overcome. Customer satisfaction measurement helps to identify these gaps and close them (Hill & Alexander, 2000). If the customer knows what to expect, research shows that he will be more satisfied (Zeithaml et al., 1993; Anderson et al., 1994; Hill & Alexander, 2000; Grigoroudis & Siskos, 2010). Furthermore, quality is based on five dimensions and not all of these are equally important. If most of the dimensions are good, the dimensions in which an organisation performs badly can be compensated. It is also known that the importance of each dimension varies by customer (Hill & Alexander, 2000). Based on this, it can be concluded that customer satisfaction is a final situation resulting from the consumption experience, whereby not all elements of the consumption process must necessarily be satisfactory in order for the customer to be satisfied (Yin, 2013). This is also in line with the 'zone of tolerance' concept (Hill & Alexander, 2000).

2.1.3 Summary

In this section, researchers defined customer satisfaction as a standard of the organisation's 'total' service performance. The final situation resulting from the consumption experience forms the basis of customer satisfaction, whereby several elements of the consumption process should be sufficient in order to make a customer satisfied. This is because customers have a 'zone of tolerance' that encompasses the level of service they are willing to accept.

Measuring customer satisfaction is important for organisations and can be seen as one of the main principles for continuous improvement of enterprises. Furthermore, such measurement also helps organisations to minimise customer losses without knowing whether or why these customers were lost.

Based on what has been found in the literature, it can be stated that customer satisfaction is dependent on customer expectations of what the organisation should deliver. The expected service is based on: 1) desired service, which is the service the customer hopes to receive; 2) adequate service, which is the service the customer is willing to accept; and 3) the predicted and desired service, which the customer bases on explicit service promises, implicit service promises and past experiences.

It could be that gaps arise between the customer's expected service and the service the organisation delivers. Therefore, the expectations should be managed between the firm and the customers, with the aim of lessening the gaps between what the customer expects and what the organisation delivers. Good expectation management can thus be seen as a driver of customer satisfaction.

If the customer has realistic expectations of what the organisation can deliver, there can still be a gap in the quality of the perceived service. This is based on the five factors of service quality: reliability, responsiveness, empathy, assurance and tangibles. Not all factors are equally important for every customer, but most, or possibly all factors, should be sufficient in order to have satisfied customers.

These five dimensions also include internal factors, mentioned in table 1 on the next page. The conclusion of this chapter is that these internal factors will drive customer satisfaction in service organisations, based on the information in the literature.

Reliability	<ul style="list-style-type: none"> • Accurate and dependable (Grigoroudis & Siskos, 2010; Hill & Alexander, 2000; Zeithaml et al., 1993) • Control of processes (Bitner, 1990) • Recovery processes (Hill & Alexander, 2000; Jones & Sasser, 1995; Bitner, 1990)
Empathy	<ul style="list-style-type: none"> • Relationships with customers (Cronin et al., 2000; Butz & Goodstein, 1996; Anderson et al., 1994) • Empowerment, service training & service reward (Lee et al., 2006) • Job satisfaction & organisational commitment (Lee et al., 2006)
Assurance	<ul style="list-style-type: none"> • Service training (Lee et al., 2006) • Education level (Nonaka, 1994)
Responsiveness	<ul style="list-style-type: none"> • Service training (Lee et al., 2006) • KPIs for responsiveness (Cai et al., 2009)
Tangibles	<ul style="list-style-type: none"> • Price (Bitner, 1990) • Product (Bitner, 1990) • Place (Bitner, 1990) • Processes (Bitner, 1990) • Physical environment (Grigoroudis & Siskos, 2010; Bitner, 1990) • People (Grigoroudis & Siskos, 2010; Bitner, 1990) • Promotion & communication (Grigoroudis & Siskos, 2010; Bitner, 1990)

Table 1- Internal factors that drive customer satisfaction

2.2 Strategic measures to contain drawbacks of offshoring

This section first presents the definition of offshoring. Afterward, the strengths and weaknesses of offshoring are analysed, and strategic measures are then outlined based on this analysis.

2.2.1 Offshoring

Definition

Offshoring entails relocating activities to a separately owned company or independent service provider in another country, usually at a low cost (Feenstra & Hanson, 1996; Doh, 2005). This is also known as transnational relocation or dispersion of service activities (Lampel & Bhalla, 2011). One of the factors that makes offshoring cost-saving is the standardisation and simplification of processes that facilitate such take-overs in low-wage countries (Sako, 2006; Lampel & Bhalla, 2011). Companies have mainly offshored IT services, finance and administrative work, but organisations have also begun selecting other functions for this phenomenon, such as human resources, procurement and research & development (Lampel & Bhalla, 2011).

Offshoring should not be confused with outsourcing. Outsourcing means transferring organisational activities to other firms (Quinn & Hilmer, 1994; Lampel & Bhalla, 2011; Oshri, et al., 2015). These organisations provide specialised capabilities, which can add value to the firm that is outsourcing (Holcomb & Hitt, 2007). Outsourcing, however, can be implemented within the same country, which is a key difference between both terms. Furthermore, the aim of offshoring is to lower costs, whereas this is not necessarily the case with outsourcing (Quinn & Hilmer, 1994).

The concept of offshore outsourcing also exists (Oshri et al., 2015). This means that firms may decide to 'in-source' activities performed by an external organisation in their home market, by transferring these tasks to internal operations at offshore locations (Lampel & Bhalla, 2011; Oshri, et al., 2015). The focus of this research is only on offshoring, and therefore outsourcing and offshore outsourcing are excluded.

Drivers of offshoring

The greatest strength and driver of offshoring is cost savings. Looking at the wages in India versus in the United States, people in India makes less than 10% of US earnings for similar positions (Lewin & Peeters, 2006; Berry, 2006). Additionally, the tax structure is different in the low-wage countries like India and the Philippines compared to Europe or the USA. This means that organisations do not have to pay 35% tax if the money stays invested overseas in those countries (Berry J. , 2006).

Apart from cost savings, another advantage of offshoring is that services which are not feasible in European or North American countries can be offered, such as 24/7 customer support. Also, companies can recruit highly qualified employees in low-cost countries who are motivated and willing to take low-level jobs (Lewin & Peeters, 2006; Lampel & Bhalla, 2011).

Types of offshoring

In the offshoring of business processes, there is a difference between offshoring front office functions and back office functions. Employees in front office positions have direct contact with customers (for example, in customer service), while people in back office positions do not directly communicate with customers (such as in IT) (Whitaker et al., 2006; Prahalad & Krishnan, 2004). Whitaker et al. (2006) argue that offshoring of back office functions has no

impact on customer satisfaction, while offshoring of front office functions has a negative influence. Therefore, only front office offshoring will be analysed in this research.

Offshoring locations

As mentioned before, offshoring is usually directed towards low-wage countries. Studies show that India is by far the preferred offshore location (Henderson, 2015; Lewin & Peeters, 2006), followed by China and other Asian countries (Lewin & Peeters, 2006). This is also confirmed by the statistics of the Offshoring Research Network (ORN), a database of offshoring statistics and multi-year international studies on offshoring; however, this information is mainly based on companies located in the USA (Lewin et al. 2013). After many years of offshoring, Indians are looking to build a global model (Kripalani, 2004) which develops and preserves unique capabilities in offshoring to constitute a positive contributor to global economic development (Doh, 2005). In addition, Lewin and Peeters' (2006) research demonstrated that the more experience companies have with offshoring, the better the results will be. Access to qualified and experienced people is also a reason why more companies have started to offshore to India instead of to other countries (Manning et al., 2008). As it cannot be said whether all offshoring countries have an equal impact on customer satisfaction, this research will only focus on organisations offshoring to India. This is because of India's offshoring experience and offshoring companies' preference for this country.

2.2.2 Drawbacks of offshoring related to customer satisfaction

Offshoring can bring several risks and drawbacks. There are two ways to look at this, based on either the organisation's perspective or the customer's perspective.

For an organisation, there is a risk of lack of data security. Offshoring organisations eventually work with fewer people in their front offices. Reducing employee numbers results in a lack of data security and loss of intellectual property, which is a drawback that offshoring brings (Lewin & Peeters, 2006; Berry, 2006). This can lead to a natural intellectual capital leakage, and knowledge or confidential information can fall into the hands of outsiders (Berry, 2006). Offshoring is also seen as a complex process that is causally ambiguous for organisations (Conner & Prahalad, 1996). To be successful, companies must overcome internal resistance, cope with cultural differences, learn to organise geographically dispersed teams, work across time zones and manage the geographical distance, and avoid or manage high employee turnover at the offshoring locations (Ghemawat, 2001; Lewin & Peeters, 2006; Oshri et al., 2015). In addition, most companies lack the absorptive capabilities necessary for recognising the value of a new business practice and seizing the opportunity of adopting it (Lewin & Peeters, 2006).

This research will focus on the drawbacks of offshoring perceived by customers, as these also affect the customer experience and can influence customer satisfaction. The literature presents four drawbacks, which are discussed below.

1. Poor service quality

The first drawback experienced by customers and acknowledged by companies is that offshoring can result in poor service quality (Whitaker et al., 2006; Lewin & Peeters, 2006). This is contradictory, because service quality is also the greatest driving factor behind organisations' decision to offshore (Lewin & Peeters, 2006). Poor service quality has six causes.

1.1 Lack of knowledge

Poor service quality is experienced when customers have the feeling that they are not understood or that the agent cannot solve their problems, both of which can be the result of poorly trained staff or a lack of knowledge (Whitaker et al., 2006; Shi, 2007). The reason for this can be employees' insufficient knowledge of how to interact with customers, while inadequate general knowledge of how to do business can also be a cause of organisations' inability to perform the required tasks (Whitaker et al., 2006; Lewin & Peeters, 2006; Ellram et al., 2008; Shi, 2007). Furthermore, it often happens that tasks are offshored, but the employees in the back office have never seen actual customer activity and therefore lack informational content concerning what the business is about; this makes it more difficult to understand the business (Hahn & Bunyaratavej, 2010).

In addition, customers may also feel that there is lacking or insufficient customer history, which suggests that the service is not reliable (Whitaker et al., 2006). The lack of knowledge of how to help customers can result in a slow response time, which is also seen as poor service towards customers (Whitaker et al., 2006).

1.2 Loss of flexibility

To make offshoring successful and tasks easily transferable to another location, activities should be commoditised and standardised. By doing so, there is a chance that organisations' flexibility will be lost, as every customer request or situation must be placed into one of the standardised working procedures (Shi, 2007; Oshri et al., 2015). This loss of flexibility refers to the flexibility towards finding solutions for customers' problems.

1.3 Less personal contact

Since offshoring activities are commoditised, employees in the service centre learn content about the processes and activities. This results in a lack of face-to-face customer service requirements and high information content. Contact with customers is retained when tasks are offshored, but are mainly technology-mediated (Hahn & Bunyaratavej, 2010). Not all clients will accept or be happy with this development (Lewin & Peeters, 2006), and this is seen as poor service quality because customers experience less empathy from the service organisation. Empathy, as previously discussed, is seen as one of the dimensions of service quality (Parasuraman et al., 1988; Zeithaml et al., 1993).

1.4 Language barrier

Poor service quality can also be the result of a language barrier. Previous research shows that customers speaking to agents located in offshoring countries often have difficulties with understanding these agents' accents over the phone. In such cases, the customers feel there is a language barrier which makes it harder to do business (Whitaker et al., 2006; Shi, 2007). This problem can also occur via e-mail. The agent in the service centre may not understand the customer's question because of a language barrier, which has a negative impact on service quality (Whitaker et al.; Hahn & Bunyaratavej, 2010).

1.5 Lack of cultural fit

Another drawback of offshoring is that there may not be a cultural fit between the organisation in the offshoring country and the back office at the low-cost location. This can lead to internal resistance because due to a mismatch in corporate culture and values (Lewin & Peeters, 2006; Hahn & Bunyaratavej, 2010). This lack of cultural fit, also known as cultural distance, can lead to miscommunications between the employees or customers in the offshoring country and the people in the back offices, which can eventually result in poor service quality (Hahn & Bunyaratavej, 2010).

Cultural distance is less of an issue for IT, finance or accounting than for functions that require soft people skills or intensive interactions with customers or colleagues in the front office (Lewin & Peeters, 2006).

1.6 High employee turnover

When organisations offshore, there is a risk of high employee turnover in the service centre, which is partly a cultural difference. In low-wage countries like India and China, people are usually less committed to their jobs and therefore accept other jobs more quickly when the salaries are slightly higher (Lewin & Peeters, 2006; Shi, 2007; Ellram et al., 2008). This breaks the offshoring project's continuity and can result in a risk of losing knowledge or data, which can bring additional unexpected costs (Lewin & Peeters, 2006; Shi, 2007).

However, employee turnover can also be an issue in the front office. If employee morale weakens because of the uncertainty that offshoring brings, people may become afraid of losing their jobs (Lewin & Peeters, 2006).

The above factors of poor service quality can be summarised along the five dimensions of service quality explained in section 2.1.2: reliability, responsiveness, empathy, assurance and tangibles (Parasuraman et al., 1988 Zeithaml et al., 1993; Grigoroudis & Siskos, 2010) (see table 2).

Reliability	<ul style="list-style-type: none"> • Inability to solve problems (Whitaker et al., 2006; Shi, 2007) • Lack of knowledge of how to do business (Whitaker et al., 2006) • Risk of losing knowledge or data (Lewin & Peeters, 2006) • Lack of control (Lewin & Peeters, 2006) • Weakening employee morale (Lewin & Peeters, 2006)
Responsiveness	<ul style="list-style-type: none"> • Slow response time (Whitaker et al., 2006) • Communication via technologies instead of face-to-face (Hahn & Bunyaratavej, 2010)
Empathy	<ul style="list-style-type: none"> • Misunderstanding customers (Whitaker et al., 2006) • Less personal contact (Hahn & Bunyaratavej, 2010)
Assurance	<ul style="list-style-type: none"> • Lack of knowledge (Whitaker et al., 2006; Lewin & Peeters, 2006; Ellram et al., 2008; Shi, 2007) • Lack of customer history (Whitaker et al., 2006; Shi, 2007) • Loss of flexibility (Shi, 2007) • Poorly trained staff (Whitaker et al., 2006)
Tangibles	<ul style="list-style-type: none"> • Difficulty in understanding accent (Whitaker et al., 2006; Shi, 2007) • Language barrier (Whitaker et al., 2006; Shi, 2007) • High employee turnover (Ellram et al., 2008; Lewin & Peeters, 2006)

Table 2 – Drawbacks of offshoring linked to the five service quality dimensions

2. Inability to measure performance

Cultural differences make measuring performance difficult, which can be seen as a risk for offshoring. In many cultures, including in India, bad performance is neither acknowledged nor visible. However, it could also be the case that the measurements are incorrectly understood by the people working in the service centre. When this does not happen properly, the service or organisations can be performing very poorly without knowing (Ellram et al., 2008).

3. Unexpected costs

Another drawback of offshoring is the increase of unexpected costs for the client and the organisation. If the service is poor, or if there is excessive miscommunication, monitoring costs and transaction costs will increase. These costs are related to gathering information,

bargaining, traveling to the offshore location and enforcement of processes (Barthelemy, 2001; Shi, 2007; Gefen & Carmel, 2008).

In addition, poor service quality can result in repair costs. All of these unexpected costs are eventually included in charges towards customers, which means that offshoring does not bring them a rate reduction (Shi, 2007).

4. Lack of customer acceptance

The final disadvantage of offshoring is that not all customers accept this phenomenon. This is particularly the case when the way the customer interacts with the organisation has been directly impacted by offshoring. Non-acceptance can cause customers to become dissatisfied or even walk away. However, previous studies also show that this lack of acceptance can arise because the customer is afraid of poor service quality delivered by offshore implementations (Lewin & Peeters, 2006).

2.2.3 Strategic measures

No previous researcher has attempted to define 'strategic measures' as such. Concerning strategy, however, many describe this as a plan given by higher management to reach goals that are in line with the goals and missions of the organisation (Wright et al., 1992; Mintzberg et al., 2014). Mintzberg et al. (2014) define strategy as a plan of looking forward, but also as a pattern of looking back in order to reach those goals. Measures can be seen as actions, tactics or elements in order support the strategy.

The goal or mission for organisations in this research is to ensure sustained customer satisfaction. Offshoring as business strategy should remain innovative and renewed. Yet the commoditisation of functions carries a risk of being easily imitable and not unique to a firm (Doh, 2005) Therefore, companies should continue to pursue other strategies for competitive advantages in order to maintain their existence (Doh, 2005; Porter, 1990). This section, however, concentrates only on measures to ensure customer satisfaction for organisations using offshoring as a strategy.

To make offshoring successful, organisations must ensure that organisational processes are commoditised and standardised throughout the offshoring firm. By doing so, tasks can easily be performed at the offshored location (Lewin & Peeters, 2006; Hutzschenreuten & Lewin, 2011; Lampel & Bhalla, 2011). Furthermore, it is also recommended that firms gain an abundance of knowledge about the offshoring country, such as the culture, political situation and laws ,before beginning to offshore there. This will minimise offshoring risks and help to make the endeavour more successful (Hutzschenreuten & Lewin, 2011). These are just a few of the measures that must be taken to succeed in offshoring. This thesis will take a closer look into strategic measures that minimise the drawbacks of offshoring.

Based on the drawbacks seen in section 2.1.2 regarding service quality, the following strategic measures are formulated.

1. Improving service quality

First, organisations should focus on improving service quality. This can be achieved based on the following six measures.

1.1 Knowledge sharing & training

Poor service quality can be a result of poorly trained staff and a lack of knowledge (Whitaker et al., 2006; Lewin & Peeters, 2006). This can result in slow response times and misunderstandings with customers.

Knowledge and information sharing should take place between the offshoring offices and the service centres, as well as between the work units to avoid additional drawbacks (Lampel & Bhalla, 2011). Strategic measures that organisations should take include offshoring easily codified activities without loss of value potential, but knowledge that is more difficult to codify requires more care and preparation. It is also suggested to develop more complete specifications in terms of handover documents, whereby new information can be added or existing information can be improved by incorporating lessons learned (Ellram et al., 2008). Organisations should keep in mind that not all acquired knowledge can be easily transcribed from one office to another, and may also be location-specific. A great deal of data about internal offshoring processes is available, which offshoring organisations should use in order to make their offshoring strategies successful (Hutzschenreuten & Lewin, 2011).

However, if employees perform very well, organisations should avoid becoming too dependent on these employees. The firm may overpay good workers, therefore paying for a higher level or service than is needed. For this reason, it is important that the firm continues to train all well-performing employees to avoid high dependence on any of them (Ellram et al., 2008).

1.2 Flexibility

Because of the commoditisation of business activities, companies are at risk of losing their flexibility in customer service. However, offshoring also brings the opportunity to increase flexibility by optimising service delivery towards customers, thus making an organisation more flexible to respond to changing market conditions (Farrell, 2005). Nevertheless, it is contradictory to standardise and commoditise services to be offshored, and to continue to be flexible at the same time. Therefore, there are no strategic measures recommended in order to increase flexibility towards customers.

1.3 Creating caring & individualised attention

Section 2.2 explained that one of the dimensions for customer satisfaction is empathy, which is based on the relationship between the customer and the employee of the offshoring service organisation. With the need for personal contact, the customer seeks a relationship with someone who cares about his business and provides him with individualised attention (Grigoroudis & Siskos, 2010). No literature is available on the subject of increasing the personal touch in relation to offshoring, but it is assumed that employees in the back office should be taught about caring for the customer's business and how to provide individualised attention.

1.4 Hiring people with knowledge of the required language

The advantage of India is that there are great numbers of people looking for jobs. Because of this large pool of job seekers, organisations have the possibility to recruit highly qualified employees who are motivated and willing to take low-level jobs, but who also speak and write English. For non-English speaking organisations, it is more difficult to find employees with adequate language capabilities. The pool of qualified workers available is much smaller than the pool of low-cost English-speaking populations worldwide, such as India. For multinational organisations this is less of a problem, as internal communication is often conducted in English (Lewin & Peeters, 2006). However, for communication with customers who are not proficient in English, this can be a problem. It is therefore suggested that organisations invest in language training in the back office (Oshri et al., 2015).

1.5 Managing the cultural fit via a communication plan

To overcome the cultural fit issue, it is important to implement an extensive, consistent and honest communication plan within the organisation's offshoring strategy. This plan should be targeted towards employees in the offshoring country, managers, internal clients and offshore employees to overcome these cultural challenges (Lewin & Peeters, 2006).

1.6 Creating additional commitment

Research shows that there are two ways to create commitment and avoid high employee turnover. First of all, commitment can be created by developing strategic, trusting and cooperative relationships, as people are less likely to go work elsewhere and will stay more committed to their current job. Managers should make sure that workers are motivated and happy with their jobs (Ellram et al., 2008). This approach focusses on employees' intrinsic motivation.

Additionally, other strategic measures managers can implement to prevent high employee turnover include pursuing long-term contracts with staff working in the back-office to avoid losing knowledge (Ellram et al., 2008). By doing so, employees commit to continue working for the company during a certain period of time.

2. Continuous performance measurement

To overcome poor service quality, a strategic measure that organisations should consider involves frequent and continuous performance measurement. This can be implemented through measurable specifications and KPIs related to customer satisfaction measurement (Ellram et al., 2008; Grigoroudis & Siskos, 2010). To overcome the inability to measure performance due to cultural differences, the offshoring location should develop trusting and cooperative relationships with the service centre (Ellram et al., 2008).

3. Minimising unexpected costs

Monitoring service levels

Research shows that if the service levels are good and frequent monitoring takes place, there will be minimal unexpected costs such as those related to repairs or coordination. While the costs of control factors are high, the perceived and realised savings are higher. Organisations should therefore not be concerned about effectively managing the costs of controlling their offshore activities (Ellram et al., 2008).

Hiring experienced people at the offshore location

Furthermore, hidden or unexpected costs are lower when organisations hire people with offshoring experience at the offshore location, so that these people can take steps to share their offshoring experience on a company-wide level. Another option is to transfer people with in-depth knowledge to the offshore location for additional knowledge sharing and coordination with the people working there on a long-term basis (Barthelemy, 2001).

4. Creating customer acceptance

Communication plan towards customers

For customer acceptance, a communication plan is key (Lewin & Peeters, 2006). This keeps the customer informed about what will be offshored and how the company's way of working will change once the offshoring implementation is in place. As seen earlier, if customers know what to expect, they will be more satisfied and it will also be easier for them to accept changes to a way of working (Hill & Alexander, 2000; Grigoroudis & Siskos, 2010). The longer an organisation offshores, the more customers accept this (Lewin & Peeters, 2006).

5. New or updated business model

Business model

Another strategic measure companies should consider is creating a new business model or amending the current one. This can involve changes in relation to back office employees as well as the organisation's way of working. With access to low-cost qualified employees, previously inconceivable activities become feasible. This results in companies' experimentation with radically new growth models and ways of doing business. Additionally, new business models help companies to develop organisational capabilities for managing offshore relationship in order to provide quality work as well as critical knowledge (Lewin & Peeters, 2006). In a new or updated business model, the strategic measures below can be included.

Adding value

It is also recommended that firms use offshoring as an opportunity to create additional value for customers (Prahalad & Ramaswamy, 2004; Whitaker et al., 2006). Companies can invest some of the savings from offshoring in order to serve customers with added value that they previously could not afford (Whitaker et al., 2006). Value creation can be seen in the form of support elements alongside the product or service that a customer buys (Garbarino & Johnson, 1999), in addition to the benefits customers perceive in the product or service relative to the sacrifice they perceive by paying the price (Monroe, 1990). Customer value makes customers aware of why the product or service helps them to realise their goals or purposes, which results in customer goal-based satisfaction (Woodruff, 1997). This additional value will help customers to better accept offshoring, and should be a part of the new or amended business model.

2.2.4 Summary

This section began with the definition of offshoring as the relocation of activities to a separately owned company or independent service provider in another low-cost country. The greatest drivers of offshoring are cost savings and the opportunity to offer services that are not feasible in the offshoring country, such as 24/7 customer support, for the purpose of delivering better service to customers. This thesis focusses on offshoring of front office activities to India, as offshoring of these functions has the most impact on customer satisfaction and India is the most experienced offshoring country.

In addition to the advantages, offshoring has four major drawbacks according to the literature. The first drawback is the delivery of poor service quality to customers. This is caused by a lack of knowledge and poorly trained employees, as well as the lack of flexibility in service towards the customers. In this situation, customers feel they have less personal contact because they do not know who is handling their request. Additionally, poor service quality can occur because of language barriers or cultural differences. Furthermore, employees in India have less commitment to their jobs and therefore the employee turnover can be high, which is not favourable to quality. Lastly, employees in the front office have less control over what is done by their colleagues in the back office, which means they do not notice if mistakes are made. This can also result in poor quality.

Another drawback is that cultural differences can make performance measurement difficult or impossible, as Indian people most likely do not acknowledge or focus on bad performances. The third drawback of offshoring is that unexpected costs can arise. This is because additional training must be provided, and can also stem from additional travel to the back office and perhaps repair costs for damage that may occur. The last drawback is that customers might

not accept the offshoring decision of the organisation they do business with. This can happen when the customer directly interacts with a back office in India, which in the worst case scenario can result in customers who walk away. This mainly takes place in combination with poor service quality.

For almost every drawback, the literature gives strategic measures to minimise the effects. To improve service quality, frequent knowledge sharing and training will help to reduce a lack of knowledge. For the loss of flexibility, no strategic measure can be found in the literature because it is contradictory to commoditise the business processes for offshoring while also remaining flexible in these processes. Less personal contact can be minimised by teaching people in the back office to care for customers' business and to pay them individualised attention. The language barrier can be overcome if the offshoring organisation hires people who have knowledge of the required language. For English speaking employees in particular, there are many options in India. Having a frequent communication plan between all internal stakeholders can minimise the lack of cultural fit, and minimising high employee turnover can be managed by creating commitment with long-term contracts and intrinsic motivation.

The inability to measure performance can be dealt with by creating key performance indicators and conducting frequent performance measurement via customer satisfaction surveys. Furthermore, internal stakeholders should create trust with the employees in the back office so that they will be willing to address any bad performance.

Unexpected costs can be minimised by frequently monitoring performance. Monitoring costs may increase, but repair costs, coordination costs and travel costs will be reduced. In addition, hiring experienced employees in the service centre or transferring people from the front office to the back office for in-depth knowledge sharing can also be helpful.

Having a good communication plan in relation to customers can minimise the lack of customer acceptance. This plan should explain what will be offshored and how the company's way of working will change once the offshoring implementation is in place.

Lastly, a final strategic measure that can be utilised to minimise the drawbacks of offshoring includes updating or amending the organisation's business model. By doing so, topics concerning employees in the back office can be included, as well as changes to the organisation's way of working because of offshoring. The new business model can also address the drawbacks mentioned previously. Furthermore, there should also be a focus adding on value to customers through offshoring. If the customers understand the advantages of offshoring, this will help them to accept the company's offshoring decision. With offshoring, the organisation can offer services that were not possible before which can be valuable for customers.

2.3 Conceptual model

Based on the information in sections 2.1 and 2.2, the conceptual model shown in image 2 was created.

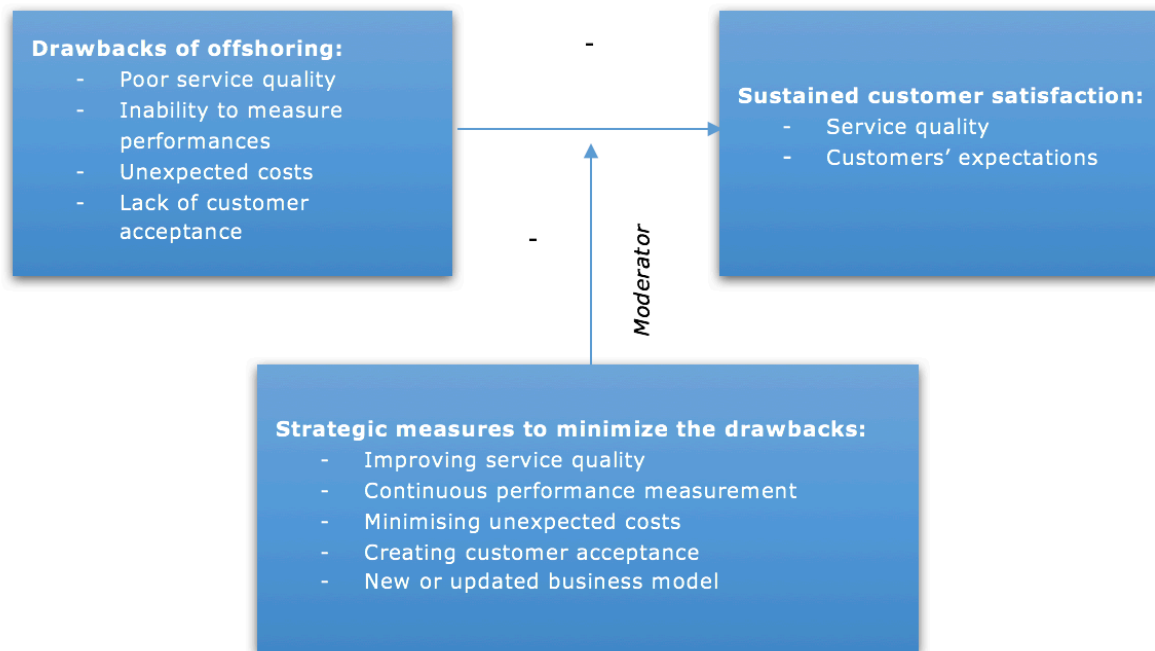


Image 2 – Conceptual model

Based on the existing literature, sustained customer satisfaction is the dependent variable in this thesis, and contains two factors: service quality and customers' expectations. Service quality is based on five dimensions that are not equally important for every customer. As long as the most important dimensions are sufficient, the customer is satisfied.

Offshoring has four important drawbacks that are found in the literature. These are 1) poor service quality, 2) inability to measure performance, 3) unexpected costs and 4) the lack of customer acceptance. If the offshoring service organisation does not attempt to minimise these drawbacks, this has a negative influence on customer satisfaction.

In this thesis, the drawbacks of offshoring are the independent variables, which have a negative impact on the sustained customer satisfaction.

To minimise these drawbacks, strategic measures should be implemented by offshoring service organisations. All of these strategic measures are shown in the conceptual model, and serve as the moderator in this research. This has a negative relation to both variables. With two negative factors, sustained customer satisfaction becomes a positive outcome. What is unknown is whether these strategic measures ensure sustained customer satisfaction or only minimise the drawbacks of offshoring. Also, it is not known if all strategic measures are equally important, or whether a few strategic measures can be sufficient to ensure sustained customer satisfaction.

To improve service quality, it has been stated that a new or amended business model should be considered. It is expected that this strategic measure is more important than other strategic measures, because a new business model can incorporate all other strategic

measures for improving service quality. Furthermore, it is assumed that offshoring should be included in the business model in order to be successful, as offshoring makes up a large part of the organisation's way of working.

Additionally, it has been determined that no strategic measure for the drawback 'loss of flexibility' can be found in the literature. It has also been indicated that increasing flexibility in customer service is contradictory with what offshoring stands for. When organisations begin offshoring, processes should become commoditised and standardised. It appears that customers who experience a loss of flexibility do not fully understand or accept what offshoring entails. For this reason, it is expected that the strategic measures offshoring service organisations can implement to minimise the loss of flexibility towards customer solutions are similar to the strategic measures for increasing customer acceptance.

This conceptual model is used for the following purposes: 1) to test if all drawbacks found in the literature are the same drawbacks experienced by customers; 2) to verify if the list of strategic measures found in the literature is complete; and lastly, 3) to check if the expectations are correct.

3. Methodology

In this chapter, the empirical method used is explained. This includes the size of the sample, how this sample was selected, and how the data was collected and analysed.

3.1 Empirical method

The goal of this thesis is to analyse and gather in-depth information on strategic measures offshoring service organisations take to ensure customer satisfaction. To do so, the research adhered to a qualitative case study. Essentially, qualitative research allows for an in-depth understanding of the contents and relationships between the variables (Mortelmans, 2011). As customer satisfaction is not the same for all customers, it is important to know when the customer is satisfied and how offshoring influences this. In addition to the different customer opinions about when they are satisfied, this type of research allows for more information to be gathered about the underlying motivations for these opinions, which is not possible in quantitative research (Mortelmans, 2011).

Because of the quantity of literature available on the subject of offshoring, a deductive research approach was selected, which means that the information found in the literature is shown in the conceptual model. The relationships between these theories were tested in this research, and the literature was complemented with data gathered during the study (Bryman & Bell, 2007). Traditionally, the deductive approach aims to test and validate existing theories through generalisable observation, and therefore tends to be associated with quantitative research (Bryman & Bell, 2007). However, this thesis combined both the deductive approach (theory testing) and inductive approach (theory generating) to come to a noteworthy conclusion within the particular field of strategic measures in relation to sustained customer satisfaction.

Case study

For this research, a case study approach was used. Cases provide a frame of reference for what will be included or excluded in the research (Mortelmans, 2011), and this kind of approach is perfect for explaining a certain phenomenon in an existing context (Yin, 2013). This was achieved through one case study, which ensured sufficient depth of research was attained and all details of this specific case were known (Bryman & Bell, 2007). Additionally, participant observation was used. This allowed the researcher to keep an open mind about what needed to be known, so that concepts and theories emerged from the data, and also presented the opportunity to test the theories found in the literature (Bryman & Bell, 2007).

The research focussed on the business area of container shipping, because offshoring commonly occurs in this sector (Brautlecht, 2015). Furthermore, as transport is not a tangible product, container carriers are seen as service-providing organisations and therefore fit the criteria of this research.

For the case study, the organisation examined was Safmarine, which is part of the Maersk Group. Safmarine has offshored back office activities for more than a decade. Since August 2014, the company has also offshored front office activities. Once Safmarine began offshoring front office functions, global customer satisfaction scores have decreased. These scores are measured by quarterly surveys administered to random customers, prepared by the organisation itself. Analysing this case is suitable to explain in detail a phenomenon within an existing context (Yin, 2013). As the researcher works in this industry, participant observation could therefore easily be carried out as well.

In the case that was chosen, several views of this subject were analysed. One view involved the perspective of employees of Safmarine and Maersk Line regarding strategic measures that minimise drawbacks to ensure sustained customer satisfaction. The expectation was that these employees would have a different view compared to the customers, because employees see the cost savings of offshoring while customers do not directly notice this impact. Second was the customer view, to discover what customers' opinions were on this topic. The customers surveyed were asked about the shipping industry as such, and whether they saw a difference between shipping companies that engage in offshoring and those who do not. Lastly, industry experts were interviewed in order to validate the answers given by the employees and customers.

This research was carried out by cross-sectional design, in order to identify variation in the variables based on the outcomes of the interviews with the employees, customers and industry experts. By doing so, the different views were analysed and the differences and similarities between them were studied. This provided the opportunity to explain why certain patterns exist, and also allowed finer distinctions to be drawn between the cases (Bryman & Bell, 2007).

3.2 Sample

In this research, the validity was increased through triangulation. Three groups of people were interviewed: 1) employees of a shipping company that engages in offshoring; 2) customers of a shipping company that engages in offshoring; and 3) industry experts with knowledge of the container shipping industry. The employees and customers were interviewed to verify the outcome of the literature research and subsequently develop a theory on this bases. The independent organisations have no direct interest in this research, but have knowledge about the industry and the trends therein. This made the research more representative and was used for triangulation (Bryman & Bell, 2007). In total, 17 interviews were conducted.

Employees

Five employees of Maersk Line and Safmarine were interviewed, because the researcher works there and has internal contacts. The Maersk Group has five shipping carriers that all offshore activities to low-wage countries. Managers at different management levels of the company were interviewed. First, two operational managers were selected, one of whom is responsible for the customer service team in the Netherlands. Tasks are offshored within his team, so he directly notices the impact on team members and customers. The other manager is also Dutch, but has worked in the service centre in India for two years, where the offshored work is carried out. He was interviewed because he knows the Dutch business culture and understands from previous positions how customers experience offshoring. In addition, he also knows what happens in the back offices to achieve a high service level and high customer satisfaction.

Furthermore, one interview was held with a mid-level manager. This manager is responsible for the North Europe cluster. He has influence on the offshoring process and can give advice on what should or should not be offshored. At the same time, he has also insight into the benefits and risks that offshoring brings, and the challenges faced by the operational departments.

Two employees from the top management level were also interviewed. Both are heads of the service centre, but in different locations, and have been highly involved in the global offshoring processes. These managers decide what will be offshored and where, and how many jobs and full time employees (FTE) will work in the offshoring offices. They also lead the service centres where around 3,000 FTE currently work. In conducting this study, two interviews were chosen based on the fact that these managers are the decision makers for offshoring and have the most knowledge about it.

Table 3 provides an overview of all managers who were interviewed.

No.	Management level	Nationality	Location	Other information
1	Operational	Dutch	Netherlands	Worked as operational manager in India before
2	Operational	Dutch	Netherlands	Sales & customer service manager
3	Middle	Belgium	Belgium	Was responsible for trial cluster with offshoring front office activities in 2013
4	Top	German	Philippines	Head of back office
5	Top	Dutch	India	Head of back office

Table 3 – Overview employee interviewees

Customers

Ten companies that ship cargo in containers and deal directly with shipping companies were interviewed. This was to guarantee comparability between the different groups of interviewees. The first criterion was that the interviewees were traders, located in the Netherlands. Traders have their own cargo to be shipped and thus have direct interest in how a shipping company performs. Forwarders were excluded, as they are more price-focussed and can compensate possible poor carrier service performance due to offshoring with their own service towards their customers (Tongzon, 2009).

Another requirement was that the traders shipped containers with multiple container carriers, in order to compare the service levels and strategic positions of these carriers. Each firm was also required to do business with Safmarine and/or Maersk, as they offshore activities. The company size expressed in numbers of full time employees was not a criterion for exclusion, but the aim was to interview companies classified as small (<100 FTE), medium (between 101-999 FTE) and large (>1,000 FTE) for an adequate comparison.

The selected firms trade different kinds of commodities and have diverse needs for their shipments. Also, because of the different commodities, the firms have different contact persons within Safmarine. This prevented the customers from being very dependent on one person in the front office in Rotterdam and one person in the back office in India, handling the same type of clients only. This increased the reliability of this research.

The interviewees are the decision-makers who choose the shipping companies. The reason that decision-makers were interviewed was because these employees compare all pros and cons before choosing a carrier. The operational workers, on the other hand, mainly have insight into one part of the shipping process and are therefore less objective. If an organisation did not want to participate, another trader was approached, and so on. If a company shipped all of their business with the Maersk Group, the organisation was not included in the sample. Ten customer interviews facilitated comparison between the findings and comprised a representative sample (Bryman & Bell, 2007).

Industry experts

Lastly, two independent parties (in this case, industry experts) were interviewed. These experts came from companies that do not directly ship containers, but do have a great deal of knowledge about the shipping industry and mainly about the Dutch market, as this is where all customers are located. By interviewing these parties, it was possible to triangulate the outcomes of the interviews. The first organisation interviewed was the Dutch Shippers Association (EVO). This association has a network of 15,000 members who ship containers, and represents the interests of these shippers. The organisation has a good understanding of the hot topics on the shippers' side of the shipping industry. The other organisation interviewed was the Port of Rotterdam, which has direct contact with shipping organisations and understands the trends within this group. By interviewing these companies, it was possible to triangulate the outcomes of the interviews with the managers and their customers.

3.3 Level of analysis

The primary unit of measurement and analysis was organisations. Interviewing decision-makers at the management level accomplished this, as these employees make the strategic decisions. By interviewing different levels of workers within the organisation, it was possible to combine data to create a meaningful analysis. To avoid complexity and misinterpretation resulting from the different levels, problems related to using data derived from one level to represent something at another level were made explicit (Bryman & Bell, 2007).

3.4 Data collection and data analysis

Data collection

The data collection was carried out through semi-structured interviews, as these allow the interviewee to be questioned openly. Semi-structured interviews provide the opportunity to ask further questions in response to what are seen as significant replies. As this is a deductive study and a great deal of information can be found in the literature, the interviews needed to have structure to prevent the research from becoming too broad. Before the interviews, questions about offshoring, strategic measures and customer satisfaction were formulated in order to ensure that these subjects would be discussed during the interview. The questions were prepared based on the theories found in the literature, and were used to test the hypothesis (Bryman & Bell, 2007). The questionnaire was first tested on two respondents to check whether the questions would be understood. Based on this, the questionnaire was amended accordingly. The interview questions used are included in appendix 1.

The interviews were mainly held face-to-face. Some of the Maersk employees were located abroad, so those interviews were held by phone. When the interviewee allowed, the interview was recorded. Such recording is necessary in order to transcribe the interviews afterwards, doing so nearly verbatim from the audiotape while leaving out only non-relevant parts. With two interviews, the interviewees did not allow recording, so written notes were taken during the interviews instead. Immediately after the interview, the notes were typed down in order to minimise the information lost.

In addition to the customer interviews, secondary data about these customers were available. This included the company size, which was found on the customer website. Also, for the customers that were interviewed, data about their satisfaction was available. Safmarine sends quarterly customer satisfaction surveys to random customers. For most of the customers interviewed, secondary data in the form of customer satisfaction (CS) results were available

from before and after the front office offshoring. This information was used as extra validity alongside the customer interviews, and was utilised to select a varied customer overview with satisfied and dissatisfied customers. In addition, the frequency of contact that the customers had with Safmarine's back office was obtained through internal systems where all customer contact information (e-mail, phone calls and sales calls) is registered. The expectation was that there would be a difference between customers with less contact with the back office in India and customers with more frequent contact. The frequency was defined as daily contact (one or multiple times a day), bi-daily (2-3 times a week) weekly (once a week) or more. Furthermore, the customers were asked if they offshored activities to low-wage countries as well, which could influence the outcome of the interview.

Sustained customer satisfaction is the dependent variable in this research and contains two factors: service quality and customer expectations. Therefore, before the interview the customer was asked to rate these factors on a 1-10 scale. These numbers were used as a starting point for the interviews, after which further explanations were requested.

The customer overview, including the secondary data, is presented in table 4.

No.	Organisation size	Offshoring yes/no?	Frequency contact back office	CS Score 2014	CS Score 2016	Service quality	Expectations
1	Small	No	Weekly	7.5	7	7	7
2	Large	Yes	Weekly	8	7	7	7
3	Medium	No	Daily	2	9	7	6
4	Medium	No	Daily	8	5	7	4
5	Large	Yes	Bi-daily	6.5	N/A	7.5	7.5
6	Large	No	Weekly	N/A	8	7	8
7	Small	No	Weekly	8	6	7	5.5
8	Large	No	Daily	8	6.5	7	5.5
9	Medium	No	Bi-daily	8	6.5	8	7
10	Small	No	Weekly	7	6	6	7

Table 4 – Overview of customer interviewees

The customers were informed beforehand that the interview would be anonymous and the answers would not be shared with Safmarine. The interviews were conducted in meeting rooms, where the interviewees would not be distracted. The aim was also to create trust between the interviewee and the interviewer (Mortelmans, 2011).

Data analysis

The empirical data collected during the interviews was analysed to check the literature study and conceptual model in order to see if the defined strategic measures were correct, as well as to find new insights and gather new information. Processing the data gathered in the interviews was carried out in five stages 1) audio taping the interview; 2) writing out the interview, close to verbatim, based on the audio tape; 3) sending a summary of the interview to the interviewee for validation; 4) coding the texts, which is explained in more detail below; and finally 5) analysing the data.

The coding of the interview scripts was based on the a-priori approach. For this approach, a list of codes that would be used during the interviews was compiled based on the conceptual model and literature study. In the conversion table, core concepts of this research were

operationalised in terms that the interviewees could use. These included factors based on the literature study in chapter 2. The code list was not fixed, and during the coding process new codes were added and codes that were not workable were removed. The final list of codes is shown in the conversion table (table 5). This method focussed on the comparability between the information gathered in the literature and the set codes (Mortelmans, 2011).

In the first phase, the interview scripts were coded based on the conversion table. The coded data was ordered into the core concepts. By doing this, the conceptual model was enriched by elaborating the definitions and adding new dimensions to the codes. This was a deductive approach, as the codes were only based on existing theories. The conversion table was placed in Excel and all coded data was added per customer, per indicator. This can be seen in appendix 2.

Second, the operationalisation left space for 'grey box' factors, variables or indicators to be added in the conclusion chapter. As this dissertation investigated one particular case to define strategic measures to ensure customer satisfaction within offshoring service organisations, additional definitive elements were added to the non-exhaustive contextual framework at a later time. The conversion table 3.4b provides an overview of the contextual factors, their variables and the significant indicators, providing a working definition of appropriate components below. The conversion table was used to draw a meaningful comparison between the cases and serve as a foundation for the identification and conceptualisation of 'grey box' elements. By doing this, a deductive and inductive approach was combined. The 'grey box' elements were also added in the Excel file.

Based on the information in the file, the analysis was begun. In the Excel file it was easy to see who said what and how often certain indicators were mentioned. The file also shows if similar things were mentioned in the 'grey box'.

After processing the analysed data, conclusions were written based on the interviews. These are presented in chapter 4. Here, the drawbacks of offshoring in relation to sustained customer satisfaction were analysed and the influence of strategic measures to minimise these drawbacks was determined. Later, the conclusions of the empirical data were compared with the data from literature to confirm or reject the expected outcomes of the research. This can be found in chapter 5. The semi-structured interviews enabled the interviewer to investigate 'grey box' elements of the conceptual framework, either case- or field-specific, through the opportunistic sampling strategy. Thus the researcher was able to use the conversion table as a helpful tool to analyse and identify the given conceptual framework, as well as to contribute additional discovered elements to the existing literature. To avoid losing the context of the interviews with this type of analysis, quotes from the interviewees were mentioned in order to illustrate meanings (Easterby-Smith et al., 2012). In addition, customer satisfaction scores from before and after the offshoring of Safmarine's front office activities were examined in order to check for alignment with what was said during the customer interviews.

Contextual factors	Core concepts	Indicators
Drawbacks of offshoring	Lack of service quality	Inability to solve problems
		Lack of knowledge about the customer and the business, including poorly trained people
		Slow response time
		Misunderstanding between the people in NL and in the back office in India, including language barrier
		Cultural differences or distance
		People say yes, but mean no.

		High people turnover in India
		People turnover in the front office
		Weakening employee morale in front office
		Lack of customer history
		Less personal contact
		Lack of control
		Low responsiveness, by late replies on e-mails and questions
		Lack of reliability, when the organisation does not deliver what is promised
		Lack of empathy, by having no good relationship, no personal contact, employees are rude
	Inability to measure performances	No accurate or correct data about the performances
		Difficulties in performance measurement
	Unexpected costs	Coordination costs
		Transportation costs
	Repair costs	
Lack of customer acceptance	Customer refuses to accept that the service organisation is offshoring	
	Customer refuses to contact people in India and keep contacting the front office	
Strategic measures to minimise the drawbacks	Training & knowledge sharing	Giving trainings to people in the back office
		Best practice sharing between departments / business units
		Database with information and standard operating procedures
	Long term contracts	Create additional commitment of people working in India, for example by more salary or intrinsic motivation
		Offer people long a contract for an undefined period
	Internal communication plan	Make clear who is doing what, and perhaps update that in a written matrix
		Frequent communication between different internal stakeholders
	Ongoing performance measuring	Key performance indicators (KPIs) for customer satisfaction scores
		KPIs for time to respond
		KPIs to see if the tangibles are in order (transit time, delivery time, container can get on board etc.)
		Additional checking of quality delivered by employees
	Transfer people to offshore location	Having employees from front office working in the back office for addition control or knowledge sharing
	Communication plan towards customer	Explain what can be expected
Explain new way of working and what the customer should do different		
New or updated business model	Make the back office part of the organisation and update the internal organisational aspects	
	Decrease internal distance between front office and back office	
	Offer services to customers which were not possible before offshoring	
	Introduce another way of working to colleagues and customers	
	Offer services which were not possible before offshoring	
	Show customers the advantages of offshoring, by adding value with offshoring	

Sustained customer satisfaction	Service quality	High responsiveness, by fast replies on e-mails and questions, fast picking up the phone.
		High reliability, when the organisation delivers what they promise
		High empathy, by having a good relationship, trust that the person will help him, personal touch and contact
		High assurance, knowledge to help the customer, knowledge about the business, ability to solve problems etc.
		Tangibles are in order, e.g., ship containers from A to B, vessels sail on time, enough space on vessels, easy track & trace of containers, environmentally concerned etc.
	Customer's expectations	The anticipated desired service, which is the service the customer hopes to perceive
		The anticipated adequate service, which is the level of service the customer is willing to accept
		The management of expectations refers to the agreements shaped by the service organisation to the customers

Table 5 – Conversion table

3.5 Reliability and validity

Reliability

Reliability is the consistency of a measure of a concept (Bryman & Bell, 2007). This is necessary in order to draw conclusions about the results of the research. With external reliability, what matters is not the replicability, but rather the instability in time due to social changes or careless methodological decisions. To have increased reliability within this study, each interviewee gave consent. This was recorded as well (Mortelmans, 2011).

Validity

Validity can be seen as how 'true' research is. Research can be seen as more true once triangulation has occurred and the subject has been examined looked from different perspectives (Mortelmans, 2011). In this study, interviewing three groups of people about the same topic has achieved this. All the employees interviewed had different management levels and possibly different views on the subject. Furthermore, the customers were working at different companies and had different job positions. Some of the interviewees in the customers group were known by the researcher and others were unknown, so that there would be more objectivity in the study. By interviewing industry experts who had no direct interest in this research, it was possible to triangulate the interview data with the customers and employees.

This research also included member validation. This means that when the data analysis was carried out, another person who had no direct interest in this research and no knowledge about the shipping industry also coded the interview scripts. The codes of the researcher and the other person were brought together to verify if the process was followed in the same way, which increased the validity. This means that the interpretation and analyses were based on input from two people (Mortelmans, 2011).

4. Empirical results

This chapter explains the different cases and presents the empirical results for each case, based on the interviews and observations. With this information, the strategic measures to maintain sustain customer satisfaction within the offshoring service organisation Safmarine are suggested. The chapter starts by giving background information on the container shipping industry. After that, the different cases and outcomes of each case are given. Lastly, the chapter ends with the cross-sectional design to assess patterns between the cases.

4.1 Background industry & organisation

The two cases in this research come from within the shipping industry, and are based on Safmarine. This section provides some background on the industry and organisation.

Shipping industry

For the last fifty years, international trade has increased in both volume and speed, which has resulted in increasing competition among major maritime entities such as container shipping companies. Statistics show that the three largest carriers – The Maersk Group, Mediterranean Shipping Company and CMA CGM – have been leading the industry for nearly 10 years (Alpaliner, 2016). The market shares of the four largest container shipping companies are as follows: the Maersk Group (14,8%), MSC (13.0%), CMA CGM (8.7%) and Cosco Container Lines (7,5%). This level of concentration in the industry is linked to a degree of oligopoly (Sys, 2009, Alpaliner, 2016).

However, shipping rates have been under pressure for more than a year now. This is because of low oil prices and a decrease in demand, especially in China, which is an important country in the shipping industry (Tovey, 2016). Additionally, shipping carriers have built new ships that have a greater capacity, produce less emission and are more economical per container. The decrease in demand has resulted in an overcapacity on these ships. On the one hand, this results in lower freight charges because carriers desperately want to fill their ships. For example, shipping the smallest container size (a 20-ft container) from the Netherlands to China now costs an average of \$150, while two or three years ago this figure was more than \$1,000 per container. On the other hand, there are more alliances between container shipping carriers to share the costs of overcapacity. The largest alliance is the M2, which is between the Maersk Group and MSC and has been in operation since early 2015 (Crouch, 2014). Still, some shipping companies have difficulties in remaining profitable.

In addition, companies also acquire other carriers in order to maintain their competitive positions, such as when CMA CGM bought NOL in late 2015 (CMA CGM, 2015). Hapag-Lloyd AG and United Arab Shipping Company SAG (UASC) are also currently discussing forms of cooperation including a combination of their container shipping operations. The latest status is that these organisations will merge at the end of summer 2016, which will make them the fifth largest carrier (Alpaliner, 2016). Based on this, it can be concluded that the container shipping industry is a competitive industry.

In the interviews and participant observations, the shipping industry is seen as an innovative because of the newer vessels and fully automatic terminals, but at the same time the industry's way of working is seen as conservative. This is because paper documents are still needed, which must be stamped by the shipping company, the shipper and the receiver. In

one of the interviews it was even mentioned that the way of working is the same as it was fifty years ago. This can thus be modernised.

In the shipping industry, some shipping companies engage in offshoring, which was confirmed by the interviewees. Not all carriers do this yet, but the industry and some of the customers expect that it will happen in the near future, believing that the carriers will have no choice as rates are under pressure and it is difficult to make a profit.

Maersk Line & Safmarine

The Maersk Group is a worldwide conglomerate that operates in 130 countries with a global workforce of over 89,000 employees. Maersk is involved in a wide range of activities in shipping, logistics and the oil and gas industries (Maersk.com, 2016). The Maersk Group has five shipping companies, of which Maersk Line is the largest with a global scope. Safmarine is a smaller shipping company, focussing on Africa, the Middle East and India, and the eastern coast of South America. Safmarine tries to differentiate itself from Maersk Line by having a human touch, smaller teams and more flexibility (Safmarine.com, 2016). The company does not have its own published numbers, as this is all included in those of Maersk Line. In addition, Safmarine and Maersk Line share containers and vessels, and have departments working for both brands. Only the commercial departments are separate. The Maersk Group is quite ahead of Safmarine in terms of offshoring. Currently, the company has offshored 60% of its activities to low-wage countries.

4.2 Empirical data

Within the Maersk Group, activities have been offshored for more than a decade. As of three years ago, front office activities are also offshored. This started within Maersk Line and happened to Safmarine one year later as well. This resulted in a reorganisation in the front office in Rotterdam where fewer people work now as a result. As soon as these tasks were offshored, customers were directly in contact with the back offices. Not only global, but also the local customer satisfaction scores decreased after this reorganisation. This background information was used during the interviews in this study.

Based on the conceptual model, the empirical data was analysed. First the relationship of the drawbacks of offshoring on sustained customer satisfaction are described. Later, the strategic measures to minimise these drawbacks are explained in this section based on the empirical findings to see how that influences customer satisfaction.

4.2.1 Customer satisfaction

Customer satisfaction will first be analysed in order to see what makes customers satisfied and to determine if the managers understand this as well. Both customers and managers who were interviewed agreed that customer satisfaction is based on service quality, however they have different perceptions of service quality. The customers described quality as response time, personal touch and relationship, the ability to solve problems including having the knowledge to help the customer, understanding the customer and tangible characteristics such as prices, sailing times, container availability and sufficient coverage of destinations. Not all of these factors are equally important for every customer. Whereas the managers mainly thought that customers are satisfied based on the shipping of containers from A to B without issues, along with a fast response time. To increase the customer satisfaction level in relation to offshoring, managers mainly focus on increasing responsiveness. Offshoring can provide

24/7 responses, which is a good service for customers, and also helps to prepare fast quotations, which is very important for forwarders.

Only one manager thought that customers are satisfied when the customer service representatives know the customer and provide a personal touch. This is contradictory with another manager who said that it is a conscious choice to provide a less personal touch. However, in six customer interviews it became clear that empathy is very important. Here there is a gap between what is important for the customer and what the organisation thinks is important.

One of the industry experts, the Dutch Shippers Association (EVO), surveyed 15,000 of its members on their sentiments towards the container liner shipping companies. Some of the customers interviewed for this research are also such members. Based on the survey, the most important factors in shippers' choice of container shipping company are tangible, which include the price and total costs first, followed by transit and delivery times. However, shippers acknowledged that carriers can get generate more business when they offer better rates. This was expressed by 18% of the respondents, while 16% said they would give more business to the carriers if the customer service was better. Offshoring might play a role in this. Additionally, shippers are willing to change carriers due to price, and will deter from doing business because of poor customer service and unreliability of services. Lastly, shippers were asked what carriers could improve the most, and the answer was customer service and communication by far. All data is shown in appendix 3.

When analysing the EVO's data, it can be concluded that customers would like to have the best rates, but also place high value on customer service quality when doing business with a shipping carrier. In the interviews with some customers, managers and industry experts, it became clear that the rates are under a great deal of pressure. According to expert from the Port of Rotterdam, carriers only compete on a price basis, and therefore have no other choice than to offshore in order to compete with such low rates. He also explained that Maersk was the first mover with offshoring, and therefore customers might not be ready for it, which makes things difficult. This has been acknowledged by a manager as well: *'For me the challenges go to: What impacts customer satisfaction? (...) It's an interesting subject. You're going to see some dips eventually. Particularly when you're the first mover in an industry. If you have a serious number of offshoring, it will certainly disrupt things for a while.'*

Interestingly, during the customer interviews it seemed that there was no difference in rate level between shipping companies who offshore and companies that do not. Furthermore, both industry experts said that customers are not willing to pay for additional service. One customer was an exception, saying: *'It's fine that you give me a low rate, but then you should be able to perform against this rate. If you cannot guarantee a service without errors for these low prices, you shouldn't offer this.'*

When analysing the customer satisfaction scores before and after offshoring Safmarine's front office activities, all respondents except one gave a lower score. This customer explained that the survey was sent at a moment when something went wrong in 2014, and therefore he gave a 2. However, during the interview he explained that his satisfaction was lower after the offshoring had started, but increased significantly after two years. This is in line with what other customers expressed. Immediately after the offshoring was implemented, customers were less satisfied, mainly because of low service quality. In due course the satisfaction improved, but most of the customers said that they were still less satisfied than before the offshoring. Nevertheless, most stated that their satisfaction was rising. Customers also spoke about their expectations. Some still had high expectations based on the service that was

delivered before offshoring, while others had low expectations because of the many mistakes made when Safmarine started offshoring, even though the service level is increasing.

Looking at the shipping industry as a whole, customers are less satisfied than 10 years ago, which was confirmed by the industry experts. This is also evident when examining the customer satisfaction scores of the organisations interviewed, based on the past two years. However, most customers said that their satisfaction was slowly increasing. The managers also explained that 90-95% of customers are satisfied, but in this research the focus is only on the small percentage of customers that is not satisfied. These managers added that only 2-5% of things go wrong, while the largest part is going well and customers do not notice that. According to them, most things that go wrong are not linked to offshoring, such as improper loading of containers or functional problems with the company's website.

4.2.2. Drawbacks of offshoring & sustained customer satisfaction

First, the relationship between the drawbacks of offshoring and sustained customer satisfaction will be analysed. Based on the interviews with all three groups, it can be stated that these drawbacks have a negative impact on sustained customer satisfaction. Additionally, most customers said that their satisfaction with carriers that do not offshore has not changed over the last two years, while with Safmarine it has. However, they cannot make comparisons for this time period because Safmarine has offshored more than other carriers. Lastly, almost all interviewees said that their customer satisfaction dropped significantly since Safmarine began offshoring, but they see it slowly increasing again. Many of them attributed this to start-up problems, except for the customers who did not accept offshoring.

All four drawbacks were mentioned during the interviews. These are discussed below.

Poor service quality

The main drawback experienced by all interviewees was the delivery of poor service quality. All dimensions of poor service quality were mentioned during the customer interviews, but not all customers experienced the same concept of poor service quality.

There was a difference between what made the customers dissatisfied and what the managers thought this was. Most customers experienced a lack of knowledge among the employees in the service centre, which resulted in an inability to solve problems, slow response times and misunderstandings between the customers and the people working in India. According to the managers, these poor service quality issues arise because people in the back office are hired based on their ability to read and speak English, and not based on experience. Most people who start working there have no experience in shipping, and on top of that Maersk was the first carrier to begin offshoring in the container shipping industry. One of the managers said: *'It is not possible to do and get experienced resources. They start from scratch and they have to be trained. There will be challenges in the beginning, there is no doubt about that.'* Additionally, the managers said that customers focus mainly on the 2-5% of the business that is not going well due to offshoring, while most of the time there are no issues.

The customer interviews also showed that poor service quality occurs because of a lack of cultural fit. One of the customers said: *'In their culture they are not direct and they have a much more pleasing behaviour, they agree with us faster, but don't directly solve the issues.'* Also, some customers were worried that the good people in the back office in India would leave their jobs easily for a slightly higher salary elsewhere. When this happens, the customers are afraid that service levels will start from scratch again. The managers at the

operational level and in mid-level management recognised this as well, which mainly results in high employee turnover in the back office in India. One of the managers who had worked in India said that people easily leave for a higher salary elsewhere. He said it is not possible to increase their salaries, because offshoring is done to reduce costs. The fact that people are leaving is an accepted model, according to him. Another manager saw a challenge due to the fact that the back office is constantly changing. Interestingly, neither of the top managers who worked in the back office spoke about this.

Concerning decreased personal contact, the majority of the customers experienced this as a drawback when doing business with Safmarine since the company began offshoring. Safmarine's differentiating feature compared to other shipping lines is providing a human touch when doing business, which makes the lack of personal touch harder for customers to accept. This has a negative influence on customer satisfaction, as some customers said that they like to know the person with whom they are dealing, and this is not the case now. Most of the managers did not see this as a drawback and said that reduced personal contact was a conscious choice when they started offshoring.

The managers at the operational level explained that there is no direct alignment between the objectives of the front office and back office. The back office is more focussed on efficiency and decreasing employee numbers, which can harm the quality of the service. The front office is more focussed on service delivery, and can therefore become frustrated by the actions of those in the back office. In addition to this, employees might feel that certain things are no longer their responsibility because colleagues elsewhere are working on it.

Overall, the higher the management level of the employees, the fewer drawbacks they acknowledged. Furthermore, one manager said that with this way of working, the organisation should be satisfied even if the quality is not 100% sufficient, because it is not possible to maintain high quality overall.

Lastly, the industry experts recognised a poor service level in the shipping industry, as that is what they had heard from shippers as well. However, they say this also applies to shipping companies that do not offshore. In relation to offshoring, the respondent from the EVO said that there is a generation gap between young and older customers, because the younger ones experience fewer drawbacks. Although this was not analysed in this thesis, it shows that customer satisfaction be influenced by factors other than offshoring. Many customers and managers said this during the interviews as well, remarking that sometimes satisfaction is negatively influenced by other factors such as delays with vessels etc.

Inability to measure performance

Some of the managers saw difficulties with measuring performance. Even though none of the customers noticed this as a drawback, the managers stated that customer satisfaction can be affected if the service organisation is not aware of its performance. The presence of a different culture can result in the inability to measure performance. People in India are very KPI driven, but it was mentioned that they only choose 'easy' KPIs and may manipulate KPIs as well. Furthermore, if the results are not good enough, the managers in the back office are not able to show a valid report. Therefore, it is not only difficult to check all data, but also to deal with the data that is provided.

Unexpected costs

Customers did not acknowledge the unexpected costs as a drawback for them, but a few did think that there would be additional costs for the offshoring organisation because of mistakes made by the back office. Additionally, the customers said that they did not experience cost savings as a result of the organisation's offshoring, explaining that the rates they had to pay were not any lower than those of shipping companies that do not offshore.

Only one manager said that there could be additional costs for providing training in India, but the organisation tries to minimise this since it is an expensive solution. This manager also thought that the Maersk Group had a buffer in their offshoring plan for repair costs. Managers at the higher level did not confirm this. Another manager said that the main driver of offshoring is efficiency, and not cost reduction. With regard to efficiency, the customers complained that the response time was not satisfactory and should be improved, which means that this is a gap.

Lack of customer acceptance

The small minority of customers interviewed did not fully accept offshoring. They refused to send e-mails directly to the back office in India, explaining that they do business with Safmarine Netherlands. The organisation of one of the respondents had just started offshoring as well. During the interview, he said that offshoring ruins the Dutch economy since people here lose their jobs. Because his organisation has begun to offshore, his perspective of offshoring has been negatively influenced. This gives the impression that this person's job could be on the line, which could explain his negativity. The other interviewee called himself old-fashioned, saying that he therefore prefers to work the 'old way' and not through contact with a back office in India. This is a drawback that was not acknowledged by the managers, who said that customers would eventually get used to it. Another small minority of customers said that they indeed had to get used to the new way of working since Safmarine began offshoring.

Other drawbacks

One of the customers also mentioned another drawback of offshoring that negatively influenced his customer satisfaction. This is the increasing uncertainty in the front office that jobs will disappear because of offshoring, which might result in good people deciding to work elsewhere. The customer had experienced this with other organisations in the past.

4.2.3. Strategic measures & sustained customer satisfaction

This section analyses the influence of strategic measures to minimise the drawbacks of offshoring on sustained customer satisfaction.

Based on the interviews, it seems that the Maersk Group has implemented many strategic measures. However, only a few were noticed by the customers and had a positive influence on customer satisfaction. The managers have mainly focussed on improving service quality by providing training and maintaining frequent internal communication. The customers noticed improvement in the quality of service, as they felt that the person in the back office understood them and their business better compared to when the offshoring started. Some of the customers also acknowledged that they had accepted offshoring more than in the beginning, explaining that more carriers are offshoring now and they better understand the new way of working. The managers explained that they had implemented a new business model with a strong focus on e-commerce. Online facilities have had a positive influence on customer satisfaction, based on two customers' feedback. The managers also focussed on a

communication plan for the customers regarding offshoring, however, the customers felt this could have been given more attention.

Each strategic measure's influence on sustained customer satisfaction is described below.

Improving service quality

To ensure sustained customer satisfaction while offshoring, some customers suggested that the employees in the back office receive good training. Additionally, some said it is important to have good people management to make sure the employees in India are satisfied and will not leave soon. The managers acknowledged this, saying that knowledge sharing should be a constant process and take place via documented information, but also by going to the back offices and providing training. It would be good for people from the back office to go to the front office for additional training and perhaps to also meet customers and see the business. However, transferring someone from the front office to the back office for a longer period of time in order to have constant knowledge sharing is an expensive solution.

In addition, almost all customers said they would like to have a dedicated contact person in India who looks after their business, and would want to get to know the people they deal with in the back office. Some customers said that it would help to contact the people in India by phone, while others wanted to hold a videoconference to explain their business. Still others asked if the people could come to the Netherlands to introduce themselves so that customers could show their businesses. This would make them more satisfied. The managers said that they thought only large customers would be able to obtain a contact person in India, and some managers also wanted to have people of the back office temporarily moved to the front office to meet customers. Again, however, this is an expensive solution.

The high employee turnover in India was concerning to a few customers, as they were afraid that the improved service quality was linked to one person and if this person were to leave, the quality would be poor again. According to these customers, Safmarine needs to make sure the people in the back office are satisfied so that they will not leave easily. Another proposed that increasing the salaries could generate more commitment, but this is contradictory to the driver of offshoring: cost savings. To create long-term commitment among employees in the back office, the managers at the operational level said that there is a focus on intrinsic motivation by offering weekly awards. Additionally, Safmarine offered the people in the back office a contract for 18 months, so that they could not leave sooner. The managers at a higher level did not speak about this.

All managers said that the key to success was internal communication. There should be frequent contact between both offices, but there should also be alignment between the front office and back office. One said: *'I think the continued engagement between the front office and the Global Service Centres is a critical factor of maintaining the high level of customer satisfaction.'* Six customer respondents acknowledged this, saying that it is important to make sure that the back office is part of the organisation and that they are aware of the company's strategies. In other words, the customers said they wanted to see the back office demonstrate the same quality as those working in the front office. Some customers said that it did not matter where the person is located, as long as the quality remains the same. In addition, the industry experts agreed that it is difficult for carriers to compete on a price basis. Therefore, there should be a strong focus on service quality to differentiate from other carriers.

Overall, the customers saw service quality improve due to actions taken by the Maersk Group, but there are still points for improvement as outlined above.

Continuous performance measurement

Continuous performance measurement is something that already takes place within the Maersk Group. One of the managers therefore explained that it is important to have KPIs for activities that are notable to the customer, such as a fast response time. In the past the KPIs were more internally focussed, and this has changed. However, during the interviews the customers often cited performance measurement as a strategic measure to minimise the drawbacks of offshoring, and felt that this does not happen enough. Some explained that it is very important to have constant control over the work done by the back office. Half of the customers proposed adding someone to enforce additional control over the back office's work, as they claimed to experience continued errors there. One customer said: *'You have the cheap labour already. You just need to add someone with a very low wage to check invoices for example, instead of relying blindly on the system.'* This could be a temporary solution until the work reaches sufficient quality, which would improve the sustained customer satisfaction.

Creating customer acceptance

Most managers spoke about the communication plan for customers, saying it is important to manage the customers' expectations, and also to explain the new way of working by doing more business online. One manager said: *'Of course we should understand the customer, but the customer also needs to understand us. We can improve here by giving more explanations of our way of working.'* In addition, another said that the values of offshoring need to be better explained to the customers: *'The back office can realise that the way of working is more efficient and faster than when the people in the front office were doing these tasks.'* The managers also believed in adding value to the customers, as it is important to show customers that because of offshoring the response time can decrease. Furthermore, the managers felt that there should be frequent conversations with the customers about the values that can be delivered by offshoring.

A communication plan for the customers would be an appreciated measure by some, while one customer would prefer not to know about the offshoring, because otherwise he would pay more attention to it. According to him, offshoring would be successful if the customer did not even notice. Half of the customers acknowledged that their way of working had changed since the offshoring of Safmarine, and felt that this should be better explained by the organisation.

New business model

Offshoring has led to an updated or new business model for the Maersk Group, including three main changes. First, an important factor is segmentation of customers, which means that the organisation has decided not to give every customer the same attention, instead placing a strong focus on the largest and most important customers. Although the customers interviewed came from different segments compared to each other, the answers given were quite aligned despite receiving different attention. Therefore, it can be concluded that this does not have an influence on customer satisfaction.

Additionally, almost all managers mentioned the strong focus on increasing automation and e-commerce. In offshoring activities, the business is commoditised, standardised and simplified. Once customers start to do more business via e-commerce facilities, fewer people are needed. One manager said: *'The long-term goal is to close all service centres eventually. Everything will be automatic and we need less people. That is what we want as organisation.'* Some of the customers noticed this and liked that they could do more themselves and online, which positively influenced their satisfaction since this process is convenient and fast. They said that Safmarine and Maersk are way ahead in this respect, compared to the competition. This is contradictory with the need for a personal touch, because when booking online there is no personal contact involved. In addition, managers said if the customer still wants to have

personal contact, in the future they may have to pay for it. It looks like this will contradict the customer who needs personal contact, but also chooses carriers based on rates. One of the employees at the top management level explained that it is a conscious choice to move in this direction. Because of offshoring, some customers have less personal contact than before; some customers are happy with this and others are not. According to the top level manager, it is difficult to keep every customer satisfied. This is in line with the customer segmentation as mentioned above.

Lastly, another part of a new business model involves having a more commercial front office, which was indicated by the managers at the operational and middle management levels. As more processes become automatic, the customer will contact the front office when things go wrong. The front office should therefore be commercial in order to fill these gaps. All transactional work has to be done by the service centres. Additionally, it is important to train the people in the front office rather than only those in the back office. The customers said that people working in the office in Rotterdam could deliver added value, as they can step in when things are not going well. This was also acknowledged by the managers, although they said that the value would be delivered through offshoring by offering faster responses. The customers had not noticed this yet.

4.3 Summary

This chapter presented an analysis of the empirical results. The interviews centred on one case, which was the Maersk Group in the container shipping industry. This industry is described as a competitive industry, in which it is difficult to make a profit with rates that are under pressure due to overcapacity on the vessels, low oil prices and less demand. The Maersk Group has offshored around 60% of its activities, placing itself far ahead compared to other shipping lines. Some of these carriers do not offshore yet, but the industry experts expect this to happen as a result of pressure on costs.

Customer satisfaction was first analysed. Customers are satisfied when the service quality of an organisation is sufficient. On this topic, all five dimensions of service quality were mentioned during the interviews, but not all five were equally important for every customer. Therefore, it can be concluded that customers are satisfied if the most important dimensions for each specific customer are sufficiently fulfilled. The industry experts also confirmed that customer service quality is very important for shippers, and poor quality can be a reason for them to do business with other carriers since there is little variety in shipping rates. However, customers selected carriers based on price first, and walk away because of service. It seems that in this industry where rates are under heavy pressure, customers are not willing to pay for better service, but will walk away if the service is not good enough. The managers interviewed agreed that customers are satisfied when the service quality is good, but in relation to offshoring they have mainly focussed on fast responsiveness and improved tangibles, such as sailing time and availability of containers. Only one of the managers interviewed thought that customers are satisfied when there is a level of empathy, while another manager said that it is a conscious choice to provide less of a personal touch and thus empathy towards customers. It can be concluded that there is a gap between the personal touch that customers want, and what the manager thinks the customers want.

Offshoring has a negative impact on the satisfaction. With Safmarine and Maersk, customer satisfaction dropped heavily once the organisations began offshoring. After almost two years of offshoring, this satisfaction is increasing slowly but some customers are still not as satisfied as they used to be. The greatest drawback, according to the customers, is the delivery of poor

service quality. Industry experts said that service quality is very important for shipping carriers, and can be seen as a differentiator compared to other shipping companies. The managers noted this drawback as well, but also said that around 95% of the business is going well with sufficient quality, and that customers seem to forget that. Furthermore, the managers at a higher management level saw fewer drawbacks than the managers at the operational level.

To minimise these drawbacks, the Maersk Group has implemented many strategic measures. However, the customers had noticed only a few. The managers have mainly focussed on improving service quality by providing training and engaging in frequent internal communication. The customers noticed improvement in quality of the service, which improved their satisfaction positively. Some of the customers also acknowledged that they had accepted offshoring more than at first, because more carriers have begun offshoring and they better understand the new way of working. Overall, the interviews showed that the customers who accept offshoring are more satisfied than the ones who do not.

The managers explained that they had implemented a new business model which includes a strong focus on e-commerce. Online facilities have a positive influence on customer satisfaction, based on two customers' feedback. However, this is also contradictory with the needs customers have for human touch, because with e-commerce facilities no personal contact is needed. Later, customers explained that human touch is required when they need assistance. The managers also focussed on a communication plan for the customers with respect to offshoring and what changes for them. However, the customers felt that this could have received more attention in order to create higher customer satisfaction.

5. Discussion & Conclusion

This chapter begins with a discussion in which the outcomes of the different interview groups are analysed and compared with the literature. The research contributions to the literature are then described, followed by the limitations of this study. Later, the conclusion is stated and recommendations for future research are offered.

5.1 Discussion

This research focussed on the strategic measures that offshoring service organisations can implement in order to minimise the drawbacks of offshoring while ensuring sustained customer satisfaction. The literature study provided information regarding internal factors that ensure sustained customer satisfaction, and strategic measures that organisations can take to minimise the drawbacks of offshoring. Through a case study of the Maersk Group, these findings were analysed to test whether the information from the literature is correct and complete in reality. This section presents a discussion of the literature study and the empirical results. Customer satisfaction is first discussed, followed by the relationship between the drawbacks of offshoring and customer satisfaction. The section ends with the influence of strategic measures on customer satisfaction.

Customer satisfaction

Previous research has shown that customers are satisfied based on the service quality that an organisation delivers, along with the customer's own expectations. Service quality occurs along five dimensions: reliability, empathy, assurance, responsiveness and tangibles (Parasuraman et al., 1988; Zeithaml et al., 1993; Grigoroudis & Siskos, 2010). These factors are not equally important for every customer, but most should be sufficient in order for the customer to be satisfied, which is confirmed by customers during the interviews. The managers have a different perspective about customer satisfaction. The managers at the operational level also recognised all five dimensions, but the higher the management level the main focus was on tangibles and responsiveness, as they saw these as most important for customers. Since customers value empathy and personal touch quite highly – which were acknowledged by only one manager – it seems that the managers do not fully know what their customers want.

Offshoring & customer satisfaction

One of the risks that offshoring brings is a decrease in customer satisfaction (Lewin & Peeters, 2006). The empirical analysis confirmed the same, as there was a huge drop in customer satisfaction when Safmarine began offshoring. In other words, service organisations should realise that once they start offshoring front office activities, customers will be less satisfied.

However, this research focussed only on the relationship between offshoring and customer satisfaction. It appeared that customer satisfaction was influenced by factors unrelated to offshoring. When examining the customer satisfaction scores from 2014 and 2016, it can be seen that many of the scores have decreased during this two-year period, but not always because of offshoring. Other factors such as vessel delays or improper loading of containers could also negatively influence customer satisfaction. Concerning the five dimensions of service quality, the tangibles of the service that Safmarine delivers are mainly uninfluenced by offshoring, but could still impact customer satisfaction.

Based on the literature, four main drawbacks of offshoring were found that negatively influence sustained customer satisfaction. These drawbacks are poor service quality, inability

to measure performance, unexpected costs and lack of customer acceptance. All four drawbacks were also indicated during the interviews, however the customers only saw the delivery of poor service quality as a main drawback and some customers did not accept offshoring at all.

When comparing the answers given by the managers and the customers about the drawbacks of offshoring, the main difference is that customers saw the decrease of personal contact as a drawback, while the managers did not see this as a drawback at all. This confirms that there are different perspectives in what the customers want and what the managers think is best. Once customers have more personal contact, they will be more satisfied.

During the interviews, it became clear that the higher the management level of the manager interviewed, the fewer drawbacks were acknowledged. Those at the operational level spoke about some specific drawbacks, while that was not acknowledged – or in some cases even denied – at higher levels. On the other hand, the higher-level managers saw more advantages of offshoring, whereas the managers at the lower level were less outspoken about this.

Regarding the unexpected costs that can occur, it appears that these are not charged to the customers in any way, as they did not notice an increase in costs. They also did not notice any rate difference with shipping companies that are not offshoring. Based on a study by industry experts, it seemed that customers select carriers on price first, but walk away because of service. Customer service quality is very important for shippers, and poor quality can be a reason for them to do business with other carriers since there is little variety in shipping rates. It appears that in this industry where rates are under a great deal of pressure, customers are not willing to pay for better service, but will walk away if the perceived service is not good enough. Future research should explore whether this is the same in other industries, but based on this research it seems that unexpected costs are not a drawback of offshoring which can influence customer satisfaction.

Lastly, this thesis focussed on the strategic measures that service organisations can take to ensure sustained customer satisfaction based on one case: The Maersk Group. The Maersk Group was the first in the shipping industry to begin offshoring, and is currently still leading in this regard as the company has offshored almost 60% of its business. This was confirmed by both the managers and the industry experts. It could be that customers are simply not used to the fact that so many tasks have been offshored, because other carriers do not offshore at all, or do not offshore very much. Therefore, it is possible that slightly different results could be obtained if this study were repeated based on another shipping company, or if a similar study is undertaken in a few years. Future research should explore this.

Strategic measures & customer satisfaction

In the literature, five strategic measures to minimise the drawbacks of offshoring were found: 1) improving service quality, 2) continuous performance measurement, 3) minimising unexpected costs, 4) creating customer acceptance and 5) a new or updated business model. During the empirical analysis, the impact of these measures on customer satisfaction was tested.

Service quality is improving by the longer the organisation engages in offshoring. Next to that, organisations could invest in additional trainings and creating additional commitment among the people working in the back office, but it goes together with having more experience in offshoring and having more experienced employees.

Continuous performance measurement is important to minimize the drawbacks of offshoring. Indians are marked as extremely KPI driven. KPIs are needed to measure the performance, but in reality it also excludes to measure important factors that cannot be translated into KPIs. Organisations should therefore become smarter with performance measurement to measure also other factors that are important for service quality.

In the empirical research, nothing is mentioned about minimising unexpected costs. Based on that, it can be concluded that this measure has no influence on customer satisfaction.

Interestingly, there are different perspectives between the customers and managers on minimising a lack of customer acceptance. It is very important to continue communicating with customers about the offshoring process. By doing that, managers are able to manage the expectations of the customers and show them the value of offshoring. Based on this case, there could be more communication about offshoring and the new way of working that comes with it. By having more communication, it is also important to listen to the customers as they also had ideas about strategic measures that Safmarine and Maersk could implement. All of those ideas are linked to the dimension of empathy, in which the customers have a need to feel satisfied.

Implementing a new business model, is recommended by the managers. Maersk has also done this, whereby some elements of the business model had have been positive developments for customers, and have made them more satisfied, and other elements a neutral influence on customer satisfaction. It is unknown whether other business models would have a different influence on customer satisfaction. This is recommended for future research.

5.2 Research contributions

This research focussed on the strategic measures that offshoring service organisations can implement in order to minimise the drawbacks of offshoring while ensuring sustained customer satisfaction. The combination of these factors together have not yet been analysed in previous research.

Previous research has examined the drawbacks of offshoring. These have mainly included drawbacks experienced by offshoring organisations, with less emphasis on drawbacks experienced by customers. The risk of decreasing customer satisfaction is recognised in prior studies, but there is not much explanation as to why the risk occurs. This has therefore been analysed in this thesis. Strategic measures to minimise the drawbacks of offshoring can also be found in the literature, but in these cases there is no link established with customer satisfaction.

The contribution of this research to the literature is that there are different perspectives about the influence of offshoring on customer satisfaction, and about ways to minimise the drawbacks of offshoring to ensure customer satisfaction. These different perspectives have not been mentioned in previous research.

Whitaker et al. (2008) state that offshoring has a negative impact on customer satisfaction when front office activities are offshored, and thus the customer has direct contact with employees working in the back office. This study can be seen as a follow-up on the findings of Whitaker et al.

5.3 Limitations

This research has a few limitations, which must be taken into account when interpreting the results.

Choice of cases

This study examined two cases, but both focussed on one company within one industry. Even though this research included interviews with three parties and the possibility to triangulate, it is still limited in comparison to a study involving more shipping companies or extended research into other industries. This limits the generalisability of the results. Furthermore, this study only focussed on offshoring to India, as that is the top offshoring country. Therefore, it is unknown whether the service quality is similar when companies offshore to another country, which could be interesting to analyse in future research.

Background of the researcher

Another possible limitation of this research is the objectivity. The researcher works for Safmarine and is the account owner for some of the customers interviewed. Therefore, she had prior knowledge of the organisation and the offshoring activities therein. To keep the objectivity high, the researcher also interviewed customers who did not belong to her customer portfolio, and were therefore unknown to her. Before all customer interviews, it was clarified that this research was not commissioned by Safmarine and the results would also not be shared with Safmarine or Maersk. This was done in order to prevent customers from giving certain answers in order to gain an advantage when doing business with Safmarine. The managers that were interviewed were not direct colleagues of the researcher, and were not aware of which customers participated in the study. Furthermore, the data analysis was also carried out by an individual person who does not work in this industry. This was done for member validation and to ensure that multiple people would see the quotes and scores.

5.4 Conclusion

To conclude this research, the drivers of customer satisfaction in service organisations were analysed. The satisfaction of a customer is dependent on the customer's expectations of what the organisation should deliver and on the service quality of the perceived service. Service quality is based on five dimensions: reliability, responsiveness, empathy, assurance and tangibles. Not all dimensions are equally important for every customer, but most, or possibly all dimensions, should be sufficient in order to have satisfied customers.

Next, the drawbacks of offshoring that negatively influence customer satisfaction were compiled. These three drawbacks, that negatively impact customer satisfaction, are as follows: 1) poor service quality, 2) inability to measure performance and 3) lack of customer acceptance. The poor service quality has the most direct negative impact on customer satisfaction. It must be said that if the service organisation has more experience with offshoring, the service quality will slightly improve.

The central question for this research is: *'What strategic measures minimise the drawbacks within offshoring service organisations to ensure sustained customer satisfaction?'*

To minimise these drawbacks, three strategic measures could be implemented in order to ensure sustained customer satisfaction. First of all, the organisation should improve service quality. This can be achieved by providing training and sharing knowledge, creating

individualised attention for customers and even giving them a dedicated contact person in the back office, managing the cultural fit and creating commitment to avoid employee turnover.

Additionally, an emphasis should be placed on customer acceptance and communication with customers. Hereby it is important that there is alignment between the offshoring organisation and its customers, as in this case there were different perspectives in the drawbacks of offshoring. Listening to the customers and having frequent communication could help to create the customer acceptance and will ensure or increase their satisfaction.

Last, it is important to have a new business model which includes the back office as well as changes to the way of working for the organisation and for the customers. This could bring additional value to customers, and should be communicated clearly to them. The added value will help to ensure sustained customer satisfaction.

Based on the interviews, it is also important to have continuous performance measurement. The customers may not notice this directly, but if the organisation does not measure performance and is unaware of which offshoring-related activities are not going well, it could harm customer satisfaction.

5.5 Recommendations

This section offers practical recommendations for the Maersk Group and suggestions for future research.

5.5.1 Practical recommendations

Based on the outcomes of the empirical research, a few recommendations for the Maersk Group, mainly Safmarine, are presented below.

Listen to the customer

In the customer interviews, most said that they wanted to experience a personal touch when doing business, especially when assistance is needed. They want personalised answers, and some would like to know the person behind the e-mails by having an introductory chat via a videoconference, for example. Most would also like to have a dedicated contact person in the back office looking after their business. These are small adjustments which are easy to implement and will make customers feel much more satisfied. Furthermore, Safmarine's differentiator is the personal touch while doing business, so it is important for this to be known and applied in the back office as well.

Keep communicating

When Safmarine began offshoring front office activities, the way of doing business changed and customers were informed about this. However, change management literature shows that changing is a continuous process, and therefore the communication towards the customers (and employees) should also be continuous (Willemse, 2012). Based on the interviews, there is room for improvement with regard to customer communication, which was addressed by customers. The managers said that weekly internal communication takes place, but more frequent and continuous communication with the customers is recommended, specifically in relation to the processes and what is expected from them.

Alignment

The managers at the operational level explained that there is little alignment between the objectives of the front and back offices. On paper they have the same objectives, but in reality this is not the case. The back office focusses more on efficiency and reducing staff numbers and costs, while this is not always in the front office's best interests. Better alignment between both offices is recommended, perhaps by working with the same budget instead of one for the Netherlands and one for the service centre. Once alignment is achieved, all employees can work towards the same goals which are in the customers' best interests.

Better performance measurement

In the customer interviews, some stated that Safmarine and Maersk should have additional control and performance measurement in order to deliver better services. Therefore, it is important that the organisation starts measuring factors that are important for customers. By working with many KPIs, factors that are important for customers but cannot be translated into a KPI are excluded. Safmarine should try to measure these factors too.

5.5.2 Recommendations for future research

This thesis focussed on a gap in the current literature with respect strategic measures that offshoring service organisations can implement to ensure customer satisfaction. The results of this study also serve as motivation for future research. The most important recommendations are given below.

Business model & customer satisfaction

One of the strategic measures entails applying a new or amended business model. The way Maersk has done this with more e-commerce and the development of a more commercial front office has positively influenced customer satisfaction. However, if other business models had been implemented, these could have negatively influenced customer satisfaction. Therefore, it is recommended that future studies explore what aspects of a new business model would help to ensure sustained customer satisfaction within offshoring service organisations, and which aspects would not.

Different industries

This research only examined one case, which was Maersk in the container shipping industry. To attain better generalisability, it is recommended to conduct similar research in other industries as well. Future studies can show whether the outcomes and conclusions of this research are the same in other industries, or if some results are specific to the container shipping industry only.

Different perspectives

One of the outcomes of this research is the different perspectives on customer satisfactions and ways to mitigate the drawbacks of offshoring, between the managers and customers. This is based on fifteen interviewees. Future research could show if there are always different perspectives between of offshoring organisation and its customers, based on more respondents.

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Appendix 1 - Interview format

A1.1 Customer interviews

Before interview:

- Function interviewee;
- Number of employees;
- Company size globally;
- How long do they work with Safmarine?
- Active in which commodity?
- Customer satisfaction score before 2014
- Customer satisfaction score actual

Interview:

1. Introduction offshoring & case Safmarine offshoring 2014

2. Customer satisfaction

- On a scale from 1-10, how would you rank service quality within Safmarine?
- On a scale from 1-10, how much do we fulfil your expectations?
- What is customer satisfaction for you?
 - What factors of shipping companies drive customer satisfaction for you?
- How was your customer satisfaction with Safmarine, looking at three years ago?
- If you know what to expect when doing business with Safmarine, does this influence your satisfaction? If so, how?

3. Offshoring

- How often do you have contact with our offshoring team in India?
- On a scale from 1-10, how would you rank their service quality?
- What do you think of offshoring in general?
- Do you know what kind of tasks Safmarine has offshored?
- Did you know what to expect when Safmarine informed you about offshoring?
- What do you think of offshoring within Safmarine in general?
 - What is going well?
 - What can be improved? / What are the drawbacks?
- Would poor service quality be a drawback of offshoring?
 - What aspects of quality are poor?
 - Do you see cultural differences in the service centre? How/What?
 - What do you think of the knowledge of the service centre?
 - What do you think of the assurance of the service centre?
 - What do you think of the reliability of the service centre?
 - Responsiveness?
 - Empathy?
- How did offshoring influence Safmarine's service levels?
- After almost two years of offshoring, how do you look at it now compared to when they started?

- Do you see a difference in service level between carriers that are offshoring and are not offshoring?
 - What kind of difference?
- How did offshoring influence your satisfaction? → Link to CS scores

4. Strategic measures

- What do you think that organisations could do to make offshoring successful?
- What would be a strategic measure for:
 - Loss of knowledge?
 - Cultural differences?
 - Assurance?
 - Reliability?
 - Responsiveness?
 - Empathy?
- How can offshoring make you feel more satisfied?

A1.2 Interviews managers Maersk/Safmarine

Before interview:

- Function interviewee;
- Management level;

Interview:

1. Introduction offshoring & case Safmarine offshoring 2014

2. Customer satisfaction

- What factors do you think that make customers satisfied?
- What factors of service quality do you think that make customer satisfied?
- Do you think Safmarine/Maersk can fulfil customer's expectations?
- Looking at the global CS scores, comparing before and during offshoring, the numbers have decreased. How would you explain this?

3. Offshoring

- What do you think of offshoring in general?
- What do you think of the offshoring processes, focussing on Safmarine?
 - What is going well?
 - What can be improved?
- After almost two years of offshoring, how do you look at the situation now compared to when we started?
- Maersk Line is offshoring front office functions for a longer period now, do you think that was an advantage when Safmarine started offshoring too? If so, what kind of advantage?
- Do you still consider offshoring as a good thing?
- How come that despite all trainings still many errors are made?

4. Strategic measures

- What do you think that organisations could do to make offshoring successful?
- What do you think that needs to be done to make customers more satisfied?

- What kind of strategic actions should be taken?
- What are success stories that you can share?
- What would you have done different?
- Have we asked customers how they think it can be improved?
- What would be a strategic measure for:
 - Loss of knowledge?
 - Cultural differences?
 - Assurance?
 - Reliability?
 - Responsiveness?
 - Empathy?

A1.3 Interviews Industry experts

Before interview:

- Function interviewee;

Interview:

1. Shipping industry

- What kind of trends do you see in the shipping industry?
- What do you hear from shippers as trends?
- What do you hear from the shipping carriers?

2. Introduction research about offshoring & customer satisfaction.

3. Customer satisfaction

- What do you think that are the factors that make customers satisfied?

4. Offshoring

- What have you heard about offshoring in the shipping industry?
- What do you think that shipping companies offshore?
- How do you think that offshoring influence the customer satisfaction?

5. Strategic measures

- What do you think that shipping companies can do to have a sustained customer satisfaction while offshoring?

Appendix 2 – Coding interviews

Based on the conversion table the interviews have been coded. The green colour is marked for sustained customer satisfaction, blue is for drawbacks for offshoring, red means strategic measures and grey is for the 'grey box'. Once the interview was scripted with the four colours, the answers were placed in the conversion table in an excel file.

Below an example of a coded interview. These answers in the conversion table are mentioned on the next page in table 6.

Interview

*"By personal touch I don't mean drinking coffee every now and then. **They need to understand the business** and we don't have to reinvent the wheel. Over time, **you get to know the person behind the emails**. Then it's a question of setup. Despite outsourcing you dedicate one or two persons to one customer, they get to know the customer. We do have that with Safmarine and not with other shipping lines. They have the same setup, but with you **I have one person sitting in India looking after our business.***

Between carriers who are not offshoring and carriers who are, I see a difference in service level. I think that the carriers that have offshored, have lost quite something of the service they deliver, contradictory to carriers who are not offshoring. Their service is better, but those carriers also one step behind. Looking forward, the others will offshore eventually too so the carriers who are already offshoring are in a better position. They have passed the child decesses. With Safmarine we have seen that, with Hapag Lloyd we are still there.

*There is substantial improvement to when you started and now. I am concerned that it comes from the person and not from the setup. The people here train the people in India and now they are doing a good job. The way of working is still not efficient, but the people doing the job are. **They are engaging with the system and take away the errors. If these people are gone and you rely fully on the system, you will face huge problems again.***

***People are not always willing to change. So you have to overcome that and don't think about how it used to be.** Then, you need to embrace this change and understand how it will work from now on. My customer satisfaction can be improved by adding things that are missing. **You have the cheap labour already. You just need to add someone with a very low wage to check invoices for example, instead of relying blindly on the system.** This can make outsourcing more satisfied for a customer. People can do it there. You make your customer happy because there are no mistakes anymore. "*

Contextual factors	Core concepts	Indicators	Customer 3
Drawbacks of offshoring	Lack of service quality	Inability to solve problems	
		Lack of knowledge including poorly trained people	you get mechanic answers because people there don't use their brain, that can be painful for the business // lack of understanding of the business // This is a lack knowledge, lack of training
		Slow response time	
		Misunderstanding between the people in NL and in the back office in India, including language barrier	cultural difference because they are less developed. This is bringing the discussion to a much lower level.
		Cultural differences or distance	
		People say yes, but mean no.	Indian people will always say yes, even when they mean no.
		High people turnover in India	People in India are less reliable than in NL // They don't have commitment. // They are engaging with the system and take away the errors. If these people are gone and you rely fully on the system, you will face huge problems again.
		People turnover in the front office	
		Weakening employee morale in front office	
		Lack of customer history	The person that is added has no clue about the relationship and of how things were before.
		Less personal contact	Especially the elements where there is personal contact with customers, that's difficult to offshore
		Lack of control	
		Low responsiveness, by late replies on e-mails and questions	
		Lack of reliability, when the organisation does not deliver what is promised	Sooner or later you need to look at quality, otherwise you don't differentiate
	Lack of empathy, by having no good relationship, no personal contact, employees are rude		
	Inability to measure performances	No accurate or correct data about the performances	
		Difficulties in performance measurement	
	Unexpected costs	Coordination costs	
		Transportation costs	
		Repair costs	
Lack of customer acceptance	Customer refuses to accept that the service organisation is offshoring		
	Customer refuse to contact people in India and keep contacting the front office		
			Looking forward, the others will offshore eventually too so the carriers who are already offshoring are in a better position // There is substantial improvement to when you started and now // where we stand now, we managed to overcome the problems we have had with your outsourcing. We are indeed now satisfied enough and in that respect your outsourcing is working.
Strategic measures to minimize the	Training & knowledge sharing	Giving trainings to people in the back office	it is also a matter of training. you need to invest in people there to train them. To train people there, it can match your quality

drawbacks			standards as an organisation. // They need to understand the business
		Best practice sharing between departments / business units	
		Database with information and standard operating procedures	
	Long term contracts	Create additional commitment of people working in India, for example by more salary or intrinsic motivation	they are treated as a number so then they will never feel any commitment. If you're a number, how can you feel the importance of that company? // You as Safmarine need to make sure that the employees are satisfied where to are.
		Offer people long term contracts	
	Internal communication plan	Make clear who is doing what, and perhaps update that in a written matrix	
		Make clear who is doing what	
	Ongoing performance measuring	Key performance indicators (KPIs) for customer satisfaction scores	
		KPIs for time to respond	
		KPIs to see if the tangibles are in order (transit time, delivery time, container can get on board etc.)	
		Additional checking of quality delivered by employees	You have the cheap labour already. You just need to add someone with a very low wage to check invoices for example, instead of relying blindly on the system
	Transfer people to offshore location	Having employees from front office working in the back office for addition control or knowledge sharing	
	Communication plan towards customers	Explain what can be expected	
		Explain new way of working and what the customer should do different	
	New business model	Make the back office part of the organisation and update the internal organisational aspects	you get to know the person behind the emails // I have one person sitting in India looking after our business.
	Decrease internal distance between front office and back office		
	Offer services to customers which were not possible before offshoring		
	Introduce another way of working to colleagues and customers		
	Offer services which were not possible before offshoring		
	Show customers the advantages of offshoring		
Sustained customer satisfaction	Service quality	High responsiveness, by fast replies on e-mails and questions, fast picking up the phone.	we need answers fast, and we need people to be there when we want that // The companies that are available and able to address our questions and needs quickly and efficiently, make us satisfied.
		High reliability, when the organisation delivers what they promise	we need answers to what we ask // know why things happen, why things change. We need a reason and we like to understand why things change // provide us an explanation // We want communication to be efficient.
		High empathy, by having a good relationship, trust that the person will help him, personal	We don't want mechanic answers. // people who really care // we started to add commercial touch to the business and that

		touch and contact	worked
		High assurance, knowledge to help the customer, knowledge about the business, ability to solve problems etc.	We want people to add value to the communication
		Tangibles are in order, e.g., ship containers from A to B, vessels sail on time, enough space on vessels, easy track & trace of containers, environmentally concerned etc.	
	Customer's expectations	Expectations of the desired service, which is the service the customer hopes to perceive	
		Expectations of the adequate service, which is the level of service the customer is willing to accept	address this change and we made it with the best of our abilities to work for both of us
		The management of expectations which refers to the expectations shaped by the service organisations to the customers	People are not always willing to change. So you have to overcome that and don't think about how it used to be

Table 6 – Outcome interviews in conversion table.

Appendix 3 – Shippers sentiment survey 2015 (EVO)

Representing the interests of 15.000 manufacturers, retailers and wholesalers, collectively referred to as shippers, the Dutch Shippers' Association (EVO) ordered a survey among its members on their sentiments towards container liner shipping companies. The main conclusions relevant for this research, will be found in this chapter.

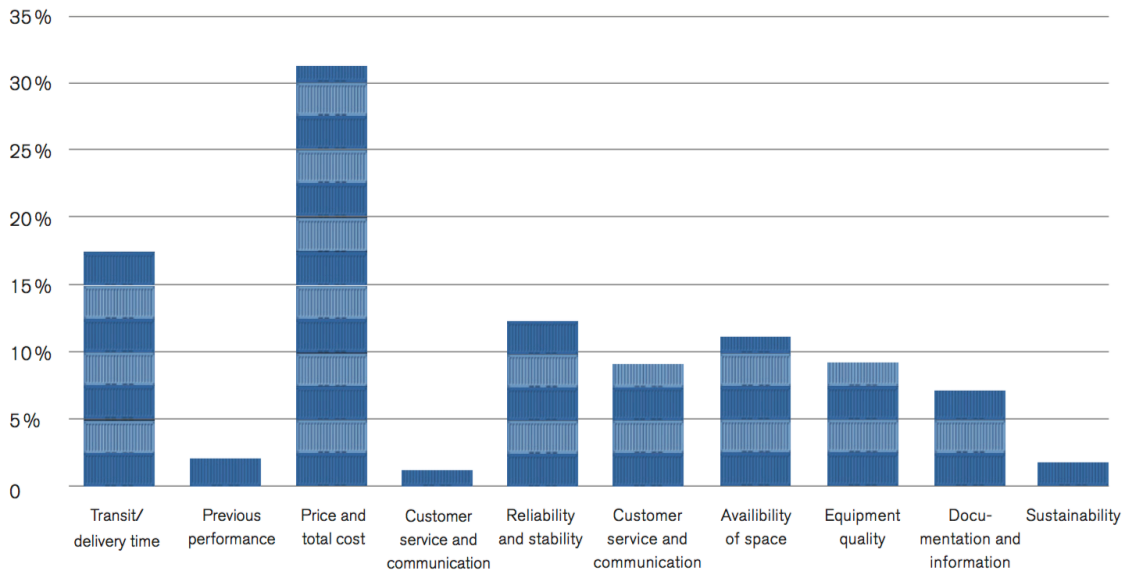


Image 1 - When selecting a deep sea carrier, shippers ranked 'Price & total costs' as most important

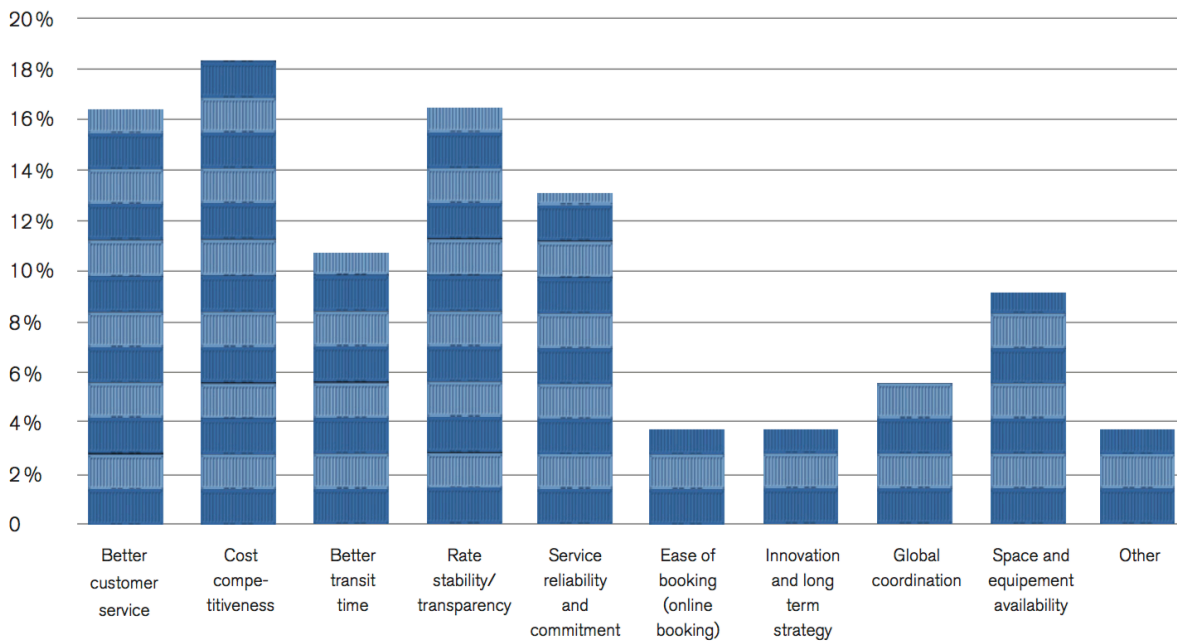


Image 2 - Shippers have mentioned the most important changes that carriers could make to win more of their business

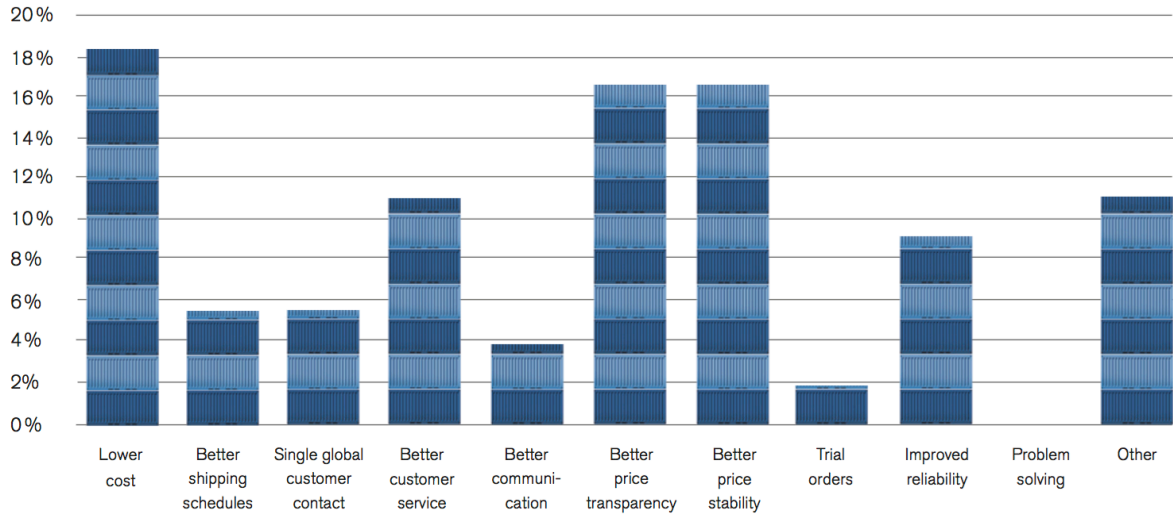


Image 3 - Shippers would be convinced to change its preferred deep sea carrier, if carriers would improve on the following issues

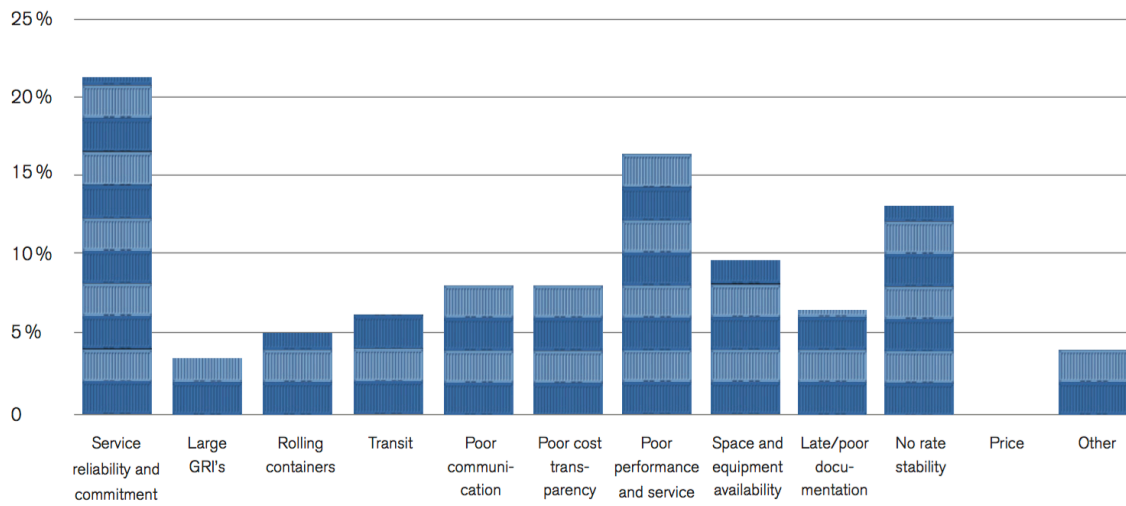


Image 4 - The most important things that carriers do that might deter shippers from doing business

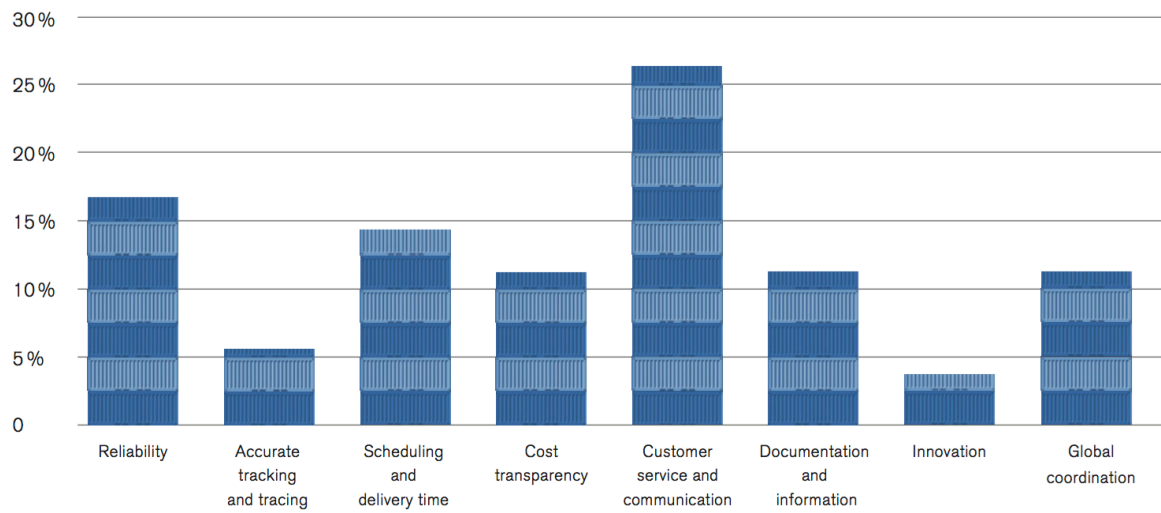


Image 3 - Shippers were asked in which areas carriers could improve the most