

Call Center Management to Create Performance Advantage

**A Member Supported Research Program
and Industry Forum**

The Wharton School
University of Pennsylvania
3301 Steinberg Hall-
Dietrich Hall
Philadelphia, PA 19104-6367
215.898.1279
fax: 215.573.8757

Snapshot Summary
of the
November 19-10, 1998
Meeting of the
Call Center Forum

Overview

The Call Center Forum held its autumn meeting in Philadelphia on November 19 and 20.

The meeting began with a dinner on Thursday evening including a discussion led by Professor David Larcker on the impact of customer service on performance. David's remarks prompted active dinner conversation around an issue that all forum members appear to be grappling with.

The Friday meeting agenda was, as usual, tightly packed and included a working lunch presentation by representatives of Gruppo Mediolanum, an Italian financial services firm with a wide array of distribution channel strategies centered around a call-center platform. As a new member of the forum, Mediolanum's experience with new technologies and a unique business model added an interesting dimension to the discussions.

In addition to reporting on current research activities, the Friday meeting also focused on several new research initiatives. In some cases, the proposed projects represent extensions of existing work, such as Lorna Doucet's interest in expanding her research on the human resource dynamics within call

centers. In other cases, the proposed projects represent new directions reflecting the interests of forum members. David Larcker's interest in performance measurement and Noah Gans/Ziv Carmons's planned investigation of customer waiting issues are both examples of the latter.

While discussed in some detail at the meeting, short descriptions of the five new initiatives were recently sent to forum members for response. In all cases the researchers are looking to collaborate with one or several firms to develop and conduct these projects. As in all Financial Institutions Center research, every effort is made to insure the confidentiality of data used in the projects.

Following on the success of our San Antonio meeting last Spring and visits to the Citibank and USAA sites, we will again be holding our 1999 Spring meeting at member locations. This year we are grateful for an invitation from Chase and NationsBank (BankAmerica) to visit their sites in Tampa, Florida. Dates and details will follow.

The next several pages represent a "snapshot" summary of the November 19 and 20th meeting, highlighting key elements of the discussions.

Visit the Call Center Forum web site at
<http://fic.wharton.upenn.edu/fic/wfic/forum.html>

Thursday PM: Customer Service Impact on Performance

Before dinner on Thursday evening, Professor David Larcker provided the forum meeting's opening discussion. The general subject of performance measurement, and especially the incorporation of non-financial measures, is challenging all financial services firms. In the dinner discussion, it is apparent that this includes call center management as well where customer satisfaction, among other factors, is seen as an important but often an elusive metric.

As David pointed out, not only are firms reconsidering the measures used, but also reevaluating how each measure affects value creation by the firm. For a number of firms studied by David and his colleagues, the balanced scorecard approach is giving way to a more integrated business model structure. These more integrated models consider tiered performance drivers, linking customer and employee metrics.

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In the specific discussion around customer satisfaction, David presented a series of graphics that generally support the economic benefit of keeping customers happy, but cautioned the group that there are diminishing returns. For example, one analysis using the

American Customer Satisfaction Index and stock market values showed negative returns for marginal increases in satisfaction in the Retail industry but positive returns for Financial Services.

In another analysis, he described the impact of customer service on three performance measures: customer retention, growth in customer revenue and growth in productivity. The key finding is that increasing customer satisfaction was positively correlated with each metric but the marginal benefits tend to vary depending on firm specific conditions.

As described in the research questionnaire, Professor Larcker would be anxious to work directly with forum members to extend this research in the call center environment.

Friday AM: Technology and Electronic Channels

The Friday morning discussions centered on presentations and discussion of managing information technology in financial services and developments in electronic banking channels.

IT Decision Processes: PC and Web Banking

Professor Lorin Hitt opened the Friday morning session with a presentation on his current research into IT management in financial institutions. His paper, co-authored with Patrick Harker and Frances Frei, "How Financial Firms Decide on Technology" was distributed and describes the results of in-depth interviews with a number of US banking firms on their IT management processes. As part of the study, they focused on PC Banking and the development of

corporate web sites as common and illustrative examples.

In his presentation Lorin emphasized that while it can be demonstrated that investments in information technology do lead to improved performance, there exists a wide variation among firms. Much of the variation is explained by the relative IT management skills and practices resident within firms in any given industry. In this current banking study, for example, the researchers found that the firms studied were very good at standardized project management disciplines but tended to lag in bringing analytics, benefit metrics, and priority planning to the IT management process.

Turning to PC-Banking, the research led to several key findings:

PC-banking customers look better than the overall customer population but thus far there appear to be only small new contributions from fee sources or purchasing behavior changes. The conclusion is that thus far, the primary benefits are coming from retaining good customers. Interestingly, the results do not support the notion that demographics of PC-users matter in terms of predicting customer profitability.

Income generation though, is proving elusive. Fees for PC-banking are dropping across the board and while studies suggest lower costs per transaction, there does not exist a critical mass to realize that potential. Furthermore, the researchers argue that rapid innovation in this area requires ongoing investments that will make it increasingly difficult to recoup fixed costs. As with the ATM experience, this research also confirms the fact that low user cost and ease of use are reflected in more, lower value transactions.

Turning to the web, Lorin expressed greater optimism for accruing meaningful benefits.

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While many of the cost and new customer attraction issues are similar, the web offers much greater opportunity for customer differentiation. This added flexibility will allow creative institutions with well integrated IT management skills to develop compelling new value propositions.

Electronic Commerce: Web Design, Sales, and Service Experiences Across Industries

Following Lorin Hitt's discussion, Professor Eric Johnson gave an overview of the use and design of the digital marketplace. He first discussed how selling over the web is different from offering products and services via other media. The amount of information displayed, how it is organized, and the design of the graphical interface are just a few of the decision alternatives available. The electronic market is also a place where economic search costs approach zero, leading to a scenario where consumers can ideally patrol the market perfectly.

So, who are these consumers that spend money over the web? Eric discussed a questionnaire published by the Wharton Electronic Commerce Forum. The results of

the survey suggest that frequent web shoppers are people starved for time, not those overly concerned with cost. Confirming Lorin Hitt's findings, Eric's research also finds that demographics can not be used to predict much about shopping patterns of web customers. Stronger determinants of spending are behavioral measures (e.g. frequency of site visits). A Duke study also suggests that the more accessible the quality attributes of the product or service offered, the less price sensitive the web customer tends to be.

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Eric last considered three approaches that can be used to design digital markets. First, it can be technology-driven, simply implementing the innovations that the technological revolution makes possible. Second, it can be analogy-driven, modeling environments that the customer is already familiar with (e.g. on-line storefront). Third, it can be customer-driven, striving to improve the customer's overall sales and service experience. Those in attendance agreed that this final approach might be most effective, concurring that if you make it easier for someone to do something, they will do it more often, especially in financial services.

Industry Panel Discussion of Electronic Channels

Following the early morning presentations, Professor Patrick Harker moderated an informal industry panel and group discussion on the role of call center management and strategy in channel integration. Forum participants, Mary Pilecki and Mary Jude Dean from Fleet, along with Gary Moody of Merrill Lynch and Andrea Singer from Chase began the discussion with observations from their various institutional perspectives.

A common theme expressed by several participants was the increased complexity of demands put on the phone center in supporting the new electronic channels. On one level the new channels provide easier access, inspiring more customer communication and driving customers towards more detailed inquiries. Volume trends in some institutions are shifting with new products and web feature rollouts. Phone center representatives need to know what's taking place on the web-site.

It was noted that process changes are required to support the new channels and more dynamic performance metrics come into play. As one example cited, most call center

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organizations are not structured to support e-mail inquiries where service and sales questions may be bundled in the same message. Supporting technical queries, and especially dealing with intermediary service links with Quicken or CheckFree, creates another level of complexity.

People and training issues are also at the forefront of the integration challenge. As one panelist suggested, the traditional "deep and narrow" knowledge base of bank products must be widened to include "broad and variable" knowledge of technology used to support financial services. At the very least this is affecting training and selection practices at most institutions.

Despite the complexities, the group expressed confidence that the call center environment was up to the challenges required for effecting integration of existing and new channels.

Friday Luncheon Discussion

During a working lunch, we introduced Anthony Rodino, Director of Electronic Commerce for Mediolanum, an unusual and innovative Italian financial service company. With its roots in the life insurance and mutual fund business, Mediolanum has added a virtual-banking capability and transformed itself into a high-tech, multi-channel financial service delivery business. Four technology pillars have been built to support their customer-centric vision: customer databases, call center and automated response systems, sales force automation for agents, and electronic access.

The positive results of this approach have been many and varied. Sales representatives now have more time to actively sell and perform high-value customer activities. Customer satisfaction and retention has

improved, and overhead has dramatically decreased. Additionally, by making the call center part of the customer service organization, organizational policies are more consistently applied, and reflect a definitive focus on the customer experience.

As Tony informed the group, the Italian market lags the American market with respect to technology by 2-3 years. For this reason, Mediolanum is investing heavily in technologies that are accessible by the average Italian family. They have instituted what he called the "Poor Man's Internet," in a system called TeleText, which allows customers to perform financial transaction through their televisions. The company is also investigating the possibility of using GSM Short Messaging technology to interact with its customers telephonically. This, because Italy has one of the highest densities of cell phones in the world.

Friday PM: New Initiatives

The afternoon presentations centered around updates of current research interests and proposed new initiatives. In all cases these new projects represent extensions of research themes and reflect interest and suggestions from individual forum members. Under a separate mailing, forum members have received fax-back questionnaires soliciting interest in collaborating on one or more of the new initiatives.

Reactions to Queuing Delays..."Your Estimated Waiting Time is Five Minutes."

Professor Ziv Carmon of Duke's Fuqua School of Business provided background for a proposed research project to be conducted with Wharton's Professor Noah Gans. Ziv described his research with consumer reactions to waiting times through a series of

anecdotes. First, he asked us to consider the effect of putting mirrors next to Wharton's notoriously slow elevators. He then described an airport's purposeful decision to locate baggage claim areas further from gates than necessary. The point of each example was to demonstrate that it is not the time spent waiting that bothers people, it is the time spent waiting while doing nothing.

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His presentation described other findings from research into waiting, including the fact that people's perceptions tend to be affected most by the experience at the end of the wait. This suggests that there is some perceptual discounting of the actual duration of the wait.

Ziv and Noah are interested in extending this research into the call center environment where there are many opportunities for experimental interventions in the management of customer wait experiences. The specific application suggested by one forum member has been to evaluate the impact of intelligent messaging software.

Human Dynamics in Call Center Interactions

Professor Lorna Doucet has been working with one forum member for several years exploring the dynamics of call center representatives' interactions with customers. Her paper, "Responsiveness: Emotion and

Information Dynamics in Service Interactions," was distributed and discussed at last Spring's forum meeting in San Antonio, and is available on the Center's web-site as working paper #98-15. In that paper and in her earlier work she explored how a representative's emotional and/or informational responsiveness affects the quality and efficiency of customer interventions. One of the key findings, that traditional biases towards selecting and training phone reps in empathetic skills may be counterproductive, has influenced a number of forum members' HR strategies.

In extending this work she will be exploring the role of information responsiveness and specifically how representatives get the information they need. Given that the creation and embodiment of knowledge is in constant flux in call center organizations, employees must formulate information search strategies. What sorts of strategies are created? Under

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what conditions? How are the different strategies linked to performance?

Impact of Management Strategies in Employee Skill Development and Career Mobility

Professor Larry "Chip" Hunter has worked on a number of Call Center Forum and Financial Institutions Center research projects examining the role of human resource management practices on performance in

financial services. At the Spring meeting, Pat Harker presented findings from an on-going project in which Chip and his colleagues have been following a retail distribution re-engineering effort within a major U.S. bank. An important finding from that work has been the recognition that without focused HR strategies, attempts to move customer transactions from branch to call center channels are doomed to failure. A case study from some of this work, "Designing the Future of Banking: Lessons Learned from the Trenches" by Harker and Hunter was distributed at the meeting and is available as a working paper (#98-29) on the Center web-site.

In this new initiative, Chip and colleagues will be investigating issues around the nature of call center work and career mobility in both financial institutions and telecommunications industry environments. The overriding focus of the study is how

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management strategies affect job quality and career opportunities for call center workers. One of the key questions to be addressed is how we can better understand the skills required for particular call center functions. Of the broad range of skill characteristics -- interpersonal, problem-solving, attitude, technical proficiency, etc. -- only sub-sets may be critical for particular jobs. Further, the study will investigate the conditions under which jobs requiring different types and levels of skills can be linked in career ladders. As

described in the presentation, Chip will be looking to partner with several institutions with multiple call centers. Ideal partners would serve a mix of customer segments, with varied approaches to work organization by either customer segments or geographic locations.

Institutions who have out-sourced at least some servicing activities would be of special interest.

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