Outsourcing contact centers: Internal branding challenges and consequences

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Abstract

Purpose: The purpose of this research is to develop a deeper understanding of the philosophy adopted by organizations in making the decision to outsource contact centers or not.

Design/methodology/approach: A phenomenological study was used to develop an understanding of industry participants' experience of the outsourcing of contact centers in South Africa. Ten in-depth interviews were conducted. Content analysis identified key thoughts and common themes. This was used to develop a model for outsourcing.

Findings: Evidence was found to support three propositions developed from the literature, regarding the reasons for and unintended consequences of outsourcing. A model was developed to illustrate how costs can be reduced by outsourcing under different conditions of 'headcount constraints' and 'failure costs' of customer relationship management.

Research limitations/implications: The research was conducted in a single emerging market. Future research should confirm the validity of this model in other markets.

Practical implications: Outsourcing contact centers can lead to a loss of control over CRM and internal brand management. This can be avoided by paying considerable attention to the governance of the contract. There are two key messages for managers: 1) to resist the short-term attraction of potential cost savings and 2) marketing must play an active role in the outsourcing decision.

Originality/value: New knowledge is provided about the philosophy that organizations adopt when outsourcing contact centers. A model is presented to guide managers in the outsourcing decision-making process.

Keywords: Contact centers, outsourcing, internal brand management, unintended consequences, governance, customer relationship management

Type: Research paper

1 Introduction

1.1 Background

Contact centers are ubiquitous in medium to large organizations operating in service industries. The modern omnichannel contact center has evolved from the 1950s when Automatic Call Distributors led to the emergence of call centers, predominantly in the large telephone companies (Pearce 2018).

More recently, customers are served by contact centers using a range of media including inbound calls supplemented by email, chat, messaging, social media, and sophisticated self-service (ContactBabel 2018). Different staff serves different channels, in a variety of settings (including home-based), and geographic locations. According to Saberi et al. (2017):

> *Contact centers (CCs) are one of the main touch points of customers in an organization. They form one of the inputs to customer relationship management (CRM) to enable an organization to efficiently resolve customer queries. CCs have an important impact on customer satisfaction and are a strategic asset for CRM systems* (p.543).

The frontline staff working in contact centers represent a major component of the way in which customers experience service organizations' brands.

Over the years, organizations have commonly, and increasingly, outsourced various marketing functions such as advertising (Maddox 2003, Rodrigues et al. 2017, Ueltschy et al. 2006), marketing research (Maddox 2003, Rodrigues et al. 2017, Ueltschy et al. 2006), '*Web marketing'*, public relations and events, and direct marketing (Rodrigues et al. 2017). Ueltschy et al. (2006) note that outsourcing call centers in the US is not uncommon but express some concern that this negatively impacts customer satisfaction. Park et al. (2011) and Park and Morgan (2017) found that the level of outsourcing CRM functions has a negative impact on the market-based learning process of organizations. From the set considered Rodrigues et al. (2017) found that sales support is the least preferred activity to outsource, probably for strategic rather than economic considerations.

There are mixed reasons cited for the decision to outsource contact centers, or not. This represents a research opportunity to better understand the rationale organizations use in this regard.

1.2 The context of the research in South Africa

This research is conducted in South Africa, an important emerging market. The outsourcing of contact centers is a relatively new phenomenon and confined to select industries. In the past five years organizations, predominantly in fixed and mobile telecommunications, motor vehicle and consumer goods manufacturing have outsourced contact centers.

In South Africa, unlike Europe and the United States, home-sourcing (Honeycutt et al. 2012, Massini and Miozzo 2012, Mohr et al. 2011) is chosen as there is often a requirement for local language capability. There are 11 official languages in South Africa. Although the language of business is dominantly English, many contact centers offer service in six of the official languages. In addition, unemployment in the country is very high, StatisticsSouthAfrica (2019) report 27.1% at the end of quarter 4 – 2018, so organizations are under pressure to keep the jobs inside the country. The combination of language constraints and high unemployment seriously detract from the ability to offshore contact centers. Furthermore, English is the only language skill readily available in other countries.

Stringent labor laws led organizations to make extensive use of labor brokers. The labor broker owned and managed the relationship with the employee. By using a labor broker, the organization could continue to use ‘temporary’ staff for years, without providing full-time benefits. The trade unions strongly resisted the labor broker model and recent legislative changes have diminished this role. Under the new legislation, an employee may only be considered temporary for six months, after which the position is deemed permanent and full benefits accrue. With the implementation of this new legislation, labor brokers were replaced by outsourcing.

There are approximately fifteen outsourcers operating in the country. Two focus exclusively on emergency services, five focus dominantly on outbound sales, one focuses on the airline industry and the balance offer both service and sales support operations. The landscape is heavily dominated by outsourcers headquartered in the United Kingdom and India, with relatively small local operations. (The largest local sites have between 4500 and 5500 seats whilst the smallest have between 150 and 300 seats.) There are a few locally owned outsourcers.

The purpose of this research is to develop a deeper understanding of the philosophy adopted by South African organizations in making the decision to outsource contact centers or not.

2 Literature review

2.1 Internal brand management (IBM)

Frontline staff represents a major component of the way in which customers experience service organizations' brands. 'Brand ambassadors' (Jacobs 2003) typically fulfill this role. Ind (2001) introduced the concept of 'living the brand' whereby employees are responsible for creating positive brand experiences while interacting with customers. This is particularly important among frontline employees.

Burmann and Zeplin (2005) then developed the construct of internal brand management within organizations. This stimulates the psychological attachment of employees to the brand and to extra-role brand behavior (brand citizenship behavior), and positively impacts job satisfaction.

(Du Preez et al. 2017, Du Preez and Bendixen 2015). The authors postulate three levers driving internal brand management: brand identity which refers to the extent to which employees comprehend the brand message; brand leadership which refers to the knowledge that employees have of the brands origin, values, vision and competencies and brand communication which refers to employees' familiarity with internal and external communications concerning the brand.

Burmann and Zeplin (2005) and Burmann et al. (2009) define brand commitment as employees' psychological attachment to the brand. Morhart et al. (2009) emphasize the importance of frontline staff in 'humanizing' the brand by forming emotional connections with customers. Saleem and Iglesias (2016) regard brand centered human resource management as a key component of developing brand commitment:

> *Recruiting and selecting individuals who possess values congruent with the brand, in addition to training them in line with brand values and having a compensation structure that promotes the brand's values* (p.43).

Burmann and König (2011) question whether internal brand management can succeed in creating brand ambassadors in an outsourced call center operation. They highlight some of the intrinsic difficulties for call center staff - not least of which - the lack of a direct relationship with the brand and working conditions. Furthermore, it is difficult to embed the values (Kapferer 2012) of the client brand among employees who work for the outsource brand. This elevates psychological distress (Patel et al. 2018, Xiong et al. 2013).

According to Piehler et al. (2015)

> [*I]t has become important for every employee to know how to fulfill his or her role in the brand's best interest in order to (1) minimize negative brand experiences and …(2) enable a consistent brand communication over all channels (p.53).*

When employees are not directly in the employ of the brand organization this is very difficult to achieve because as Piehler et al. (2016) states:

> *[E]mployees can deliver on the brand promise only if they understand their organization's brand and what it means in relation to their jobs (p.1576).*

Based on the cited research, it is clear that an organization's philosophy regarding the customers' experience of the brand is crucial to the way in which it resources contact center operations.

2.2 Outsourcing

2.2.1 Reasons for outsourcing

According to Luvison and Bendixen (2010) the decision to outsource is driven by six factors including:

- the reduction of costs
- the conversion of fixed to variable costs
- enhanced flexibility
- the promise of superior expertise
- leading-edge technology and
- an ability to focus on core competencies of the business

The first three factors are based on the theory of transaction cost economics (TCE) developed by Williamson (1979). The last three factors are based on the theory of the resource-based view of the firm (RBV) developed by Barney (1991). Rodrigues et al. (2017) identified four factors used by organizations in their decision to outsource marketing functions (relative frequency of mention given in parentheses):

- strategic (45%)
- economic (24%)
- operating (24%)
- environmental (7%)

The economic and operating factors largely correspond to TCE whilst the strategic factor corresponds to RBV. The environmental factor relates to previous positive experiences of outsourcing marketing activity, employee perceptions, and socio-political or technical change.

It is important to note that the expertise of contact center outsource providers lies in operational efficiencies through economies of scale, and possibly leading-edge technology. Their business philosophy and *modus operandi* do not include ensuring customers' experience the brand as intended by the brand owner.

Based on this assertion and the diverse reasons for limited outsourcing of contact centers (refer section 1.1 § 4) the following propositions are posited:

Proposition 1: Organizations whose strategic priority is their customers' brand experience, will not outsource the contact center function

Proposition 2: Organizations whose strategic priority is operational and cost efficiency will outsource the contact center function

2.2.2 Unintended consequences

Unintended consequences lie beneath the veneer of the benefits of outsourcing. These unintended consequences include hidden or invisible costs, including underestimating the cost of implementation (Barthélemy 2003, Larsen et al. 2013, Le Bon and Hughes 2009, Manning 2014, Sharma 2012, Stringfellow et al. 2008, Tate and van der Valk 2008), customer backlash and deterioration in customer satisfaction (Le Bon and Hughes 2009, Ren and Zhou 2008, Sharma 2012, Stringfellow et al. 2008, Tate and van der Valk 2008, Ueltschy et al. 2006).

Furthermore, some authors indicate difficulties in communicating with the outsourcer and the need for more frequent interactions than anticipated (Barthélemy 2003, Stringfellow et al. 2008).

Steinbach et al. (2018) demonstrate that "outcome-orientated contracts in service outsourcing may have unintended consequences because they create value attribution ambiguity" (p.1519). This may result in opportunism by the outsourcer which induces perverse incentives, aligning with the findings of Le Bon and Hughes (2009). This type of environment foments organizational politics (Eisenhardt and Bourgeois 1988, Manning 2014).

The unintended consequences described above all constitute increased organizational complexity as a result of outsourcing. Luvison and Bendixen (2010) identify three types of complexity: management complexity, learning complexity, and strategic complexity. Willcocks and Feeny (2006) contend that outsourcing requires different skills, attitudes, and behaviors from those required in traditional operations. This causes additional management effort which is a major source of hidden costs. The different skill set required represents an example of learning complexity. When customer service is outsourced an organization may lose this core competency, creating an opportunity to develop new core competencies - provided it has the absorptive capacity. This represents strategic complexity.

Based on the cited literature the following proposition is posited:

Proposition 3: Organizations which outsource contact centers will experience increased:

a) management complexity
b) learning complexity
c) strategic complexity

3 Methodology

The focus of this research is to develop an understanding of the phenomenon of organizations outsourcing their contact centers. The authors chose to do this from the perspective of participants' experience of this process. A phenomenological study (Husserl 1962) is thus an appropriate research design (Groenewald 2004, Leedy and Ormrod 2012).

Further guidance was found in Lincoln and Guba (1985), who use the term 'naturalistic inquiry' to understand people's behavior and real-life experiences.

3.1 Sampling

The research method required a non-random purposive sample (Leedy and Ormrod 2012, Welman and Kruger 1999). As per Kruger (1988), each respondent was selected based on their individual experiences "relating to the phenomenon to be researched" (p.150). Each respondent was uniquely positioned to offer insight into the research topic. For this type of study, Boyd (2001) recommends a sample size of between two and ten whilst Leedy and Ormrod (2012) recommend between five and 25.

Ten contact center executives consented to be interviewed anonymously in this study.

- Two respondents worked for organizations which are vehemently opposed to outsourcing;
- Three respondents participated in the decision to outsource and dealt with the ramifications;
- Two respondents have been involved in both outsourcing and back-sourcing;
- Two respondents have worked for outsourcers, enabling them to share the outsourcer perspective;

- One respondent was involved in a complex tripartite alliance, where two large global brands have developed a private label product which is sold and serviced by a third-party outsourcer.

3.2 Method of data collection

A semi-structured interview outline was emailed to respondents prior to the in-depth interviews being conducted. This allowed the respondents time to consider their responses rather than giving ‘off the cuff’ answers. All interviews were conducted in the respondent’s workplace to encourage a natural setting as well as to ensure privacy and quiet. Each interview lasted between 60 and 90 minutes, with the more passionate respondents taking longer.

Details of the contractual arrangements between the organizations and their outsourcers are tightly held and few people on either side are privy to the full details. As a result, triangulation from documentary and other sources was infeasible. The sample selected comprised senior executives from both the organizations and where applicable, their outsources. This allows for a balanced view.

The interview outline is presented in the Appendix.

3.3 Method of data analysis

The authors used a simplified version of the Hycner (1985) explication process. Each interview was recorded (with permission) and independently transcribed. Transcriptions were checked for accuracy by an independent party. The researchers independently coded the responses to each question pertaining to the assertions. The minor differences were resolved by referring to the transcriptions and interviews whenever further clarity was required. Content analysis was used to identify the key thoughts and common themes (Miles and Huberman 1994). Verbatim statements are used to accurately reflect the unique sentiments of the respondents; mindful of the need to protect their identity.

4 Results

4.1 Organizations not outsourcing

Both organizations which have not outsourced have a proud heritage with very strong corporate cultures and are loathe to put their brands and reputation at risk. They work hard at inculcating brand values among their staff, and pay keen attention to the customers' service experience - from the most senior executives to the customer service agent.

The reasons cited for not outsourcing were:

> *our philosophy… is to own the client journey;*
> *that special touch might not be there, if they don't feel part of the company, part of the culture and understand what we're trying to achieve;*
> *we would be risking a lot and risk damaging the brand in the process… that moment of truth with the customer, we don't want to outsource that.*

When asked if there are any circumstances in which they would consider outsourcing their responses were:

> *if you don't own the whole piece …anything you roll out…to keep a third party up to speed is almost impossible. For that reason, we kept it internal;*

> *our products are very complex, and most outsourcers couldn't even match the current costing… because of the complexity*.

4.2 Organizations outsourcing

Five of the six organizations which outsourced their contact center stress that the pressure to save costs was paramount to their decision. The sixth organization was forced into outsourcing because of a partnering arrangement when the business was established. This sentiment was typically expressed as:

> *(A) belief, that by outsourcing the contact center, it would be more economically viable driven by two issues… reduce headcount and reduce costs… straight-line balance sheet issue;*

salaries were exorbitant…outsourcing was a logical thing to do…we were under pressure (to) cut costs.

Another reason cited was

So, what we are looking for is a resource to operate using [our] systems and processes.

One of the organizations has outsourced, back-sourced and then outsourced again. They explained the reasons as:

The first time cost related - the assumption that it would cost less. The second time a change of leadership.

Most organizations started with a hybrid model involving a partial outsource – usually to test the waters. Generally, the more valuable and more complex services were kept in-house, and services perceived to be less valuable and lower-risk outsourced. To this day most of the respondents continue on this trajectory.

Although the number of outsourcing providers used ranges from one to eight the following response illustrates a good reason for using a single provider:

there's so much complexity already, just by outsourcing, we didn't want to compound that.

Respondents were also asked how outsourcing adds to organizational complexity. For some respondents the complexity is overwhelming - as described in these statements:

It's crazy. It's absolutely crazy. There are multiple complexities; first from a leadership point of view and then there's engagement. It becomes even more complex, in terms of layers of communication, even if you weren't outsourcing, communication in its entirety is complex and you really, really hope that the message you are trying to convey is received the way you want it to be received. …you are communicating to a leadership team, who in turn translates that into what they think it means…we often have to recommunicate the same thing over and over…that just spills over to the customer;

it is hard to get the cultural fit. It's hugely complicated, it adds so many different layers;

from an audit and compliance perspective, there's already a level of complexity because there needs to be a tight agreement in place.

Five of the six organizations outsourcing found internal brand management complex and difficult to implement. Typically, a range of functions, including Human Resources, Marketing and Operations management, are involved in sharing the brand values and intent with staff through a variety of mechanisms. Outsourcing changes the dynamics of internal branding because the staff is not directly employed by the client organization.

The following statements typify the respondent's experiences:

> *trying to impose (your) brand and rules or behaviors, … is extremely difficult. On face value (they'll) bow down and say whatever you want to hear…but you can't feel the brand they're supposed to be representing;*
>
> *you can't really control it, …you are at the risk of their interpretation…What we tried (was) brand protection.*

Organizations shared their internal branding methodologies used for outsourced operations:

> *we try and drive the brand awareness that we keep true to our brand, through quality and drive the [Net Promoter Score] from (a) strategy perspective. There are still cracks because their employee is loyal to their brand. Sometimes the customer picks that up …;*
>
> *there is ongoing training – (but) we need to be involved upfront. How can we train someone that we would not have recruited in the first place?*

Organizations appear to be quite frustrated with their outsourcing providers. None of the respondents shared any stories relating to brand history, shared values or any of the other usual internal branding mechanisms. One respondent specifically mentioned that, quite unlike internal staff, the staff employed by the outsourcer is not proud to wear corporate- branded clothing.

Training is usually conducted by the client company using 'train the trainer' methodology. Some respondents expressed frustration at the type and overall quality of training offered by the outsourcing partners.

In describing the internal branding challenges faced by the brand, the sense of disillusion among respondents is palpable:

the problem is that you push all that stuff through, but … you don't have control over them;

(everything) is available …but when you (leave) they revert to being the employee of the outsourcer;

if you look at customer satisfaction it's worlds apart…like speaking to two completely different companies.

Given the yawning gaps in implementing internal brand management, it is important for each organization to try to conquer their unique challenges and must formulate its own response. Some examples include:

you've got to insert yourself into the outsourcer's business;

I feel we put all our efforts in, but it's in vain …it's not sustainable;

we make everything a negotiation and optional…I think that's where the branding goes wrong.

One organization adequately dealt with this difficult task by insisting that the outsourced operation was located on their own premises, using their own systems, processes, and technology, including workforce planning and quality assurance. In addition, the organization maintains strict oversight of remuneration levels to ensure that outsourcing staff has the commensurate skills and experience.

Those organizations which had experience with back-sourcing shared the following:

…the business case was no longer stacking up;

we had to take it back because we were reaching a crisis point… we were bleeding customers.

The difficulties with back-sourcing were described as follows:

I bear the scars…taking it back is a very, very difficult and painful exercise… you look at (whether staff) are worth training and keeping? You have to (find) equipment, people, locations. All difficult decisions. Ultimately, if you are serious about saving the business, you take it back;

we did extensive change management (and) training, we deal(t) with a lot of personal issues around how they were treated in the past. We had to reintegrate them into (our) way of doing things…the focus is on quality and service, not pushing efficiencies;

but to (the) point we were comfortable…most of the (past) ills settled…15 months… it takes a while.

4.3 Outsourcers perspective

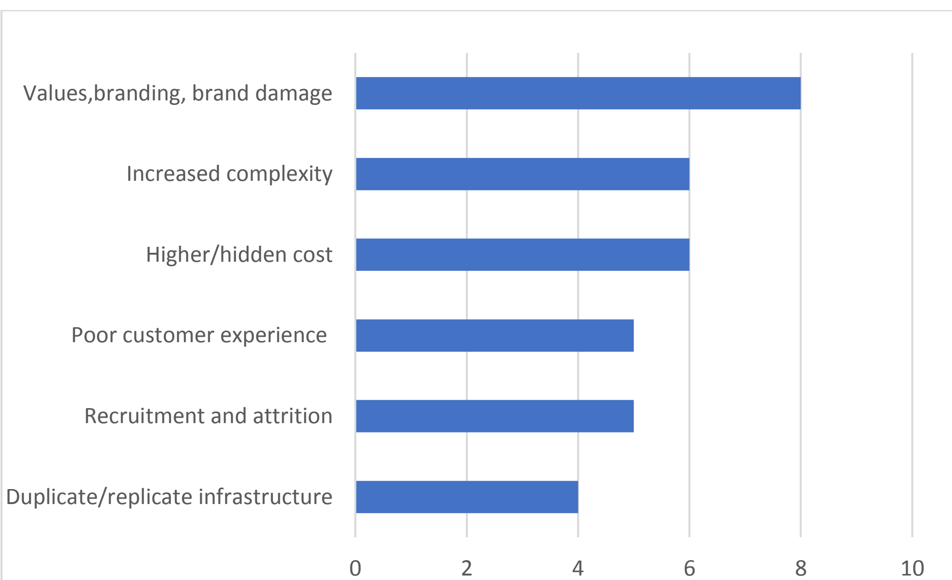
In probing the question of internal branding, an outsourcer shared the following reality:

when you arrive at work in the morning, … you arrive at your employers…there's no mistaking where you are coming to work. You are coming to work for outsourcer X, you are not coming to work to the financial institution or telco, and when you have your daily huddles, your monthly meetings, your quarterly incentive parties or whatever the case may be, the people that you work for don't really get mentioned...so to assume that the person then has an allegiance to the brand of the servicing client, I think is misguided.

4.4 Dominant themes

In analyzing the results, six dominant themes emerged. Most respondents mention the brand damage that occurs when customer service is outsourced (Figure1).

Figure 1: Frequency of mention of major themes



These themes are exemplified by the following statements:

Values, branding, brand damage:

> *the brand is not embedded in them, it's not what they live for;*
>
> *[the client brand] is not aligned to your brand, not aligned to your values, it's not aligned to your thinking, their ethos is very different.*

Increased complexity:

> *There are multiple complexities, first from a leadership point of view…(then) it becomes even more complex, in terms of layers of communication.*

Hidden/ higher cost:

> *It costs a significant amount of money… you've got a management team, managing the management team of an outsourcer, and that is absurd;*
>
> *you're scared that they're not going to do a good job, so you insert yourself into the process anyway. That's the obvious way to do it, but it also then becomes very expensive.*

Poor customer experience:

> *if you look at customer satisfaction from customers that were serviced by the outsource partner versus the in-house guys, its worlds apart…almost like speaking to two completely different companies, with different processes and different products;*
>
> *[escalated poor customer experience] epitomizes everything. It just tells me, you know what, it's not what we want - it's not, because that has damaged the brand, the perception, and the chance of that sale. That is cold. It's gone.*

Recruitment/attrition:

> *There is a lot of turnover, and we lose control every time someone else starts…I do find it's kind of throwing money against the wind;*
>
> *it's a hiding to nothing, in this violent cycle of turnover, of a revolving door, is costing you a fortune.*

Duplicate/replicate infrastructure:

…you would need strong account management, two or three account management people, need QA people to do QA on the QA of the outsourcer, need extra workforce managers, extra trainers… you inflate the structure that didn't need to be inflated… it never lets up because all of these resources that you have to put on the top are expensive resources;

We have an entire team who manages the managers of the (outsource) contact centers…they should be teaching us…best practices… how are contact centers evolving? Instead, we (do) all the research…tell them, guide them, do everything…they just implement…But they are the experts.

One organization anticipated the complexity and potential unintended consequences of outsourcing. In particular, they directly addressed the issue of internal brand management and were aware of the dilemma of agents working for one brand while supporting another.

This understanding is illustrated by the following statements:

How do you make this easy, practical, understandable for agents? They are the ones who should understand it. They are the ones who interact with the customer, so if they don't have a connection with them it's lost. The fortunate thing for us is having it on site, with us, we actually only talk [our] values, because that's all that is important.

The outsourcer is located on the client organization's premises which drives immersion in the client brand:

All the material is absolutely branded [our company]. So, you will find very little [outsourcer] branding here. Whether it is on training material, documentation, the physical facilities, their email address, all of it is [our brand] … I would say 95% of the time their exposure is [our brand], your visual exposure, your audible exposure, it's all [our brand]. If you ask them here, where they work, they will say [our brand]. If you look at their Facebook profiles, I would say that 80% of them will say employed by [our brand].

This organization takes ownership of the performance of the contact center and does not delegate this responsibility to the outsourcing partner. This is enforced by the fact that the outsourcing contract does not include any penalties for non-performance.

5 Discussion

5.1 Support for the propositions

The two organizations which chose not to outsource their contact centers are characterized as having a very strong commitment to their customers' experience of the brand and have strong internal branding programs in place. This strategic focus provides evidence of support for RBV (Barney, 1991) and thus Proposition 1.

The dominant reasons cited by organizations who outsource their contact centers is cost savings and headcount reduction. This strategic focus provides evidence of support for TCE (Williamson, 1979) and thus Proposition 2.

All but one of the six organizations who chose to outsource experienced considerable difficulties and frustrations with their decision. The anticipated savings were repeatedly not realized as there were many hidden costs (Barthélemy 2003, Larsen et al. 2013, Le Bon and Hughes 2009, Manning 2014, Sharma 2012, Stringfellow et al. 2008, Tate and van der Valk 2008), such as: having to replicate infrastructure to deal with quality assurance, workforce management, and customer complaint escalations (Le Bon and Hughes 2009, Ren and Zhou 2008, Sharma 2012, Stringfellow et al. 2008, Tate and van der Valk 2008, Ueltschy et al. 2006).

In addition, these organizations experienced more complex leadership and communication (Barthélemy, 2003, Eisenhardt and Bourgeois, 1988, Manning, 2014 and Stringfellow et al. 2008)

Staff attrition was also significantly higher at the outsourcer resulting in higher training costs and diminished brand experience. This represents increased management complexity and provides evidence to support Proposition 3(a).

These organizations also had to acquire new skills in terms of developing managers to oversee the contract and developing collaborative relationship skills. These skills are vastly different from managing the contact center operation. This represents learning complexity and provides evidence to support Proposition 3(b).

5.2 Governance issues

All but one of the organizations experienced a loss of control of the customer experience. The outsourcer firms acknowledge this, as the outsourcer demands allegiance to their own brand and not to that of the client. This represents an increase in strategic complexity for the outsourcing organization and provides evidence of support for Proposition 3(c).

It is interesting to note that the difficulties experienced in outsourcing are largely attributable to the focus on achieving cost savings, with insufficient consideration given to the governance structures required for the effective implementation of the contracts.

Power et al. (2004) describe the lack of formal outsourcing governance programs as a trap, which contributes to organizations' failure to achieve their outsourcing goals, stating:

> *The governance plan is the glue that holds the outsourcing relationship together. (p.42).*

According to Mohr et al. (2011):

> *…the issue of appropriate governance must consider the question: is the function that the company is considering outsourcing mission-critical? (p.43).*

They add:

> *For a service-oriented company, cultivating and cementing key customer relationships is likely mission-critical to its future (p.44).*

This aligns with Le Bon and Hughes (2009) view that organizations which strongly value their brands and prioritize internal brand management should be cautious about outsourcing contact center services:

> *A resource-based view of the company suggests that sustainable competitive advantage is achieved by continuously developing existing and creating new resources and capabilities in response to rapidly changing market conditions (Barney 1991, Morgan and Hunt 1994) one might reasonably assert that a deficiency in customer service amounts to a core incompetence that mandates an internally derived solution. This, of course, assumes that a firm cannot retain sufficient attention on customers if specific customer service or customer care related activities are provided instead by companies external to the firm. (p.406).*

At first, it appears alarming that the service organizations studied would not consider customer relationships mission-critical, however, four of the five organizations which experienced difficulties with outsourcing operate in mass markets that are highly competitive, with low switching costs for customers. This has resulted in low brand loyalty and a high level of customer churn with many customers using two or more brands. (Aydin et al. 2005, de Ruyter et al. 1998, El-Manstrly 2016, Yang and Liu 2018).

It is apparent that these organizations are not treating all customers as key, despite the warnings of Lee et al. (2001) that in some industries, with low switching costs, customer retention is important because of the high cost of customer acquisition. One possible solution for organizations which accept high customer acquisition costs, would be to outsource contact center operations only for non-key customers. This aligns with the suggestion by Lim and Tan (2009); “that it may be optimal for outsourcing firms to adopt a make-*and*-buy strategy”, (p.369).

One organization adopted a very different approach to governance and seems to have succeeded in its outsourcing. This included:

1. Locating the operation on their own premises;
2. Strictly monitor the employment practices of the outsourcer;
3. Retaining full control and access to all transactional and performance data;
4. Not imposing performance penalties for the outsourcer as the organization maintains responsibility for performance.

5.3 Model development

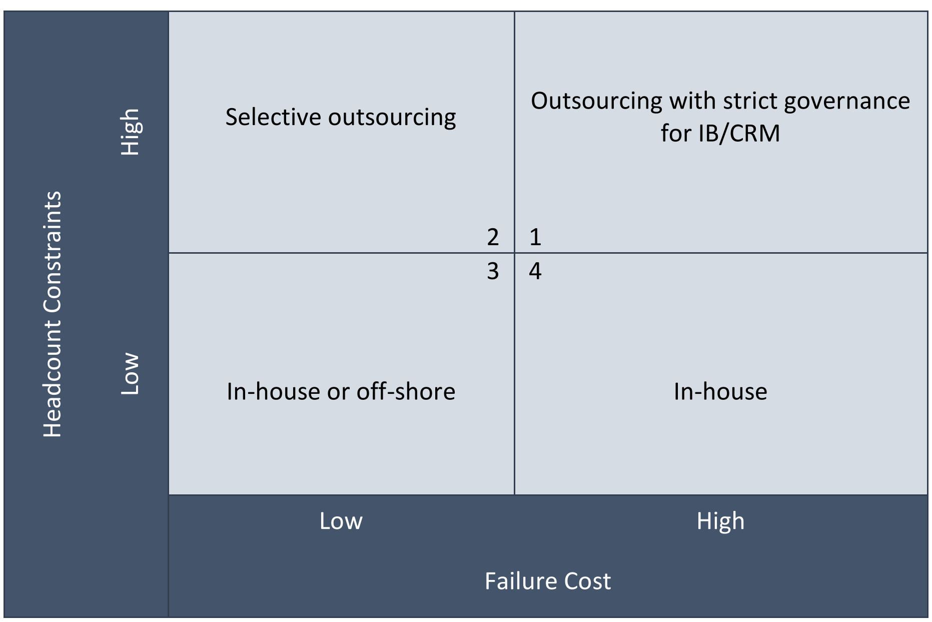
Contact centers are an important channel for an organization’s CRM strategy (Mohr et al. 2011, Payne and Frow 2005, Saberi et al. 2017). Varadarajan (2010) names CRM as a precursor to the customer interfacing layer of strategic marketing, as such, he articulates the need to emphasize the retention of existing customers versus the acquisition of new customers. In this research, the two organizations which do not outsource their contact centers, and one of the organizations which does, have clearly acknowledged the key role of CRM in their business. These three organizations are all prone to substantial financial liability should an agent in the contact center provide incorrect or inappropriate information to a customer i.e. this represents a high cost of failure. This is not true for other organizations in the study.

The remaining five organizations have made operational decisions to outsource their contact centers without recognizing the marketing consequences of their actions. In so doing they have relinquished control of internal brand management. This begs the question as to whether marketing was party to their decision to outsource.

CRM is acknowledged as being difficult to implement because of the numerous functions within an organization and is further complicated by the addition of third parties, Proctor (2010). However, CRM is a strategic imperative for marketing and must form part of any outsourcing decision.

Based on the premise that CRM is a strategic imperative, the model presented in Figure 2 illustrates means by which organizations can achieve cost savings in their contact centers. The model also allows for customers' brand experience to remain in the organization's control. The constraints particular to South Africa (such as an inability to offshore) have been ignored to make the model more generally applicable.

Figure 2: Means of cost saving when outsourcing



The model is a 2 x 2 matrix and depicts two dimensions. The first dimension is 'failure cost'. This represents the potential financial liability that the organization faces should incomplete or inaccurate information be provided to a customer by a contact center agent, for example:

a) Liability for high-value product replacement;
b) Liability for injury or death;
c) The high cost of insurance claims.

The second dimension is 'headcount constraint'. Such constraints could arise for several reasons, for example:

a) Labor laws limiting the use of part-time or temporary staff;
b) Stakeholder imposed labor productivity metrics;
c) Strategic cost saving.

The simplest circumstances are when 'failure cost' and 'headcount constraints' are low – Quadrant 3. In this quadrant, the organization uses internal brand management to educate their staff. Savings can be achieved by off-shoring where labor and other costs are lower.

In Quadrant 4, 'failure cost' is high but the pressures of 'headcount constraints' are not manifest. In this quadrant, the organization can achieve cost savings by focusing on customer retention through strong internal brand management. The organization typically invests substantially in training and quality assurance programs.

In Quadrant 1, the organization faces a difficult circumstance as both 'headcount constraints' and 'failure cost' are high. This forces the outsource decision but must be strictly controlled through governance plans to ensure the outsource agents behave as if they were direct employees (refer to the discussion at the end of section 5.2).

This would maintain brand integrity as strong internal brand management is possible. Cost savings are possible through outsourcing as employee benefits are no longer the responsibility of the organization.

Quadrant 2 is characterized by low 'failure cost' and high 'headcount constraints'. In this quadrant, selective outsourcing should be considered for non-key customers. These customer segments display low brand loyalty and have low switching costs (implying price is the most important brand selection criterion). This behavior by customers means that internal brand management has less impact, making outsourcing possible. Key customers should be served internally with a strong focus on internal brand management. Cost savings may be achieved through selective outsourcing.

6 Conclusion

6.1 Limitations and implications for future research

This research resulted in the development of a model to provide a deeper understanding of the philosophy underlying the decision to outsource a marketing activity, viz. contact centers. This model illustrates how costs can be reduced by outsourcing under different conditions of ‘headcount constraints’ and ‘cost of failure’.

This research was conducted in an emerging market (South Africa). Future research should confirm the validity of this model in other emerging and developed markets. The use of the functional research paradigm (as opposed to the interpretative paradigm) is recommended. This would quantify the relative importance of, and strengths of, the relationships between the variables in the model.

6.2 Implications for management

The results of this research confirm the views of many authors who caution organizations to be wary of the promises of short-term financial gains by outsourcing, (Barthélemy 2003, Le Bon and Hughes 2009, Power et al. 2004). There are many unintended consequences to outsourcing. Management complexity, learning complexity, and strategic complexity result in significant long-term hidden costs which may far outweigh the short-term benefits (Luvison and Bendixen 2010). These hidden costs include replication of infrastructure; more complex leadership and communication; higher staff attrition at the outsourcer; and developing new skills to manage the relationship rather the operation.

The findings of this research support extant literature (Mohr et al. 2011, Park et al. 2011, Park and Morgan 2017, Rodrigues et al. 2017, Ueltschy et al. 2006) which cautions loss of control over CRM and internal brand management when outsourcing. This can be avoided by paying considerable attention to the governance of the outsourcing contract. Examples of this governance include locating the operation on their own premises; strict monitoring of the employment practices of the outsourcer; retaining full control and access to all transactional and performance data, and not imposing performance penalties for the outsourcer, by maintaining internal responsibility for performance.

The two key messages for management are: 1) to resist being lured to the short-term benefits of outsourcing like 'magpies to bright shiny objects' and 2) for the marketing function to recognize that contact center operations are an integral part of CRM and they should, therefore, be actively involved in any decision to outsource this function.

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Appendix

Assertion 1: The task of internal branding is more complex and more challenging in an outsourced service environment.

Sub-questions:

1. *Have you outsourced customer service? YES/NO*
2. *If no, why? Probe reasons*
3. *If NO – are there any circumstances in which you would consider outsourcing?*
4. *If yes, why?*
5. *Is it a partial or complete outsource?*
6. *Probe: Which pieces did you keep, and which did you outsource?*
7. *Why?*
8. *How many outsource partners do you use?*
9. *How does this add to the organizational complexity?*

If yes:

1. *What are the challenges faced by the brand when trying to align the behavior of an outsourcer's employees?*
2. *Have you considered or have you indeed back-sourced?*
3. *Why - if considered? Or indeed back-sourced*
4. *If you have back-sourced describe the challenges/ experience*

Assertion 2: Outsourcing customer service has unintended consequences which impact the ability of staff to 'live the brand'.

Sub-questions:

1. *Have you experienced any unintended consequences to the decision to outsource call center operations? (e.g.) different skills required, increased call backs, drop in customer loyalty, customer push back, loss of customer revenue, labor turnover rates, cost of transportation, cost of infrastructure etc.*
2. *What is the benefit or damage to the brand?*
3. *How do you track the impact on the brand?*
4. *How have you overcome some of these consequences?*
5. *How do you inculcate the values of this business in an outsource operation with its own values?*
6. *What are some of the lessons learned?*

Outsourcer:

1. *What is your policy regarding agents working on different accounts?*
2. *Do you have a policy in place regarding length of service on an account before transfer is allowed?*
3. *How do you manage the inherent conflict between your own brand and that of the brand you service?*
4. *Whose brand do your staff work for?*
5. *When it comes to internal branding – discuss some of the challenges*
6. *What are some of the unintended consequences of taking on a new account?*

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