

# DRIVERS AND CONSTRAINTS FOR OUTSOURCING OPERATIONS PROCESSING IN CORPORATE AND INVESTMENT BANKING

SJ van der Westhuizen

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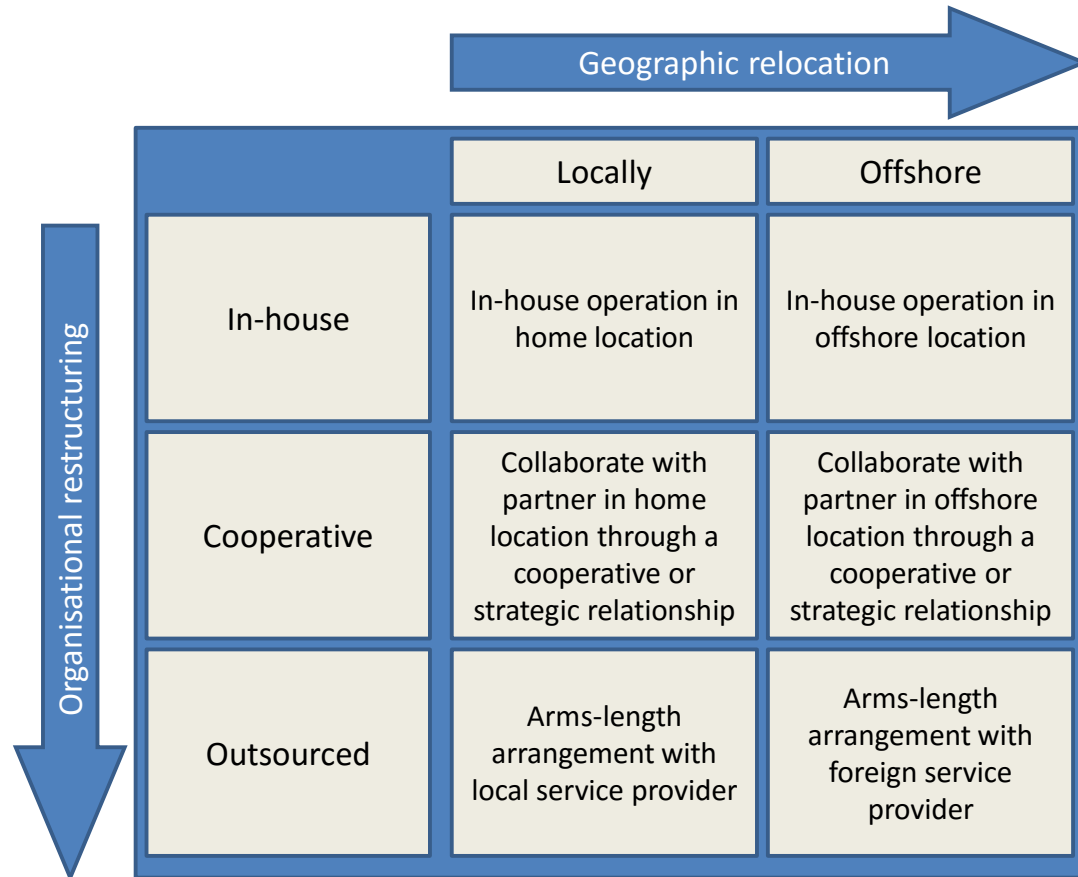
# Overview

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# The Challenge for Executive Leaders

- Optimal functional and global configuration of activities
- Build or buy (a.k.a. Outsource)
- Onshore or offshore
  - ▣ Lower cost locations
- Core vs. non-core capabilities
- Shared services
- Manufacturing vs. services industry
- Loss of control, confidentiality, expertise

# Geography and Organisational Design Decisions



Adapted from (Contractor, Kumar, Kundu and Pedersen, 2009)

# Factors that enable Outsourcing

- Globalisation and intensified competition in the market place.
- Free markets and liberalisation of trade and investments.
- The advent of a well-established and reliable global communication and information infrastructure.
- National differences in costs.
- Reductions in costs of transportation.
- Growing education and skills in developing economies.
- Emergence of knowledge clusters, or “centres of excellence” in specific product or technology areas.
- Growing importance of foreign markets and related market insight and feedback.
- Greater codification of corporate knowledge.
- Modularisation of business functions.
- A revolution in management strategy.
- Shortage of internal resource skills (in terms of quality and diversity) and talent.

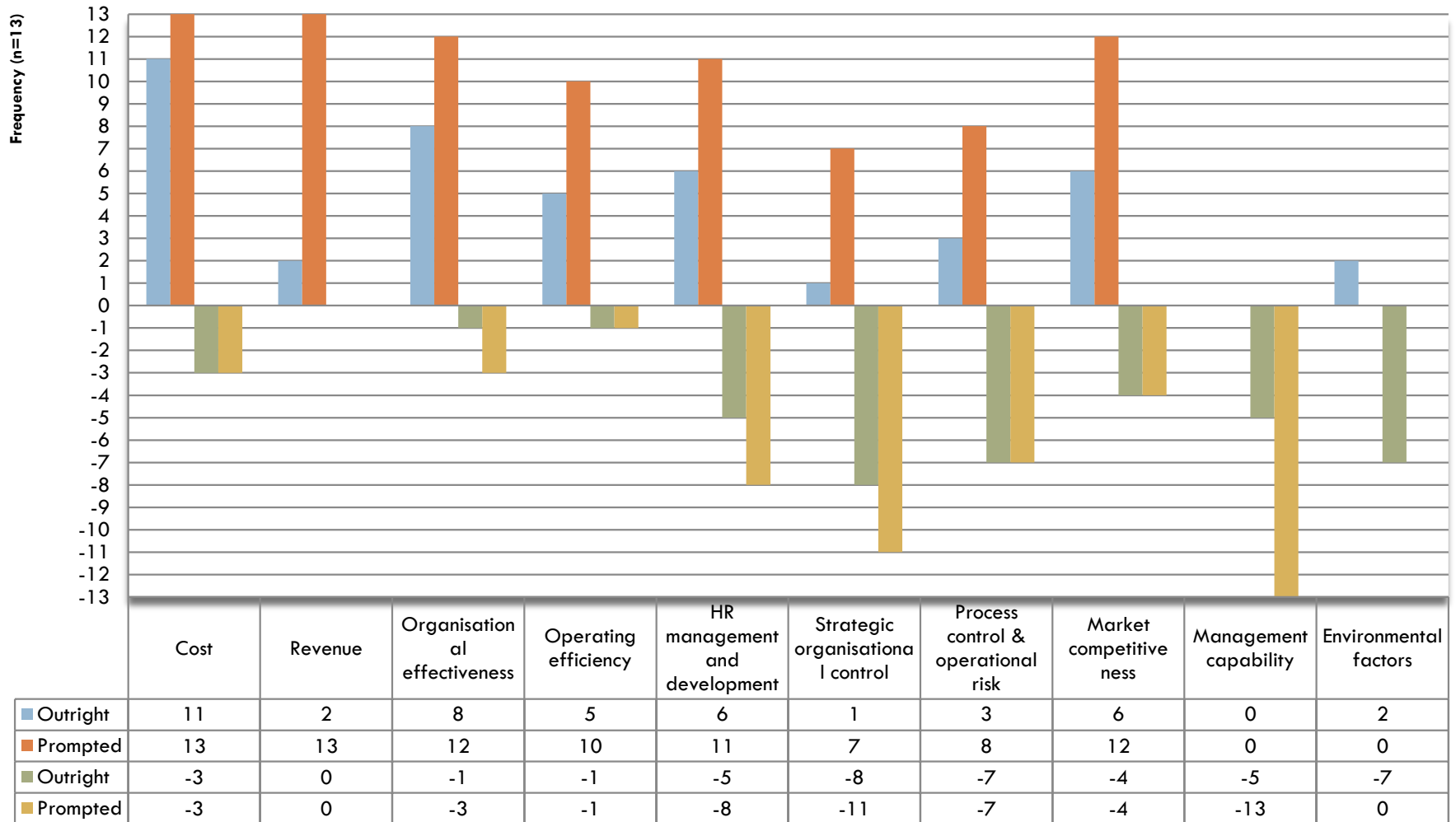
# Challenges in the Banking Industry

- Reduced volumes and margins
- Regulation and Capital
- Cost control and efficiency focus
- Product aligned silos:
  - ▣ custom focus vs. duplicated cost

# Trends in Business Process Outsourcing

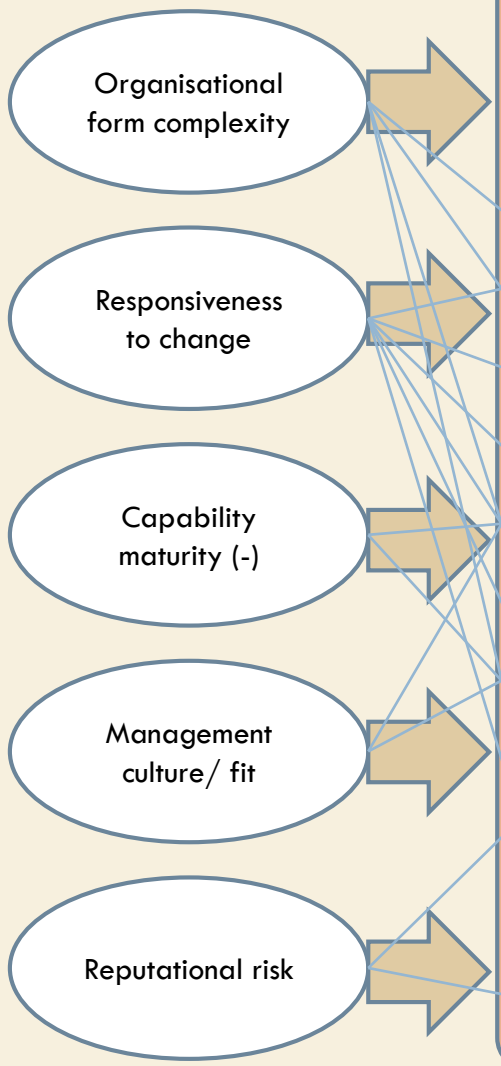
- Core capabilities:
  - ▣ Ever fewer competencies are being defined as “core”
  - ▣ Finer decomposition of the value chain, relocation of different parts of the value chain to different regions, and towards international division of labour
  - ▣ Where there is an opportunity to benefit from the advanced capabilities of an external party, outsourcing of core capabilities presents greater leverage opportunity.
- Horizontal and networked business models will prove to be more competitive than vertical integration business models
- Organisations’ ability to share activities could form a basis for competitive advantage, through associated cost reductions and increased differentiation

# Driving and Constraining Factors

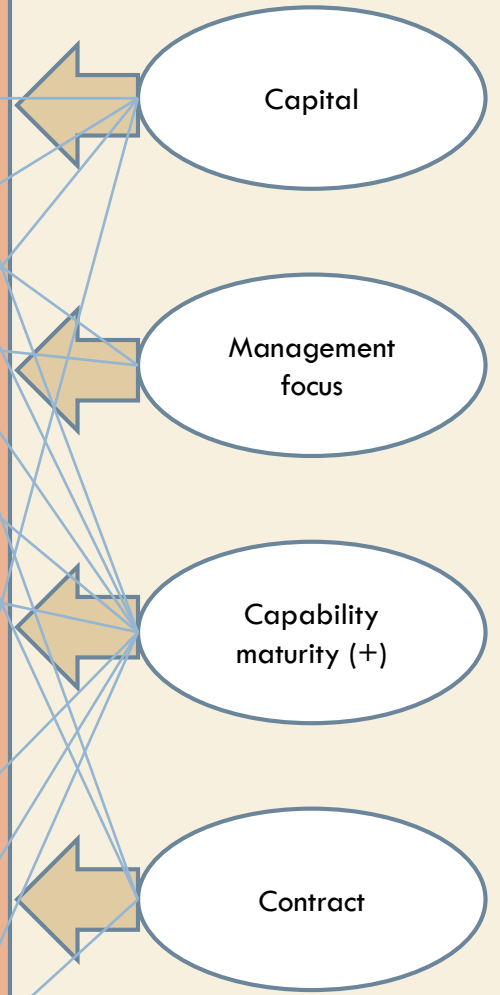




Constraining force



Driving force



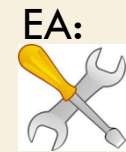
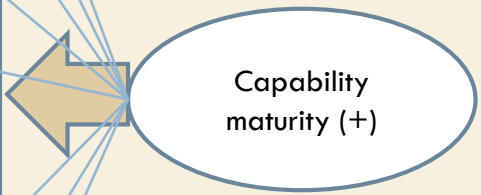
**The drive towards outsourcing of operations processing will be stronger the more the capability maturity levels of prospective outsourcers are perceived to exceed those of banks.**



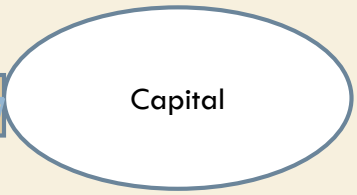
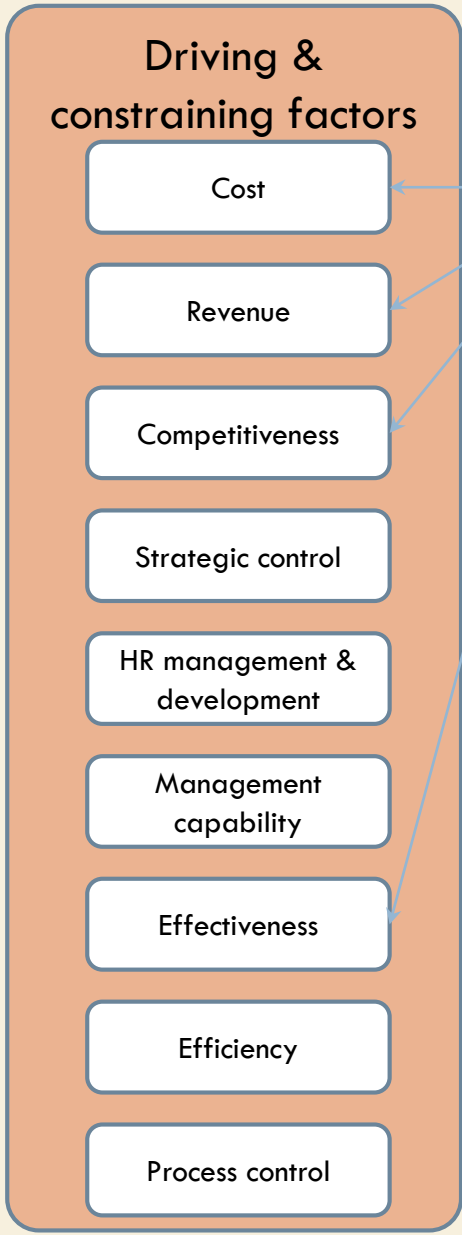
Concerns about the capability maturity levels of prospective outsourcing vendors in certain areas.



Outsourcing service providers often exhibit greater capability maturity in operational processing.



- Capability-based planning
- CMMI



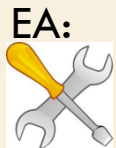
Opportunities for banks to benefit from capital investments of outsourcing service providers. Preserve in-house capital resources.

EA:

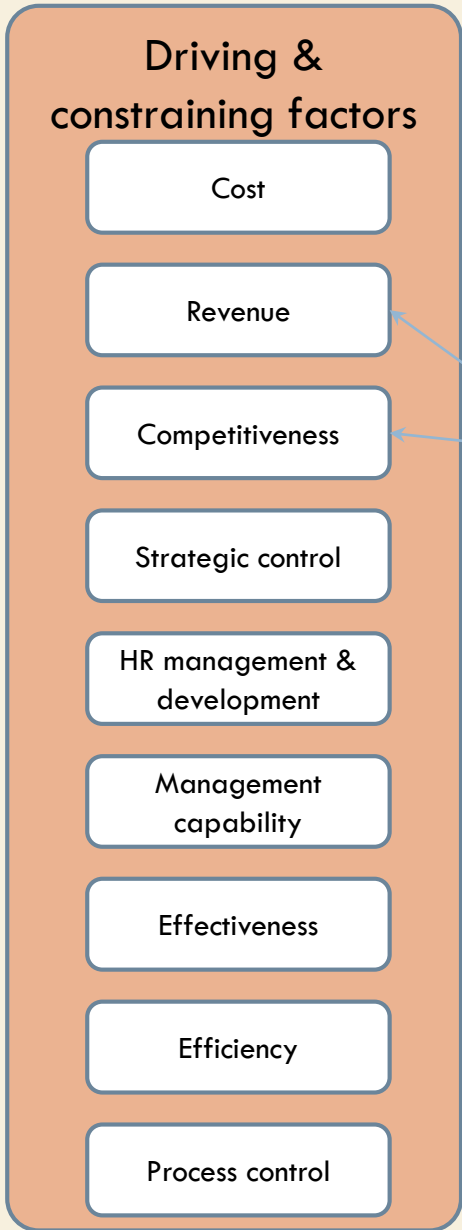


- Book of work alignment to strategy
- Capability/ projects matrix



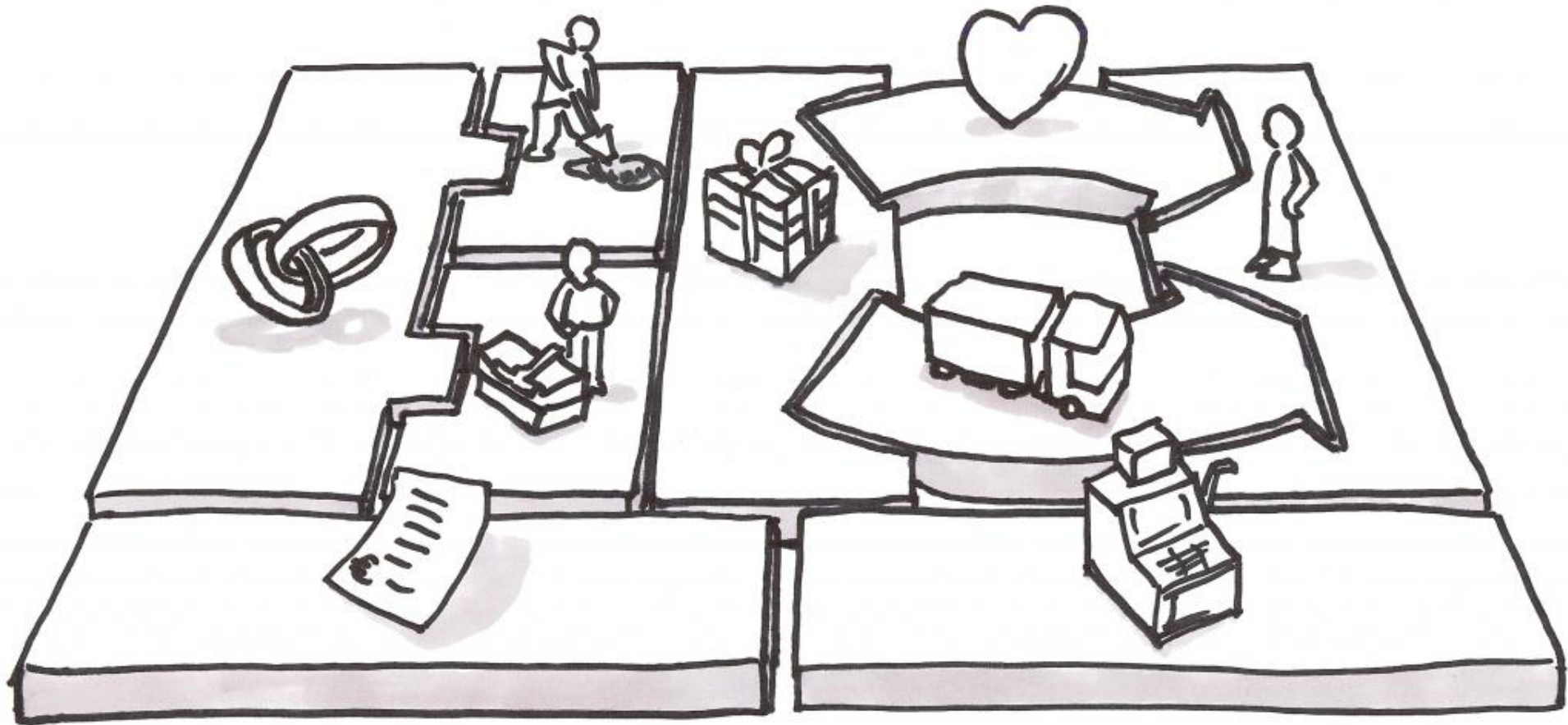


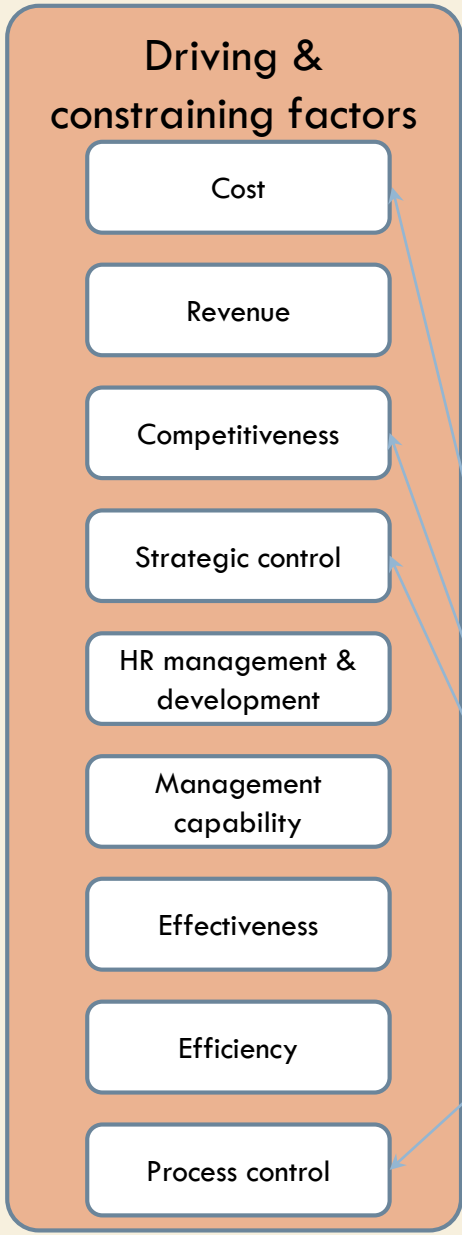
- Business model canvas



Opportunity to remove a significant burden from management and leadership, permitting them to focus on endeavours that could bring about competitive advantages.

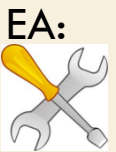
# Business model canvas





Outsourcing normally establishes formal arrangements between banks and outsourcing vendors, with associated formality around planning, forecasting, legal documentation and service level agreements.

Transfer cost risks to outsourcing service providers.

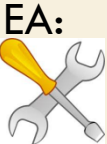
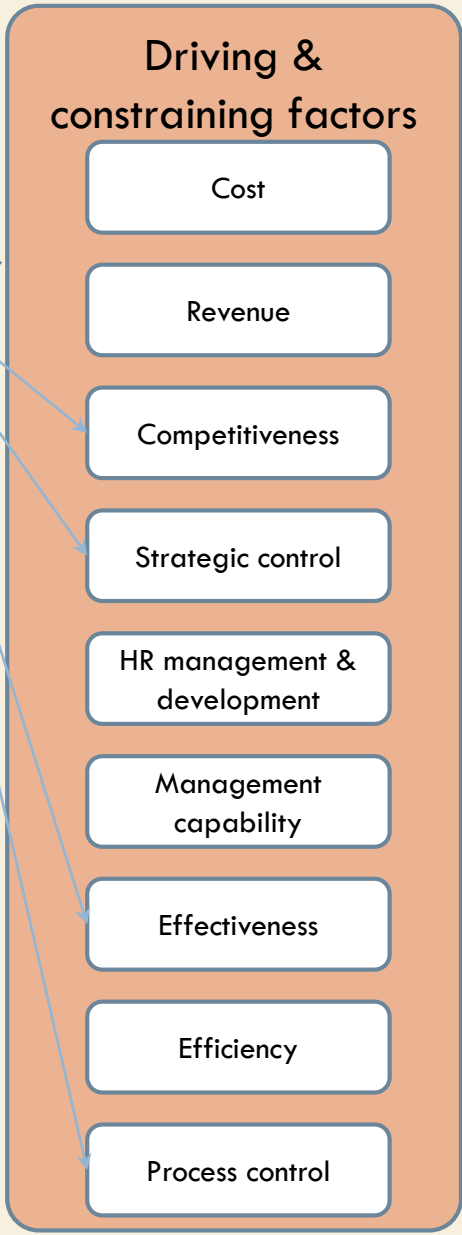


- EA:**
- Provides language and structure for communication with service providers:



Organisational form complexity may result as a consequence of outsourcing.

The constraints for outsourcing will be bigger where operating model designs are immature and complex.

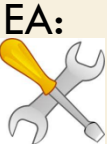
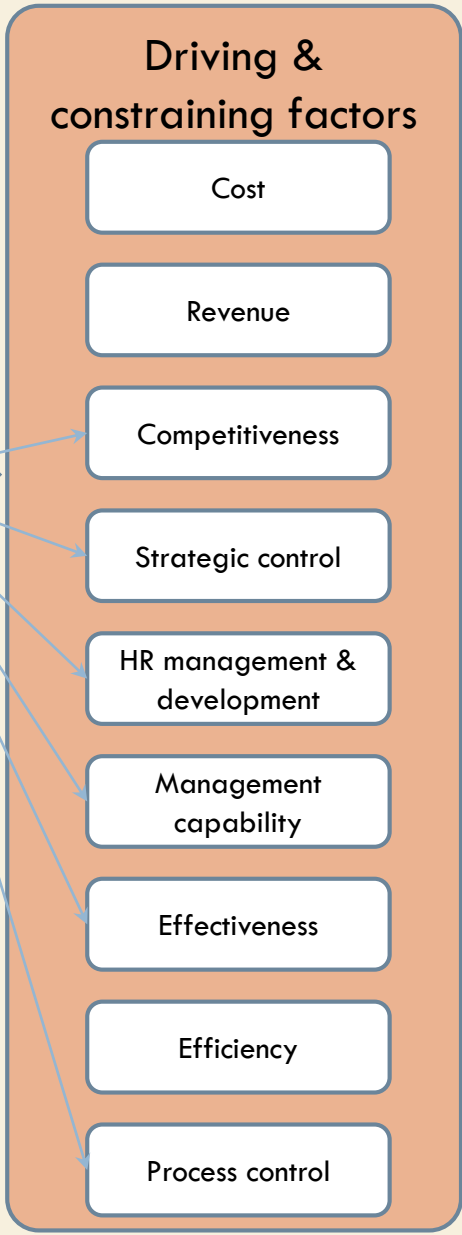


- EA:**
- Key processes to standardise and integrate
  - “Foundation for execution” models



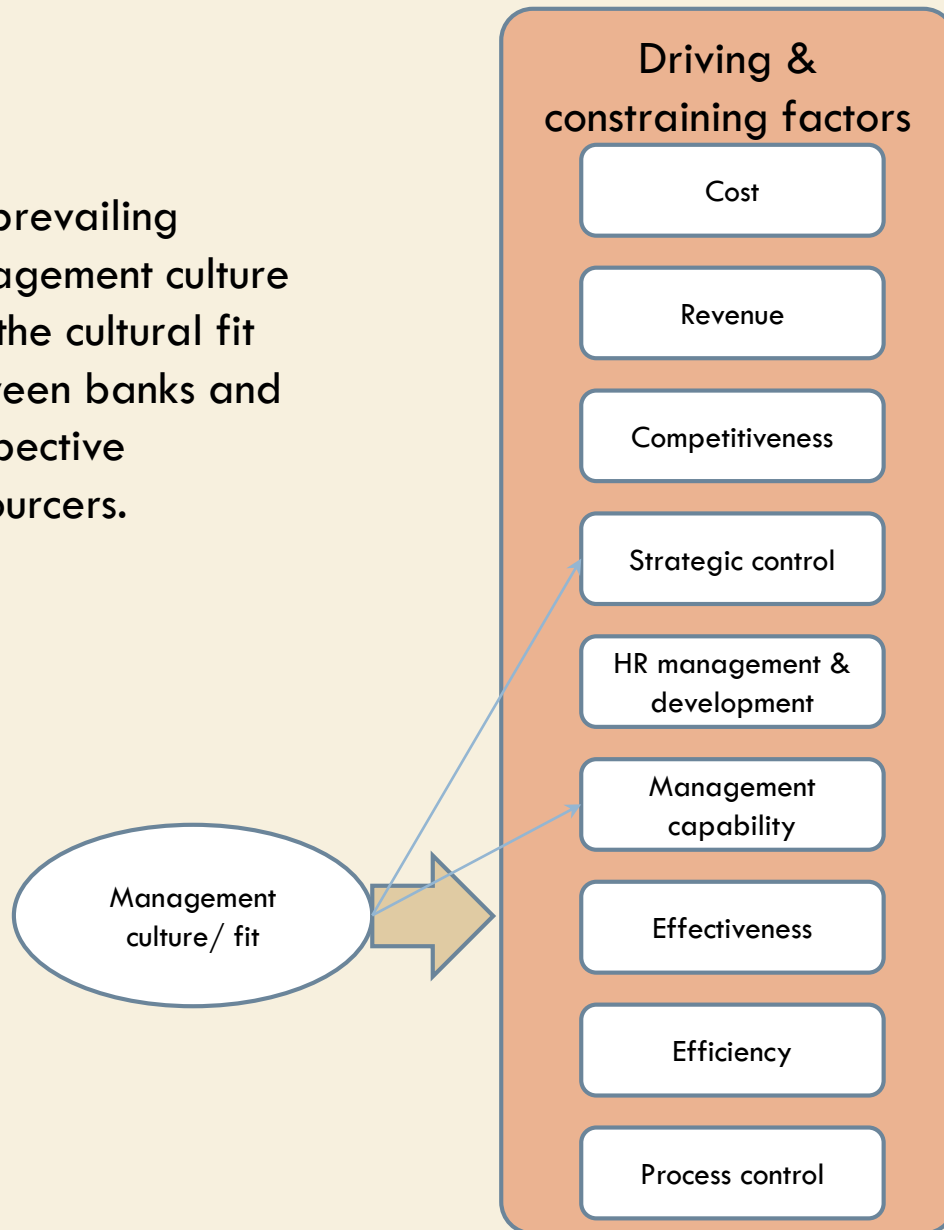


The continued ability of outsourced operations processing providers to be responsive to changes required by their clients.

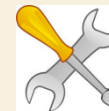


EA: • TOGAF Architecture capability framework & governance model

The prevailing management culture and the cultural fit between banks and prospective outsourcers.

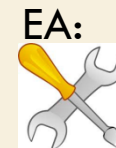
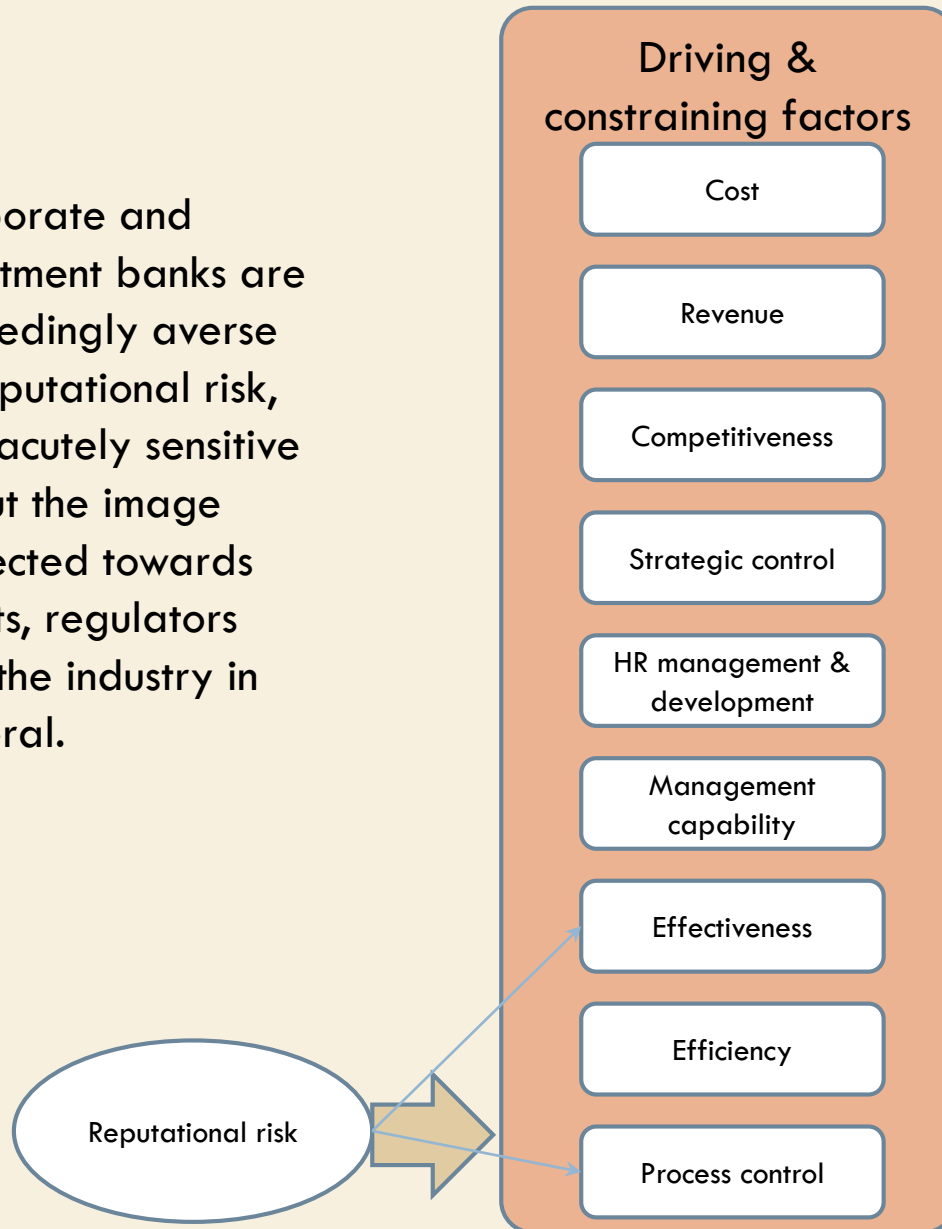


EA:



- Provides language and structure for communication with service providers:

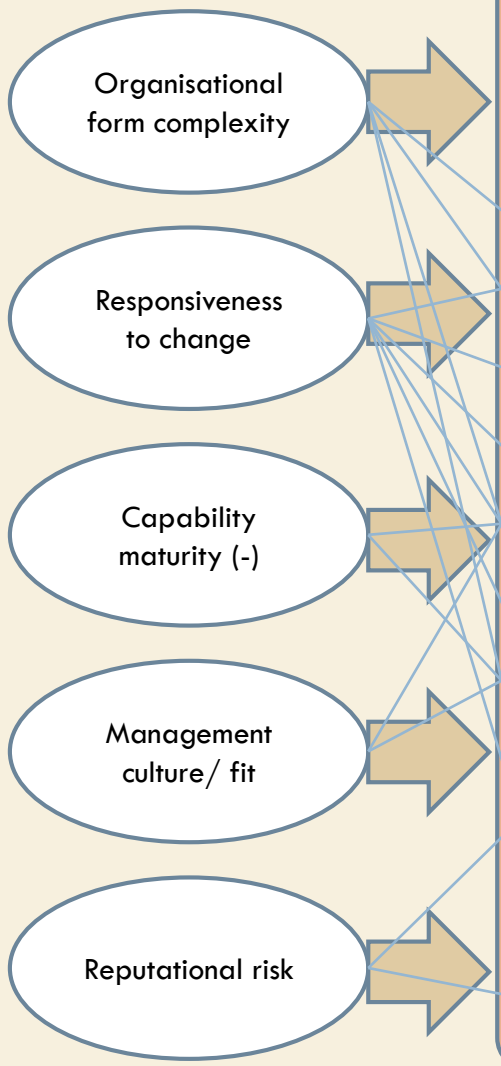
Corporate and investment banks are exceedingly averse to reputational risk, and acutely sensitive about the image projected towards clients, regulators and the industry in general.



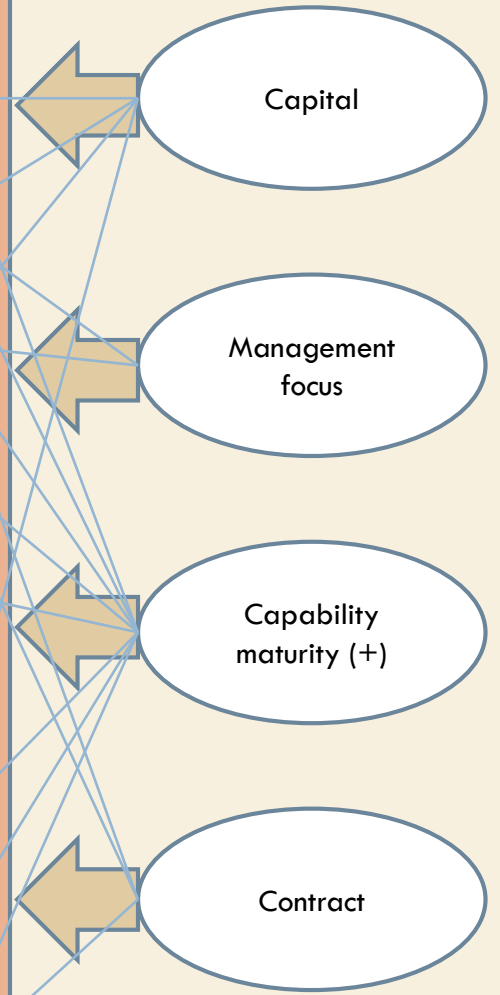
EA:

- “Foundation for execution” model

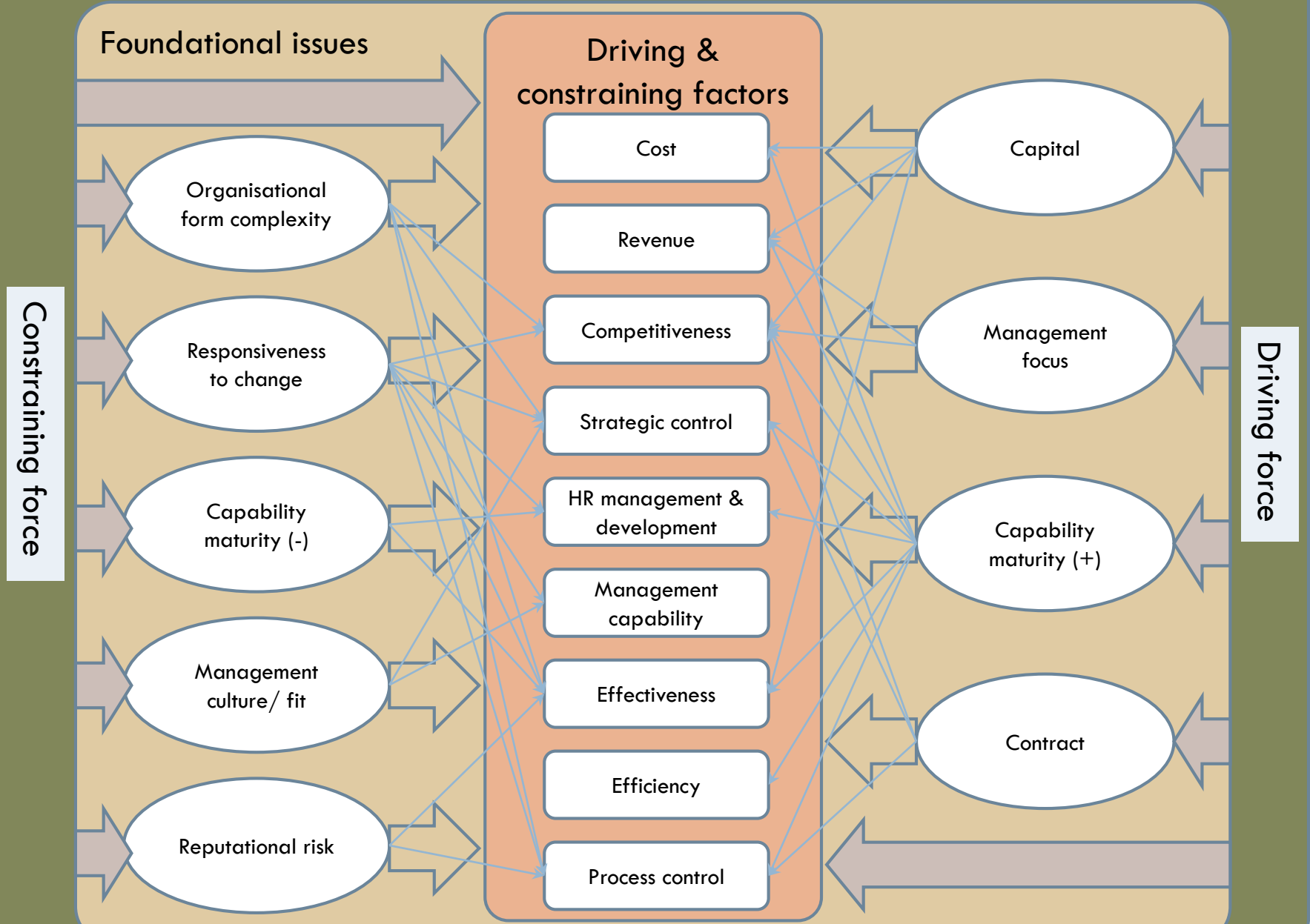
Constraining force



Driving force



# Environmental factors



# Recommendations

- Outsourcing should only be pursued in the presence of strategy and operating model stability and simplicity
- Align with the overall operating model for the business and the industry.
- Consider integrated, end-to-end processes (not just those deemed to form part of operations)
- Seize outsourcing opportunities where it will lead to increase scale and where cost structures can be clearly defined and controlled.
- Obtain comfort about the parties' proficiency in change management and in the presence of real strategic partnership, with associated alignment in strategies, cultures and values.
- Only contemplate outsourcing where it will be possible to retain the flexibility to make changes to outsourced processes
- Outsourcing deals must be considered in the context of it being temporary arrangements.
- Only contemplate outsourcing given access to management resources equipped with the hard and soft skills needed to negotiate contracts and manage services on an ongoing basis.
- Reputational risk and adherence to regulatory requirements are significant constraints to outsourcing of operations processing, but do not represent deal-breakers



- Operating model
- Cost structure & scale opportunity
- Manage change
- Architecture ownership
- Management capability
- Manage risk

# Outsourcing and EA



- The greater the level of EA maturity, the greater the number of business objectives achievable through outsourcing

# Summary

- Outsourcing decisions present an ongoing challenge to executive leadership
- Challenges in the business environment and enabling factors means that outsourcing remains topical
- There is a distinct set of driving and constraining forces for outsourcing in corporate and investment banking
- Enterprise Architects need to play a key role in assessing and interpreting outsourcing drivers and constraints in organisations.