

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.

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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

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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; Tinnilä and Vepsäläinen, 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; Tinnilä and Vepsäläinen, 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-

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