

University of Groningen

Design decisions in the front office - back office issue

Zomerdijk, L.G.

IMPORTANT NOTE: You are advised to consult the publisher's version (publisher's PDF) if you wish to cite from it. Please check the document version below.

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.

Copyright

Other than for strictly personal use, it is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), unless the work is under an open content license (like Creative Commons).

The publication may also be distributed here under the terms of Article 25fa of the Dutch Copyright Act, indicated by the "Taverne" license. More information can be found on the University of Groningen website: <https://www.rug.nl/library/open-access/self-archiving-pure/taverne-amendment>.

Take-down policy

If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

Downloaded from the University of Groningen/UMCG research database (Pure): <http://www.rug.nl/research/portal>. For technical reasons the number of authors shown on this cover page is limited to 10 maximum.

Summary

This thesis presents the results of a study regarding the structuring of front office and back office activities in service organizations. The study addressed several ways of configuring front office and back office activities, as well as the variables that influence this process.

Compared to delivering goods, one of the most distinguishing features of delivering services is the amount of customer contact involved in the service delivery process. Services such as haircuts, surgery, psychotherapy, transportation, consultancy or private loans cannot be provided without the customer being present, interacting or participating in the service delivery process. However, although a large amount of customer contact can be required for a particular service, there will also be parts of the service delivery process that can be carried out in absence of the customer. In fact, most service organizations will have at least some activities that take place “behind the scenes” or “back stage”. Consequently, the activities that require customer contact are called *front office activities*, whereas activities that take place without customer contact are called *back office activities*. The distinction between front office activities and back office activities is important, because the two kinds of activities have different operational consequences and make different demands on the design of facilities, staff and technology in a production system. In general, the customer contact that characterizes front office activities introduces uncertainties and variation in the service delivery process. This makes front office activities harder to control than back office activities and often decreases the efficiency of the process. Still, the customer contact also offers valuable opportunities for tailoring a service to a customer’s needs and selling additional products. Back office activities, on the other hand, do not suffer from these customer-induced uncertainties and do not have to be designed to accommodate customers.

These characteristics imply that the design of a service delivery process should address its front office and back office activities. For example, although some process steps in a particular service delivery process are evidently back office activities and others front office activities, for several process steps the choice between front office activities and back office activities is not straightforward. In addition, the coordination between front office and back office parts of a process should be addressed, to ensure the handovers of work in the process run smoothly. However, the theoretical insights that are currently available do not seem to provide enough help for the front office – back office issue service organizations in practice are confronted with. The current insights often address just individual aspects of

the issue, hardly consider the competitive pressures to perform well at multiple performance criteria, such as quality, speed and low costs, and pay little attention to the opportunities following from recent developments in information technology. Thus, the current body of knowledge regarding front office and back office activities in service delivery processes requires expansion through the development of more coherent and up-to-date insights. This thesis addresses this need by studying the configuration of front office and back office activities and the influencing variables, using an operations management perspective.

The main objective of the study was to develop a framework that provides insight in, and so supports, design decisions regarding front office and back office activities in service delivery processes. In order to achieve this objective, three research questions were formulated:

1. What are the design decisions regarding front office and back office activities in service delivery processes?
2. What are the considerations and trade-offs that underlie these design decisions?
3. Which variables influence the considerations and in what ways?

The rationale behind these questions is that multiple design decisions exist, such as determining where customer contact occurs in a service delivery process and how front office and back office tasks should be allocated to employees. The framework to be developed should indicate the contents of the design decisions and the associated design options. These design options will have different effects on the performance of a service delivery process, for example the efficiency or quality of service delivery. Consequently, making the design decisions will include careful considerations and trade-offs between performance objectives. A second task of the framework therefore is to elaborate these trade-offs. Finally, actual design choices can be expected to depend on a number of variables, such as an organization's strategy, the available information technology and the service being delivered. A third role of the framework is to identify which factors play a part in the design considerations and what their influence is. In this way the framework contributes to the development of more coherent and up-to-date insights in the front office – back office issue.

The empirical domain for this study is the field of financial services. The financial services sector was chosen for the numerous illustrations of the complexity of the front office – back office issue. This is due to the amount of services that involve a combination of front office and back office activities and the pressure to perform well at multiple performance criteria. Furthermore, this sector is particularly subject to developments in information technology. Thus, the financial services sector constitutes an information-rich environment for this study.

The study roughly consisted of two phases. The first phase involved a review of the current literature on the front office – back office issue, including trade-offs and common design approaches in services. Combined with an exploratory case study in a Dutch bank, this phase resulted in an outline of the framework. The second phase of the study consisted of five in-depth case studies in financial service organizations to develop the framework in more detail. The sample contained banks that were selected for being experts in process design, for the design considerations of these banks can contribute significantly to the development of the framework. In each case the same three service delivery processes were studied: providing mass consumer products, providing mortgages and providing company loans. Approximately eighty interviews with front office and back office employees, process engineers and managers were conducted and several company documents were studied. Consequently, for each process the front office – back office design has been identified, as well as the underlying design considerations. The data were displayed in charts and tables to clarify patterns. In this way, a general mechanism of design considerations in the front office – back office issue could be derived. To facilitate generalization of the mechanism to organizations outside the sample, it was verified in an additional case study in a competing bank. These two research phases formed the basis for developing the framework. The framework so consolidates the findings from the literature review, the exploratory case study, the five in-depth case studies and the case study for verification. The main elements of the framework are explained below.

The framework firstly identifies three design decisions with regard to the front office – back office issue: (1) the definition of front office and back office activities, (2) the decoupling decisions and (3) organizational arrangements.

1. The design decision regarding the definition of front office and back office activities determines which activities in a service delivery process are carried out with customer contact and which ones without. Customer contact involves a direct encounter between a customer and a service provider that takes place in the same time, but not necessarily in the same space, and has the opportunity for interaction. This entails that face-to-face contact and contact by phone can be considered as customer contact, whereas contact by e-mail cannot.
2. The decoupling decisions involve breaking a process in sub processes that are allocated to different employees. In a coupled process, one employee carries out most of the work, while in a decoupled process the work is divided between several employees. Thus, decoupling causes a need to handover work. The number of handovers of work between employees indicates the degree of decoupling of a process.
3. The third design decision involves the organizational arrangements in a front office – back office configuration. Organizational arrangements regard the grouping of employees that are consecutively involved in a service delivery process, i.e. grouping by function or grouping by market. In functional groups, employees that carry out similar

Design Decisions in the Front Office – Back Office Issue

work are grouped together. In market groups the employees that are consecutively involved in a service delivery process are grouped together. This means the employees have different tasks, but contribute to the same service or serve the same customer(s).

Together these design decisions form a *front office – back office configuration*. Still, the design decisions do not lay down each other. For example, the distinction between front office and back office activities does not have to be the basis for decoupling a process. Likewise, the employees that are consecutively involved in a service delivery process following the decoupling decisions do not have to be grouped in different groups. Instead, each design decision requires an individual choice which involves its own arguments and design considerations.

The second main part of the framework regards the considerations and trade-offs underlying the design decisions. Making design choices is represented as a complex mechanism of design considerations, consisting of given choices and trade-offs between performance objectives. Given choices naturally follow from the service being delivered. For example, services with a high degree of customization require front office activities to specify the details of the service to be delivered. Another example regards the rules and regulations applying to a particular service, such as establishing a customer's identity before the service can be delivered. This involves a front office activity. The decoupling of a process can also consist of given choices, following from regulations on the separation of duties to control risks. The design space that remains after the given choices is

Table 1: Overview of the performance trade-offs			
THE DEFINITION OF FRONT OFFICE AND BACK OFFICE ACTIVITIES			
Front office activities		Back office activities	
<i>Sales</i>	Cross-selling	Control and rationalization	<i>Efficiency</i>
<i>Speed</i>	Instant delivery	Counterchecks	<i>Risk control</i>
DECOUPLING DECISIONS			
Coupled processes		Decoupled processes	
	No handovers	Centralization	<i>Efficiency</i>
<i>Efficiency</i>	Concentrated customer	Specialization	<i>Quality</i>
<i>Quality</i>	knowledge	Match worker-task	<i>Sales</i>
<i>Speed</i>	No idle time	No over-qualification	<i>Risk control</i>
	Broad tasks	Counterchecks	
ORGANIZATIONAL ARRANGEMENTS			
Market groups		Functional groups	
		Economies of scale	<i>Efficiency</i>
<i>Speed</i>		Continuity of service delivery	<i>Quality</i>
<i>Quality</i>	Workflow coordination	Uniformity	<i>Reliability</i>
		Cross-fertilization	

characterized by trade-offs between performance objectives. They are displayed in table 1.

The third part of the framework addresses the factors that influence the design choices. Five categories of variables are distinguished: (1) the characteristics of the service being delivered, (2) an organization's competitive priorities, (3) its company priorities, (4) the available information technology and (5) the staff of the organization. The service characteristics that play a large role are the degree of service customization and the complexity and diversity of the activities required for delivering the service. For customized services, for example, handing over work can be more difficult than for standardized services, making a coupled process more evident. Another example regards the diversity of the work involved in delivering the service. For services with low diversity of activities a decoupled process is not very evident, because few benefits are to be expected from specialization and matching workers with tasks. Besides service characteristics, the strategic priorities of an organization are important. This regards external objectives, such as fast and reliable service delivery, as well as internal objectives, like improving efficiency or increasing sales. These priorities determine which design choices will render the most desirable performance effects. Still, the available staff and information technology should be taken into account. They can impose constraints on or provide opportunities for the design decisions. For example, information systems can be used to facilitate the handover of work between employees and to concentrate customer knowledge at one place. The knowledge and skills of the available employees can for instance influence the decoupling decisions, for a coupled process requires employees that are capable of performing a variety of tasks.

Finally, the framework addresses several ways to alleviate the drawbacks of particular design choices, following from the existence of trade-offs. This study shows that a particular design choice does not have to lead to unwanted side effects. This can be largely attributed to information technology. Using an information system for sales support, for example, can significantly increase the efficiency with which front office activities are executed. An information system can also ease the handover of work in a decoupled process and reduce the risk of information losses. Another way of avoiding side effects is coordinating the design decisions. A good example is grouping employees in market groups when a process is decoupled, to prevent a reduction in the quality and speed of service delivery.

The above-mentioned elements form the main parts of the framework that has been developed in this study. In this way, it provides insight in and so supports the design decisions regarding front office and back office activities in service delivery processes. The framework can be used in three roles: as an instrument for describing and diagnosing service delivery processes and as a tool for (re-)design. Although it has been developed with data from financial service organizations, its application does not have to be limited to

Design Decisions in the Front Office – Back Office Issue

this sector. As yet there is no reason to believe that the three design decisions will not apply to other sectors or that other sectors will not be subject to similar trade-offs. Additional research is required to test the applicability of the framework in different service sectors and to elaborate the impact of variables such as service characteristics and strategic priorities. If future studies also address the expected performance effects of design choices, it will eventually lead to a comprehensive, coherent and up-to-date design theory regarding the issue of front office and back office activities in service delivery processes.