

## The Front-Office, Back-Office Interface

### LEARNING OBJECTIVES

*The material in this chapter prepares students to:*

- Make appropriate decisions on job content for front-office and back-office jobs.
- Choose a back-office strategy.
- Understand the trade-offs of possible strategies.
- Understand the implementation issues involved in implementing back-office changes.

Applied for a loan recently in Tennessee? If it was with Bank of America, the loan decision was probably made in Tampa, Florida, by a lending officer you will never see nor know the name of. Your insurance claim was probably processed in India, as described in the Service Operations Management Practices: The Way-Back, Back Office: Offshoring. This chapter discusses the strategic decisions and operational management behind decisions involving back-office work. The pertinent issues are especially obvious when deciding to move work to a distant location. Many changes often need to be made: The nature of the work, compensation systems, and intrafirm relationships are likely to be different.

Service firms can be distinguished from manufacturers by the relatively high level of customer contact involved. Despite all the activities in a service firm that require the presence of the customer, a host of activities can or must be performed without the customer present. In banking, insurance, educational institutions, and other similar industries the application approval process usually occurs without the customer present and is often conducted by employees the customer may never speak to or see. Also, many physical products associated with a service firm are prepared outside of the customer's view. Examples include such diverse industries as food services, printers, or professional services like architecture and law. We label the work performed in service firms that does not require the presence of the customer as *back-office* work, and work that does require the customer as *front-office* work.

Throughout the service economy there has been a shift in where, how, and by whom such back-office work is performed. In many industries work that does not

## SERVICE OPERATIONS MANAGEMENT PRACTICES

### The Way-Back, Back Office: Offshoring

Your New York Life Insurance claim may be processed in Ireland. The Montreal telephone directory: Typed in Asia. Globalization of services is not new, but through modern communications networks, foreign locations can produce services that are timely inputs to domestic-end services. Several factors influence back-office service functions to move to foreign lands:

- *Technology.* Modern communications systems allow low-cost, rapid, reliable transmission of large amounts of data.
- *Cost.* The cost per verified keystroke is one-third the U.S. rate in places such as the Caribbean, China, India, and Ireland. Generous tax laws in some nations increase the financial attraction.
- *Language.* Many citizens in these countries grow up learning English. Although

they do not understand U.S. idiom, they know more than enough to process insurance claims.

- *Flexibility.* Some foreign operations offer flexible labor practices (of course, many nations have far more rigid labor laws than the United States). Outsourcing services to a foreign subcontractor can allow for seasonal production that would be costly domestically.
- *Time-zone differences.* Otherwise known as playing “beat the clock,” a U.S. worker can pass information to India at 5:00 P.M. and have tasks completed by 8:00 A.M. the next day in the United States.

The topic of offshoring is the subject of Chapter 8.

Source: Adapted from Wilson (1995).

require customer contact has been “decoupled” from front-office jobs. “Decoupling” means that separate job descriptions with different employees are formed around the back-office work, and those employees are often removed from the physical sites that deal with customers.

In general, many industries have been racing headlong toward more and more decoupling in recent years. This chapter describes what is happening in practice and explores the fit between a decoupled service delivery system and the firm service concept. Four decoupling strategies are also developed and illustrated.

### CURRENT PRACTICE

A number of reasons explain the exodus of low-contact tasks from the point of service. A few examples are described here for the purpose of motivating the discussion.<sup>1</sup>

Consider the historical development of processing deposits in retail banks as an example of a decoupled activity. Some time ago, when one presented a check to a bank teller for deposit, the teller inspected the items, verified the deposit total, and

1. The following articles written by practitioners solely about retail banking are all supportive of decoupling, with some considering it the only real strategic option for the industry: Burger, 1988; Cronander, 1990; Gilmore, 1997; Pirrie et al., 1990; and Reed, 1971. (John Reed went on to become CEO of Citibank.)

gave a receipt. Then, during downtime or after closing, checks and deposit slips were encoded by branch personnel with dollar amounts. At the other end of the transaction, when checks written by a customer were presented for payment, clerks or bank tellers in a branch sorted the checks by customer, compared bank statement information against the checks, and stuffed and mailed statements on a monthly basis. The physical processing of exception items, such as stop payments and overdrafts, were also handled at the branch. The only activities still handled now at the branch level for most banks include inspecting items and giving receipts—even verifying deposit totals is performed centrally.

Postal facilities face a problem similar to that of banks: mail must be sorted in a similar fashion to checks. Due to extensive automation and decoupling the U.S. Postal Service successfully met a steadily increasing mail volume with a relatively constant labor force. From 1970, when the extensive push for postal reorganization began, to the present day, mail volume increased well over 100% whereas personnel increased less than 5%.

Other paper-processing industries experienced similar migrations of work content away from branch facilities. In a manner somewhat parallel to the decoupling described in the postal and banking industries, many firms decoupled their mail and accounts receivable processing functions to reduce costs. Governmental offices must by nature be dispersed throughout various regions, yet back-office record keeping is becoming more decoupled. Hospitals also engaged in decoupling and centralizing of back-office management. “Shared Service Centers” comprising decoupled general corporate functions such as human resources and corporate treasury and finance appear to be in vogue. As an example, the accounting, payroll, human resources, and other record-keeping functions for the *New York Times* newspaper are conducted in such a shared service center located in Virginia.<sup>2</sup>

The Internet and other modern communication advances are pushing traditional paper-processing industries even further toward decoupling. As noted in the Service Operations Management Practices: The Way-Back, Back Office: Offshoring, the ability to electronically move information, rather than mailing paper, allows decoupling on an unprecedented scale.

The ability to move operations from the front-office to the back-office and centralize those service activities appears to be held back merely by lack of imagination, and perhaps a supportive consumer market. For example, some medical diagnoses now are made in telephone call centers by nursing staff. With the aid of technology such as two-way television and electronic stethoscopes, patients in remote locations can be “seen” by physicians in central locations. In another example, the so-called “local” (and to customers, supposedly “live”) television weather report for 50 stations across the United States is actually performed and taped in Jackson, Mississippi (Thomas, 1994). Though the weather forecaster cannot look out the window to determine accuracy, the broadcasts are convincing as local phenomena, at times even including taped rehearsed banter that appears to the viewing audience to be spontaneous live repartee between a weather forecaster and a news anchorperson.

## THEORY IN SERVICES DECOUPLING

The theory behind decoupling relates back to the customer contact model of services by Richard Chase (1978; 1981) discussed in Chapter 1. The idea is that if a service

2. Examples of decoupling in each of the areas mentioned are contained in: Connors, 1986; Greene, 1990; Keith and Hirschfeld, 1996; Queree, 1994; and Sharp 1996.

requires some high-contact elements and others that are low contact, those activities should be separated into different jobs done by different personnel. Several basic reasons are cited for this approach.

### Efficiency

Decoupling improves efficiency on several fronts. First of all, production can flow far more smoothly when tasks are taken away from customer contact areas where customers' requests could potentially interrupt those tasks. Secondly, when one performs a small number of tasks over and over again, that person becomes highly proficient and efficient in performing those tasks. This same basic logic led to the efficiencies of the assembly line: Utilize division of labor to achieve efficiencies. Thirdly, these segregated, specialized tasks can now be centralized to achieve scale economies. These types of changes should lead to both improvements in conformance quality and cost, just as they did in manufacturing.

This general theory indicates that workers should not be segregated solely by job duties; they should be separated geographically as well. The cost benefits from separating the low-contact activities stem from their greater *potential* efficiency over high-contact activities. The way to achieve this potential efficiency is to physically buffer the low-contact activities from customers, essentially by sealing them off from the environment of random customer arrivals and nonstandard customer demands. In practice, many large back-office operations of service firms are housed in unmarked buildings so that public contact is channeled to appropriate venues. The cost benefits that accrue to this policy include highly efficient labor practices in low-contact areas and facility location costs reduced by locating low-contact facilities away from higher-priced retail settings.

### Worker Personality Type

The argument that the two basic types of activities—contact and noncontact—should be segregated is based on differing sets of worker skills and orientations required by the two types of activities: Public relations and interpersonal attributes for high-contact purposes and technical and analytical attributes for low-contact purposes.

### Conformance Quality

Conformance quality refers to the service being the same tomorrow as it was yesterday and getting reliable results from a process. When complex jobs are decoupled, and a single individual performs only one task, that task inherently experiences less variance.

Given the advantages of cost, conformance quality, and a better fit for personnel, back-office service decoupling appears to be an obvious recommendation. Both academic and practitioner literature converge on decoupling as a clear strategy to improve services.

## LINKING DECOUPLING TO SERVICE CONCEPT

However, back-office decoupling often conflicts with the service concept of a firm. It is necessary to balance the potential operational cost savings against marketing losses stemming from a change in the nature of the service. To organize the discussion of how decoupling supports or conflicts with various service concepts, we adopt the framework of four general strategies mentioned in Chapter 2: Cost, Quality, Response time, and Flexibility.



## Decoupling and Cost

Cost reduction is one of the basic arguments for decoupling, but increases in costs can also occur. More obvious cost increases include increased transportation costs and the substantial implementation costs. Cost increases also can come from increased idle time in high-contact workers, overlap of duties stemming from decoupled operations, and the reduction of duties without the reduction of personnel from high-contact units.

### *Idle Time*

Personnel staffing in high-contact facilities is not usually based on average workload but instead in accordance with peak demand. The most fundamental results from waiting line theory (see Chapter 14) indicate that to offer any reasonable level of customer service, the number of service personnel must be large enough to more than accommodate the average customer arrival rate, which directly implies some idle time for high-contact personnel. Note that this time is considered idle only in the sense that it lacks direct contact with customers. If workers perform noncontact duties, the idle time can be filled. Of course, these activities are the most likely candidates for decoupling.

The amount of idle time depends on both the service level desired and the facility size. Obviously, better service levels for customers—smaller waiting times—require more employee idle time, but the effect of facility size on idle time is also important.

Well-established theory makes plain that the same customer service rate can be achieved with higher personnel utilization rates (or less idle time) in larger facilities. The basic lesson from centralizing waiting lines (see Chapter 14) is that relatively fewer personnel are needed to achieve the same system performance. In a decentralized system, some service personnel may be swamped with customers waiting while other personnel stand idle. When all work is centralized this variation cannot occur. Consequently, smaller facilities generally suffer from idle time problems more than larger facilities. Therefore, to realize the best worker efficiency and the lowest waiting times for customers, it is far better to have a few large facilities than several smaller ones. Although this objective can be accomplished easily in, say, large telephone call centers where customers from around the world can be effectively handled at one location, it is more difficult in service encounters that must be accomplished face-to-face. This distinction is becoming increasingly important as some industries move toward smaller, more numerous “kiosk” facilities to increase customer convenience.

### *Duty Overlap*

When duties belonging to one employee are segregated and divided among several employees, identical information may be processed multiple times in a firm. Unlike the physical goods in manufacturing, a service “assembly line” working on documents or listening to a customer must usually repeat some steps of previous employees. Loan officers in banks with decoupled loan processing still review an application for correctness and completeness, then send it to the loan processing center where the first step is usually, once again, to review the application for correctness and completeness. The more steps are segregated, the more this overlap takes place.

### *Duty Reduction Without Personnel Reduction*

The cost justification for the decoupling of facilities is usually based in part on an estimate of the work content removed from a high-contact office and the cost benefits accruing to the associated personnel reduction. The promised personnel reduction at the high-contact facility, however, may not occur due to three reasons:

1. *The necessity of keeping high-contact workers for customer service requirements.* Customer service standards dictate high-contact personnel requirements, so any reduction in the work content of high-contact workers below the amount of idle time built into the system will not produce any personnel reduction.
2. *Employee integrality.* Any personnel reduction due to the withdrawal of work content must be rounded down for each high-contact facility affected. That is, if one-fourth of a person's worth of work is transferred out, no gain is made—an entire person's worth of work must go to realize a true savings.
3. *Managerial philosophy in laying-off employees.* Concerns regarding morale and appropriate management technique often motivate practitioners to effect personnel reductions through attrition rather than layoffs, which may or may not actually occur, or may occur over such a length of time that the profitability of the project is affected.

### Decoupling and Quality

Decoupling works well to increase conformance quality. Consolidating the performance of a task from many individuals to a few reduces the variability of the system. But true quality requires more than conformance.

Aspects of quality such as the dependability and accuracy of a service provided can be hindered by decoupling. At Bank of America in the late 1980s lending for automobiles and repossession of autos for loans in default were separate, decoupled activities. As a result of miscommunications, several “accidental repossessions” of automobiles of customers who were not in default on their loans occurred each month. It is difficult to imagine an accidental repossession taking place if the process were not decoupled and the same individual solicited the loan, received the payments, and made the collection calls if payments were not received.

Presumably, by specializing tasks according to worker skills and orientation, high-contact workers who demonstrate interpersonal and public relations skills should contribute greater courtesy and helpfulness along with the benefits resulting from personal charisma. On the other hand, decoupling decreases the span of involvement of the front-office service provider and increases the number of management layers involved in service provision. This dilution of responsibility may limit the ability or desire to respond to nonstandard customer requests, empathy for the customer, and the overall knowledge of the front-office worker.

### Decoupling and Delivery Speed

Decoupling contributes to individual task speed from the task specialization and learning curve effects recognized since the times of Frederick Taylor and Henry Ford and from any automation that takes place. Task speed, however, is distinct from process speed. The time relevant to a customer is the time from service request to service provision, a process comprising many tasks as well as the waiting times and hand-offs between tasks. It is the waiting times and hand-offs between processes which can be negatively affected by decoupling.

One of the basic purposes of decoupling is diametrically opposed to obtaining quick delivery speed. Centralizing buffers the back-office from disruption and allows for smooth workflow, which reduces costs by allowing capacity, or personnel, to be held at average demand rather than peak demand. Because holding inventory ahead of time in such services is not possible, it is specifically designed to backlog customer orders. The decoupled portion of the service is similar to a manufacturing bottleneck: It is operationally desirable to have an inventory of work available to the bottleneck

so that production is maximized. If the decoupled service is not behaving as a bottleneck, it is not serving its purpose of cost minimization.

A more insidious delivery speed problem stems from benign neglect, rather than design. Decoupled back-office services depend on high-contact workers to collect accurate and complete information, yet high-contact workers are usually rewarded for sales. Consequently, the focus of the high-contact worker is not on collecting information that streamlines back-office work, which may add time or require rework at the decoupled facility. Back-office rework reduces the capacity available at the bottleneck, which in turn leads to longer delivery lead time or the necessity of increasing capacity and reducing the financial advantage of decoupling.

### Decoupling and Flexibility

The need for standardization in the name of cost reduction and the multiple channels a customer request must go through once decoupling takes place contributes to the potential homogenization of the service. If high-contact workers see a customer need that requires bending the rules, they may need to obtain consent from multiple people in different physical facilities. Additionally, the workers in the decoupled facility who must agree to the change are unlikely to know the customer. It is such distance from the customer, combined with services standardization, that leads to such celebrated gaffs as a governor of the Federal Reserve Board being denied a Toys “R” Us credit card (Wessel, 1995).

Interviews with back-office personnel indicate that another side of this issue is also problematic. In an environment where high- and low-contact work is performed in separate facilities, high-contact workers may be willing to promise customers anything to get their business, even if they are aware that the back-office cannot provide the service. The high-contact worker thereby appears to give good service to the customer on the front end, and when the service is not delivered appropriately, blame can be shifted to the low-contact facility.

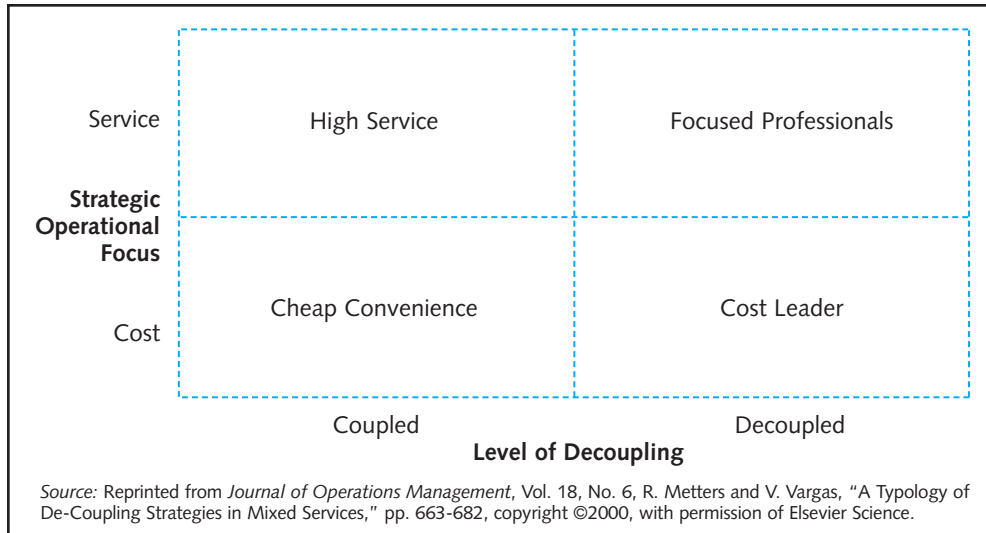
## LINKING DECOUPLING AND FIRM STRATEGY

Figure 7.1 identifies four strategy types based on the characteristics of the level of decoupling and the general strategic focus of operations. Strategic focus is collapsed into the two dimensions of service and cost. In this conception, a number of various possible operational perspectives, such as flexibility, delivery speed, and quality, are included in the service strategic focus. Although they remain distinct operational advantages, achieving them requires similar choices with respect to decoupling. The four quadrants of Figure 7.1 represent distinct decoupling strategies that can be attained within a given industry, though not every quadrant may be relevant for every industry. Each of the four quadrants is characterized by an idealized set of operational, marketing, and human resource policies (Table 7.1) and provides a distinct set of competitive advantages. Firms from several industries that share similar characteristics with the profile of these categories are included in Table 7.2.

It is helpful to consider an organizing example when discussing these strategies. Here, we use the context of retail bank lending. Consequently, an understanding of the retail lending process is helpful before proceeding. The activities involved in retail lending are generically described in Figure 7.2. All the activities in Figure 7.2 above the “Line of Customer Visibility” must occur with the customer present, but those below do not require the presence of the customer and are candidates for decoupling.

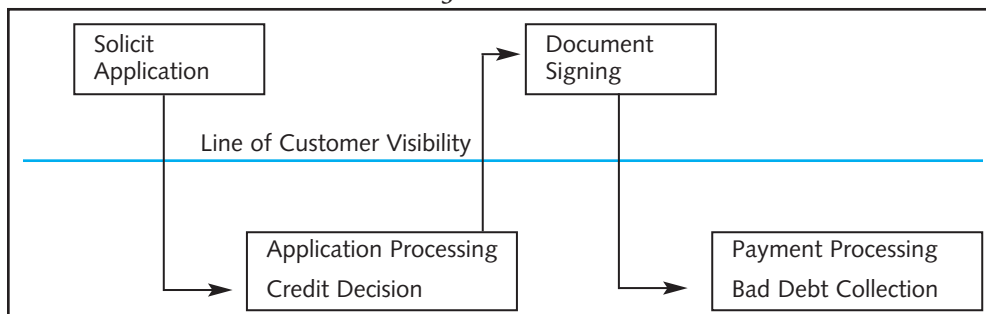
**TABLE 7.1:** *Consistent Functional Choices for Decoupling Strategies*

Management Practice	Cost Leader	Cheap Convenience	Focused Professionals	High Service
Level of Decoupling Competitive Advantage	High Low costs	Low Locational convenience at low cost	High Provide experts: Back-office experts support front-office experts	Low Premium level of personalized service
Reason to Decouple	Scale economies	Maintain cost competitiveness	Quality control; disaggregation of high- and low-contact activities	Centralize only when it is cost prohibitive not to
Activities to Decouple	All back-office work	Due to small office size, only centralize back-office work in excess of front-office idle time	Back-office activities "regionalized," not decoupled	Activities requiring expensive capital goods
Operational Strategic Focus	Cost minimization; conformance quality	Cost minimization; Conformance quality	Maintain sufficient flexibility, response time, or service quality	Maximize flexibility, response time, or service quality
Product Line	Narrow	Very narrow	Broad	Very broad
Training	Narrow, focused on task within process; low cross-training	Broad; all employees should be able to perform each function	Narrow, but focused on an entire process rather than a task within a process	Broad, but with specialization across functions
High-Contact Worker Responsibility	Service customer requests; low off-site responsibilities	Service customer requests; low off-site responsibilities	Increasing number of customers largely through off-site activity	Increasing customer relationship depth; high off-site responsibilities
High-Contact Worker Compensation	Salary/hourly	Salary/hourly	Commission on sales	Salary with commission on unit performance
Purpose of Automation	Standardize activity; labor replacement	Reduce job complexity	Enhance marketing	Enhance service, maintain competitive costs

**FIGURE 7.1:** *Back-Office Decoupling Strategies***TABLE 7.2:** *Decoupling Strategies of Sample Firms*

Industry	Cost Leader	Cheap Convenience	Focused Professionals	High Service
Personal investing	Charles Schwab (discount stock brokerage)	Edward D. Jones (full-service stock brokerage)	Merrill Lynch (full-service stock brokerage)	American Express Financial Advisors, Inc. (financial planner)
Real estate	For Sale By Owner		Re/Max	
Insurance	GEICO		State Farm	
Legal representation	General Counsel Associates	Jacoby & Myers	Traditional law firm	
Medical	Shouldice Hospital	MedPartners	Columbia/HCA	The Tennessee Birth Place (birth center)
Photo refinishing	Kodak	Moto Photo		
General merchandise	Wal-Mart	Dollar General	Amway; Avon (network marketing)	
Retail doughnuts	Dunkin' Donuts			Krispy Kreme
Grocers	Food Lion (supermarket)	Convenience stores		

Source: Reprinted from *Journal of Operations Management*, Vol. 18, No. 6, R. Metters and V. Vargas, "A Typology of De-Coupling Strategies in Mixed Services," pp. 663-682, copyright ©2000, with permission of Elsevier Science.

**FIGURE 7.2:** *Activities in Processing a Retail Loan*



Retail lending involves customers seeking a loan for themselves personally, rather than for a business. Typically, the purpose of the loan is to purchase a large capital good, consolidate debts, or finance a vacation. After a loan interview, a significant amount of work is required that a customer does not need to be a part of before monies are disbursed. Due to the ubiquitous marketing of “15-minute” loan decisions, a general misunderstanding surrounds the work required in lending. In reality, quick loan approvals are only “conditional” approvals, and a number of activities must take place prior to loan closing. For virtually every loan, applicant credit history must be checked, employment and income must be verified in writing, a host of legal documents must be prepared, and a loan approval decision must be made. For loans involving collateral, the value of the collateral item requires inspection and appraisal, and the collateral ownership and various insurance coverages need verification. Customer contact again is required for signing documents. Also, significant post-loan processing includes insurance documentation updating, files and collateral documents maintenance, payoff quotations, and, in some cases, contacting delinquent borrowers and initiation of repossession/foreclosure, most of which is performed without face-to-face customer contact.

The specific decoupling strategies indicated in Figure 7.1 are now described in greater detail.

### **High Decoupling, Cost Emphasis: Cost Leader**

For the cost leader the operational imperative is to reduce costs. Decoupling contributes to the pursuit of scale economies. The cost leader aggressively tracks technological innovation in the attempt to substitute automation for labor. Duties for high-contact personnel include a sufficient amount of back-office work content to avoid excessive idle time, but all other back-office functions are decoupled. Accordingly, compensation for high-contact personnel is not primarily commission based, because customers are attracted by broad-based marketing rather than through the efforts of high-contact personnel.

This focus on cost is a common strategy across many industries. Discount stock brokers, such as Charles Schwab, operate in a similar fashion to the retail insurance firm GEICO: They focus on cost reduction by eliminating the localized high-contact commission-oriented personnel that formerly dominated the industries to which they belong. General Counsel Associates provides low-cost corporate legal services by focusing solely on routine legal matters that require little customer contact, and they employ only seasoned lawyers who are well down the learning curve in such matters. Dunkin’ Donuts, with more than 5,000 locations, achieves cost reductions in many areas by cooking doughnuts in centralized facilities that provide product for many outlets in a given metropolitan area. Some real estate firms augment their normal commission-based operations by selling space on the local multiple-listing service and offering a limited amount of counseling for a fixed fee. Other firms, such as For Sale By Owner in Dallas, Texas, provide a kit and a listing service to help homeowners sell their own homes.

AmSouth Bank is a typical example of this strategy in retail banking. At AmSouth a telephone call to a local branch is automatically routed to a decoupled, geographically distant call center that oversees several branches. Loan operations are heavily decoupled as well, with all 250 branches throughout several states faxing loan applications into a single service center. At the loan service center incoming faxes go to whomever is available. Job duties are highly specialized with little cross-training. For example, specific jobs are assigned to those who do data entry, appraisal ordering,

disclosure construction, and underwriting. This decoupled system is highly efficient for standard customers, but can bog down with special requests. Consequently, special requests are not encouraged. Branch personnel complete only a few lines on the form to request special considerations.

For cost leaders, technology is used primarily to save labor. They centralize document preparation, electronically transmitting documents to branch locations for the closing of the loan. The task of loan approval at cost leader banks is also geared toward replacing labor with technology. A loan application may be taken verbally and entered into a computer by a customer service representative in the presence of the customer. But the branch is linked by satellite to national headquarters, where a computer statistically assesses the borrower's demographic characteristics and credit history via an electronic link to a credit bureau. Within seconds the computer informs the customer service representative whether the loan is approved. (Note that loan approval does not mean loan closing. Documentation, such as home appraisals and title searches, still must be conducted.)

From the perspective of the customer, a significant service downside accompanies such an automated system. Mistakes can be made. A significant percentage of credit bureau records are inaccurate. Some are obviously inaccurate, such as a 25-year-old applicant having a 30-year credit history or a credit record showing simultaneous home loans in several states for an applicant of modest means. In such a totally automated system, the physical credit record is not viewed by a person who could determine accuracy, only the computer-generated overall score is seen, which may be far better or worse than the applicant's actual credit record deserves.

Another downside involves personnel development. As one loan officer states, "There are no tough decisions to make." Loan officers never develop the ability to judge good credit risks and thereby the ability to more profitably focus their marketing efforts. Further, the product line is also truncated. The only collateralized loans handled by the central facilities generally are home, auto, and boat loans. If one wanted to use such high-value items as furniture, musical instruments (e.g., a grand piano), jewelry, coins, stamps, antiques, or art, as loan collateral, one would have to seek out another bank.

The jobs of the personnel at cost leader banks are different from employees at other banks. Rather than seek out business, these personal bankers tend to stay inside the branch and serve customers who walk in. Consequently, it is appropriate to receive the bulk of their income by straight salary. A large commission would not be appropriate, because customers are brought in due to overall bank reputation or advertising, but a small commission is helpful in motivating employees to service and cross-sell customers.

### **Low Decoupling, Cost Emphasis: Cheap Convenience**

For the cheap convenience decoupling strategy, back-office work remains coupled for precisely the reason that cost leaders choose to decouple: Cost. Large numbers of small service units dot the landscape to enhance customer convenience while providing a limited product line at a low cost in what might be called a "kiosk" strategy. As discussed earlier, due to the smaller number of employees per unit, these firms suffer more potential idle time in high-contact facilities. Consequently, it is desirable to maintain a sufficient amount of back-office work in the front-office to fill this idle time, helping to keep costs low. Employees of cheap convenience firms should be cross-trained so that, ideally, any employee can handle any task. Correspondingly, it is difficult to have a broad, complex product line. Emphasis is placed on employee utilization and conformance quality. High-contact workers should be paid on a salaried or hourly basis.

In a number of service industries, firms compete in this part of the matrix. Edward Jones, a rapidly growing stock brokerage firm based in St. Louis, operates more than 8,800 offices, most with only one broker (up from 304 offices in 1980). The product line is somewhat abbreviated: Jones does not sell penny stocks, derivatives, or commodities. In the medical field, the strategy of Phycor and Med-Partners is to purchase the practices of individual physicians and put those physicians on salary. The cost of photo developing at Moto Photo, a chain of one-hour photo developers, is substantially higher than the cost leader strategy of mailing in film to be developed, but response time and geographic convenience provide a strategic advantage for their service. Similarly, Dollar General and 7-Eleven, both with thousands of sites, compete against the traditional cost leader firms in their industries by offering more numerous, convenient, small footprint stores.

The National Bank of Commerce (acquired in 2004 by SunTrust) applies this concept to retail banking. Largely, their branches are located within grocery stores, each with two or three employees working at any time. Cross-training levels are high. Aside from part-time employees, any branch employee can take a loan application or cash a check. Only retail products, however, are available at the vast majority of branches. Corporate customers are seen only in a few locations. Consequently, cross-training is limited to retail products.

Some portions of the lending process are decoupled. For some loans, such as auto and personal loans, preprocessing and loan approval are performed in the branch. For home equity loans, some portions of the work, such as arranging for an appraisal, are performed centrally. For all loan types, problem loan collection, insurance updating, and repossession/foreclosure are handled in a decoupled facility in Memphis, Tennessee. Employees are basically salaried with a small amount available in incentives for loans booked.

### **High Decoupling, Service Emphasis: Focused Professional**

Operationally, this decoupling strategy divides high- and low-contact activities, segregating and centralizing low-contact activities, but with a primary goal of supporting the front-office, rather than cost control. Employee tasks are segregated according to personality type and abilities that conform to the worker suitability arguments discussed earlier. Employees are specialists and are paid for task performance. Consequently, commission-based pay is common. The goal for back-office operations is primarily to assist the high-contact workers in providing customer service and secondarily to control costs. Product ranges must be broad enough to meet the service objectives.

Traditional stock brokerages, real estate, insurance, and law firms are organized in this fashion. High-end retail outlets such as Brooks Brothers and Neiman Marcus use similar commission-based pay scales. Network marketing firms such as Amway also display some of these characteristics.

Union Planters Bank provides an example of a focused professional firm. Their loan officers are compensated largely by the amount of successful loan applications generated and are expected to spend 25% of their time outside the branch soliciting customers. All back-office work, however, is performed at regional loan operations centers, staffed with 20 to 30 full-time equivalents, that support 20 to 30 branches each. At the regional office, preprocessors are designated contacts for a subset of the branches served, maintaining a consistent face to the internal customer. Groups organized by function also serve as input, underwriting, and document processing teams. All employees are cross-trained to permit Union Planters to mitigate any back-office bottlenecks.

For the focused professional decoupling strategy, back-office activities are decoupled primarily to facilitate task focus and to ensure consistency of quality, with cost considerations being secondary. In the case of Union Planters Bank, back-office activity of a relatively small number of branches is decoupled by region, providing “more intimacy in decision making” in the words of a competitor. Because the focus of the back-office is to provide support for a more flexible system, rather than as cost control, it is far more imperative that the front and back office communicate well in a focused professional firm. In cost leader firms the front- and back-office employees may never know each others’ names, but as one lender described his relationship with his back-office point person, “I send her flowers on her birthday and candy at Christmas.”

In such firms, a potential danger results from the separation of high-contact worker pay from overall corporate results. In this scheme, the individual high-contact service provider no longer is charged with responsibility for an entire process, which can motivate individual service providers to act in ways that will benefit them to the detriment of the process as a whole.

Two examples of this problem can be taken from financial services industries. In banks where decoupled loan underwriting takes place, the job of the branch lender is to solicit applications, and they are often paid based on the volume of accepted loans. These lenders no longer have to collect on delinquent accounts or take the blame for an approved loan that results in losses to the bank. Quite the contrary, the only side of the loan equation they see is the customer who wants the money. Once the customer gets a loan, the loan officer need not interact with the customer again. Due to the combination of the change in the nature of their work and their reward systems, it is tempting for these loan officers to advocate strongly for every loan application. Discussions with lenders indicate that it is not uncommon for loan officers to polish applications to a high gloss prior to sending them to the underwriting department and to plead their customers’ cases if the underwriters are reluctant regardless of the quality of the applicant. The life insurance industry faces a similar problem, known in the industry as “white sheeting,” where brokers omit negative health information about customers on applications in order to maximize commissions.

### **Low Decoupling, Service Emphasis: High Service**

A high service firm provides an exceptional level of personal service commanding a premium price. Maximizing flexibility and responsiveness are the key operations tasks. The competitive goal is to get beyond a transaction orientation and into a relationship orientation. At the extreme, the relationship with the customer may be so well established that needs/wants are anticipated prior to a customer’s request. Marketing relies more on word-of-mouth and community outreach than mass mailings with discount offers or television advertising.

For this strategy, back-office operations are decoupled only where overwhelming advantages are provided by a technology that requires scale economies to be effective. Further, task separation is minimized. For the high-contact worker to have maximum flexibility and responsiveness, fewer layers of management, fewer workers to coordinate, and as deep a knowledge as possible about the customer are desirable. A broad, complex product line is needed to accommodate the range of customers’ needs. Workers are primarily dedicated to customers, not products, so workers need a broad skill range. The general strategy here demands local, decoupled decision making to react to local conditions.

For the personal investing industry, financial planning firms represent this quadrant. A typical brokerage would not advise purchasing real estate; it receives no commission for the transaction. Financial planners, however, cover more than stocks and bonds. In medicine, focused firms are increasing along two dimensions: cost leaders and high service. The well-known Shouldice Hospital Corporation cut its costs and turnaround time by focusing solely on simple hernia operations requiring a standardized procedure. In contrast, birthing centers increase the turnaround time of patients and focus on individualized patient desires. As a foil to cost leader Dunkin' Donuts policy of decoupled cooking, Krispy Kreme makes doughnuts on each retail site, and lights up a neon sign that can be seen from passing traffic stating "hot doughnuts now" when each batch is ready.

In a high service bank each branch is like a bank unto itself. For retail lending, the branch loan officers personally handle virtually all aspects of retail loan processing (Figure 7.2) from soliciting applicants to collecting bad debts. The authority to approve the loan resides in the same person who solicited the application, the same person who must initiate foreclosure/repossession if loan payments are not made. This personal touch stands in marked contrast to the task of loan approval at cost leader banks where the goal is to displace labor with technology. The goal at high service banks is to develop and maintain a strong personal relationship that can last several years. High-contact service personnel are expected to know their customers' names and preferences. Community involvement plays an important role in attracting new customers. Pay for loan officers is largely salary based, but significant bonuses can be awarded based on overall branch performance. These banks also pay for officer memberships in local community organizations. Most branches are "full service," meaning that each branch can perform commercial and retail activities, whereas their more decoupled competitors are often dedicated units to either commercial or retail activity.

A study by Leath (1998) indicated that these banks enjoy an advantage in response time due to their coupled nature. Because hand-offs between departments are not necessary, work can proceed unimpeded for an important customer.

## OPERATIONAL IMPLEMENTATION

The previous sections detail the potential advantages and disadvantages of decoupling, and provide a construct for aligning human resource, marketing, and operations decisions. The extent to which a firm can benefit from decoupling back-office activity depends on how it is implemented. Here, we explore three issues in implementation: (1) strategic congruence, (2) designing back-office jobs to assist the interface between front and back offices, and (3) the speed of implementation.

### Strategic Congruence

It is not unusual for different functions in a service enterprise to have different strategic outlooks, such as a revenue maximization orientation for one area versus a cost minimization orientation in another. These differing views must be reconciled, though, for a firm to succeed.

Strategic congruence presents an especially vexing problem for organizations with decoupled activities. As a back-office area is decoupled, it may be tempting to manage the decoupled activity for cost control, ignoring the effects of such management on the rest of the business. Given the necessarily myopic views of the differing factions of product managers, program administrators, and functional area managers



that persist in any large organization, strategic congruence is difficult to attain. By its nature, decoupling creates more departments and requires more administrators, which makes achieving a congruent strategic framework among tactical decisions more difficult.

As a broad example of mismatched strategies, a cost leader discussed earlier, AmSouth Bank, advertises itself as “the relationship people,” even though all local calls to a local branch are automatically switched to a decoupled call center—which is often located in a different state—and local branch personnel have no lending authority.

Compensation also presents a difficult issue. For cost leaders, employees largely service walk-in traffic and are not expected to become prominent community members who bring in business by force of personality. Consequently, commissions are largely a function of random daily traffic and the economic status of the local community. Commissions do serve a purpose in these institutions: They give an incentive to adequately perform duties and to sell more products to a customer who walks in. Accordingly, commissions should be a relatively small percentage of salary.

### **Back-Office Job Design**

The linkages between front- and back-office activities require attention. Reward systems must encourage coordinated action, rather than focusing myopically on the task in that particular office. This prescription extends to management as well as labor. For example, management and labor in back offices can have peer evaluations by front-office personnel included in their performance review.

It is generally believed that internal motivation, job satisfaction, and effectiveness are linked to the knowledge of the results of work activities, the degree to which a task seems to be an identifiable unit, and the responsibility that an individual feels for the outcome of his or her work (Hackman and Oldham, 1980, p. 90). Certain managerial choices within the back office affect these issues. One can choose to structure a department where contact from front-office personnel is taken by any available worker. Alternatively, a specific back-office worker can be assigned as a contact person for each front-office worker. Worker assignment helps build long-term relationships between front- and back-office personnel, assists in reducing the amount of overlap work due to differing personal styles, and provides more personal responsibility to the back-office worker. Given a long-term relationship with a specific front-office worker, back-office workers are no longer just processing paper for a customer they may never meet, they are meeting an obligation for someone with whom they have a relationship. These benefits, however, may come at the expense of flexibility to pool common back-office capacity or an increased variability in processing times because peak demands are less easily shifted among back-office personnel under such a plan.

It is appropriate at focused professional, high service, and cheap convenience firms for their high-contact workers to maintain specific contacts at low-contact facilities. For cost leaders, though, the best structure for the smoothest flow of work and, therefore, the lowest costs does not commonly include any personal liaison between the front and back office. This separation makes two processes difficult: communicating nonstandard transactions and following up for customers when problems occur.

Another choice available is the level of specialization within the back office. High levels of job specialization may be related to high task efficiency, but, as argued previously, may lower both task speed (due to duty overlap) and overall process speed (due to queuing between tasks) and may lead to the need for increased levels of supervision. Conversely, when workers take responsibility for an entire process, it reduces

all of these factors. According to Hammer (1990, p. 113–114), “The fact that a worker sees only a piece of the process calls for a manager with a broader vision . . . [when workers] provide end-to-end management of the process, . . . the need for traditional managers [is reduced].” Further, having responsibility for an entire process helps employees see their duties as an identifiable unit, which provides a more intrinsic motivating influence.

### Implementation Speed

For firms that desire to move toward decoupling, two opposing forces affect the speed with which it is done. From both a financial perspective and presenting a consistent face to the customer, it is best to decouple and centralize quickly and completely throughout a network. Having a positive net present value on decoupling projects may depend on the timing of personnel reduction.

But an opposing force argues for gradual implementation. One of the benefits of dividing front- and back-office work is that many workers are intrinsically better suited to one or the other. It is reasonable to assume that many workers who are currently employed in the front office are there because they favor interpersonal skills over technical ones. Decoupling activity means shifting staff from the front office to the back office, either by moving current workers with mismatched skills or by wholesale layoffs and new hires. Neither prospect is particularly attractive.

As an example of such a dilemma, in 1983, Crocker Bank, then the thirteenth largest U.S. bank, began centralizing many branch loan and deposit functions. At the time, more than 100 trainees were going through an 18-month program to become branch operations managers, essentially a back-office position, but one that physically takes place in the branch. Because of the decoupling taking place, it was clear that no new operations managers would be needed, so all the trainees were immediately switched to a front-office retail lending training program. Either these trainees had highly malleable personalities or, more likely, they were poor candidates for new retail lending positions.

## Summary

The decoupling of back-office service activity provides a strategy recommended by researchers and heavily used by practitioners for some time. Much of this decoupling is pushed by technological advance and results in far higher productivity. Advantages from decoupling include both financial advantages from labor specialization and the pooling effect of combining the work from many individual units. Further, advantages associated with a better fit between job descriptions and worker personality types can be realized.

Many disadvantages, however, are also possible. Decoupling should lower costs and increase productivity, but due to increases in idle time, increases in total work needed to be done due to duty overlap, the lack of actual personnel reduction that takes place, and self-serving behavior, these supposed advantages may not occur. Further, the key competitive strategies of quality, delivery speed time, and flexibility may be impaired.

The disadvantages of decoupling can be exaggerated by improper implementation and a lack of strategic focus. Here, four general strategies use decoupling to achieve different strategic purposes.

## Review Questions

1. What are the main reasons service firms decouple back-office tasks from the front office?
2. Why should decoupled back-office tasks be centralized?
3. What service concepts does decoupling support or not support?
4. How can decoupling add to a firm's cost structure?
5. How does a decoupled system affect delivery speed?
6. How does the speed of implementation of a decision to decouple make a difference to a firm?

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## CASE STUDY

### The “Future Bank”

For a big bank, it was a big change. In describing the plan to enact “Future Bank,” a different vision of retail banking, John Georgius, president of First Union Bank, said, “This is massive. This is a huge, fundamental change to what we do.”

Georgius’s points of comparison come from presiding over other “massive” changes at First Union. Largely, banks were required by law to operate in just one state of the United States before the industry was deregulated in the mid-1980s. After interstate banking laws were changed First Union took full advantage, buying 70 banks in 10 years. First Union grew from being the third largest bank in Charlotte, North Carolina, into the sixth largest bank in the United States by 1998. The biggest acquisition was in November 1997, buying Philadelphia-based CoreStates for \$16.5 billion, history’s largest bank merger at that time.

In 1998, First Union decided to challenge banking tradition by turning the retail bank branch on its head with the Future Bank concept. The point was to get bankers out of the branch and selling—developing an aggressive, sales-oriented culture at First Union. Bankers will be changed from salaried decision makers sitting behind a desk to a commission-only salesforce that cold-calls customers. First Union’s product line also escaped the bounds of traditional banking products to include products such as mutual funds and insurance.

The plan to reach customers through a variety of methods does not include the large, monolithic, marble-halled, downtown bank branches of old. Its methods combined Internet banking, minibranches, and a call center two-thirds the size of the Pentagon. “Future Bank” was set on an expedited timetable to achieve company-wide implementation by January 1999. The stock price responded highly favorably to the changes, increasing 151% from January 1995 to March 1998.

As to infrastructure, the Future Bank integrates the back-office functions into the branch. Job duties in the branches are altered significantly. Customers entering a branch are met by “greeters,” rather than the traditional method of a customer trying to figure out where to go themselves. The job of the greeters however, is not just to provide warm and fuzzy service, but to save the bank money and help integrate the back-office by directing customers away from branch personnel and toward automatic teller machines (ATMs), or to connect them by phone to the call center. It is estimated that ATMs handle transactions for \$0.27 while tellers cost \$1.25 per transaction.

To change the traditional culture of the branch from waiting until customers walk in to being more proactive, branches receive several hundred names every day of prospects and suggestions on what products to sell to them individually.

The Future Bank compensation structure differs significantly from a traditional bank. Everyone in the branch is on a commission system based heavily on sales. The variable portion of pay accounts for 40% of pay for branch staff. Naturally, with the immense changes, old job descriptions were out and new ones created. Current



## CASE STUDY

employees were invited to apply for the new jobs they felt best fit with their talents. First Union also recruited heavily from outside the banking industry, hiring those with a knowledge of how to sell, rather than a knowledge of banking. "There will be a fair number of people who decide they do not want to sell," Georgius said, "but our company has got to move on."

An example of the way Future Bank is supposed to work is personified in the way Barbara O'Connor now makes her living. "A key to Future Bank is people like Barbara O'Connor. She has an office at a First Union branch, but her real office is her car. Working from a notebook computer, she scans names and prepares presentations as she drives to offices and homes around Atlanta. She books appointments on her cell phone. Banks have always had some employees catering to the rich, but her target market is people with about \$75,000 in income whom she can persuade to consolidate their financial affairs at First Union. When she hooks a prospect, she turns new customers over to a service representative who does actual banking tasks, freeing her to hunt for new money. O'Connor draws no salary and is paid purely on commission, with no limit to the amount she can earn."

Source: D. Greising (1998), "Fast Eddie's Future Bank," *BusinessWeek*, March 23, 75–76.

### Questions:

- What implementation difficulties lay ahead for First Union?
- How will consumers react? Which consumer markets are being approached/withdrawn from by this strategy?