Calling All Managers: How to Build a Better Call Center

Once viewed simply as low-cost channels for resolving customer concerns, call centers are increasingly seen as powerful service delivery mechanisms and even as generators of revenue. Research by HBS Professor Frances X. Frei and her colleagues Ann Evenson and Patrick T. Harker of the Wharton School points toward new ways of making them work.

Almost everyone has dialed a simple phone number—be it to order a pair of socks or reserve a flight to New York—only to end up navigating a seemingly endless labyrinth of options, all because a mechanical voice continually invites them to "Press 1 (or 2, or 17) now."

Aggravating? Yes. But call centers, with their attendant voice response units (VRUs—also known as automated voice response systems), need not be so inefficient. When a company manages its call center well, effectively linking a triad of service, information technology and internal processes, both the customer and the company can triumph.

That's especially true in the financial services industry, where call centers have moved beyond their most obvious function—as low-cost channels for resolving a myriad of customer concerns—to become powerful means of service delivery with the potential to generate substantial revenue.

HBS Professor Frances X. Frei and her colleagues Ann Evenson and Patrick T. Harker, both of The Wharton School at the University of Pennsylvania, have studied the use of call centers in this industry. In their working paper Effective Call Center Management: Evidence from Financial Services (pdf), they go beyond earlier research to look at the broad context of call center service delivery.

"Although much literature has recently been written about various ways to steer customer interactions to sale opportunities," write Frei, Evenson and Harker, "the topic of effective service delivery had almost entirely been overlooked. Before being able to generate revenue through the call center, institutions have to fully understand and be able to implement superior customer service."

"Each service interaction forms the basis of a consumer's perceptions of the overall quality of an organization," they continue. "How well a business is able to manage and implement the service delivery process has a direct effect on retention of existing clients, and can have a significant impact on acquiring new business. The result is that satisfaction is based on how well an institution meets and exceeds a customer's expectations in every interaction."

In research focused on 11 major financial institutions, Frei, Evenson and Harker created a model demonstrating precise links among three main elements (or "drivers") of superior service delivery. These are: 1) effective people; 2) effective internal processes; and 3) effective information technology (IT). The word "effective" is emphasized, they say, "to clearly make the point that individual elements of this mix may be better or worse across different institutions, but making them work together effectively is the key to developing world class service delivery."

The results of their research not only illustrate the relationships among the elements, but also highlight various factors within each element (for example, how information technology practices affect each other) and how each element relates to overall service delivery.

Among the key findings of the study were:

Successful service delivery is vital for retaining customers and increasing sales. "Although most call center managers would agree with this statement wholeheartedly," write Frei, Evenson and Harker, "it sometimes proves difficult to justify additional investment into an entity that is typically thought of as a cost center."

An organization that cares about its customers also cares about its employees, and vice-versa. For example, when a company encourages and expects its customer service representatives to handle the majority of calls on their own, without transferring queries further down the line, it is evidence that the company places equal focus on its representatives (so-called "employee empowerment") as it does on its clients.

When quitting, an employee is more likely to cite work environment over compensation issues. However, that is not to say that good call centers have the luxury of offering lower salaries and still expecting employees to stay. Turnover at call centers can be affected by a number of other factors too, the researchers found. For example, turnover is lower when employees have been promoted from within the ranks of the company. Similarly, employees who are not given responsibility for a wide range of queries were found to be more likely to leave. According to the researchers, "This seems to indicate people's preference for having more responsibility in the work place, and feeling capable of dealing with a broad range of issues."

Turnover is lower when staff levels are greater. Turnover is also lower when employees are not answering the phone constantly, but rather have time for other activities such as paperwork and training. Lower turnover means that the company's capacity for retaining customers is that much greater. And customer retention is vital for financial institutions. "Furthermore," note the authors, "given the ever-increasing number of call centers, the costs associated with attracting, screening, and training personnel are far from trivial."

Institutions that devote energy to outbound calls (i.e. telemarketing) stand to become distracted from delivering effective service to their existing clients. The researchers note the "spiral effect" that occurs when companies pay more attention to outbound than inbound calls. "As financial institutions attempt to sell more to new or existing clients," they write, "they lose sight of customer service. As service drops, retention becomes a problem. With lower customer retention, not only do sales to existing customers drop, but also there is a significant cost increase due to attracting new customers. Once these new customers come in, however, the lower service will only serve to drive them away."

As for information technology, companies need to be able to balance increased spending with increased benefits and efficiency for their customers. While institutions that spent more on information technology also demonstrated shorter times when customers were kept "on hold", the study also found a company may concern itself more with designing an unnecessarily complicated voice response unit than with attending to customers' real needs. "The more complex the IT, the less calls are able to be handled by the VRU, resulting in customers bailing out and choosing to deal directly with an agent," Frei, Evenson and Harker write.

All decisions need to reflect awareness of the client. And decisions based solely on finances tend to have a negative effect on customer service, the researchers learned. If a company outsources some or all of its call center activities, for example, service levels go down. Frei, Evenson and Harker speculate that this decrease in service levels from outsourcing may be due to two factors: If the company has outsourced in order to save money, it is probably not focusing on customer needs. Or, if it has outsourced primarily because it is not able to handle the volume of calls internally, it is also not focusing on customer needs but rather is reacting to the company's own organizational difficulties.

Frei, Evenson and Harker point out that institutions generally suffer from a lack of overall customer focus when the design of their front-line tool—the voice response unit - is too sophisticated and too daunting for the average customer to follow.

"Institutions that have not considered the customer's perspective in the VRU have similarly not considered it throughout the rest of call center," they note. And good customer focus does not come easily: "Institutions with greater customer-focus have higher average labor spending," they report. "This implies that customer-focus does not come without additional costs."