HM Revenue & Customs

Exploring models of front and back office integration

Final report

May 2011

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Introduction

In October 2010 HM Revenue and Customs (HMRC) commissioned PwC to undertake a programme of qualitative research to investigate the experience of private sector organisations with regard to the integration of their front office (contact centre) operations, and the back office (data processing and administrative) functions.

The research aimed to provide insight into how private sector organisations have designed their operating models. This research will be used to inform HMRC's thinking in relation to the design of its new operating model going forward.

The study had three key objectives:

- To provide insight into private sector configurations of the front and back office interface and the pros and cons of each.

- To give best practice examples.

- To identify lessons learned from similar integration exercises, including an exploration of the scale of efficiencies realised.

The research methodology involved two key strands: a review of literature, involving 14 published articles and 7 existing PwC case studies, and a programme of six case studies and interviews with private sector organisations that have experience of undertaking front and back office integration. Interviews were conducted with two large insurers, two outsourcers and two industry experts from the financial services sector during December 2010 and January 2011.

This research is qualitative and the results are therefore indicative rather than representative of all organisations that might have undergone such a change.

Key findings

In terms of the key drivers of change, the research indicated that reducing cost and improving (or at least maintaining) customer service were the top drivers of change amongst the private sector organisations interviewed. Improving operational efficiency also emerged as a key driver, which is also closely linked to cost reduction.

Other cost-based drivers included headcount reduction or eliminating excess resources (such as a layer of supervision or changing the ratio of supervisors to staff). Improved sales and enhancing the employee experience were also mentioned in the interviews.

Not unexpectedly, the key benefits reported by interviewees were closely linked to the drivers of change. The research revealed that the integration of front and back office operations has led to cost reduction, more efficient business processes and an improved level of customer service amongst our sample. In addition, almost all of our interviewees reported improvements in the people experience which led to reduced staff absence levels, reduced attrition levels and increased levels of productivity.

Based upon the interviews undertaken, the research suggested that a number of clear choices need to be considered in relation to the design of front and back office operations. These choices can be categorised under a number of themes:

- **Strategic choice**: the key strategic choice is around whether to opt for corporate standardisation or a customised model where businesses can adapt the model to best fit their needs.

- **Sourcing**: the key choice here is whether to deliver in-house or outsource. If outsourcing is being considered, then the choices include full outsourcing, outsourcing certain functions or during peak periods (for example during the transition period). The use of off-shoring is another consideration that a number of companies have made.

- **Operating model**: this choice is around the extent to which the organisation is structured by product, by channel or by function. There are a finite number of choices around the type of operating model that may be adopted. The main examples are outlined below.

  - The business activity model, where centres are organised by type of business activity and dispersed geographically, allowing economies of scale to be exploited for the performance of that business activity. The types of business activities would typically be functional specialisms, with end to end processing spread over a number of separate locations.

  - The end-to-end model where parallel centres exist organised by product or customer, processing the same scope of work as one another i.e. multiple functional specialisms are processed in each centre to deliver end-to-end processing on one site.

  - The virtual model where work (telephony, scanned correspondence etc) is distributed to, and processed by a number of geographically dispersed locations (potentially large or small), which are managed as a single virtual operation.

- The hub and spoke model where work flows between a central hub that is performing a number of specialised functions, and remote dispersed locations, typically processing face-to-face and telephony work.

- **Work blending**: blending is used to obtain economies of scale through better leveraging of overheads (e.g. double utilisation of desks) and better conversion of employee time into productive time. Effectively multi-skilled staff are employed in both front and back office tasks. Different forms of blending can be employed independently of the chosen operating model or level of integration. The key choices revolve around whether to use work blending at all, and which type of blending best fits the organisation's individual circumstances.

- **The level of integration:** the decision here is around how to arrange the front and back office functions within the chosen operating model. The research revealed a number of models of integration based largely on the use a multi-skilled staff in integrated units.

- **The use of technology**: the key choices here are around the necessity for a technology solution and an assessment of the risks associated with that. If a technology solution is adopted, a critical factor to consider is the importance of aligning technology with process and people based solutions early on in the change process.

The case study participants agreed that effective staff engagement is a critical success factor.

Our interviewees had clear, consistent advice on how the impact on the customer can be managed during the transition. Most agreed that 'zero negative customer impact' ought to be the target.

The research has uncovered several key learning points which can be summarised as follows:

- Set out a clear vision with transparent metrics and shared objectives. This involves senior management setting a clear vision which ensures that staff work towards a shared common objective in realising the aims of the transformation programme.

- Ensure that strong leadership and effective governance arrangements are in place. Having strong governance in place with enforcement powers, in conjunction with a strong programme leader will facilitate the change process, ensuring that the change actually happens.

- Engage staff at all levels. Staff engagement at all levels is vital to the success of the transformation programme. Getting the senior management team onside and visibly involved, along with open, clear, transparent engagement early on are key elements of this strand.

- Involve the Unions early on. The consistent advice is to work closely with the Unions right from the start of the design process.

- Set key milestones and aim for benefit realisation early in the process. The transformation is often a lengthy process, therefore having 'quick wins' with benefit realisation early on can help to keep the team motivated and engaged.

- Start with people and processes. Depending on the organisation's individual circumstances, often the most effective solution can be found through the reconfiguration of people and processes.

- Phase the transition. In order to minimise the impact on the customer during the transition phase, where the organisation migrates from the old ways of working to the new, a phased approach, including parallel processing should be put in place.

- Put a flexible resourcing plan in place. The ability to overstaff is particularly important at two key points in the transformation. Firstly, in the early process mapping phase, to deal with unexpected discoveries, such as back office backlogs, and then again during the parallel processing phase of the transition between old and new.

- Set out a clear channel strategy to help manage demand. The recommendation here is to develop a clear design strategy on how to use channel options to shape demand, for example, through the use of self-service, outbound calls to pre-empt randomly timed customer calls.

One of the aims of this research was to identify a 'best practice' model for front and back office integration. The consensus of opinion from the interviews was that there is no single best practice design, but rather what is required is a best practice process to consider and assess options using criteria unique to the organisation's situation.
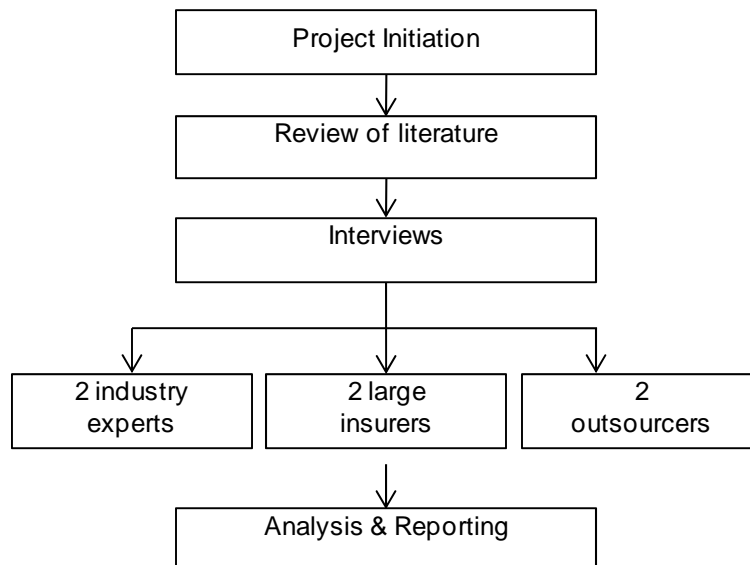
2   Introduction

Context

2.1   In October 2010 HMRC commissioned PwC to undertake a programme of qualitative research to investigate the experience of private sector organisations with regard to the integration of their front office (contact centre) operations, and the back office (data processing and administrative) functions.

2.2   The research aimed to provide insight into how private sector organisations undertaking similar work have aligned their front and back office operations. The research findings will be used to inform HMRC's thinking in relation to the design of its new operating model going forward.

2.3   The study had three key objectives:

- To provide insight into how private sector organisations undertaking similar work have aligned their front and back office functions.

- To give best practice examples.

- To identify lessons learned from similar integration exercises, including an assessment of the scale of efficiencies realised.

Approach

2.4   Figure 2.1 outlines the main stages of our research methodology. The two key strands involved a review of literature and a programme of case studies and interviews with private sector organisations that had experience of front and back office integration, and industry experts from the financial services sector.

Figure 2.1: Overview of our approach

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2.5   The short literature review included relevant published articles and academic journals, and existing PwC case study reports based on our work with private sector clients who have undertaken front and back office integration in their organisation. In total 14 published articles and journals, and seven PwC case studies were reviewed. A full bibliography listing the details of the articles included in our literature review, is contained in Appendix B of this report.

2.6   The programme of interviews involved two large insurance firms, two outsourcers and two industry experts. Both industry experts had overseen and acted as advisers on large front and back office integration projects in the financial services sector. The interviews with insurers and outsourcers involved a number of representatives from each organisation, covering finance, human resources, customer relations and information technology and were set up as mini-workshops.

2.7   Each interview was administered using a semi-structured discussion guide, which was structured around the stages of the transformation lifecycle. A copy of the discussion guide is contained in Appendix A of this report.

2.8   The research was undertaken during December 2010 and January 2011.

Scope and structure of the report

2.9   This research is qualitative in nature, being based on a relatively small number of case studies and interviews and a review of literature. A qualitative approach allows for a deeper understanding of the drivers and motivations of the organisational design employed in the case study organisations, as well as the change programmes through which these were introduced

and managed. It has also been possible to explore the benefits and limitations of these private sector experiences as well as to identify lessons learned. The findings should however be considered as indicative rather than representative of organisations that have undergone a similar change.

2.10   The case study organisations were selected as private sector examples of change in front and back office configuration. It is important to note that the starting point prior to integration, the models adopted and the scale of change in these examples, are not necessarily comparable to HMRC. The intention is however to identify broad lessons.

2.11   The following sections outline the key findings from our research. The order of the sections is based on the stages of the transformation lifecycle, starting with the rationale for change, leading on to the design choices, the issues faced during the transition period and finally reflecting back on the lessons learned.

3   Findings: rationale for change

3.1   This section explores the rationale for change, and reveals the key drivers and the expected benefits emanating from the front and back office integration programmes undertaken by our sample of organisations. In addition this section provides insights into the types of Key Performance Indicators (KPIs) that organisations put in place to measure the benefits of integration.

Key drivers

3.2   Reducing cost and improving (or at least maintaining) customer service were the key drivers of change amongst the private sector organisations interviewed. Improving operational efficiency also emerged as a key driver, and in most cases this can also be closely linked to cost reduction.

3.3   Other cost based drivers included headcount reduction or eliminating excess resources (such as a layer of supervision or changing the ratio of supervisors to staff). Improved sales and enhancing the employee experience were mentioned by two of our respondents.

'it's about mending broken processes… if the back office sends out incorrect bills this can have serious consequences for the customer experience which then need to be dealt with by the call centre. In this model there is no incentive for the back office to improve.' (outsourcer)

'our over-riding driver was to cut cost, based on the price per product.' (large insurer)

Key benefits

3.4   Not unexpectedly, the key benefits reported by respondents were closely linked to the drivers of change. The research suggested that the integration of front and back office operations has led to cost reduction, improved operational efficiencies and an enhanced level of customer service. In addition almost all of our interviewees reported improvements in the people experience which led to reduced staff absence levels, reduced attrition levels and increased levels of productivity.

Figure 3.1: Key benefits of front and back office integration
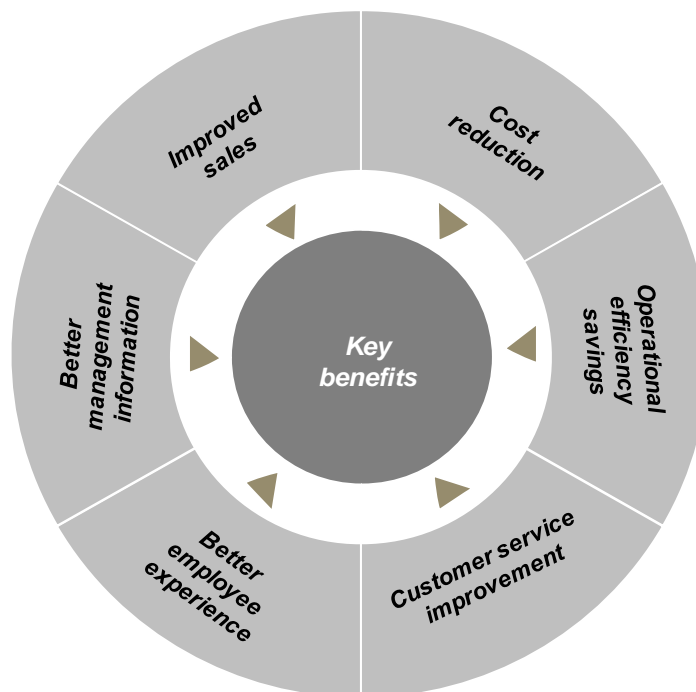
Cost reduction

3.5   Significant cost savings were reported, ranging from 5-10 per cent in a large insurance company, to up to 40 per cent in situations involving off-shoring.

3.6   The outsourcers described a typical cost saving of up to 15 per cent where the integration approach involves blending of front and back office processes and multi-skilling of staff to enable them to undertake both call centre work and back office processing work. They reported that a further 10 per cent savings can be achieved through better utilisation of physical assets such as double usage of desks (e.g. where multi-skilled staff use desks in eight hour shifts, reducing the number of desks required). In addition, with the involvement of off-shoring (i.e. moving all or part of the operation overseas to areas where labour costs are lower than the UK)

cost savings can rise to 40 per cent.

Operational efficiency savings

3.7   A range of efficiency savings were identified by the interviewees and these were quantified using metrics such as 'Right First Time' rates or Average Handling Times (AHTs). Right First Time rates improved by 20-30 per cent on average with one organisation experiencing a 33 per cent increase. Improvements in AHTs were also reported, with one quantifying the improvement as 15 per cent.

3.8   Other reported efficiency benefits included:

•   Improved forecasting and planning resulting in more efficient use of resources.

•   More effective handling of seasonality or unexpected increases in demand.

Customer service improvement

3.9   Interviewees were able to quantify the improvements in customer satisfaction and loyalty, and the impact on the number of customer complaints received. For example, some clients of the outsourcers in our sample were experiencing a 25 per cent increase in the proportion of their customers reporting that they are very satisfied with the service received, and a 30 per cent increase in the Net Promoter Score (NPS), a measure of loyalty and advocacy. Our expert advisers reported a typical improvement in customer satisfaction of 10-15 per cent in the retail banks where they had led front and back office transformations.

3.10   A variety of other benefits were described including:

•   Improved delivery against service levels.

•   Higher quality interactions with customers.

•   Fewer customer-visible process failures.

•   Improved customer retention.

•   Reduced volumes of incoming calls.

•   Improved customer insight leading to a clearer understanding of what drives customer requirements.

Better employee experience

3.11   Whilst our case study organisations and their clients did not set out with the specific objective of improving the people experience in their organisation, there was agreement that one of the key benefits of the front and back office transformation programme was higher levels of staff engagement and improved morale. In addition, staff absence levels fell in some organisations, staff attrition declined and productivity levels increased. In general these improvements were accredited to the higher levels of staff satisfaction associated with handling the end-to-end process, as opposed to only being involved in one part.

'joining up the front and back office processes makes the job more streamlined, it makes it easier and more satisfying… staff tend to be more motivated and generally happier. I've seen this lead to higher staff engagement scores, reduced sickness levels and higher productivity' (expert adviser)

Better management information

3.12   Interviewees commented that the integration of the front and back office processes resulted in better management information (MI), largely as a result of processes for collecting MI being designed as part of the integration. The MI included easy access to day-to-day management information, such as productivity levels and call volumes, through to more strategic level data. This has led to more effective performance management and improvements in business planning.

Improved sales

3.13   In the financial services organisations and private sector clients of the outsourcers that we interviewed, increased sales and improved revenues were reported as a key benefit, along with better information to accurately monitor sales.

Measurement of benefits

3.14   A range of KPIs were put in place by the organisations in our sample, to measure the benefits of the change programme. A key theme emerging from the interviews was the move away from input type KPIs, such as average handling times, utilisation, first call resolution and attrition, to balanced scorecards of output measures. The output measures varied from one organisation to another and in most cases required new measurement systems to be put in place. The types of output measures used by interviewees included the following:

• Cost per transaction.

- Calls, letters and other work items per Full Time Equivalent (FTE) or productive hour.

- Cost per productive minute/hour.

- Customer satisfaction or engagement scores.

- Net Promoter Scores (NPS) – measuring customer loyalty and advocacy.

- Staff engagement scores or staff competency indices.

3.15 End-to-end KPIs were also used, measuring for example, the total cost per activity or the total time taken to resolve customer queries. Such KPIs were considered to be a better measure of total cost and customer satisfaction, although it was agreed that this type of measurement is more difficult to achieve than output based KPIs.

3.16 The research revealed that a key consideration in designing performance metrics is the impact that they can have on staff behaviours. For example, measuring the number of calls handled per hour, was found to encourage call centre staff to keep the call duration to a minimum, which resulted in the customer feeling that their query had been rushed through. Equally, setting hourly or daily targets resulted in staff slowing down and not taking any more calls when their target had been met.

3.17 In general it was advised by interviewees that KPIs should be changed to reflect and incentivise the new ways of working, rather than relying on existing metrics which may no longer be relevant.

4   Findings: design choices

4.1   In this section we describe the choices that organisations typically made at the design stage of the transformation process. These choices included strategic level decisions, options around sourcing, best-fit operating model choices, the use of blending, levels of integration and the extent to which technology is part of the solution.

Overview of key choices

4.2   The experience of those interviewed indicated that a number of clear choices have to be made in relation to the design of front and back office operations. These choices can be categorised under a number of themes, as illustrated in the following Figure.

Figure 4.1: The choices around integrating front and back office operations
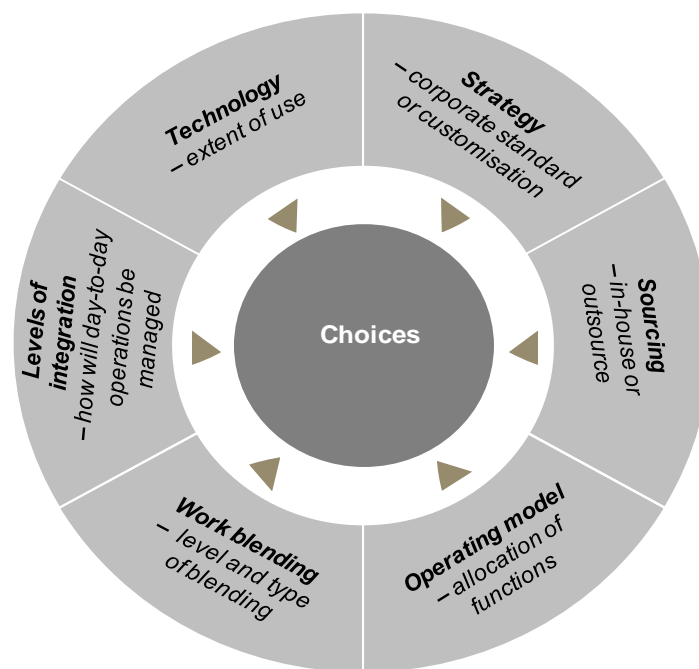
Strategy

4.3   The key strategic choice evident from the interviews was around whether to opt for corporate standardisation or a customised model where business areas can adapt the model to best fit their needs.

4.4   One organisation had divided into two business areas at a high level and was planning to share customer contact and processing functions across these. Another participant had a much

higher level of autonomy for product owners who could choose to deploy different business activity, end to end or geographic models within their own areas.

'we are responsible within our area for the cradle to grave experience the customer gets from an administration and servicing point of view.' (large insurer)

Sourcing

4.5   The choices made by interviewees were around whether to deliver in-house or to outsource. If outsourcing was being considered, then the choices included full outsourcing, outsourcing certain functions (for example, big outbound campaigns) or outsourcing during peak periods (for example, during the transition period). The use of off-shoring is another consideration.

4.6   Views on outsourcing were mixed. One organisation dismissed outsourcing, and held the view that they could achieve the same outcomes internally. Outsourcers were unsurprisingly more positive on this issue. The industry experts warned against trying to undertake the entire transition internally, and described cases where change programmes have been unsuccessful or stalled, and then resorted to involving an outsourcer or external adviser to get back on track. The key problems that they had witnessed were a lack of understanding of all of the possible options and conflicting internal agendas.

*'outsourcing is nothing magical... it would be a sign that we had failed… a last resort.' (large insurer)*

'organisations often try to do this themselves and fail or produce a sub-optimal solution… there are always too many internal agendas at play, and a lack of understanding of all the possible options.' (industry expert)

Operating model

4.7   The choices that the organisations interviewed made here were around the extent to which the integrated model was structured by product, by channel or by function. Interviewees reported that there are a finite number of choices around the type of operating model that may be adopted, and these are illustrated in Figure 4.2.

- The business activity model, where centres are organised by type of business activity and dispersed geographically; allowing economies of scale to be exploited for the performance of that business activity. The types of business activities would typically be functional specialisms, with end to end processing spread over a number of separate locations.

- The end-to-end model where parallel centres exist, organised by product or customer segment, processing the same scope of work as one another i.e. multiple functional specialisms are processed in each centre to deliver end-to-end processing on one site.

- The virtual model where work (telephony, scanned correspondence etc.) is distributed to and processed by a number of geographically dispersed locations (potentially large or small), which are managed as a single virtual operation.

- The hub and spoke model where work flows between a central hub that is performing a number of specialised functions, and remote dispersed locations, typically processing face-to-face and telephony work. Examples of centralised functions encountered in hub and spoke models include more mechanical tasks, such as centralised mail scanning, sorting and allocation; and "middle office" tasks – for example those requiring validation of decisions (underwriting) or controls, where physical separation of duties is desirable.

Figure 4.2: Types of operating model
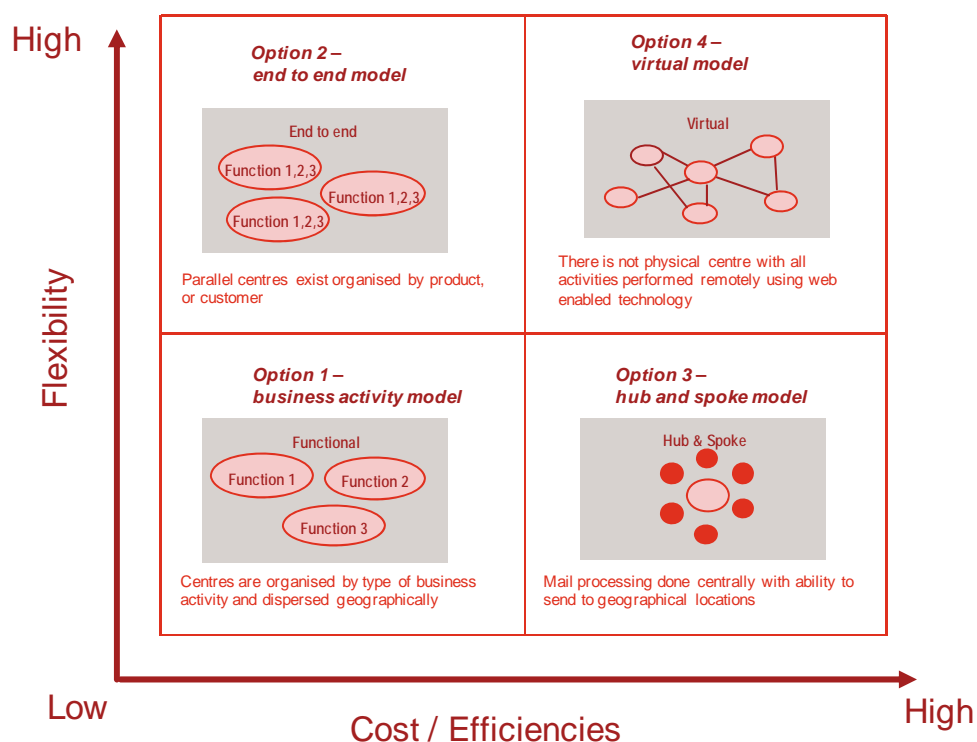
4.8   Table 4.1 sets out the advantages and disadvantages of each of the main types of operating model, based on the evidence from the research.

Table 4.1: Advantages and disadvantages of each operating model

Type of operating model	Advantages	Disadvantages
Business activity model e.g. • Separate call centres and back office processing centres.	• Excellent competence. • Economies of scale for executing function.	• Silo working culture and poor interfaces, lack of "care" for other functions. • Rigid. • Single point of failure (e.g. strikes). • Poorer customer experience.
End to end model e.g. • Geographic organisation of field service centres. • Franchises.	• Better end to end processing – no remote silos. • More flexibility. • Constructive competition and cross centre benchmarking.	• Inconsistent processing in remote locations. • Loss of centralisation benefits to competency.
Virtual model e.g. • Retail bank operations.	• Economies of scale. • Flexibility. • Resilient, no single point of failure.	• Poor implementation. • Work flow issues. • Resistance to "mission control". • Rigidity.
Hub and spoke model e.g. • Mortgage underwriting and selling.	• "Local" operations. • Excellence and economies of scale in specialist functions. • Support of separation controls.	• Misaligned resource levels between hub/spokes. • Bottle necks /poor service level agreements from centralized middle office. • Inflexibility.

4.9   The consensus of opinion amongst interviewees was that the 'right' model depends on the nature of the customer, the market and other environmental factors. A product-based approach helped provide stability when other changes are ongoing, whilst a functional-based model was likely to help drive out additional costs.

4.10 One of the aims of this research was to identify a 'best practice' model for front and back office integration. The consensus of opinion from our case study participants was that there is no one best practice design, but rather what is required is a best practice process to consider and assess options using criteria unique to the organisation's situation.

Work blending

4.11   The outsourcers in our sample were strong advocates of work blending as a way of improving the efficiency of administrative operations. Blending involves multi-skilled staff, trained in both front and back office skills, undertaking both sets of tasks according to a flexible schedule that is based on work flows. The key decision revolved around whether to employ work blending at all, and which type of blending best fits the organisation's individual circumstances.

4.12   The three main types of work blending are described in the following table, along with the advantages and disadvantages of each. Although it depends on each individual situation, flexible scheduling of multi-skilled staff was considered most effective and brought the most benefits. From a staffing point of view a key consideration was the amount of work given to each agent, and the amount of switching between front and back office duties. Overloading staff and frequent switching can lead to reduced quality of service, back office tasks taking longer than they should, as agents were unable to concentrate, and de-motivation as a result of feeling overburdened.

Table 4.2: 'Blending' of front and back office operations

Type of work blending	Advantages	Disadvantages
Back office overlay i.e. • Requiring multi-skilled agents to do back office work during time waiting for calls, while working in agent groups answering calls.	• Cost efficiency. • Increased productivity.	• Calls often interrupt an individual's work on back office items. • Can result in higher handling times. • Can reduce quality of service if agents are overloaded.
Item by item work blending i.e. • Inbound calls, outbound calls and administrative work are presented by workflow applications sequentially to an agent, avoiding collisions between real-time call work and storable work (admin, outbound calls).	• Cost efficiency. • Technology works well for outbound and inbound work blending.	• Technology immature for back office work.
Flexible scheduling of multi-skilled staff i.e. • Multi-skilled staff are scheduled flexibly between front and office duties, for example reallocation from one duty to another in 30-60 minute blocks.	• Cost efficiency. • Increased productivity • Increased customer satisfaction (one stop shop approach). • Improved handling of unplanned increase in volumes.	• Can reduce quality of service if agents are overloaded.

4.13 Different forms of blending were employed independently of the chosen operating model or level of integration. Blending was used to obtain economies of scale. This included better leveraging of overheads (e.g. double utilisation of desks) and better conversion of employee time into productive time (e.g. by using storable administrative work to infill time where the available call work is insufficient for the resource scheduled to meet forecast).

4.14 The interviewees highlighted a number of key questions in the detailed design of work blending:

• Is it feasible to design a single job to perform two different forms of work? Are the required skills for both aspects of the work likely to be found in one agent? For example blending outbound "cold calling" sales work, with inbound customer service work is rarely successful,

as it is rare to find people who can switch between sales and service, and deliver the required levels of service on both.

- What practical tools should be used to achieve operational blending? This can range from, for example, technology enabled item by item, workflow, to more simple quick and reactive reallocation and rescheduling of staff between duties.

4.15 The outsourcer respondents described a number of types of work 'blending' involving the multi-skilled agents who have both front and back offices skills. They commented that effective work blending is a very attractive option and can result in significant cost savings without the need for technology or process change.
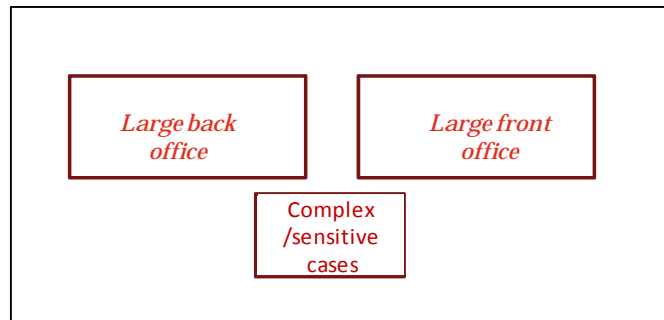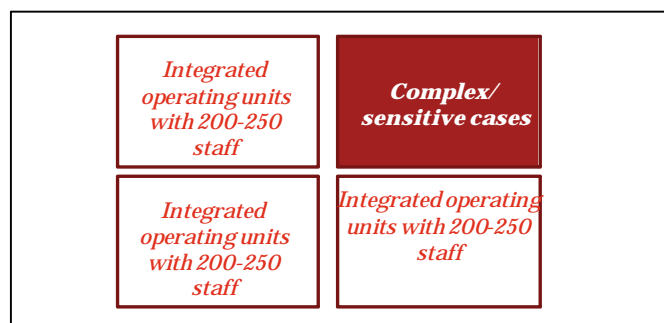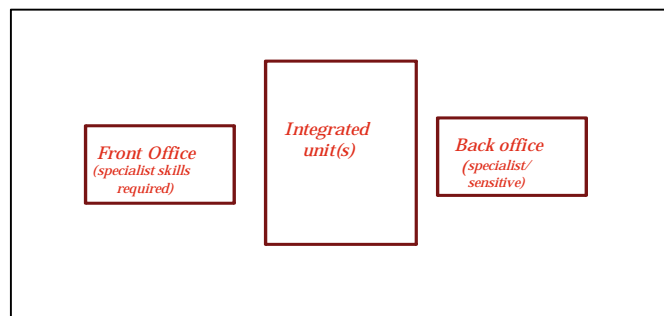
4.16 The research revealed a potential fourth approach to "blending" front and back office operations. This is through a root and branch process redesign, rather than actions above that enable distinct pieces of front and back office work to be performed by the same staff. Typically this would involve re-design of the process steps to enable work that previously might have been back office to be carried out during or after the call.

Levels of integration

4.17 In discussing their integration experience, participants identified a further key choice around how the front and back office functions are arranged within the chosen operating model. The interviewees described a number of models of integration based largely on the use multi-skilled staff in integrated units. In the following set of diagrams, Option 1 portrays the typical situation prior to integration, with a large front and back office, little or no integration of processes or tasks, and a smaller unit dealing with specialist of sensitive cases.

4.18 Option 2 sets out one of the outsourcer's preferred structures, with multi-skilled staff divided up into a number of integrated operating units involving 200-250 staff, an operations manager and team of supervisors. This was considered to be the maximum size for such an operating unit, both from an operational point of view and also a staff engagement and morale perspective. This option often also contains a separate unit dealing with sensitive or complex cases.

4.19 Option 3 represents a model described by one of the expert advisers and contains a large integrated unit with multi-skilled staff undertaking both front and back office tasks. In this model a team of front office staff concentrate solely on the more sensitive or complex call centre tasks, and similarly a back office team handle specialist administrative duties (such as dealing with correspondence from high net worth individuals or members of the armed forces).

Figure 4.3: Examples of integration models

Option 1

Large back office	Large front office

Complex /sensitive cases

Option 2

Integrated operating units with 200-250 staff	**Complex/ sensitive cases**
Integrated operating units with 200-250 staff	Integrated operating units with 200-250 staff

Option 3

Front Office (specialist skills required)	Integrated unit(s)	Back office (specialist/ sensitive)

Technology

4.20 Our interviewees considered technology to be an enabler, but also a key risk. The industry experts commented that the cost and time involved in designing a technology based solution is often underestimated, and that the costs involved in updating legacy systems can often be prohibitive. The industry experts also discussed the importance of ensuring the technology, people and process teams work together from the start. One respondent described a situation where the process design team worked in isolation from the technology team, and produced a process redesign that could not be matched by the technology solution.

4.21 Another respondent stated that they had considered technological solutions and then dismissed the idea on the basis that the business case was not compelling, and the lead time for benefit realisation was too long. This organisation focussed instead on people and processes, the aspects that they felt they could control.

'we delivered significant change more quickly by focusing on the things we could control – people and process.' (large insurer)

'the lower the technology dependence the better.' (expert adviser)

5   Findings: transition issues

5.1   This section examines some of the features of the transition towards integration, beginning with some high-level considerations, and moving on to investigate the importance of staff engagement and minimising the impact on the customer. In addition this section highlights the key risks involved in front and back office integration, as identified in the interviews undertaken.

High level considerations

5.2   The interviewees did not see a fixed start and end point to improving front and back office integration, but rather treated it as an area of ongoing operational focus.

'it is not a process improvement tool… it is a way of running an operation… therefore the operational line management very consciously did not call it a project.' (large insurer)

'the journey never ends.' (large insurer)

5.3   Another key factor that was emphasised by the interviewees was the importance of business ownership of the changes being enacted. Strong leadership was viewed as crucial to the success of the integration, ideally with the leadership team who own the change process also being involved in the new organisation.

'the areas we have made most progress in are the areas where the existing line management and those people who have had to live with the operation have been most heavily invested in it and have owned it themselves.' (large insurer)

5.4   The importance of 'quick wins' was also emphasised to build momentum, especially in large complex integration programmes, and maintain the motivation of both the team leading the change and the staff. The ideal approach is to set milestones at regular, frequent intervals throughout the project, each delivering noticeable benefits.

'don't try to do too much… bite size chunks, key milestones and interim benefits… this will keep people motivated.' (industry expert)

Staff engagement

5.5   The interviewees agreed that effective staff engagement was a critical success factor. This was echoed in every interview. The industry experts in particular stressed that, as in any major change programme, engagement of staff at all levels was vital to the success of the integration. Both had witnessed integration programmes experience difficulties or even fail as a result of poor staff engagement, either through the presence of 'blockers' at senior manager level or staff/agents not conforming with the new ways of working.

5.6   The key elements of successful staff engagement were described by interviewees as follows:

- Select a strong leadership team who are totally bought in to the change process.

- Engage staff early on at all levels. Face-to-face communication was recommended in the early stages involving 'town hall' style meetings, workshops or other types of forum. Two way communication early on was also encouraged, and this was facilitated by having change 'champions' at all levels.

- Involve the Trades Unions early on. Again this was regarded as critical to the smooth flow of the change programme. Honest early dialogue was considered to be key, with no surprises. Effectively this meant sharing the business plan and commercials with Union leaders, including any plans for staff redundancies.

- Undertake an ongoing staff communications programme. This involved a variety of methods including e-mail, articles in staff magazines, weekly update forums and feedback loops. Again it was recommended that the communications programme should incorporate as much two way communication as possible. The industry experts emphasised that this should be well planned and adequate resources should be made available to manage it.

- Learn from staff experience. Experienced staff from both the call centre and back office will have a wealth of knowledge about customer and process issues. Often this important source of knowledge is left untapped. Our respondents recommended that staff ought to be involved in workshops in the early stages of the design phase.

- Involve staff in redesign workshops. In addition to the early involvement, some of our respondents recommended ongoing involvement of staff in redesign workshops. Not only did this utilise and harness the knowledge of experienced staff but also assisted with staff engagement.

- Introduce individual objectives for staff, aligned with the overall vision and strategy for the integration programme. This assisted staff to understand their role in the organisation and the overall strategy. Interviewees commented that the end result was often a more engaged and motivated workforce.

- Invest in significant staff training and support. The industry experts in particular emphasised the importance of both induction and ongoing training. Increasing the level of supervision during the transition was also viewed as critical for maintaining quality levels, and minimising the impact on the customer during and after the transition.

'Don't underestimate the resources needed to run an effective communications plan' (expert adviser)

'Communication and engagement with staff and the unions is vital… over-communicate… if people are not bought in it will fail.' (outsourcer)

Customer engagement

5.7   Our respondents had clear, consistent views on how the impact on the customer can be managed during the transition, based on their experiences of success in this area, and also reflecting back on what they could have done better. Most agreed that 'zero negative customer impact' ought to be the target. However in situations where this is not possible (for example if the customer facing processes change significantly), the impact should be minimised and the customers' expectations managed during the transition phase. The consensus of opinion was that a customer communications programme should be put in place describing the changes that will be noticeable to the customer, how this will impact on the customer and the benefits of the change.

5.8   Interviewees considered staff training as key to minimising the impact on the customer. A number of recommendations were made by the industry experts on how to optimise the impact of the training, and at the same time plan for work continuing as normal. The lessons identified included:

- Try not to overload staff by covering too much at one time. Training sessions should be kept short. This also helps to reduce the impact on daily work patterns.

- Train as many people as possible in one or two sessions. This helps to avoid the spread of rumours amongst staff. Ensure that a consistent approach is taken with all staff, and that staff are not hearing different things from different trainers.

- Formal training was considered vital and should be taken in conjunction with on-the-job training. It is important not to rely solely on informal on-the-job training.

- The involvement of professional trainers (including internal training teams) was recommended, with process experts or experienced supervisors being trained as trainers, if necessary, as the programme progresses.

- The industry experts also commented on the importance of not underestimating the budget required for an effective training programme.

5.9   The other recommendations with regard to minimising the impact on the customer are listed below. These are based on interviewees reflections on their own experiences and what might have gone well or not so well.

- Avoid peak periods.

- Run a number of pilots and follow up by obtaining feedback from the staff and customers involved.

- Run parallel processing during the transition, and introduce the changes in phases.

- Overstaff during the transition by reallocating resources, bringing in temps or involving outsourcers. Interviewees commented that this can often sound like a contradiction if one of the drivers of change is headcount reduction, however it is often the case that headcount is required to increase prior to the decrease.

- Increase levels of supervision.

- Ensure that different teams have access to the same systems.

- Ensure that staff are engaged.

'You must avoid a big bang… run pilots and get feedback from the customers and staff. Learn from your teething problems.' (industry expert)

5.10   In addition to discussing how the impact on the customer can be minimised, our interviewees also commented on the impact that integration can have in improving the customer experience. As mentioned in section 3, interviewees reported that both customer satisfaction and loyalty improved as a result of integration, and that the number of customer complaints reduced.

Key risks

5.11 One of the consistent emerging themes was the importance of people issues as a critical success factor. All of the respondents held the view that people issues pose the most significant risks in any integration project, and that a lack of focus on staff engagement and the needs of the customer can result in failure.

People/culture risks

5.12 The key risks to successful integration associated with people or cultural issues were identified in the research as follows:

- Lack of strong leadership.

- Lack of buy-in and dissent at senior manager level.

- Lack of buy-in from staff – low levels of engagement.

- Opposition from the Trades Unions.

In addition interviewees discussed the potential negative impact on customer service as a result of a lack of successful integration. Increased pressure on middle managers and supervisory staff was also mentioned as a potential risk during implementation, if not managed properly.

Timescale risks

5.13 The key timescale risk identified by interviewees was the underestimation of the time required to undertake the transition programme. Attempting to undertake too much too quickly, and delays to benefit delivery were also considered to be key risks.

Cost

5.14 Again underestimation of the costs of implementation was considered a key risk by interviewees. Allied to that, the industry experts warned that communication and training costs are often under scoped at design stage.

Process and technology risks

5.15 A number of issues emerged in relation to process and technology. The research indicated that it is often the case that unexpected back office backlogs are discovered at the start of the integration process. This can cause delays and may require unexpected additional resources to fix.

5.16 Data security and integrity issues were also highlighted as a potential risk during the transition phase. In addition, the industry experts warned of the danger of designing processes that cannot be matched by the technology solution, emphasising the need for process, technology and people teams to work together from the start.

6 Lessons learned

6.1 At the end of the interview we asked respondents to identify key learning-points which HMRC could consider as it develops its strategy for front and back office integration. Many of the key points emerging are the elements of good practice change management. Most of our case study participants, in particular the industry experts, had witnessed situations in which a front and back office integration programme had been delayed, encountered difficulties or even failed because one or more of the following elements was not put into practice.

6.2 The key lessons learned from the experience of respondents can be summarised as follows:

- Set out a clear vision with transparent metrics and shared objectives. This involves senior management setting a clear vision which ensures that staff work towards a shared common objective in realising the aims of the transformation programme. Aligning staff objectives (and incentives) to the vision helps staff to understand how their individual role 'fits in' with the overall strategy and encourages buy-in.

- Ensure strong leadership and governance arrangements are in place at the outset. Having strong governance in place with enforcement powers, in conjunction with a strong programme leader will facilitate the change process, ensuring that the change actually happens. Strong leadership is particularly important if there is internal opposition at senior management level.

- Engage staff at all levels. Staff engagement at all levels is vital to the success of the transformation programme. Getting the senior management team onside and visibly involved, along with open, clear, transparent engagement early on are key elements of this strand. Most of our interviewees advocated over-communication, with as much two-way communication as possible.

- Involve the Trades Unions early on. The key advice from interviewees was to work closely with the Trades Unions right from the start of the design process. Honest, open dialogue was considered to be vital.

- Ensure that there are some 'quick wins' early in the process. Interviewees reported that the transformation is often a lengthy process, therefore having quick wins with benefit realisation early on can help to keep the team motivated and engaged. It is also important to set key milestones throughout the life of the programme, each with recognisable benefits.

- Start with people and processes. Depending on the organisation's individual circumstances, often the most effective solution can be found through the reconfiguration of people and processes, without resorting to a technological solution which may be cost prohibitive.

- Phase the transition. In order to minimise the impact on the customer during the transition phase, where the organisation migrates from the old ways of working to the new, a phased approach, including parallel processing should be put in place, according to interviewees. Ideally pilots would be undertaken to test out the new processes, followed by phased implementation where the old and new run in parallel.

- Have a flexible resourcing plan. The ability to overstaff is particularly important at two key points in the transformation. Firstly, in the early process mapping phase, to deal with unexpected discoveries, such as back office backlogs, and then again during the parallel processing phase of the transition between old and new.

- Have a clear channel strategy to help manage demand. The recommendation from interviewees was to develop a clear strategy on how to use channel options to shape demand, for example, through the use of self-service, outbound calls to pre-empt randomly timed customer calls. This might include for example, the use of SMS or e-mail to confirm receipt of self-assessment forms, thereby reducing the number of randomly distributed incoming calls from customers wishing to confirm that their form had been received.

Appendix A: Discussion Guide

HMRC call centre transformation research: discussion guide

Company details (record prior to interview)

Company name	
Sector	
Location	
Number of employees (confirm at interview)	
Name of interviewee	
Job title	

Introduction

- Introductions – explain our role as interviewers; provide info on our roles and specialisms in PwC.

- Background to the research: we are talking to private sector organisations that deal with large amounts of customer interactions to understand more about how they have structured their front office and back office functions – what works well, how that structure has evolved over time and how you have managed any changes. HM Revenue and Customs have commissioned this research to inform thinking about how they deliver their service in the context of streamlining their own contact centre and processing functions. Based upon the findings from these interviews, we will provide general findings back to HMRC from the 6 private sector organisations that we are talking to – these will in no way identify individual people or businesses.

- At the end of the project we will provide you with a high level summary of the key findings coming out of our research. Again this will not identify any organisations or individuals, but will provide you with useful insights and learnings from other organisations who have gone through the transformation process.

- PwC operates within the with Market Research Society's Code of Conduct which guarantees confidentiality and anonymity.

- Ask for permission to record interview – explain use of encrypted recording device

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CONTEXT

1. **Can you briefly describe:**
   - Background to the organisation – number of employees, nature of business, turnover.
   - Can you tell us about the scale of your operation e.g. how many calls do you handle per year, how many forms processed per year?
   - What is your role in the business?
   - How long have you worked in this organisation?
   - How long have you been in this role?
   - What was your role in relation to the restructuring of your front and back office operations?
   - Can you describe the way that your front and back office operations are organised and integrated?

THE DRIVERS , OPTIONS AND DECISION

Main drivers

2. What were the main reasons why your organisation decided to invest in this transformation?
   - inefficiencies in previous operating model? PROBE
   - expected benefits of new model? PROBE

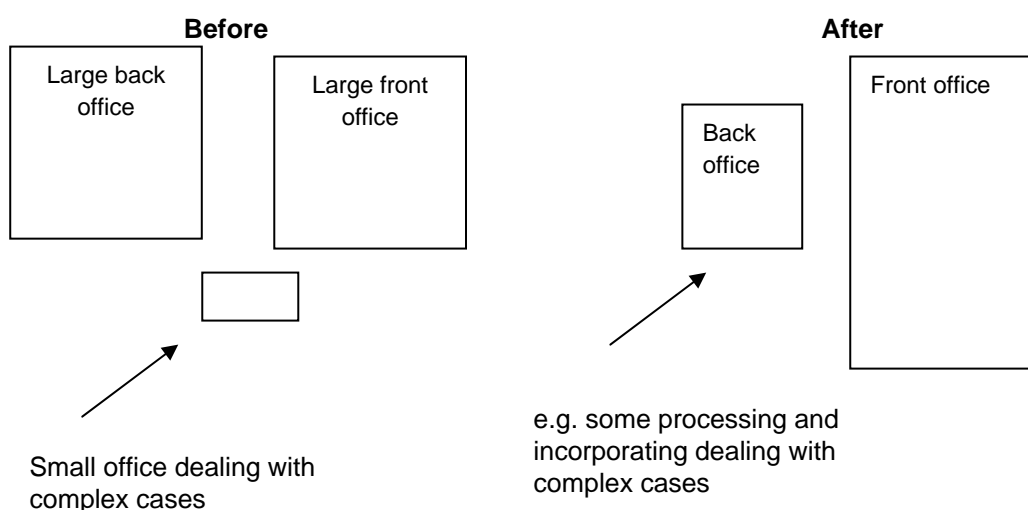   INTERVIEWER NOTE: SOME EXAMPLES PROVIDED BELOW FOR REFERENCE, DO NOT PROMPT

   i.   Improving customer service.
   ii.   Improving the amount of "paid time" per employee that is converted into "productive time" e.g. by better aligning scheduled resourcing to more accurate work/demand forecasts and better supervision;
   iii. Obtaining economies of scale from bigger or virtualized operations;
   iv.   Obtaining synergies between complementary types of work – for example back office admin and call centre work;
   v.   Introduce new process and procedures that reduce processing time, independently of IT;
   vi.   Introduce new automation into process and procedures that reduce processing time, dependent on IT;
   vii. Introduce better competency management to raise overall team capability levels and inherent ability to do tasks, better, quicker;
   viii. Eliminate excess resources, for example a layer of supervision, change ratios of supervisors to staff;
   ix.   To stop delivering services;
   x.   Migrate service delivery from face to face or phone to Web and /or automated voice services
   xi.   Invest in mould breaking change to eliminate process steps previously thought essential for risk control, replacing with leaner, more optimized processes;
   xii. Purchase services more efficiently;
   xiii. Change employee terms and conditions e.g. working hours, salary quartile, to align to a lower cost paradigm;
   xiv. Leveraging labour cost arbitrage opportunities between locations (on to on shore, on to offshore) by moving work around the UK, and/or Europe, and/or globally.

Benefits expected

3. (a) What were the benefits you expected to realise from implementing the new model? (e.g. headcount reduction, budget reductions, improvement in efficiency KPIs, improvement in customer experience KPIs)
    (b) FOR EACH BENEFIT: What were your expectations based on? How were they calculated?

4. (a) Did you measure the benefits?
    (b) IF YES: What KPIs did you put in place to measure the benefits? Did you use new or existing KPIs?
    (c) Were there any measurement issues? How were these overcome?

Illustration of the before and after

5. To help us understand the changes that you have made, can I ask you to draw a simple diagram of the previous model and the new model? SHOW EXAMPLE

Before   **After**

| Large back office | | Large front office | | | Back office | Front office |

e.g. some processing and incorporating dealing with complex cases

Small office dealing with complex cases

Developing and constructing the model

6. How did you go from an initial concept on a blank piece of paper to constructing your model(s)? Was it bottom up or top down? For example did you hold workshops, involve consultants, conduct research to find out what other organisations have done?
7. What went well? What went less well?

Alternative models

8. When initially planning the transformation did you consider a number of alternative models or options ? If yes, which ones? (e.g. outsourcing, technology deployment, organisational structure change, people and culture)
9. For each one that you considered, what did you view as the pros and cons of each?
10. What measures did you use to evaluate the different models?
11. What factors influenced your final choice of operating model? (PROMPT If REQUIRED: lowest cost, cultural fit, time to implement, low degree of structural change, processes, procedures)

Design issues

When you had made the big decisions about which overall operating model to adopt (e.g. outsourcing v technology deployment   etc), what did you do next…….

12. How did you choose between different options such as:
    - a large v small front office?
    - balancing post versus phone contact?
    - regional or functional structure?

13. What choices did you make? Why?
14. Looking back do you think you made the right choice?

THE TRANSITION

We would like to understand how implementing the transformation worked in practice.

The transition process and timescales

15. What were the key changes that you made to achieve the benefits you were aiming for? Which were driven by integration between operations?
16. Can you describe each phase of the change process from start to finish? What do you view as the start and end points? What were the key outputs from each phase?
17. How long did it take to implement the new model? What were the key milestones? How long did each phase take?
18. What were the key enablers? (e.g. IT, people, training, exit schemes, particular elements of the design)

Risks

19. Did you undertake a risk assessment? What were the main risks identified? How did you mitigate against these risks? (Probe if required: feasibility risk, overestimation of benefits risk, underestimation of cost risk, personnel risks).

Customer experience

20. How was the customer experience impacted during the change process itself, as well as the end design? What steps did you take to minimise the impact on the customer experience? e.g. organizational steps, investment in extra resources at key points.
21. Do you measure customer experience? IF YES: What do you measure? Satisfaction, response times to calls, case resolution, call times etc
22. Do you use different measures of customer experience now/when the integration was complete compared to those you used before? If so, how do they differ?'

Staff engagement

23. We would like to understand your approach to stakeholder management, staff communication around the change and any approaches used to gain buy in and engagement.
24. How did you ensure that staff who would be affected by the change, understood and were 'bought in' to the need for change? (Prompt if needed: communication, consultation, change agents, involvement in the planning and implementation of the new system, support from senior management, and alignment of change to strategic objectives).
25. In relation to gaining staff buy in, what was most effective? Is there anything you would do differently?

26. Did you assess engagement at a programme level? If so how did you measure it?

27. How did you ensure that senior and middle managers were motivated to make the change a success e.g. what changes to personal objectives did you make, performance bonuses etc?

28. What was the reaction from staff?
    (a) Any positive feedback?
    (b) Any resistance or discontent?
    (c) Any non-compliance with the new ways of working e.g. staff not using the new systems
       IF YES AT (b) or (c) How did you deal with this?

29. Was it necessary to upskill or retrain staff? IF YES can you describe how you did this?

THE OUTCOME

30. Overall, do you think that the implementation of the new operating model was successful? By what criteria did you form that view. If not, why?
31. Are there any aspects of the transition that you think were more successful than others? Which aspects were more successful? Why?
32. Are there any aspects that were less successful? Which aspects? Why?
33. Did the redesign drive efficiencies? If so on what scale? Were these the efficiencies that you expected?
34. Which aspects of the change led to the biggest efficiency gains? Were any other benefits realised? What was the scale of these benefits?
35. How quickly were the efficiencies and other benefits realised e.g. steady over time, a burst and then tailed off or a significant time lag before benefits were realised?
36. Did you have to invest/spend to make longer term savings? If so, what were these? Can you expand on how that worked?
37. Do you think that certain conditions need to be in place to maximise positive outcomes for the implementation of similar integration exercises? If yes, what are they? If no, why not?

REFLECTING BACK

Lessons learned

38. What have you learned from the transformation process? In particular from integrating the front and back offices in your organisation?
39. Which elements of the integration worked particularly well? Why?
40. Which elements of the integration didn't work well? Why?
41. What could have been done to improve the success of the integration?
42. Were there any learnings around leadership in implementing such a change?
43. And staff engagement?
44. Have there been any unexpected positive outcomes?
45. Have there been any unexpected negative outcomes?
46. IF COST NOT ALREADY MENTIONED: Was the project completed on budget?
47. How big was the budget? What did it cover? What didn't it cover?
48. How big was the change team leading the transformation?
49. Looking back is there anything you would do differently?

Application to HMRC

Explain brief contextual background on HMRC

50. What lessons could HMRC learn from your experience?
51. What do you think is the read across for HMRC? What do you think are the limitations for read across for HMRC?
52. What challenges would this create for HMRC?
53. Based on your experience, what actions do you think can be taken by HMRC during the transition period to mitigate delay and/or disruption?
54. If there was one key learning point that HMRC should be aware of, what would it be?

BEST PRACTICE

55. Based on your experience, is there evidence of a best practice model of integrated front and back office functions?
56. What does this look like?
57. What makes it best practice?

CONCLUSION

58. REFLECT BACK ON ANY INTERESTING POINTS THAT NEED FURTHER INVESTIGATION
59. Is there anything else which we have not discussed in relation to the integration of front and back office operations that you would like to add to the discussions?
60. Who else should we speak to in the organisation?
61. **Next steps**: we will provide you with a copy of our initial findings, and let you see any quotations that we propose to use. As I mentioned before no individual or organisation will be identified in our report. At the end of the work, early in the New Year, our team would also provide you with a presentation of a bespoke benchmarking report, confidential to you. This will summarise key findings in relation to <company name>. It will provide a summary comparative analysis of your approach against our other case study organisations. Again, these will in no way identify individual people or businesses, along with lessons or insights that we identify.
62. **Thank and close interview.**

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