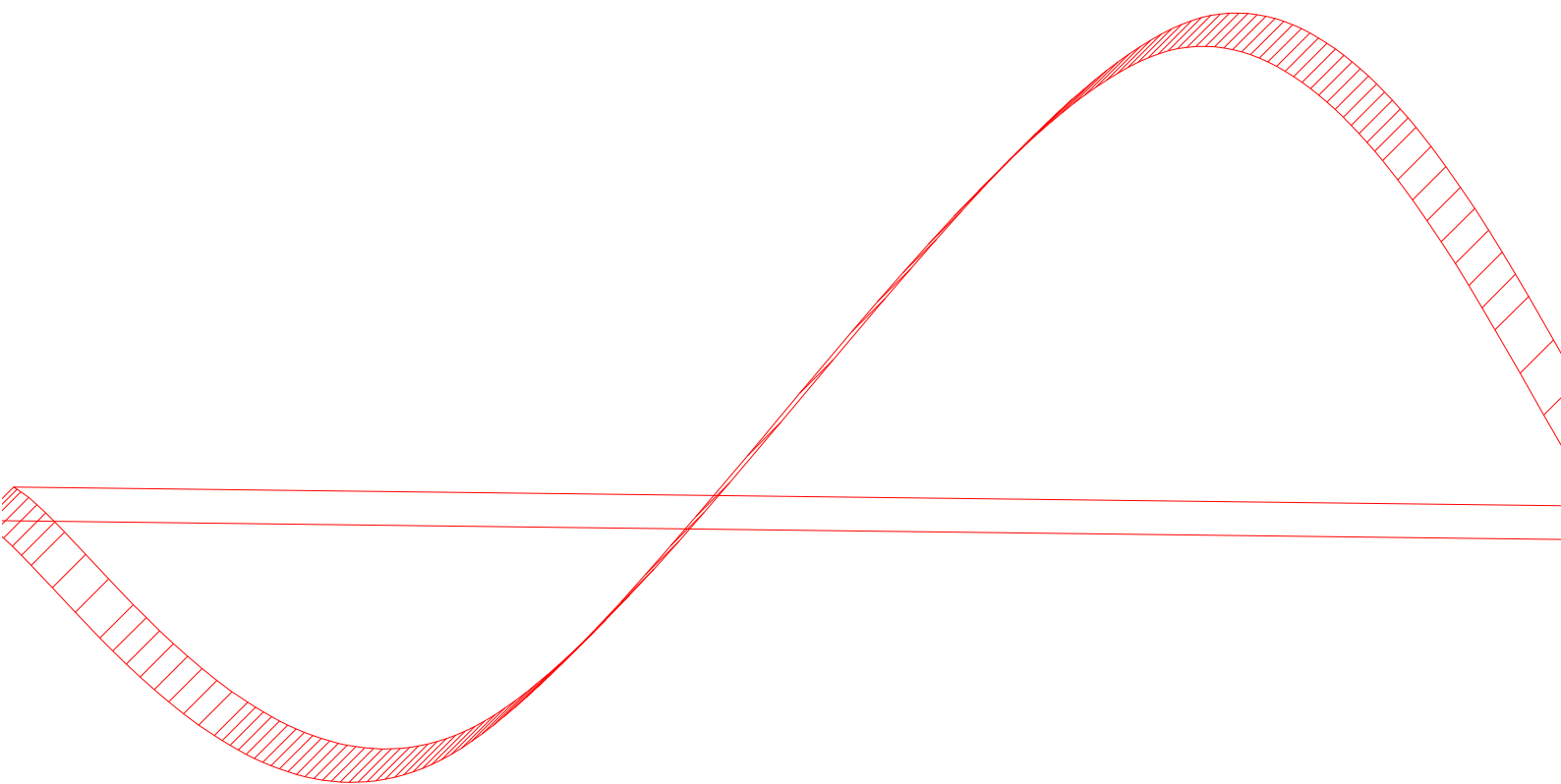


How to be a winner in the financial crisis

Manageable Challenge - or just infeasible?



Whitepaper from Globals



Strategy within a structural break – the modification of a traditional thought pattern

The impact of the financial crisis has increased the pressure for financial institutions to implement lean, efficient and cost-effective structures. Several institutions became increasingly endangered with a shortage of liquidity and growing costs, others are facing straight with bankruptcy.

To manage the increasing cost pressure, companies need comprehensive reform to improve operational effectiveness and to generate the cash they need. Since its beginning in the 1980's outsourcing of administrative activities is a popular step to achieve this goal, whereas the transfer to a foreign country (offshoring) is often arranged in a second or a parallel step¹.

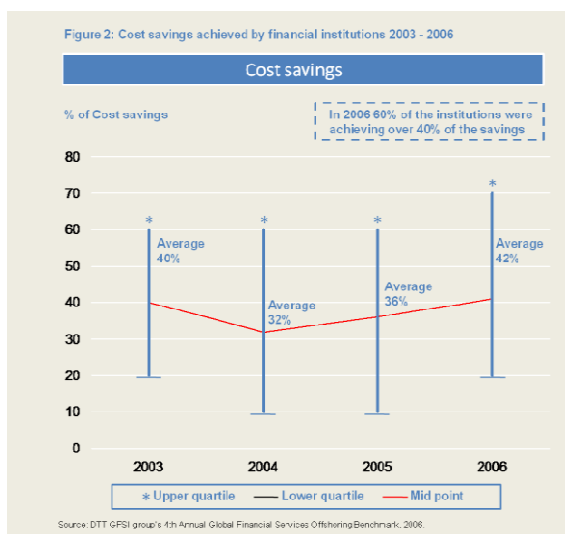
Particularly offshoring lures with significant cost advantage and a reduction of headcount. But financial institutions shouldn't act overhasty: Companies navigating through the recession cycle should not only cut costs but also seek out additional opportunities to improve business performance. A single sided view on offshoring could lead to a suboptimal action plan in which pivotal opportunities fall by the wayside. In suddenly volatile and different times, companies must have a real strategy, not a plan². Constant improvement in operational effectiveness is necessary to achieve superior profitability. But it is usually not sufficient, noticeable in the rapid diffusion of best practice. In this manner financial institutions need to reflect strategy in a distinctive value chain.

¹ Deutsche Bank Research, 2008

² McKinsey, 2008

Offshoring and the financial institutions – a well known plan

In the medium-to-long term, the financial crisis will accelerate global sourcing adoption as financial institutions push the envelope on offshoring to cut costs. Everest Research Institute predicts BPO from the financial services sector will increase 40-45 times the current market size over the next five years³. The main advantage of offshoring seems to be the difference of cost of labor between the western and developing countries. More than half of financial institutions saved over 40 percent against their onshore costs, on a process-by-process basis in 2006. In 2003 the figure was just over a third⁴.



Considering the overall performance the same research shows an improving with a rise in average savings from a low of 32 percent in 2004 to 40 percent in 2006 (figure 1). The increase in scale and scope of operations offshored has been a prime driver in industry gains. Financial institutions that offshored one or two business processes saved on average 20 percent less than companies with over five business processes offshore⁵.

Initially dominated by IT (applications development, maintenance and support) offshoring has spread across various functions in financial institutions. Remarkable is a significant growth in BPOs, particularly around transaction processing, human resources and knowledge based tasks like financial research and modeling⁶. While other offshoring services have grown rapidly, the management and maintenance of core infrastructure from afar has been slow to gain popularity. But within the next years companies will take advantage of the benefits of remote infrastructure management. Fortune 50 companies, with budgets of \$2 billion, can save as much as \$500 million of their IT infrastructure budgets, mostly from labor savings⁷. The current state and the forecast can be seen as additional evidence of companies' satisfaction and growing reliance on offshore vendors.

³ Everest Research Institute, 2008

⁴ Deloitte, 2007

⁵ Deloitte, 2007

⁶ Deloitte, 2007

⁷ McKinsey, 2007

But behind the obvious fact of saving costs, there is a lot of more potential for organizations to get more competitive. The widened scope of offshored services has accompanied a transition from a relatively tactical, arbitrage-driven approach to a more strategic approach, delivering quality and process improvements as well as efficiency gains⁸. A comprehensive approach can drive focus: while managers often confront a variety of initiatives pulling them in different directions, the deconstruction of processes and a bold redesign can unify and clarify direction.

How financial institutions can select efficient institutional arrangement

By means of a radical extension of economic micro theory, Nobel Prize winner Ronald Coase advert to the existence of transactional costs⁹ as a fundament of the institutional structure of economy and its companies. With regard to enterprises transactional costs can be considered as a measure of efficiency for the selection of institutional arrangements¹⁰. Alongside production costs, there are costs for preparing, entering into and monitoring the execution of all kinds of contracts, as well as costs for implementing allocative measures within firms in a corresponding way.

The degree of specificity of processes, resources, functions or services holds a crucial

"The Depression-era economist Joseph Schumpeter emphasized the positive consequences of downturns: the deconstruction of underperforming companies (...). For companies with cash and ideas, history shows that downturn can provide enormous strategic opportunities."

Tom Nicholas (Associate professor at Harvard Business School), 2008

importance for the total amount of transaction costs: high specific processes with a strategically or existentially meaning require special precautions (e.g. detailed contracts, or a total internal execution), that prevent the hazard and insecurity of opportunistic behavior of an external party. On the other hand – esp. for non specific processes – a firm might expand to the point where an additional allocative measure costs more internally than it would through a contract on markets. In that case the governance via hierarchy (internal execution) is

⁸ Deloitte, 2007

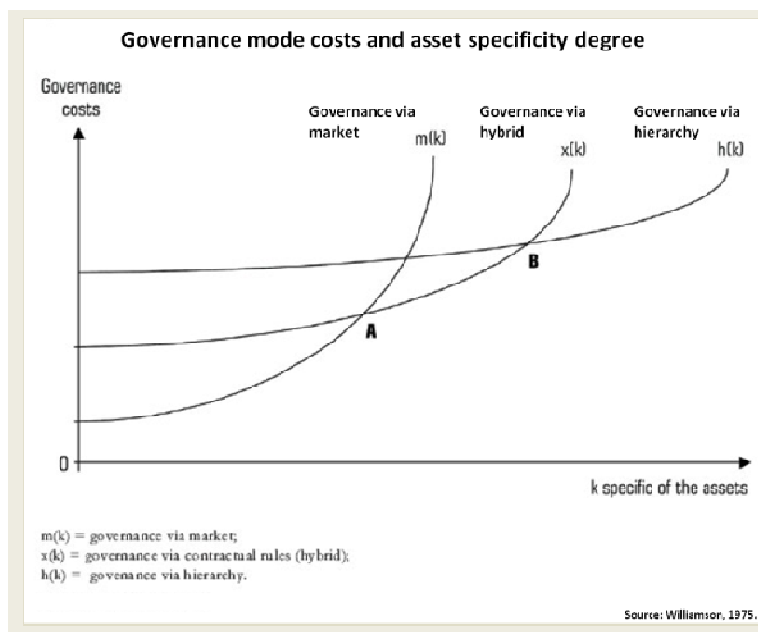
⁹ Transactional costs are composed of the interplay between the factors insecurity/complexity, specificity and the behavior of opportunism and limited rationality.

¹⁰ Coase, 1937

no longer efficient.

The primary activities of the value chain - considered as being the generic value-adding activities of a financial institution - are likely to be managed in a highly sensitive manner. But support activities – including administrative or back-office activities – might not have the same degree of specificity. Companies have to ask themselves, which execution mode is necessary and efficient for the various operational processes.

In the ideal type of curve progression the intercept points A and B mark the transition between the different organizational systems (figure 2)¹¹. Unspecific and strongly standardized processes can be efficiently mediated over the market, as there is no need for the cost-intensive cover and control mechanism. It implies the highest degree of cost-effectiveness according to the formula $m(k) > x(k) > h(k)$.



Certainly, companies' won't always outsource complete areas of their value chain. Besides all advantages, the specificity for several activities remains high. For most banks the product development for example might belong to their core competences. The loss of direct control over important business processes and know how would radically boost the risks that opportunistic behavior could endanger the value of those strategic resources. The impact of the crisis and the growing costs

¹¹ Williamson, 1975

drive focus to the full spectrum of back-office functions – standardized and none primarily relevant for the core business.

Does a Hedge Fund strategically need an internal execution of lower and higher IT activities? Or lower HR activities? The answer might be 'Yes and No'. For some funds IT activities stay better under a firm's control. Others probably went short of cash and are faced with an increased competition so that they focus the freed resources on creating a competitive investment process or growing their assets through sales and marketing activities.

Regarding the given production of goods and services and the corresponding productions costs, financial institutions should select the institutional arrangements which imply lower the transactional costs. Together with the value chain as a reference the transaction cost framework can be used as a powerful analysis tool for strategic planning - and a significant measure by thinking on offshoring for creating lean and efficient arrangements.

Offshoring and a smart redesign of the value chain: business value beyond saving costs

Reviewing the entire chain of specific/non-specific elements that make up process uncovers opportunities to achieve business and strategic impact:

- ✓ Business value can be created by open up strategic opportunities. Through the offshore cost savings there is a higher amount of liquid assets and immaterial resources than can be invested in new projects, innovations and business creation.
- ✓ The extensively larger talent pool in India ranges over many technology and analytical disciplines. With a virtually 24/7 development using the time-zone differences and smart shift management financial institutions are able to speed up process cycles and to bring innovative services to market faster at lower costs.
- ✓ Companies are able to improve their expertise regarding the lack of talents at their home labor markets. Financial institutions leveraging global talent pools

to provide seamlessly integrated offerings to internal and external costumers around the world¹².

- ✓ A Total Quality Management – installed not only at the Offshore Development Center (ODC), but also at the vendors firm – can significantly improve quality of products and processes.
- ✓ Uncertainty needs strategic flexibility: The lean structures and the reduction of complexities allow financial institutions to identify major changes in the external environment at an early stage and to halt or reverse existing resource commitments.

All together the above mentioned individual advantages have a huge impact on a company's performance. If implemented in the DNA of the business, financial institutions can successfully differentiate in competition while creating sustainable business value for the future.

Financial institutions should evaluate to select the government mode via market for non-specific activities, that doesn't require business units to spend time and energy coordinating the activities. Time, energy and costs should better be directed towards areas where a sustainable added value can evolve.

If handled prospective, the targeted reinvestments of the (through offhoring enabled) resources can generate efficiencies and revenue growth that surpass the savings from straight cost reductions. Sine qua non executives must follow the countercyclical advice and maintain investments during the downturn. And there are many starting points for doing the right things:

Reinvestments in a fine-grained market and customer segmentation

Financial institutions should use data more effectively and optimize processes through technology. Better data can sharpen insights into costumers segments, pinpointing opportunities to change offers or focus sales efforts. Banks implementing a more systemic approach to winning new accounts and to improve cross-sales to existing customers can increase the productivity of their office branch sales forces and the revenues per employee¹³.

¹² Peter Schumacher, 2008

¹³ McKinsey, 2008

Additionally banks could reinvest the cost savings into premium services for high value market segments - including 'mass affluent' segments that may be underserved today.¹⁴ Innovative and intelligent data mechanics show chances to enlarging existing or occupying new market segments. Over 12 to 18 months, these projects may return up to ten times the bottom-line impact of simple IT cost reductions¹⁵.

Implementing Web 2.0 technologies

The continued growth of the internet will fully impact the market. In the B2C market the creation of customer gateways should become much more dominant, especially in the banking sector. In a 2006 survey Deutsche Bank Research found out that over 50% of the European customer shops around for financial products in the internet¹⁶. Thus reinvesting in Web 2.0 technologies can intensify and expand the customer contacts, manage reputational risk and forecast business development in the physical world.

Optimize transparency and risk management

The financial crisis has brought greater clarity to think about better management of risk and uncertainty. No one player can shape the fundamental uncertainties that are driving global capital markets¹⁷. But companies have to take uncertainty seriously as a basis for strategic planning and decision making. The insights of having more high risk situations should be reflected in the internal allocation of resources and innovative tools for decision-making processes.

The lack of faith and transparency has increased the structural dynamic of the crisis via self-fulfilling negative spirals. Regulators and capital markets are demanding greater transparency and new services that optimize risk management and restore faith. But top-performing firm by 2010 are likely to go beyond the minimum requirements, using transparency and compliance as a way to the hearts and minds of investors, and leveraging their efforts to improve decision-making, cost efficiency, and service quality¹⁸.

¹⁴ Deloitte, 2006

¹⁵ McKinsey, 2008

¹⁶ Deutsche Bank Research, 2006

¹⁷ McKinsey, 2008

¹⁸ Deloitte, 2006

Reduce complexity

Within the next years financial institutions must implement technologies to reduce the high degree of complexity – e.g. by the elimination of paper-based processes. For instance, trading of many assets classes is now done on electronic exchanges. By contrast, back office clearing and settlement is often stuck in a paper-based world driving up complexity and reducing the efficiency of markets¹⁹. Moreover - with paperless offices - financial institutions take the step and go green.

The above mentioned investments are a cutout of growth opportunities that show their sustainable value performance when uncertainty subsides and the economy recovers. With an overall strategy of offshoring financial institutions can use the sophisticated restructuring and reinvest some of the back-office savings for more far-reaching improvements that will have even broader impact.

Managing the structural break beyond operative excellence – a strategic view on offshoring

Offshoring strategy means an overall approach based on a diagnosis of a challenge; and during structural breaks in hard times, cutting costs isn't enough. If your company can cut costs offshore, your competitors can do too and sooner or later they will.

Things have to be done differently, and on two levels: reducing the complexity of corporate structures and transforming business models. As a result companies perform activities differently than rivals do and can create greater and preservable business value²⁰. Thus offshoring represents an opportunity for discontinuous change.

Today enterprises must become more modular and diverse. Financial institutions are likely to create an optimal hybrid model by selectively using a combination of vendors and captives. Many of the long-time gains from offshoring are coming from kitting together a number of offshore centers, some in low-cost countries and other in high-cost ones. But the competitive value of individual activities cannot be separated from

¹⁹ Deloitte, 2006

²⁰ Michael E. Porter, 1996

the whole and operative excellence isn't all: A strategically managed global delivering model and with it the implementation of a value chain that 'is strong as its strongest link' creates a fit that is difficult to imitate. Or in a nutshell: it locks out imitators. Financial Institutions should think about it strategically, otherwise they miss the opportunity.

Particularly with regard to the impacts of the financial crisis some researches assume that the period of increasing profitability and efficiency seems to end²¹. But major alterations in the business environment that fundamentally threaten a financial institution's market share or potentially its continued existence should convince management of the need for comprehensive reform²²: together with the business impact of offshoring the sophisticated analysis of the deconstruction in the financial sector and the backdrop for doing business produced by the changing upheaval of the last quarter's can be finally used to great advantage on both, the business and the technology sides.

²¹ Deutsche Bank Research, 2008

²² McKinsey, 2007

About us

Globals Inc is a multinational company founded in the year 2000 by Mr. Suhas Gopinath at the age of 14 years at California, USA. Globals offers cost effective world class quality solutions in web, software, mobile and multimedia. Globals has established offices in more than 11 countries. Till date Globals has served more than 200 clients worldwide.

We have always placed quality over quantity, mind over machine and unity over uni-opinion. Our firm is one of the few places on the earth where egoistic thoughts are out of question. There is a lot of enthusiasm among the members to perform. This makes our work more streamlined and solutions meet the prescribed time boundary.

The focal point of the firm is to provide a global arena for the youngsters to perform at the corporate and the industry level giving emphasis to the skill sets of the individuals than their academic qualifications.

We believe in doing things through proper channels for optimum results. Nothing else would explain serving more than 200 clients worldwide. We at Globals understand we have miles to go before even looking back. Hence we do not rest on our prior laurels. Laurels come and go, progress is the only thing on our minds, and will be the same for the time to come.

In a nutshell we are Globals, setting the global trend.

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