

Outsourcing in the financial services industry: An exploratory study into the changing trends within the sector

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Abstract

Outsourcing is a core strategy within the financial services industry (Jensen & Pedersen, 2011) and the objective of this paper is to gain a deeper understanding of the trends of outsourcing and offshoring by a leading global firm within the sector. Through qualitative research in the form of semi-structure interviews with managers in the firm, significant learnings are revealed that will guide managers who need direction on how to effectively outsource or offshore.

The research resulted in three key findings. The first relates to the trends of functions outsourced by the firm. Initially non-core, repetitive, low risk tasks were outsourced but with increased cost pressure and developed relationship with vendors, core-higher risk functions were outsourced (Park & Wu, 2009). This led to the firm losing control over processes, as front to back tasks were fully operated by a vendor, thus highlighting the second key finding; the models of outsourcing or offshoring used within the industry. As there is a significant risk with loss of intellectual capital with a third part vendor model, alternative models such as utilisation of a captive center, which is a wholly-owned entity of the firm, or offshoring to low cost locations within the firms entity are preferred models that reduce risk while managing costs (Kotlarsky, et al., 2009). The third key finding refers to the lessons learnt from experts in the field; the managers interviewed. Their advice includes treating outsourcing as a long term strategy, with the functions to be outsourced phased to a vendor or offshore location in a planned manner (Krebsbach, 2004). Importantly also is the need to engage middle managers in all stages of the strategic planning and project management of outsourcing or offshoring.

There are many implications from this research including the impact regulatory policies have on outsourcing strategies, the effect of outsourcing on graduate jobs and the changes in skills needed in the Irish labour market. Education bodies need to identify and ensure the required skills are thought for positions in governance and remote management, as this is the area of growth in Ireland (Gaitonde, 2007). It is recommended that further research be conducted on other firms within the industry, as well as in various regions across the globe, as this area of research is significant in understanding the future trends within the financial services industry.

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1. Chapter 1 – Introduction

1.1 Outsourcing

Outsourcing is not a new concept as noted by Huff (1991), however recent trends have seen organisations increasing the use of outsourcing as a business strategy according to Fill and Visser (2000). Although Jensen and Pedersen (2011) agree that in the past decade outsourcing and offshoring has become standard business practice for firms, they stress that it is still the non-core, less complex tasks that are still being outsourced. However within the financial services industry, with the continued pressures to reduce costs, firms have been outsourcing core activities to increase profitability (Park & Wu, 2009).

The literature is heavily focused on; the trends of outsourcing over the past 50 years, the reasons organisations have turned to outsourcing as a strategy, the focus on India, China and Central Eastern European countries as key locations for offshoring (Kotlarsky, et al., 2009) and the abundance of risks associated with outsourcing (Dad & Iqbal, 2013).

However it is difficult to find concrete facts on organisations strategies, models, volumes and type of functions outsourced within the financial services industry. As this a sensitive topic for organisations, it is challenging for researches to fully grasp the magnitude of what is actually outsourced in today's environment (Jensen & Pedersen, 2011). Due to the lack of tangible data available, it is difficult for managers within this industry to learn from the mistakes and successes of other firms as well as to determine trends and potential strategic approaches for the future.

1.2 Research Aim

The aim of this research is to conduct an in-depth review of a global firm within the financial services industry, to gain an understanding of the outsourcing performed by the firm, the main challenges they have faced and the benefits received from their outsourcing strategy. Most importantly is the focus on the current situation and future plans for outsourcing and offshoring by the firm.

Through this research, managers who are currently engaged in outsourcing or who are assessing the alternative options available to them will get an insight into the

challenges and decisions made by this firm which may assist their strategic decision process.

1.3 Research Questions

To achieve the above mentioned aims, three research questions frame the paper. The questions are focused on knowledge that is not widely available in the literature and will benefit from primary research with experts in the industry.

Research question 1

“Are companies in the financial services changing the type of functions and processes they outsource?”

Research question 2

“Are the models of outsourcing and offshoring changing in today’s environment within the financial services?”

Research question 3

To effectively outsource or offshore in today’s environment what key learnings can managers within the financial services industry impart to others?

1.4 Research Method

In line with the literature a qualitative research method was conducted in the paper (McKendrick, 2013; Clott, 2007). Semi-structured interviews were completed with middle management within the firm. The managers interviewed were chosen based on their experience with outsourcing, whether managing outsourced teams or being the decisions makers to move functions to an offshore location or to outsource. Managers were also chosen based on the business they worked in, as there are two core businesses within the firm and representation from both businesses was required.

The name of the firm and managers will remain anonymous, in line with previous research conducted (Mohiuddin and Zhan 2010; Jensen and Pedersen 2011). This is to ensure access is granted to carry out the research and to create a safe environment for managers to disclose their true opinions and thoughts on the subject area.

A theme sheet was completed in line with literature in this area, which formed the themes and areas of focus within the interviews. Analysis was completed on the trends and common themes discussed by the managers. This was then compared to the literature available and the findings generated the key learnings for the research.

1.5 Research Findings

In line with the research questions, the key learnings from this paper can be categorised under each question.

“Are companies in the financial services changing the type of functions and processes they outsource?”

The research found that substantial changes have taken place regarding the type of functions outsourced. Initially non-core repetitive processes were outsourced however in recent years core critical processes have also been outsourced. As a result functions and processes front to back have been outsourced to third party vendors. This has created substantial risk for the organisation, as it has resulted in a loss of intellectual capital for the firm.

To address this, alternative strategies are in place to move the functions to lower cost locations but within the firm’s entity. This ties into research question 2;

“Are the models of outsourcing and offshoring changing in today’s environment within the financial services?”

Firms within the financial services industry are still under immense pressure to reduce expenses, however need to give the same level of importance to the risks of outsourcing as costs saves. As a result of this, models such as utilising a captive center and offshoring to lower costs locations within the firm have become the preferred models. With the captive center, the firm maintains ownership over the people and processes. With offshoring, strategic hubs are being created in low cost countries such as Poland, which achieves the same savings but reduces risk to the firm. In effect, in some cases the firm have reshored functions from the vendor but instead of bringing it back to the home country (Kinkel, 2014) they are offshoring to lower cost countries and captive centers.

The third key learning from the research conducted was the manner in which outsourcing or offshoring should occur.

To effectively outsource or offshore in today's environment what key learnings can managers within the financial services industry impart to others?

Outsourcing needs to be a long term strategy. The functions outsourced should be sustainably operated by the vendor in the long term, the type of functions to be outsourced should be well planned out and migrated to the vendor or offshore location in a planned phased manner (Krebsbach, 2004). Additionally middle management are key to successful migration and governance of outsourcing and offshoring, therefore they need to be involved in strategic decision early in the process (Lacity, et al., 2008).

1.6 Limitations of Research

Primary research was conducted on one global firm within the financial services industry located in Dublin. Convenience sampling was adopted on a small number of middle managers. Due to the nature of the business, the scope of products and services conducted by the firm and the knowledge and experience of the managers interviewed, the sample was optimal for this research. However it is recommended that further research would engage a number of firms and various levels of management to identify challenges, benefits and future direction of outsourcing and offshoring across the financial services industry.

1.7 Structure of the paper

The paper first discusses the research available on the topic of outsourcing and offshoring within the literature review. As noted by Saunders et al. (2012) the literature reviews gives an insight into the work and findings already available within the research area. From there research questions will be discussed followed by the methodology used to address the aims of the paper and research questions. The next stage is to highlight the findings from the research conducted and give an insight to the reader on the core themes discussed within the research. The following chapter will then discuss the key findings within the exploratory study as the main areas of learnings from the research. The paper will then finish with conclusions and

recommendations for those who wish to understand what the key learnings and trends of outsourcing are within the financial services industry at present.

2. Chapter 2 - Literature Review

The focus and aim of the literature review is to understand the research that has been conducted in the area of outsourcing and offshoring, what the main trends within the literature are and to identify gaps where further research is needed. The literature is rich with; material on trends of outsourcing over the years, the positives and challenges of outsourcing, the main reasons why firms outsource and some of the recent models that are in place. It has provided vital information to support the research conducted within the dissertation.

The literature is lacking current statistics and details of what functions are actually outsourced by financial services firms. It is also very light on understanding the future direction of outsourcing and offshoring in this industry as firms are reluctant to share this sensitive information with external bodies (Krebsbach, 2004).

2.1 Background to Outsourcing

“Outsourcing refers to benefit from the services provided by another firm and offshore outsourcing means to benefit from an outside vendor in a different location in the world” (Ang & Inkpen, 2008).

The first big wave of outsourcing seen in the 1960s was in the area of manufacturing in the high-tech sector (Dunning & Lundan, 2008). According to Winkleman et al. (1993) the motivation to outsource to low-cost developing countries such as Taiwan, China and South Korea were cost reduction and availability of skilled labour. This trend resulted in a loss of “blue collar” jobs in many industry sectors (Bardhan & Kroll, 2003).

As noted by Feestra and Hanson (1996) the trend of outsourcing shifted in the 1990s from a parts and components model to that of contract work done by others. Bardhan and Kroll (2003) describe this as the new wave of outsourcing “white collar” jobs, with the software sector being the first to outsource significant functions. The economic conditions in the 1990s, with the liberalization of emerging markets resulted in financial firms following the trend of outsourcing (Jensen & Pedersen, 2011).

2.1.1 Reasons to Outsource

According to Dad & Iqbal (2013) other than costs factors, the primary drivers of outsourcing are access to global markets, access to global talent and focus on core competences. In addition to that, Bardhan and Kroll (2003) note that the tempting factors for firms was; the acceptance of English as the language of business, education and communication, the common accounting and legal systems in a number of countries, geographical locations that result in a 24/7 capability to operate and highly skilled graduates. Gupta (2009) also presented the 24-knowledge factory and follow the sun concept, where firms can take advantage of their global talent pool and locations. According to Narayanan (2009) there are four strategic reasons to outsource; improved cash flow, improved control of payment, scalable staffing and improvement of overall business performance.

The paper will seek to examine the reasons firms outsource and whether the motivation has changed in recent years. It will probe into cost being a primary objective, as evidenced in the literature.

2.1.2 Benefits of Outsourcing

Dad and Iqbal (2013) note the following as key benefits of outsourcing; cost reduction, focus on core competences, economies of scale, quality improvements, increase in operating cash flow, proximity to markets, bringing value to the end customer, access to new technology and access to global talent. Within the area of cost reduction, outsourcing allows firms to save on direct cost by having fewer employees therefore requiring less infrastructure and support systems (Kremic, et al., 2006). There are those who believe that by outsourcing specialist functions, firms can increase their performance, as this allows them to concentrate on their core functions that they manage best (Quinn, 1992). Benefits to outsourcing include the ability for firms to respond to environmental changes, as it allows for a quick turnaround time working with a vendor as opposed to the bureaucracy that can be created in-house (Dess, et al., 1995). In a report issued by the Basel committee on banking supervision it found that 89% of EU banks outsourced to reduce costs (Forum, 2005). 60% focused also on access to new technology and better management, with 58% outsourcing to focus on core functions (Forum, 2005). Interestingly Farrell (2005) notes that in particular US companies are benefiting from

offshore outsourcing as many of the outsourcing companies are either wholly or partially owned by the US.

2.2 Recent Trends - ITO / BPO / KPO

ITO (Information Technology Outsourcing) was the first wave of outsourcing within the software sector and this was then followed by BPO (Business Process Outsourcing) activities, which included many firms in the financial services industry. According to Feuerlicht and Vorisek (2003) the success of BPO depends on the degree of integration between outsourced process and in-house processes.

In recent years there has been an increase in KPO (Knowledge Process Outsourcing) which includes high-end processes such as valuation research, investment research and patent filing (Sen & Shield, 2006). KPO can provide firms with huge competitive advantage but the performance of the firm is very much in the hands of the vendor with this approach (Shi, 2007). Additionally, as the KPO activities may require extensive sharing of intellectual property by the firm to the vendor, there is a risk that this information could be used by the vendor to create competition against the client in the future, or the information could be leaked to competitors (Dad & Iqbal, 2013).

2.3 Offshore Destinations

2.3.1 BRIC v's Non BRIC Countries

As noted by Kotlarsky *et. al.*, (2009) the strength of the BRIC (Brazil, Russia, India and China) countries has been evident in the offshoring of IT and back-office services. In 2008 India exported \$40billion of ITO and BPO services, with China, Russia and Brazil achieving \$5billion, \$3.65billion and \$800million respectively (Kotlarsky, et al., 2009).

However, there are issues with some of the BRIC countries, with the Russian government not being fully supportive of the outsourcing market, instead focusing mainly on high-value but niche work (Kotlarsky, et al., 2009). In areas of low cost and labour availability even China and India have been seen to turn to non-BRIC locations for some solutions (Jensen & Pedersen, 2011).

2.3.2 India

India continues to be the preferred destination for outsourcing of ITO and BPO services. This is due to its educated workforce, foreign investment friendly government policies, stable political climate and English language proficiency as some of its core strengths and advantages (Neil, 2013). India's strong reputation for outsourcing, which has built up over the past 20 years, has been able to grow and improve its capacity and capabilities and according to Kotlarsky et al. (2009) there is a clear indication that it will continue to be the primary outsourcing market / country for ITO and BPO in the future.

However, according to Loh and Sharma (2009) India may lose its dominance in the ITO and BPO offshoring market, as cost reduction will continue to be a driver and India's growing economy and inflation rates will struggle to compete. As noted by Overby (2009) countries like Mexico, Egypt, Romania, Bulgaria, Poland, Slovakia, Belarus, Morocco, Tunisia, Costa Rica, Vietnam and the Philippines are growing offshoring destinations that are predicted to increase in attractiveness in the coming years.

India as a core location for outsourcing will be a key theme within the research of this paper. To identify the trends of outsourcing in the future to India is significant, as the literature states that although other strategic locations are increasing in interest, India remains a leader in the area of outsourcing. Identifying if the research supports this view will be of great interest to the paper.

2.3.3 China

China's focus is to increase its exported software production, as although it only has a small percentage of the market compared to India, according to Carmel et al. (2008) it provides double the dollar value. The strength of the Chinese economy and the support from the government to grow its software industry has resulted in a national policy; the "1,000, 100 and 10 Plan" which began in 2006 (Kotlarsky, et al., 2009). The aim is to establish 1,000 software firms, attract 100 global firms to have a presence in China and promote 10 firms in China as world class development parks. The national goal is to change the focus and ability of China from "Made in China to China Service" (Kotlarsky, et al., 2009, p. 194).

Similar to India's growth as an outsourcing leader, first establishing itself as an ITO destination, followed by a BPO market, the trends suggest that China will grow in the BPO market once its capabilities in the ITO market are grounded. Also using China as a country for BPO gives diversity for firms who wish to reduce the geopolitical risks of their outsourcing portfolio (Dossani & Kenney, 2009).

As of today China is the most important destination for the offshoring of manufacturing but India remains the leader for service outsourcing (Neil, 2013). In 2008 43% of offshore BPO went to India (Neil, 2013).

2.3.4 Non-BRIC and Near-shoring

According to Kotlarsky, et al. (2009) BRIC countries which are also known as Tier 1 countries are the most attractive countries for the outsourcing of ITO and BPO functions, due to the scale of services, availability of skills and the maturity of the outsourcing services. However, due to these reasons and particularly in India, the activities are moving up the value-chain and away from lower value repetitive tasks. As a result of this trend, there is an emergence of non-BRIC or Tier 2 and Tier 3 countries providing ITO and BPO services, with 120 offshore locations in these countries in 2009 (Fill and Visser, 2000; Kotlarsky, et al., 2009).

Egypt is growing as a low-cost destination for call-centers due to its ability to support European languages. Dubai and Singapore offer advantages in the outsourcing of high-security and business-continuity services and Africa is growing as an exporter of ITO and BPO services for UK-based clients, due to its time zone, cultural similarities, English-speaking capabilities and strong infrastructure (Kotlarsky, et al., 2009).

Gál (2010) notes that the emerging trends of Western European countries near-shoring to Central Eastern European (CEE) countries such as Hungary, Bulgaria, Romania and Poland is growing in popularity due to their geographical location, time zones, lower transactional costs, cultural similarities, education and established infrastructure. However, the number of talented graduates and level of experience in CEE compared to India is substantially lower (Dad & Iqbal, 2013).

2.4 Outsourcing Structures and Models

2.4.1 Captive Centers

Captive centers are wholly-owned subsidiaries located in an offshore location that perform work for the parent company (Oshri, 2013). The concept of captive centers began in the mid-1990s and by 2006 110 of Forbes 2000 companies had captive centers in India amounting to \$9billion worth of ITO and BPO activities (Kotlarsky, et al., 2009). The Banking and Finance sector are one of the main industries using captive centers (Oshri, et al., 2008).

Kotlarsky et al.(2009) outline three strategies for parent companies of captive centers; hybrid, shared and divested. Utilising a hybrid model means that the captive center outsources non-core activities to a local service provider. This leads to the captive centers focusing on value-add activities, reducing costs and also tackling the high attrition that comes with lower level repetitive functions (Oshri & Van Uhm, 2012). However there are risks with this approach, mainly due to the use of local service providers, meaning the same market challenges in the area of increasing costs with inflation and high attrition applies to the provider. Additionally, as noted by Oshri (2013), most captive centers lack the capabilities of vendor management which puts a strain on their relationship as well as that with the parent company.

The second strategy of shared services is that the captive center also services external clients. The aim with this strategy is to make the captive a profit center through increasing volumes, leading to economies of scale and reduce unit costs (Kotlarsky, et al., 2009). This strategy does involve investment and strong sales capabilities to attract customers.

Divestment is the third strategic option for captive centers, which is the opportunity for the parent company to sell the captive center as an investment and also gain benefits that the new owner will maintain or improve the service level the center provides (Oshri 2013; Kotlarsky, et al. 2009).

Kotlarsky et al. (2009) note that if the primary goal of the firm is to reduce costs, a hybrid strategy is best, as long as the location is developed which will lead to partnering with experienced and skilled providers. However if growth is the main priority, a shared strategy is best, as it will increase the scale of the operation while

reducing unit cost. From there, the parent company can decide once significant scale is reached to divest the captive center (Oshri, 2013). The main frustration Kotlarsky, et al. (2009) have seen from their research is the lack of alignment between the strategies of the parent firm versus the captive centers strategy. They note the primary reason for this is the misunderstanding by the parent firm that the captive center should only perform simple and repetitive tasks. Additionally Babu (2007) notes that the lack of scale, poor morale and unrealistic cost models are impacting the success of captive centers, with a number of firms selling their captive's and opting for a third part vendor model instead.

2.4.2 Other Models and Strategies

According to Brownell et al. (2006) today's outsourcing model is flawed as contracts impose endless trade-offs in the areas of flexibility, innovation, business-driven Service Level Agreement (SLA) and outsourcers need to avoid cost overruns and SLA penalties. They note that neither party wins. Brownell et al. (2006) propose a new outsourcing model which they state as "Strategic Out-Tasking", which empowers the firm by retaining final ownership and accountability for business outcomes. They note that this offers greater enterprise innovation, higher outsourcer margins and lower operational costs. This seems to be more relevant in the ITO rather than the BPO market, where software companies need to give full ownership to vendors to build programs. BPO can give the first level processing to the vendor and maintain the second level in-house.

Lacity et al. (2008) discuss the challenge of how to align supplier's incentives with their client's needs. The best model they suggest is an Enterprise Partnership Model, where the client and supplier create a jointly-owned enterprise that firstly transforms and optimises the client's services and then tries to capitalise on the savings created. This means that the supplier initially only earns profit based on the cost savings it delivers to the client. For example if the agreed budget was \$100million and the supplier can deliver the service for \$80million, the savings of \$20million will be split between the client and supplier. This can be achieved through consolidation, standardisation, reduced headcount, improved technology and processes (Lacity, et al., 2008).

To mitigate risks of outsourcing to a single vendor, multi-sourcing is growing as a trend, with companies such as ABN AMRO outsourcing to five vendors for its \$2.24billion service outsourcing contracts (Loh & Sharma, 2009).

2.5 What to Outsource - Core / Non-Core

Lacity et al. (2008) note that the literature mentions to insource core capabilities and to outsource non-core capabilities, but they feel that this distinction is not useful to managers. Instead they refer to the distinction offered by Feeny and Willcocks (2006) whose model includes nine capabilities that should be kept in-house for any back office function. These include; leadership, business systems thinking, internal customer relationship building, architecture design, informed buying, contract facilitation, contract monitoring and supplier development. The key advice that Willcocks and Feeny (2006) also give is that all back offices need to keep a team in-house who can complete any process outsourced in cases of contingency, as well as to monitor supplier activities and to understand emerging innovations. According to Quinn (1999) functions that are usually intellectually-based service activities, that the company perform better than any other enterprise, are core and should remain in-house. Manning et al. (2008) note that as low labour costs remain the focus, firms need to outsource non-core, non-strategic operations and concentrate on core competencies. Leavy (2004) agrees with this focused approach on core competencies.

However Lacity et al. (2008) stress that once the nine core capabilities are in place this does not mean that the rest of the non-core capabilities should be outsourced. Through their research they found that managers who considered the additional business, economic and technical factors of non-core capabilities were most often satisfied with their outsourcing decisions. They also found that focusing on standardisation was more important than economies of scale in keeping costs low. However, Park and Wu (2009) argue that if core competencies do not contribute to the expected return on investment, they can then be outsourced. Dad and Iqbal (2013) through their transaction cost view agree with this belief. The transaction cost view focuses on the benefit of lower cost of labour achieved through outsourcing while also benefiting from expertise across the globe. Additionally Mehta et al. (2006) note that as the trends of what should be outsourced is changing, companies are now also outsourcing core business processes, in an effort to gain and

maintain competitive advantage. The debate of whether to outsource core functions will be a central theme within the research, as it is very significant to understand the views within the industry at present.

2.6 Impact, Risks and Concerns

2.6.1 Impact of outsourcing

According to Freeman (1995), international trade can be said to have contributed to the declining economic fortunes of less skilled workers. Dad and Iqbal (2013) argue that owners of the companies who are outsourcing activities are the main winners of this trend, whereas the prime losers according to Harrison & McMillan (2006) are the employees whose jobs are going overseas. Outsourcing has created huge social cost in terms of job losses, increased monitoring costs, loss of loyal employees, loss of core knowledge, loss of control and security issues, increased lead time in supply chain, possible creation of competitors and cultural issues (Dad & Iqbal, 2013).

In a study conducted by Gilley and Rasheed (2000) on the effect of outsourcing on firm's performance, it found that there was no direct effect detected. However their findings did suggest that there were benefits for firms who fully realised cost leadership and innovative differentiation strategies (Gilley & Rasheed, 2000).

2.6.2 Risks

There are three main risks to outsourcing; Operational, Strategic and Loss of control / privacy (Dad & Iqbal, 2013). Operational Risk is the risk of declining quality and increasing costs (Beasley, et al., 2004). Strategic risk includes vendor's deliberate actions towards clients, as well as loss of knowledge in the long term, as outsourcing will create a lack of expertise with the clients firm to perform tasks (Aron, et al., 2005). The threat of intellectual property theft is one of the biggest risks according to Herath and Kishore (2009). According to Swartz (2004) issues regarding control and security are heightened when offshoring takes place.

2.6.3 R&D and Innovation

Teece (1987) notes, that outsourcing can lead to a loss of research and development competitiveness in the long term. This presents a risk for firms that they will not be up to speed with new technology breakthrough due to their reliance on outsourcing which results in a potential disconnect with their own business and capabilities

(Kotabe, 1992). Bettis et al. (1992) agree with this concern as outsourcing may lead to a reduction in innovation within a firm, shift knowledge from the firm to the vendor and can reduce the firms control over its activities.

2.6.4 Culture

As noted by Acar and Beugre (2008) there are many challenges to inter-organisational partnerships due to the various differences in socio economic environment, geographic, cultural and moral values, ethical issues and government regulations. Cultural problems in outsourcing are one of the main reasons for failed relationships and contracts. The significant causes for this according to Ramingwong and Sanjeev (2007), is vendors in the east keeping quiet about ongoing problems instead of highlighting them to their clients from the west.

2.6.5 Organisational structure

Lacity et al. (2008) note that one of the big challenges for future success of outsourcing is the fact that within the client organisation, the back office is not truly aligned with the business and is still looked upon as a cost burden. Back office managers need to be empowered and any historical silos eliminated.

2.6.6 Hidden Costs

According to Barthélemy (2001) there are many hidden costs of outsourcing, including the expense of transitioning activities, the cost of managing outsourcing and the significant expense of switching vendors. The key is to spend adequate time at the research stage when searching for a vendor, as this reduces hidden costs (Krebsbach, 2004; Whitfield & Joslin, 2008). As noted by Barthélemy (2001) companies should include various clauses in contracts with vendors, should only select a trustworthy vendor and during negotiations be very clear of the vendors' role. Sparrow (2005) also stresses the factor of hidden costs related to outsourcing as well as the loss of knowledge and expertise. According to Tadelis (2007) the hidden costs of outsourcing to an offshore location needs to be taken into account when reviewing the geographical importance of outsourcing.

According to Bryce and Ussem (1998) cost savings related to outsourcing have been overestimated and firms are seeing increasing indirect and social costs. Indirect costs include contract monitoring and oversight, contract generation and procurement,

intangibles and transition costs (Kremic, et al., 2006). Social costs include low morale, high absenteeism and lower productivity (Kakabadse & Kakabadse, 2000).

According to Bradbury (2005) the costs of some offshore locations have been increasing over the past number of years and if the trend continues there will be significantly less cost benefit in some developing countries in the coming years.

2.7 Key Learnings – Mistakes made

Jones (2009) emphasises three main areas where firms make mistakes when outsourcing. The first is ignoring the people side of outsourcing. Everyone in the outsourcing firm is affected by offshoring / outsourcing. The key is to keep employees updated on the actions through frequent communication (Tuck, 2007). The second is forgetting to profile stakeholders. Jones (2009) suggest that a stakeholder profile be completed, which identifies the stakeholder groups and documents their expectations. The stakeholder groups consist of people who have similar expectations, perceptions and goals and are the people the supplier is likely to interact with during the life of the outsourcing relationship (Jones, 2009; Cullen, et al. 2005). Through this Key Performance Indicators can be agreed. The third area is managers who fail to treat outsourcing as a major organisational change. Krebsbach (2004) stresses not to underestimate the magnitude of internal changes that outsourcing produces.

One of the main mistakes that firms made particularly in the early years of outsourcing according to Lacity and Willcocks (2006) was signing up to fixed-price contracts for a fixed-term, expecting a definite percentage reduction in costs. In a survey they conducted, 51% of clients had switched suppliers within the contract term, 34% brought the function back in-house and the remainder stayed with the supplier due to high switching costs (Lacity & Willcocks, 2006, p. 6).

2.8 Key Success factors

2.8.1 Why and what to outsource

Jones (2009) stresses that one of the first rules of outsourcing is for managers to begin with understanding the problem that they are trying to solve and not only focus on the symptoms. Outsourcing can be a solution to their problem, but they must first establish that and not dive straight into outsourcing without fully understanding the

results they want to achieve. The second rule is not to try to salvage a bad operation with outsourcing (Tate, 2014; Jones 2009). Well run and well understood functions are the best candidates for outsourcing.

Lacity and Willcocks (2006) believe that transformational outsourcing is the most beneficial to firms, as it can lead to transformational results, which they describe as significantly lower costs, better services, and increased revenues.

2.8.2 Client – Vendor Relationship

According to Dad and Iqbal (2013) there is huge importance in what they describe as “the relational view” in outsourcing, as it focuses on the significance of the client-vendor relationship. The success of outsourcing lies in ensuring both sides are satisfied with the relationship. Bharadwai and Saxena (2009) agree with this principle, as if competitive advantage is to be achieved, both the client and vendor need to share their knowledge and expertise. This will then create a strong long term relationship with aligned strategies and focus on success. Success for both parties means; client cuts costs and maximises process efficiency and the vendor seeks business growth and long term strategic client retention (Bharadwaj & Saxena, 2009). Therefore as noted by Mehta et al. (2006) the relational view of outsourcing is the focus of creating value through partnership. Although there are many successes within outsourcing, according to Mehta and Mehta (2010) 78% of client-vendor relationships reach the point of failure in the long term, with the client left to bear the costs.

2.8.3 Know your vendor

Dad and Iqbal (2013) note that the key success factors in offshoring are in identifying strengths and weaknesses of the vendor’s cultural intelligence, identification of key issues in project implementation, addressing legal issues and managing the client-vendor relationship. Lacity et al. (2008) found that there are 12 key capabilities that large outsourcers need to have in order to be in a position to offer a cost-effective service, strong relationships and back-office transformation. They are; supplier leadership, program management, contracting, business management, governance, domain expertise, behaviour management of supplier staff, technology exploitation, business process re-engineering, customer

development, organisational interface design and resource management (Feeny, et al., 2005).

2.8.4 Learn to Manage and Align

According to Lacity and Willcocks (2006) outsourcing can deliver results to firms, but it takes substantial detailed management on both the client and supplier sides to realise the expected benefits. As noted by Jones (2009) a successful manager brings allies and supporters on-board, establishes a sound foundation for the relationship, assesses the risks and plans to mitigate them. Keeping stakeholders involved and informed and ensuring that all expectations are understood and requirements satisfied is essential. Jones (2009) also suggests establishing a co-management process with clearly defined performance measures will provide the best results for the firm and the supplier.

Clott (2007) notes that as mid-level project managers are the backbone of the knowledge within organisations, they are often tasked with implementing offshoring activities to a provider. However they receive very little information or guidance from senior management on how to achieve this goal and must learn through the process. Additionally Krebsbach (2004) and Clott (2007) stress that managers are not prepared for the challenges confronting them in the areas of culture and communication. Therefore to increase the success rate of the outsourcing, management must help drive all areas of planning and implementation. Lacity et al. (2008) strongly agree with this and note that as the spend on outsourcing increases, the alignment of business and sourcing strategy becomes a key priority and this requires business executives as well as the CEO playing an active part in setting outsourcing objectives, building relationships and ensuring effective implementation. Willcocks and Griffiths (2010) also note that the historic method of managing back-office outsourcing has to be replaced with providing leadership in outsourcing, in order to keep aligned to business needs. Focus will be given to this theme within the research to assess its significance to the firm.

2.8.5 Transfer of Knowledge

One of the risks and challenges with outsourcing is how clients can transfer knowledge without losing all in-house knowledge. Srivastava (2009) and Lacity, et al. (2008) believe this can be overcome by investing in social capital, which is the

idea that expertise and resources are exchanged to get the job done and that value is created through social relationships. Regrettably for companies who have outsourced on a large-scale, there are no success stories to guide managers on how to overcome this concern (Lacity, et al., 2008).

2.9 Outsourcing curve

Lacity and Willcocks (2006) discuss the outsourcing learning curve and explain that it takes most firms a number of tries to get outsourcing to work for them. They note that the first phase of outsourcing “Hype and Fear” was the hype about cost saves and the fear of losing internal capabilities and intellectual property. The early adopters in phase two were very much focused on cost and provided other managers with best and worst practices to guide them in future outsourcing. By phase three, richer practices emerge and the focus on quality is exploited. Then at the mature stage, phase 4, outsourcing can enable strategies with the focus on value-added transformation. Managers can gain invaluable knowledge by reviewing companies at the various phases of outsourcing, when they are planning to outsource or wish to change the strategy or direction of their current outsourcing model. However according to Rieley and Lyon (2013) firms have not learnt from the mistakes and lessons learnt from other organisations and become addicted to outsourcing as a means to constantly reduce costs.

This point encapsulates the primary aim of this research. The literature does not have the required knowledge of the outsourcing curve of firms hence there is little opportunity to learn.

2.10 Reshoring

Outsourcing and offshoring is not the right decision for many firms and since 2005 a trend has begun of reshoring functions back to the firm’s domestic location (Tate, 2014). This coupled with a political agenda from the U.S to “insource” back to the United States has seen a magnitude of companies reconsidering their outsourcing strategies and reversing their offshore decisions (Fratocchi, et al., 2014). Rising costs in low-wage countries such as China and India, reducing costs in Europe and the US and increasing cost of transportation are impacting the core reasons organisations chose to outsource, which is expense saves (Kinkel, 2014).

2.11 Summary

In line with research conducted by Lacity et al. (2008) over a period of 20 years, their findings suggest that there is no quick fix in how firms can leverage outsourcing to achieve significant business advantage. As noted by Kremic et al. (2006) the literature is rich with insight into the benefits and risks of outsourcing but scarce when offering clear advice to firms on how to outsource successfully.

From a management perspective, firms must put in place key in-house capabilities to successfully benefit from outsourcing and learn how to effectively manage outsourced teams (Krebsbach, 2004; Aron, et al. 2005; Rieley & Lyon, 2013; Lacity, et al. 2008). Organisations have gone through a lot of change in what they considered functions suitable for outsourcing shifting from non-core repetitive tasks, to core value-add processes (Park & Wu, 2009). Through these changes, some firms have found that they have outsourced too much and are reassessing whether a change in strategy is needed and if reshoring is the best way forward (Tate, 2014).

The literature details different outsourcing models from third party vendor (Feenstra & Hanson, 1996), to captive centers (Oshri, 2013). As with any business decision, there are positives and challenges with any model chosen, with fixed term contracts reducing flexibility and innovation when using a third party vendor (Willcocks & Lacity, 2009) and lack of leadership capabilities with a captive center (Oshri, 2013).

Hidden costs related to outsourcing need to be identified by managers, as the real cost benefits needs to take into account the cost of governance, contract monitoring, procurement and transition costs (Barthélemy, 2001; Krebsbach, 2004; Whitfield & Joslin, 2008; Kremic, et al.,2006). Social costs also need to be factored which includes low morale, high absenteeism and lower productivity within the vendor and the domestic location (Kakabadse & Kakabadse, 2000).

With the increasing costs of some offshore locations managers need to fully understand the cost savings of offshoring and outsourcing in this current environment, as what previously provided financial benefits may no longer be advantageous (Bradbury, 2005).

3. Chapter 3 – Research Questions

The overall objective of this research is to provide guidance to managers of firms who either have functions outsourced and are looking for alternative solutions, or are planning to outsource or offshore and wish to gain an understanding of the lessons learnt from a firm with established experience in this field. As noted in the literature review, there are many gaps in the literature on practical direction for managers to avail of when assessing the short and long term benefits, how to overcome the core risks of outsourcing and how to structure outsourcing in order for it to meet the needs of the firm (Dad & Iqbal, 2013). There are many further areas of research within the subject of outsourcing; however this paper focuses on the following research questions.

Research question 1

“Are companies in the financial services changing the type of functions and processes they outsource?”

Research question 2

“Are the models of outsourcing and offshoring changing in today’s environment within the financial services?”

Research question 3

“To effectively outsource or offshore in today’s environment what key learnings can managers within the financial services industry impart to others?”

Through addressing the above questions, the knowledge gained from this firm can be used as a guide for managers within the industry to assist them in their outsourcing and offshoring decisions.

4. Chapter 4 – Research Methodology

Within the methodology chapter, the strategy used to conduct the research is discussed (Quinlan, 2011). Details are provided on the approach taken in the research to gather valuable data from experts in the field on outsourcing strategies, models and views on future trends

The methodology used within the literature was heavily focused on a qualitative approach to research (McKendrick, 2013; Clott, 2007). This approach is consistent with previous work, notably Lacity et al. (2008) and Jiang and Qureshi (2006) which used interviews to understand organisations reasons for outsourcing, the benefits they wanted to achieve and to address the risks, mistakes and learning from their outsourcing experience.

In line with this, qualitative research was conducted in the form of interviews with a sample of managers across the two core businesses within the firm, as well as two strategic managers who are engaged in financial oversight, contract monitoring and procurement for the firm. A theme sheet was compiled based on the literature, which was used as areas for discussion during the semi-structured interviews. The information gathered from the interviews was recorded and analysed. Strong common themes were identified from the interviews, as it was apparent that outsourcing was an area that produced intense views and opinions from the managers.

4.1 Sampling and Sampling Procedures

4.1.1 Sample – Single case study

Convenience sampling was adopted for this case study, which is a single case study on one large global company, that has operations in Dublin. One organisation was chosen for this study due to the diversity of products, businesses, customer type, organisational structure and most importantly outsourcing strategies across the various businesses within the firm. The organisation is a global leader in the financial services industry and has adopted many strategies for outsourcing in line with its competitors. Therefore it was felt that this organisation encompassed all aspects of outsourcing undertaken by companies within the financial services industry. The

reach, scope and access to senior managers within this firm promised quality information would be shared within the research. This approach is in line with previous research conducted in the area of outsourcing undertaken by Gotzamani, et al. (2010), Kinkel (2014) and Levina and Vaast (2008) who focused on a single country and single site sample.

4.1.2 Sample criteria and participants

The criteria to identify those to interview as part of the research was based on the experience of the managers dealing with outsourcing over the years and the model of outsourcing they were engaged in. It was known that there were different models deployed by the two core businesses in the firm; therefore it was essential to interview managers from both businesses.

Participant	Function	Business
1	Contract monitoring & Procurement – Key stakeholder for relationship between vendor & firm	A
2	Project Management – Manages teams in the vendor in India	B
3	Core Operations – Manages teams in the vendor in India and offshore location in Poland	A
4	Core Operations – Manages individuals employed by a vendor in Dublin.	A
5	Project Management – Manages teams in the vendor in India	A
6	Financial oversight – Manages budgets, save initiatives that come from the vendor. Also used to work in the vendor location in India	A
7	Core Operations – manages teams in the vendor in India as well as the captive in India	B

Figure 1.1- Sample and participants

The first person interviewed is responsible for the governance of the largest outsourcer relationship within the firm. His responsibilities include documentation and standardisation of agreements between the vendor and the firm, tracking of migrations of functions to the vendor as well as oversight for the billing and productivity initiatives of the vendor. As participant 1 worked very closely with the

managers from the third party outsourcer, the interview wanted to draw out the personal feelings and perception he had from daily interactions with the team and how he felt the relationship has developed in recent years. Participant 1 has insight into changes in trends of outsourcing within the business and has a clear understanding of the risks and governance needed for any outsourced function.

From there senior managers from the various sides of the business were chosen as interviewees. This was due to the different strategies for third party outsourcing taken by the businesses. Within one business there was a focus on third party outsourcing, near-shoring and hubbing, whereas within another business the focus was on third party outsourcing and utilisation of a captive center.

Participant 2 is from a different business to participant 1 and she was chosen due to the needs of her business unit being very different to that of the other participants. Her role is in the area of project management, platform building and testing of new functionality. Therefore the requirements are for a high skill-set as opposed to operational functions which are repetitive in nature.

Participant 3 was chosen from the same business area as participant 1. This person had previously outsourced functions to the third party vendor in India for a number of years and remotely managed the team from Dublin. However what was of particular interest for the research was the recent strategy she had just completed of offshoring functions to Poland from Dublin. She now has some teams in a vendor in India and others in the firm's offices in Poland. The decision making for the migrations to Poland is very interesting to this study as it reflects a change in strategy to the previous outsourcing and offshoring model.

Participant 4 is the manager of a technical team which was recently merged into the same business unit as Participant 1 and 3. The reason this manager was identified as important to the research was that his business unit is the only area within the firm's operations in Dublin that outsources to a vendor in the same geographical location. The justification behind this strategy and whether this model has a future brings a new element to the research.

Participant 5 is in the same business area as participant 1, 3 and 4, however has only worked in the business for a few years and has a lot of experience in other financial

services companies. Participant 3 and 4 have spent their whole career in the firm. The other attraction with interviewing participant 5 is the requirements her team has on the value-add functions, similar to participant 2 as the area is within testing and infrastructure, therefore not repetitive tasks.

Further to the above, a manager was chosen who currently has responsibilities for the financial tracking of the impact of outsourcing on expenses for a particular business. He was also of great interest to the study due to his previous role in India as part of the vendor currently servicing the firm. Therefore participant 6 was chosen to give his insight into how he sees the trends, challenges and benefits of outsourcing having experienced it from both sides of the relationship.

Participant 7 was a late addition to the interviewee list, as the information provided by participant 2 was lacking in the area of captive centers and more insight was needed on this model. Utilising a captive center is currently unique to this business in Dublin. This person is a manager of the operations side of the department, whereas participant 2 was in the testing and infrastructure area.

Importantly also was the access to managers who ranged from assistance to senior vice presidents. These participants although not all responsible for the initial outsourcing decision made, are core middle and senior managers in the current strategy and day to day operations of the model. Dean (2003) utilised quantitative research in his studies in the area of outsourcing, he focused on middle management as they are closer to the daily operations of the business. Middle managers also have significant impact on decisions going forward, as their experience and feedback to senior management ultimately impact future strategic direction. It was also felt that the level of management chosen would give more frank and open feedback as opposed to political slants and positioning that more senior management could be prone to. Jensen and Pedersen (2011) also referenced the reluctance of managers to disclose details of outsourcing within their organisations. Their approach to work around this barrier was to conduct semi-structured personal interviews with project managers in their case, who were closer to the offshoring within the firm. Although Wadhwa et al. (2005) go as far as to note that this reluctance in managers to speak openly about outsourcing in their firms has actually hindered the learning across industries.

The below table details the seven participants interviewed with the study:

Interviewee	Function	Title	Theme	Time & location of interview
Participant 1	Vendor oversight within the business. Responsible for contract negotiation, changes in Statement of Work, billing and invoicing, tracking of migrations to and from the vendor or offshore location.	AVP – Assistant Vice President	Structure & Strategy of outsourcing and offshoring in the firm.	Firm’s building – 4pm 21 July 2014
Participant 2	Manager of project team outsourced to India and Captive center in India.	VP – Vice President	Outsourcing & Captive center model	IFSC – 12.30pm 22 July 2014
Participant 3	Remote Manager for teams outsourced in India and offshored in firms site in Poland	VP – Vice President	Outsourcing & Offshoring	Firm’s Building – 3pm 22 July 2014
Participant 4	Manager of technical support team who have near-shored functions in Dublin	SVP – Senior Vice President	Near-shoring	Firm’s Building – 9am 23 July 2014
Participant 5	Manager of testing and business analytical team who manages teams in vendor in India.	SVP – Senior Vice President	Outsourcing to vendor	IFSC – 12pm 23 July 2014
Participant 6	Financial analyst who assesses the impact of outsourcing on annual financial targets. Previously worked for the firm based in India before it was sold to a vendor.	VP – Vice President	Financial implications & trends of outsourcing in the firm. Perspective from the vendor side as previous Indian team member.	IFSC – 3.30pm 24 July 2014
Participant 7	Manager of team with staff in outsourced provider in India as well as firm’s captive center. Oversight and ownership with his team in Dublin.	VP – Vice President.	Outsourcing & Captive center model.	Firm’s Building – 3pm 25 July 2014

Figure 1.2 – Interview Participants

Within the initial planning phase, eight participants was the target sample to interview, however due to the depth and breathe of the information provided within the discussions seven participants were interviewed. It was felt that additional

interviews would not provide any further insight to the research area. The sample size is in line with similar research conducted by Fill and Visser (2000) and Jensen and Pedersen (2011), where 5 and 9 interviews respectively were conducted with project/middle management.

4.1.3 Confidentiality

Confidentiality was not an issue as it was decided early in the research not to publish the name of the organisation in question. Therefore approaching participants for interviews posed no difficulty regarding agreements or confidentiality issues. This was discussed with the management within the interviewers business and verbal approval was provided for the approach. Mohiuddin and Zhan (2010) note the value of unstructured anonymous interviews to qualitative research and Jensen and Pedersen (2011) followed the same principle to preserve anonymity for the individuals as well as the firms in their study. They note that illustrative quotations were used to demonstrate the manager's views (Jensen & Pedersen, 2011, p. 485). Although each interview was recorded, it was confirmed to the participants that the names of the organisations and people would be changed in transcriptions and quotes included in the research. None of the participant requested copies of the transcriptions or recordings, although some requested the final research be shared with them as they were very interested in the area of study. It is felt that as each participant had a professional relationship with the interviewer, there was a level of trust in the utilisation of the information shared. This had many implications on the research itself. Firstly regarding the level of information shared, the honesty of the responses and the openness of the interviews were significantly impacted by the relationship of the participants and interviewer. However this also brings about some bias regarding the probing questions asked.

4.1.4 Pilot

A pilot was conducted on two individuals prior to the questions being finalised for the interviews. The main learning gained from the pilot was the need to direct the participant to discuss their experience of outsourcing from the themes identified in the literature. The actual questions only changed slightly as a result of the pilot research.

Post the interviews, no follow ups were conducted with the participants. Instead items raised in the first interviews were noted to ask within the following interviews with the focus to expand on a particular train of thought or to clarify responses from a different perspective or level of knowledge.

4.2 Instrumentation

4.2.1 Theme Sheet

Core themes were taken from the literature as the areas of focus within the interviews. A theme sheet was compiled, which then included particular interview questions. An extract of the theme sheet can be found in *figure 1.3* below, with the full table available within the methodology chapter. The questions were meant as guidance only, with the main emphasis on the themes. The goal was to promote free flowing interviews which allowed for more focus on particular areas of the interviewees experience and thoughts instead of sticking to a rigid set of questions. The same approach was taken by Gilligan (2006) in her research and is recommended by Saunders et al. (2003). A theme sheet works in parallel with a semi-structured interview style, which achieves a more in-depth insight from participants (Saunders, et al., 2003).

Question	Theme	Literature
Can you summarise the history of outsourcing that the company / business have undergone.	History	<ul style="list-style-type: none"> • (Ang & Inkpen, 2008) Definition • (Bardhan & Kroll, 2003) – 1980s first wave high-tech sector • (Feenstra & Hanson, 1996) – 1990s shift from parts & components -> contract done by others. • (Bardhan & Kroll, 2003) <ul style="list-style-type: none"> ○ Loss blue collar jobs, low-cost developing countries. ○ New wave “white collar” software sector ○ Liberalization of emerging markets • (Gupta, 2009) – 24/7
What was the primary reason to choose outsourcing as a strategy? How much did cost saves influence it?	Cost reduction	<ul style="list-style-type: none"> • (Dad & Iqbal, 2013) – Primary motive = cost • (Kremic, et al., 2006) – Save direct costs • (Forum, 2005) – 85% EU banks outsourced to reduce costs • (Lacity, et al., 2008) – focus on standardisation more important than economies of scale

Figure 1.3 – Extract of theme sheet

4.2.2 Recordings

The most appropriate form of data collection in this research was recording of the interviews conducted. There were no confidentiality or ethical issues or limitations with the recording of the conversations. The recordings are stored on the interviewer's laptop if needed by any reader for up to two years. Evidence of recordings can be found in appendix 1. From the recordings three interviews were transcribed to give full details of the insight, experience and thoughts for future trends of outsourcing shared by the manager. Participant 3, 6 and 7 were transcribed as they represent the various outsourcing models in place within the firm. It was felt that no further value would be added to the research by transcribing the remaining interviews.

The recording of the interviews did not hinder the openness and honesty of the participants. In some cases names of decision makers and their views on the decisions and the people involved were mentioned which were omitted from the transcriptions due to confidentiality decided at the start of this research.

4.2.3 Bias

There is a risk of bias in this research as the interviewer firstly works in the firm, understands how the business works, has managed teams in the third party vendor located in India therefore experiencing the challenges of dealing with documentation, SLAs and attrition in India. However the positives of being able to meet financial targets by having teams in a vendor as opposed to in Dublin, has also been experienced. With the set themes and questions for each interview in place, standardisation of interviews was followed, however depending on answers provided there was often a tendency to agree with the views of the interviewee, which can certainly be deemed as biased.

4.3 Data Analysis

There were two approaches taken to data collection within the research. Firstly the interviews were recorded and secondly the theme sheet which listed the interview questions was formatted to take notes on the key quotes within each interview. After all interviews were conducted the notes taken were analysed to identify the key themes. The theme sheet used for the interviews was then enhanced to summarise the

principle views of the participant against each theme. The theme sheet along with the analysis can be found in the findings chapter.

Taking this approach identified trends and conflicting views of all participants and gave a rich insight into outsourcing in the firm. Only the key points mentioned against the themes were summarised in the theme sheet. Other information provided that was outside of the key themes, if interesting and most especially if mentioned by more than one participant is noted in the findings chapter.

The recordings were used to transcribe a number of interviews. As previously noted this was decided based on the level of detail shared within the interview and covering the three core models of outsourcing within the firm.

4.4 Limitations

There are a number of limitations to the methodology used within the research. The sample size of the participants was restricted to 7 people; interviews were conducted on one firm and in one country. Only one method of research was chosen, qualitative research through semi-structured interviews.

4.5 Ethical Consideration

The management within the business of the interviewer were notified that managers within the firm would be interviewed and recordings taken and saved of these interviews. It was made clear that neither the firm nor vendors would be mentioned in the research. It was also agreed that any reference of management names would be omitted from transcriptions.

4.6 Summary of methodology

A qualitative research method was chosen for this study, in line with previous research conducted in the field (Lacity, et al., 2008; Jiang & Qureshi, 2006). Semi-structured interviews which focused on key themes were conducted on seven middle managers within the chosen firm. The interviews took place within business hours either in or near the firm's location in Dublin. All interviews were recorded with a number also transcribed to give further details on the three core models of outsourcing discussed within the interviews. No ethical issues or considerations needed to be accounted for as the name of the firm; vendors and interviewees are to remain confidential.

5. Chapter 5 – Research Findings

The interviews conducted gave an insight into the challenges, benefits and trends of outsourcing within a global firm in the financial services industry. The themes identified within the literature formed the basis for discussion during the interviews and were key areas of focus for the participants.

This chapter briefly summarises the relevance of the key themes identified within the literature and gives details on the discussions and trends that emerged against each theme during the interviews. Fifteen key themes had been identified from the literature which was then reduced to ten as a number of themes merged into each other.

5.1 Results overview

History within the interviews focused on the outsourcing decisions made to date, what the strategy and thinking behind those decisions were and what changes have taken place since then. Cost reduction as a theme was significant. Every participant clearly stating that the reason for outsourcing was purely cost reduction.

The theme of outsourcing trends flowed into the core and non-core discussion. The main changes in trends discussed within the interviews was the change in what the firm originally deemed suitable to outsource versus what has recently been moved out of the Dublin center of excellence. The BRIC, non BRIC theme did have some relevance within the interviews but not to the same extent as within the literature. The fact that the Dublin site was the focus for the interviews influenced this as some BRIC countries such as Brazil would not be an outsourcing or near-shoring location for Western Europe but may be of importance to its operations in North America.

One of the fundamental themes that emerged from the interviews was the models of outsourcing conducted by the firm. Therefore the themes from the literature of near-shoring, captive center and other models were very interesting areas of discussion within the interviews.

Risk as a theme was completely in line with the literature, although the participants view on the main area of concern for the firm was a lot stronger than within the literature. That being that the firm have outsourced too much and have lost a level of control. Perhaps this is due to the reluctance of managers to admit this and share their

views with researchers. This is where the advantages of knowing the participants and interviewing middle managers is a benefit for this paper.

The theme of which functions the participants thought would remain in-house was interesting as it really made each person think. They all noted it was an insightful question and needed to put some thought into it. The focus from their side has been which function can be outsourced next; that they do not reflect on the functions that will never be outsourced.

Hidden costs of outsourcing as a theme from the literature, was the area that differed most across the participants. The focus from the literature was from a financial perspective, whereas within the interviews a broad range of areas were discussed, such as the local economy and system administration. The most bias was evident within this theme, as participants were directed to speak more about the financial side of hidden costs, if they veered off in a different direction.

The final two themes, key learnings and key success factors should have originally been merged into one theme as the participants viewed them as the same. After the learnings from the first two interviews the themes were discussed as one. This theme was ideal to finish the interview with as the passion, frustration and experience of the participants was unleashed while discussing this theme. A lot of practical commonalities emerged from this theme which are ultimately the core findings for the paper.

5.2 Results against themes

5.2.1 Theme 1: History

The literature focuses on the different waves of outsourcing that took place in the various sectors such as high-tech in the 1980's (Bardhan & Kroll, 2003) to third party contracting in the 1990's (Feenstra & Hanson, 1996). This firm's history of outsourcing is interesting as it utilised low cost locations such as India from early in its operations but it wasn't until the recent financial crisis that outsourcing became a core strategy for the firm.

“From 1995 the offshore site in India was used for lower-value tasks such as reconciliation and pre-check functions. Staff were on our headcount but on the

offshore entity. With the cost pressures in 2007, we sold this entity in India to an outsource provider.” Participant 6

Participant 1 who is in the same business area as participant 6 above, notes that since the outsource provider has been in operations with the firm, trends in what has been outsourced has changed over time.

“In recent years there has been a huge increase in outsourcing to India, including critical functions.” Participant 1

Within the business of Participant 2 and 7, the outsourcing to India started in more recent years.

“Outsourcing to India was done in a phased approach over the past 5 years. Initially processing activities such as reconcilements and data entry were outsourced and now the full end to end service is in India.” Participant 2

However this business has in the past 18 months introduced a new strategy for outsourcing which is the use of a captive center. The reason for this according to participant 7 was to mitigate loss of control over processes.

“This was due to the vendor taking over, with too much power on their side.”

Although the strategy behind the decision holds merit, the manner in which this was executed is an area of frustration for participant 7. He was very vocal about the management decision made and blames constant attrition of senior managers for the issues they are now facing.

“We have staff in a third party vendor and last year we started hiring staff in a captive center. However the move to the captive center was done too quickly and we are at a stage now where we have huge cross over costs between the vendor and the captive. There are underlying contract agreements with the vendor that is stopping us moving forward with the migration – we are now at a cross road.”

The history of offshoring or near-shoring to countries within the same geographical region was discussed by participant 3.

“Poland offshoring has been the strategy to maintain functions under the same legal vehicle. Initially low risk, less value-add functions were sent to Poland but recently high-value, high-risk functions migrated which were in Dublin.” Participant 3

The trends of using Poland as a hub for certain functions allows economies of scale and subject matter expertise as noted by participant 3. Having hubs can also bring about the 24/7 model which was discussed by Gupta (2009) in the literature. No participant focused on this concept as most functions they manage are regional not global. If managers of global functions were interviewed there may have been more significance in the use of hubs to offer a follow the sun model, which is in place within the firm.

The participant with the shortest history of outsourcing in his business area was participant 4 who only started outsourcing 2.5 years ago. This outsourcing was done on a smaller scale *“We did this through natural attrition. When someone left we replaced within the vendor.”* The difference with this set up is that the vendor is also in Dublin, so near-shoring is the strategy used. *“Our model was different in that we outsourced a piece of each function to the vendor. Vendor staff are treated as our own; some even sit onsite within the firm.”*

The history of outsourcing within the firm is varied, with changing opinions and strategies. However the participants are very knowledgeable about how their business got to this point and where they feel the strategy for outsourcing or offshoring should go in the future.

5.2.2 Theme 2: Cost Reduction

The literature gives a number of reasons why firms choose to outsource such as standardisation (Lacity, et al., 2008) but ultimately according to Dad and Iqbal (2013) it comes down to cost. The interviews conducted unanimously state that cost is the reason to outsource.

“Motivation to outsource is purely cost savings. I’ve tracked all the migrations – it’s all about cost.” Participant 1

“Purely Cost. We haven’t yielded anything else from the relationship.” Participant 4

“Purely cost – COB was an added benefit.” Participant 5

Participant 2 and 5 did highlight other benefits such as follow the sun model and COB, however the core reason remains cost.

5.2.3 Theme 3: Trends

Lacity and Willcocks (2006) describe the phases that firms go through when outsourcing functions and this firm has experienced most phases as per the insight provided in the interviews. The hype and fear stage was not discussed, most probably as this occurred before the time these managers were involved in outsourcing. The focus with the participants was the later stages; trends of cost save and losing internal capabilities.

Participant 1, 5 and 6 clearly state that outsourcing is the chosen strategy for the firm to reduce costs; therefore the trend has been to increase the number of functions that are outsourced.

“In recent years we have increased the functions that are outsourced as we have constant push to reduce costs. Outsourcing is chosen as the strategy to achieve this”

Participant 1

Participant 2 and 3 viewed the current trends in a slightly different light. Although outsourcing is a cost reduction strategy, they believe it makes perfect business sense as the firm over the past number of years has invested heavily in making outsourcing a success, that it now has the quality and skills in the vendor to effectively operate as a business.

“There has been huge investment in offshore sites. The quality and skills have vastly improved leading to capabilities of taking more complex functions.” Participant 2

However within the theme of trends, the main message that came from the interviews was that the firm has outsourced too much. Participant 3 and 5 stress the need to diversify risk, as the vendor has all the knowledge which ultimately means all the control.

“There were too many eggs in the vendor’s basket and we needed to diversify risk.”

Participant 3

“It started with the drive on cost with low-value, low hanging repeat tasks and skills. It’s now a full industry in itself. Companies in the financial services now know they have outsourced too much. There is a real issue of lost knowledge.” Participant 5

Due to the loss of knowledge now faced by the firm across all its businesses the trend to use near-shoring in Poland is an attractive strategy going forward, as according to participant 3 it is *“Keeping within a low cost firm location which has also the same legal entity is the best solution”*

The future of near-shoring within Dublin according to participant 4 *“Is not a strategic direction going forward.”* Therefore the future trends within the firm are in the area of offshoring to lower cost locations within the firm and using a captive center.

5.2.4 Theme 4: Core and Non-Core functions

There is a lot of discussion in the literature on the trends of what has and should be outsourced. Leavy (2004) and Quinn (1992) believe that non-core functions should be outsourced with the firm concentrating on core competencies. However there has been an increase in KPO (Sen & Shield, 2006) and the interviews conducted highlight that this is the case with this firm.

All participants agreed that the firm first outsourced non-core repetitive functions that had lower operational risk. In all cases there has been a shift in functions outsourced with core, high skilled and high risk tasks recently outsourced. However, the interesting factor is that all functions are still owned and managed by Dublin.

“Outsourced now are core operations processing. Ownership is still in Dublin, with remote managers as a control mechanism. The reason so much core work is being outsourced is the need to reduce cost and the sense of comfort in the outsourced provider, as an established relationship is in place” Participant 1

Even with the model of utilising a captive center, the ownership will remain with management in Dublin.

“Core functions outsourced to the vendor. Once the captive center is established fully we can outsource additional functions also. However sign off will be in Dublin.” Participant 7

Therefore from the information shared in the interviews there are two significant trends arising. The first is that no matter what model the firm seems to take, whether third part vendor, near-shoring or a captive, they will continue to keep the ownership with the management in Dublin. However, questions must be asked of this model. It may be a viable solution now that the core functions have only recently been migrated and therefore remote managers understand the process. The challenge in the future will be replacing those remote managers, a key concern of participant 3 and 7, with new managers who will never fully understand the process, as they never performed the actual task.

5.2.5 Theme 5: BRIC v's Non BRIC

The strength of India as the preferred country for ITO and BPO was very strong in the literature (Kotlarsky, et al., 2009). The level of education in the country according to Dad and Iqbal (2013) will ensure the future of the country as an outsource location. From the interviews conducted on this firm, the dominance of India is supported.

“India is the primary location for third party outsourcing. There is a committee in place in the firm that helps to define the outsourcing strategy. There are differences between the strategies across the businesses but India will always be a location for outsourcing.” Participant 1

Participant 2, 5 and 6 support the view that India is the primary location but make reference to China's opportunities. Although participant 2 sees restrictions with language being a factor for the services business she notes that some functions can be supported from China. Participant 6, due to the oversight he has on future financial decisions at a global level, sees China as the future for specialised functions. The strategy in this case would be offshoring to the firm's premises in China, not outsourcing to a vendor based in China. Participant 6 also noted the restrictions associated with Russia and sees near-shoring within the country for domestic business as the only opportunity for cost saving in Russia.

From a non BRIC perspective, Poland has come out the strongest for the EMEA region and as noted by participant 1, 2, 3, 5 and 6 is the future of near-shoring / offshoring / hubbing. Malaysia was mentioned by participant 1 and 6 who have roles that have more insight into future trends, but they expect this will be on the same scale as China with focus on specialised functions.

5.2.6 Theme 6: Outsourcing models

The earliest model of outsourcing, as indicated in the literature is a pay for service third party vendor (Brownell, et al. 2006; Ang and Inkpen 2008). As per the interviews conducted, this is the main model used by the firm. With the insight provided by participant 1 who manages the procurement between the firm and the main vendor, the firm is invoiced on a monthly basis either by the number of Full Time Employees (FTE) performing the function or by volumes processed which is referred to as a Unit Price Cost (UPC) model. From an overall relationship with the firm there is a Master Service Agreement (MSA) in place, with subsequent Statements of Work (SOW) for each particular function which details the process along with Service Level Agreements (SLA) and Key Performance Indicators (KPI). The main issue the firm has faced from this model is the lack of flexibility, the rigorous following of procedure with lack of innovation and efficiency generation. Brownell, et al. (2006) describes this as the trade-off encountered by firms when contracts are in place. The structure of paying by FTE according to participant 1, 3, 5 and 6 is the primary reason for conflicting goals and priorities between the firm and the vendor.

“There are conflicting priorities as our focus is to reduce costs through efficiencies which leads to less FTE. However their focus is to increase FTE / invoicing.”

Participant 3

As a result of these issues three alternative models are being followed by the firm.

1. **Captive center:** The utilisation of a captive center gives the power back to the firm while maintaining lower costs as noted by participant 2 and 6. A captive center’s employees are considered as extended workforce for the firm and not direct headcount. The local team in India manage the process and people with end ownership with the firm’s management in Dublin.

“You keep the control, you are not bound by contracts and legal requirements. The ownership stays with you. You own the people; they are part of your extended workforce.” Participant 6

As this model is in the early stages of implementation within the firm, there are still issues from a knowledge and expertise perspective. However once fully established, according to participant 2, 6 and 7 this model will ensure knowledge is retained within the firm and will reduce the scrutiny from a regulatory perspective, of having too many core functions outsourced to a third party vendor.

2. **Offshoring and near-shoring:** Near-shoring as a theme has changed its meaning from the literature chapter to the research findings stage. Near-shoring within the literature was not referenced a lot and tended to refer to within the same country. Therefore the initial focus was near-shoring in Ireland when interviewing managers in Ireland. Based on this distinction there was one business that is ultimately utilising a hybrid contract model, with some vendor staff located in the firm’s site, effectively a contractor and others based in the vendors site. From an Ireland perspective, the interview with participant 4 suggested that there wasn’t a future in this model. However, near-shoring from a regional perspective where functions migrate from Dublin to Poland is significant for the firm. The paper has referred to this as offshoring, however a number of participants viewed this as near-shoring.
3. **Hubbing:** The third main model that the firm has adopted is the strategy of hubbing specialised processes such as testing and trade operations in locations in China and Malaysia. The hubs are part of the firms headcount / extended headcount, are in lower cost locations and ensure Subject Matter Expertise (SME) is maintained within the firm. Globally as noted by participant 6 this is the future strategic direction of the firm.

5.2.7 Theme 7: Key Risks

The risk of outsourcing was a strong theme within the literature with loss of intellectual capital at the forefront of management concern (Dad & Iqbal 2013; Herath and Kishore 2009; Bettis, et al. 1992). This concern was shared with all participants interviewed and as noted by participant 1, 2, 3, 6 and 7 this has already happened in their business.

“There is huge risk that the knowledge will be lost. We have already lost a lot and the remote managers are under a huge amount of pressure to answer queries coming to them. This won’t last. SME knowledge is a huge risk.” Participant 3

Performance and stability of the vendor is a risk for the business and as per the above, the option to bring a function back in-house is extremely difficult (Shi, 2007). Performance can be tracked with effective governance and KPI’s in place, however there is always a concern that something will be missed according to participant 3 and 6.

The risk surrounding innovation and efficiencies was an interesting topics that emerged from the interviews. According to the literature outsourcing results in a loss of research and development and innovation (Teece 1987; Kotabe 1992). Participant 5 strongly agreed with this, with participant 2, 6 and 7 agreeing to a certain extent. However participant 3 fully believed that her teams try hard to build efficiencies into processes. Perhaps this is due to the team being long established and the good relationship this manager has with her team in the vendor.

5.2.8 Theme 8: Function to remain In-house

Willcocks and Lacity (2009) have a very clear distinction of what functions should be kept in-house by organisations. This includes leadership, customer relationships (Krebsbach, 2004), contract facilitation and business thinking systems. The participants agreed with this view, with the main functions listed as;

- Client facing
- Regulatory / legal requirements
- Leadership and strategic

“Senior management roles, decision making functions will stay in-house. They are the people who will give you the value-add. You need senior people to take decisions and drive the business forward.” Participant 6

“I guess all the strategic decisions. The guys in the vendor and Poland are really the executioners / doers. Any of the ad-hoc projects, driving initiatives or strategizing a product, all the proper value-add stuff has to remain in Dublin. We need to make sure the outsourced teams are engaged but we need to drive it.” Participant 3

The firm tried to outsource client facing roles in the past and were unsuccessful due to customer perception and satisfaction with the experience they received. They reshored the client facing roles into hubs or back to the domestic location.

5.2.9 Theme 9: Hidden Costs

The hidden costs of outsourcing according to the managers interviewed are the cost of governance, compliance, legal, documentation and administrative costs. This is in line with the literature with contract monitoring and procurement a significant indirect cost (Kremic, et al., 2006). Taking the roles of the managers interviews, participant ones role is purely this; contract monitoring and procurement. Attrition within the vendor is a huge risk to the firm and according to participant 6 includes significant training and system administrative costs. This according to participant 3 reduces the ability of the teams to move forward.

“You have to take into account the governance teams, controls teams. Also system costs, as everyone in the vendor has to have the firm’s system access. The cost to get it up and running and then every time attrition happens, which it does a lot in the vendor.” Participant 6

Additionally reputational risks are a huge cost to the firm as well as low morale in its onshore locations with jobs being constantly sent to a vendor or offshore location.

5.2.10 Theme 10: Key learnings and success factors

The strongest common message that comes from the interviews conducted is that outsourcing is a long term strategy. There should be a long term plan in place to assess the sustainability of the functions to be outsourced. The plan needs to be

phased, as stressed by participant 3 who has just undergone a huge migration in a very short period of time.

“If it was to be done properly it should have been done in a phased manner and involve the key managers at an earlier stage. The amount of documentation was unreal, the level of detail we had to go through.” Participant 3

A big bang approach should not be taken as stressed by Krebsbach (2004) and it is vital that middle management is involved in outsourcing decisions and planning at an early stage (Clott 2007; Lacity, et al. 2008).

“Key learning is to have a long term plan. Don’t do it one year at a time, that’s where you start scrapping the barrel and losing control pretty quickly”. Participant 6

Relationship building is imperative to ensure goals and strategies are aligned (Mehta, et al., 2006). Building towards a partnership where both the firm and the vendor or offshore location benefit from achieving the same goals is the desired structure.

“Turn the relationship into a partnership where you can make a win-win on both sides” Participant 1

“Have a good relationship. The vendor needs to be flexible to your business needs.” Participant 4

According to all participants it is fundamental that strong governance, controls and oversight are in place. Get the documentation right from the start to ensure no process is missed and that all agreements are captured correctly. This was of particular interest to participant 1 due to his line of work with contract agreements and disputes. Implement a smart governance structure with essential KPI’s to manage productivity, efficiencies and performance. Have an open line of communication with offshore / outsourced teams and treat the teams the same as onshore teams.

“Have strong controls in place. KPI’s are key!” Participant 5

“Have strong due diligence in place. Need to have the same goals and vision!” Participant 7

5.3 Research findings summary

Chapter 5 has given an insight into the qualitative research conducted in this paper. The fifteen core themes from the literature were used as the basis for interviews with managers in a single site in a global financial services firm in Dublin. The interviews were extremely valuable to the research and in most cases supported the views within the literature. The fifteen themes were reduced to ten after the interviews as some themes were merged into one. The sample participants gave significant insight into this area of research, discussing the key challenges faced by the firm today with the outsourcing models that have been in place and the changes in strategy they have taken, to meet their new goal, which is to retake more control over their processes. Significant learnings have been shared by these participants, which will assist managers either reviewing outsourcing for the first time or those facing challenges with their outsourcing decisions and need direction on a new course of action.

The theme sheet below highlights the core themes used within the interviews along with the key points each participant made against each theme.

The findings will be reviewed further within the next chapter under discussions.

5.4 Theme sheet with key comments - Figure 1.4

Question	Theme	Literature	Quotes / Responses
Can you summarise the history of outsourcing that the company / business have undergone.	History	<ul style="list-style-type: none"> • (Ang & Inkpen, 2008) Definition • (Bardhan & Kroll, 2003) – 1980s first wave high-tech sector • (Feenstra & Hanson, 1996) – 1990s shift parts & components -> contract done by others. • (Bardhan & Kroll, 2003) <ul style="list-style-type: none"> ○ Loss blue collar jobs, low-cost developing countries. ○ New wave “white collar” software sector ○ Liberalization of emerging markets • (Gupta, 2009) – 24/7 	<p>P1) Firm sold Indian business to a vendor. Change from firm’s staff to third party outsourcing. Instant reduction of headcount from firm’s books. In recent years huge increase in outsourcing to India, including critical functions.</p> <p>P2) Phased approach over the past 5 years. Initially processing activities such as reconcilements / data entry. Now end to end service. In-house functions supervisory / regulatory governance.</p> <p>P3) Poland offshoring has been the strategy to maintain functions under the same legal vehicle. Initially low risk, less value-add functions but recently high-value, high risk functions migrated which were in Dublin. Functions across EMEA have now been centralised in Poland. Economies of scale and SME knowledge. Cost was the driver.</p> <p>P4) Only started in the last 2.5 years. Financial decision to replace like for like with a vendor. Vendor had an established relationship in the firm. Model was different in that we outsourced a piece of each function to the vendor. We did this through natural attrition. When someone left we replaced within the vendor. Vendor staff treated as our own, some even sit onsite with others in the vendors site.</p> <p>P5) Historically outsourced before my time. Two sites in India, moved to Tier 2 site to reduce costs further.</p> <p>P6) From 1995 offshore site in India used for lower-value tasks (recs / pre-checks). Staff were on our headcount but on offshore entity. Costs pressures in 2007 resulted in a sale to an outsource provider.</p> <p>P7) We have staff in a third party vendor and last year we started hiring staff in a captive center. This was due to the vendor taking over, with too much power on their side. However the move to the captive center was done too quickly and we are at a stage now where we have huge cross over costs between the vendor and the captive. There are underlying contract agreements with the vendor that is stopping us moving forward with the migration – we are now at a cross road.</p>
What was the primary reason to choose outsourcing as a strategy?	Cost reduction	<ul style="list-style-type: none"> • (Dad & Iqbal, 2013) – Primary motive = cost • (Kremic, et al., 2006) – Save direct costs • (Forum, 2005) – 85% EU banks 	<p>P1) Motivation to outsource purely cost savings. I’ve tracked all the migrations – it’s all about cost.</p> <p>P2) Cost – 33% FTE expense Dublin v’s India. Follow the sun model; 24/5 activities. COB. In the short term we could take back the key functions in a COB situation but not in the long term.</p>

How much did cost saves influence it?		<p>outsourced to reduce costs</p> <ul style="list-style-type: none"> (Lacity, et al., 2008) – focus on standardisation more important than economies of scale 	<p>P3) Purely Cost. P4) Purely Cost. We haven't yielded anything else from the relationship. P5) Purely cost – COB was an added benefit. However I feel we need more people on the vendor side due to less oversight on projects etc. P6) Cost – reduction in headcount P7) Gain control over our processes again. Captive more expensive than vendor but still a lot cheaper than Dublin firm location.</p>
Has the company's view / strategy on outsourcing changed over the years? If so how?	Trends	<ul style="list-style-type: none"> (Lacity & Willcocks, 2006) – Hype & fear; cost save / losing internal capabilities. To phase 4 = mature, strategic alliances 	<p>P1) Recent years increasing the functions that are outsourced – constant push to reduce costs – outsourcing chosen as the strategy. P2) Huge investment in offshore sites. Quality and skills vastly improved leading to capabilities of taking more complex functions. P3) There were too many eggs in the vendor's basket and we needed to diversify risks. Keeping within a low cost firm location which was also the same legal entity was the best solution. Also Poland was established as a processing center in EMEA. P4) Current vendor is small. There is an appetite in the business to go to a bigger vendor. However governance can take away from the benefits, whereas with a smaller vendor and having people on site, we can visibly manage risks. The vendor staff after 12 months can apply for a role within the firm. Vendor ok with this. They get backfill and we get trained staff. Vendor pays low amount with no pension or healthcare. - Near-shoring in local vendor not a strategic direction going forward. P5) Started with the drive on cost. Low-value / low hanging skills. Repeat tasks. It's now a full industry in itself. Companies in the financial services now know they have outsourced too much. There is a real issue of lost knowledge. P6) Last 2 years so much cost pressure has resulted in middle management outsourcing. Other functions are being brought back in-house due to control issues. P7) Keep outsourcing which eventually led to no expertise in-house. Captive FTE don't have any experience, vendor have been doing the work for a long time. Onshore experience is gone and we are reviewing work that we have never actually done. The people who used to do it have now left the firms onshore location.</p>
What type of functions do	Core possible /	<ul style="list-style-type: none"> (Sen & Shield, 2006) – KPO increase (Leavy, 2004) – outsource non-core 	<p>P1) Outsourced now are core operations processing. Ownership is still in Dublin, with remote managers as a controls mechanism. The reason so much core work is being</p>

<p>you outsource?</p> <p>Do you outsource core and / or non-core functions?</p> <p>Has the function you outsource changed over the years?</p>	<p>Value-add</p>	<p>to concentrate on core competencies</p> <ul style="list-style-type: none"> • (Park & Wu, 2009) – outsource core if they don't contribute to expected return on investment • (Dad & Iqbal, 2013) – transaction cost view; lower cost & expertise • (Mehta, et al., 2006) – trend changing to gain & maintain comp adv. 	<p>outsourced is the need to reduce cost and the sense of comfort in the outsourced provider as an established relationship is in place.</p> <p>P2) Started from basic to advance.</p> <p>P3) Less risk first, standard lower-value functions. As cost pressures increase so did the value-add and complexity off functions offshored.</p> <p>P4) Same functions that are performed by firm staff. Quality of the staff can be the highest spec and we don't have to pay a premium for that. The vendor knows what type of candidate we want, they do the filtering and we choose the person. They are connected to a recruitment firm with gives additional benefits from a hiring pool perspective.</p> <p>P5) 30% core functions outsourced. But recent trends pushing to outsource more.</p> <p>P6) Core and non-core</p> <p>P7) Core outsourced to the vendor. Once captive center is established fully we can outsource additional functions also. However sign off will be in Dublin.</p>
<p>Same as above</p>	<p>Non-Core focus</p>	<ul style="list-style-type: none"> • (Quinn, 1992) – outsource non-core to focus on core functions • (Forum, 2005) – 58% to focus on core functions • (Manning, et al., 2008) – low labor costs -> non-core / non-strategic 	<p>P1) Initial low-value repetitive functions. Then increased to the full process front to back.</p> <p>P2) Core functions</p> <p>P3) Now core functions</p> <p>P4) Core functions</p> <p>P5) 70% non-core outsourced. Oversight and ownership still in Dublin.</p> <p>P6) Core and non-core</p> <p>P7) Core and non-core</p>
<p>What companies do you outsource to?</p> <p>Why?</p> <p>Have you changed the geographical location of your</p>	<p>BRIC</p>	<ul style="list-style-type: none"> • (Kotlarsky, et al., 2009) – Strength of BRIC countries. India preferred for ITO & BPO. • (Loh & Sharma, 2009) – India may lose dominance, growing economy / inflation rates • (Carmel, et al., 2008) - China = double the value of India • (Kotlarsky, et al., 2009) – ITO -> BPO 	<p>P1) India primary location for third party outsourcing. There is a committee in place that helps to define the outsourcing. There are differences between the strategies across the businesses. India will always be a location for outsourcing.</p> <p>P2) India the main location. Language – English. China more for manufacturing but languages restrict services being outsourced there.</p> <p>P3) Functions in India and Poland. India two cities and two sites in each city for COB planning.</p> <p>P4) None</p> <p>P5) India and China</p> <p>P6) India primarily. China increase now for specialised functions. Increase in focused but in firm location, not vendor. Offshoring /near-shoring in Russia due to</p>

offshoring?		<ul style="list-style-type: none"> • (Neil, 2013) – 2008043% BPO to India • (Dad & Iqbal, 2013) – India highest education 	<p>regulatory restrictions to take any local functions outside of the country. 2 locations in Russia, Moscow and low cost location.</p> <p>P7) India</p>
<p>Has the attractiveness of some countries changed over time?</p> <p>What do you think the next attractive region/country is? Why?</p>	Non BRIC	<ul style="list-style-type: none"> • (Overby, 2009) – growing offshoring destinations • (Kotlarsky, et al., 2009) – Egypt = call-centers / European languages. Dubai/Singapore = high security. SA = English / culture/time-zone • (Gál, 2010) – CEE countries = geo location, time-zone, education, lower trns costs 	<p>P1) Poland preferred location for offshoring to another firm location. Some functions in Hungary but not looking to increase there. Growth in a hub in Malaysia for specialised functions. Keeping within the same legal vehicle is growing in importance due to the regulatory focus on outsourcing. Bahrain and Qatar hubbing. Follow the sun model.</p> <p>P2) Poland (Warsaw) – English & In-company.</p> <p>P3) There was too much focus on India and huge costs to conduct due diligence. Move to Poland beneficial in many regards.</p> <p>P4) Ireland only</p> <p>P5) Poland maybe in the future due to legal vehicle and cultural similarities.</p> <p>P6) Poland huge increase in focus. Hub in Malaysia for trade business. Poland have 2 sites also, Warsaw and lower cost location.</p> <p>P7) None</p>
Do you near-shore? What advantages do you get?	Near-Shoring	<ul style="list-style-type: none"> • (Helyar, 2012) – Poland gen Y highly educated, various languages. • 	<p>P1) Not involved in it.</p> <p>P2) None – only SME contracting.</p> <p>P3) None</p> <p>P4) Yes – Local vendor. Basically contract staff with some on site in Dublin office with others in the vendor’s site in Dublin. Firm management visit the vendor site every month.</p> <p>P5) None. Use of contract workers for some projects.</p> <p>P6) Poland and Russia with 2 sites in each country.</p> <p>P7) None</p>
<p>What model of outsourcing / offshoring do you follow?</p> <p>Do you have a</p>	Captive center	<ul style="list-style-type: none"> • (Farrell, 2005) – US companies benefits as many companies are wholly/partially owned by the US • (Kotlarsky, et al., 2009) – 2006 110 Forbes 2000 companies had captive centers in India (\$9billion) 	<p>P1) Don’t use captive center in my part of business. Third party outsourcing in vendor – mixed models. Pay by Full time employee (FTE) or by volumes (UPC). Middle east & Africa using UPC model, WE use FTE.</p> <p>P2) Use Captive – offshore team pay by FTE. More influence over people / teams. Managed locally but ownership still in Dublin. Dublin VP deal with equivalent peer in captive center. Initially teams managed by Dublin but now let local</p>

<p>captive center?</p> <p>What benefits does it bring?</p>		<ul style="list-style-type: none"> ○ Hybrid: Reduce costs ○ Shared: Growth ○ Divested: Significant scale ● (Oshri, et al., 2008) – Banking & Finance main industries 	<p>managers’ deal with people.</p> <p>P3) Don’t use a captive center.</p> <p>P4) None</p> <p>P5) None – potentially in the future</p> <p>P6) Positives – Keep controls with you. Not bound by contracts / legal requirements. Ownership stays with you. You own the people. They are part of your extended workforce.</p> <p>P7) Will eventually give more controls from a firm perspective. So far cannot move any complex funds due to lack of knowledge. Vendor has to do the handover as Dublin doesn’t have the knowledge. The vendor has been very professional with this. Some resistance in place with captive management, they are not yet in line with our strategy, this is essential for management to rectify. Cost 1.3 v’s 1.</p>
<p>What form of contracts do you have in place with our outsourcer?</p> <p>Have you changed models over the years?</p> <p>What have you learnt from the models you’ve had?</p>	<p>Other Models</p>	<ul style="list-style-type: none"> ● (Brownell, et al., 2006) – contracts = trade-offs flexibility / innovation / SLA <ul style="list-style-type: none"> ○ “Strategic Out-Tasking” = firm has final ownership of outcome ● (Lacity, et al., 2008) – “Enterprise Partnership Model” – Jointly-owned enterprise. Split benefits. ● (Loh & Sharma, 2009) – Multi-sourcing: number of vendors = mitigate risk 	<p>P1) Master Service Agreement (MSA) with vendors. Renewed every 7 years. Statement of Work (SOW) for each process. Within MSA there is an agreement for vendor to produce efficiencies and firm to increase billing by inflation rate. However in reality, it’s difficult to measure the efficiencies and due to high inflation costs in India over the past number of years the firm have not been in a position to increase billing to that %, therefore yearly negotiations take place. Internally in the firm it is usually the remote managers that come up with the process improvements. Other use of vendors = example card production etc.</p> <p>P2) Don’t use UPC. Vendor invoice per FTE regardless of experience / skill. Ideal to base it on a task but difficult to quantify. Vendor in charge of hiring and headcount numbers. Client interaction in-house but now also offshore teams on client calls.</p> <p>P3) Invoicing based on FTE. UPC was not applicable for our model. Conflicting priorities as our focus is to reduce costs through efficiencies which lead to less FTE. However their focus is to increase FTE / invoicing. In my opinion, efficiency saves are a focus for the vendor teams as we have a good relationship and they always get the job done.</p> <p>P4) Pay by FTE to vendor, monthly invoice per person + vat and telephone costs. Sick leave deducted from invoice, overtime is done by time in lieu. We can work with vendor to increase pay brackets of some key employees.</p> <p>P5) Pay by FTE. Huge restrictions – no way to recognise people. Pushed vendor -> no bonus per year of service to address attrition problem.</p>

			<p>P6) Co-managed model tried where firm managers were placed in vendor site to manage people. It didn't work but still trying to be tweaked. Adding layers of management but not necessarily increasing controls.</p> <p>P7) Once all functions have been migrated to captive, this will be the only model.</p>
<p>From your experience, what are the main risks you've faced with outsourcing?</p> <p>How did you overcome them?</p> <p>Going forward how do you mitigate risk?</p> <p>What processes do you have in place to manage risks?</p>	Risks	<ul style="list-style-type: none"> • (Dad & Iqbal, 2013) & (Herath & Kishore, 2009) – Loss of intellectual property • (Shi, 2007) – Performance in the hand of vendor • (Kotlarsky, et al., 2009) – lack of alignment between strategies (parent/captive) • (Beasley, et al., 2004) - Operational risk = declining quality & increasing costs. • (Swartz, 2004) – Control & Security heightened • (Teece, 1987) & (Kotabe, 1992) – loss of R&D / innovation • (Bettis, et al., 1992) – shift in knowledge from firm to vendor • (Ramingwong & Sanjeev, 2007) – Cultural problems main reason for contract failures. Eastern vendors don't raise concerns 	<p>P1) - Risk v's Cost.</p> <ul style="list-style-type: none"> - Over reliance on vendor – Don't lose all your expertise. Risk of vendor leaving business / stop trading. - Data security – very strict controls need to be in place. - COB – Need to have a strong strategy in place. In India we have 4 main sites. COB is tested and signed off each year. Sites split into Tier 1 & 2. Cost savings on tier two and cross training in place for COB situation. - Agreements: ICSA – Centralise for WE. 14/16 agreements, PLSD / SLAs. Outsourcing map being produced. - Mitigate: Key = Relationship / Trust. Open communication. Overcome strict contracts with relationship / partnership. - Regular onsite visits – meet & greet. Give praise if doing a good job as if they were in your own team / location. Eliminate Us v's Them mentality. This needs a culture change. Some managers are on the defensive. <p>P2) Establishing team – virtually training is difficult. Huge upfront investment needed. 6/8 weeks of travel.</p> <ul style="list-style-type: none"> - Reliant on local teams to hire staff: This has improved over the years. - Knowledge: System knowledge now all in India. Need to try to retain some in Dublin. - Regulatory: data / security. Need to work closely with central bank. - Internal structures need to be in place for oversight. Calls need to be minuted, metrics shared on error rates etc. <p>P3) Lose oversight even with the governance structure in place.</p> <ul style="list-style-type: none"> - Loss of knowledge / SME knowledge. There is still a lot of training / upskilling to be done in Poland. Proper documentation needs to be in place. <p>P4) Agency Worker Directive – EU legislation. Risk that people onsite in the firm will</p>

			<p>feel they are being treated differently than those around them; pension, healthcare etc.</p> <ul style="list-style-type: none"> - Planning is vital from a people perspective, having a pipeline of people in place for attrition. - Attrition: as vendor staff you can't negotiate / motivate them to stay as we are not their employer. - Ensure they feel part of the team to avoid renegade scenario <p>P5) Attrition rates – was 50% in the last year. To mitigate this risk there is now a program to have list of core staff, give retention bonuses and train and build career paths for these staff. No distinct results yet to be seen.</p> <ul style="list-style-type: none"> - Lack of innovation: no incentive to improve process. <p>P6) Loss of control over our own processes</p> <ul style="list-style-type: none"> - Risk of business collapsing, we can't bring it back in-house. - Loss of expertise <p>P7) Ensuring full knowledge is in the captive and not lost during migration.</p>
<p>What functions do you maintain in-house?</p> <p>Why?</p> <p>Have these functions changed over time? Less now being kept in-house?</p>	<p>In-house</p>	<ul style="list-style-type: none"> • (Willcocks & Lacity, 2009) – leadership, internal customer relationship, contract facilitation, supplier development, business thinking systems. <ul style="list-style-type: none"> ○ Keep team in-house COB, emerging innovations, monitor. • (Quinn, 1999) intellectually-based -> core-> in-house 	<p>P1) Regulatory / legal requirements will always stay in-house. Culturally we don't like outsourcing too much as the outcome is a loss of jobs.</p> <p>P2) Thought leadership roles / Client facing / problem solving. Currently 40 in-house / 60 captive center. SME's need to be close to clients. Face to face interaction very important for client relationship.</p> <p>P3) Strategic roles. Offshore / Outsourcing is the executing / doing. In-house is all the projects and initiatives, the value-add thought process.</p> <p>P4) Client service – interaction with clients. Non-core with suppliers yes – but as service is our differentiation, it needs to remain in-house.</p> <p>P5) Project management / Senior business analysts / system architects / controls / client facing</p> <p>P6) Client facing / Regulatory requirements / Decision making & strategy / Senior roles with value-add.</p> <p>P7) Client contact. However with new management in place some lower revenue clients may be speaking to staff in the captive. Brokers can deal with captive currently.</p>

<p>What are the hidden costs of outsourcing in your opinion?</p> <p>What actual saves do you receive?</p> <p>How difficult would it be to change outsource provider?</p>	<p>Hidden Costs</p>	<ul style="list-style-type: none"> • (Barthélemy, 2001) & (Sparrow, 2005) – expense of transitioning activities, managing outsourcing, switching vendors. • (Tadelis, 2007) – hidden costs need to be taken into consideration when considering geographical location. • (Bryce & Useem, 1998) – cost saves overestimated • (Kremic, et al., 2006) – Indirect cost; contract monitoring, procurement. • (Kakabadse & Kakabadse, 2000) – social costs; low morale, high absenteeism, lower productivity • (Bradbury, 2005) – some offshore locations increasing -> less cost benefits 	<p>P1) Contract inefficiencies. Vendor trying to attract new business. Overdependence on vendor now.</p> <ul style="list-style-type: none"> - Time spent on documentation - Reputational risks. Vendor selection key. - Very difficult to change vendor. Exit strategy has to be defined but in reality very difficult to action. <p>P2) Costs to the Irish economy, less jobs for graduates as reduction in entry level roles.</p> <p>P3) Governance & Documentation. For every branch that has centralised functions in Dublin / Poland full documentation needs to be in place. Very difficult to manage this.</p> <p>P4) Turnover of staff -> increase in training requirements / time -> cost. Governance, management time and documentation.</p> <p>P5) Loss of knowledge / Cost of training / Ability to move forward -> constantly training</p> <p>P6) Governance cost / Controls teams and compliance oversight / System costs & admin costs of keeping outsourced FTE on our systems.</p> <p>P7) Overlap in costs vendor & Captive. Invoicing for captive more expensive. When your billed by FTE, there is no incentive to create efficiencies</p>
<p>What are the key learnings you've gained from your time engaged with outsourcing?</p>	<p>Key Learning</p>	<ul style="list-style-type: none"> • (Jones, 2009) – Don't ignore people side of outsourcing. <ul style="list-style-type: none"> ○ Need frequent communication. ○ Identify stakeholder profiles • (Lacity & Willcocks, 2006) – fixed term contracts don't always give the expected return / saves 	<p>P1) Documentation: Get it right from the start. If processes are not clearly defined it can lead to complications in the long run; cost implications / processes not completed.</p> <p>P2) It's a process! Phase it. Build up knowledge over time. Not a quick fix.</p> <ul style="list-style-type: none"> - Get governance structure in place - Hire staff over time. Phase it not a big bang approach. - Risks: Diversify risk to different offshore sites. Number of service providers & two sites in India -> COB. <p>P3) Timing! You need a phased approach. Involve key managers at the early stage. Be realistic!! Plan effectively.</p> <ul style="list-style-type: none"> - Recruitment is critical: Pick the right people and don't rush into it. <p>P4) KPI's need to be tight, easily measurable and applicable.</p> <ul style="list-style-type: none"> - Treat vendor staff like your own -> if you treat them differently they will

			<p>act differently.</p> <ul style="list-style-type: none"> - Develop them with resources within the firm as much as possible. <p>P5) Establish clear Roles & Responsibilities</p> <p>P6) Long term plan in view – don’t scrap the barrel with trying to cut costs by outsourcing pieces of processes each year.</p> <ul style="list-style-type: none"> - Have people with you that have knowledge of the process - Is it a long term sustainable model? <p>P7) Plan effectively. Don’t rush into any changes.</p>
<p>What are the key learnings / success factors you would tell managers who are looking into outsourcing as a strategy?</p> <p>What changes have you made in your strategy as a result of your learning?</p> <p>Are there some learnings you have but can’t do anything about it due to restrictions? Contracts etc.?</p>	<p>Keys Success Factors</p>	<ul style="list-style-type: none"> • (Jones, 2009) <ul style="list-style-type: none"> ○ Understand the problem to solve. ○ Don’t outsource bad operation. Well run process is best. • (Dad & Iqbal, 2013) “Relational View” client/vendor relationship key. • (Bharadwaj & Saxena, 2009) Competitive advantage = client/vendor share knowledge. Success for both parties. • (Mehta & Mehta, 2010) Need to create value through partnership • (Dad & Iqbal, 2013) Know your Vendor! • (Lacity, et al., 2008) 12 capabilities • (Lacity & Willcocks, 2006) Can deliver results BUT closely managed • (Jones, 2009) Need clearly defined KPIs for the firm & vendor • (Clott, 2007) & (Lacity, et al., 2008) Mid-level mngt are the backbone – 	<p>P1) Turn into a partnership; make a win-win on both sides.</p> <ul style="list-style-type: none"> - Have very strong governance and remote management in place. - Huge focus now on regulatory environment and compliance. More reporting requirements on firm. This has led to nearly too much documentation requirements. For simple requests like changing processes, this is an admin nightmare, with legal having to sign off any changes to a SOW. - Such a big focus to ensure we get everything right, identify risks and flag them. <p>P2) Metrics / KPI’s key. Attrition rates / error rates.</p> <ul style="list-style-type: none"> - How willing their goals can be aligned to ours - Filter down cost saves. Need to buy into vision / strategy. As currently there is little incentive for them to save and cut headcount. Conflicting priorities of the firm wanting to cut costs when India motive is to increase FTE as therefore billing will increase. - Management need to be involved. If negotiations are going nowhere, there is a need to escalate to senior relationship people. The strategy needs to be a top down approach. <p>P3) Remote Management structure needs to have tight oversight of functions.</p> <ul style="list-style-type: none"> - Document calls / meetings. Set agenda that needs to be discussed at each meeting (defined by governance team; errors, capacity, projects, system outages etc.) - Regular management contact needed.

		<p>they need guidance & to be involved. Direction & involvement from senior mngt/CEO also.</p> <ul style="list-style-type: none"> • (Lacity, et al., 2008) – Need to invest in social capital. Knowledge & resources exchanged. 	<ul style="list-style-type: none"> - Sharing knowledge and experience. - Poland: Teams will eventually be fully accountable locally for people and processes but ownership is still with Dublin from a legal entity perspective. <p>P4) Have a good relationship – Vendor needs to be flexible to your business needs.</p> <ul style="list-style-type: none"> - They will sacrifice their people for the good of the relationship (Firm hiring people) - They have not dictated any direction - Very efficient from an administrative perspective. - They don't have capabilities to build efficiencies. - Offshoring / outsourcing is not for everyone, be careful not to jump on the bandwagon. Need to reassess...does it make financial sense? <p>P5) Have strong controls in place. KPI's are key.</p> <ul style="list-style-type: none"> - Communication essential - Need to build a partnership -> encourage innovation as currently there is no incentive to change. - Cost incentive needed to build efficiencies - Need to prioritise the same strategy and objectives. - Language and culture a big consideration - Unsociable hours to support different regions not a good long term strategy and is a big reason for the high attrition rates. <p>P6) Sustainability is key for the functions you outsource.</p> <ul style="list-style-type: none"> - Other Question asked of participant 6: <i>As a vendor employee what trends have you seen in how the relationship between the firm and vendor has developed?</i> At the start we were all part of the firm but slowly once SLAs / contracts etc. were in place the values and relationships changed. There was an Us v's Them culture. Don't see much improvement on that in recent years. <p>P7) Strong due diligence in place. Need to have the same goals and vision!</p>
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6. Chapter 6 – Discussion

Within the discussion chapter the key learnings from the research will be reviewed further against the research questions identified for this paper. In line with the questions three core findings were discovered through this paper.

6.1 Key finding 1: Outsourced functions

History was an important theme for the participants as it allowed them to discuss the decisions that were previously made that shaped the outsourcing strategy they are currently managing. Similar to the literature where different waves of outsourcing was discussed (Bardhan & Kroll, 2003), the participants merged history with outsourcing trends and the focus on core and non-core functions. This was due to non-core functions being outsourced first and then with increased cost pressure core functions were recently outsourced. This connects the findings to the research question 1.

“Are companies in the financial services changing the type of functions and processes they outsource?”

It is now understood that core and non-core functions are outsourced by the firm, as noted by all participants, with participant 4 to a lesser extent. To understand the future trends of the firm the theme of In-house functions are essential to note. The participants discussed a number of functions and tasks they believe will never be outsourced. They include leadership and strategic management roles, senior business analysts and system architects, risk and control functions and very strongly noted was client facing roles. A number of these functions are in line with the literature which focused on leadership and customer relationships (Willcocks & Lacity, 2009). It can therefore be observed that roles outside of the ones listed above can and will be outsourced or offshored in the future. However it is the manner in which they will be outsourced or offshored that brings the second key learning, which are the models that will be in place.

6.2 Key finding 2: Outsourced models

During the research, all participants stressed the concern that the firm had outsourced too much, which resulted in a loss of intellectual capital. The literature also notes loss of intellectual property as a major risk of outsourcing (Herath & Kishore, 2009). Therefore the firm needed to change their strategy to balance risk and cost saves. The interviews noted three core models now in place by the firm. This theme ties into the research question 2.

“Are the models of outsourcing and offshoring changing in today’s environment within the financial services?”

The first model is the use of a captive center, which is a wholly-owned subsidiaries located in an offshore location that perform work for the parent company (Oshri, 2013). One of two core businesses within Dublin started using this model 18 months ago and according to participant 7 once the migration phase is over; it will provide more control over processes and will ensure the knowledge is retained within the firm.

The second model of offshoring and near-shoring involves the firm sending processes to a lower cost location but within the firm’s entity. This model has a number of advantages including reduced governance costs as the teams and management are employed by the firm, low staff cost and lower transactional and travel costs as Poland and other countries in CEE are easier and cheaper to travel to rather than India (Gál, 2010).

The third model is a concept of hubbing, which is to hub specialised functions globally in a number of core hubs across the world. This allows subject matter expertise to thrive in the hub which is located in a low cost country or a strategic location due to the availability of skilled labour.

The implications for outsourcing that the above three models suggests, are that outsourcing to a third party vendor is not in the future strategy of the firm and that potentially they will reshore functions currently performed by a vendor into an offshore location or hub (Tate, 2014). As noted by participant 7 this is currently taking place in his business, where functions are being migrated from the vendor to

the captive. However, no participant clearly stated this as a future trend; it is an observation on the feedback provided.

6.3 Key finding 3: Lessons learnt

The final key learning which ties into research question 3 focuses on the last two themes discussed during the interviews.

“To effectively outsource or offshore in today’s environment what key learnings can managers within the financial services industry impart to others?”

The significant focus for the participants when discussing lessons learnt and success factors was the manner in which outsourcing or offshoring should occur. Through their experience managing the migration of functions from their teams to a vendor or offshore location, they were very vocal regarding the planning that is required to complete this project successfully. Outsourcing needs to be a long term strategy for any firm. The functions chosen to be outsourced should be sustainably operated by the vendor in the long term. Do not outsource functions that may need to be brought back in-house in the future as noted by participant 6. The type of functions to be outsourced should be well planned out and migrated to the vendor or offshore location in a planned, phased manner as noted by participant 1, 3 and 6 and also noted within the literature (Krebsbach, 2004).

Outsourcing or offshoring any function is a significant task and needs to be project managed closely according to participant 3. The people needed to do this are middle management who are responsible for the process. Therefore as noted by participant 3, 6 and 7 middle management are key to successful migration and governance of outsourcing and offshoring and need to be involved in strategic decisions early in the process (Lacity, et al., 2008).

6.4 Other findings

There are numerous findings within this paper that have not been illustrated in the above key learnings. Although the research questions have been addressed by the strongest themes that came from the research, there are other findings, although less significant that were identified within the research that are worthy of note.

The focus on cost reduction is a significant learning from the research. Within the literature a number of reasons are provided why managers choose to outsource as a strategy (Lacity, et al., 2008). However, within the primary research cost is the single factor noted by all participants to outsource (Dad & Iqbal, 2013). Keeping expenses manageable was a strong area of focus for the managers as they deal with increased financial tasks each year. Therefore the trend for the future within this industry continues to focus on cost cutting; firms need to find the optimal strategies of outsourcing and offshoring to meet their targets.

Risks of outsourcing from a loss of knowledge perspective has been addressed in the above key learnings, however there are many other risks associated with outsourcing. The main concerns that came from the research were in the area of performance and innovation. Although the firm has strong governance models in place, there is still a concern that oversight of the performance of the vendor will not capture every check needed to ensure the output is to the required quality (Beasley, et al., 2004). Additionally due to the tight governance that is in place, there is justified concern that this dampens creativity and innovation (Kotabe, 1992). With the teams within the firm losing knowledge of the day to day activities and the teams in the vendor working to strict SLA's, where is any innovation going to come from going forward? This remains a core concern for the managers interviewed.

The hidden cost of outsourcing is the last area of learnings to note from the research conducted. The managers stressed the cost of governance, compliance, regulatory and legal oversight needed when engaged in outsourcing (Barthélemy, 2001). The documentation and contract management needed increases the administrative costs in the firm, therefore reducing the actual savings of having functions in an outsourced location. These costs need to be taken into account, as noted by the manager when assessing the true savings of outsourcing (Bryce & Useem, 1998).

6.5 Discussion conclusion

The research conducted presented three key findings within the paper. The first was related to the changing trends of the type of functions being outsourced by firms. Originally firms outsourced non-core repetitive tasks that had less risk for the organisation. However with increased cost pressures firms changed their outsourcing

strategy and took additional risk by outsourcing core high risk functions, in some cases resulting in front to back processes being managed by the vendor (Park & Wu, 2009).

The second key finding assesses the models of outsourcing in place by firms and as a consequence of the change in functions outsourced, adjustments in the models followed suit. There was too much focus on third party vendor outsourcing, where the firm had less control over its processes. Therefore it opted for models such as a captive center and offshoring to hubs and lower cost locations within the firm's branches, which keeps costs manageable whilst giving control back to the firm (Kotlarsky, et al., 2009).

The third key finding was the lessons learnt by managers in the industry on how outsourcing should be effectively conducted. The research strongly suggests that outsourcing is a long term strategy that should be planned appropriately (Jones, 2009). Functions chosen to be outsourced need to be sustainable. This is to avoid short term movement of processes between the firm and the vendor. The research strongly recommends that middle management are involved in outsourcing decisions as soon as possible in the strategic planning as they are core to the success of the migration.

Although there were three key findings identified within the research, other learnings in the area of risks, hidden costs of outsourcing and the enormous emphasis on cost being the primary reason for firms to choose outsourcing are addressed within the chapter, as significant outcomes of the research.

7. Chapter 7 – Conclusion and Recommendations

Outsourcing within the financial services industry has become a core strategy for organisations over the years (Jensen & Pedersen, 2011). With continuous pressure to reduce operational costs, outsourcing to third party vendors in low cost locations such as India is now part of the business process (Kotlarsky, et al., 2009). As the strategy developed, relationships were formed with vendors and cost pressures increased, organisations moved from outsourcing non-core lower risk function, to high risk, core functions, which included front to back processes (Park & Wu, 2009). This resulted in full processes being performed by the vendor and a loss of intellectual capital for firms (Herath & Kishore, 2009).

As a result of the exposure and risk faced by organisations, as noted by Kinkel (2014) companies continue to internationalise their activities but with a greater sensitivity to critical factors than in the past. Alternative models and structures have been utilised by firms in recent years and within the research conducted in this paper it is clear that organisations are trying to take control back (Oshri 2013; Kotlarsky, et al. 2009). Through models such as captive centers, which are wholly-owned subsidiaries located in an offshore location (Oshri & Van Uhm, 2012) or hubbing which is to have regional concentration of functions in a lower cost location (Gál 2010; Kinkel 2014) firms are taking ownership back in-house.

7.1 Aim

The aim of this paper was to conduct an in-depth review of the challenges and benefits of outsourcing, as well as to understand the future direction of outsourcing in the financial services industry. To achieve this, primary qualitative research in the form of semi-structured interviews were conducted on managers in a global firm based in Dublin. The managers were chosen based on their experience and knowledge of outsourcing within the firm, whether directly managing outsourced teams or part of the governance and financial oversight with the outsourced parties.

The significance of this research is that managers, who are either currently engaged in outsourcing or are reviewing its benefits, will have an insight into how an established firm within the industry managed outsourcing over the years and how and why their strategy has changed in recent years. Outsourcing strategies are

difficult to find in the literature as this information is very sensitive for organisations (Krebsbach, 2004) therefore the findings within the paper gives substantial learnings.

On reflection of the research conducted, qualitative research in the form of interviews appears to be the most appropriate method to probe into the area of outsourcing. This approach allows for comprehensive analysis of the trends, views and feelings of key stakeholders engaged in outsourcing. The scope of this research is concentrated on one organisation; therefore it is recommended that future research expand the scale of organisations interviewed, to identify common trends across a broader range of firms in the industry.

7.2 Themes

From the literature fifteen themes were identified which were then reduced to ten after the research, as a number of themes were merged. Three key findings resulted from the research conducted which tied into the research questions.

The first question related to the functions outsourced by firms;

“Are companies in the financial services changing the type of functions and processes they outsource?”

This question has been addressed in the opening paragraph of this chapter. There has been a significant change in the functions and processes outsourced by firms in the industry purely due to the increasing pressures to reduce costs (Dad & Iqbal, 2013). Core high risk functions are now being managed by third party vendors.

The second question addresses the models of outsourcing and offshoring that firms are now engaged in;

“Are the models of outsourcing and offshoring changing in today’s environment within the financial services?”

The models have changed as a direct result of the type of functions being outsourced. As noted in paragraph two in the chapter, alternative models are now in place which gives cost savings to the firm whilst reducing risk by bringing the functions back under the firm’s control. Captive centers and hubbing (Oshri 2013; Kotlarsky, et al. 2009) are the future models for this firm.

The final research question addressed in the paper relates to key learnings from the managers interviewed;

“To effectively outsource or offshore in today’s environment what key learnings can managers within the financial services industry impart to others?”

The most important point stressed by the participants in relation to lesson learnt was the approach taken to outsourcing or offshoring from a practical perspective. Their experience managing the actual migration of functions from their teams to a vendor or offshore location has taught them a number of key learnings regarding planning and timing. Outsourcing needs to be a long term strategy for any firm. The type of functions to be outsourced need to be sustainable and should be well planned and migrated to the vendor or offshore location in a phased manner (Krebsbach, 2004). Additionally for this process to be successful middle managers are essential to have on board from the planning phase through to the actual project management of the migrations and the end governance and remote management of the teams. They are the backbone of whole process and determine whether the strategy will be a success (Lacity, et al., 2008).

Although there were three key findings within the paper, there are a number of other findings that are worthy of note. The first being that this research concluded that cost is the primary reason that firms outsource. The literature provides a number of reasons such as access to global markets and talent, 24/7 capabilities (Gupta, 2009), scalable staffing, improved business performance (Narayanan, 2009) and contingency of business, although these are added benefits of outsourcing, cost remains the core reason to outsource.

Risk was a strong theme throughout the research. Loss of knowledge has been noted above in finding 1 but there were many other risks raised in particular in the area of governance. The research showed that although strong governance models can be put in place, there is still a concern that oversight of the performance of the vendor will not capture everything (Beasley, et al., 2004). Additionally due to the tight governance that is in place, there is justified concern that this dampens creativity and innovation for the future (Kotabe, 1992).

The hidden cost of outsourcing is the last area of learnings to note from the research, with managers stressing the cost of governance, compliance, regulatory and legal oversight needed when engaged in outsourcing (Barthélemy, 2001). These costs need to be taken into account, as noted by the managers when assessing the true savings of outsourcing (Bryce & Useem, 1998).

The above themes give a significant insight into the topic of outsourcing and offshoring and advance the theory within the research area. As previously noted, the literature is light in understanding the strategies and future direction of outsourcing by firms (Lacity et al. 2008; Kremic et al. 2006); therefore this paper provides needed awareness within the research area.

From the findings identified in the paper, it was interesting to observe the lack of reference to regulatory pressure noted by the participants. The literature was also light in this area although much guidance from the regulatory bodies is readily available (Levis, et al., 2014). There are a number of reasons that can be attributed to this. The first is the bias present in the research. As the research was conducted by a colleague within the firm, the interviewees may not have seen the need to explain the pressures faced from regulators within the area of outsourcing as it was given that the interviewer was fully aware of these pressures. Secondly, highlighting regulatory interest in any firm is a sensitive topic for discussion; therefore there can be a tendency not to openly engage in conversation on the subject. However, this paper must address the topic of regulatory pressure due to its significance in the financial services industry in particular and is highlighted below under implications of this research.

7.3 Research Implications

The focus and scrutiny by regulators across the globe is increasing in all aspects of management by financial institutions, in particular in the area of outsourcing (Meyerson, et al., 2013). Regulators such as the OCC (Office of the Controller of Currency), FRB (Federal Reserve Bank) and PRA (The Prudential Regulation Authority) are continuously issuing new guidelines to companies in the financial services on how they need to manage risk with third party vendors (Levis, et al., 2014). This guidance has significant impact on firms who have functions outsourced

as if their models or governance structures do not comply with the latest guidance published, they face substantial risk (System, 2013). Consultants such as Deloitte continuously assess the implications of policy changes on firms and highlight the exposure faced by companies who do not comply (Graetz, et al., 2012).

The media continues to report fines handed out by regulatory bodies to firms who fail to comply with policy (El-Rahman, 2009). The regulators are going as far as to audit not only the company outsourcing but the outsourced entity also (Rajawat, 2006). This exposes firms to huge reputational, operational and financial risk.

Therefore while not clearly discussed in the research, the reference to loss of control over processes is linked to the regulatory pressure being faced by firms. The implication here is that if the firm chose to outsource the function, they accepted the risk; however with the external pressure from regulators they can no longer justify the level of risk and exposure. In hindsight more focus should have been given to this topic within the research to gauge the managers and firms thoughts on the subject.

There are also further implications of this topic on the future environment within financial services. With the increased examination by regulatory bodies, managers with the skills needed to oversee risk and control as well as dealing with regulators need to be employed by firms (Gaitonde, 2007). Organisations traditionally have a small number of people who deal with central banks and local and regional regulators but with the increased requirements from a reporting and oversight perspective, more people with these skills are required. Pratt (2006) notes that there are core skills required to effectively perform in this role but that most organisations fail to recruit managers with the combination of skills required. This topic has further implications on the educational courses required now and in the future. Education bodies need to identify the changes in roles and skills needed in countries like Ireland who act as hubs for a number of firms who have outsourced or offshored functions. If the demand for skills are needed to manage outsourcing from an operational as well as risk and control perspective, they need to consider the courses on offer and the experience lecturers needed to teach in this area.

Leading on from this area of thought is the implication for graduate jobs in the future (Elstrom, 2007). As noted throughout the research, lower level functions as well as

front to back processes have been outsourced or offshored. Therefore what opportunities exist for graduates in countries like Ireland who have oversight for outsourcing but have offshored the actual daily operations that traditionally were entry level jobs (Dixon, 2012). If the trend continues that higher levels roles are in countries like Ireland, the courses on offer to bring graduates up to the level required to perform these jobs need to be reviewed. Outsourcing has impacted the natural progression graduates can make in organisations. To ensure the labour market does not neglect graduate positions, the education system needs to closely monitor the requirements of organisations and ensure students are given the required skills to start a career.

7.4 Recommendations

The aim of this paper was to guide a key stakeholder - managers who are engaged or are looking to utilise outsourcing or offshoring as a strategy within their business - on the key learnings from experienced managers in the field. The paper achieved this by highlighting the following recommendations.

Outsourcing is a long term strategy and needs to be right for the business. The strategy should include a phased plan on the functions to be migrated at various stages over a number of years. The functions suitable for outsourcing need to be sustainably managed by the vendor in the long term. For outsourcing to be a success, it is recommended that middle management are engaged in all decisions related to what and when to outsource.

In light of the implications outsourcing has on operational, reputational and financial risk for any business, the impact that regulatory oversight and policies needs to be considered when assessing the appropriate model. Outsourcing to a third party vendor, although potentially the cheapest option from the outset, needs to consider the cost of governance and oversight. When taking those costs into account, it may be favourable from a financial and risk perspective to look to a captive center or offshore to a lower cost location instead of outsourcing.

The third recommendation is that although this paper sought to give insight to one stakeholder group, the implications of the research has reached further stakeholders. It is recommended that education and employment bodies seek to understand the

changing trends in the skills required by firms in the financial services going forward. The impact outsourcing has had on the labour market is significant, as entry level roles have been outsourced or offshored, therefore graduates need to have the skills to work in a new environment with changing requirements.

In conclusion, further research in this area is highly recommended. As addressed throughout this chapter this research was concentrated on one firm. The firm is a global organisation, however only management in the Dublin branch were interviewed. It is therefore recommended that a larger scale research take place, either on the same firm but across various regions, or on numerous firms within the industry. This will result in richer trend analysis across a larger sample of experienced individuals which will contribute greatly to the research area, an area of rapid change and transformation.

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Appendix 1 – Interview recordings

Interview recordings available upon request

 Participant 1 - 21 July	21/07/2014 17:25	MPEG-4 Audio File	22,366 KB
 Participant 2 - 22 July	22/07/2014 21:28	WAVE Audio File	53,025 KB
 Participant 3 - 22 July	22/07/2014 21:22	WAVE Audio File	55,393 KB
 Participant 4 - 23 July	23/07/2014 22:40	WAVE Audio File	98,033 KB
 Participant 5 - 23 July	23/07/2014 22:31	WAVE Audio File	34,729 KB
 Participant 6 - 24 July	26/07/2014 11:17	WAVE Audio File	49,081 KB
 Participant 7 - 25 July	26/07/2014 11:09	WAVE Audio File	44,513 KB

Appendix 2 - Interview Transcripts

Participant 3 – 22 July 3pm

Focus on offshoring / near-shoring in Poland

Q: Can you summarise the history of outsourcing in your business, over the years you have been involved in outsourcing. How they did it, why they did it.

When I joined a lot of processing was already migrated to vendor / India (payment process), the high-value processing remained in Dublin. The year before last other higher complex / sensitive processes were migrated to Poland. That left us with small processes left in Dublin which have just been migrated to Poland and my understanding is the reason for this is from a cost saving perspective.

Q: From a cost perspective the strategy was to go to vendor, from a trends perspective you've gone from outsourcing to where you could get the same service for a third of the price to a similar strategy but just now to a firm location.

The Poland piece as it was working within the same legal entity, there is so much outsourced to vendor, they realised there was too many eggs in the vendor basket and I imagine not just within our team but across the business. And on the back of a number of issues, the rationalisation was to keep it in-house instead of going to a third party vendor keep within the firm, and same legal vehicle are two big factors to go to Poland instead of India. And Poland are very established, they have centralised a lot of processes from other regions are completed from Poland. Cost and not having to go to a third party vendor.

Q: From a core / non-core perspective, you touched upon it when discussing the history, although the processes are core to banking, the processes were non added-value, then they increased what they consider to be processes that could be outsourced.

Yes, the less risky processes were outsourced first and once teams were established we phased more processes to the outsourcer. Income and clearing currencies were looked at first, with standard low-value processes in scope. Areas such as FX were last to be in scope. It is not that these processes are not important, they are less risky. Other non-critical such as charges could easily be outsourced.

Q: Ok, the next thing then from a location point of view, a lot of the literature focusses on BRIC / Non- BRIC (Brazil, Russia, India, China). You have mentioned India and Poland, so that's one BRIC and one Non- BRIC, do you have outsourcing in any other country?

Not in our business, we only have two firms in India where our outsourcing is located, Chennai and Gandhinagar, who act as COB sites for each other, from a site

and city perspective. Poland is one location in Olsztyn. Site COB and City COB for each other.

Q: Any what do you think the future of outsourcing holds for the business. Do you think India will continue to be the preferred location or will countries like Poland grow in popularity?

There is nothing else we can outsource in our team as there is only 6 of us left. But from what I am hearing, there is a lot more focus on Poland with some discussions on moving functions from India to Poland in the near future.

Q: Near-shoring, you have never been involved in with your teams, the same geographical location?

No, never.

Q: You have only ever dealt with Poland and India, so you would not have experience with a Captive center? From a model point of view you only pay for FTE? Ever used a UPC model?

No, never worked with the captive center model, we pay for FTE. We heard of UPC but it wasn't relevant for our team.

Q: Do you see issues with a model where you pay by FTE, from a flexibility perspective.

No, we pay a standard amount per month. The teams do request more FTE to complete the work and we are reviewing the capacity across the teams and moving FTE around as needed.

Q: From a model perspective, if you are constantly asking them to do more with less, how do you expect to have a good partnership with vendor? Do you think the model is a good fit with both sides pulling at each other (vendor = increase headcount, Firm = Reduce Costs). Have you struggled to try to keep the relationship strong?

No, I've never struggled with this. Capacity is constantly being discussed, as they are under a lot of pressure, coming in early and working late but the job is being done, nothing is left undone. I agree with them that they need extra capacity and we are working on this. We are trying to move FTE around across teams. The vendor pay themselves for the extra headcount that's needed.

Q: So a job well done for them, say their yearly task is to increase FTE?

Probably

Q: There is a lot in the literature about models / agreements, so say the vendor make efficiency saves of \$1MM say for a year, they don't actually benefit from this? They give it all to the parent company / client.

They are always to be fair to them, they push for efficiency saves. They nearly harass us trying to get the process improvements implemented.

Q: So they do try to get efficiencies

Yes, I know other people have mixed experiences with them, but I have very positive feedback on the teams I've worked with. Always coming in early to ensure the job gets done, that's why I'm pushing for more headcount for them.

Q: Risks. From your experience what have been the key risks with outsourcing?

There is always a risk that you can lose oversight. The people aren't there beside you and now that we have outsourced another huge piece to Poland. We have really strong governance model defined in vendor and Poland. We have all the processes documented, we review and communicate with the teams on a regular basis. It is difficult to keep tabs on all the teams, ensuring all the MIS is collated. There is huge risk that the knowledge will be lost. We have already lost a lot and the remote managers are under a huge amount of pressure to answer queries coming to them. This won't last. SME knowledge is a huge risk.

Q: Is there anything you can do to mitigate this risk?

All we can do is make sure we build up the knowledge. The vendor is well established, half the time they will be the ones telling us the information. With the Poland team they are only live one month, so we have a lot more to do with that team. We need to ensure we have everything documented in detail, ensuring nothing is missed as without the knowledge some knowledge / processes could be lost.

Q: So you can't take it back?

No. We couldn't process payments now. We couldn't support it.

Q: What functions do you think will always be kept in-house and why?

I guess all the strategic decisions. The guys in vendor and Poland are really the executioners / doers. Any of the ad-hoc projects, driving initiatives or strategizing a product, all the proper value-add stuff has to remain in Dublin. We need to make sure the outsourced teams are engaged but we need to drive it.

Q: What do you think the hidden costs of outsourcing are? On paper you can save its one third of the cost, but when you add governance, compliance, legal.

I never really thought of it.

Q: If you take your job, it's there from a governance point of view, therefore if you didn't need to govern; the role wouldn't exist. The same with the other roles John / Joe do. The amount of admin involved in that role.

We complete all that documentation for our teams. We are actually going through a big project to agree and finalise the documentation with all the branches we are processing on their behalf.

Q: The last part then is key learnings having gone through outsourcing and then the key success factors on what you would advise a manager who is looking into outsourcing.

For the Poland migration my key learning, although they would say it was unavoidable, it should have been done over a longer period of time. It was a ridiculous rush. If it was to be done properly it should have been done in a phased manner and involve the key manager at an earlier stage. The amount of documentation was unreal, the level of detail we had to go through. The managers and trainers needed to ensure that all aspects of the process were documented and handed over, otherwise they will be lost forever. Realistic timeframe is important. So much planning has to go into it. The recruitment part is critical. They were under huge pressure to recruit quickly and perhaps hired people they would not have otherwise.

Key success factors, is the fact that we now have a fully functioning department in another country now.

Q: How do you keep this successful?

The remote management structure, while it won't stop people from making mistakes, it is a very tight oversight of what's happening, regular contact with the teams, documenting of weekly calls. There is a set agenda that has to be discussed on every call, it's a set criteria created by the governance team that has to be always followed; errors, capacity, system outages etc. We have a control and oversight of everything that is going on. Then the remote management structure is the escalation points for the team. Our main focus now is to train the managers. They need to know what their role is for oversight and management of their teams. They are responsible for the daily management of the process and remember they are also new to it. We have shared all our documentation with the managers, anything that will help them be effective in the role. We want them to own the teams and processes. By the end of the year, we will have a much more robust coverage model for ourselves and also a significant improvement that the local teams own the escalations over there. Be in a stronger position themselves to perform their role.

The vendor obviously we need to focus on that but as they are so established, the main focus is on Poland. But now that the team are no longer in place in Dublin, we need to focus on the escalation process with vendor.

Q: So communication, documentation and being engaged and tight oversight is the main focus?

Yes that's the main success factors.

Participant 7 – 25 July 3pm

Focus on Captive center

Q: I would like to focus the questions on the captive center model you have in place as this is only within the business that you are in. Can you give me in your opinion, your experience, how we got there, why a captive center was chosen instead of the usual contract with vendor, how the decision was made to go with this structure and how it's paid for?

Last year the decision was made to move to a captive center with the aim of getting everything out of vendor into the firm location. The vendor was taking over and now we want to go back to where we were. Setting up a captive was a fair enough reason but we did it too quick and made a few mistakes along with way and now we are at a junction where we are not sure what the roadmap is. From an operations perspective we don't have any clear direction either from a vendor perspective or a captive perspective. We are presuming that we are moving everything over to the captive center from the vendor, but there are certain legal contracts with vendor that have to be overcome, regarding keeping a set number of FTE with the vendor. As a business it's kinda difficult. The main difficulty is that ABC are not at the experience level of the vendor and the vendor as much as people have criticised in the past have been doing the work for a long time now and they are pretty much up to speed. People that we have got in are obviously not come from that background and have struggled to adapt. They have been hired to be reviewers but they have never been the maker. Efficiencies we have definitely struggled as we now have staff in vendor in the captive and onsite. Experience have definitely left the onshore team, yourself and myself are probably some of the view who have actually done a valuations from start to finish.

I'll start with the concerns. They have struggled with the actual authority. They are trying to find their feet and they are coming across as not being quite fair and going over the top with the vendor. It's not just them, the onshore team have been guilty of it too. From my perspective, it's very hard to manage FTE, we are 100% inefficient as two offshore locations don't work. So the simple answer is to move everything to ABC however when you have complex funds and the staff in the vendor have all the knowledge, it's not as easy to move over to ABC.

Q: And do you think there will be resistance to move it over?

The vendor to be fair, have been extremely professional and helpful. The firm is a big client globally which they are very aware of and they have dealt with it very well. Actually the main resistance has been on the ABC side, with management there pushing back on things. They don't seem to be under the objective as we have to achieve, reducing heading make processes more efficient, trying to make our client's more profitable.

I would have loved to go back two years to know how the decision was made. It went too quick, they made us outsource too quickly, made us hire people in the captive when we have funds and people now in the vendor and ABC. There is no clear roadmap now, it's very frustrating. It was also unrealistic to replace 1 for 1 as we need to have oversight on the processes. It was just done too quickly and too aggressively. We are supposed to be global, yet there are different strategies in each of the regions. These are the things that the people making decisions didn't look at the bigger picture. What we need now is a clear roadmap, what is the plan with the vendor, what is the contract with the vendor, are there any other consequences? Can we look at moving some of the vendor staff over to the captive, which the senior management there have kicked up about, rightly so. The other thing that goes against us is that GPC are more expensive than the vendor, 1.3 – 1.0. That's the other thing that drives we made, we are supposed to be making our clients more profitable and this has huge implications.

Q: How do you govern the structure in ABC compared to how you govern vendor? Do you have local managers?

There is a governance team for the actual governance of the vendor / captive. They would do the due diligence and that side of things. There are weekly calls with the vendor and ABC. They come to me and my manager with concerns or issues they have.

Q: Do they report directly into you?

Well that's where it's still unclear. They do have local management, we are dictating to them and they are definitely under a different agenda. The mistake we have made is that they are still new and we are trying to get them to work, but that's the role of the local managers. There are MD, Directors that report globally as well, so definitely have local management but over time they need to find their feet and be accountable. Prime example is that we launch a new fund and we put forward the required headcount. We need to get to a point where they negotiate their headcount instead of us doing that with product.

Q: So ultimately if the model chosen works, once everything has been ironed out the knowledge and handover, how it will work is that local management which does the people side and noise but what about the client facing perspective.

We will deal with everything; client noise, escalations, audits and tax.

Q: So from a client's perspective they will never deal with India?

No never. From a broker perspective they will.

Q: In that sense if you're going on client calls you need to have close oversight on everything to get on client calls you need to know what the issues are.

We are solely responsible for the end delivery. They do the work, we check it and we are the ones who send it out.

Q: Oh you still send the work out?

100% we always send it out.

Q: Is that going to stay like that?

Well yes, we are behind the times in the sense that we still send everything through email. So unless we move to a portal where you cannot see who sends the end work out, we will continue to send everything out. But at the moment any email has to come through us.

Q: Really there is no difference between the model with vendor and ABC?

One only main difference is that ABC will do more post functions. I suppose the coordination of audits they can do but we will still be the leads.

Q: What about from an incentive point of view? If you get a target to reduce FTE are you going to split it? How does it work?

This is where we are trying to get the message across. At the moment we don't seem to have the same objectives and guidelines that we are getting from our seniors. At the moment we are going back to them to increase efficiencies. Eventually they will, in reality they are only in operation for 15 months, so they really are in the infancy of a company. We will stay heavily involved in the next two years but eventually will take a step back.

Q: You really are the pilot for captive centers in the firm. So you have a lot of lesson learnt to share.

The problem is we get dictated to. We are not the decision makers and that's frustrating.

Q: What about other locations, do you use vendors in any other location?

No, only vendor and ABC. Well Luxembourg we do a lot of work for too, but that's more insourcing.

Q: Do you think from an in-house perspective we are always going to have the client contact?

It really depends on the management. If you listen to the new direction on the treatment of platinum clients, there are being decisions being discussed that down the line the work could be sent by ABC. We have told our clients that they will only be dealing with us. But a management decision can be made to change that. It could happen. It comes back to cost.

Q: Are there any hidden costs?

If you get charged by FTE, where is the incentive to create efficiencies? I suppose the main hidden cost is that at least with vendor we get charged a fixed cost. There is a risk with ABC is that from a firm perspective an overall cost can be increased in one part of the fully loaded costs that will impact our bottom line. With vendor we have more control over this.

I mean in the long term it will be good, but we just really need buy in from seniors and on their side and maintain steady senior management with the same strategy.

Participant 6 – 24 July 3.30pm

Focus on overall outsourcing / offshoring / captive models in the firm. Focus from a financial perspective and from some who worked on the India side.

Q: Can you summarise the history of outsourcing in the company, the different structures, how it came about. An overview of the various different models, structures, geographies and the history of how they came about. Basically an overview really of the whole outsourcing within the firm.

Well it started in the early 2000s, when started to offshore into CGSL India, actually some went back as far at 1995 / 1998 when we moved low-value functions such as reconciliations and pre-payment checks.

Q: So the low-value functions?

Yes completely lower-value within the process chain. They were still on the firm's headcount, they were not outsourced. Then with the crisis coming in, we started to offload the headcount to a vendor, so we sold the whole model and FTE to vendor. So what was first considered an offshore model became an outsourcing model. And that has been followed since. The vendor process low end transactions and we do the value end in Dublin and London.

Q: From a structure point of view how do we pay for this service?

When we started it was all FTE based and then when it came to vendor and we had to look at savings, we started looking at volume based invoicing. On one side it makes sense to stay with a FTE model as the volumes increase, therefore we wouldn't want to increase invoicing. But for other businesses, there are flatter volumes and it was beneficial to pay by volume. Now we are going back to review some of the products that the volumes are decreasing, and introducing UPC there.

Q: And that is done at an SOW level?

Yes it's agreed at an SOW level. Within the FTE structure, you have the amenable and non-amenable models where amenable they will give you the productivity every year, as the volumes are so high, there has to be efficiency saves. And non-amenable are UAT, project etc, that is a lot more difficult to get efficiency saves from.

Q: So that's the fixed term contracts, what are the other models that are in place like a captive center?

Outside of vendor, the business does not have a captive center yet, but we are looking into it at the moment. Other businesses have a captive center now in the north of India. What we have done is to create hubs. We have a UAT hub in Dalian, still not up and running completely. We are setting up a similar hub in Penang and in

Poland. So we are trying to move away from the outsourced model because that's where we have reached the maximum we can get from outsourcing it starting to give negative returns with the level of governance required. So that's why we are moving to a captive model or better still offshore to a cheaper location within the firm.

Q: So what are the benefits of a captive center?

You keep the controls with you, you are not bound by the contracts and legality's of a vendor. The ownership stays with you, the risks and responsibilities stays with you. Right now you have outsourced so much to vendor, you have effectively lost control of your own processes. If they decide tomorrow that they are not working past 5pm and charge you for that, you have no control over that.

Q: Do you own the FTE then?

Yes you would, on your books as part of your extended workforce. You would end up owning as part of contract staff.

Q: So they are still different to direct staff in the firm in India?

Yes, they are ultimately contract staff on our books.

Q: Are there any other models, like a partnership where we would split benefits?

Not really, they did try a co-managed model, where the vendor guys would do the work but the managers are the firm staff on the vendor premises on the firm payroll. The view is that if we do this vendor would give us a kickback, as they don't have to go through the whole management process. Now it hasn't proven to be that successful yet. They are still trying to make it work but not to the expectations that was first thought.

Q: It's really just adding layers and creating us v's them scenario?

Yes and you still have the management oversight here. It was hoped it would have given more management and control to the team, my own eyes looking at them, but that just resulted in more layers.

Q: From a core / non-core are you seeing trends that we are outsourcing more of our value-add / core processes?

In the last 5 years no, in the last 2 years yes. It is simply because we had so much pressure on our cost cutting initiatives. We have only now really kept the core regulatory or client facing functions that can't be outsourced. But now people are seeing the other side of this outsourcing model and have started to bring some parts back in bits and bobs.

Q: And that's because we have stretched it too far?

Yes exactly, we have completely lost control, so we need to take it back.

Q: So the way forward is the hubbing as you mentioned and that's where you get your economies of scale also?

That's the way to go. It's cheaper as well, it's not very expensive compared to the vendor and you get to keep your controls in-house.

Q: One of the things within the literature was BRIC / Non-BRIC, we have mentioned India and China. For Russia what you would consider the structure, near-shoring or offshoring?

I would consider Moscow – Ryazan near-shoring and Warsaw – Olsztyn near-shoring. Dublin – Poland is offshoring.

Q: Are you seeing Dubai growing from a security perspective, on the cards side even?

No, it is not a big hub for us.

Q: So from a growth point of view it's Dalian and Penang then?

Yes, from an FTE point of view but from a business perspective it's Africa.

Q: What do you think are the key risks of outsourcing? Loss of control is the one you already mentioned.

Yes it's really loss of control. Also the risk of the vendor going down. If the firm went down everyone would know we couldn't function, but if the vendor went down people will expect us to still be able to function.

Q: What functions do you think will always stay in-house, regardless of cost pressures?

Senior management roles, decision making functions will stay in-house. They are the people who will give you the value-add. You need senior people to take decisions and drive the business forward.

Q: What do you think the hidden cost of outsourcing is?

You have to take into account the governance teams, controls teams. Also system costs, as everyone in the vendor has to have the firms system access. The cost to get it up and running and then every time attrition happens, which it does a lot in the vendor.

Q: Key learnings and success factors that you have seen from the past and what advice would you give a manager who was looking to outsource.

Key learning is to have a long term plan. Don't do it one year at a time, that's where you start scrapping the barrel and losing control pretty quickly. Always have a plan and have people with you that have knowledge of the process. If you think you're

losing the knowledge, take it back. You really need to think, it is a sustainable? In 3 years' time will you be thinking I shouldn't have outsourced that.

Q: Briefly, in your time in the India side, or your interaction with people on the vendor side, from a relationship and us being one big team, do you think that's wishful thinking or do you think it happens in reality.

It used to happen when we were part of the firm. The ownership was there. But it started to change over time with the vendor. Everything was down to what was written down in our contract, I have 8 hours to deliver. It's all about the SLA, whereas before I own it and that's it. So the sense of ownership has gone.

Q: Do you think that has changed in recent years?

No I don't think so. When I talk to the teams here the complaints still are that the support from the vendor is still not the best.

Q: What about when you speak to the vendor guys? Is it more of a sales relationship instead of a partnership?

They want to sell it as a partnership, but within the boundaries of the SLA. If it meets their end goal its ok. There are two different business models with different aims. Although they want to do it, what we tell them to do, but if it breaches their end goal they won't.

Q: To be its conflicting priorities all the time, how can it be a partnership?

Q: You can't, although they will want to do it in good faith, the firm can then expect that all the time and take it as normal.

Q: Just going back to what you mentioned about amenable and non-amenable, from a contract perspective can you explain how that impacts the dollar side of things for inflation and productivity.

From a numbers perspective, the firm needs to increase the invoicing by minimum the rate of inflation. Now in reality the inflation in India is in double figures, therefore it is not practical, there is always a negotiation of what the % increase is actually. UPC stays the same. Then you come to the productivity model, what the vendor gives us back. They have committed that they would give us x% productivity each year as per the MSA. Then there is a negotiation where they can say what actual % of productivity they can produce.

Q: What about poaching staff, does it happen?

Yes it happens quite a lot, as you don't want to lose the expertise.

Q: Are the vendor okay with this?

Not really but they don't have much of a choice. They are trying to tighten this area.