

Key Workplace Documents

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ILR Impact Brief - Ownership Status
Matters: Call Centers, Employment
Systems, and Turnover

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Ownership Status Matters: Call Centers, Employment Systems, and Turnover

Research questions: How do management strategies and employment systems differ among in-house, outsourced, and offshore call centers? What effect do these differences in strategy and practice have on employee turnover? (Definitions: In-house call centers are maintained by U.S. companies to service their own customers; outsourced call centers are operated by subcontractors in the U.S.; offshore call centers serve the U.S. market from locations in India.)

Conclusion: Each type of call center (i.e., ownership status) is associated with particular strategies and systems, which in turn influence quit rates. In-house call centers typically focus on service quality and adopt quasi-professional employment systems (higher pay, more opportunities for employee problem-solving, minimal performance monitoring). Cost control, by contrast, is the strategic driver of outsourced and offshore call centers, which favor low-commitment employment systems that depend on close monitoring and limited on-the-job discretion. Turnover, a major problem for the entire industry, is lowest at in-house call centers and highest at outsourced facilities.

Workplace impact: Human resource practices affect turnover; high turnover is associated with lower quality and productivity and higher costs. Other outcomes, such as customer satisfaction and revenue growth, should be studied to better understand the costs and

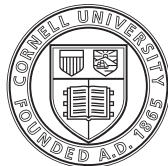
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benefits of alternative management strategies and employment systems for different types of call centers.

Policy implications: Rigorous performance monitoring at offshore call centers in India, where employees have high levels of formal education, is an inefficient use of human capital and a “loss” for subcontractors. Capturing those losses may require a shift in the relationship with U.S. clients, from one based on control of cost and performance to one based on trust and service quality. Outsourced call centers in the U.S. are vulnerable, particularly to foreign competition. They enjoy only a modest labor cost advantage over in-house operations and are disadvantaged by higher turnover and a less skilled workforce compared to in-house and offshore centers.

Abstract: Call centers handle customer service and other transactions for companies in a variety of industries. Earlier research by these authors indicates about 85% of call centers are operated in-house, less than 15% are outsourced domestically, and a tiny fraction are subcontracted offshore to India. Despite concerns about quality and security, the Indian call center industry has grown rapidly.

Extant academic literature suggests that customer services core to a company’s business are usually handled in-house. These services tend to be more complex, require more discretion and customization, and are vital to the company’s competitiveness and customer relationships. The decision to keep call center work in-house enables a company to retain the human capital that creates value for its business. This quality strategy



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suggests an employment system that requires more highly-educated employees, pays higher wages, provides more opportunity for employee judgment and problem-solving, and uses less monitoring to manage performance. This particular study of call centers found that in-house operations generally conformed to the above framework and not unexpectedly experienced less turnover (quits and dismissals) than outsourced or offshore call centers.

The literature also suggests that companies tend to subcontract service and sales operations that are routine, more readily codified, and not central to business strategy. Client expectations about performance, concerns about the risks inherent in subcontracting, and the cost of monitoring the contract compel subcontractors to stress cost containment and quality control. The human resource practices adopted by these subcontractors typically include stringent tracking of employee performance, adherence to metrics, and lower pay.

This study found that outsourced and offshore call centers do indeed take on clients' more generic transactions. These two types of call centers pursue a low-commitment employment strategy, with the particulars differentiated by ownership type. For example, employees at offshore operations have more years of formal schooling than do those at outsourced centers, but work under tighter constraints. Electronic monitoring and supervisor feedback is more intensive at offshore facilities, and employees have less opportunity to use discretion and participate in problem-solving groups. They are more likely to work on commission (many offshore centers are sales-oriented) and are less obligated to follow scripts when dealing with customers. Despite the inten-

sive performance monitoring at offshore operations, however, turnover and absenteeism are lower than at outsourced call centers in the U.S.

Researchers here considered a variety of work practices and employment system variables in trying to understand the relationship between ownership status and turnover. In addition to the factors noted above, they looked at market segment, union status, investment in training, gender, and pay ratio. The bottom line: the presence of a union, work discretion, use of problem-solving groups, and pay ratio are significantly associated with lower quit rates; use of scripts and the percent of pay based on commission are associated with higher quit rates. What the research could not discern is whether the difference in employment systems is a function of the complexity of the work or the business choice to pursue a cost or quality strategy.

Methodology: Researchers surveyed 310 call centers, generating a response rate of 65.4%. The data were used in a subsequent regression analysis.

Source publication: "Service Management and Employment Systems in U.S. and Indian Call Centers." S. Collins and L. Brainard, eds., *Brookings Trade Forum 2005: Offshoring White-collar Work – The Issues and Implications*. The Brookings Institution.

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