A typology of de-coupling strategies in mixed services

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Abstract

A typology of a class of service systems is proposed. The typology links strategic operational objectives to the decision to de-couple work between the front and back offices of a service system. Four specific ideal types of a strategy/de-coupling mix are described; each of which has distinct operational, marketing and human resource ramifications. A type that has had significant representation in traditional literature is the “Cost Leader” type, where back-office activities are de-coupled from the front office for the purpose of lowering costs. Another traditional type representative of the craftsman legacy is the “Personal Service” type, which retains back-office tasks in the front office to pursue non-cost-oriented strategic goals. Theoretical and empirical evidence is also given for two non-traditional types: the “Kiosk” type, where all tasks remain in the front office to achieve lower costs, and the “Focused Professional” type, which de-couples front- and back-office activities to enable front-office workers to provide higher service, rather than to reduce costs. Empirically, retail bank lending systems are analyzed to support the typology. © 2000 Elsevier Science B.V. All rights reserved.

Keywords: Service operations; Operations strategy

1. Introduction

Service firms are frequently distinguished from manufacturers by the relatively high level of customer contact, participation or interaction that is involved. But for all the activities in service firms that require the presence of the customer, there are a host of activities that can or must be performed without the presence of the customer. In banking, insurance, educational institutions and other similar industries, the application approval process usually occurs without the presence of the customer and is often conducted by employees that the customer may never see or speak to. Also, many physical products associated with a service firm are prepared outside of the view of the customer. This characterizes such diverse industries as food services, printers, or professional services like architecture and law. In accordance with long-standing uses of these terms in the service literature (e.g., Matteis, 1979; Chase, 1996), we label the work performed in service firms where the customer is required as “front-office” work and work that does not require the presence of the customer as “back-office” work.

We present a typology for the service systems of so-called “mixed service” firms (Chase, 1978, 1981; Chase and Tansik, 1983) that contain significant amounts of both front- and back-office work. Specifically, the “de-coupling process” is studied for those service systems. We define de-coupling in traditional
terms: breaking a process into its component back- and front-office activities, segregating those activities into distinct back- and front-office jobs, and, usually, geographically separating the back and front offices. Traditionally, academic literature has argued that extensive de-coupling is needed to increase productivity. Recent literature has argued that a more coupled approach is appropriate for other strategic directives. Here, we take a more expansive view. In short, we argue that the de-coupling decision has more texture than those alternatives — that in certain business situations, de-coupling is used to provide higher service, whereas in other situations, a highly coupled approach is necessary to lower costs. We present a prescriptive typology for competitive positioning with respect to strategic operational focus and the level of back-office/front-office de-coupling. In the typology presented, the disposition and location of front- and back-office work is tailored according to individual firm strategy. Four ideal types are developed. These ideal types are illustrated with a study of the retail bank lending industry.

This typology differs from prior service sector typologies in several ways. This typology represents a scheme for only a portion of the vast field of services. Within that framework, the focus is on the service system strategy of a firm rather than the position of entire industries. That is, entire industries are not classified together. Rather, this matrix represents competitive positions that can be taken by firms within any given industry. The focus of this typology is on how work should be divided between the front and back offices, rather than the more typical service typologies that focus more on the type and nature of customer contact in the front office.

After a discussion of prior literature in this field, the ideal types are enumerated. Since the types are described via the retail bank lending industry, the lending process is first described, then the ideal types are described in detail. We conclude with a discussion of propositions generated from this typology.

2. Typologies and taxonomies of services

Perhaps the service sector typology that has been most influential to researchers has been Chase (1978, 1981). Chase categorizes service industries by the ratio of customer contact time versus total service creation time, reasoning that the potential for efficiency is best when that ratio is small. This ratio is smallest in “quasi-manufacturing” industries such as warehousing, increases in “mixed services” such as bank branches, and is highest in “pure services” such as restaurants. Here, we only consider the subset of services that has this “mixed” component. We use Chase’s term of mixed services due to its familiarity, but as will be seen by the variety of industries discussed, this work is relevant to a broad view of that term.

Many other authors have also proposed service sector typologies and taxonomies (Mills and Margulies, 1980; Lovelock, 1983, 1991; Schmenner, 1986; Shostack, 1987; Larsson and Bowen, 1989; Wemmerlov, 1990; Silvestro et al., 1992; Kellogg and Nie, 1995; Tinnila and Vepsalainen, 1995; Collier and Meyer, 1998). The purpose here is not to supplant any of these works with a “superior” viewpoint. Instead, a different type of comparison is made: ideal types of work organization are described depending upon strategic operational goals.

Usually, the differentiating characteristics of the above typologies focus on some variant of front-office work. For example, that can take the form of “degree of interaction and customization” (Schmenner, 1986), “customer contact time per transaction” (Silvestro et al., 1992), or degree of contact and complexity and divergence (Wemmerlov, 1990). Summarizing these efforts, one of the “pervading concepts” is that of “customer and employee involvement,” focusing on activity in the front office (Collier and Meyer, 1998, p. 1228). Here, however, it is hypothesized — and shown by example — that similar organizations of work content can occur in industries that differ along all of these front-office metrics.

The goal of many typologies is to show that industries should position themselves at a single best point or specific area of a matrix, often on a diagonal of a two-by-two matrix (e.g., Kellogg and Nie, 1995; Tinnila and Vepsalainen, 1995; Collier and Meyer, 1998). This “diagonal” approach simulates for services the well-known manufacturing product-process matrix of Hayes and Wheelwright (1979). A few of these efforts allow for some heterogeneity within an industry. Schmenner’s Service Process Matrix cate-
or bad, but as appropriate or inappropriate based on the fit with overall strategy and the competitive environment. Likewise, this manuscript does not judge de-coupling to be “incorrect,” and it does not portray prior literature extolling the virtues of de-coupling as wrong. Rather, this model portrays the de-coupling decision as one that fits certain strategic objectives and not others.

3. Operational strategic focus

This typology positions the de-coupling choice against the second axis of strategic operational goals (see Fig. 1). We collapse strategic focus into the two dimensions of “service” and cost. We use the term “service” in the same fashion as Schlesinger and Heskett (1991), meaning the collection of service concepts that are distinct from a cost minimization perspective. Within this service dimension, we intend to capture the various non-cost minimization strategies that have been articulated. Porter (1985)

![Fig. 1. Back-office/Front-office De-Coupling Strategies with Specific Bank examples.](image-url)

<table>
<thead>
<tr>
<th>Personal Service</th>
<th>Focused Professionals</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Each branch nearly a company unto itself, dedicated to high service levels.)</td>
<td>(The back-office does all the non-contact work so the front-office can focus on sales)</td>
</tr>
<tr>
<td>Bank of Green Hills</td>
<td>Union Planters</td>
</tr>
<tr>
<td>Regions Bank</td>
<td>First Union (Future Bank)</td>
</tr>
<tr>
<td>SunTrust Bank</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Kiosk</th>
<th>Cost Leader</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Competing on geographical convenience. Non-contact tasks handled in the front-office to lower front-office idle time costs.)</td>
<td>(The traditional view of the back-office. De-couple to lower costs.)</td>
</tr>
<tr>
<td>Nashville Bank of Commerce</td>
<td>AmSouth Bank</td>
</tr>
<tr>
<td>SouthTrust</td>
<td>First American National Bank</td>
</tr>
<tr>
<td></td>
<td>NationsBank</td>
</tr>
<tr>
<td></td>
<td>First Union (current)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of Back-office/Front-office De-Coupling</td>
<td></td>
</tr>
</tbody>
</table>
labeled three strategies as cost, differentiation and focus. Chase and Acquilano (1995) mention the four strategies of cost, quality, speed and flexibility, while Galbraith (1995) mentions five generic strategies. These strategies have been further refined, with, for example, Parasuraman et al. (1985) segmenting service quality into five dimensions, Garvin (1984) parsing quality into eight dimensions and Gerwin (1993) and Upton (1997) further segmenting flexibility.

Generally speaking, there are certainly not merely two choices for operational strategic direction, and it would be absurd to reduce the complexities of all the potential non-cost-oriented operational perspectives into one term, as they have considerable diversity. However, we will argue that achieving those diverse “service” objectives requires similar choices with respect to de-coupling. Largely, the theoretical and empirical evidence will be presented later, but we review the service operations strategy and design literature to buttress these contentions here, and divide the review according to the description in the typology: reviewing cost and non-cost, or service strategic foci with respect to the back office.

Furthermore, it is also somewhat contrived for any typology or taxonomy to have delineated specific, named “boxes,” as continuous spectrums are usually more appropriate. We focus the visual presentation in Fig. 1 to show the two categories of cost- and non-cost-based strategies due to the overwhelming history of both the academic and practitioner literature that has focused on the juxtaposition of cost minimization and back-office de-coupling. As noted by Schlesinger and Heskett (1991, p. 71), “For more than 40 years, service companies successfully followed an industrial model based largely on the principles of traditional mass-production.”

Where the managerial goal was cost reduction. Chase (1996, p. 299) notes that, historically, a typical research paper in service operations had the goal of “minimizing total system cost.” The current typology proposed here is by nature a model of reality, and one of the important points of this model is confronting this history.

3.1. Cost minimization strategy

In terms of work organization, Chase’s work in the 1970s and 1980s is clear: back-office work should be segregated from front-office work, both in terms of the people who perform it and in terms of placing that work in a physically different location. Front-office personnel should focus on the customer, and customer contact enhancing strategies should be employed in the front office. Back-office work should be rationalized by traditional division of labor techniques and managed for cost reduction by standardizing the work. For example, Chase and Tansik (1983, p. 1044) state as a proposition that “low-contact subsystems seek to maximize efficiency goals”; Chase et al. (1984, p. 544) notes that “(i)n low-contact service environments, the opportunity for de-coupling should render manufacturing-organization design procedures appropriate.” Though Chase did not specifically comment on centralization of back-office work, the personnel and facility cost saving benefits he states can be achieved from his advice implying centralizing the back-office services as well. This combination of a cost minimization strategy and high de-coupling is termed the “Cost Leader” quadrant in Fig. 1.

Others also stress the need for rationalizing the back-office work in services. Seminal work by Levitt (1972, 1976) exhorts managers to take a “production-line approach to service” by employing de-coupling processes. Collier and Meyer (1998, p. 1233) state that “(b)ack office processes . . . are removed from customer view and can be designed for efficiency.” Where Silvestro et al. (1992) mention a focus on back-office processes, it is in connection with limiting customization and employee discretion. The views of both Levitt and Chase concerning the back office can be traced to the view of Thompson (1967) regarding back-office work as the “technical core” that should be buffered from the randomness of customer behavior.

Apte and Mason (1995a,b) and Wilson (1995) echo this view but focus on geographic separation in a global context, where back-office operations are in different countries than the front office. Additional cost advantages from this approach are the abilities to exploit international wage differentials and tax treatments in addition to possible benefits from a better labor market for the back office.

This is also a strong push for cost minimization and de-coupling in the trade literature. It appears to be canonical in the retail banking practitioner litera-
ture that de-coupling the back office and managing it for cost minimization is necessary to success (Reed, 1971; Burger, 1988; Cronander, 1990; Pirrie et al., 1990). Other back-office services such as governmental offices (Connors, 1986), hospitals (Queree, 1994) and the de-coupling of general corporate functions also appear to be in vogue (Sharp, 1996; Keith and Hirschfield, 1997).

Despite the voluminous research linking cost minimization and de-coupling, a cost minimization strategy is not always enhanced by a de-coupled back office (this view will be more fully developed later, but a sketch is given here). Queuing theory results indicate that to serve random customer arrivals in a timely fashion, a system must endure idle time in front-office workers. Due to the mathematics of waiting lines, this is especially true of small service systems. Consequently, the “Kiosk” firms of Fig. 1 largely eliminate the back office to reduce the front-office idle time and cut costs.

3.2. Service (non-cost minimization) strategies

However, back-office tasks need not only be viewed as tasks where efficiency is the sole target. The de-coupling process is recommended in the literature for another reason beyond cost reduction: different employee types have widely differing aptitudes for, and attitudes toward, each type of work. That is, the two types of activities require two “contrasting classes of worker skills and orientations — public relations and interpersonal attributes for high-contact purposes and technical and analytical attributes for low-contact purposes” (Chase, 1978, p. 140). This view allows for back-office personnel to assume the role of an expert in a specialized area, capable of superior work within their realm.

Heskett (1986, 1987) also points toward using the back office to provide superior results in non-cost strategies by linking the back office to the same marketing directives that the front office is organized around. In essence, for the back office, the “strategic service vision” advocated by Heskett and Heskett et al. (1994, 1997) represents a change in focus from managing for cost containment and transaction management to managing for revenue enhancement and customer loyalty by aligning the back office for, say, speed or high quality. This view will be labeled as the “Focused Professional” approach in this typology.

Note, though, that this view directly precludes many of the de-coupling advantages noted in Chase (1978, 1981). For example, under the approach described by Heskett, both the front and back offices would ensure that sufficient capacity existed to serve customers, so the personnel level in both areas would be set accordingly. A main advantage of de-coupling according to Chase (1978, 1981) is that while front-office labor levels must be set at peak demand, back-office labor levels can be set at average demand and backlogging is used to reduce costs.

Another view, called the “Personal Service” quadrant in Fig. 1, essentially eliminates the back office and places back-office tasks in the front office. Larsson and Bowen (1989, p. 227) note that, under certain circumstances, “(t)he main coordination task is to adjust unique customer requests communicated to front-office employees to the performance of back-office employees. One means for making this adjustment is to have the same employees assume both front- and back-office roles.” In accordance with this view, Chase and Hayes (1991) state that “(i)n a 1978 article, one of us advocated that many service activities should be shifted to a remote back office in order to maximize efficiency…In retrospect, this closed system philosophy overlooked the fact that there are positive benefits to both the customer and the organization by having the customer closely linked to the server, even though the job is traditionally performed in the customer’s absence.”

By linking all service systems that focus on non-cost minimization objectives within the same quadrants of Fig. 1, we do not intend to state that the service delivery systems of firms in the same quadrant will be identical and that they are competing for the same customers. Clearly a delivery system that focuses on one element among the “service” dimension may be different than one that focuses on another, but they will have strong commonalities that are discussed at length later. Rather, we seek to point out that non-cost minimization objectives may be attained from both coupled and de-coupled back offices, and that the basic service delivery system alignments will differ accordingly.

Beyond the delineation of ideal types, strategic congruence within a type is discussed. We assert that
there are basic operations, marketing, human resource and MIS components of each matrix quadrant, and that firms cannot effectively mix functional imperatives of different quadrants. Chase and Hayes (1991) asserted that many service firms lack a coherent link between operations and strategy that causes firms to behave sub-optimally, but they focused solely on non-cost strategies. The lack of strategic consensus in operations was measured in a manufacturing setting (Boyer and McDermott, 1999). Lack of strategic consensus is an important aspect of this manuscript as well. In the author’s experience, the most common problem in mixed services is a front office managed for a non-cost minimization strategic goal and a de-coupled back office managed for cost minimization. In this same vein, we also posit that there are inherent difficulties in attempting to occupy more than one quadrant in Fig. 1 with the same service system, in merging operations occupying different quadrants, or in moving to a new quadrant.

4. Typology development

The model presented is a prescriptive typology for competitive positioning with respect to strategic operations focus and de-coupling activity. As a detailed example of the ideal types presented, we analyze the retail bank lending market. In the next section, the conceptual model is presented and the relationship between strategy and the de-coupling process is explored via a census of all multi-branch banks in the Nashville, Tennessee, market as a tool for demonstration.

Since the strategies will be discussed in the context of retail bank lending, an understanding of the retail lending process is helpful. Retail lending involves monies for personal rather than business use. Typically, the loan is used to purchase a large capital good, consolidate debts, or finance a vacation. The retail lending market is an interesting one to study in this capacity due to the “commodity” perception of the products. Given that retail loans have been available for some time, one might expect a dominant service delivery system to emerge. As will be shown, however, that has not been the case.

The activities involved in retail lending are generically described in Fig. 2. Initiating a loan usually requires customer contact. In many cases, extensive pre-loan customer contact is the reason a consumer chooses a particular bank. Many loan officers are paid to be “pillars of the community” who generate business by personal relationships. At the other extreme, customers may select a bank by general reputation or convenience rather than personal contact and have a minimal loan interview in a branch office.

After a loan interview, a significant amount of back-office work is required before monies are disbursed. This work is below the “line of visibility”
Table 1
Multi-site banks studied

<table>
<thead>
<tr>
<th>Holding company description</th>
<th>AmSouth</th>
<th>Bank of Green Hills</th>
<th>First American</th>
<th>First Union</th>
<th>Nashville Bank of Commerce</th>
<th>NationsBank</th>
<th>Regions Bank</th>
<th>SouthTrust</th>
<th>SunTrust</th>
<th>Union Planters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets (US$ billions)</td>
<td>US$18.3</td>
<td>US$0.3</td>
<td>US$9.9</td>
<td>US$83.9</td>
<td>US$3.7</td>
<td>US$159.0</td>
<td>US$12.6</td>
<td>US$29.1</td>
<td>US$17.0</td>
<td>US$11.1</td>
</tr>
<tr>
<td>Headquarters</td>
<td>Birmingham, AL</td>
<td>Memphis, TN</td>
<td>Nashville, TN</td>
<td>Charlotte, TN</td>
<td>Memphis, TN</td>
<td>Charlotte, TN</td>
<td>Birmingham, AL</td>
<td>Birmingham, AL</td>
<td>Atlanta, GA</td>
<td>Memphis, TN</td>
</tr>
<tr>
<td>Local Nashville presence</td>
<td>Branches</td>
<td>Hours open/week</td>
<td>Deposits (US$ millions)</td>
<td>Strategy</td>
<td>FTE/branch</td>
<td>Loan officer pay</td>
<td>De-coupled and centralized operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>39.5</td>
<td>US$77</td>
<td>Cost leader</td>
<td>6 6 8−10</td>
<td>Moderate bonus on scorecard of branch goals</td>
<td>Approval; file maintenance; collections</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>39.5</td>
<td>US$24</td>
<td>US$2126</td>
<td>2 8</td>
<td>Moderate bonus on loan and deposit product sales</td>
<td>None</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>19</td>
<td>41.5</td>
<td>US$464</td>
<td>Cost leader</td>
<td>10 Small bonus on loan and deposit product sales</td>
<td>Approval; file maintenance; doc. prep.; collections</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>39.5</td>
<td>US$166</td>
<td>Cost leader</td>
<td>12 Small bonus on loan and deposit product sales</td>
<td>Approval; file maintenance; doc. prep.; collections</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>19</td>
<td>51</td>
<td>US$1433</td>
<td>Cost leader</td>
<td>5 Small bonus on loan and deposit product sales</td>
<td>Approval; file maintenance; collections</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>37.5</td>
<td>US$93</td>
<td>Cost leader</td>
<td>9 Small bonus on loan and deposit product sales</td>
<td>File maintenance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>19</td>
<td>39.5</td>
<td>US$123</td>
<td>Cost leader</td>
<td>5 Small bonus on loan and deposit product sales</td>
<td>Collections when past 90 days delinquent</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>43.5</td>
<td>US$1657</td>
<td>Personal service</td>
<td>15−20 Small bonus on loan and deposit product sales</td>
<td>None</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>44</td>
<td>US$432</td>
<td>Personal service</td>
<td>9 Majority of pay based on loan sales</td>
<td>Approval; file maintenance; doc. prep.; collections</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(Shostack, 1984) of the customer; that is, the customer does not see these activities, consequently, they are activities that are available for the de-coupling process. Due to the ubiquitous marketing of “15 minute” loan decisions, there is a general misunderstanding of the work required in lending. In reality, quick loan approvals are only “conditional” approvals. 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 collateral item has to be inspected and appraised, and ownership and various insurance coverages have to be verified. Customer contact again is required for signing documents. There is also significant post-loan processing. Insurance documentation must be updated (with insurance lapses requiring significant paperwork), files and collateral documents maintained, pay-offs quoted, repair to damaged collateralized assets must be verified and delinquent borrowers must be contacted and repossession or foreclosure initiated.

To appreciate the role the de-coupling process plays in banking, it is important to consider what has happened to the bank branch office in recent times. With the emergence of home banking, ATMs, internet banking, competition from non-bank financial entities and the extreme merger activity in the banking industry, one may think the bank branch as an anachronism that should be dwindling in numbers. The reverse has been the case, however. The number of manned U.S. bank branches has increased from 39,783 in 1982 to 61,957 in 1998 (FDIC, 1999), with the trend continuing upwards throughout the 1990s. The nature of the branches has changed, however, and the ways they have changed are linked to the four quadrants of Fig. 1.

A census of a complete market is used here, rather than the traditional technique of a random sample of firms from an industry. Since the claim is made that each of the quadrants is a potential market position, complete coverage of a market is necessary to substantiate that claim. However, a further convenience sample of 42 additional banks from around the world attending a 1999 Bank Administration Institute conference has substantiated the results here.

For each bank in this study, approximately 20–40-min semi-structured interviews took place with multiple branch personnel, back-office personnel, and, where possible, branch executives, resulting in a total of 42 interviews. The questions posited are listed in Appendix A.

The relative position of the banks studied is indicated in Fig. 1 and other information concerning the banks is in Table 1. The banks were placed in the

<table>
<thead>
<tr>
<th>Industry</th>
<th>Cost leader</th>
<th>Kiosk</th>
<th>Focused professionals</th>
<th>Personal service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal investing</td>
<td>Charles Schwab</td>
<td>Edward D. Jones</td>
<td>Merril Lynch</td>
<td>American Express</td>
</tr>
<tr>
<td></td>
<td>(discount stock brokerage)</td>
<td>(full-service stock brokerage)</td>
<td>(full-service stock brokerage)</td>
<td>(financial planner)</td>
</tr>
<tr>
<td>Real estate</td>
<td>For Sale By Owner</td>
<td>GEICO</td>
<td>Re/Max (R.E. brokerage)</td>
<td>State Farm</td>
</tr>
<tr>
<td>Insurance</td>
<td>General Counsel Associates</td>
<td>Jacoby &amp; Myers</td>
<td>Skadden, Arps, Slate,</td>
<td>Meagher &amp; Flom</td>
</tr>
<tr>
<td>Legal representation</td>
<td>Shouldice Hospital</td>
<td>MedPartners</td>
<td>Columbia/HCA</td>
<td></td>
</tr>
<tr>
<td>Medical</td>
<td>Wal-Mart</td>
<td>Dollar General</td>
<td>Amway; Avon (network marketing)</td>
<td></td>
</tr>
<tr>
<td>General merchandise</td>
<td>Dunkin’ Donuts</td>
<td></td>
<td></td>
<td>The Tennessee</td>
</tr>
<tr>
<td>Retail doughnuts</td>
<td>Food Lion (supermarket)</td>
<td>7–11 (convenience store)</td>
<td></td>
<td>Birth Place (birth center)</td>
</tr>
<tr>
<td>Grocers</td>
<td>J.C. Penney</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clothing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2
De-coupling strategies of some firms in various service industries
appropriate quadrants based on their responses to the survey in Appendix A. Firms were classified as to their degree of de-coupling by a simple numerical count of the activities on part 1, question 7, that were de-coupled (Table 1 lists the de-coupled processes). Some examples of firms in other industries that fit this typology are in Table 2.

Fig. 1 identifies four strategy types based on the level of de-coupling and the general strategic focus of operations. The four quadrants of Fig. 1 represent distinct strategies that can be attained within a given industry, though not every strategy is applicable in every industry. The thesis is that there is no “best” quadrant or dominant market position — each represents a distinct strategic position. The purpose of this work is to describe how each quadrant fits into corporate strategy and present a consistent set of operational, marketing and human resource policies (Fig. 3) that can provide the distinct competitive advantages of each quadrant.

<table>
<thead>
<tr>
<th>Personal Service</th>
<th>Focused Professionals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keep coupled to enhance service.</td>
<td>De-couple to exploit employee expertise</td>
</tr>
<tr>
<td>Only de-couple work that requires large-scale oriented capital goods.</td>
<td>Manage back-office to heighten back-office/front-office interface.</td>
</tr>
<tr>
<td>Very broad cross-training.</td>
<td>Train for all processes in either back-or front-office, but not both.</td>
</tr>
<tr>
<td>High-contact worker paid based on unit performance.</td>
<td>High-contact worker paid based on commission. Low-contact worker pay includes subjective quality elements.</td>
</tr>
<tr>
<td>Technology used to enhance customer relationships.</td>
<td>Technology used to enhance marketing or back-office/front-office interface.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Kiosk</th>
<th>Cost Leader</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keep coupled to reduce idle time.</td>
<td>De-couple to reduce costs.</td>
</tr>
<tr>
<td>Centralize/rationalize complex technical back-office work.</td>
<td>Centralize/rationalize all back-office work.</td>
</tr>
<tr>
<td>Broad cross-training.</td>
<td>Train for specific task only.</td>
</tr>
<tr>
<td>High-contact worker paid on salary/small commission basis.</td>
<td>High-contact worker paid on salary/small commission basis. Low-contact worker paid for efficiency.</td>
</tr>
<tr>
<td>Technology used to reduce job complexity.</td>
<td>Technology used to replace labor and standardize activities.</td>
</tr>
<tr>
<td>Narrow product line. Customers drawn by convenience.</td>
<td>Narrow product line. Customers drawn by low prices or large network.</td>
</tr>
</tbody>
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<tr>
<th>Low Level of Back-office/Front-office De-Coupling</th>
<th>High Level of Back-office/Front-office De-Coupling</th>
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Fig. 3. Consistent Strategic Choices for De-Coupling Strategies.
5. The Cost Leader strategy: high de-coupling, cost emphasis

5.1. Strategy description

The Cost Leader strategy represents the traditional use of the de-coupling process. Costs are reduced by segregating complex, multi-task jobs into many simpler, standardized jobs, using specialization of labor and technology to reduce labor costs and centralizing for scale economies.

This focus on cost is a common strategy across many industries (Table 2). Discount stock brokers such as Charles Schwab operate in a similar fashion to the retail insurance firm GEICO: they reduce costs by eliminating the localized high-contact, commission-oriented personnel that formerly dominated their industries. 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 that are well down the learning curve. Dunkin’ Donuts, with over 4000 locations, achieves cost reductions by cooking doughnuts in centralized facilities for all outlets in a given metropolitan area.

A concern for Cost Leader banks is how to build a rapport with customers and educate customers while reducing face-to-face contact. A customer may enter a bank with the purpose of obtaining a checking account. Without the face-to-face contact of a trusted guide, the customer may not realize they could also benefit from related features such as overdraft protection and automated bill payment or unrelated bank products such as a CDs or a mutual fund. Other industries have similar problems. Investors will rarely find out about, and even more rarely trust, new stocks, IPOs, or sophisticated financial instruments from a Cost Leader firm such as E’Tade or Schwab. Because of their structure, customer generation is the responsibility of corporate headquarters, not front-office personnel.

Four Nashville banks pursue this de-coupling strategy, of which AmSouth is typical. At AmSouth, a telephone call to the local telephone number for all local Nashville branches is automatically routed to a centralized call center over 100 miles away in Alabama. Loan operations are heavily centralized as well, with all 250 branches throughout several states faxing loan applications into a single service center. At the loan service center, incoming faxes are picked up by whomever is available.

AmSouth uses the prototypical Cost Leader approach to back-office tasks. Job duties are highly specialized with little cross-training, emphasizing maximum task speed and, presumably, minimum pay. For example, specific jobs are assigned to those who do data entry, appraisal ordering, disclosure construction, underwriting, etc.

Branch personnel are divided between transactional personnel (tellers) and “personal bankers,” or “customer service representatives.” There are no loan officers per se, as the “personal bankers” perform both loan and deposit account functions. Rather than seek out business, these personal bankers stay inside the branch and serve walk-in customers. The bulk of their income is straight salary although each bank has a small (5% of salary) commission-based system. This is typical of Cost Leader human resource practice. Since customer generation is the responsibility of corporate marketing, rather than line employees, commission structures should only be large enough to give an incentive to provide an incentive for high-contact personnel to attempt to cross-sell customers on other products.

For Cost Leaders, technology is used primarily to save labor. For document preparation, First American electronically transmits documents from a distant back-office center to branch locations for loan closing. Loan approval at Cost Leader banks is also geared toward replacing labor with technology. At First Union, the loan application is taken verbally and entered into a computer by an employee. The branch is linked by satellite to national headquarters, where a computer accesses credit bureau data, performs financial calculations and the computer informs the customer service representative whether the loan is approved or not.

5.2. Strategic conflicts

This strategy brings down costs, but can create losses in other strategic areas. As stated previously, revenue generation can be difficult, but this structure also presents operational difficulties for quality, flexibility and response time.
Flexibility can be hurt as product lines are truncated compared to other quadrants. The only collateralized loans handled by the central facilities generally are home, auto and boat loans, as these assets represent the vast majority of loan requests. If one wanted to use such high value items as furniture, musical instruments e.g., a grand piano, etc., as loan collateral, one would have to seek out another bank. Furthermore, applicant income streams can have unique characteristics based on regional differences, such as “wildcatters” in oil and gas-producing areas, the entertainment industry, the fishing industry and many others. While each of these industries may be regionally important, they are not significant nationally. Consequently, Cost Leader banks do not serve either the unusual collateral or income markets, since reconfiguring their nationwide, centralized loan processing structure for a regional product doesn’t make sense.

Special requests are also problematic. The Cost Leader strategy is at its best when processing standard items. The de-coupled structure does not lend itself to accommodating the customer. As Matteis (1979, p. 153) notes regarding Citibank, “the large centralized database approach drained our ability to provide the uniquely tailored services our customers demanded.”

Quality can be adversely affected as well. Standard procedure is to send information electronically from the branch to a geographically distant back-office unit where the next available person processes the work. Due to the geographic separation, the front-office personnel never even know the names of the back-office workers. The front-office worker may develop a relationship with the customer, but the relationships between the front- and back-office workers and between the back-office worker and the customer are purely formal. This can lead to two related problems. Primarily, front-office workers may make reasonable special requests that the back-office workers are not anxious to fulfill. Back-office workers typically are rewarded on production and special requests slow down the process, so they are less likely to accede to special circumstances. Less commonly, 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.

Finally, overall process speed can be hurt by de-coupling. De-coupling aids task speed from long-known task specialization and learning curve effects. A cornerstone tenet of the time-based competition literature, however, is that task speed is distinct from process speed (e.g., Blackburn, 1991). The customer-relevant time is the time from service request to service provision, a process that is composed of many tasks and the waiting times and hand-offs between tasks, and hand-offs between processes are negatively affected by de-coupling.

One of the basic purposes of de-coupling is diametrically opposed to obtaining process speed. A reason to de-couple is to buffer the back office from disruption and allow for smooth workflow. This reduces costs by allowing capacity, or personnel, to be held at average demand rather than peak demand. Since holding inventory ahead of time in such services is not possible, it is specifically designed to backlog customer orders. The back-office 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 back-office service is not behaving as a bottleneck, it is not serving its purpose. It has been noted empirically that banks with de-coupled back-office loan operations have a slower response time (Leath, 1998).

6. The Kiosk strategy: low de-coupling, cost emphasis

For the Kiosk strategy, back-office work remains in the front office for exactly the same reason that Cost Leaders choose to de-couple: cost. In this strategy, 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.

A number of service industries have firms that compete in this part of the matrix. Edward D. Jones, a stock brokerage firm based in St. Louis, has 3800 offices in the U.S. that are largely manned by a
Like Cost Leader firms, the product line is abbreviated: Jones does not sell penny stocks, derivatives or commodities. For a given trade area, the strategy of the law firm of Jacoby & Myers is to blanket the metropolitan area with numerous, small offices that offer convenience and low prices. Unlike their traditional competitors, Jacoby & Myers rely heavily on television advertising to draw clients, and offer a limited product line. In the medical field, the strategy of Phycore and MedPartners is to purchase the practices of individual physicians and put those physicians on salary. Similarly, the 4000 store Dollar General chain competes for the same customers — and at the same prices — as traditional Cost Leader competitor Wal-Mart, but uses a plethora of 6000 ft² stores to counter each of Wal-Mart’s average 92,000 ft² stores.

Personnel staffing in small service units is a difficult issue. In general, personnel staffing in high-contact facilities is not usually based on average workload but instead in accordance with peak demand (Crandall and Markland, 1996). The most fundamental results from queuing theory indicate that to have any reasonable level of customer service, the number of service personnel must be large enough to more than accommodate the average customer arrival rate — directly implying that high-contact personnel must have some idle time. Note that this is idle time only in the sense of not having direct contact with customers. If workers have non-contact duties, the idle time can be filled, but these are the same activities that are candidates for de-coupling. 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 — requires more employee idle time, but the effect of facility size on idle time is also important. A basic lesson from queue centralization is that relatively fewer servers are needed to achieve the same system performance in centralized queues. Consequently, smaller facilities will suffer from idle time problems more than larger facilities. For example, consider a single phase system with appropriate distributional assumptions. In order to maintain an average number in line of 0.9, utilization is 60% for a one-server system and 74% for a 10-server system. (e.g., Chase and Acquilano, 1995, pp. 148–149). Consequently, a single large branch drawing an equal number of customers as a collection of small branches requires fewer overall workers to achieve the same service levels.

Since the Kiosk strategy relies on small facilities, these firms suffer more potential idle time than high-contact facilities. Consequently, it is desirable to maintain a large amount of back-office work in the front office to fill this idle time, helping to keep costs low. Employees of Kiosk firms should be cross-trained so that, ideally, any employee can handle any task. Furthermore, employee scheduling cannot be based solely on contact-oriented activities and must incorporate the back-office work for appropriate utilization (e.g., Thompson, 1992).

Two banks adopt this de-coupling strategy in the Nashville market. The Nashville Bank of Commerce is discussed here. Largely, their branches are located within grocery stores and there are usually two or three employees working at any time (85 of the 101 branches of the holding company, National Commerce Bank, were in supermarkets as of year end, 1996). To achieve further convenience, they are open for business 51 h per week — nearly 30% longer than the majority of banks in the area. Only retail products, however, are available at the vast majority of branches. Corporate customers are seen only in a few locations.

Some portions of the lending process are de-coupled and centralized. For some loans, such as auto and personal loans, pre-processing (credit checks, employment and income validation, etc.) and loan approval are coupled with the front office in the branch. For home equity loans, only small portions of the work, such as arranging for an appraisal, are de-coupled performed centrally. For all loan types, problem loan collection, insurance updating and re-possessions/foreclosure are handled in a centralized facility in Memphis, Tennessee, 180 miles away. For the other bank in this category, the only de-coupled activity is collecting on “unrecoverable” loans — loans in default for longer than 3 months.

The “kiosk” strategy necessitates few employees. Consequently, each employee must be able to perform a wide range of tasks. Correspondingly, it is difficult to have a broad, complex product line. Firms in this quadrant must focus on standardizing tasks from a reduced product line. Front-office information systems can be extremely useful in this re-
spect, and product development should be accompanied by software with highly scripted service encounters.

The human resource challenge is also difficult. Like the Cost Leader firms, large commission structures do not make sense. An additional challenge, however, is conformance quality. Since many different individuals are performing the same tasks company-wide, maintaining and enforcing standards can be difficult. Furthermore, due to the small number of employees in a branch, extensive cross-training is essential. Nashville Bank of Commerce follows these precepts, as employees are basically salaried with a small amount available in incentives for loans booked, and each employee can perform all the functions in the branch. Like Cost Leader banks, employees are not expected to become prominent members of the community, as customers are drawn by the convenient location of the branch.

7. The focused professional strategy: high decoupling, service emphasis

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 conforming to the worker suitability arguments of Chase (1978, 1981) and Larsson and Bowen (1989).

Presumably, by specializing tasks according to worker skills and orientation, with high-contact workers having interpersonal and public relations skills, the willingness of the service personnel to be helpful, their personal charisma and courtesy should be greater.

In this strategy, employees are specialists. 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 Nieman-Marcus have similar commission-based pay scales. Network marketing firms such as Amway also have some characteristics of this type.

In the Nashville retail bank market, 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 with 20–30 full-time employees (FTE) that support 20–30 branches each. At the regional office, preprocessors are designated as contacts for a subset of the branches served, maintaining a consistent face to the internal customer. There are also groups organized by function that serve as input, underwriting and document processing teams. All back-office employees are cross-trained to permit Union Planters to mitigate any back-office bottlenecks.

For the Focused Professional strategy, back-office activities are de-coupled 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 centralized by region rather than a single national center, providing “more intimacy in decision making” in the words of a competitor.

A purer image of the Focused Professional strategy is the “future bank” envisioned by First Union (Greising, 1998). First Union is in the process of moving from a Cost Leader concept to the process described here. In the new conception of First Union, lenders will be paid on 100% commission and will be based more out of their automobiles than out of a bank branch.

The design of the back-office/front-office interface is important in a Focused Professional firm. 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, the back-office worker is 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. As one lender in a Focused Professional bank described his relationship with his back-office point person, “I send her flowers on her birthday and candy at Christmas.” The greater tie between front- and back-office workers helps to pursue the strategic goals of greater flexibility and quality than the Cost Leaders. Special requests, such as considering unusual borrower circumstances or especially fast turnaround, are part of the reason a customer prefers a Focused Professional firm to a Cost Leader. These benefits, however, may come at the expense of a partial loss of ability to pool common back-office capacity or an increase in variability of processing times since peak demands are less easily shifted among back-office personnel under such a plan, so this strategy can lead to higher costs.

8. The Personal Service strategy: low de-coupling, service emphasis

A Personal 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 customer may be well known so that needs and wants are anticipated prior to a customer’s request or, at the least, prior customer preferences should be adhered to in future encounters. Marketing would rely more on word-of-mouth and community outreach than mass mailings with discount offers or television advertising.

For this de-coupling strategy, back-office operations are de-coupled only where overwhelming advantages are provided by a technology that requires scale economies to be effective. For the high-contact worker to have maximum flexibility and responsiveness, it is helpful to have fewer layers of management, fewer workers to coordinate, and for the high-contact worker to have as deep a knowledge as possible about the customer. The high-contact workers gain knowledge of the customer by performing much of the back-office work themselves, as suggested by Larsson and Bowen (1989) and Zuboff (1988).

In general, the use of information technology is lower at these banks, as it can conflict with the goals of more personalized, flexible service. It is difficult to get any piece of technology to incorporate what Zuboff calls the “tacit knowledge” of an experienced professional. Such tacit knowledge often goes unwritten and unverbalized, but is “essential to skilled practice” (Zuboff, 1988, p. 187). As Zuboff (1988, p. 167) quotes from a banker concerning information technology and lending: “(w)hen you make loans manually, you have to understand the dynamics of the loans you are making. With automation, you just fill out the forms. People stop using their skills, and pretty soon they don’t know the business very well.”

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 is to allow local 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—they receive no commission for the transaction. Financial planners, however, cover more than stocks and bonds. In medicine, there has been a rise in focused firms in two dimensions: Cost Leaders and Personal Service. The well-known Shouldice Hospital has been able to cut costs and turnaround time by focusing 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 centralized 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” when each batch is ready.

Three of the 10 banks serving the Nashville market pursue this de-coupling strategy. The Bank of Green Hills is profiled here. Each branch is like a bank unto itself. For retail lending, the branch loan officers personally handle virtually all aspects of Fig. 3 from soliciting applicants to collecting bad debts. Real estate appraisal is outsourced to local appraisers, but the lender is the person who chooses the appraiser and contacts them to perform the task. The
authority to approve the loan resides in the same person who solicited the application — and the same person who must initiate foreclosure or 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 Personal 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. Branches tend to be well staffed (8–15 FTE versus 4 and 6 for more de-coupled competitors) and most branches are “full service,” meaning that each branch can perform commercial and retail activities, whereas their more de-coupled competitors are often dedicated units to either commercial or retail activity. De-coupled activities for these branches include payment processing, and, for two of these banks, holding collateral documents such as auto titles.

The Bank of Green Hills has an advantage in response time due to their strategy. Time to loan approval is quoted at 4 days for a home equity loan, while more centralized competitors average 2–4 weeks.

The practical impact of this typology hinges on the environmental fit of the strategies chosen to any practical field of endeavor. We acknowledge that all the strategies portrayed may not be feasible in all mixed services industries, but for this typology to have impact, at least more than one of the strategies listed must be viable. Consequently, for this typology to be meaningful, the following two conditions must hold in any given industry to which it is applied.

Condition 1: Differing competitive strategies of cost minimization and non-cost minimization strategies exist.

Condition 2: Front-office and back-office work can be de-coupled. (See Chase and Tansik (1983) for a list of conditions that favor de-coupling.)

Given that the strategies maintain environmental integrity, this typology leads to a question of internal fit. That is, a number of functional characteristics have been described for each strategy. Similar to the “product profiling” of Hill (1994), firms that have a better alignment of these functional characteristics should see better business results.

Proposition 1A. Firms adhering more closely to the ideal strategic types are more effective.

This proposition requires the formation of metrics to identify strategic congruence and results. Unfortunately, this proposition is not testable with the banks studied. The retail lending process is but one of many within a bank, and profitability of any individual process within the confines of such shared resources as branches cannot be accurately reported.

A somewhat different version of Proposition 1A may be testable in the near future.

Proposition 1B. Firms that focus on one strategy are more effective than firms that attempt multiple strategies with the same facilities.

Proposition 1B would require a definition of both focus and effectiveness along the lines of Bozarth (1993), but the business conditions of firms attempting multiple quadrants appear to be occurring. Each of the quadrants has a different customer base that is attracted to them. In order to gain market share,
however, it is tempting to try to occupy more than one quadrant within the same firm. The typical approach to managing this is to create separate internal units for each quadrant. For example, Cost Leader banks focus their operations to reduce costs and have highly segregated jobs and are heavily centralized for their retail lending. All of these banks, however, have separate internal units that cater to high net worth individuals, forming a “bank within a bank” that would correspond to the Personal Service quadrant here. Typically, this unit will not share facilities or workers with the regular retail lending process.

These decisions become more difficult, however, in other circumstances. Noting the success some Kiosk banks have had, by 1996, there were 4400 such small, within grocery store bank branches in the U.S., up from only 210 in 1985 (Williams, 1997). For some banks, such as the Nashville Bank of Commerce discussed here, small branches are a coherent strategy and their back-office operations are constructed to support them. Other banks, however, have a small portion of their overall network in supermarkets, and those branches must make use of the same back-office structure that their other branches use. Depending upon where in the matrix the dominant portion of the bank is, this can lead to higher costs due to an insufficient amount of back-office work being performed in the small branches, or a product line that is too complex for the personnel in the small branches to adequately service.

This is occurring in other industries as well. The success of small retail footprint stores such as Dollar General has caused larger competitors to look at small footprint stores. Wal-Mart is testing a so-called “Small-Mart” strategy (Lee, 1998) and Home Depot is testing a small-store strategy based on low prices and convenient locations (Hagerty, 1999).

Proposition 2. The level of de-coupling is not correlated with a strategy of cost minimization.

Proposition 2 strikes at the heart of the difference between this typology and previous work and relates to the commonalities between the quadrants presented vertically in Fig. 1: the Kiosk and Personal Service quadrants versus the Focused Professional and Cost Leader quadrants. The presumption in the literature cited previously was that back-office work should be de-coupled from front-office work so that it can be managed for cost minimization. However, two quadrants in this matrix confound that traditional logic. The Kiosk strategy keeps costs low by coupling back-office and front-office work and the Focused Professional strategy de-couples to achieve service objectives.

Proposition 3. The level of job complexity is not correlated with a strategy of cost minimization.

Proposition 3 is a derivative result of Proposition 2. Typically, increased job complexity is considered to be a more expensive method of operation, but the Kiosk strategy employs higher job complexity for the purpose of cost reduction.

Propositions 4–6 relate to the commonalities between the quadrants presented horizontally in Fig. 1: those elements the Cost Leader and Kiosk strategies have in common versus the Personal Service and Focused Professional quadrants.

Proposition 4. Customization is not correlated with the level of de-coupling.

Proposition 5. Product line breadth is not correlated with the level of de-coupling.

Proposition 6. Response time is not correlated with the level of de-coupling.

For each of these propositions, both the de-coupled Focused Professional quadrant and the coupled Personal Service quadrant can each have high flexibility, product line breadth and good response time, while both the coupled Kiosk and de-coupled Cost Leader quadrants can be relatively disadvantaged in these areas.

It should be noted that the lack of correlation proposed in the above statements depends on the appropriate quadrants being feasible for a given industry. As noted previously, not all quadrants may be possible in every industry.

Rather than noting the commonalities across quadrants, the following proposition denotes some unique characteristics of a quadrant.
Proposition 7. **Kiosk firms offer fewer services than firms in other quadrants.**

The mental image of a Kiosk is one of a small physical space with few physical products. In a firm selling services, however, there need be no direct link between service offerings and office size. The reason why Kiosk firms would offer fewer services is related to employees, rather than physical size. Due to their structure, Kiosk firms require employees to be highly cross-trained. Within the context of a retail bank, Kiosk firm employees have to know the basics of teller work (e.g., cashing EEE series government bonds), the “collections” job (e.g., collecting bond coupons for customers), the bookkeeping job and the lending function. Due to the breadth of tasks required of each employee, product offerings need to be curtailed relative to other banks.

Proposition 8. **Cost Leader firms pursue labor replacing technology more than firms in other quadrants.**

Although both Cost Leader and Kiosk firms are concerned with costs, the centralized back offices of Cost Leader firms are more amenable to expensive technological advances that replace labor. Technology that replaces manual operations and allows back-office personnel to be less skilled — and therefore require less compensation — would be a goal of Cost Leader firms.

10. **Summary**

The de-coupling of back-office service activity has been a predominant strategy in operations management literature. Advantages from the de-coupling process include both financial advantages from labor specialization and the pooling effect of combining the work from many individual units. Furthermore, there are advantages associated with a better fit between job descriptions and worker personality types.

Many disadvantages, however, have not seen the depth of discussion as have the advantages. The de-coupling process should lower costs and increase productivity, but these advantages may be off-set by losses in the key competitive strategies of quality, delivery speed and flexibility.

The concept of the de-coupling process is not merely a tactical decision made to enhance efficiency, but a strategic one that must be tailor-made to fit the combination of corporate structure and strategy. As the descriptions of the four basic strategies point out, the decision is not one-dimensional. From the typical textbook viewpoint, the basic advantages of the de-coupling process are decreased costs, increased speed and increased conformance quality. But, depending on the structure of the firm, we have shown that some basic advantages of leaving back-office and front-office tasks coupled are decreased costs, increased speed and increased quality. The typology presented here offers a guide to appropriately managing this process.

**Acknowledgements**

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**Appendix A. Semi-structured interview questionnaire**

Data were gathered by personal interviews rather than a survey. The questions below formed the basis of the data collection process. It should be noted, however, that these questions are a minimum, and often serve as a springboard for a deeper exploration of the bank.

Part 1: **System structure and strategic goals**

1. Why do consumers get a loan from your bank versus your competitors? (This is the opening question for a discussion of bank strategy.)
   - Attractive rates
   - General bank reputation/image
   - Branch geographical convenience
   - Superior service
   - Efforts of bank lenders reaching into the community
2. What percentage of branches are located within other service facilities, and what type of facilities are they? (e.g., grocery stores, strip malls, retirement homes, manufacturers, etc.)
3. If they are present in the system, do the small, convenience-oriented branches report up through
a different management structure than the other branches?

4. What can be used as collateral for a retail loan?
   - automobiles
   - homes
   - boats
   - future royalties from books, songs
   - future payments from insurance settlements, court awards or lotteries
   - artwork
   - collections such as coins, stamps
   - antique/valuable furniture
   - other

5. How quickly is the average home loan processed?
   - For a rush order, how quickly can a home loan be processed?

6. Are lenders available to customers outside the branch or beyond posted branch hours?

7. Which of the following retail loan tasks are performed at non-branch centralized locations and which are performed at the branch?
   - Document preparation
   - Credit scoring
   - Arranging property appraisals
   - Underwriting
   - Document (collateral) storage
   - Pay-off quotes
   - Collection of delinquent accounts
   - Initiation of foreclosure/repossession

Part 2: For banks with de-coupled, centralized back-office facilities

1. How many centralized facilities are there and what is the span of branch control for each centralized facility?

2. How are loans initially processed in the central facility: is there a specific person in the centralized office that only works for certain branches/branch lenders, or does the next person with nothing to do work on whatever comes in?

3. Describe the work flow — the job responsibilities of each position.

4. For banks with centralized underwriting: if a loan is denied by the centralized underwriting function and branch personnel wish to appeal, do they appeal through the branch system management or through the central underwriting management?

Part 3: Branch-oriented questions

1. What is the distribution of FTE per branch?

2. Describe the duties of all branch personnel involved in the lending process.

3. For the branch personnel in charge of receiving loan applications, what percentage of their work time are they expected to be outside the branch soliciting applications? What are the community involvement expectations?

4. For the branch personnel in charge of receiving loan applications, describe the reward structure. (For example, what percentage of their pay is based on loan closures?)

5. For the branch personnel in charge of receiving loan applications, what percentage of their time is devoted to loan sales?

6. If they are present in the system, are employees of the small, convenience-oriented branches paid the same as employees of the other branches? How much training do these employees receive versus traditional branch employees?

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