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

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## 8 Unraveling the Mechanism

Based on the patterns in the design considerations we identified in the five case studies, we can derive the mechanism underlying the design of front office – back office configurations. We defined the mechanism as the collection of considerations and influences that lead to a front office – back office configuration. In this chapter, we present the basic structure of the mechanism in section 8.1. Next, we work the basic structure out in more detail. This involves elaborating the trade-offs for each design decision. Sections 8.2, 8.3 and 8.4 consecutively address the three design decisions. We describe the trade-offs involved and the way in which the banks made ultimate design decisions. Next, in section 8.5, we display the mechanism in total and draw a number of conclusions with regard to the trade-offs, the decision making by the banks and the coherence between the design decisions. Throughout the chapter, we compare our findings with the existing insights. Finally, section 8.6 presents the conclusions to this chapter.

### 8.1 Basic structure

As we explained in chapter 4, we expect the design of front office – back office configurations to be based on a complex mechanism of design considerations. Knowing and understanding this mechanism provides valuable insights in the design decisions regarding front office and back office activities in service delivery processes. Table 7.6 and the design considerations we presented in the previous chapter give rise to a basic structure for this mechanism. We conclude the mechanism entailed, firstly, adhering to *given choices*, secondly, taking into account a number of performance *trade-offs*, and thirdly making *well thought-out choices* on these trade-offs. These are briefly introduced below and worked out in more detail in the upcoming sections.

First, the given choices resulted from regulations related to delivering (financial) services that made demands on the design of front office – back office configurations. They simple predetermined the design decisions. This study revealed two given choices. First, inevitable customer contact in a service delivery process called for the definition of front office activities. In our banks, inevitable customer contact originated from the need to establish a

customer's identify before credit facilities could be provided. Second, our banks had to comply with regulations regarding the separation of duties. Separation of duties, mainly between commercial activities and the actual transfer of funds, determined the decoupling decisions. These regulations were beyond the freedom of choice of a bank. Being inherent to a particular service, any organization wishing to deliver that service would have to make the same design choices.

The second main part of the mechanism regards the trade-offs in the design decisions. From table 7.6 we can conclude that each design decision can be characterized by a trade-off between performance objectives. Trade-offs entail that in order to excel in some aspects of performance, performance in other aspects has to be sacrificed. When designing their front office – back office configurations, the banks were confronted with such performance trade-offs. Although the banks made their own choices on the trade-offs, the trade-offs themselves can be considered universal. The trade-offs are presented in detail below.

The third part of the mechanism underlying the design of front office – back office configurations is involved with the way in which the banks have made their choices. We conclude this is a combination of the impact of service characteristics making particular choices more or less evident, a bank's strategic priorities, the opportunities offered by information systems and coordination of the design decisions.

The principle of given choices limiting the design space corresponds with the ideas of Hill (2000). When discussing the design of processes, Hill distinguishes between two dimensions. On the one hand, there is the technical dimension. The technical dimension concerns what has to happen technically to a product or service to meet the specification. On the other hand, Hill identifies the business dimension. This dimension reflects the volumes of the products or services to be produced and the market needs to be supported. It is a key role of operations management to choose within the technology domain about the type(s) of processes to best meet the demands of customers. The technical dimension is similar to the existence of given choices in our mechanism, whereas the business dimension reflects the free design space that can be filled in by the banks based on their company and competitive priorities.

## 8.2 The definition of front office and back office activities

In this research, we distinguish front office activities from back office activities by means of the existence of direct customer contact. Direct customer contact does not necessarily include physical customer presence. As long as the customer and service provider have the opportunity to communicate directly in the same time, for example by telephone, there is

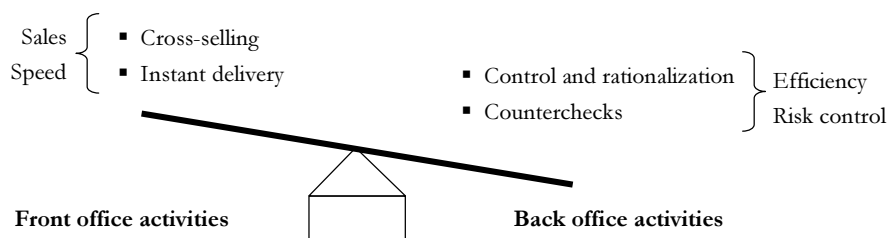
direct customer contact. Below we describe the trade-off involved as well as the way in which the banks made a choice.

**Trade-off**

The design decision regarding the definition of front office and back office activities in a service delivery process involved one given choice: regulations on establishing a customer's identity required simultaneous production and delivery of the service and thus called for front office activities. Although it is technically not a given choice, we can add that delivering mass consumer products, mortgages and company loans also required a few front office activities to facilitate the exchange of information between customers and service providers. This particularly applied to the customized company loans. For the remaining activities in a service delivery process, i.e. the ones that were not affected by these considerations, the decision on front office or back office execution could be characterized by a trade-off. Whereas back office activities have more efficiency potential than front office activities, because of more opportunities for control and rationalization, and enable risk control through counterchecks, front office activities offer valuable opportunities for cross-selling additional products and increasing the speed of service delivery. The trade-off is illustrated in figure 8.1. Apart from speed and risk control, this is a well-known trade-off in the theory on front office and back office activities (see e.g. Chase and Bowen, 1989). Front office activities improve the speed of service delivery, because the customers directly receive their newly acquired or updated services at the end of the service encounter, without having to wait for back office processing to finalize the transactions. In general, the extra time it takes to complete the service encounter is acceptable for customers. The risk control facilitated by back office activities regards the opportunity for counterchecks by supervisors or colleagues.

However, this study also revealed that this trade-off (partly) could be overcome. If the definition of front office activities eliminates follow-up work, i.e. there are no more back office activities left in the service delivery process, this not only creates a large amount of sales opportunities and increases the speed of service delivery, but also improves the

Figure 8.1: The trade-off in the definition of front office and back office activities



efficiency of the process. This is because the advisors can directly attend to new customers, without having to engage in paperwork or handing over work to a centralized back office department. When the advisors finalize the transactions in the customer's presence, supported by information systems, this is most likely more efficient than finishing the work at a later point in time, requiring start-up times etc., or the involvement of back office employees. Naturally, the work involved in delivering the service should be suitable for front office execution. Hence, the trade-off involved in the definition of front office and back office activities regards choosing between, on the one hand, efficiency potential and risk control and, on the other hand, sales opportunities and speed. Nevertheless, if follow-up work is eliminated, a process containing mainly front office activities can be more efficient than a process containing both front office and back office activities.

### *Case summary*

Before we analyze how the banks had made their choices on the trade-off, we briefly summarize the design decisions and underlying considerations in the three processes in the five banks. In general, which activities were performed front office and which ones were performed back office did not differ much between the five banks. In the processes for providing *mass consumer products* the only difference was the back office execution of some activities in bank C. We found that the processes for providing mass consumer products in the banks A, B, D and E mostly contained front office activities to create long lasting service encounters to generate cross-selling opportunities and to avoid follow-up work. Bank C decided to define a few back office activities for better risk control.

In the processes for providing *mortgages* most activities were defined as back office activities for efficiency reasons. They would not benefit from front office execution. Yet, bank A and B defined the calculation of a mortgage proposal as a front office activity to increase the speed of the process and prevent follow-up work for the mortgage advisors. Bank D would like to do the same, but experienced problems with the required information technology. Bank C deliberately waited with handing out proposals to prevent competitors from simply copying the bank's formula with slightly lower rates. Bank E decided to create proposals after the customer meetings, because the mortgage advisors felt they did not have time to extend the customer meetings to include the proposal.

There were no differences at all in the definition of front office and back office activities in the processes for providing *company loans*. These processes contained a large number of activities that would not benefit from front office execution or would not be suitable for front office execution given the complex nature of the work. Therefore, only the intake and customer meeting were front office activities and the rest were back office activities.

### *Making a choice*

From this description we can conclude that, for many activities, the trade-off between front office activities and back office activities was not difficult, as back office activities were the evident option. The efficiency and risk control benefits largely outweighed the

opportunities for cross-selling or instant service delivery, if at all present. This is mainly due to service characteristics. For example, customized services that already require a long service encounter to exchange sufficient information between customer and service provider, such as company loans and mortgages, would not benefit from additional front office activities to generate sales opportunities, as the customer would already be saturated. Furthermore, some activities were too complex to be carried out as a front office activities or would take too much of the customer's time. Hence, in many instances back office activities were the preferred option. They can even be considered the default setting. This is consistent with the customer contact approach that also considers back office activities the default setting, see for example the guidelines for justifying front office activities formulated by Chase et al. (1984). By "default" we mean "standard", the starting point that remains when no other choices are made.

We found that the banks in this study deviated from the default option in two situations. First, the banks defined front office activities when the work involved in delivering a service permitted front office execution, for example supported by an information system, when an extension of the service encounter created additional sales opportunities and when their strategy was aimed at increasing sales. All three conditions had to be present. This explains why bank C defined less front office activities than the other banks for providing mass consumer products: it valued risk control more than increasing sales. Second, the banks defined front office activities when the work involved in delivering a service permitted front office execution, for example supported by an information system, when the definition of front office activities eliminated follow-up work and when the increase in process speed was valued and the extra length of the service encounter acceptable. Again, all conditions had to be present. This explains why bank C and E did not calculate mortgage proposals in the presence of the customer, like the other banks did or would like to do. Comparing the guidelines of Chase et al. (1984), this adds a fourth guideline, as well as particular conditions for the other guidelines to hold. Thus, front office activities are justified when service production and delivery are inseparable, when marketing benefits are afforded, when they are highly practical to exchange information and when they can improve the speed and efficiency of service delivery through eliminating follow-up work. Yet, it depends on the nature of the service being delivered whether front office activities are feasible and the desired benefits can be expected.

We can summarize the decision-making process of the banks on the trade-off involved in the definition of front office and back office activities as follows: (1) Back office activities were the default. (2) The characteristics of the service being delivered determined the feasibility and chance for success of front office activities. (3) A bank's strategic priorities, i.e. its emphasis on increasing sales or speed, ultimately determined whether front office activities would be chosen or not. (4) Information systems were in place to maintain the efficiency of the process in case of front office activities.

### *Conclusion*

In conclusion, the definition of front office and back office activities was characterized by a trade-off between cross-selling and fast service delivery opportunities following from front office activities and production efficiency and counterchecks related to back office activities. Yet, for most activities this trade-off resulted in the definition of back office activities. Only when the work involved permitted front office execution and front office activities were expected to produce the desired effects, i.e. an increase in sales opportunities or speed, front office activities were considered. Still, whether they were really chosen depended on a bank's strategic priorities: how much it valued the increased sales or speed. When a bank defined front office activities, it could minimize the negative effects on the efficiency of a process by employing information technology and eliminating follow-up work.

## **8.3 Decoupling decisions**

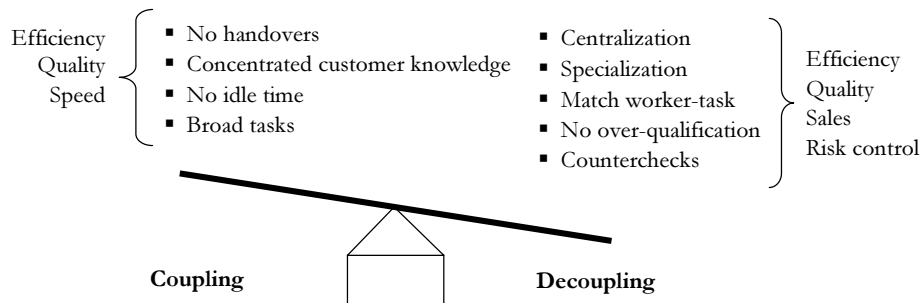
The second design decision in the design of front office – back office configurations is the decoupling decision. Decoupling entails breaking a process in sub processes that are allocated to different employees and causes a need for handing over work. Below we describe the trade-off involved in this decision, as well as the way in which the banks made a choice.

### *Trade-off*

The decoupling decision was affected by one given choice: the need to decouple the transfer of funds from commercial activities to create separation of duties. This is enforced by regulations from the Dutch Central Bank. Yet, this regulation does not specify where exactly a process should be decoupled, as long as the person that makes a deal with a customer does not engage in the money transfer. This left the banks with a considerable amount of design space that was characterized by a trade-off. Yet, this one is less straightforward than the one involved in the definition of front office and back office activities, as both ends of the trade-off influence similar aspects of performance. For example, coupling and decoupling were both mentioned for their effect on the efficiency of the process and the quality of the service provided. Below we explain each end of the trade-off. It is illustrated in figure 8.2.

Following table 7.6 at the end of the previous chapter, we identify five reasons for decoupling processes. To begin with (1), decoupling a process enables centralization of a group of activities, e.g. back office activities, which contributes to the efficiency of the production system through economies of scale. Furthermore (2), decoupling a process leads to (horizontal) job specialization, which increases both productivity and quality through repetition. People who perform the same task over and over again will become

Figure 8.2: The trade-off in decoupling decisions



more efficient at performing the task as they develop a learning curve, make fewer errors and will increase the quality of the output because they have a thorough understanding of the problem on hand. Additionally (3), decoupling a process enables a better fit between worker and task, as employees with particular skills can be hired for specialized jobs, for instance administrative or commercial jobs. In general, administrative experts will be better at performing administrative activities, in terms of both the size and quality of output, than employees with a more commercial orientation. Decoupling a process provides the opportunity to employ different types of employees for different types of jobs. Moreover (4), decoupling a process has the advantage of differentiating between activities that require advanced or basic skills to prevent over-qualification. Decoupling activities that require little training, expertise or skills from activities that require a lot, enables the employment of both highly qualified and less qualified employees. Making this distinction often is more efficient than having the highest qualified employee carry out all activities in a process. Finally (5), decoupling a process automatically creates “inspection points” or opportunities for checking the work of the previous employee for conformance to customer specifications and compliance with rules and regulations. These are called counterchecks and improve risk control.

The above-mentioned benefits of decoupling were distilled from our cases, but most of them are consistent with the customer contact approach (Chase, 1978; 1981; Chase and Tansik, 1983). Although they are fairly comprehensive of what we found, one often-mentioned argument has not been dealt with yet. This is the buzzword we so often came across in our banks: “freeing”. In the processes for providing mass consumer products, consumer advisors needed to be freed from follow-up work and non-sales related customer requests, so that they could devote all their time to integral sales meetings. In the processes for providing mortgages, mortgages advisors were as much as possible freed from administrative activities, such as making an offer and deeds, to maximally benefit from their commercial skills (except in bank C). In the processes for providing company loans, business advisors were freed from all activities not related to visiting customers,



approaching potential customers or working on complex cases, in order for them to devote all their time to providing quality service and acquisition (except in bank C and D). This concept of “freeing” appears to be a combination of several arguments, namely specialization, match between worker and task and preventing over-qualification. In addition, “freeing” advisors and sales support employees from non-sales related activities also mobilized as much sales capacity as possible and increased the measurability and visibility of performance, as the employees were 100% available for selling, so there would be nothing to withhold them from achieving their targets. Hence, increasing sales is also an argument for decoupled processes.

However, decoupling a process comes at the expense of other things. In fact, although it can enhance efficiency and quality as described above, our cases showed that decoupling a process can also have negative effects on efficiency and quality. First (1), establishing centralization or specialization and avoiding over-qualification through decoupling a process inevitably creates the need for handing over work from one employee to another and hence the need for coordination. In general, a process with two employees having to coordinate is less efficient than one person doing all the work with all required information in his or her head. In fact, coordination takes time, as information needs to be transferred, and increases the risk of mistakes as information might get lost or distorted at a transfer. Therefore, decoupling a process can also negatively affect the efficiency, quality and speed of service delivery. Coupled processes are thus favored for reducing the need for coordination. Second (2), decoupling a process includes customer knowledge is split between several employees and customers might have to deal with multiple employees in order for the service to be delivered. This can decrease the quality of the service, at least in the eyes of the customer, as customers generally prefer to be served by just one employee who can do it all. In addition, advisors or support employees might not have all information on a customer or the stage of work-in-progress readily available, which means they cannot answer questions from customers instantaneously. Thus, coupled processes are favored for concentrated customer knowledge. Third (3), decoupling a process increases the risk of idle time for contact employees. As front office facilities are generally staffed for peak demand, contact employees sometimes have to wait for customers to arrive. Coupling the service delivery process, so that contact employees also carry out the non-contact activities, can be used to fill the idle time. For banks with a large amount of facilities and contact staff, such as bank C, coupled processes to prevent idle time are often more efficient than allocating administrative activities to a centralized back office department. The previous three arguments reflect the Personal Service and Kiosk strategies in the Metters and Vargas typology of decoupling strategies (Metters and Vargas, 2000). Fourth (4), decoupling processes generally creates narrow tasks. This can hurt employee motivation and satisfaction and in the end their productivity and the quality of the output (Hackman et al., 1975; Campion and Thayer, 1987; Parker and Wall, 1998). This is exactly contrary to the principle that specialized tasks will yield highest quality and productivity

through learning curve effects. This paradox is even more complicated, as research has shown that some workers prefer narrow tasks to broad tasks and that for particular jobs job enrichment would not be a good idea. Mintzberg (1979) provides the examples of doctors that should not engage in nursing and laboratory activities and older employees that prefer relatively routine jobs. In our cases, we saw that employees did not mind to give up the parts of their work they disliked. For example, most mortgage advisors were really glad they did not have to do any administrative work and most business advisors were thankful for assistants to take over some of their work, in order for them to visit customers and spend more time on complex cases. Hence, it depends on the work and the worker whether broad tasks or narrow tasks create most employee motivation and satisfaction.

To summarize, the trade-off involved in decoupling decisions was one between, on the one hand, achieving centralization, specialization and a better match between worker and task, preventing over-qualification and establishing counterchecks and, on the other hand, reducing the need for coordination, having concentrated customer knowledge, preventing idle time and creating broad tasks.

#### ***Case summary***

Before we address how the banks made a choice on this complicated trade-off, we briefly summarize the design decisions and their underlying considerations in the three processes in the five cases. For the provision of *mass consumer products*, there were few differences between the five banks. All banks had consumer advisors carry out the largest part of the process. Just the intake was taken care of by someone else (except in bank C), resulting in a highly coupled process. The main reasons for this design were that it is most efficient and fast to avoid handing over work, particularly because most activities were defined as front office activities. Bank B put more emphasis on the freeing of consumer advisors than the other banks by assigning the preparation of sales meetings to support employees, thus decoupling the process to a greater extent. This can be explained by the fact that bank B also put most emphasis on increasing sales as a company priority. Likewise, bank C put more emphasis on avoiding handovers and preventing idle time.

For the provision of *mortgages*, all banks had in common that the transfer of funds needed to be decoupled from the commercial activities due to regulations on separation of duties. Furthermore, we found that banks A, B, D and E showed a different decoupling strategy than bank C. The four banks decoupled the process to free sales capacity and enhance sales performance through specialization, the match between workers and tasks and preventing over-qualification. They also allocated the administrative activities to a central department. Bank B also decoupled the process to create counterchecks. The banks did not seem to have problems with the handovers of work resulting from their decoupling decisions, not even bank A where geographical distances between mortgage advisors and support employees were involved. Yet, preventing handovers was the main reason for bank C to decide to keep the process as much coupled as possible. Bank C reasoned that a coupled

process would be more efficient and fast due to the absence of handovers and would create better quality, as the advisors would be more informed, than a decoupled process. Additionally, bank C needed to prevent idle time due to its office structure.

For the provision of *company loans*, there seemed to be quite some variance in the decoupling decisions at first sight. Still, the banks had in common that regulations on the separation of duties determined that the transfer of funds needed to be decoupled from the commercial side of the process. This variation can be narrowed down to two main strategies. Bank A, B and E decoupled the process to free sales capacity and provide quality service. They argued that the advisors should be freed from as many activities as possible to enable them to concentrate on their core duties: visiting clients, attracting new clients and working on complex financial structures. The resulting handovers of work, particularly delicate in such customized and complex products as company loans, were facilitated by the creation of small sales teams in which assistants and advisors closely cooperated. Contrary to bank A, B and E, bank C and D chose not to work with assistants, although for different reasons. Bank C argued that its region and its customers did not justify assistants, just “plain” support would do. In addition, advisors had enough time to carry out several activities themselves. Hence, it was more efficient to design a coupled process. On the other hand, being a city bank, bank D had a much more demanding base of customers and reasoned that advisors that have broad and up-to-date knowledge of a customer’s file provide better quality. Therefore, bank D decided not to decouple the front end of the process for quality reasons.

### ***Making a choice***

We already concluded the trade-off involved in decoupling decisions is a complex one, given that several performance objectives appear on both sides of the trade-off. Unlike the trade-off in the definition of front office and back office activities, we cannot identify a default setting. Instead, we conclude that (1) the choices of the bank were simplified by some characteristics of the service being delivered and (2) guided by the banks’ strategic priorities. The banks also coordinated this decision with the other ones.

Service characteristics determined which benefits could be expected and so made one side of the trade-off much more relevant or desirable than the other. We provide four examples:

- The diversity of the work involved in delivering a service determined whether benefits could be expected from decoupling to match workers to tasks or to prevent over-qualification. In the case of homogeneous activities, decoupling was less relevant. This applied to the process for providing mass consumer products.
- The degree of service customization for a large part determined whether handing over work could create problems with the speed and quality of service delivery. In the case of standardized products, decoupling should not be problematic. We found this in the processes for providing mortgages in bank A, B, D and E.

- The degree of service customization determined to what extent concentrated customer knowledge was jeopardized through decoupling the process. For example, the customer knowledge that is required for providing mass consumer products could be captured in an electronic database that was accessible by many employees, along with product information and information on work-in-progress. On the other hand, for customized products such as company loans, it was more difficult to capture all relevant customer knowledge, product information and work-in-progress in a database. Therefore, a decoupled process would lead to distributed information, which might lower service quality.
- The complexity of the work involved in delivering a service partly influenced the desirability of broad tasks. For relatively little complex jobs, such as the commercial support for providing mortgages, job enrichment was a bigger issue than for the work of the business advisors.

To conclude, the degree of customization of the service to be delivered and the diversity and complexity of the work involved in delivering the service influenced the weights of the arguments involved in making a choice on the trade-off related to decoupling decisions, often “highlighting” one side of the trade-off. For mass consumer products and mortgages decoupled processes would be evident (at the expense of broad tasks), for company loans coupled processes (at the expense of narrow tasks).

However, in our cases the service characteristics did not lay down the ultimate design choices. We found that the banks based their ultimate choices on their strategic priorities and (partly) the previous design decision regarding the definition of front office and back office activities. We can illustrate this for the three service delivery processes we studied:

- The coupled designs for the processes for providing mass consumer products in all banks were influenced by the decision to design only front office activities to increase sales opportunities and speed and efficiency of service delivery. Handing over work between two front office employees would be highly undesirable, as it would unnecessarily hurt the quality and speed of the process.
- The decoupled processes for providing mortgages in bank A, B, D and E, as suggested by the service characteristics, appeared to correspond with their strategic priorities, mainly increasing sales, efficiency and risk control. Hence, they adhered to the decoupling suggestion. The information system they used facilitated the handovers of work, so reducing one of the side effects of decoupling. For bank C, however, decoupling was opposed to its strategy of avoiding handovers and operating from a large number of offices. In addition, bank C appreciated concentrated customer knowledge a lot. Therefore, bank C designed a coupled process for providing mortgages.
- Finally, although service characteristics of company loans called for coupled processes, only bank C and D carried it on. They valued the benefits of avoiding handovers, concentrated customer knowledge and preventing idle time. The other banks valued

specialization, the match between workers and tasks and preventing over-qualification more, mainly to enhance sales, efficiency and quality. These banks also found a way of minimizing the negative effects of this choice by establishing appropriate organizational arrangements. Therefore, they designed decoupled processes.

In summary, although service characteristics highlighted a particular design choice, the banks ultimately based their decision on their strategic priorities, taking the possibilities offered by information systems and the coordination with the other design decisions into account. Based on their strategic priorities, they valued particular benefits related to coupling or decoupling most. Yet, this often depended on what the banks considered the best way to achieve their company or competitive priorities, for example delivering quality service through experts (decoupling) or through concentrated customer knowledge (coupling).

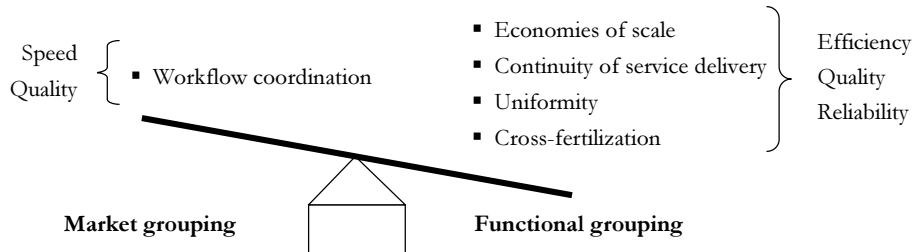
### *Conclusion*

To conclude this section on the trade-off involved in decoupling decisions, we recapitulate that the trade-off regards the weighing of, on the one hand, centralization, specialization, match between worker and task, no over-qualification and counterchecks against, on the other hand, no handovers, concentrated customer knowledge, no idle time and broad tasks. Yet, the diversity and complexity of the work involved in delivering a service and the degree of customization of the service itself partly determined the relevance of certain arguments, thus simplified the decision. Our banks made the ultimate choices based on their company and competitive priorities, i.e. what would work best for their strategic priorities. Doing so, they sometimes overruled the decoupling “suggestion” following from service characteristics. In a few cases, the decoupling decision was related to the definition of front office and back office activities or the organizational arrangements. Information systems were used to facilitate the handovers between employees, in other words to ease the side effects of decoupled processes.

## **8.4 Organizational arrangements**

Organizational arrangements are the third design decision in the design of front office – back office configurations. This involves the way in which the employees that are involved in a process are grouped into units in the organization. We only look at first-order grouping, that is the grouping of individual positions or operators until the first level of supervision. In this study, the main bases for grouping are functional grouping, when employees are grouped on the basis of similar activities, skills or knowledge, and market grouping, when employees form clusters on the basis of the products they contribute to or the customers they serve. Below we describe the trade-off involved in the grouping decision, as well as the way in which the banks made a choice.

Figure 8.3: The trade-off in organizational arrangements



**Trade-off**

The design decision regarding the organizational arrangements in the front office – back office configurations in our cases was not limited by given choices. It can also be characterized as a trade-off, see figure 8.3. Table 7.6 in the previous chapter shows that the choice between market grouping and functional grouping basically involved the weighing of workflow coordination against the benefits of scale economies, continuity of service delivery, uniformity and cross-fertilization. Market groups work particularly well for workflow coordination, which can increase the speed of the process and the quality of the service provided. This is because the employees that are consecutively involved in the process work closely together and can easily share information. In this way, there is less risk of information losses or the creation of noise. Functional groups, on the other hand, offer opportunities for realizing economies of scale, creating uniformity in the execution of tasks and promoting cross-fertilization between employees. These are generally well-known arguments (e.g. Mintzberg, 1979). Furthermore, the continuity of service delivery often improves in functional groups, as employees can more easily take over each other’s work or share a high workload than in market groups. Continuity of service delivery can only be achieved in market groups when employees are cross-trained. The argument of continuity is less represented in the current literature. Nevertheless, functional groups contribute to the efficiency, quality and reliability of service delivery.

**Case summary**

Before we analyze how the banks had made their choices on this trade-off, we briefly summarize the design decisions and underlying considerations in the three processes in the five banks. For the provision of *mass consumer products*, grouping was not such a big issue, as the consumer advisors carried out most of the work themselves. We found that bank A, B, D and E had central support departments that were separated from the consumer advisors (functional grouping) to achieve economies of scale. Bank C did not operate central support departments.

For the provision of *mortgages*, we found that the banks predominantly designed functional groups to realize economies of scale, uniformity and continuity of service delivery. Apparently, the banks did not feel the need to bring the different employees that were involved in the process following the decoupling decision closer together by market grouping (yet, bank D implemented teams between mortgage advisors and commercial support employees to improve workflow coordination). Bank A decided to keep the three kinds of support employees (for customer contact, for making offers and for administrative support) together, because the groups were too small to form separate departments. That would severely jeopardize continuity of service delivery. Although this resulted in a market group of three kinds of support employees, it can partly be considered a functional group, because the employees were cross-trained. In bank E, the mortgage advisors and commercial support employees were grouped by market to improve the speed of the process and the quality of the services provided, because the handovers of work were facilitated. Yet, the bank suffered from a lack of continuity and a lack of cross-fertilization between employees.

For the provision of *company loans*, we found both functional and market grouping in our cases. All banks, but bank B, grouped the administrative support employees in functional groups to realize scale economies. Bank A, B and E designed market groups to facilitate the coordination between the multiple employees that were involved in the decoupled processes. They assigned assistants to the business advisors and formed sales teams. Bank C and D established functional groups, mainly to promote cross-fertilization.

### ***Making a choice***

From this description we conclude that, like the trade-off in the definition of front office and back office activities, the trade-off involved in the grouping decisions can also be characterized by a default setting. We found that functional groups were the default. Functional grouping seems to offer most benefits, regardless the characteristics of the service being delivered or the strategic priorities of a bank. This might explain the prevailing principle that decoupling automatically leads to functional groups (e.g. Chase and Tansik, 1983; Metters and Vargas, 2000). Only when handovers of work between employees could create severe problems, as in delivering customized services in a decoupled process, the banks chose market grouping. In fact, a decoupled process probably would not have been possible without these organizational arrangements. Still, it seems that market grouping was considered a last resource. The banks employed several other measures to facilitate the handovers of work following from decoupled processes that could be applied together with functional groups, such as information systems and assigning (small groups of) employees from different functional groups to each other.

In the occasions where market grouping was not required, the grouping decisions reflected the decoupling decisions: different employees were allocated to different groups. Yet, service characteristics determined which arguments for functional grouping were most valid, hence which benefits were to be expected. We can conclude that for services

involving simple work functional grouping was mainly chosen for economies of scale, whereas for complex work functional grouping was chosen to encourage cross-fertilization between colleagues.

### ***Conclusion***

To conclude, the design decision regarding the organizational arrangements in front office – back office configurations involved a trade-off between workflow coordination on the one hand and scale economies, continuity of service delivery, uniformity and cross-fertilization on the other hand. The choices that were made by the banks were influenced by service characteristics and the decoupling decisions. Market groups were only preferred when a customized product was being delivered through a decoupled process. In the other occasions, functional grouping was preferred, for that created most benefits.

## **8.5 The mechanism in total**

In the previous sections we have worked out the basic structure of the mechanism underlying the design of front office – back office configurations in our five cases, including the contents of the trade-offs involved. In this section we present the mechanism in total. Furthermore, we pay particular attention to the occurrence of trade-offs, the decision-making in the banks and the coherence between the design decisions.

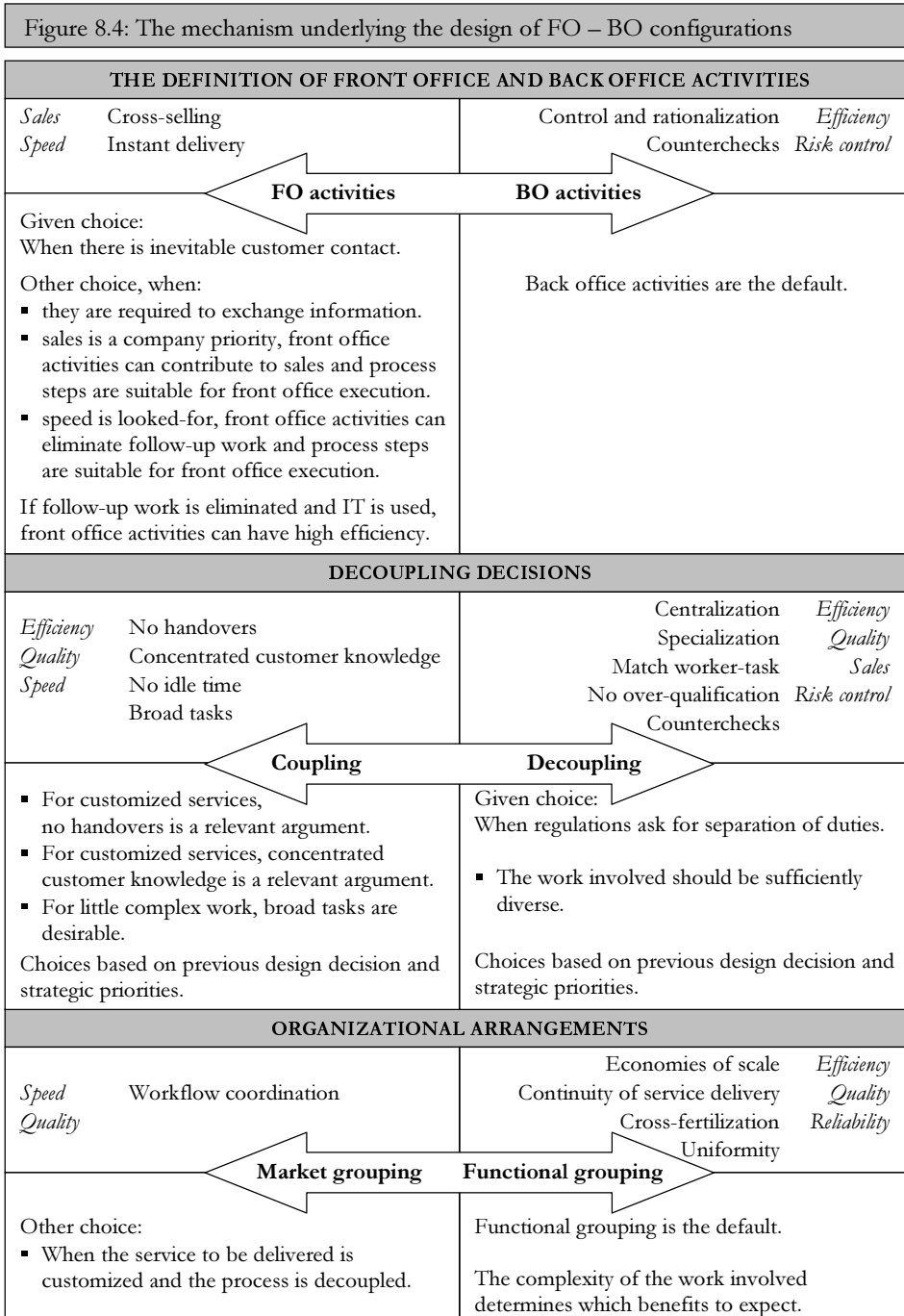
### ***The mechanism***

The mechanism underlying the design of front office – back office configurations in our cases consisted of a few given choices, followed by trade-offs in the definition of front office and back office activities, decoupling decisions and organizational arrangements. In our cases, organizational factors, such as the skills of available staff, hardly played a role. The trade-offs were influenced by service characteristics, company priorities and competitive priorities. In addition, the banks used information systems and coordinated the design decisions to partly overcome the trade-offs. The mechanism in total is illustrated in figure 8.4 and explained below.

The given choices that predetermined the design decisions were the degree of inevitable customer contact calling for front office activities and regulations regarding the separation of duties that determined the decoupled decisions. These elements were beyond the freedom of choice of a bank. Yet, they accounted for only a small proportion of the design of front office – back office configurations. A considerable amount of free design space was left to be filled in by choices made by the banks. Regarding these choices, the banks in this study saw themselves confronted with a number of trade-offs, one for each design decision.



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



First, the definition of front office and back office activities was characterized by a trade-off between sales opportunities and fast service delivery following from front office activities and production efficiency and risk control through counterchecks related to back office activities. Back office activities were the default option, with front office activities being defined under particular circumstances. Front office activities were defined to facilitate the exchange of information between customers and service providers, in case exchanging that information over the phone or via mail was highly impractical. In addition, front office activities were defined when process steps were suitable for front office execution (low complexity) *and* could actually create additional sales opportunities (low customization) *and* increasing sales was an important company priority. Furthermore, front office activities were defined when process steps were suitable for front office execution (low complexity) *and* could eliminate follow-up work *and* speed was an important competitive priority. The elimination of follow-up work, often supported by information technology, also improved the efficiency of the process, as designing only front office activities can be more efficient than designing a combination of front and back office activities. Hence, our cases showed that the classical trade-off in the definition of front office and back office activities including the definition of front office activities at the expense of production efficiency can be overcome.

Second, the decoupling decisions included a trade-off between, on the one hand, enabling centralization, achieving specialization and better matches between workers and tasks, preventing over-qualification and establishing counterchecks, and, on the other hand, reducing the need for coordination, ensuring concentrated customer knowledge, preventing idle time and creating broad tasks. Making a choice on this trade-off was complicated, as both coupling and decoupling affected similar aspects of performance. Decoupling contributed to efficiency, quality, sales (“freeing” commercial staff) and risk control, whereas a coupled process could also increase efficiency and quality. Yet, we found that service characteristics “highlighted” particular design choices. For example, the work involved in delivering a service needed to be sufficiently diverse for the benefits of better matches between workers and tasks and preventing over-qualification to pay off. In addition, the degree of customization determined to what extent handing over work would be undesirable and concentrated customer knowledge could be arranged in other ways. The complexity of the work involved partly determined the desirability of broad tasks. Despite the decoupling “suggestion” following from service characteristics, we found that the banks based their ultimate design choices on their strategic priorities. In some occasions, the priorities corresponded with the decoupling suggestion. In other occasions, the banks adhered to their strategic priorities or, more specifically, what they perceived the best way to achieve the strategic priorities. They used information systems and organizational arrangements to overcome some of the side effects of their decoupling decisions. In some cases, the banks adjusted the decoupling decisions to the definition of front office and back

office activities. For example, a service delivery process that mainly contained front office activities to enable fast service delivery should not be decoupled.

Third, the design of organizational arrangements in front office – back office configurations also involved a trade-off. Here, grouping the employees consecutively involved in a process by market could improve the speed of the process and the quality of the service provided through workflow coordination, whereas grouping employees by function could realize economies of scale and contribute to continuity of service delivery, uniformity and cross-fertilization. We found that our cases chose functional grouping by default, except when a customized service was being delivered through a decoupled process. This required market grouping to facilitate the handing over of work between consecutive employees in a process. Furthermore, the complexity of the work involved in delivering the service determined which benefits from functional grouping would be most relevant.

### *The trade-offs*

This research shows that the design of front office – back office configurations can be characterized as making choices that involve trade-offs between several aspects of performance. Considering the discussions on the existence of performance trade-offs in operations management, we conclude, like e.g. Skinner (1992), Mapes (1997) and Da Silveira and Slack (2001), that the basic relations between performance objectives still exist. For example, decoupling a process causes a need to handover work. There is no way to avoid that, as you simply cannot have both sides of the trade-off. Nevertheless, we also found that the banks in this study did not seem to suffer severely from the existence of these trade-offs. For example, the respondents did not report they had to sacrifice one aspect of performance for another. Likewise, we did not come across many bottlenecks in the processes, indicating performance objectives had been traded off. Furthermore, we can conclude the banks seemed to succeed quite well in achieving multiple performance objectives at the same time: sales and speed and efficiency for mass consumer products, sales and quality and efficiency and risk control for mortgages, sales and quality and efficiency for company loans. This resembles the ideas of Schonberger (1986) and Ferdows and De Meyer's (1990) suggestion of cumulative performance objectives. How is this possible, given the existence of trade-offs? There are three answers to this question.

1. We conclude that the trade-offs did not always apply. The service being delivered often determined whether there really was a choice between two options. In several occasions, the degree of service customization or the complexity of the work involved provided strong directions towards one end of the trade-off. The reason could be that certain benefits could not be achieved for a particular service (such as increasing sales opportunities for company loans through additional front office activities or matching workers to tasks through decoupling when the work is very homogeneous), pointing

towards the other end of the trade-off. Another reason was that a particular choice would not create the performance penalties predicted by the trade-off, as the service was not susceptible to them. This was the case with decoupled processes for providing mortgages. Mortgages are standardized enough that handovers of work do not have to be problematic. Hence, the decoupling side of the trade-off was much more evident.

2. We found that choosing one end of a trade-off not necessarily included bad performance in terms of the other end of the trade-off, because the banks found ways of minimizing the negative effects. For example, the decoupled processes for providing mortgages were further supported by the information system that automatically transferred information between consecutive employees. Another example regards the decoupled processes for providing company loans that became feasible because of the establishment of sales teams that significantly facilitated the handovers of work. Although this worked well for the workflow coordination, it meant a decrease in the cross-fertilization between business advisors. Yet, by locating the sales teams close together, bank B found a way to prevent this. Furthermore, in the processes for providing mass consumer products, a clever process design and the use of the SALES information system ensured the process remained efficient, despite the large number of front office activities.
3. We conclude the banks were capable of achieving multiple performance objectives, because of the complexity of the trade-offs, particularly the one relating to the decoupling decision. By this we mean that the trade-offs do not represent a straightforward relation between performance objectives, e.g., quality and costs, indicating that when quality goes up, costs must come up as well. Instead, several performance objectives appeared at both sides of the trade-offs, for they were affected in different ways. Hence, although a particular choice could decrease the quality of service delivery in one way, it could actually improve the quality in another way. For example, decoupling a process can improve quality through hiring experts, but quality is also at stake due to the need to handover work and the lack of concentrated customer knowledge. This is emphasized by the multidimensional nature of quality as a competitive priority. The same applies to the establishment of either broad or narrow tasks. For both supportive argumentation for increased productivity and quality can be found. Therefore, making choices on a trade-off hardly ever eliminated particular performance objectives from the scene.

Thus, we conclude that the trade-offs involved in the design of front office – back office configurations are real, although they not necessarily include sacrificing performance objectives. In fact, it largely depends on the situation whether they behave like real trade-offs. Sometimes side effects do not apply or can be overcome. Moreover, performance

objectives can often be achieved in multiple ways. This means that achieving multiple performance objectives is a workable proposition.

***The decision-making***

Reviewing the way in which the banks made choices on the trade-offs, we can conclude that the impact of given choices was limited. The ultimate design choices often were a combination of the impact of service characteristics, the strategic priorities of a bank and the opportunities following from information systems and coordinating the design decisions. Service characteristics, such as the degree of service customization and the complexity or diversity of the work involved often emphasized a particular end of the trade-off. Nevertheless, the banks only followed this suggestion if it was compatible with their strategic priorities. In most cases, the banks managed to develop a design that achieved several performance objectives, without sacrificing others.

The strategic priorities that had the largest impact on the design decisions often were related to the “bottom line”: increasing income or decreasing costs. In addition, the banks based their decisions on fairly practical arguments, such as risk control and continuity of service delivery. We found that the banks’ competitive positioning of being a quality and reliable service provider did not exert a large influence on the design decisions. Instead, the banks concentrated on increasing sales and improving efficiency. Furthermore, we conclude that qualifiers, such as speed, rather than order winners, also influenced the design decisions. Hence, although we emphasize that different design choices lead to different performance results, they do not necessarily reflect a bank’s positioning in terms of performance objectives.

***The coherence between the design decisions***

One of the aims of the empirical study was to investigate the coherence between the three design decisions. In the current literature on the design of front office – back office configurations, i.e. the customer contact approach by Chase (e.g. Chase, 1978) and the decoupling strategies of Metters and Vargas (2000), the basic premise is that front office and back office activities are the main grounds for decoupling and that decoupling automatically leads to the establishment of different departments at different locations under different supervisions. In the conceptual model, however, we proposed that the definition of front office and back office activities would not have to be the base for decoupling and that the organizational arrangements would not have to follow naturally from the decoupling decisions.

Based on the five case studies we can firstly conclude that our assumption holds. We saw that when the processes were decoupled, this was not always on the distinction between front office and back office activities. In fact, we found that most employees carried out both front office and back office activities. Here, the decoupling was based on the different skills, knowledge and attitude required for either commercial or administrative activities.

Furthermore, back office activities could be allocated to several consecutive employees, such as commercial support and administrative support. Moreover, we found that, although functional groups appeared to be the default design option, decoupled processes not necessarily led to the establishment of separate groups. In the case of the provision of company loans, for example, bank A, B and E chose market grouping of the employees that were involved in the process. Bank E made a similar decision for the grouping of mortgage advisors and commercial support employees. Hence, the design decisions in our cases were far more complicated than allocating front office activities and back office activities to different employees and grouping them in separate groups.

In addition, we conclude that, although a front office – back office configuration consists of three separate design decisions, the banks in this study did not consider them in isolation. For example, we found that organizational arrangements were used to either emphasize decoupling decisions or alleviate their drawbacks. In their turn, decoupling decisions partly depended on the definition of front office and back office activities. When only front office activities were involved, decoupling the process was avoided. More specifically, we conclude that the three design decisions together led to coherent configurations that were designed to achieve particular performance results. The design decisions worked together in creating the desired performance. Often, all three design decisions were needed to achieve that performance. In the processes for providing mass consumer products, for example, the front office activities, the coupled design, the functional support department and the information system were needed to realize the sales opportunities and fast service delivery, while operating efficiently. In the processes for providing mortgages in bank A, B and D, the extra front office activities together with decoupled processes and functional groups were all influenced by the desire to free sales capacity, increase sales and work efficiently. The information system also contributed to this design (provided it works fine). In bank C, the process for providing mortgages represents the bank's emphasis on risk control, avoiding handovers and avoiding idle time. Finally, in the processes for providing company loans in bank A, B and E we again recognize freeing sales capacity while operating efficiently in the definition of front office and back office activities, the decoupling decisions and the organizational arrangements. Hence, although we have repeatedly addressed the design decisions one by one, they should not be reviewed in isolation. In fact, they should be considered in concert, as they are intrinsic parts of a coherent front office – back office configuration.

## 8.6 Conclusions

In this chapter we have unraveled the mechanism underlying the design of front office – back office configurations based on five case studies of three service delivery processes. At this point, we can answer the main research question for the empirical study: *What is the*

*mechanism underlying the design of front office – back office configurations?* The mechanism (see also figure 8.4) consisted of few given choices, followed by trade-offs between performance objectives. The given choices involved regulations on establishing a customer's identity and on the separation of duties. The trade-offs involved the weighing of performance objectives, mainly sales, efficiency, risk control, quality, speed and reliability. In general, the banks based their choices on their strategic priorities. Yet, the design decisions hardly reflected the competitive priorities of the banks. Instead, they mainly based their decisions on internal objectives to increase sales or decrease costs.

Despite the existence of trade-offs, we found that the banks in this study were capable of achieving multiple performance objectives simultaneously. We concluded that the trade-offs did not always apply. Service characteristics would often point towards a particular end of a trade-off, because the other choice was not feasible or because it would not lead to performance penalties. In such cases, the choice was fairly easy to make. In addition, we concluded the banks had found ways to overcome side effects related to a particular choice on a trade-off, for example through information technology or coordination of the design decisions. Finally, the complexity of the trade-offs entailed that performance objectives could often be achieved in multiple ways, meaning that performance objectives did not have to be sacrificed.

With regard to the coherence between the design decisions in the mechanism we concluded that the design decisions were separate design decisions. For example, decoupling was not based on a strict separation between front office and back office activities and not necessarily led to functional groups. However, the banks did not consider them in isolation, as the design decisions together formed coherent front office – back office configurations that were set up to achieve a particular performance.

This mechanism explains the designs of the fifteen front office – back office configurations we studied by describing the design considerations that played a part. In this way, it is primarily descriptive and applicable to the five cases in this study. However, we expect the mechanism contains several more general elements that can be found in other cases as well. This regards, for example, the pattern of given choices and trade-offs, the contents of the trade-offs and the fact that strategic priorities and service characteristics influence the design considerations. We verified this in another case study in a competing bank, as reported in the next chapter. The general elements of the mechanism can also be transferred to a framework for the design of front office – back office configurations. We develop the framework in the final chapter of this thesis, consolidating findings from the literature review, the exploratory case study, the five main case studies and the case study we conducted for verification.