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The Open Group EA Practitioners Conference - Johannesburg 2013 is a full-day conference on 5 September 2013.

King III and COBIT 5 make enterprise architecture the CEO's accountability. The importance of enterprise architecture as a strategic business capability and even as a source of competitive advantage is becoming increasingly well understood. What makes it source of competitive advantage is that so few organisations do it well.

The Open Group EA Practitioners Conference - Johannesburg 2013 explores how companies have positioned enterprise architecture and the experiences that their practitioners have had while implementing it within their organisations.

This is an opportunity to interact with members of the enterprise architecture community and share in their experiences. The conference promises relevant presentations, panel discussions, networking events and an exhibition all geared to provide a broad view of enterprise architecture and all its facets.

EA and Outsourcing at Standard Bank

❑ At this month's EA Forum, Standard Bank's Sarel van der Westhuizen will present on the drivers and constraints for business process outsourcing of corporate and investment banking operations. He will also look at how enterprise architecture can be used to guide outsourcing decisions.

❑ Sarel van der Westhuizen is Head of Strategy and Business Architecture in the Office of Planning and Implementation at Standard Bank. He holds a B. Com. Hons (Industrial Psychology) and a Diploma in Information Technology (cum laude) from the University of Johannesburg, as well as a MBA (cum laude) from the University of the Witwatersrand.

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

EA Forum

July 2013

Overview

- Context
  - The Challenge for Executive Leaders
  - Geography and Organisational Design Decisions
  - Factors that enable Outsourcing
  - Challenges in the Banking Industry
  - Trends in Business Process Outsourcing

- Driving and Constraining Factors
  - Capability Maturity
  - Capital
  - Management Focus
  - Contract
  - Organisational form complexity
  - Responsiveness to Change
  - Management culture & Strategic fit
  - Reputational Risk
  - Environmental Factors

- Conclusion
- Highlights: Outsourcing and EA

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

	Locally	Offshore
In-house	In-house operation in home location	In-house operation in offshore location
Cooperative	Collaborate with partner in home location through a cooperative or strategic relationship	Collaborate with partner in offshore location through a cooperative or strategic relationship
Outsourced	Arms-length arrangement with local service provider	Arms-length arrangement with foreign service provider

Geographic relocation

Organisational restructuring

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.
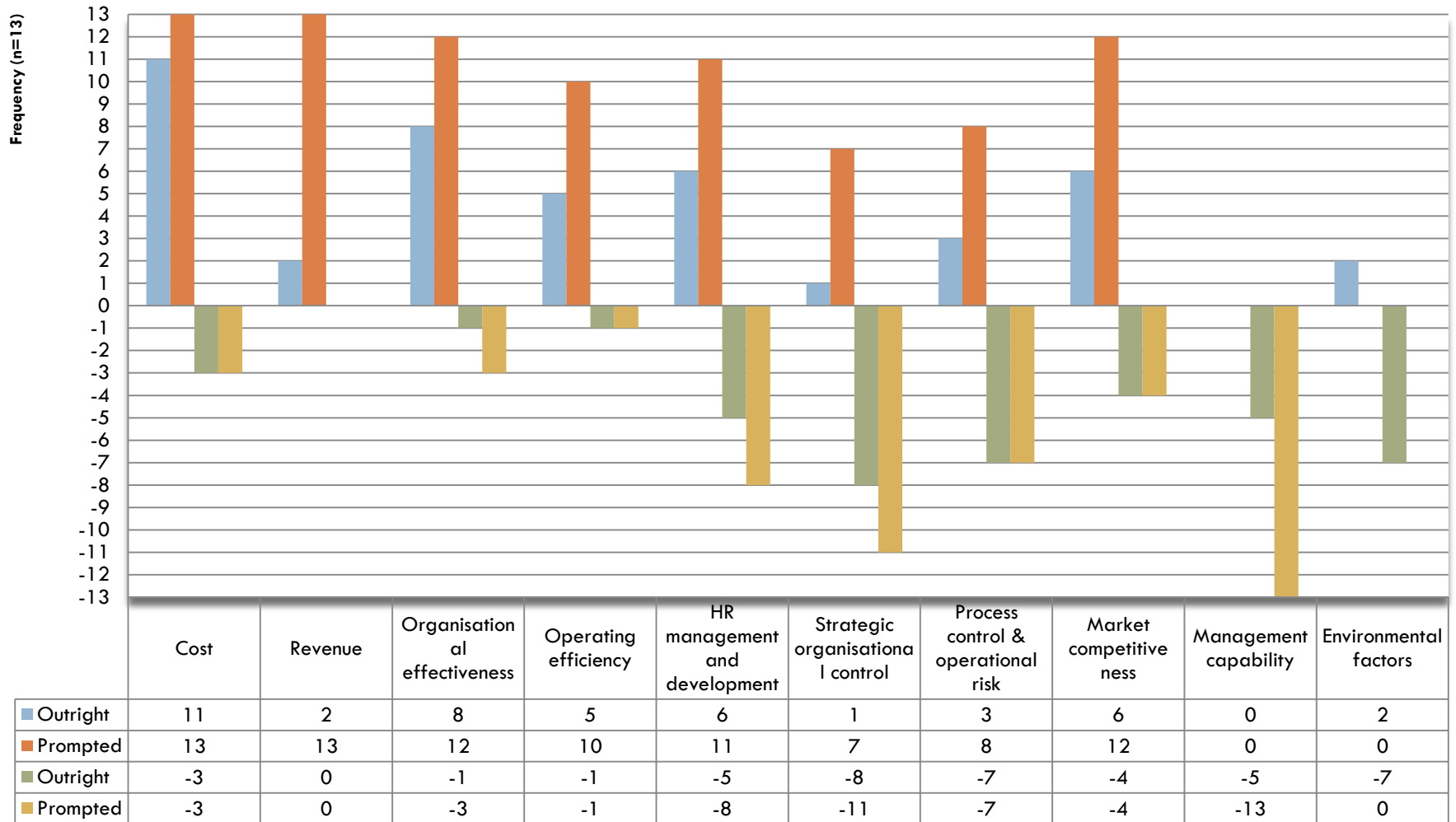
Challenges in the Banking Industry

- Reduced volumes and margins

- Regulation and Capital

- Cost control and efficiency focus

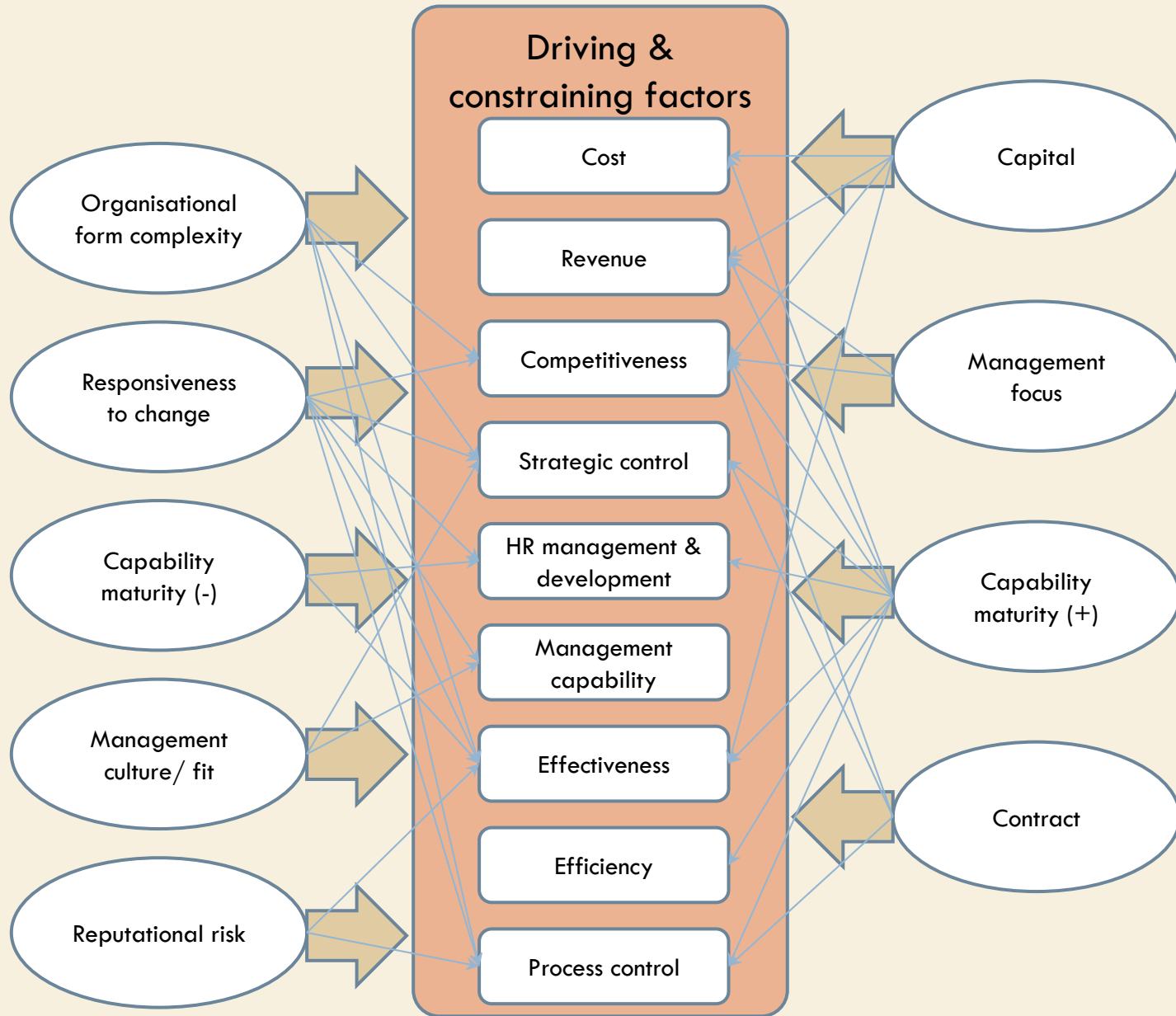- Product aligned silos:
  - custom focus vs. duplicated cost

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

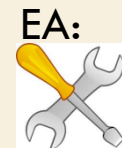|	Cost	Revenue	Organisational effectiveness	Operating efficiency	HR management and development	Strategic organisational control	Process control & operational risk	Market competitiveness	Management capability	Environmental factors
■ Outright	11	2	8	5	6	1	3	6	0	2
■ Prompted	13	13	12	10	11	7	8	12	0	0
■ Outright	-3	0	-1	-1	-5	-8	-7	-4	-5	-7
■ Prompted	-3	0	-3	-1	-8	-11	-7	-4	-13	0

Constraining force

Driving force

Driving & constraining factors

Constraining factors		Central factors		Driving factors

Organisational form complexity

Responsiveness to change

Capability maturity (-)

Management culture/ fit

Reputational risk

Cost

Revenue

Competitiveness

Strategic control

HR management & development

Management capability

Effectiveness

Efficiency

Process control

Capital

Management focus

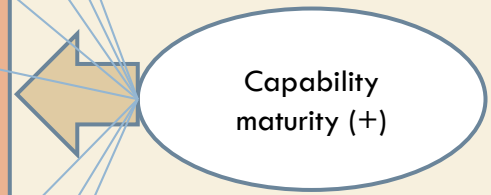Capability maturity (+)

Contract

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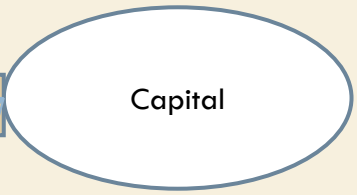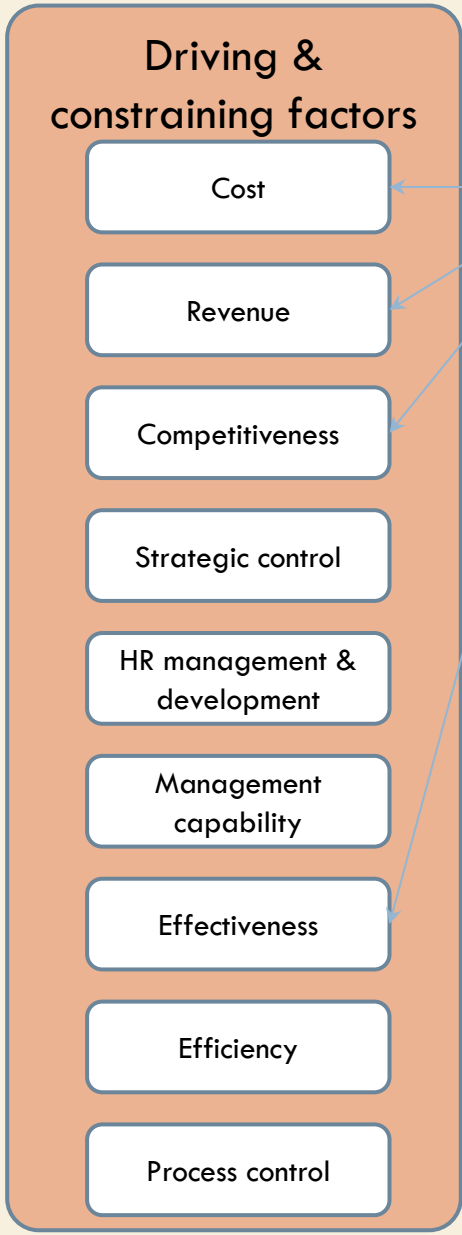
Outsourcing service providers often exhibit greater capability maturity in operational processing.

Driving & constraining factors

- Cost
- Revenue
- Competitiveness
- Strategic control
- HR management & development
- Management capability
- Effectiveness
- Efficiency
- Process control

Capability maturity (-)

Capability maturity (+)

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

EA:
- Capability-based planning
- CMMI

Driving & constraining factors

- Cost
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- Management capability
- Effectiveness
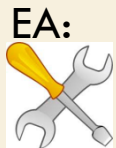- Efficiency
- Process control

Capital

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

EA:

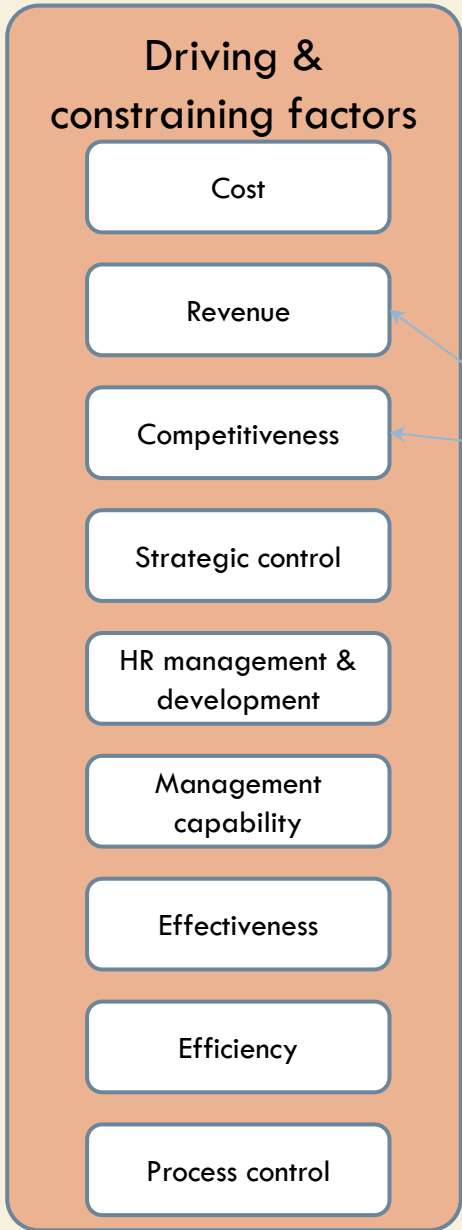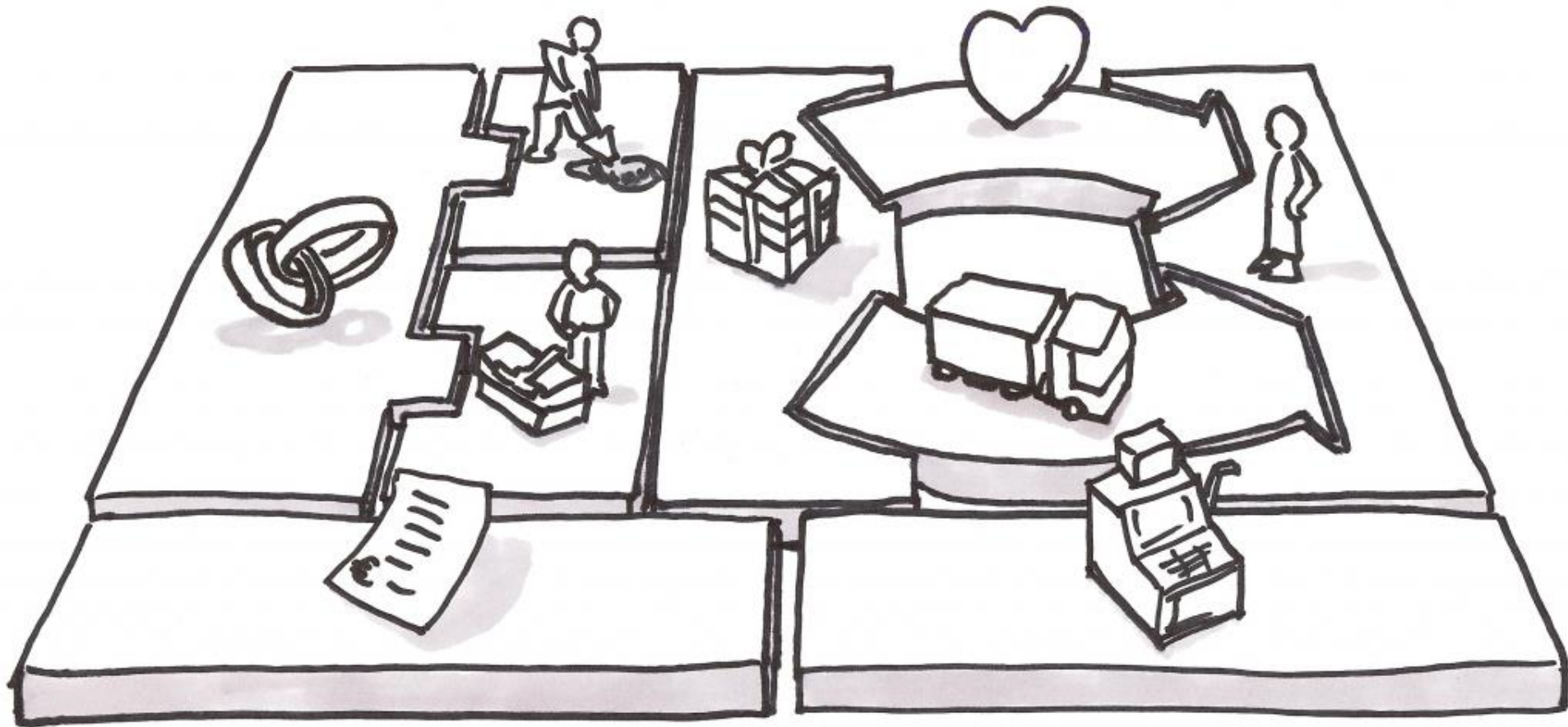- Book of work alignment to strategy
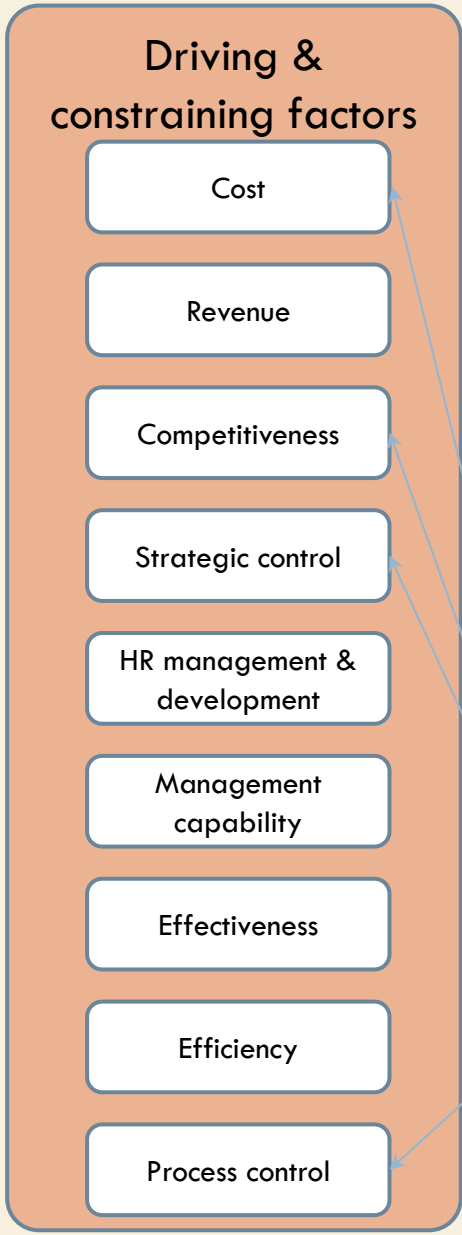- Capability/ projects matrix

Driving & constraining factors

- Cost
- Revenue
- Competitiveness
- Strategic control
- HR management & development
- Management capability
- Effectiveness
- Efficiency
- Process control

Management focus

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

EA:

- Business model canvas

Business model canvas

Osterwalder & Pigneur (2010)

Driving & constraining factors

- Cost
- Revenue
- Competitiveness
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- Efficiency
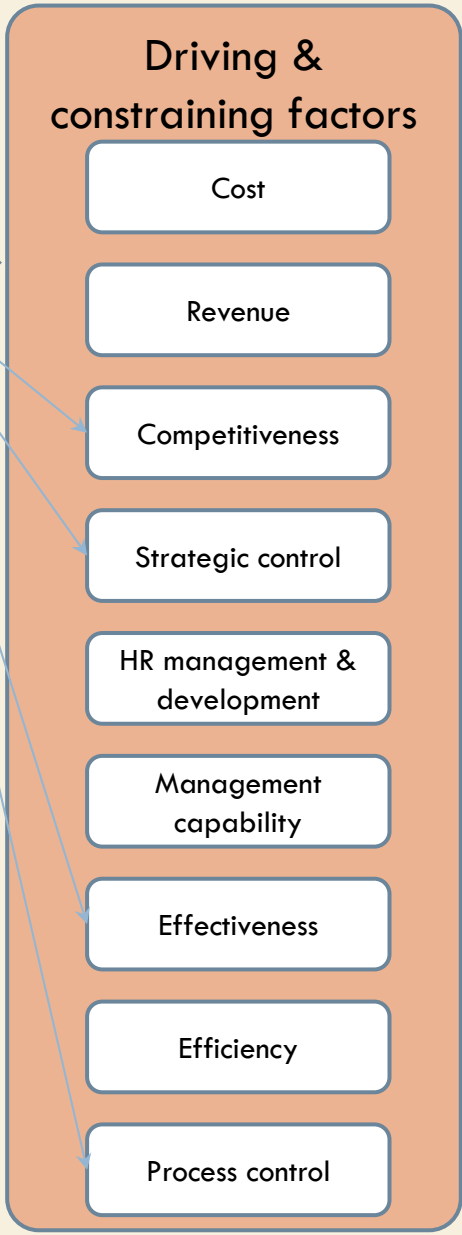- Process control

Contract

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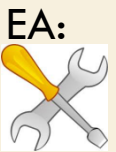
- Provides language and structure for communication with service providers:

Organisational form complexity

Driving & constraining factors

- Cost
- Revenue
- Competitiveness
- Strategic control
- HR management & development
- Management capability
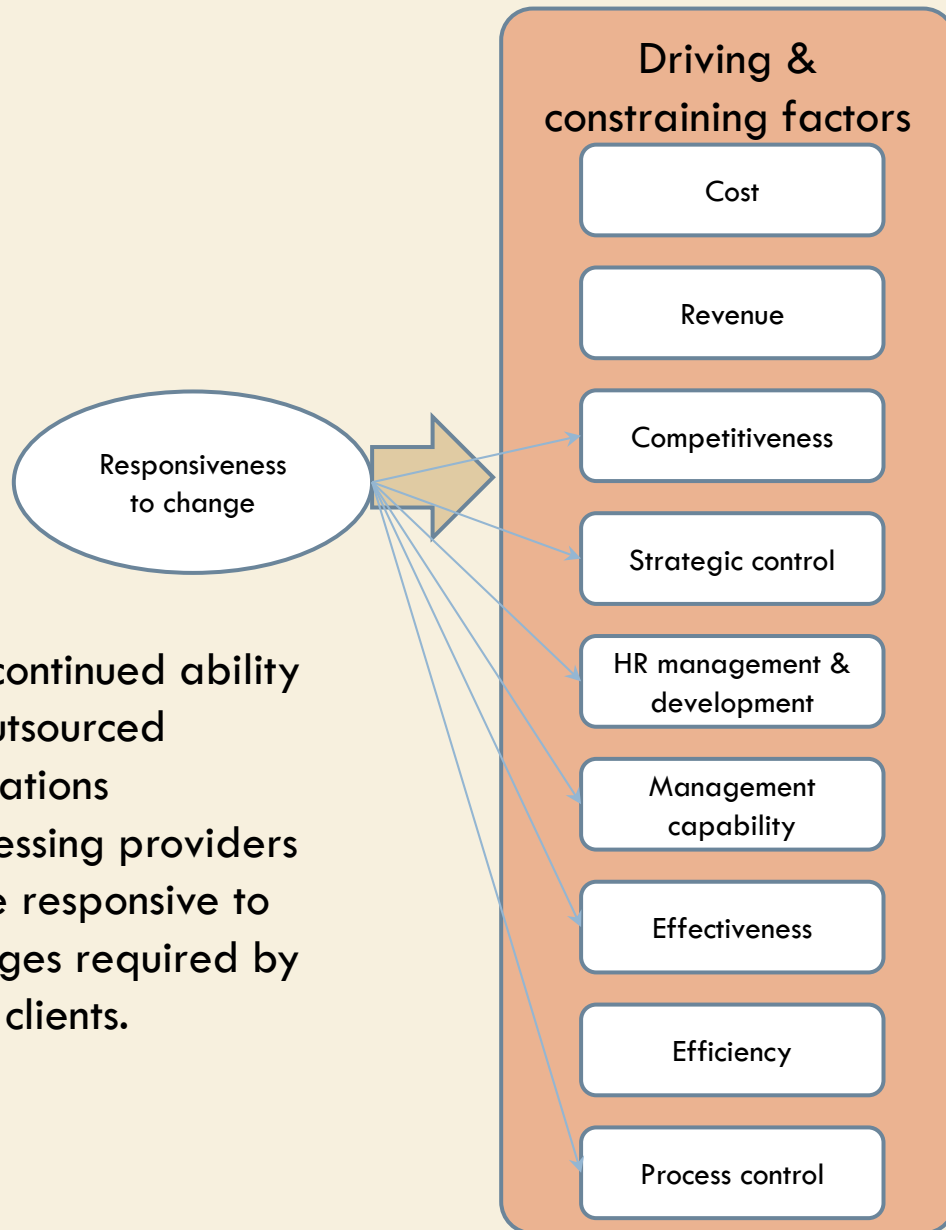- Effectiveness
- Efficiency
- Process control

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

Driving & constraining factors

- Cost
- Revenue
- Competitiveness
- Strategic control
- HR management & development
- Management capability
- Effectiveness
- Efficiency
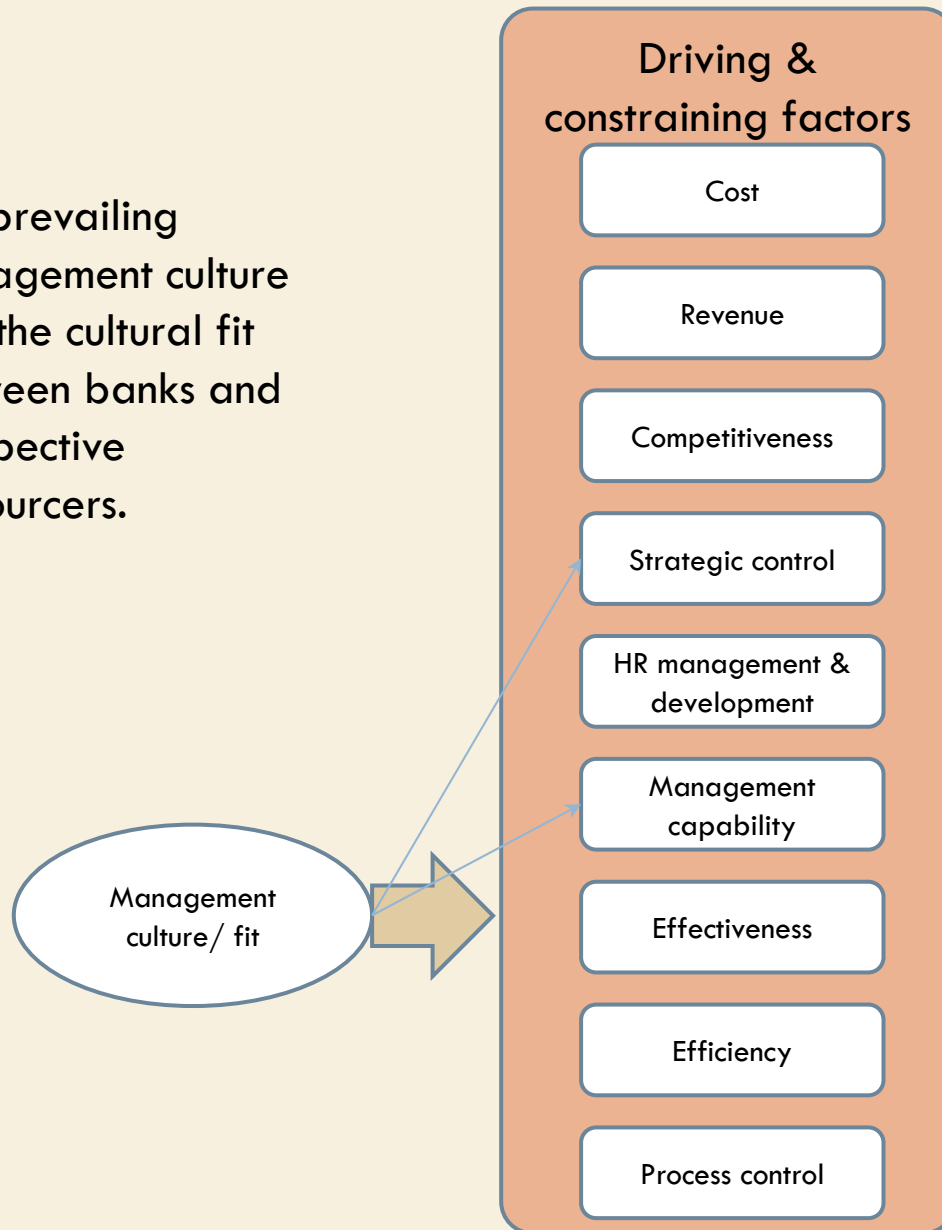- Process control

Responsiveness to change

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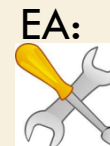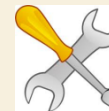
EA:

- TOGAF Architecture capability framework & governance model

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

Driving & constraining factors

- Cost
- Revenue
- Competitiveness
- Strategic control
- HR management & development
- Management capability
- Effectiveness
- Efficiency
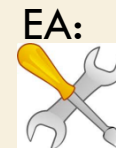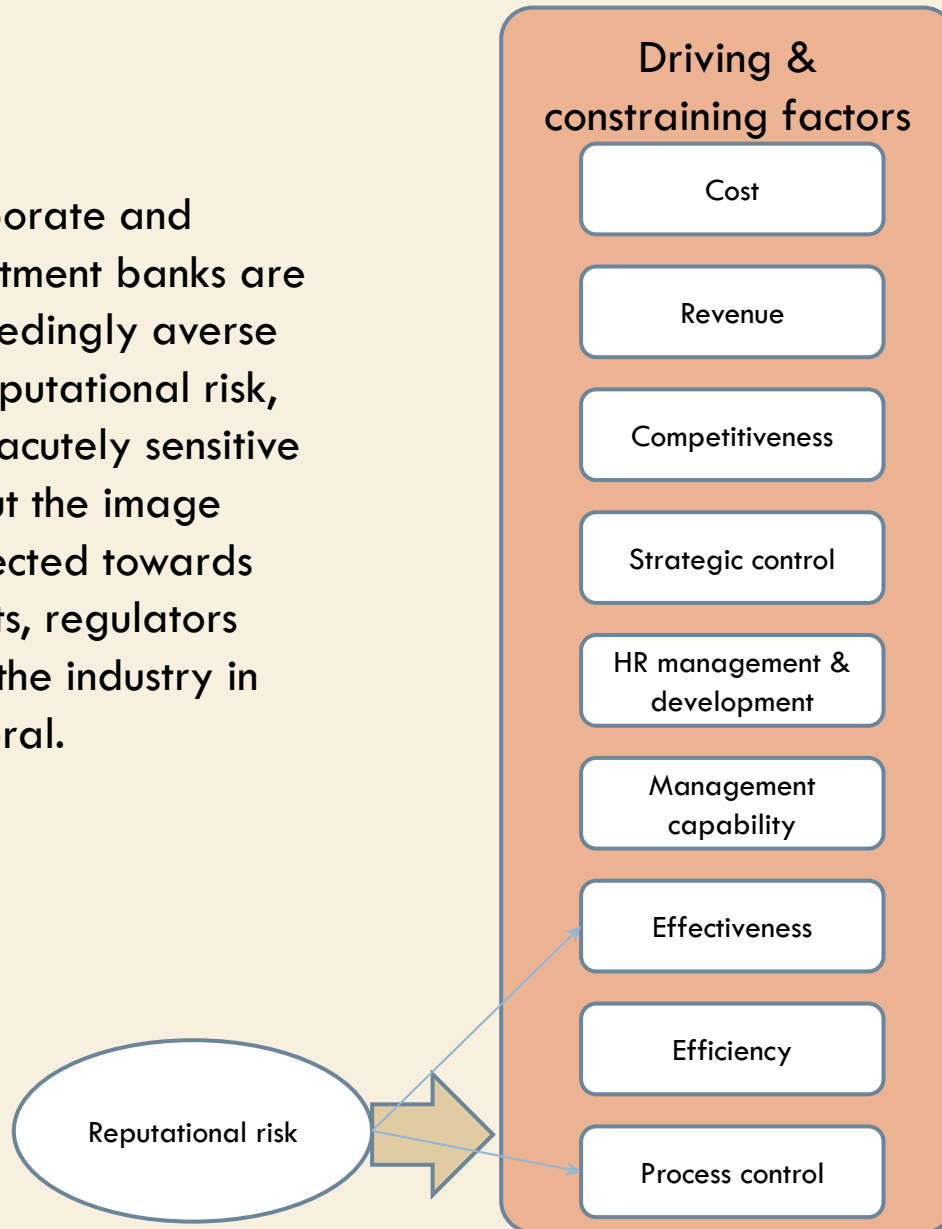- Process control

Management culture/ fit

EA:

- Provides language and structure for communication with service providers:
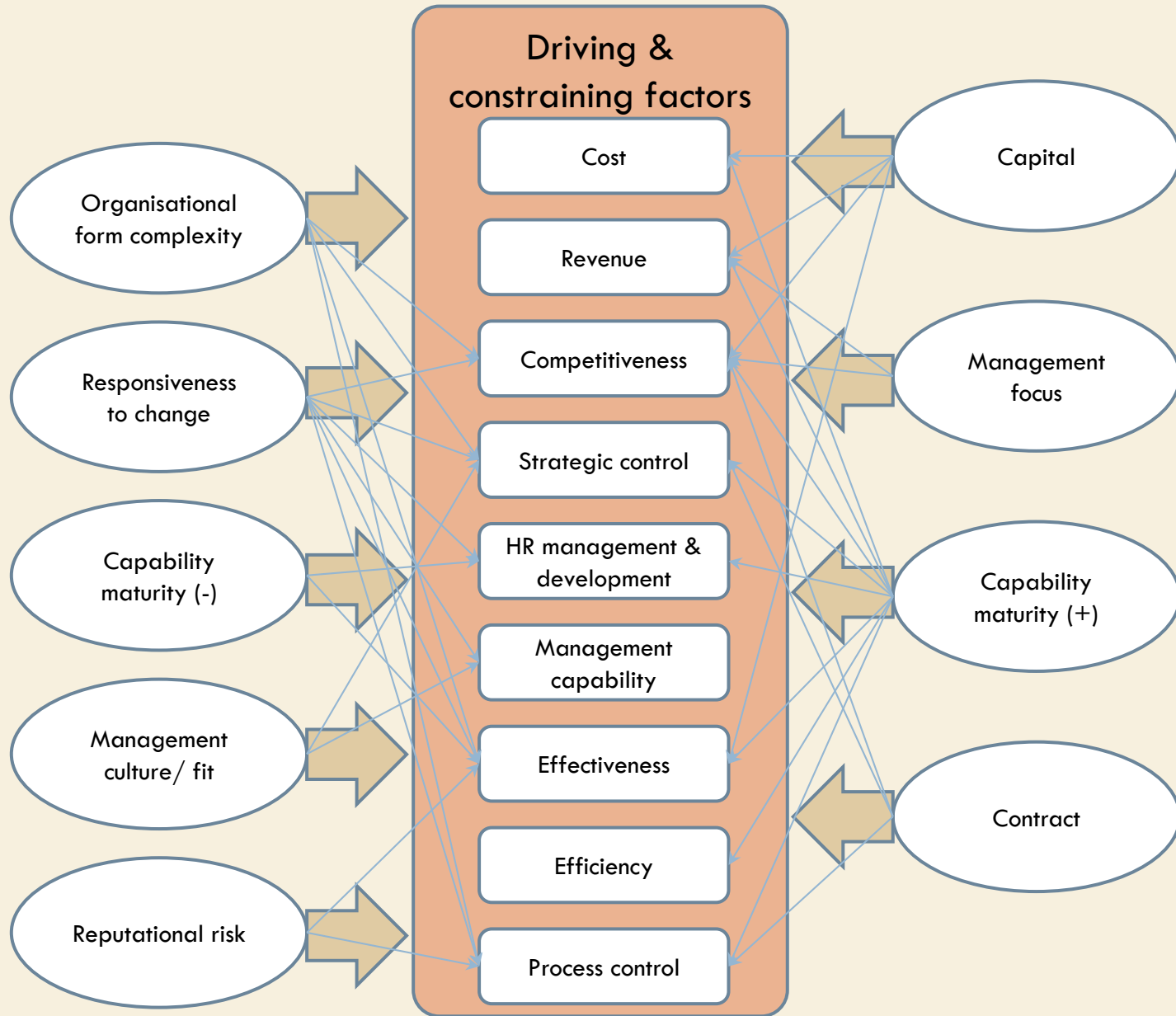
Corporate and investment banks are exceedingly averse to reputational risk, and acutely sensitive about the image projected towards clients, regulators and the industry in general.

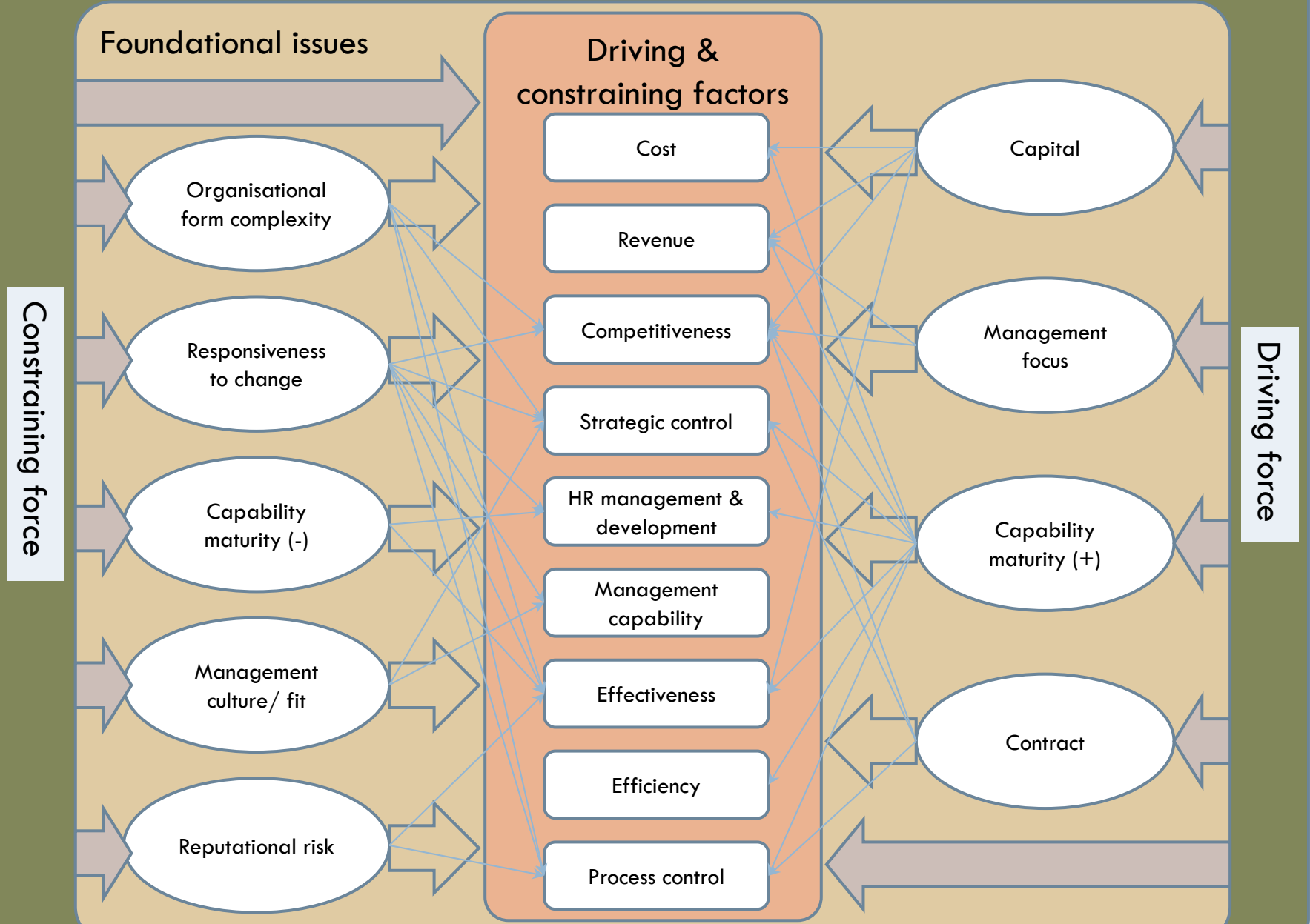## Driving & constraining factors

- Cost
- Revenue
- Competitiveness
- Strategic control
- HR management & development
- Management capability
- Effectiveness
- Efficiency
- Process control

Reputational risk

EA:

- "Foundation for execution" model

Driving & constraining factors

Constraining force

Driving force

Organisational form complexity

Responsiveness to change

Capability maturity (-)

Management culture/ fit

Reputational risk

Cost

Revenue

Competitiveness

Strategic control

HR management & development

Management capability

Effectiveness

Efficiency

Process control

Capital

Management focus

Capability maturity (+)

Contract

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

EA:

- 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.