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**An outsourcing framework for the Australian  
banking industry**

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# *Agenda*

- Background
- Outsourcing
  - definition
  - objectives
  - history
  - methodology
- Outsourcing framework for Australian banking industry
  - key elements
  - framework
  - notes to framework
- References & contact details
- Questions / discussion

# *Background*

- This presentation is based on the findings arising out of a doctoral research thesis: "*Tendering for outsourced services in a large Australian bank: the drivers of success*" (McMahon PA, 2008)
- The financial services industry is unique in Australia, in that there is government regulation (APRA) of the outsourcing activities undertaken by organisations within that industry: *Australian Prudential Standard APS 231 – Outsourcing*

## *Outsourcing – definition* (Bendor-Samuel 2005)

- An organisation transfers the control and ownership of a business process to a supplier – the buyer does not tell the supplier *how* to do the work
- The transfer of ownership of the business process is germane to outsourcing (often causes the outsourcing relationship to be challenging and painful)
- The buyer focuses on *what* results it wants rather than *how* the results are to be achieved
- Outsourcing is typically divided into two types: information technology outsourcing (ITO); and business process outsourcing (BPO)
- Offshoring is an outsourcing arrangement where the business activity is conducted in a different country

## *Outsourcing - objectives*

- Reduce costs
- Focus on core competency
- Share risks
- Improve service standards
- Access world class skills
- Free up capital resources
- Access resources not available internally
- Accelerate re-engineering benefits
- Inject cash
- Rectify a business function that was difficult to manage in-house

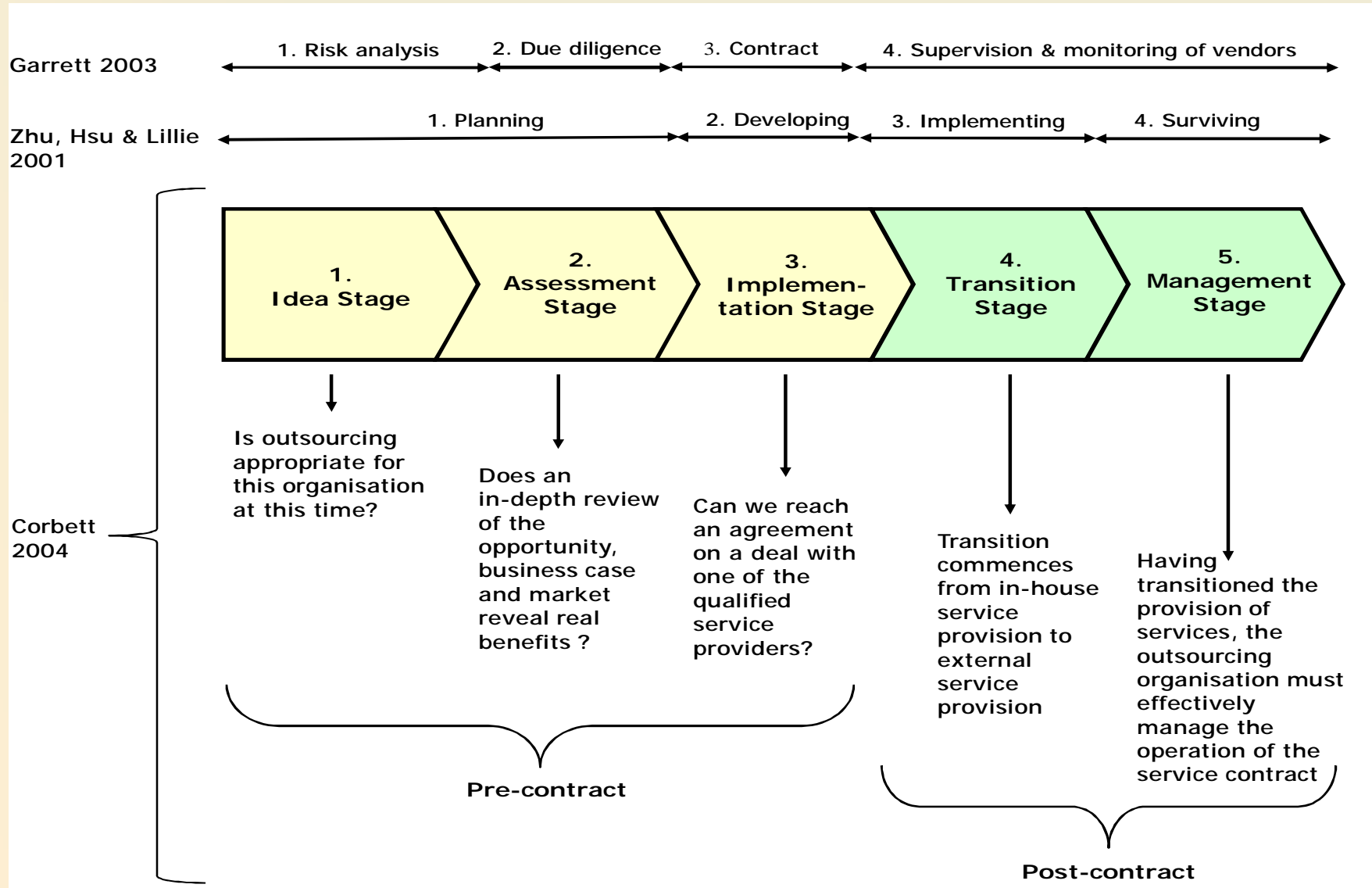
## *Outsourcing - history*

- Dates back to the industrial revolution in England in the 1700's
- First systematic use of outsourcing: WWII (1940's) – organisations provided systems facilities management to US government
- Timesharing mainframe computers – 1950's & 1960's
- Global recession (1980's) led organisations to focus on main purpose (core v context)
- Kodak IT outsourcing deal (1990) signalled widespread acceptance of outsourcing
- In Australia:
  - Commonwealth Bank IT outsourcing to EDS (1997)
  - significant public sector outsourcing (Job Network program 1998)
  - the four major banks have significantly outsourced / offshored in the period 1998 to 2008

## *Outsourcing - methodology*

- Appropriate processes to govern the outsourcing activity are critical (*Corbett 2004, Hurley & Costa 2001*)
- Outsourcing methodologies from the literature shared many common elements:
  - strategy & planning
  - requirements analysis
  - analysis of current costs and service levels (baselining)
  - interaction with supplier market
  - evaluation of supplier propositions
  - execution of contract
  - transition to service provider
  - ongoing contract management

# Outsourcing methodology (macro perspective)



McMahon PA (2008, p. 43)

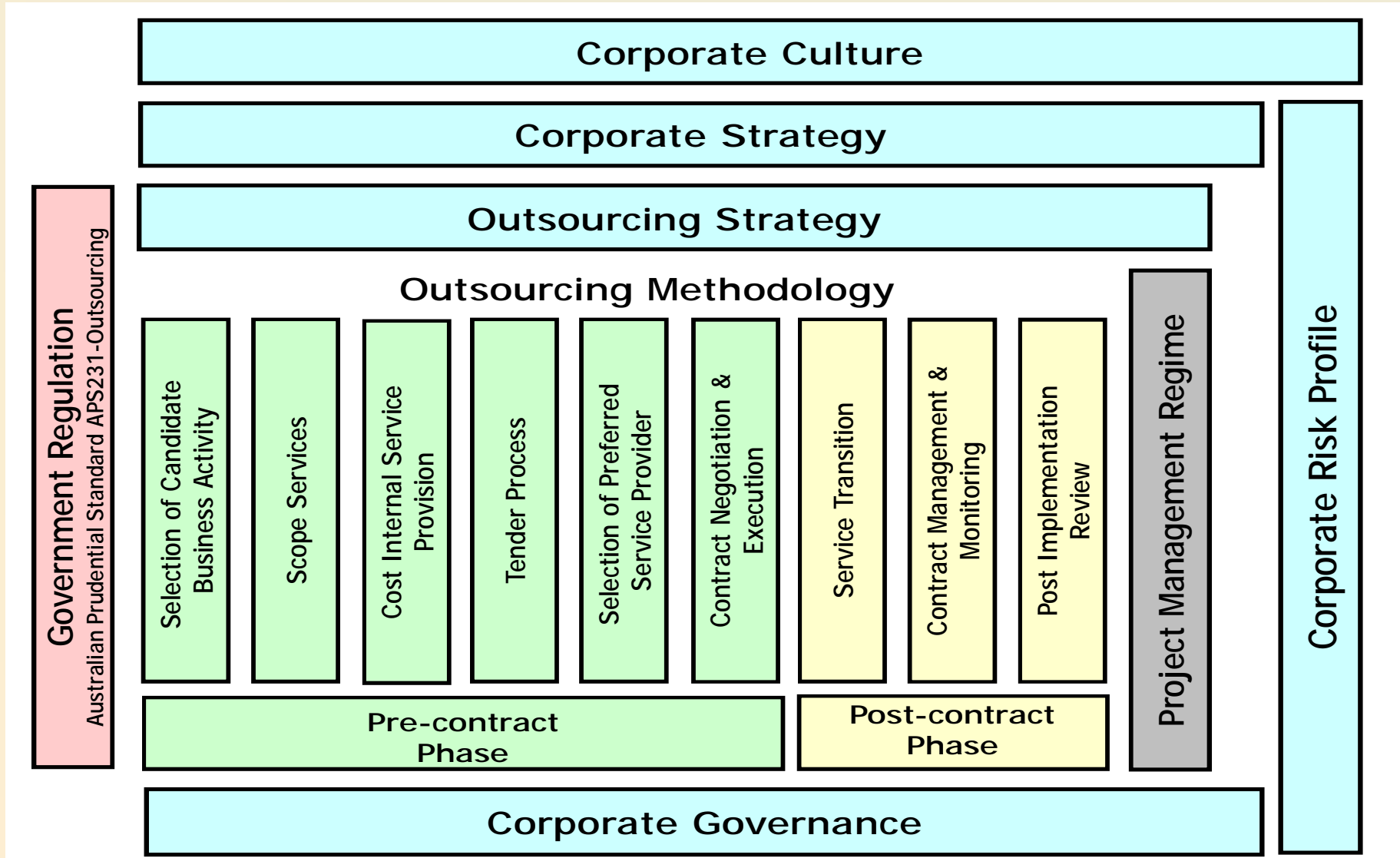
# *Outsourcing framework for the Australian banking industry*

- Derived from a review of outsourcing literature and interviews with practitioners from a large Australian bank
- Provides a theoretical foundation for practitioners engaged in the outsourcing activity, within the Australian banking and finance industry
- Can be utilised within other industries by excluding reference to APS 231

## *Outsourcing framework – key elements*

- Literature review provided the following key elements of an outsourcing framework for the Australian banking industry
  - government regulation (APS 231)
  - corporate strategy
  - outsourcing strategy
  - corporate governance
  - project management regime
  - outsourcing methodology
- Research revealed additional elements of an outsourcing framework:
  - corporate culture
  - corporate risk profile

# Outsourcing framework



## *Outsourcing framework – notes*

- The outsourcing framework is comprised of four primary components:
  1. Corporate imperatives (blue): the corporate level dictates of the organisation.

### Corporate culture:

- drives the strategy of the organisation
- dictates the way corporations conduct activities
- calibrates the corporate risk profile
- informs the corporate governance approach

## *Outsourcing framework – notes*

2. APS 231 (pink): the Australian prudential standard for outsourcing regulates the outsourcing activities of banks
  - authorised deposit taking institutions (ADI) must have a policy for outsourcing material business activities
  - sufficient monitoring processes must be in place
  - legally binding agreements must be in place for activities with third parties
  - ADIs must notify APRA after entering outsourcing arrangements
  - ADIs must consult with APRA prior to entering offshoring agreements
3. Project management regime (grey): provides the planning and management framework within which the outsourcing methodology is implemented
  - Literature review found that a robust project management regime, when outsourcing, was a key driver of success

## *Outsourcing framework – notes*

4. Outsourcing methodology (green & yellow): comprised of pre-contract (green) and post-contract (yellow) activities
  - Pre-contract
    - selection of candidate business activity
    - scope services
    - cost internal service provision
    - tender process
    - selection of preferred service provider
    - contract negotiation & execution
  - Post-contract
    - service transition
    - contract management & monitoring
    - post implementation review

# *References & contact details*

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*Questions / discussion*