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Does the Outsourcing of customer Service Call Centres within Financial Institutions Influence Customer Satisfaction?

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Description
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ABSTRACT:

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Keywords: customer service, loyalty, offshoring, service quality, outsourcing

Introduction

Satisfying customers is a core business challenge which has attracted considerable research attention (Maddern et al., 2007). Services contributed a total of 66.3% of the world gross domestic product (GDP) in the year 2000 (Arasli et al., 2005) and customers are demanding better quality, faster service and increased reliability at a lower cost. In today's fiercely competitive marketplace, characterized by similarly priced, look-a-like products, clear winners will be the ones that provide excellent service quality (Parasuraman et al., 1991, 1988). Service industries are constantly competing in an environment characterized by increasing customer awareness and expectations of quality (Lewis, 1991).

With ever increasing demand from stakeholders to reduce costs and increase efficiencies, companies are continually researching new ways to meet their demands. Outsourcing is one of the ways Western countries are attempting to streamline their operations and save costs.

As Free Trade Agreements (FTA) increase in popularity, the international borders have been eliminated, at least in terms of economic free trade. The emergence of FTAs has allowed companies to seek lower labour costs in countries with little governance over minimum wage laws or employee protection rights. This, in turn, has allowed countries such as Australia and the United States, where the labour is quite expensive, to save on labour costs by moving them offshore. It is estimated that Australia is outsourcing its customer service at a rate of 16% per annum (Beaumont and Sohal, 2004).

As the internet was introduced it created a new forum for customers to voice their satisfaction or dissatisfaction. This has created an era of free form online writing called Blogs. With the availability of information at consumers fingertips, the pressure is even greater for companies to excel at providing excellent customer service, as even one single blogger can reach more readers than Newsweek with a single Blog (Sernovitz et al., 2009).

Outsourcing

Outsourcing is defined as having work that was formerly done inside an organisation performed by an external organisation. *Business process outsourcing* (BPO) refers to an entire business process of an organisation being moved to an external service provider (Kumar et al., 2007) such as payroll or IT.

Companies are choosing to outsource mainly to save costs (Lacity et al., 2008), and most Board of Directors or other stakeholders of an organisation would agree that slashing their payroll by an average of 58% is positive (Leader to Leader, 2004). Additionally companies seeks to obtain economies of scale and address an increasingly challenging issue of staffing shortages (Zhu et al., 2001).

One of the fastest growing call centre industries in the world is in India (Jaiswal, 2008) and Western countries are fuelling this growth. It was estimated that in 2009 alone, over 250,000 new call centre agent positions where going to be added (Roggeveen et al., 2007). India is rapidly growing in this area as its people are willing to work at a fraction of the costs of its American and Australian counterparts. For an example, an American call centre worker earns around $13USD an hour whereas their Indian counterparts only early around $1USD for the same work (Bardhan and Kroll, 2003).

What is Customer Service?

Customer Service can be defined as the gap between service expectations with actual service performance (Zeithaml, 2000). Customers do not measure performance in terms of the product or service itself, but measure service in terms of the quality and timeliness of information provided. If customer service is a key to business success, it is critical to determine service problems and work to correct or eliminate them before customers leave (Helms and Mayo, 2008).

Measuring customer service can be challenging as most customers find it easier to evaluate the quality of a physical item or good rather than a particular service a company offers (Maddern et al., 2007). Unlike measuring the quality of a product, which is easily checked against the defects of the goods or usability, service quality is an elusive construct which is often difficult to measure (Parasuraman et al., 1991). If a product does not work or is defective, a customer can simply return the item and choose to purchase the item from another company.

Services differ greatly from a product setting because they cannot be inventoried, so balancing capacity and demand can be more difficult. Also, services are often produced in front of customers and often in direct collaboration with them, thus bringing employees and customers physically and psychologically close (Oliva and Sterman, 2010). The quality of a service interaction is necessarily a subjective judgment made by the individual customer. Feelings and emotions matter.

Measuring Service Quality

Service quality is determined by the customer's subjective experience with the service organization (Oliva and Sterman, 2010) and is based on a comparison between what the customer feels should be offered and what is provided

(Parasuraman et al., 1988). Quality is measured as the gap in the performance of service, or the difference between the time allocated per task and the customer's expectation of what that time should be (Oliva and Sterman, 2010). Delivered quality is one when the performance gap is zero, that is, when time per task matches customers' expectations (Oliva and Sterman, 2010). Essentially efficiency vs. effectiveness.

SERVQUAL

SERVQUAL or RATER is a service quality framework which was developed by Zithaml, Parasuraman & Barry in the 1980's and it is widely used to measure the gap between customer expectations and experience (Parasuraman et al., 1985).

Parasuraman's SERVQUAL model offers a systematic approach to measuring and managing service quality and it emphasizes the importance of understanding the customer expectations and developing internal procedures that align company process to customer expectations (Buttle, 1996).

SERVQUAL determines the importance of the five dimensions in influencing customer's overall quality perceptions. These are (RATER): reliability, assurance, tangibles, empathy and responsiveness (Parasuraman et al., 1988). Furthermore, SERVQUAL is able to track quality trends and can systematically analyse customer suggestions and complaints.

The SERVQUAL framework below shows the criteria for customers in assessing service quality.
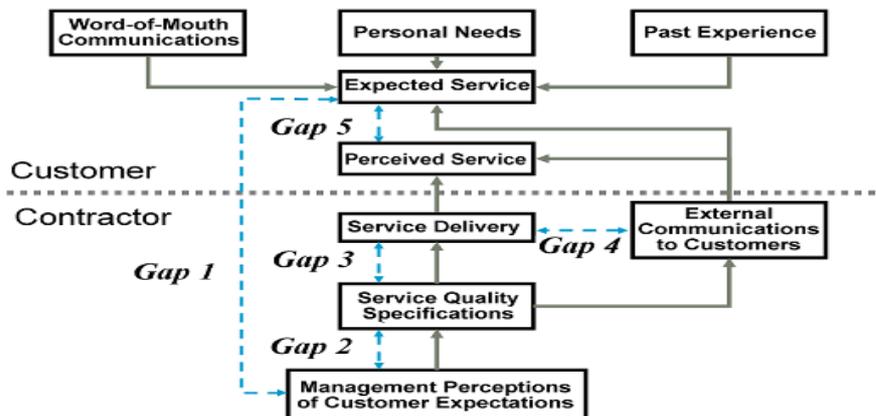
Criticisms of SERVQUAL

Buttle (1996) critiques SERVQUAL on a number of theoretical bases. These include that the 5 dimensions (RATER) are not universals as customers do not always have clearly formed expectations. Buttle (1996) also points out that the model fails to draw on established economic, statistical and psychological theory. Although Buttle argues that SERVQUAL's face and construct validity are in doubt, he admits that it is still widely used in published and modified forms to measure customer expectations and perceptions of service quality. This is further supported by Arasli et al., (2005)

who deems the framework serves as a theoretical skeleton for customer service measurement and has been applied successfully to many studies.

Customer Satisfaction and Loyalty

Customer satisfaction or dissatisfaction is derived from a service encounter and the comparison of that experience to a given standard (Helms and Mayo, 2008). According to Stewart (1997), deep customer satisfaction and loyalty does not happen from just one event with a company but rather on the sum of many small encounters.

In a study performed by Rust and Zahorik (1993) in the United States, they reached the conclusion that customer satisfaction may be linked sequentially to individual loyalty, aggregate retention rate, market share, and profits and how the dollar value of a shift in customer satisfaction can be measured.

The Office of US Consumer Affairs reached the conclusion that it typically costs about five times as much to acquire a new customer than it does to retain a current one (http://www.ftc.gov/).

Chandrashekaran et al., (2007) theorized that customers who are not overly satisfied would not translate into loyal customers. This means that companies face even greater challenges with their customers not only to keep them satisfied, but to keep them extremely satisfied in order to keep their business.   As service quality improves, the probability of customer satisfaction increases (Arasli et al., 2005). A service failure introduces uncertainty into consumers' minds, and the manner in which the complaint is handled bears the potential to mitigate or exacerbate this uncertainty (Chandrashekaran et al., 2007)

Customer Service in Banks

Customers measure a banks service quality in terms of the personal support they receive (Arasli et al., 2005). Consumers still want to walk in or call their bank and be able to have a customer service representative relate to them on a personal basis. After all, these are the institutions that they trust to hold their money, their life savings.

In addition to companies having to have quality up-front customer service, clients form expectations prior to their encounter with a bank (employee), they develop perceptions during the service delivery process and subsequently they compare their perceptions to their expectations in evaluating the outcome of the service encounter (Bloemer et al., 1998). Companies therefore need to be clear on the message they are communicating to potential as well as actual customers.

Frequently banks do not see the chance to exemplify their brand at each customer touch point (Stewart, 1997). Companies do not see the opportunity they have every time they speak to a customer in person or on the phone to make that customer loyal. Every interaction a company has with its customers is a chance to remind the customer about its brand value. Each customer service agent should be imbued

with the brand and image of the company and represent it to the customer in each encounter. If a customer service call centre agent is working for a third party provider, how can this important step ever be achieved?

In a pilot study conducted by Rust and Zahorik (1993) of retail banking customers in the United States, they summarised a list of key attributes which seem to define customers' ongoing relationship with the banks they consider to be their major banking service providers. These key elements were:

1. Friendliness
2. Personal knowledge of the customer
3. How well the bank listens to the their needs
4. Location/convenience
5. Agents availability
6. Costs

These elements are almost all related to personal attributes as its clear that banking customers value their personal relationship with their bank. Sernovitz (2009) supports this by stating that companies would benefit more from investing in improving their customer service rather than spending more money on advertising. Furthermore, Lewis (1991) found that bank advertisements have little impact on a customer choice of bank while customer service had a major impact.

Customers Reactions to Call Centres

At some point, most of us have called a 1300 number and have been diverted to an offshore call centre. And at some point, most of us have probably felt frustrated by the person on the other end of the line due to misunderstandings or the inability to complete the task at hand.

In a US based 2009 study, interviewees stated that offshore agents' accents made communication problematic with both parties having to repeat themselves (Thelen et al., 2009). Another interviewee consistently asks to be transferred to someone who speaks better English. Communication is one of the factors in the SERVQUAL framework. A customer with a service issue may find their irritation aggravated by difficulties in making being understood by the customer service agent. Since many call centre agents follow scripts, this makes free-flowing communication problematic. One interviewee summed up the importance of language by stating, 'If they can't speak the language then the service becomes worthless (Thelen et al., 2009).

Ott (2007) recently performed a Gallup poll and asked his respondents a hypothetical question, "If you called a customer service centre and you knew you were speaking to a representative outside the united States, how concerned would you be about …..?" The respondents answered that they would be most concerned about the ability for the representative to understand them (68%) and their own ability to communicate with them (67%). If you can not communicate with your customer service representative, how can you do business? This leads to the researchers question at hand, *Does the outsourcing of customer service call centres within financial institutions influence customers satisfaction?*

It is important to note that not all call centres are created equally and the research will have to acknowledge the complexity of the product being supported.

Alternatives to Outsourcing

Kippenberger (1997) argues that there are alternatives to outsourcing which are working for some firms. Inshoring is one of them. Inshoring is the complete opposite of Offshoring, or bringing work back to the country where the company is located. One example of successful inshoring is the hiring of rural employees and setting up call centres in rural locations where the labour and overhead is cheaper than in major cities. Unemployment is usually higher in these areas as well. Lacity et al., (2008) supports this as part of their "13 trends" in their case study, *Global Outsourcing of Back Office Services: Lessons, trends and enduring challenges.*

Keep it simple so the customers do NOT need to call.

In a recent New York Times Article, Taylor (2006) interviews Jim Kelly who is the Chief Customer Service Officer at ING Direct. During this interview, Kelly explains that customer service and products should be kept simple, which is the ING philosophy. ING has over 3.5 million customers and deposits of nearly $40 billion. Their products are simple, their fees are almost non-existent and their web-site is easy to follow even for the internet novice. This leads to the average ING customer calling into customer service an average of 1.6 times a year. And when they do call, they are greeted by non-scripted, local agents willing to help.

Gaps in Research

Although the academic research in the retail banking sector is helpful from authors such as Arasli et al., (2005) and Rust & Zahorik (1993), there is a gap in literature surrounding the corporate call centres themselves. These researchers are able to identify what key attribute customers want from their physical banking location and not necessarily what they expect when they call in to the toll free number. The research in this area will help guide the questions, but this paper intends to focus on the corporate call centre primarily.

The customer service surveys in recent literature, such as Jaiswal (2008) seem to only focus on call centre "hard" data such as time to answer a call, number of resolutions, outcomes per hour, etc., The research fails to identify the "soft' data such as comprehension of the agent, simplicity of the call, ease of call, etc., This paper will attempt to identify the those softer issues from customers and their satisfaction or dissatisfaction levels with the customer service call centre agents themselves and whether or not it being outsourced influences their perceptions.

Another gap in the research identified is that many papers focus on the reasons why a company outsources (Kippenberber (1997), Beaumont & Amrik (2004) and Lacity et al., (2008)) and not the perceptions and personal reactions given by customers.
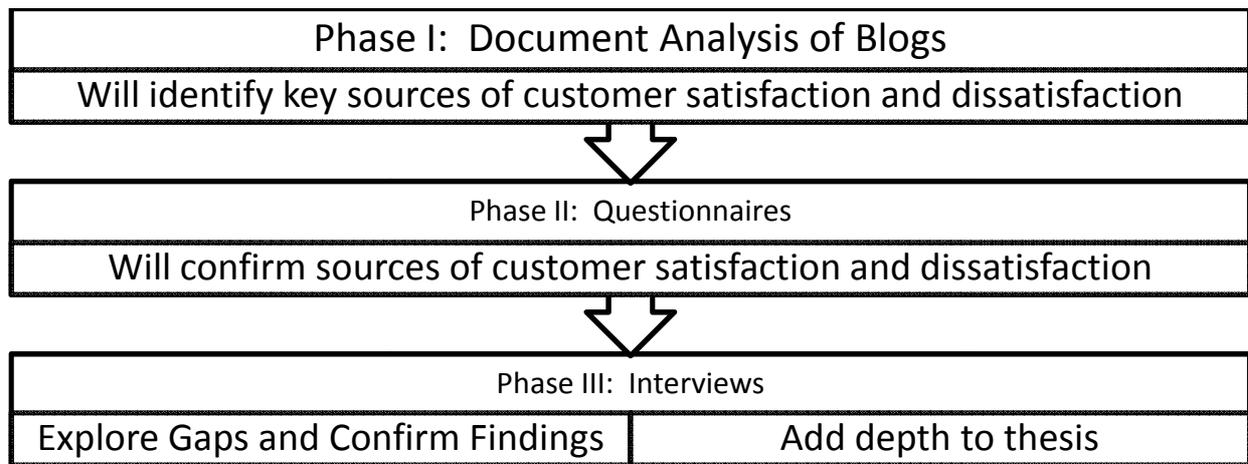
The majority of the studies found (as noted in this paper) are focused in the United States. An aim of this paper is to focus its research around Australia and Australian perceptions.

Scope

The research will include Australian banks that outsource some or all of their customer services overseas. The Thesis will not include Credit Unions or Building Societies as these institutions are non-profit organisations who recycle their profits within the business and are owned by their members. Credit Unions and Building Societies rarely outsource their customer service and because of this would be excluded from this research.

The Research Approach

The researcher intends to use a mixed methods methodology approach, qualitative and quantitative.

Phase I: Document Analysis of Blogs
Will identify key sources of customer satisfaction and dissatisfaction

Phase II: Questionnaires
Will confirm sources of customer satisfaction and dissatisfaction

Phase III: Interviews	
Explore Gaps and Confirm Findings	Add depth to thesis

Phase I: Document Analysis of BLOGS

Blogging is a relatively new mainstream and on-line publishing interactions platform (Yang and Liu, 2009) as the term *Blog* did not even exist 15 years ago, yet today it is a part of everyday vocabulary.

A Blog is a website using dated log formats to publish information periodically (Yang and Liu, 2009).   Blogs began as person journeys or diaries which people wanted to share with their friends, families and anyone else they gave their Blog access to. If a person was going to travel around South America, they would simply sign up with a popular blogging service such as WordPress.com and create journal entries with commentary and perhaps pictures of their voyage. Blogs are often noted for being the "unedited, published voice of the people" (Winer, 2003). Blogs also generally have a comment button so that those who are interested in leaving their comments behind may do so with ease.

While dissatisfied customers may not go out of the way to share their problems with the supplier, they do tell the story of their problem service encounter to others. With the ever-growing popularity of the internet, the TARP Company's research found 4 percent of satisfied customers post their feeling on web sites and blogs and 15 percent of dissatisfied customers post their comments. With the growing popularity of hand held internet devices such as Blackberries and iPhones, this makes the accessibility even easier for a disgruntled customer to Blog immediately after their negative experience.

Using blogs can be advantageous in a methodology as it gives the researcher an inside look into raw human emotion. The use of blogs will be a valuable first phase into research design as it will help identify key sources of customer satisfaction and dissatisfaction and will form the groundwork for further methods.

When using Blogs it can be difficult to be sure whether a blogger is a sincere legitimate consumer or if it is a representative from the company or rather the company's competitor attempting to deface the company for all to see in cyberspace.

According to a study by Chue & Kamal (2008), perceived blogger credibility may rely mainly on the bloggers' expertise and trustworthiness. For example, if a blogger is an expert engineer and is willing to make valid assertions, technological brand information posted on his or her blog should be viewed as more credible than messages written by a blogger who is not an engineer. That is, if a blogger is considered trustworthily and has the ability to make valid assertions, blog readers likely trust the comments he or she makes. This can be useful when dealing with sites such as Facebook when you have access to the users occupational background.

Phase II: Online Questionnaires

Questionnaires are used to ask participants to answer a series of questions on either fact or opinion. They will be used to confirm sources of customer satisfaction and dissatisfaction and be given to random consumers for completion.

Using this method is essential as the researcher will need to ask a range of respondents different questions regarding their banks customer service and call centre policies in order to obtain a true industry snapshot.

The advantages to this method is that it gives the researcher the ability to collect a large amount of data efficiently and cost effectively and it is excellent for answering a variety of questions (Thomas, 2003). Other advantages include respondents are generally more honest as they can be completely anonymous online, it is more cost effective due to no printing/paper/postage costs and respondents can answer in their own time (Brace, 2008).

Initiating a web based questionnaire may eliminate the drawbacks to using paper questionnaires as there are built in database rules forcing the respondent to answer all questions and not look ahead, inevitable alleviating the issue of missing data (O'Neill, 2004).

The analysis of the online questionnaires can be done quickly with the aid of the analytical tools most web based survey databases offer. They offer the ability to:

- View responses immediately
- Track trends easily
- Go to individual respondents questionnaires without sorting through mounds of paper
- Create customised reports
- Filter respondents by demographic or distribution channels
- Create charts and graphs
- Download the data into any format

A major drawback to using online questionnaires is that its' bias is inherent in the data collection itself. Not everyone Australia has access to the internet and by using this method it could potentially exclude populations such as pensioners and minority groups (O'Neill, 2004).

According to the Household Use of Information Technology (HUIT) survey, the rate of household internet access has increased markedly across Australia in recent years, from 16% of Australian households in 1988 to 64% IN 2006-07.
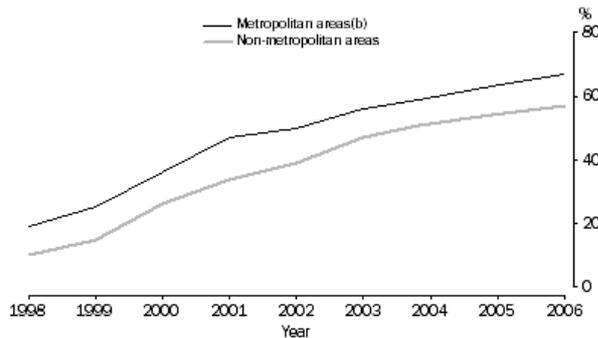
Since this research is aimed at customers using Australian banks who outsource and are familiar with using their call centres, excusing those without internet connection should no have a major impact on the outcomes of this research, but will be noted in the paper.

Phase III: Interviews

Qualitative methods, such as interviews, attempt to obtain a deeper understanding of a particular issue (Greenhalgh and Taylor, 1997). The researcher will select 2 or 3 respondents who use an Australian bank and are familiar with using call centres. The banks they use must outsource a part or all of their customer service offshore. 2 or 3 major banks will be selected. Due to the timeline of the methodology, the banks will have to be re-evaluated closer to the interview stage as banks can change their outsourcing policies at any time. Only 2 or 3 banks will be choosen, for instance, Citibank, ANZ and NAB. 2-3 banking representatives from this selected pool will be chosen as well to make the research more well rounded and give it more depth.
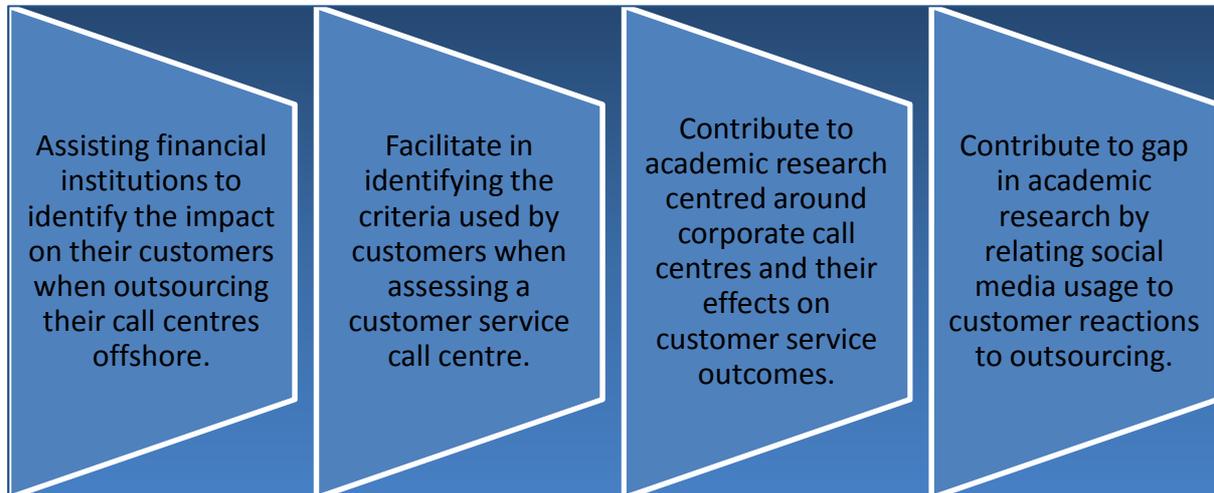
The advantages to using interviews is allows the researcher to be deeply involved in the subject, but on the other hand can be time consuming (Balnaves and Caputi, 2001). The researcher will have to allocate sufficient time for the interviews.

Significance and Contributions

The significance of this research is the value it can add to the banking industry. The U.S. Office of Consumer Affairs (1993) published that it typically costs about five times as much to acquire a new customer than it does to retain a current one. By increasing a customer satisfaction it will inevitably increase the customer loyalty. The interest in customer perceptions of service quality rests on the premise that a customer who holds positive perceptions of an organization's service quality is likely to remain a customer of that organization (Schneider et al., 1998). According to Buchanan and Gillies (1990), having a long-term satisfied customer can be more profitable to an organisation because they usually place consistent orders and cost

less to serve, they buy more, they will sometimes pay a premium for the service and they generally refer new customers by word of mouth which costs the company nothing.

The researcher anticipates that there will be contributions made to the academic field and to the business field by:

| Assisting financial institutions to identify the impact on their customers when outsourcing their call centres offshore. | Facilitate in identifying the criteria used by customers when assessing a customer service call centre. | Contribute to academic research centred around corporate call centres and their effects on customer service outcomes. | Contribute to gap in academic research by relating social media usage to customer reactions to outsourcing. |

When customers have more choices than ever, the toughest business challenge isn't to keep expenses down, it's to keep loyalty high (Taylor, 2006).

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