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Deriving Value from a Commodity Process: A Case Study of the Strategic Planning and Management of a Call Center

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DERIVING VALUE FROM A COMMODITY PROCESS: A CASE STUDY OF THE STRATEGIC PLANNING AND MANAGEMENT OF A CALL CENTER

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Abstract

The paper unravels the prevalent paradigm that differentiates between the management of a core competence and commodity processes. A case study is conducted to examine the strategic planning and management of a call center. The aim is to illustrate that a commodity process, such as handling customers' complaints and enquiries, can be significantly beneficial to the business, if a clear value-creating strategy is articulated and a value-creating activity system is established. Findings derived from this study suggest that a call center can provide substantial added value to the business and be managed differently through devising an appropriate intellectual capital management approach.

Keywords: Commodity process, Core competence, Call center, Case study.

1 INTRODUCTION

The emergence of the knowledge economy calls for a new way of competition that is unique in the deployment of resources and focused on the selection of segments and/or markets (e.g. Drucker, 1999; Steward, 1989). The rationale for the former is based on the need to innovate and differentiate, while the latter is rooted in the belief that emphasizing the core, rather than all, areas of business facilitates the generation and maximization of added value (Grant, 1996). The need to differentiate and focus has increasingly led firms to select, prioritize and set apart areas that have the scope for enhancing competitiveness from areas which are perceived as cost centers (Fjeldstad & Haanaes, 2001; Pelham, 1999). As a result, areas that are identified as cost centers are managed based on the principle of cost-efficiency and become the primary targets for cost cutting and outsourcing (Lepak & Snell, 2002), because of their limited potential for adding value and competitiveness to the business. This distinction has becoming a very prevalent paradigm in the way of which decision makers approach a situation, evaluate options, generate solutions and plan for subsequent actions. This paradigm is portrayed by the emergence of two categories that form the basis of contemporary organizations, notably core competencies and commodity processes, or core and peripheral elements in Siggelkow's (2002) terms.

This line of reasoning becomes a very convenient conceptual tool to simplify the complexity of decision making within the context of strategic planning, in particular when multiple solutions, which can potentially range from developing everything in-house to total outsourcing, are available to decision makers. Results derived from the distinction between core competencies and commodity processes are reflected in the strategic direction that guides and initiates firms' development and actions, i.e. continuously investing in core competencies to enhance competitiveness or managing commodity processes to achieve a higher level of cost efficiency (Prahalad & Hamel, 1990). This seemingly logical thought process contains some hidden assumptions that require clarification. First, to derive competitiveness from commodity processes is perceived as infeasible or unnecessary. Second, there is no need to introduce differentiation in areas where industrial standards, such as returning purchased good or obtaining information through customer helpline, are prevalent.

To challenge the above assumptions, we conducted a case study and researched the strategic planning and management of a call center within one of the largest retailers in the UK. Our aim is to explore whether the distinction between core competencies and the commodity process and subsequent actions taken based on such line of reasoning is theoretically sustainable and practically beneficial. The fundamental research question that we seek to address is whether firms can develop competitive advantage from commodity processes that they perform. The rationale behind selecting call centers as the research context is threefold. First, for firms that actively develop customer relationship management, call centers are becoming increasingly a popular channel to enable and streamline the management of such relationship (Silvestro & Silvestro, 2003). Second, the initiation and management of a call center, like many other different types of information system (IS) projects, provides a useful context to examine how managers approach, plan and rationalize their decisions and actions. Third, the mounting popularity of call centers implies some contradictions between a firm's planning and action. This is because there is little debate in perceiving effective customer relationship as one of the most crucial competencies for many firms to develop. It is questionable how such competency can be achieved through performing a set of activities which is not meant to add any value to the business in the first place - the commodity process. The process of handling customers' calls is typically perceived and managed as a commodity process. The commoditization of call centers is reflected in various practices that are frequently documented and reported in the literature. For instance, the emphasis is typically on deskilling the call center workforce, justified by the need to overcome the high turnover rate (Batt, 2002). Also, focusing on efficiency at the expense of effectiveness exemplifies the belief that a call center represents a cost to the firm, not a place where value can be added (Dean, 2002).

Essentially, the underlying principle used to manage a call center resembles a Taylorist methodology where low operating cost and high quantity are the key (Bain, et al., 2002; Peaucelle, 2000).

Evidence derived from the analysis confirms that the business process underlying the examined call center portrays a commodity process, as defined in the current literature. However, in the case company the intent was to re-create the experience that customers expect during their visit to any of the stores and building. Thus, the call-center experience, while a commodity process, was revitalized to provide strategic value to the business. Our findings are crucial not only to emphasize the need to reexamine the value of commodity processes, but also to highlight the strategic planning process and management of such processes.

The rest of the paper is organized as follows. Section Two outlines debates and perspectives related to two main areas, notably core competencies and commodity processes. Section Three highlights the methodological issues and concerns considered in this study. Section Four reports the findings by illustrating the evidence collected, as well as through comparing these with findings generated by other studies. The final section concludes the paper by addressing the contributions and implications of this study.

2 THEORETICAL FOUNDATION

Core competencies represent a firm's unique abilities and characteristics in developing, coordinating and integrating available resources to create a source for differentiation (Prahalad & Hamel, 1990). As theorized by scholars advocated the resource-based view of the firm, resources that can potentially leverage and sustain a firm's competitiveness share four characteristics, notably being valuable, rare, inimitable and non-substitutable (e.g. Corner & Prahalad, 1996; Wade & Hulland, 2004; Zahra & Nielsen, 2002). Based on this paradigm, not all resources possessed by a firm have the quality and characteristics that can lead to the creation of strategic value and leverage the firm's competitiveness. Contrasting to the notion of core competencies, commodity processes symbolize a set of activities performed by firms that are relatively standardized across the industry or even across different industries. For instance, firms might differ in the detail in greeting their visitors and processing their traveling expenses. Nevertheless, the underlying processes performed by receptionists or personnel at the expenses department will be largely similar across one industry or across different industries. In addition, to develop and perform commodity processes typically requires know-how that can be easily obtained from the market or developed in-house. Often, there is a market with service providers who claim to be able to achieve a higher level of cost efficiency than their clients to perform the process by themselves (DiRomualdo and Gurbaxani, 1998). In terms of its strategic implication, commodity processes offer limited scope to generate differentiation or make this uneconomical (Poulson, 2002). In other words, even though both core competencies and commodity processes require resource to function, the former is able to generate further resources, while the latter simply consume resources without adding strategic value for the firm.

Due to the belief that a commodity process provides limited added value to the business, options available to firms in managing these commodity processes are largely driven by and rationalized based on the principle of cost-efficiency. Firms' sensitivity towards cost, in particular in relation to those involved in performing commodity processes, has restricted the opportunity to invest in or reinvent areas that might potentially be able to provide additional competitive advantage. For commodity process areas, who should perform the process is seen as unimportant. In other words, it makes little or no strategic difference whether the commodity process is performed by the firm or by its service providers. Hence, when firms can obtain the required function with less cost through outsourcing, the motivation for continuing to perform the function in-house becomes less attractive. In situations where performing the commodity process in-house is necessary, firms often benchmark other competitors to streamline their operation, so that cost can be reduced to the same level as the competition. As a result, some processes and functions performed by firms are increasingly becoming identical, and the ability to differentiate is very limited.

Distinguishing core competencies from commodity processes provides a convenient classification for managers, prescribing appropriate actions in relation to each. Despite its convenience, such a distinction and the consequent actions following from this distinction can be a double-edged sword that provides both advantages and disadvantages to a firm. Potential dangers are threefold. First, the way in which core competencies and commodity processes are determined can be difficult and ambiguous. As an illustration, Gilmore and Pine (2002) consider the example of a wakeup call in the hospitality industry. They demonstrate how traditionally there has been little difference between hotels in the way this service is delivered. However, they also identify how some hotels have focused on delivering even such a commodity service in a 'magical' way so that guests cannot help but talk about it after their stay. Their study provides examples of hotels, like the MGM Hotel & Casino in Las Vegas and resort hotels at Walt Disney World, which take a more innovative approach by waking up their guests with recorded voices from celebrities or the Disney characters. By so doing, these hotels are able to upgrade this routine service into an unforgettable experience. Their study not only provides interesting examples of how commoditization can result in no or little differentiation across an industry, but also suggests the possibility of transforming a commodity process into a value added core competence.

Second, the lack of understanding of how different resources and capabilities are interrelated can result in developing a narrow and partial view on a firm's resource portfolio. As argued by Teng and Cummings (2002), firms that over-emphasize on the development of single resource and capability often ignore the need for complementarity between different resources and capabilities. For instance, Food Lion in the USA, one of the examples shown in their study, has developed and relied solely on its strength in cost control, but failed to take into account other resources and capabilities, such as supply chain relationships.

Third, and more fundamentally, is the question of how value is derived from a business process. In Eisenhardt and Martin's (2000) account, they challenge the conventional conceptualization that competitiveness derives from the quality of resources being rare, inimitable and non-substitutable, a common criticism against the resource-based view theorists for being tautological. As they argue, firms might have resources that have certain strategic qualities. The essence of value creation lies in how a strategic process is performed, not only in the qualities of resources themselves. According to them, two distinctive yet related aspects of a strategic process include the value-creating strategy and value-creating activity system(s). Moreover, their account suggests that firms often fail to develop capabilities that permit them to generate differentiation and competitiveness from reconfiguring resources which are homogeneous across the industry.

While the notion of dynamic capabilities has provided some useful insights in explaining the complex path of deriving competitiveness from resources, our understanding of how different types of value are created through the performance of different business processes remains limited. The distinction between hygiene and motivator values suggested by Bowman and Faulkner (1997) serves a useful theoretical explanation to extend Eisenhardt and Martin's (2000) conceptualization. As Bowman and Faulkner (1997) suggest, firms engaged in competition are providing 'hygiene value' capable of satisfying the basic needs of internal and external stakeholders. Business processes that are performed to generate hygiene value are often identical to other competitors, and coincide with the notion of commodity processes. However, to enhance competitiveness, firms need to create motivator value, e.g. unique product design or outstanding after-sale service, which can serves as the main source of attraction to acquire and retain customers. In other words, the ability to generate motivator values mirrors Eisenhardt and Martin's (2000) concept of dynamic capabilities, and the process to create such values is what they termed as strategic processes. The distinction between hygiene and motivator values offers a useful explanation as to why identical business processes performed by different firms can often lead to very different strategic results. Also, it rationalizes why a commodity process to one firm might not necessarily mean the same thing to another. For instance, the process of producing and assembling PCs is perceived by IBM as a commodity process which is carried out through an OEM arrangement. By contrast, the same function of assembling PCs for Dell is a core competence (Eisenhardt & Brown, 1999).

Summing up from the above, two observations are outlined. First, the difference between a core competence and a commodity process can be very ambiguous, arbitrary and subjective. The ambiguity suggests that even though identical business processes are performed, firms' differences in their capabilities can lead to two very different results, i.e. hygiene or motivator values. Referring to the research question proposed in the introduction, it is clear that one of the most crucial aspects to investigate is how motivator values are created through the performance of commodity processes. Second, quality and characteristics of resource are not the only key factor in shaping the creation of value. Rather, the creation of value will largely depend on what value-creating strategy a firm deploys and the value-creating activity system available to reconfigure the resources. Limited explanation offered by Eisenhardt and Martin (2000) has led us to explore deeper in the concepts of value-creating strategy and activity systems through an in-depth case study.

3 METHODOLOGY

The research illustrated here is characterized as an interpretive case study (Walsham, 1993), and formed part of a larger and ongoing research project investigating the strategic planning and development of customer relationship capabilities in the UK retailing starting in 1997. The strengths of the interpretivist approach in IS research have been documented in a number of studies, notably Klein and Myers (1999) and Walsham (1993). In particular, the interpretivist approach assumes that meanings, as something fluid, ambiguous and context dependent, are defined and redefined by actors through the social construction and reconstruction of information systems (Mohrman & Lawler, 1984). As Klein and Myers (1999; p. 69) explain, interpretive research "attempts to understand phenomena through the meanings that people assign to them".

Four sources of evidence were collected from 20 semi-structured face-to-face interviews, informal dialogues with the researched, on-site observation, and examining documentation. The former included senior executives, directors, managers from all three business units, project leader and team members, and call center staff. The latter included all written information that could be freely accessed by one of the researchers who is employed by the case organization. Typically, interviews lasted more than 90 minutes and were tape-recorded, with the prior permission of the interviewee. The rationale behind adopting multiple data collection methods was not merely for the process of triangulation (Denzin, 1988), but also for the purposes of enhancing the richness of findings through the process of reflexivity (Alvesson & Sköldberg, 2000). Data collected from the various sources were analyzed based on the coding techniques proposed by Miles and Huberman (1994) and Strauss and Corbin (1990).

4 CASE DISCUSSION

BeingWell is one of the best known and trusted brands in the UK. BeingWell's primary business is retailing, manufacturing and marketing healthcare, beauty and leisure products. More than 70,000 employees and over 1400 stores in the UK and Irish Republic have generated approximately £5 billion turnover for the year ending 31st March 2004. The provision of friendly and caring services has long been perceived by the customers as well as the company as the major strength that differentiates BeingWell from its competitors. Currently, the Customer Service (CS) function is processing approximately 1,000 phone calls and 500 letters, faxes and emails daily to address a wide range of enquiries and complaints. Enquiries can be as general as store opening hours and product availability to as specific as the use of hair colorants and skin preparations. Complaints can range from the quality of purchased products and services received to issues, such as nudity in television adverts and the grammar used in literature.

A strategic and systematic effort to reach the current state of capability and capacity in providing customer service started in 1996 when a few reviews related to BeingWell's existing CS were carried out. Many factors were found to trigger the initiation and formalization of the CS function. First, an internal review indicated that, compared to other major competitors who had invested heavily in CS, the methods, processes and systems did not support BeingWell's strategic intent. Second, there was a perceived need to enhance BeingWell's personal service and after sales service as a means of creating differentiation. Third, there was a recognized inconsistency in dealing with customers' enquires and complaints, due to the decentralized approach then adopted and the inadequacy of staffing. At this time it was noted that staff operating CS units were not necessarily selected for their customer service skills, and their approach was characterized as "*anything for a quiet life*". For instance, when a customer called the head office to complain about being trapped in an elevator in a store, the call would thoughtlessly be put through to an engineer. As stated in the 'Customer Service Complaint Handling Review' (Interim Report, August 1996), the strategic intent for the Customer Service function is: "*to maximize customer relationship opportunities thereby driving customer loyalty and increasing sales and profit*". To actualize this goal, two distinctive yet related phases were set. First, it is "*the effective management of customer complaint handling within BeingWell*". Second, it is "*the development and execution of a customer relationship strategy to include care lines, expert help lines and BeingWell store card customer contact handling*".

Specifically, this customer relationship strategy aimed to promptly and effectively resolve complaints; ensure consistency in performance and communication; generate feedback that could help to increase sales and profit; and protect and enhance BeingWell's reputation. The need to invest in the CS function is reflected in the following statements. From the CS manager, customer service is perceived as "*A necessity, you have to recognize that customers want to contact you.*"

For the corporate Telecommunication Client manager: "CS was born out of a need to gather together in one place the complaints that were received via the switchboard, which was inconvenient for them and the caller. We also lost lots of information. Switchboards are about 'speed' and 'volume' and passing on the call as speedily as possible. It is not necessarily about chatting with the customer. The principle of taking a call live and dealing with it at the first attempt, then that's the most productive way of dealing with any complaint or problem."

In April 1997, the CS Department was formed from the disparate 'Complaint Handling' units run by various business centers or product units. A CS call center was established. A system called 'Customer Q®' was installed that included computer telephony integration software and applications for customer relationship management, email response management, Web and e-commerce integration. It captures, stores and retrieves critical information instantly through an interface and accesses information from multiple knowledge bases. All calls are logged to ensure quality and consistency. Also, to make sure that customers' enquires and complaints are handled as carefully and professionally as possible, the CS Department's aim is that "*it matches the experience you get in a BeingWell store.*"

To reproduce the experience of 'visiting a BeingWell store' in the call center environment, some thoughts that were incorporated during its planning were outlined as follows:

First, they determined the approach to setting up the call center. Issues addressed at this stage included its structure and how to obtain or acquire the required capability that can best leverage BeingWell's brand equity. In terms of its structure, the final decision was to centralize the call center to ensure that consistency in service quality across different parts of the business could be achieved. Despite the fact that there were numerous service providers who could provide the capacity in handling customers' phone calls, the decision was to have the CS function in-house, simply because it was believed by the managers that only staff of BeingWell would know how to deliver the service in a 'BeingWell way'. As the CS manager explained: "*If we can't give you an answer we commit to come back to you with the answer, In contrast to outsourced call centers you are able to escalate the complaint, unlike call centers where you're not even talking to the people with whom you do the business. A third party hasn't got the incentive to do what we do*."

Second, they thought about the selection of personnel. Considerable emphasis was placed upon the importance of the BeingWell brand during the selection of call center personnel. In addition, to evaluate how candidates would respond to calls, various tests, such as an in-tray exercise, a personality test, interpersonal and problem solving skills, were used. Many staff recruited to work in the call center had many years' experience working in stores. In addition to the product knowledge they possessed, their experience in dealing with customers was a vital source to recreate the 'in store experience' that the call center aimed to achieve. As the call center manager noted: "*The advisors are the voice of BeingWell, and customers look upon us as custodians of the nation's morals. We need to ensure that the 'music on hold' is sensible; that we adopt a semi-formal style; that correspondence is free of grammatical errors; and that adverts are free of naked ladies*."

Third, they had to devise the approach to managing the call center after it was established. Issues, such as establishing service level agreements (SLA's) like those used in stores, linking SLA to performance, continuously developing call center staff and leveraging sales through the information gathered from the call center, were taken into account and various actions were taken. Based on the principle of 'making people feel valued', the commitment from the top management was to ensure that members of staff who worked for the CS function in general and the call center specifically were continuously motivated. An open plan office was selected not only to create a mutually supportive environment during the peak hours, but also to lessen the boredom when call rates and energy level were low. Maximizing the relationship with customers was reflected in the belief that the call center was established to do more than just handle the issues raised by the customer. Rather, the call was to be treated as an opportunity to understand more about the customer. For instance, customer's personal information is now considered useful in gauging effectiveness of advertising, understanding if special interest groups are adequately catered for, and building an even stronger relationship between the customer and BeingWell.

5 ANALYSIS AND FINDINGS

The initial stage of analysis aimed to unravel the value-creating strategy deployed by and the value-creating activity system (Eisenhardt & Martin, 2000) available to BeingWell. To address this issue, we build on Pentland's (1992) account to conceptualize the studied phenomenon. Based on his comparative study of two software support hotlines, his observation reveals the three types of structure as physical structure, ritual structure and competence structure that are vital to understand actions, or "moves" in his terms. While a physical structure refers to artifacts and the context that enables or limits the performance of actions, a ritual structure, according to Pentland, “encompasses the social requirements for talk or interaction” (p. 532). A competence structure represents collective knowledge which is distributed but not necessarily shared by actors within the organization. As argued by him, effective performance of an organizational process, in his case resolving customers’ software problems through telephone calls, requires the three different types of structure that shape and are shaped by actors’ actions. In other words, for an advisor to solve callers’ problems, he or she will need to have some knowledge of the software and ability to obtain knowledge possessed by others (competence structure), in addition to telephony, technology and procedures (physical structure) and shared norms and assumptions between advisors and supporting staff (ritual structure). Interplay between the three structures serves as a useful theoretical foundation to explain the concept of the value-creating activity system.

Referring to the case, the three structures permit the performance of the process underlying the call center’s actions. Derived from the analysis, five sequential steps were identified that characterize all activities performed. The five steps are to ‘receive inbound calls’, ‘identify customer and information’, ‘handle the complaint or enquiry’, ‘initiate other processes’ and ‘close the call’. The stage ‘initiate other processes’ occurs when the complaint cannot be resolved to the customer’s satisfaction or the severity requires a more experienced advisor to be consulted. This suggests that activities performed by BeingWell’s call center are very similar or virtually identical to those outlined by other studies (e.g. Aksin & Harker, 2003; Houlihan, 2002), and are characterized as a commodity process. The availability of a value-creating activity system that is capable of performing the commodity process can fulfill the basic requirement of a caller is essential for producing the hygiene value. However, it does not warrant the creation of the motivator value.

Our second stage of analysis looked for elements that contribute to the creation of the motivator value in BeingWell’s call center. Our findings suggest that the intent to differentiate BeingWell’s customer service from its competition was paramount. In particular, to recreate the in-store experience in a call center environment was a crucial starting point that influenced other decisions subsequently made. The results indicated that the need to recreate such experience was considered by many stakeholders involved in the strategic planning as more important than the concern about cost. Various issues that were prioritized during the planning stage indicated that ‘prompt and effective resolution of complaints’, ‘consistency of delivery in performance and communication’, ‘opportunity for information feedback contributing to increased sales and profit’, ‘protection and enhancement of BeingWell’s reputation’ and ‘maximizing customer relationship opportunities’ were far more important than cost. The decision to have an in-house call center with very experienced members of staff was seen by those involved as a sensible way to deliver the level of service that BeingWell’s customers would expect. Referring to the three types of structure proposed by Pentland (1992), the essence of clearly articulating the ritual and competence structure, in addition to the physical structure, during the formation of a value-creating strategy is evident.

The centralized approach adopted by BeingWell was argued by the management to be effective in ensuring the consistency of service performance and quality. However, the case analysis also suggested that to effectively manage the call center, in particular with the intension of maximizing relationship building with customers, relied on more than just putting control mechanisms in place. Rather, the success of the operation was seen to depend heavily on recruiting a dedicated workforce who had crucial understanding and experience in the services and products offered by BeingWell, as well as the ‘life skills’ to yield trust from any irate callers. The intensive effort to select the call center personnel from a pool of very experienced staff was thus considered by the interviewees to be crucial. Compared to the recruitment approach commonly outlined in the call center literature (i.e. deskilling), the approach taken by BeingWell was clearly very different. The call center staff were treated as one of the most crucial frontiers of BeingWell and they were motivated with various rewards. Such differences can be explained based on two critical dimensions, namely human capital characteristics and employment modes. According to Lepak and Snell (2002), even though some of the human capitals might not have high level of uniqueness in terms of the tasks that they perform, by applying a job-based employment mode, instead of a contractual work arrangement, firms are able to generate high strategic values from their workforce. Furthermore, BeingWell's approach to capitalizing on the information gathered reflects Arussy's (2002) notion that a call center can be more than just an organizational setting where complaints and enquiries are dealt with. Rather, it can be developed into an idea hunting ground as evident in the case of BeingWell's call center.

6 CONCLUSION

Our findings support the notion that the difference between a commodity process and a core competence can be very ambiguous and misleading. Even though the operation of BeingWell's call center characterizes a commodity process, in the sense that many retailing organizations operating in this arena have adopted such a center, it clearly shows that such a commodity process can be turned around and made into a core competence through careful planning and strategic management of human capital (Lepak & Snell, 2002). Instead of seeing a call center as merely a channel to streamline communication with customers, evidence yielded from the case indicates that a call center can be a place where added value can be generated. As argued by Prahalad and Hamel (1990), firms often fail to identify their core competence and worsen the situation by under-investing it. Our findings reinforce their argument and highlight the fact that to recognize what processes to invest can be a tricky and difficult decision. Our findings challenge not only the prevalent paradigm in operating call centers largely driven by the principle of cost efficiency, but also the effectiveness of building customer relationship through a Taylorist approach or outsourcing the call center operation to a third party. In addition to the theoretical contribution which addresses the ambiguity between a commodity process and a core competence, this paper also provides some new insights to managers who are or will be involved in the planning and/or management of call center operations. Future research is needed not only to explore how customer relationships can be leveraged through call centers, but also to examine the nature of commodity processes in more detail.

The issue of underinvestment and mismanagement in call centers has called for a new approach that can potentially turn a call center workforce into idea hunters (Arussy, 2002). Moreover, based on the above idea that it is possible to turn a commodity process into a core competence, it seems vital to examine the fundamental beliefs that determine how a call center is planned and managed. In particular, it is vital to take into account issues, such as how the value proposition of a firm can be reproduced in any new communication channels (Rayport & Jaworski, 2001), in this case a call center. And how 'motivator value' (Bowman & Faulkner, 1997) can be built into the operation of call centers.

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