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### Design decisions in the front office - back office issue

Zomerdijk, L.G.

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*Document Version*

Publisher's PDF, also known as Version of record

*Publication date:*

2005

[Link to publication in University of Groningen/UMCG research database](#)

*Citation for published version (APA):*

Zomerdijk, L. G. (2005). *Design decisions in the front office - back office issue: A Study of Trade-offs in the Financial Services Sector*. [Thesis fully internal (DIV), University of Groningen]. s.n.

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## 7 Variables Influencing Design Decisions

In the previous chapter we have presented our five cases and the fifteen front office – back office configurations we studied. We have described each front office – back office configuration, including the factors that influenced their design. In this chapter we return to the conceptual model we formulated in chapter 4 to make a start with unraveling the mechanism that underlies the design of front office – back office configurations. First, we report a “preliminary check” to see whether the conceptual model captures the design considerations in the cases. If this is not or partly the case, additional categories of variables will have to be included in the analysis of our data. As part of this check, we explicitly look for “rival explanations” that might also explain the design decisions in the five banks. In this respect, we include the impact of a bank’s size, market share or regional area and the fact that the banks are part of the same banking group. This procedure is addressed in section 7.1.

As this check reveals that the variables in the conceptual model are capable of explaining the design decisions and rival explanations could be ruled out, we investigate the impact of each variable in detail. Thus, in sections 7.2 until 7.6 we address the impact of service characteristics, competitive priorities, company priorities, information technology and staff characteristics across cases. For each variable, we investigate how it influenced the definition of front office and back office activities, the decoupling decisions and the organizational arrangements. In addition, we make a comparison with the existing theoretical insights to see what our findings are similar to and what they differ from.

We conclude the chapter with a summary of the influences of the variables and draw several conclusions regarding the relations between the variables. We derive a few patterns that address the way in which the variables work together in determining the design decisions. These patterns serve as the basis for unraveling the mechanism underlying the design of front office – back office configurations in the next chapter.

## 7.1 Preliminary check

Before we start analyzing the fifteen front office – back office configurations in the five cases in accordance with our conceptual model, we need to know whether the model is the right starting point. We want to ensure the conceptual model we developed in chapter 4 does not overlook particular variables or effects that (partly) explain the designs of the front office – back office configurations in the cases. Such variables and effects should be included in the following analyses. Therefore, we firstly check whether the considerations we reported for each front office – back office configuration correspond with the variables in the conceptual model. Secondly, we look for the potential effect of a bank's size, regional area or market share on the design decisions. Third and finally, we check whether the design decisions of the banks might be influenced by the fact that the banks are part of the same banking group. As we explained in chapter 5, this can be characterized as looking for rival explanations.

### *Variables outside conceptual model*

The variables that are part of the conceptual model are service characteristics (e.g. service customization and inevitable customer contact), competitive priorities (e.g. quality, speed, reliability, flexibility and price), company priorities (e.g. efficiency and sales), information technology (e.g. information systems) and staff characteristics (e.g. skills of staff). At the end of every description of a front office – back office configuration in the previous chapter, we have interpreted the considerations put forward by the banks in these terms. We can conclude that the arguments or variables the banks took into account when making their design decisions all could be associated with one of these categories. The case descriptions did not reveal variables such as history (a process was designed a long time ago and never changed), organizational structure (a process design heavily depended on the organizational structure in place) or copying (a process design was copied from another bank instead of designed internally). Instead, we came across several company and competitive priorities, of which increasing sales, efficiency, speed and quality were mentioned a lot. Risk control was mentioned as well. Although this variable was not yet part of our model, it can be classified as a company priority. Other considerations had to do with the information systems or staff characteristics. Finally, service characteristics played a part. This not only entailed the degree of service customization, but also government regulations regarding the separation of duties. Such regulations are inherently associated with delivering a particular financial service; hence they belong to the category of service characteristics. To conclude, when we investigate the impact of the variables we have specified in the conceptual model we are likely to cover the design considerations we came across in the banks.

***Effect of size, market share or regional area***

As part of our sampling strategy, we deliberately included banks of different sizes and regional areas (city or rural). These banks also turned out to have different market shares in their local markets, varying from 20 to 70%. These differences might be responsible for differences in the design decisions underlying the front office – back office configurations. For example, it is not unlikely that city banks make different design decisions than rural banks, because of the more fierce competition or more demanding clientele. Another reason might be that a city bank generally serves one city, whereas a bank in a rural area often covers several villages in a much larger region. Additionally, we could encounter differences between small banks and large banks, for example with regard the feasibility of specialization and economies of scale. If such effects can be expected, they should be part of the upcoming analyses of the cases. However, we conclude this is not the case. Three reasons underpin this conclusion:

- The summary at the end of the previous chapter shows there are several similarities between the front office – back office configurations of the five banks, despite their differences in size, market share or regional area.
- The differences that do occur between the front office – back office configurations of the banks do not seem to correspond with the differences in size, market share or regional area. For example, city banks B and D do not show similar choices that are significantly different from rural banks A, C and E. Instead, the differences between the front office – back office configurations seem to be explained by differences in, for example, company priorities or the functioning of information systems.
- The banks did not put forward arguments that could be related to their size, market share or regional area.

Therefore, it does not seem necessary to investigate the impact of a bank's size, market share or regional area on the design decisions and their underlying considerations in more detail. We conclude that the impact of these variables probably occurs elsewhere, for example in the definition of strategic priorities. For banks with relatively low market shares (bank A, B and D), a strategy aimed at increasing sales is perhaps more obvious than for banks with already high market share (bank C and E). Likewise, city banks (B and D) automatically have lower market shares than banks in rural areas, because of the more intense competition in urban areas. In this way, in our cases the size, market share or regional area of a bank can be considered to have an indirect influence, but do not seem to moderate the relations between e.g. company priorities and design decisions.

***Effect of banking group***

The banks in this study are part of the same cooperative banking group. A central support organization supports the banks by developing information systems and process descriptions. This may have an impact on the design decisions of the banks. For example, despite the local autonomy of the banks, part of the design decisions might be

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predetermined by the central support organization. If this is the case, we should be aware of this influence and include it in the upcoming analysis of the case data. Nevertheless, we conclude the impact of the banking group on the design of the front office – back office configurations seems to be limited. We base this conclusion on two arguments:

1. Although the banks in this study delivered the same services, used the same information systems, adhered to the same competitive priorities and derived their company priorities from the same corporate objectives, and although there were several similarities between their design decisions and the underlying considerations, the design considerations could only and fully be attributed to the banks themselves. We have no indications that the central support organization predetermined the designs of the front office – back office configurations in the banks. Likewise, the banks were capable of explaining their design decisions based on their own design considerations. Even when the banks adhered to recommendations provided by the central support organization, they did so because they liked the ideas, not because they were forced to do something. We anticipated this with our sampling strategy of selecting banks that displayed careful design considerations.
2. We encountered sufficient differences between the design decisions and underlying design considerations to indicate that the impact of the banking group was limited. For example, in the processes for providing mortgages we identified two decoupling strategies. Furthermore, with regard to the processes for company loans we saw that bank B and D both aimed to deliver quality service. Bank B designed a decoupled process for that reason, while bank D deliberately decided to operate a coupled process.

Hence, investigating the potential impact of the banking group on the design decisions in the banks does not seem necessary.

Based on this preliminary check, we conclude that the conceptual model we presented in chapter 4 seems to provide sufficient grounds for explaining and understanding the designs of the fifteen front office – back office configurations we studied. Given the case descriptions, there does not seem to be a need to include additional elements in our model, such as a moderating impact of a bank's size or regional area. Therefore, in the following sections we examine the impact of each category of variables, i.e. service characteristics, competitive priorities, company priorities, information technology and staff characteristics, on the design of the front office – back office configurations in more detail. Each time we concentrate on the three design decisions: the definition of front office and back office activities, decoupling decisions and organizational arrangements.

## 7.2 Service characteristics

We included “service characteristics” in our model, because we expected the nature of the service that is being delivered to determine for a large part the design of its service delivery process. We proposed that the degree of customization of a service product would have a major effect on the design of the process. Secondly, we proposed that the degree to which customers need to be physically present during service delivery (thus production and delivery take place simultaneously) would have an effect on the definition of front office and back office activities. After all, activities that require physical customer presence are front office activities by definition. Thirdly, we left room for other service characteristics to arise from our case studies. In this respect, we can add three service characteristics: regulations and the complexity and diversity of the work involved in delivering the service. Below we address each variable, compare our findings with existing insights and end with a concluding section.

### 7.2.1 Service customization

We expected the degree of customization of the service being delivered to influence the design of front office – back office configurations. Regarding this influence, we can firstly conclude that the respondents in the case studies did not often mention the impact of service customization as part of their design considerations. Instead, as the previous chapter shows, the respondents mainly mentioned their company and competitive priorities as underlying considerations of the design decisions. Nevertheless, the influence of the degree of service customization can also be observed from comparing the three processes that were central to this study, as we deliberately varied them with regard to their degree of service customization.

In the processes for providing mass consumer products, we observed mainly front office activities and largely coupled designs. Yet, given the standardized nature of mass consumer products, one would expect a large number of back office activities that are decoupled from front office activities in functional groups. The processes for providing mortgages largely consisted of back office activities, although in two banks the calculation of a mortgage proposal was a front office activity. All banks, but bank C, decided to decouple the process. Apparently, mortgages are sufficiently standardized services to enable a decoupled process with several handovers of work. The processes for providing company loans contained very few front office activities and were largely coupled in bank C and D, but decoupled in bank A, B and E. Although the definition of front office and back office activities as such could be expected, the decoupling decision in the latter banks was quite surprising given the customized nature of company loans. Yet, bank A, B and E managed to overcome problems with handing over work by the organizational arrangements, i.e. sales teams. This characterization does not give rise to “archetypes” of front office – back

office configurations for standardized or customized services. Yet, we conclude that the degree of service customization has an effect on the definition of front office and back office activities, partly on the decoupling decisions, but not on the organizational arrangements:

- We conclude that standardized services seem to offer more opportunities for front office execution of activities than customized services. However, this effect should be attributed to the degree of complexity of the work involved in delivering those services, instead of to the degree of service customization. This is further explained in section 7.2.3. Despite these differences, every service required a few front office activities to exchange information with customers. Although these activities, such as the intake with customers to schedule a meeting and the sales meeting itself, theoretically could take place without direct customer contact, for example by mail, this would not be practical. This particularly regarded the customized services that required a great deal of information exchange between customers and service providers in order to define the specifications of the service. We already concluded that service encounters for mass consumer products took anything between five and sixty minutes, whereas sales meetings for mortgages took ninety minutes and company loans could last up to three hours. This corresponds with the third guideline put forward by Chase et al. (1984, p.544): high levels of contact with the customer are justified when contact with the customer is in principle avoidable, but in practice necessary, for example because of interactive problem solving, considerable customization or personal tailoring of a service.
- We conclude that the degree of service customization hardly influenced the decoupling decisions. According to Chase and Tansik (1983) and Larsson and Bowen's framework (Larsson and Bowen, 1989), decoupling is not favored when tight coordination across task or departmental boundaries is critical. Therefore, we would expect decoupled processes for standardized services and coupled processes for customized services. Although this was the case for the processes for providing mortgages (in bank A, B, D and E), for the provision of mass consumer products the processes were coupled (in all banks) while customized company loans were delivered by a decoupled process (in bank A, B and E). This indicates the degree of service customization did not determine the decoupling decisions. Metters and Vargas (2000) also argue that customization is not correlated with the level of decoupling in a process. Yet, we additionally conclude that decoupled processes for customized products create a need for exchanging large amounts of information between employees, which may cause problems related to the quality and speed of service delivery. For example, it will take a considerable amount of time to explain what has been agreed with a customer and in that process, information might get lost or noise can come in. The banks in this study tried to overcome this problem by assigning the employees that were consecutively involved in the process to market groups or sales teams.

- We conclude that the degree of service customization did not seem to influence the organizational arrangements in other ways than we just described.

In summary, we conclude that all three processes contained a few front office activities to exchange information between customers and service providers. Yet, the degree of customization of the service being delivered influenced the length of these service encounters and to what extent direct customer contact was practically inevitable. The decoupling decisions and organizational arrangements were hardly influenced by the degree of service customization, although it did determine to what extent the handover of work between employees could create problems related to the quality and speed of service delivery and market grouping of employees was required.

### 7.2.2 Inevitable customer contact

The second service characteristic we expected to have an impact on the design of front office – back office configurations, particularly on the definition of front office and back office activities, was the degree of customer contact that is inevitable in delivering a particular service. A large amount of inevitable customer contact, e.g. physical customer presence, would call for many front office activities. This is the second guideline formulated by Chase et al. (1984, p.544): high levels of contact with the customer are justified when service production and delivery are absolutely inseparable.

In this study, we came across one activity that involved inevitable customer contact: checking a customer's identity. The process descriptions of the banks and of the central support organization show that, before any type of service can be sold, a customer's identity should be established. This is part of the "customer due diligence" regulations, issued by the Dutch Central Bank, following national and international legislation and agreements, and the Dutch Identification Act. A customer's identity should be confirmed through the provision of original and official identification papers, such as a passport, or can be established through identification by the service provider. In the latter case, the service provider "recognizes" the customer, i.e. knows the name of the customer. This procedure only applies to existing customers of a bank that are registered with that particular bank and have previously provided official identification papers. In addition, the financial transaction should involve less than a pre-set amount of money. Hence, in most cases, customers will have to come to a bank and meet in person with a service provider to show their identification papers.

The banks in this study did not explicitly mention this rule as an explanation for their front office activities. We conclude they apparently had other motives that were considered more important for the definition of front office activities, such as increasing sales or exchanging information. Still, this does not take away the fact that the inevitable customer contact following from the need to establish a customer's identity was partly responsible for the



definition of front office activities in the processes for providing mass consumer products, mortgages and company loans.

### 7.2.3 Additional service characteristics

From our case descriptions, three service characteristics that were not yet part of our model but nevertheless influenced the design of front office – back office configurations become clear. They are regulations for the provision of financial services, the complexity of the process steps involved in delivering the service and the diversity of those steps.

#### *Regulations*

We encountered specific regulations that influenced the design decisions of the banks. We classify regulations as a service characteristic, as they are beyond the choices of a bank. They are simply inherent to providing the product, as are other service characteristics. In fact, all other banks in the nation will have to adhere to these regulations, as they stem from “De Nederlandsche Bank” (the Dutch Central Bank). The banks in this study mentioned regulations regarding the separation of duties a number of times. They influenced the decoupling decisions, in particular in the processes for providing mortgages and company loans. According to article 15 of the Regulation on Organization and Control of the Credit System Supervision Manual (De Nederlandsche Bank, 2004), “an organization shall segregate duties based upon conflicts of interest in order to ensure that its activities are carried out in a controlled and sound manner. The duties, responsibilities and authority of persons and departments must be allocated in such a way that the risk of errors and the improper use of assets or data is limited. An institution must prevent functions from comprising authority whereby one individual can make errors; can initiate, authorize, process and settle transactions or obligations; has free access to assets; is in a position to manipulate financial and/or other data, without detection or control.” Based on this regulation, the actual transfer of funds was decoupled from the commercial parts of the processes for providing company loans and mortgages. Although not every bank in the study referred to this regulation, it certainly applied to all of them. Hence, regulations for the delivery of financial services are another service characteristic that influenced the design of front office – back office configurations in our cases.

#### *Complexity of the work*

The complexity of the process steps that were required to deliver a service also affected the design of the front office – back office configurations. We consider process steps complex when they involve high task variability and low task analyzability (Perrow, 1970). We categorize work characteristics under service characteristics, because, like regulations, they are inherently connected to the provision of certain services. In fact, the effect will appear in all instances where the service is being delivered. We found that work complexity

influenced the definition of front office and back office activities and organizational arrangements.

The first example of the impact of work complexity on the design decisions can be seen in the definition of front office activities that used to be back office activities, such as the largest part of the front office activities in the process for providing mass consumer products and the calculation of a mortgage proposal in bank A and B. These activities could be performed as front office activities, because of their relatively low complexity (and the support of the information system). Yet, the processes for providing company loans did not show front office activities that used to be back office activities. This was because the work involved in delivering company loans was too complex for front office execution. For complex activities, such as writing a financial appraisal for a business client, the definition of front office activities was undesirable, because the service encounter would take too long and mistakes would be easier to make. Hence, the complexity of the work involved in delivering a service influenced the definition of front office and back office activities.

Another example of the impact of work complexity relates to the organizational arrangements in a front office – back office configuration. With regard to organizational arrangements, we make a distinction between functional grouping and market grouping of the employees that are consecutively involved in a service delivery process. The cases indicate that for complex work functional grouping of employees was desirable, because of the need for cross-fertilization between those employees. In general, cross-fertilization means employees can learn from each other by sharing their experiences. As cross-fertilization was mainly mentioned with regard to employees that carried out complex work, basically “professionals” such as business advisors, we conclude that the complexity of the work involved influenced the need for cross-fertilization and thus functional grouping. This corresponds with the findings of Cheetham and Chivers (2001) that for professionals, informal learning was more significant than formal learning. Important mechanisms in informal learning are, for example, working alongside more experienced colleagues, networking with fellow professionals and working in teams.

#### ***Diversity of the work***

We found that the diversity of the work involved in delivering a particular service also had an effect on the design of its front office – back office configuration. Like work complexity, work diversity can also be seen as a service characteristic. The case descriptions showed that for processes that contained highly diverse activities, in the sense that different skills were required from employees, decoupling was more evident. This was the case with, for example, the commercial and administrative activities in providing mortgages and company loans. Such reasoning is consistent with Chase and Tansik’s recommendation that decoupling is favored when separate workers are required to produce a service and task requirements can be easily segmented into interpersonal skills and technical skills (Chase and Tansik, 1983). Still, the banks did not put the diversity of the work forward as their

Table 7.1: The impact of service characteristics on the design decisions in the cases			
	<b>Definition of FO and BO activities</b>	<b>Decoupling decisions</b>	<b>Organizational arrangements</b>
<b>High service customization</b>	FO activities required for exchanging information with customers	Decoupling can hurt speed and quality due to handovers	Decoupling needs market groups
<b>Inevitable customer contact</b>	FO activities required for customer contact	---	---
<b>Regulations</b>	---	Decoupling required to create separation of duties	---
<b>Work complexity</b>	FO activities less evident	---	More need for functional groups for cross-fertilization
<b>Work diversity</b>	---	Decoupling more evident	---

main design consideration. We conclude it was the existence of the diversity that, as we shall see later in this chapter, triggered a number of different arguments for decoupling a process: the absence of employees that were capable of performing equally well at all skills (staff characteristic), a bank's wish to focus on one of the skills, i.e. sales (company priority), or efficiency reasons to ensure that employees do not spend time on work they are overqualified for (company priority).

#### 7.2.4 Conclusion

Now that we have discussed the influence of customization, inevitable customer contact, regulations, work complexity and work diversity, we can discuss the overall influence of service characteristics on the design of front office – back office configurations. To begin with, it is interesting to note that we did not come across three different process types for the three different services. This is what we might have expected based on the host of product-process type matrices available. Yet, we were unable to determine distinct designs for front office – back office configurations based on the degree of customization of the service being delivered. Instead, our banks designed different front office – back office configurations for the same services and had company and competitive priorities influence their designs, rather than service characteristics. Service characteristics influenced the design of front office – back office configurations in other ways. On the one hand, they determined particular design decisions, while on the other hand they made particular choices to a greater or less extent evident. This is summarized in table 7.1.

### 7.3 Competitive priorities

Competitive priorities were the second group of variables at the input side of our model. Competitive priorities can be considered an organization's external objectives, expressing the basis for competition and the benefits customers can expect. We argued that competitive priorities would influence the design of front office – back office configurations, because of a proposed fit between an organization's strategy and its service delivery processes. We identified five common competitive priorities: quality, speed, reliability, flexibility and price. Given the relative weight of these priorities, an operations function should be able to do things right, fast, on time and cheaply and should be able to change what it does. We already concluded that the banks all adhered to the same competitive priorities for the three processes we investigated: quality and reliability for mass consumer products and mortgages and quality for company loans. Yet, the case descriptions revealed the banks also took other competitive priorities, such as speed, into account when making design decisions. Therefore, we address all five competitive priorities. As the case descriptions did not provide indications for competitive priorities that were not yet part of the conceptual model, we do not have to add variables. In this section we investigate the influence of these competitive priorities on the design decisions in the five banks. We look for the impact on the definition of front office and back office activities, the decoupling decisions and organizational arrangements. Furthermore, we make comparisons with the extant literature.

#### 7.3.1 Quality

Quality was the main competitive priority for the banks we investigated. This applied to mass consumer products, as well as mortgages and company loans. Quality was operationalized as delivering flawless and legally sound products, broadened with a personal approach (either customization or personalization), a clear explanation or advice from bank employees that are well trained and experts in their field, and a focus on what is best for the customer. Furthermore, particularly for large and profitable clients, the banks valued commitment and involvement with their customers. We now discuss the impact of quality as a competitive priority on the three design decisions in a front office – back office configuration.

- Regarding the definition of front office and back office activities, we conclude that quality hardly influenced this design decision. Although certain choices had an effect on the quality of the service to be delivered, quality was not mentioned as a main determinant for the definition of front office activities and back office activities. For example, the calculation of a mortgage proposal as a front office activity in bank A and B could lead to higher quality, because a customer can immediately correct an advisor

in case of mistakes in e.g. customer data. On the other hand, it could also harm quality, as the advisor might be more focused on the computer than on the customer. Yet, quality as a competitive priority was not the main reason for either front office or back office execution of this activity. The main reason was efficiency.

- Quality as competitive priority turned out to influence the decoupling decisions, yet in multiple ways. On the one hand, delivering quality service was mentioned as reason for a decoupled process, because experts could be hired to perform particular activities requiring particular skills (for instance, customer-friendly or technical). This is the Focused Professionals strategy as formulated by Metters and Vargas (2000) and was applied by bank A and D for providing mortgages and bank B for providing company loans. In addition to the opportunity of employing experts, bank A argued that decoupling would also stimulate learning curves for the particular jobs, which may further increase the quality of the output. This is part of the longstanding idea that task specialization maximizes the learning rate of individuals through dedication to a single activity and so improves performance (e.g. Schilling et al., 2003). On the other hand, however, quality was also mentioned as reason for a coupled process, as coupling avoids handing over work which can lead to noise, causing mistakes and so a decrease in quality. Additionally, in a coupled process advisors have all relevant information regarding a client's situation and the stage of work in progress directly available, which also increases the quality of the service provided. We found this line of reasoning in the process for providing mortgages in bank C and in the process for providing company loans in bank D. These findings reflect the Personal Service strategy formulated by Metters and Vargas (2000). Bank C put forward yet another reason why quality would be enhanced through coupled processes. With regard to the provision of mass consumer products, the consumer advisors of bank C were not fully available for sales meetings with customers, as they were engaged in other activities as well. The bank deliberately made this decision, to ensure the quality of the sales meetings would not deteriorate because of fatigue. They reasoned consumer advisors would do a better job in terms of responding to customers with a limited number of sales meetings per day. Thus, they did not decouple the process. It is interesting to note that this argumentation (i.e. sales meetings require "top form", but advisors cannot be in top form at all times) is based on a slightly different reasoning than e.g. job enrichment principles (e.g. Hackman et al., 1975) and the Service Profit Chain (Heskett et al., 1994) that relate job characteristics to employee performance and customer satisfaction.
- With regard to organizational arrangements in the design of the front office – back office configurations, we found that quality was mentioned as a reason for the functional grouping of employees, as it facilitates cross-fertilization between employees. Cross-fertilization improves the quality of the services delivered, as

employees are able to learn from each other and can discuss complex cases. This mainly applied to employees carrying out complex activities (professionals), such as the business advisors in the processes for providing company loans. In addition, quality was also mentioned as an argument for functional grouping, because in functional groups it is more easy to establish uniformity and quality control, e.g. in the process for providing mortgages in bank A and C. Both cross-fertilization and uniformity were also mentioned by Mintzberg (1979) as benefits of intra-group coordination in functional groups. Hence, quality as a competitive priority favored the design of functional groups. However, in bank A, B and E quality as a competitive priority actually led to the design of market groups. In the decoupled processes for providing company loans market grouping was required to assure the quality of the services delivered. Given the customized nature of company loans, the handovers of work that were the result of the decoupling decision could lead to information losses or the creation of noise. Therefore, sales teams were established to facilitate the handovers as much as possible. According to Mintzberg (1979), market groups are excellent for dealing with such workflow interdependencies.

To conclude, we found that the banks in this study mentioned delivering quality service as an argument for both coupled and decoupled processes, through either avoiding handovers (and variation in tasks in bank C) or employing experts. Furthermore, quality was an argument for both functional groups, to stimulate cross-fertilization and uniformity, and for market groups, to facilitate the handovers resulting from decoupled processes.

### 7.3.2 Speed

Organizations that have speed as a competitive priority aim at fast service delivery. Although our banks did not compete with other financial services providers on the basis of speed, they had to be able to achieve some minimum level of speed for both mass consumer products, mortgages and company loans. In fact, they even based several design decisions on the argument of improving the speed of a process. In our case studies speed was taken into account when designing front office – back office configurations with regard to all three design decisions.

First, in four banks the activities of entering data in the systems, arranging consent and signing the sales contract in order to sell mass consumer products were carried out as front office activities instead of follow-up work, because it increased the speed of the process and enabled instant service delivery. As front office activities it would take less time before a customer received the final products. The same applied to the activity of calculating mortgage proposals in the customer's presence in bank A and B (and bank D, if the information system had worked fine). However, although changing these activities from back office activities into front office activities increased the speed of the process, the meetings with customers actually had to take longer. For bank E this was a reason to

calculate mortgage proposals after the sales meetings. Yet, the other banks argued that from a customer's point of view, the gains of front office calculation of mortgage proposals would outweigh the losses. As noted earlier in the section on service characteristics, the complexity of the work involved in delivering a service influenced the opportunities for changing back office activities into front office activities, as complex activities could not be performed front office without severely negative consequences for the speed of the process. Hence, increasing the speed of a process was a reason for front office execution instead of back office execution of activities that were not very complex. This reasoning is different from the common considerations regarding front office and back office activities in the current literature.

Second, speed as a competitive priority influenced the decoupling decisions. Bank C explicitly designed coupled processes to avoid handing over work, which takes time. The bank argued that in the time it would take someone to explain to a consecutive employee what needs to be done, he or she might as well do the job. Likewise, all banks designed coupled processes for the provision of mass consumer products, because in combination with the definition of mainly front office activities this realized the highest speed. Metters and Vargas (2000, p.673) also point out that, in general, decoupling a process hurts overall process speed. Although decoupling can increase the speed with which individual tasks are carried out because of task specialization and learning curve effects, the resulting handovers of work and waiting times reduce the process speed. In addition, buffering back office activities from disruption to improve the efficiency of a process often increases the delivery times because of the backlogging of customer orders to create a smooth workflow.

Third, speed as a competitive priority partly influenced the design of organizational arrangements. In the case of customized products that were being delivered through a decoupled process, such as company loans in bank A, B and E, employees were grouped by market to prevent lengthy handovers of work. Due to the market grouping, the employees could keep up on each other's work and relevant customer knowledge by easily sharing information. This meant less information needed to be transferred when work was handed over. Without market grouping, handing over work would take too long and the speed of the process would be jeopardized. As Mintzberg (1979) puts forward, market groups work well for dealing with workflow interdependencies.

To conclude, speed as a competitive priority advocated front office execution of previously back office activities for work that was not very complex. Furthermore, it advocated coupled processes to avoid handovers and market groups to facilitate handovers.

### 7.3.3 Reliability

Reliability as a competitive priority stands for delivering products and services on time, so delivering on the date or time the products or services were promised to be delivered. For the banks in this study, reliability was an important competitive priority. For mass consumer products it mainly included having products ready and fully functional when they were promised to be ready and for mortgages that the proposals, offers, deeds and funds had to be available on the agreed dates, as customers would often have major investments depend on it.

The impact of reliability as a competitive priority on the design of front office – back office configurations was relatively low. In our case studies, it only had an effect on organizational arrangements. The banks argued that, in order to adhere to promised delivery times, it was important to have sufficient capacity available. If capacity drops below a minimum level that is required to carry out the work, reliability will come at risk. Therefore, staffing levels were important. Moreover, dealing with decreases in available capacity due to illness, leave or other absences, was considered vital.

We saw that bank A decided to organize the commercial and administrative support for mortgage advisors at one central location to decrease the vulnerability of the mortgage department. With a central department, employees could more easily take over each other's work in case of absence and workload following from peak demand could be spread over several employees. This was enabled by the fact that support employees were (partly) cross-trained. This led to better continuity in the provision of service and increased the reliability of the service operation.

Bank C also had to work out a solution for reliable service delivery, as it operated several small offices that are more vulnerable than one large office. Bank C's solution was to link two small offices together, so that the mortgage advisors and consumer advisors of each office could fill in for each other when necessary.

In bank D, mortgage advisors and commercial support employees were not only grouped in functional groups that were located at the bank's main office to realize scale economies but also to protect the continuity of service delivery. The recent decision to allocate small teams of commercial support employees to small teams of mortgage advisors decreased the reliability of service delivery, as work was not shared between the teams.

Bank E was also confronted with problems following from relatively low continuity, as mortgage advisors, their commercial support, business advisors and their assistants were spread over the bank's four core offices. This dispersion of employees made the core offices relatively vulnerable.

Design considerations related to continuity of service delivery are not very common in the current literature. For example, they do not fit the criteria proposed by Mintzberg (1979) for grouping positions into units (i.e. workflow interdependencies, process interdependencies, scale interdependencies and social interdependencies). Instead,



functional grouping of employees to ensure they can fill in for each other and a high workload can be shared combines features of process and scale interdependencies to ensure a smooth workflow. We assume this consideration is relatively underexposed in the literature because of its clearly practical nature.

To conclude, the banks in this study mentioned reliability as an argument for the functional grouping of employees at one central location, as this improved the continuity of service delivery, because employees could fill in for each other and high workloads could be shared.

### 7.3.4 Flexibility

Flexibility as a competitive priority can mean several things. For example, there is product/service flexibility, mix flexibility, volume flexibility and delivery flexibility (Slack et al., 2001). Although the banks in this study did not compete on flexibility, basic levels of flexibility had to be adhered to. Particularly delivery flexibility was important. This entails the ability to change planned or assumed delivery dates, in fact the ability to process “rush orders” for mortgages and company loans. However, based on the case descriptions we can conclude that the banks in this study did not take flexibility into account when making their design decisions. We did not come across cases in which flexibility was mentioned as an argument for particular definitions of front office and back office activities, decoupling decisions or organizational arrangements. Additionally, we did not come across problems associated with low flexibility, indicating that the banks should have taken flexibility into account. Likewise, flexibility does not seem to be a common factor in the literature that applies to the design of front office – back office configurations.

### 7.3.5 Price

Price as a competitive priority means competing on low prices or, in the case of financial institutions, the best rates. The banks in this research study did not compete on price. In fact, they did not even want to be the cheapest service provider. They explicitly stated they aimed for delivering the best possible products with the best possible price/quality ratio. Yet, the rates of the banks should not exceed the rates of competitors too much. Price as a competitive priority means the operations function needs to operate at low cost, but low costs are a universally attractive objective, also for organizations that do not compete on price. To make a distinction between low costs as a competitive priority and low costs as a universally attractive objective, we treat the former in this section and the latter in the following section on company priorities under the heading of efficiency.

Like with flexibility, we did not come across an impact of price as a competitive priority on the design of front office – back office configurations. This is most likely due to the fact that the banks in this research study did not compete on price.

### 7.3.6 Conclusion

Having investigated the impact of competitive priorities on the design decisions in the five banks, we can conclude that competitive priorities were taken into account. One would expect that the most important priorities would have the largest effect on the design decisions. However, we found this was not the case. Whereas quality and reliability were the main competitive priorities of our banks, they were not the only priorities determining the design decisions. In fact, improving the speed of service delivery also had a considerable impact on the design decisions, whereas the impact of reliable service delivery was relatively low. In summary, we found the following effects, see also table 7.2.

First, **quality** as a competitive priority was clearly taken into account when making decoupling decisions, but the banks applied different “logic”. Quality was mentioned as a reason for coupled processes, because of informed advisors and avoiding handovers, and as a reason for decoupled processes, because of learning curves and employing experts. Bank C argued that variation in the tasks of consumer advisors would improve the quality of sales meetings. Second, **quality** led to the functional grouping of employees to facilitate cross-fertilization and uniformity. On the other hand, in the case of customized products in a decoupled process delivering quality service required market grouping. Third, the banks mentioned **speed** as an argument for the front office execution of previously back office activities, provided the work was not very complex, because in this way it could prevent follow-up work and enabled instant service delivery. Fourth, **speed** as a competitive priority advocated coupled processes to avoid handovers of work. Fifth, in the case of customized products being delivered through decoupled processes, **speed** required market grouping to facilitate the handovers of work. Sixth, we found that several banks chose functional grouping (or market groups with cross-training) of employees to improve the **reliability** of the process by ensuring continuity of service delivery. Finally, **flexibility** and **price** did not have an effect on the design decisions.

Table 7.2: The impact of competitive priorities on the design decisions in the cases

	Definition of FO and BO activities	Decoupling decisions	Organizational arrangements
<b>Quality</b>	---	Decoupling to employ experts and stimulate learning curve effects; Coupling to avoid handovers and have informed advisors	Functional groups to promote cross-fertilization and uniformity; Market groups to facilitate handovers
<b>Speed</b>	FO activities when follow-up work could be avoided	Coupling to avoid handovers	Market groups to facilitate handovers
<b>Reliability</b>	---	---	Functional groups to ensure continuity of service delivery

## 7.4 Company priorities

So far we have discussed the impact of service characteristics and competitive priorities on the design of front office – back office configurations in our cases. In this section we analyze the influence of company priorities on the design of service delivery processes. From the case descriptions we already know that in our cases company priorities seemed to be the main determinants for the designs of front office – back office configurations. Company priorities that arose from our case studies were efficiency, increasing sales and risk control. These were the key internal objectives the banks were aiming at. We investigate how they influenced the definition of front office and back office activities, decoupling decisions and organizational arrangements and compare the considerations of the banks with current literature.

### 7.4.1 Efficiency

We define efficiency as the ratio of useful output to the total input in a system. As a company priority it influenced all three design decisions.

First, with regard to the definition of front office and back office activities, we found that in general activities were performed back office to realize efficiency, except when they could contribute to sales or required a great deal of information exchange between customer and service provider. This is consistent with the customer contact approach. The basic premise of this approach is that back office activities have more efficiency potential than front office activities (Chase, 1978; 1981; Chase and Tansik, 1983). Nevertheless, our case studies also revealed that the banks argued that in some cases it would actually be more efficient to have front office activities than back office activities. This was seen in the process for providing mass consumer products in banks A, B, D and E and in the process for providing mortgages in bank A and B (and bank D, if the information system had worked properly), where several steps that were previously back office activities were now carried out front office. This was largely enabled by the information systems in use. Doing so, the banks could eliminate follow-up work, which increased the efficiency of the process and enabled the consumer advisors and mortgage advisors to devote more time to sales-related activities. We already explained this design also improved the speed of service delivery. Hence, although the number of front office activities increased, the processes were considered more efficient than a process that included both front office and back office activities. This line of reasoning adds new insights to the customer contact approach. According to Chase et al. (1984), “high levels of contact with the customer are justified when: (1) service production and delivery are absolutely inseparable, (2) marketing benefits are afforded by contact with the customer, or (3) contact with the customer is in principle avoidable but in practice necessary. Tasks that do not meet any of these criteria are considered candidates for decoupling into low-contact production” (p.544). Our banks

argued that high levels of contact with the customer are also justified when the speed and efficiency of the service delivery process can be improved through eliminating follow-up work, i.e. front office execution of previously back office activities.

Second, regarding the decoupling decisions, we found that efficiency as a company priority was an argument for both coupled and decoupled processes. This is consistent with the reasoning of Metters and Vargas (2000). On the one hand, we found decoupling for efficiency reasons in a number of cases. Banks A and D decoupled their processes for providing mortgages to create specialized jobs to stimulate learning curves and to benefit from the fact that different types of employees with different skills could be hired, which would increase the quality and amount of output. In the processes for providing company loans in bank B, C and D, decoupling was needed to free the business advisors from paperwork, as they were considered overqualified for that task. It would be more efficient to have less paid workers perform the administrative activities. Furthermore, decoupling administrative activities from commercial activities enabled the functional grouping of administrative support employees at central locations to realize economies of scale. This applied to almost all banks for almost all processes. These arguments can be all be placed under the heading of a Cost Leader strategy, as put forward by Metters and Vargas (2000). On the other hand, efficiency motives also led to coupled processes. This was mainly the case in bank C. Due to the relatively large number of offices bank C operated from, the risk of idle time was quite high. This is because the offices had to be staffed for peak demand, rather than average demand. For bank C it was therefore more efficient to have mortgage advisors perform most of the activities in the process for providing mortgages themselves, to fill their otherwise idle time, instead of allocating administrative activities to a central department. The same reasoning applied to the relatively large number of business advisors that were employed by the bank. In terms of the Metters and Vargas framework, coupled processes for efficiency reasons can be described as the Kiosk strategy.

Third, efficiency was also mentioned as a factor influencing organizational arrangements. Functional grouping of employees was often chosen to realize economies of scale, for example for the administrative support in the processes for providing mortgages and company loans in most banks. Such economies of scale could provide significant efficiency benefits. This reflects the basic premise of the customer contact approach: back office activities should be decoupled from front office activities and should be organizationally separated to minimize the influence of the customer on the process and to achieve efficiency where it is actually possible to do so (Chase, 1978).

To conclude, efficiency as a company priority influenced the design of front office – back office configurations in a number of ways. The banks mentioned efficiency as a reason for the definition of both back office activities (preventing disruptions) and front office activities (eliminating follow-up work), for both coupled processes (preventing idle time) and decoupled processes (due to learning curves, different employee skills, over-

qualification, opportunities for centralization) and for functional groups (economies of scale). As a final remark, we found that efficiency could serve several purposes. On the one hand, efficient processes can reduce costs through laying off redundant capacity (downsizing). On the other hand, redundant capacity can also be kept within the organization and be deployed for other purposes, such as spending more time with existing customers or pro-actively approaching potential customers. The latter supports a sales or quality strategy and was most common in our banks.

### 7.4.2 Sales

As should be clear from the case descriptions, in our case studies increasing sales was the most important variable influencing the design of front office – back office configurations. Bank A, B and D followed a strategy aimed at increasing sales for mass consumer products and mortgages. This involved attracting new customers and selling additional products to existing customers. For business clients, bank A and D also wished to expand. Bank C pursued growth under certain conditions. Bank E was not yet focused at expansion due to the recent merger. These sales objectives not only were the dominant strategic objectives, but also had a major effect on the design of front office – back office configurations with regard to the definition of front office activities and the decoupling decisions.

Firstly, sales as a company priority led to the front office execution of several activities in the process for providing mass consumer products in bank A, B, D and E. The integral sales meetings, including data entry, were long lasting service encounters that were specifically designed for thorough discussions of a customer's needs and the search for additional products or services the customer might buy. In the meeting with a customer, a consumer advisor discussed most financial products the bank offered in the range of mass consumer products, including the ones the customer was not yet buying. This was facilitated, even enforced, by the information system in use that demanded a fixed order of data entry in which all mass consumer products were reviewed. In addition, the advisor looked for opportunities to refer the customer to colleagues for other financial products, such as mortgages or financial planning, and detected opportunities for future sales, for example following from moving house or having a baby. The banks reasoned that this kind of information would be most easily obtained from face-to-face discussions with customers; hence front office activities were required. This corresponds with the second guideline formulated by Chase et al. (1984, p.544): high levels of contact with the customer are justified when marketing benefits are afforded by contact with the customer. For certain services, the longer a customer is in the system, the greater the potential for sales (Chase and Bowen, 1989).

Secondly, sales objectives also influenced the decoupling decisions in the front office – back office configurations. The processes for providing mortgages were decoupled (except

bank C) in the sense that mortgage advisors only performed commercial activities. Other activities were carried out by support employees. This greatly contributed to sales, as advisors could be hired on the basis of their commercial skills, they could devote all their time and effort to selling and they most likely improved their sales skills due to learning curve effects. Although the processes for providing mass consumer products were coupled, the same reasoning applied, as administrative activities were kept to a minimum and integrated in the sales part of the process. Hence, consumer advisors were still maximally available for sales and their sales performance became highly visible. In the business segments of our banks there was less emphasis on increasing sales, yet we can also see the effect of sales objectives on the design of the processes for providing company loans. In bank A, B and E business advisors only carried out a limited number of activities in the process so that they could concentrate on visiting existing customers and acquiring new customers to increase sales. This was reflected in the often-heard expression that advisors should be out of the office as much as possible. Decoupling a process to increase sales can be considered a mixture of the Cost Leader and Focused Professionals strategy in terms of the Metters and Vargas framework (Mettters and Vargas, 2000). It combines the effects of task specialization with the opportunity of employing sales experts.

Two additional remarks can be made. One is that we would have expected bank D to design a decoupled process for providing company loans as well, because its strategy was aimed at growth. Instead, the bank chose for a coupled process to deliver better quality. The other remark regards the design considerations of bank C. This bank argued that an increase in sales could not be achieved when consumer advisors did nothing but sales meetings. The bank reasoned that the quality and results of the sales meetings would deteriorate because of fatigue. Therefore, the consumer advisors carried out a variety of tasks and engaged in a limited number of sales meetings per day.

Thirdly, despite its importance, sales as a company priority did not influence the design of organizational arrangements in front office – back office configurations. Apparently, our banks did not see opportunities to increase sales through particular organizational arrangements. Likewise, in the current literature we did not come across arguments for either market groups or functional groups that could be explicitly related to increasing sales.

To conclude, increasing sales as a company priority influenced the design of front office – back office configurations by advocating front office activities for providing mass consumer products and by advocating decoupling to have sales employees focus on sales and nothing but sales. In general, sales objectives played a larger part at the retail parts of the banks than at the business parts. Nevertheless, they were the dominant factor in the design of front office – back office configurations.

### 7.4.3 Risk control

In addition to efficiency and sales, the five banks in this research study could have had other company priorities that also influenced the design of front office – back office configurations. We came across one: risk control. In financial service organizations, controlling the risks involved in providing credit facilities to customers is quite important. Apart from national or banking group regulations regarding risk control, such as establishing a customer's identity and separation of duties, banks can take additional measures in their own organizations to further enhance risk control. We observed this in bank C and B.

Particularly bank C was focused on controlling risks. We saw that bank C defined a few back office activities in the process for providing mass consumer products where the other banks defined front office activities, to control the risks involved in providing credit facilities to customers. Consumer advisors had to obtain approval from their office manager before they could accept a new customer, sell a credit card or otherwise grant credit. Here, the desire to control risks led to the definition of back office activities to enable counterchecks.

In addition to bank C, bank B also made a design decision to improve risk control. This bank partly decoupled the process for providing mortgages to have “another pair of eyes” check a mortgage offer and the funds that will be transferred. Here, risk control influenced the decoupling decision. We did not come across the definition of back office activities or decoupled processes to improve risk control in the current literature. We assume this is because they are relatively practical considerations that are specifically related to the financial services sector.

To conclude, risk control as a company priority influenced the design of front office – back office configurations by means of the establishment of counterchecks. Counterchecks were enabled by back office activities, so that a supervisor could perform a check, or by decoupling a process so that consecutive employees checked what their predecessors had done.

### 7.4.4 Conclusion

In this research study, company priorities were the main factors influencing the design of front office – back office configurations, in particular sales objectives. They not only received most emphasis in the interviews and company documents, but also were the primary reasons for several design decisions. Their impact is summarized in table 7.3. Sales objectives determined the definition of a large number of front office activities in the processes for providing mass consumer products. They also led to the decoupling of the processes for providing mortgages in bank A, B, D and E and the decoupling of the processes for providing company loans in bank A, B and E. Furthermore, efficiency motives led to the definition of back office activities, except when front office activities would be more efficient due to the elimination of follow-up work. Efficiency was also

Table 7.3: The impact of company priorities on the design decisions in the cases			
	<b>Definition of FO and BO activities</b>	<b>Decoupling decisions</b>	<b>Organizational arrangements</b>
<b>Efficiency</b>	BO activities to realize their efficiency potential; FO activities when follow-up work could be avoided	Decoupling to stimulate learning curve effects, make use of skills, prevent over-qualification and enable centralization; Coupling to avoid idle time	Functional groups to realize economies of scale
<b>Sales</b>	Definition of FO activities to promote cross-selling	Decoupling to employ sales experts, stimulate learning curve effects and have maximum sales capacity	---
<b>Risk control</b>	BO activities to enable counterchecks	Decoupling to build in counterchecks	---

mentioned as a reason for both decoupled and coupled processes through either a Cost Leader or Kiosk strategy. With regard to organizational arrangements, efficiency advocated functional grouping of employees to generate economies of scale. Finally, risk control turned out to be a company priority that influenced the design of front office – back office configurations by means of establishing counterchecks, either through the definition of back office activities or through decoupled processes.

## 7.5 Information technology

We proposed that recent developments in information technology also could have an effect on the design of front office – back office configurations. Particularly in information-intensive services, such as financial services, the impact of information technology can be large. We decided to concentrate on the impact of information systems that are available in an organization. In this section we investigate the impact of SALES, MORTGAGE and FINANCE on the design decisions made by the banks in this study. The case descriptions did not provide indications for other applications of information technology that require further investigation regarding their impact on the design of front office – back office configurations. We address the three information systems one by one.

- In the processes for providing mass consumer products an important role was reserved for SALES. The system supported the sales objectives of the banks by facilitating cross-selling, as all financial products were attended to. In addition, SALES enabled the integration of administrative activities in the sales part of the process, including checks on a customer's history and ID, which eliminated follow-up work. This significantly contributed to the efficiency and speed of the process. In fact, the design in which mainly front office activities were carried out in a coupled process



would probably not have been feasible without SALES. Yet, the system not only enabled but also enforced this way of working and largely determined the order of process steps. Doing so, it had a large influence on the service encounter and decreased employee discretion. SALES was the standard in all banks in this study, although in bank E the program did not always work properly. This meant the consumer advisors had to use the old systems, which could not be used in the customer's presence and therefore created follow-up work. Furthermore, some consumer advisors in bank D and E were avoiding the use of SALES because of the current or previous problems with the system's functioning.

- The processes for providing mortgages were supported by MORTGAGE. This information system consisted of several "levels", from the calculation of a mortgage proposal until the preparation of mortgage deeds, so it supported the process from beginning to end. A mortgage proposal was automatically transferred to the next level, with all relevant details included. This facilitated the handing over of work between consecutive employees in a decoupled process, as most required information was exchanged electronically. This reduced the time delays and the risks for noise and information losses. Hence, the information system supported the decoupled processes in bank A, B, D and E. However, the mortgage advisors in bank C reported that the same system supported their way of working, i.e. a coupled process, as well. They greatly appreciated the system, because they only needed to work with one application to complete the process from beginning to end. Hence, the same information system also supported a coupled process. Furthermore, like SALES, MORTGAGE enabled the front office execution of the calculation of mortgage proposals that used to be a back office activity. The predecessor of MORTGAGE was not suitable for entering customer data and making calculations in the customer's presence. MORTGAGE is more visually attractive and user-friendly. Still, only in bank A and B mortgage proposals were calculated as a front office activity. Bank D would like to do the same, but the system did not work properly. The mortgage advisors in bank C deliberately handed out proposals after the meetings to prevent copying by the competition, whereas the mortgage advisors in bank E felt they did not have time to calculate proposals during the meetings with customers. Nevertheless, we can conclude that the information system enabled the front office execution of previously back office activities and so prevented follow-up work. It also supported the handovers of work between the employees that were consecutively involved in a process, as well coupled processes in which mortgage advisors did most of the work themselves.
- The information system to support the processes for providing company loans was called FINANCE. Unlike the other information systems, FINANCE did not seem to play a large role in the process in terms of influencing the design decisions. Here, the information system was indispensable for decision support, but did not influence the

Table 7.4: The impact of information technology on the design decisions in the cases			
	<b>Definition of FO and BO activities</b>	<b>Decoupling decisions</b>	<b>Organizational arrangements</b>
<b>Information systems</b>	Enabled FO activities to increase sales and speed while maintaining efficiency	Facilitated handovers of work between employees in decoupled process	---

definition of front office and back office activities, decoupling decisions or organizational arrangements. The system did not seem to create opportunities, nor hinder the employees, in any particular way. We suppose this has largely to do with the customized nature of company loans and the complexity of the work involved. These characteristics imply that shifting activities from front office to back office or the information exchange between the employees that are involved in a process cannot easily be incorporated in an information system. It should be noted that the banking group was working on the development of a new information system for the provision of standardized products for business clients that would significantly decrease the amount of work involved in delivering these services.

To conclude, we found that both SALES and MORTGAGE enabled the definition of front office activities to increase sales and improve the speed of service delivery, while the processes remained efficient. This was not possible for the customized company loans. MORTGAGE also facilitated the handovers of work between the employees that were consecutively involved in the process. For the customized company loans, the handovers could not be incorporated in FINANCE and required market groups. This shows that, provided they work properly, information systems can support particular design decisions and enable others that were not attractive before, for a certain range of services. In the case of mass consumer products, the information system was used to overcome the trade-off between the efficiency potential of back office activities and the sales opportunities related to front office activities. This is summarized in table 7.4. The impact of information technology we came across in our cases is consistent with the ideas of authors addressing the validity of traditional trade-offs in organizations, such as McDermott et al. (1997) and Hammer (1990).

## 7.6 Staff characteristics

As a final variable we included staff characteristics in our model of factors influencing the design of front office – back office configurations. In particular, we expected that design decisions could be based on specific skills, knowledge or competences that were or were not present in an organization. The case descriptions showed a small impact of the skills of

the available staff on the design decisions. In addition, the case descriptions revealed that preferences of the available staff could also influence the design decisions. Therefore, we investigate the impact of staff skills and staff preferences on the design of front office – back office configurations in our cases. Before we do that, we want to emphasize that a bank's human resources were unanimously mentioned as the by far most important factor in implementing designs or carrying through changes. They were called the biggest challenge of all. Furthermore, the knowledge, skills and attitude of employees were of utmost importance for an adequate execution of processes.

With regard to the impact of the skills of the available staff on the design decisions, we conclude that they influenced the decoupling decisions. Bank A, B, D and E decided to decouple the process for providing mortgages to establish different jobs that required different skills, so that different types of employees could be hired. The reasons were not only related to increasing sales through hiring experts and increasing efficiency through specialization, but also to staff characteristics. In fact, the work was so diverse that it would be practically impossible to find employees that would perform equally well at all aspects of the job. The banks argued that in general, commercial skills and administrative skills do not come in one person. Most respondents in this study agreed that “commercial” types are different from “administrative” types. Some even reported a natural, but healthy, tension between “salesmen” on the one hand and “bookkeepers” on the other hand. The mortgage advisors themselves often admitted they disliked administrative activities (except in bank C). Sometimes they did not even know what happened with a mortgage proposal after their part of the work was done. Thus, the skills of the available staff influenced the decoupling decisions, even though this was an appraisal of skills in general, rather an assessment of the skills available in a particular bank. Such reasoning is consistent with one of the pillars of the customer contact approach, i.e. that front office activities require different skills than back office activities and therefore should be decoupled (Chase, 1978).

Another appearance of the impact of staff characteristics on the design of front office – back office configurations can be found in bank D, where staff preferences were taken into account when making design decisions. This regarded the process for providing mortgages. Recently the production of mortgage offers had been transferred from the mortgage advisors to the commercial support employees. Although the main reason was to free the mortgage advisors for sales activities, a sub reason was a request from the commercial support employees for more demanding work. They would like to have broader tasks that would offer more challenges than the telephone shift. Along the same route, a consumer advisor in bank B complained about her narrow tasks now that the preparation of sales meetings was done by commercial support employees. Bank D adhered to the request from the support employees for broader tasks. The basic idea is that enriched work increases employee motivation and hence job performance (see e.g. Hackman et al., 1975; Parker and Wall, 1998). Naturally, the shift of the production of offers to the support employees made

Table 7.5: The impact of staff characteristics on the design decisions in the cases			
	Definition of FO and BO activities	Decoupling decisions	Organizational arrangements
Skills of staff	---	Decoupling to employ different types of employees	---
Staff preferences	---	Coupling / decoupling to improve work content	---

the work of the mortgage advisors more specialized. However, this did not decrease their job satisfaction, because they were happy to give up this part of their job. As we explained above, most mortgage advisors were not too fond of “paperwork”. Thus, staff preferences regarding work content influenced the decoupling decisions.

To conclude, the skills of the human resources available to a bank and staff preferences regarding work content were two of the factors influencing the decoupling decisions in our cases. This is also displayed in table 7.5.

## 7.7 Conclusions

Now that we have described the influence of each variable in our conceptual model on the definition of front office and back office activities, decoupling decisions and organizational arrangements, we conclude this chapter by summarizing the effects we found. In addition, we draw several conclusions regarding the relations between the variables, such as which ones had more impact than others. In this way, we can make a start with unfolding the mechanism underlying the design of front office – back office configurations.

Table 7.6 provides an overview of the variables that played a part in the cases in this study and the way in which they influenced the design decisions. This summarizes the main effects and considerations we came across in the three processes in the five banks. We conclude that a large part of these effects and considerations have counterparts in the current literature. We were able to link them to the customer contact approach (e.g. Chase, 1978), the typology of Metters and Vargas (Metters and Vargas, 2000) or theory regarding grouping (e.g. Mintzberg, 1979). We also came across several design considerations we could not link to the literature we studied. The most significant one is probably the decision to define front office activities to increase the efficiency and speed of a service delivery process by eliminating follow-up work, as in general the definition of back office activities is considered to be most efficient. Another finding that is not yet captured in the literature we studied regards the strong emphasis on increasing sales, leading to a decoupled process to free sales employees for sales activities. This line of reasoning does not represent one of Metters and Vargas’ decoupling strategies, but combines elements of

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the Focused Professionals and Cost Leader strategies and might be even considered a new type. Finally, the impact of competitive priorities was not as large as we expected. Although

Table 7.6: Overview of the impact of the variables on the design decisions in the cases			
	Definition of FO and BO activities	Decoupling decisions	Organizational arrangements
High service customization	FO activities required for exchanging information with customers	Decoupling can hurt speed and quality due to handovers	Decoupling needs market groups
Inevitable customer contact	FO activities required for customer contact	---	---
Regulations	---	Decoupling required to create separation of duties	---
Work complexity	FO activities less evident	---	More need for functional groups for cross-fertilization
Work diversity	---	Decoupling more evident	---
Quality	---	Decoupling to employ experts and stimulate learning curve effects; Coupling to avoid handovers and have informed advisors	Functional groups to promote cross-fertilization and uniformity; Market groups to facilitate handovers
Speed	FO activities when follow-up work could be avoided	Coupling to avoid handovers	Market groups to facilitate handovers
Reliability	---	---	Functional groups to ensure continuity of service delivery
Efficiency	BO activities to realize their efficiency potential; FO activities when follow-up work could be avoided	Decoupling to stimulate learning curve effects, make use of skills, prevent overqualification and enable centralization; Coupling to avoid idle time	Functional groups to realize economies of scale
Sales	Definition of FO activities to promote cross-selling	Decoupling to employ sales experts, stimulate learning curve effects and have maximum sales capacity	---
Risk control	BO activities to enable counterchecks	Decoupling to build in counterchecks	---
Information systems	Enabled FO activities to increase sales and speed while maintaining efficiency	Facilitated handovers of work between employees in decoupled process	---
Skills of staff	---	Decoupling to employ different types of employees	---
Staff preferences	---	Coupling / decoupling to improve work content	---

delivering quality and reliable services were the banks' main competitive priorities, they were not the primary factors influencing their design decisions. It turned out that other competitive priorities were taken into account as well and that company priorities strongly influenced the design decisions.

In addition to summarizing the effects of the variables on the design decisions, we can draw several conclusions regarding the relations between the variables influencing the design of front office – back office configurations. From table 7.6 we can conclude that the design decisions were often influenced by multiple variables. It was not just a desire to increase sales or quality that determined the design of a front office – back office configuration. It is possible to detect patterns in the way the variables worked together to influence the design decisions. We introduce three patterns below.

One of the main patterns in the way in which the variables influenced the design decisions is that certain design choices were predetermined by service characteristics that made demands on the design of front office – back office configurations. After these demands had been adhered to, the banks filled in the remaining design space according to the other variables. The demands were inherent to providing the product and will apply to every organization delivering similar products. Thus, they were beyond the choices of a bank. The characteristics that played such a part in our cases were (1) inevitable customer contact following from the need to establish a customer's identity and (2) regulations regarding the separation of duties influencing the decoupling decision. In our cases, the design space that was left after the demands of these regulations had been conceded, was hardly narrowed by constraints following from information systems or staff skills. Hence, our banks had quite some freedom of choice regarding the design of their front office – back office configurations. Yet, the degree of service customization, work complexity and work diversity influenced the relevance or evidence of arguments for particular design decisions.

Another pattern in the variables' impact on the design decisions regards the existence of "main" and "sub" reasons for design decisions. Although the banks frequently put forward one key reason for a particular design decision, there were often other arguments accompanying that decision. In this case, the variables supported each other. For example, the decoupled processes for providing mortgages in bank A, B, D and E not only contributed to sales objectives, but also were the most efficient solution. A sub reason was the fact that entirely different skills were required from employees. For bank B, another sub reason was risk control through counterchecks, while bank D could also adhere to staff preferences. The decoupled processes for providing company loans in bank A, B and E were mainly chosen for sales objectives, but also to deliver quality and prevent over-qualification. We can conclude that the main reasons for the design decisions often were company priorities and competitive priorities. Yet, we found that company priorities had a much larger impact than competitive priorities. Our banks were very much occupied with

### **Design Decisions in the Front Office – Back Office Issue**

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increasing sales and designed their front office – back office configurations accordingly. Efficiency and risk control came in second. Other main design choices were guided by providing quality service and improving speed or reliability. The skills and preferences of the available staff played a relatively minor role.

A third pattern is related to the trade-offs involved in the design decisions. It seems that in the case of conflicting variables, the banks managed to overcome trade-offs by using information systems or coordinating the design decisions. For example, in the case of mass consumer products, SALES enabled the front office execution of several process steps, which increased the speed of the process, while it remained efficient. The coordination of the design decisions is illustrated in the processes for providing company loans in bank A, B and E. Here the sales teams were established to deal with the need for coordination between employees following from the decision to decouple the process. This decoupling would not have been feasible without these organizational arrangements.

These three patterns provide valuable indications for the mechanism of considerations that underlies the design decisions. In fact, they form the foundations for the mechanism and are worked out in more detail in the next chapter.