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**AN OUTSOURCING FRAMEWORK FOR THE AUSTRALIAN BANKING
INDUSTRY**

Dr David Arthur & Dr Paul Anthony McMahon

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Conference presenter: Dr Paul McMahon

Contact: Dr Paul McMahon
c/o Dr David Arthur
Graduate College of Management
Southern Cross University (NSW)
PO Box 157
Lismore NSW 2480

Telephone: 0419-566755

Email: mcmahon1@bigpond.net.au

Abstract

Within Australia, the financial services industry is unique in that there is government regulation of the outsourcing activities conducted by organisations within that industry segment (Australian Prudential Standard APS 231 - Outsourcing). Financial services organisations within Australia have outsourced substantial elements of their business processes and information technology operations.

A recurrent theme within the literature relating to outsourcing is that the application of appropriate methodology is a key driver of outsourcing success. Whilst the literature contained a range of outsourcing methodologies, it was possible to map themes common to all outsourcing methodologies. By adding additional research findings to these themes, it became possible to articulate an outsourcing framework for the Australian banking industry.

1 Background

This paper presents a framework for outsourcing within the Australian banking industry. The outsourcing framework was a key output of the Southern Cross University (NSW) doctoral thesis: *'Tendering for outsourced services in a large Australian bank: the drivers of success'* (McMahon 2008). This paper is largely a reproduction of certain sections from this thesis.

2 Introduction

Initially, the concept of outsourcing is introduced, with the characteristics, history and growth of outsourcing in Australia reviewed. Outsourcing methodologies from the literature are introduced (macro and detailed), and their key characteristics described, with elements common to the methodologies noted. The importance of appropriate project management, as a critical element of the outsourcing process, is highlighted. The impact of Australian Prudential Standard 231 - Outsourcing (APS 231) on the outsourcing approach of Australian financial services organisations is reviewed. Additional insights, relating to corporate governance, risk profile and culture, that are relevant to an outsourcing framework, are articulated.

A comprehensive outsourcing framework for the Australian banking industry, that incorporates the foregoing, is presented and the characteristics of this framework discussed.

3 Outsourcing characteristics

Michael Corbett (Johnson 1997, p. 5) noted the difficulty in defining outsourcing, as there were many terms that were synonymous with outsourcing: 'sub-contracting, contracting-out, staff augmentation, flexible staffing, employee leasing, professional services, contract programming, facilities maintenance or management, contract manufacturing and contract services'. Corbett added that the difficulty was

compounded by each term possessing other meanings, aside from outsourcing.

In introducing the concept of outsourcing, a comprehensive definition, that consolidates most elements of definitions contained in the literature, is presented:

Outsourcing takes place when an organisation transfers the ownership of a business process to a supplier. The key to this definition is the aspect of transfer of control. This definition differentiates outsourcing from business relationships in which the buyer retains control of the process, or in other words, tells the supplier how to do the work. It is the transfer of ownership that defines outsourcing and often makes it such a challenging, painful process. In outsourcing, the buyer does not instruct the supplier how to perform its task but, instead, focuses on what results it wants to buy; it leaves the process of accomplishing those results to the supplier (Bendor-Samuel 2005, p. 1).

In order to facilitate understanding of outsourcing, various characteristics of outsourcing are introduced from the literature.

Objectives of outsourcing: Within the outsourcing literature there was broad consensus on the constitution of the objectives of outsourcing, and that those objectives should be set at the commencement of the outsourcing project. Common themes in the literature included: cost reduction; focus on core competency; sharing of risks; improved service standards; and access to world class skills (Beasley, Bradford & Pagach 2004; Figg 2000; Gupta 2004; Hurley & Costa 2001; Quinn, Cooke & Kris 2000; Saunders, Gebelt & Qing 1997; White & James 1996). In addition to the common themes, Johnson (1997) added: free up capital resources; access to resources not available internally; acceleration of re-engineering benefits; free up resources for other purposes; cash infusion; and rectification of a business function that was difficult to manage in-house. Saunders, Gebelt and Qing (1997) also noted that outsourcing could occur because it was mandated by central office or purely for reasons of political expedience. For example, a firm may outsource an element of its business operations purely to send a signal to the market.

ITO and BPO: Outsourcing is typically divided into two types: information technology outsourcing (ITO); and business process outsourcing (BPO) (Brooks 2004; Factor 2002; Misra 2004; Reilly 2003).

Change from in-house service provision to external provision: In defining outsourcing, there was unanimous agreement in the literature that the key feature of an outsourcing arrangement was the change from in-house service provision to service provision by an external provider (Australian Industry Commission 1996; Embleton & Wright 1998; Rothery & Robertson 1996).

Make or buy: Given that a service is being provided internally, firms are faced with the choice to either continue to provide the service internally or elect to buy the service from external providers. Domberger and Hall (1995, p. 3) characterised this aspect of outsourcing as ‘a starkly simple choice: make or buy’.

Transfer of responsibility: An inevitable outcome of the ‘make’ to ‘buy’ mindset change is the transfer of responsibility for the execution of a particular business activity to an external service provider. The service provider becomes responsible for recurrent internal activities, decision making capability, and in certain circumstances, the factors of production (Alborz et al. 2004; Greaver 1999).

Extension of value chain: By transferring responsibility for the execution of a business process to a service provider, the ‘end-to-end value chain’ is extended from the customer to the outsourced service provider. The service provider becomes a ‘de facto’ member of the client’s organisation (Keen 2002).

Risks and rewards shared: A consequence of including a service provider in the value chain is that risks and rewards are now shared by the client and the outsourced service provider (Firmbuilder 2003b).

Department of Commerce NSW (2002, p. 6) noted that the defining characteristic of outsourcing was the ‘sharing [of] risks, liabilities and benefits with a business partnering style relationship’.

Specify 'what' not 'how': A service provider needs to understand the requirements of the outsourcing organisation in order to effectively deliver those requirements. Therefore, organisations that are seeking outsourced services need to specify their requirements to the service provider (Corbett 2004). In specifying outsourced services to a supplier, it is the outcome that is important, not the process for achieving that outcome (Stright & Candido 2000).

Legal perspective: The Australian Industry Commission (1996, p.xix) introduced a legal dimension to the concept of outsourcing by noting that outsourcing is 'an arrangement whereby a contracting agency enters into a contract with a supplier from outside that agency for the provision of goods and/or services which typically have previously been provided internally'.

Time dimension: Outsourcing is characterised as a long-term or even permanent arrangement, whereas subcontracting and contracting are typically short term or temporary contractual arrangements (Firmbuilder 2003b; Lankford and Parsa 1999; White & James 1996).

Alignment of outsourcing objectives with corporate strategy: Outsourcing, and the achievement of its objectives, reflects and supports the organisation's corporate strategy. Brown and Wilson (2005, p. 36) argued that the outsourcing activity, if it is to be successful, must occur within the framework of the corporate goals and that those 'goals serve as a basis for determining project success'. The outsourcing activity is considered a strategic activity, with Corbett (2004, p. 45) noting that outsourcing, by its nature, is strategic as companies use it to seek both 'a positive effect on its net costs and a positive effect on its net capabilities'. Brown and Wilson (2005, p. 322) suggested that outsourcing could be an enabler of corporate strategy by providing 'resources and access to best practices to support ... the client's business objectives' and that outsourcing freed up executives to allow them to focus on the more strategic aspects of the organisation.

Offshoring: A variation of outsourcing is ‘offshoring’. Shiu (2004, p. 1) highlighted not only the recent advent of offshoring, but also reinforced the congruency with outsourcing when he defined offshoring as ‘the recent term coined in reference to the outsourcing of software development tasks and, more lately, business process operations (BPO), such as call centres and claims processing, to lower cost countries’.

4 Outsourcing history and growth

Outsourcing has been in use on an industrial or commercial scale since the advent of the industrial revolution in England during the 1700’s (Brown & Wilson 2005; Kakabadse & Kakabadse 2003), with firms facing the ‘make or buy’ conundrum that resulted from the greater production efficiencies that characterised eighteenth century England (Domberger & Hall 1995). The first systematic use of outsourcing can be traced back to the 1940’s, during World War II, when organisations provided systems facilities management services to the U.S. government (Greaver 1999). However, it was the growing dissatisfaction with the underperforming post World War II ideal of economy-of-scale driven conglomeration (Hunter & Cooksey 2004) and the introduction of timesharing mainframe computer services in the 1950’s and 1960’s (Factor 2002) that set the scene for the wider adoption of outsourcing methodologies. Nelson, Moody and Stegner (2001) claimed the confluence of predictable, consistent quality with the increasing availability of technology to smaller companies, as occurred in the mid 1970’s, initiated the move to outsourcing. Large computer manufacturers such as: Computervision; Data General; Digital; and IBM decided to outsource

bigger and bigger pieces of their products ... who wanted to be in the business of forecasting, stocking, sourcing, building, storing, shipping, and re-designing ... why not shift the burden to those that wanted to be in that high volume, custom business? (Nelson, Moody & Stegner 2001, p. 12).

The onset of global recession in the early 1980’s, led to the development of a new strategic business model. This new strategic model ‘promoted the notion that management must concentrate on the organisation’s main purpose in order to focus time, effort and capital on value-creating activities that yield

a competitive advantage' (Hunter & Cooksey 2004, p. 27). As the 1990's arrived, outsourcing consolidated its position as a legitimate business management tool. Hemphill (2004 p. 62) credited Kodak outsourcing major components of its information systems function, in 1990, as providing the impetus for the general acceptance of outsourcing.

Outsourcing, on a large scale within Australia did not appear until the 1990's (Beaumont 2006). The uptake of outsourcing in Australia had paralleled and been enabled by the development of web based technologies 'that make it easy, quick, and cheap to transfer internal data (e.g. payrolls or delivery instructions) to a vendor'(Beaumont 2006, p. 2). Outsourcing was well established in Australia by 2000 (Bieske & Cossetto 2003), with a survey conducted by Melbourne University indicating that '90% of Australian organisations outsource IT to some degree' (Seddon 2000, p. 1). In the mid 1990's, the Australian public sector was an early adopter of outsourcing, with government organisations demonstrating a willingness to devolve activities, that were long considered sacrosanct, to external service providers. In 1998 a large scale outsourcing of employment services under the Job Network program was conducted (Webster & Harding 2000). In the private sector, the Commonwealth Bank of Australia initiated a landmark financial services outsourcing deal when it signed a ten year contract with EDS for the provision of IT services in 1997. This deal was subsequently revamped in 2006 and extended until 2012 (Rossi 2007). Over the period 1998 to 2008, all four major Australian banks had undertaken significant outsourcing arrangements. Australian banks 'view outsourcing as a key way of bringing their cost-to-income ratios ... in to line with overseas banks' and have also demonstrated a willingness to send domestic operations offshore (Williams 2005, p. 1).

There is unanimous agreement in the literature that outsourcing, in Australia, is growing at a rapid rate. Aulich, Halligan and Nutley (2001, p. 150) noted the significant growth of outsourcing and competitive tendering in the public sector, observing that Australian governments are 'increasingly seeking external providers to deliver services which were once seen as their sole province'. Andrew Friars of Accenture Consulting estimated that BPO grew at a faster rate in Australia than in USA or Europe (Zampetakis

2003), whilst Ruthven (2004) noted the growth of outsourcing in Australia between the period 1960 and 2000 and drew a parallel between this growth and the increase in GDP in the same period (Real GDP grew from AUD 174 billion to AUD 805 billion in the period 1960 to 2000 (ABS 2008)).

The dominant view within the outsourcing literature is that organisations should retain execution of those business activities that are 'core' to the organisation and seek to outsource those business activities that are 'non-core' (Brown & Wilson 2005; Corbett 2004; Dearlove 2003; Doyle 2003; Drtina (1994); Greaver 1999; Hirst 1998; Johnson 1997; Quinn & Hilmer 1994). Organisations had to generate 'new thinking and new ideas about what is core and what can be done better, cheaper and faster by outside suppliers' (Quinn, Cooke & Kris 2000, p. 108). If the philosophy of retaining core activities and outsourcing non-core activities is embraced, then a key task in considering which business activities are suitable for outsourcing is the identification of core and non-core activities.

5 Outsourcing methodology

In response to the significant growth in outsourcing, methodologies have evolved to ensure that the approach to outsourcing was both systematic and comprehensive, therefore providing the greatest likelihood of success for the activity. The importance of the application of an appropriate process to govern the outsourcing activity is a recurrent theme in the literature. Corbett (2004, pp. 105-106) noted that the application of an appropriate outsourcing methodology is a 'value-creation loop; done poorly it can be a value-destruction loop'. Hurley and Costa (2001) pointed out that, even though businesses have been using outsourcing strategies since the early 1960's, current outsourcing practices have become more complex in terms of the sophistication of vendors and the flexibility of their service offerings. In line with this increasing complexity, it was inevitable that the methodology involved in engaging with external service providers (both in terms of tendering for services and ongoing management of the relationship) had become, and would continue to become, increasingly complex.

The literature contained a number of references to outsourcing methodologies, and these methodologies shared many commonalities: strategy and planning; requirements analysis; analysis of current costs and service levels; interaction with the supplier market; evaluation of supplier propositions; execution of contract; transition to service provider; and ongoing contract management.

Whilst there is variation amongst the methodologies proposed by various authors, the primary themes are common to, or implied in, all methodologies. In terms of approach, some writers adopted a macro level methodology, i.e. the methodology described had five or less primary tasks, whilst other writers proposed more detailed outsourcing methodologies, comprising five to ten primary tasks.

Macro outsourcing methodologies: Corbett (2004, p. 106) proposed a five stage outsourcing methodology: i) idea; ii) assessment; iii) implementation; iv) transition; and v) management. The first three stages of this methodology are 'pre-contract', that is, contract negotiation and execution is the final activity in stage three, whilst the final two stages comprise the 'post-contract' phase. With Corbett's approach, the stages are considered a series of gates that must be passed through and completed, before moving on to the next stage. Corbett noted that 'each stage has a clearly defined and straightforward question it seeks to answer, and that answer is the starting point for the next stage' (p. 106). Garrett (2003, pp. 33-38) highlighted four steps that were necessary when outsourcing: i) risk analysis; ii) due diligence in vendor selection; iii) documentation of the vendor relationship and contractual issues; and iv) ongoing supervision and monitoring of vendors. Under Garrett's approach, the first three steps comprised the pre-contract phase with the final step categorised as post-contract. Similarly, Zhu, Hsu and Lillie (2001, pp. 373-378) recommended a four stage outsourcing methodology: i) planning; ii) developing; iii) implementing; and iv) surviving the outsourcing, with the first two stages being pre-contract, and the final two stages being post-contract. Figure 1 presents Corbett's five stage methodology, with the approaches of Garrett and Zhu, Hsu and Lillie overlaid for the purpose of comparison.

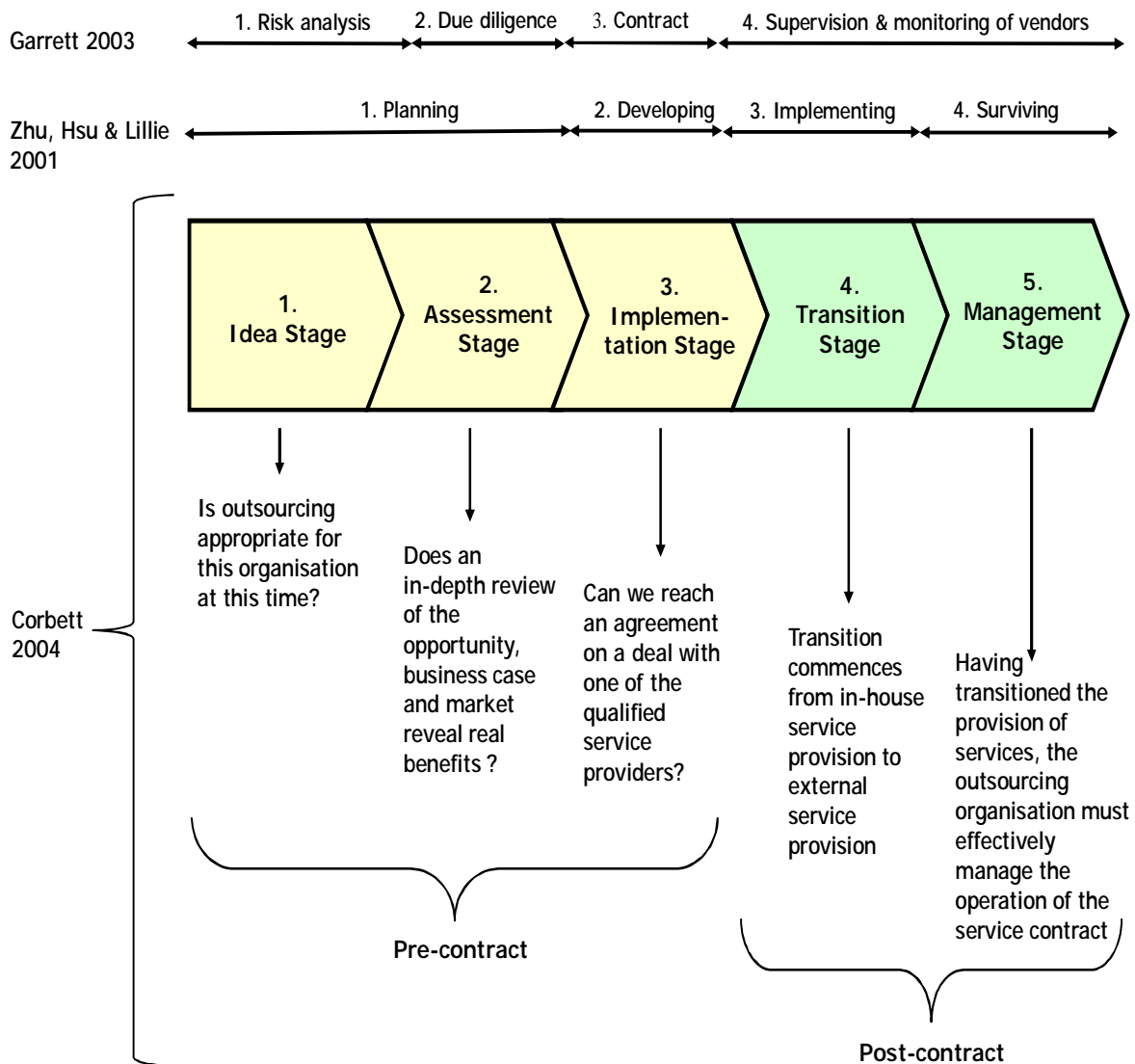


Figure 1: Comparison of macro outsourcing methodologies

Source: adapted from Corbett (2004, p. 106); Garret (2003, pp. 33-38); Zhu, Hsu and Lillie (2001, pp. 373-378)

Each of the three approaches highlighted the signing of a contract as a major milestone, and this is logical as, in a legal sense, there is no outsourcing arrangement until a contract is signed. To reflect this concept, the stages in the model have been grouped into ‘pre’ and ‘post’ contract phases. Pre-contract stages are those that are concerned with conceiving and executing an outsourcing arrangement, whilst post-contract stages are focused on transferring the in-house services to the external service provider and managing the outsourcing relationship.

A strong focus on understanding whether it was prudent to outsource a particular business activity was also a feature of each of the methodologies. Risk analysis, planning and assessment stages were focused on understanding the benefits and the risks associated with outsourcing a business activity and selecting the most appropriate service provider. The transition of services to the selected service provider was highlighted in each approach as a high risk activity that required careful management. Finally, the 'steady state' was reached where the services had been transitioned to the service provider and the service provider was responsible for conducting the business process. Each of the three macro approaches acknowledged that the monitoring of service outputs and the management of the service provider were critical activities. In terms of differences between the three macro outsourcing methodologies, there was nothing substantial. The variations between the methodologies were related to semantics and timing, rather than fundamental in nature.

Detailed outsourcing methodologies: In addition to the macro approaches to outsourcing, and perhaps in acknowledgement of the complexity and inherent risk of outsourcing, more detailed outsourcing methodologies were also described in the literature. Brown and Wilson (2005); Glen (2002); Greaver (1999); and Pallesen (2005) outlined methodologies formulated around seven tasks, whilst TRG (2003) proposed an eight task outsourcing methodology, with Rothery and Robertson (1995) outlining a ten task outsourcing process. These detailed methodologies provided the bridge between the macro framework for the conduct of the outsourcing activity (figure 1) and the detailed activities that must be undertaken if the outsourcing activity was to be completed satisfactorily.

Table 1: Comparison of detailed outsourcing methodologies: tasks

Brown & Wilson (2005)	Glen (2002)	Pallesen (2005)	Greaver (1999)	TRG (2003)	Rothery and Robertson (1995)
PRE CONTRACT					Get commitment
Strategy	Identify requirements	Identify needs	Plan initiatives	Analysis and planning	Select project leader
	Vendor review		Analyse cost and performance		Devise methodology
Request for proposal (RFP)	Tendering (RFT)	Request for proposal (RFP)		Request for tender (RFT)	Project plan
	Evaluation	Evaluation	Select providers (RFP)	Pre-bid preparation	Project team
Negotiation	Negotiation	Selection	Negotiate terms	Negotiation	Assessment study
		Contract		Contract	Report findings
POST CONTRACT					Select/plan specific outsource project
Implementation	Implementation	Define administrative functions	Transition resources	Transition	Select providers (RFT)
Management			Manage relationship		Pass control to external service provider
Completion	Contract management				
Maintaining and supporting		Close out		Post award	

Source: adapted from: Brown and Wilson (2005, pp. 25-26); Glen (2002, p. 14); Greaver (1999, p. 17); Pallesen (2003, pp. 1-3); Rothery and Robertson (1995, p. 75); TRG (2003, p. 1)

Similar to the macro outsourcing methodologies (figure 1), the six detailed outsourcing methodologies

outlined in table 1 have been designated either ‘pre-contract’ phase or ‘post-contract’ phase and the differences between the detailed methodologies did not represent major philosophical dichotomies, but rather variations in terminology and timing. The terminology adopted for each task in table 1 is self explanatory, with minor exceptions. For example the term ‘completion’ (Brown & Wilson 2005) referred to the decision, at the end of the outsourcing contract period to either renew the contract, seek an alternative provider, or bring the service back in-house. Pallesen (2005) in using the term ‘closeout’, was referencing a report, commissioned at the end of the outsourcing contract, that detailed the outsourcing contract and measured the progress and success of the outsourcing arrangement. The term ‘post award’ (TRG 2003) described the management of the outsourcing contract and the renewal process at the end of the contract.

Project management regime: The outsourcing activity is complex and conducted over an extended period of time. The range of tasks and disciplines involved is so broad that large organisations were advised to adopt rigorous project management methodologies in order to appropriately manage their outsourcing projects (Corbett 2004; Greaver 1999; Rothery and Robertson 1996). Lacity and Willcocks (2001) held the view that poor project management, in respect to outsourcing activities, could lead to implementation difficulties, whilst White and James (1996, p. 47) noted that ‘the quality with which a project is managed represents a critical success factor, particularly given the long-term nature of most outsourcing agreements’.

6 APS 231

The Australian Prudential Regulation Authority (APRA), as the regulator of the Australian financial services industry, is a key stakeholder in any discussion concerning financial services outsourcing. In 2002, APRA issued Australian Prudential Standard 231 - Outsourcing (APS 231) and its accompanying Guidance Note (APRA 2002a; 2002b). This prudential standard was updated in October 2006 (APRA

2006). APS 231 governs the outsourcing activities of authorised deposit taking institutions (ADI's), and aims to ensure that all outsourcing arrangements involving material business activities entered into by an authorised deposit-taking institution (ADI) are subject to appropriate due diligence, approval and on-going monitoring. All risks arising from outsourcing material business activities must be appropriately managed to ensure the ADI is able to meet both its financial and service obligations to depositors (APRA 2006, p. 1).

Key sections of the prudential standard relate to: materiality of outsourcing arrangements; requirement for ADI's to develop an outsourcing policy; approach to assessing outsourcing options; form and content of the outsourcing agreement; APRA access to service providers; notification requirements; offshoring arrangements; relationship monitoring; and audit arrangements (APRA 2006).

7 Additional research insights

In the course of conducting research into the drivers of success, when tendering for outsourced services (McMahon 2008), it was found that corporate governance, risk profile and culture impacted both the tendering activity and the outsourcing activity. Therefore, these elements must be considered when describing a comprehensive banking industry outsourcing framework.

Corporate governance: Outsourcing activities are subject to the corporate governance regime of the organisation.

Corporate governance mechanisms have the purpose of monitoring and controlling the management of corporations so as to result in more effective management ... [and] enables a corporation to balance the need for managerial risk-taking ... with the interests of shareholders and other interests in the community (Lipton & Herzberg 1999, p. 240).

The corporate governance framework regulates the outsourcing strategy by calibrating the level of risk and types of behaviours that are acceptable to the organisation, therefore impacting the type of outsourcing arrangements that may or may not be acceptable to the organisation. In addition, corporate

governance has a direct impact on the outsourcing methodology by dictating the expenditure discretions and approval processes that are required, in order to transform the outsourcing activity from the idea stage to the operational stage. In regard to governance over the outsourcing process, Flannery and Heckathorn (2003, p. 8) recommended the establishment of two committees: i) a strategic committee - charged with making policy decisions about key issues, such as what functions to outsource or change; and ii) a tactical committee - responsible for collecting and analysing data and making initial recommendations.

Corporate risk profile: The corporate risk profile not only drives the outsourcing process, but sets the extent to which outsourcing may or may not be undertaken in an organisation. The risk appetite of the organisation can also be influential in defining 'success' in outsourcing (McMahon 2008).

Corporate culture: Corporate culture not only drives the way that organisations conduct their activities (Davis & Devinney 1997), but is also a key component of success in outsourcing, to the extent that corporate culture may be instrumental in deciding whether the organisation can consider outsourcing certain business activities (McMahon 2008).

8 Outsourcing Framework – Australian Banking Industry

Having reviewed and compared various outsourcing methodologies, determined the requirement for an appropriate project management regime, articulated Australian prudential regulatory requirements and considered the impact of corporate governance, risk and culture, it is appropriate to propose an outsourcing framework for the Australian banking industry (figure 2). McIvor (2000) argued that promulgation of an outsourcing framework was an effective means of integrating the outsourcing activity into the overall strategy of an organisation.

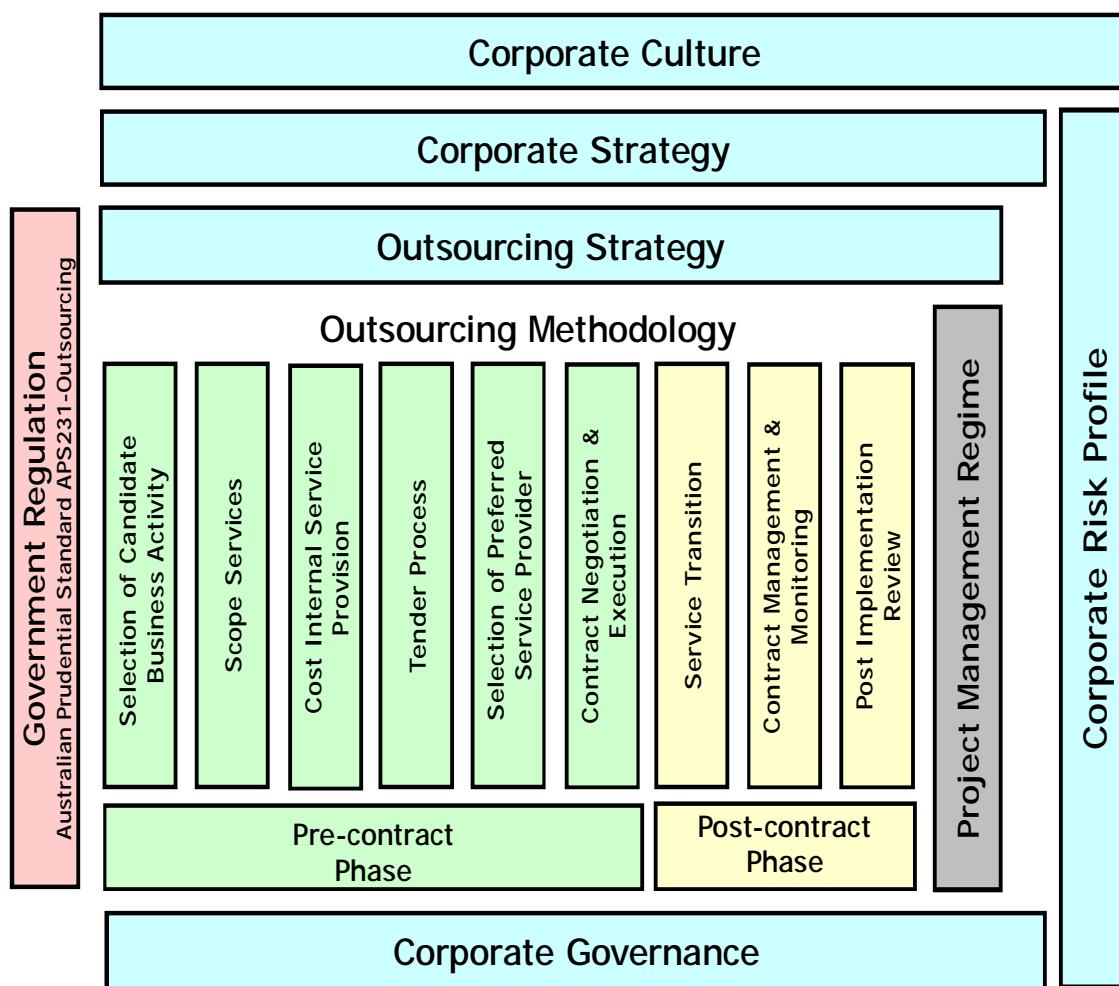


Figure 2: Outsourcing framework - Australian banking industry

Source: McMahon (2008, p. 240)

The proposed outsourcing framework is comprised of four primary elements:

1. **Corporate imperatives** (blue): the corporate-level strategic and governance dictates of the organisation;
2. **Outsourcing methodology** (green & yellow): outsourcing methodology is comprised of tasks that occur up until the execution of an outsourcing agreement with a vendor (pre-contract: green), and tasks that occur after contract execution (post-contract: yellow);
3. **APS 231** (pink): the Australian prudential standard for outsourcing regulates the outsourcing activities of banks; and
4. **Project management regime** (grey): provides the planning and management framework within

which the outsourcing methodology is implemented.

1. Corporate imperatives

Corporate culture dictates the way corporations conduct their activities (including the outsourcing activity), calibrates the corporate risk profile and informs the corporate governance approach and structures. Additionally, corporate culture drives the strategy of the organisation.

Outsourcing strategy is formulated with reference to corporate strategy - for an outsourcing activity to be successful, it must be consistent with corporate strategy. Outsourcing strategy is also formulated with reference to the corporate risk profile. A key component of the outsourcing strategy is a clear statement of the objectives of the outsourcing activity (White & James 1996).

The corporate risk profile sets the extent to which outsourcing may or may not be conducted within an organisation and the degree of rigour of the outsourcing methodology.

2. Outsourcing methodology

The outsourcing methodology proposed in this framework is comprehensive in nature and, consistent with the methodologies reviewed in section 5, is divided into 'pre' and 'post' contract phases.

Selection of candidate business activity: The pre-contract phase commences with the selection of the outsourcing business activity candidate. This selection process must be undertaken within the outsourcing strategy of the organisation and mindful of the objectives of the outsourcing activity.

Scope services: Once the candidate business activity has been identified, it is necessary to specify the services that are required to be outsourced. The key outcome of this task is a service specification document (typically in tabular form – also referred to as a statement of requirements) that details the required services, articulates required performance standards and defines performance measures (this document forms a key part of the tender documentation that is distributed to the market in the ‘tender process’ task).

Cost internal service provision: This task is also referred to as ‘internal cost and service baseline’, and is crucial to understanding current cost and performance standards. The baseline task is typically undertaken by a group that is independent of the candidate business activity. Unless a cost and service baseline activity is undertaken, there will be no basis of comparing the organisation’s cost and service performance with that offered by the market.

Tender process: Within the context of this paper, the term ‘tender process’ relates to the activities that an organisation may choose to undertake in engaging with external service providers for the provision of outsourced services. This process involves all activities relating to the preparation and dispatch of a request for tender (RFT) document to the service provider market and the evaluation of the service providers’ responses to the RFT. The tender process is typically the most time consuming and resource hungry task in the outsourcing methodology and, as the process involves significant interaction with third parties, it also contains a heightened element of commercial risk exposure. Tendering is not the only process of engagement with the service provider market, however, due to the inherent risks and complexity of the outsourcing relationship (Quinn & Hilmer 1994), the tender process is recommended when seeking providers of outsourced services, or in fact, any significant supply of goods or services (Aulich, Halligan & Nutley 2001; Australian Industry Commission 1996; Cant & Jeynes 1998; Department of Commerce NSW 2002; Domberger & Hall 1995; Frisch 2004; Hayes 1997).

The objective of the tender evaluation process is to identify the best-qualified service provider that meets the needs of the organisation. Tender evaluation is a complex process and can include: feasibility studies; fiscal impact studies; review of vendor viability; and financial projections (Mills & Vreeland 1997, p. 408). APS 231 (APRA 2006) requires that a due diligence review of the selected service provider be undertaken during the vendor assessment stage of the outsourcing activity (cl. 17(b)).

Selection of preferred service provider: Typically the evaluation process results in the identification of a 'preferred tenderer'. The tender evaluation team would then take this recommendation to the appropriately authorised committee for endorsement, or otherwise, of their finding.

Contract negotiation & execution: The process of selecting the preferred service provider is followed by the negotiation of a service contract. If the contract negotiations are satisfactory to both parties, then a contract for the provision of outsourced services will be executed. As part of this task, an Australian bank would be required to inform APRA of the outsourcing arrangement, if it was material in nature.

Service transition: Having executed the contract, the outsourcing methodology moves into 'post-contract phase'. The first task in this stage involves transitioning the services to the external service provider.

Contract management & monitoring: Once the services have been transitioned to the service provider, and a 'steady state' of external service provision reached, the outsource relationship must be managed and service performance, per the contract, monitored.

Post implementation review: This final stage was not recommended as a discrete task in the outsourcing methodologies reviewed (section 5), rather it was implied under the tasks associated with managing and monitoring contract performance. The approach adopted by an Australian bank studied in McMahon (2008) was to conduct reviews of material outsourcing contracts between six and twelve months after

contract execution. This appeared to be a prudent approach, and was consistent with the requirements of APS 231 (APRA 2006, cl. 31-35). As this important review process is undertaken independent of contract management, and at a point distant from the execution of the outsourcing contract, it has been included in the proposed framework as a discrete task.

3. APS 231

The third element of the proposed outsourcing framework is government regulation of the outsourcing activities undertaken by Australian banks. The provisions of APS 231 (APRA 2006) directly impact the outsourcing strategy of banks by requiring the development of an outsourcing policy (cl. 12-15) and consultation with APRA prior to entering into any offshoring arrangement (cl. 29-30). Additionally, APS 231 impacts the outsourcing methodology of subject organisations by specifying requirements related to the assessment of outsourcing options (cl. 17-18) and listing mandatory outsourcing contract inclusions (cl. 19-23).

4. Project management regime

The fourth element of the proposed framework reflects the inclusion of a comprehensive project management regime within which to plan and execute the outsourcing methodology. Such a regime was considered a key driver of success in conducting the outsourcing process (section 5).

9 Implications for practitioners

The Outsourcing Framework - Australian Banking Industry (figure 2) provides a theoretical foundation for practitioners engaged in the outsourcing activity, within the Australian banking industry. By excluding references to prudential regulation (APS 231), this model may be utilised as a framework for practitioners engaged in outsourcing activities outside the Australian banking industry.

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