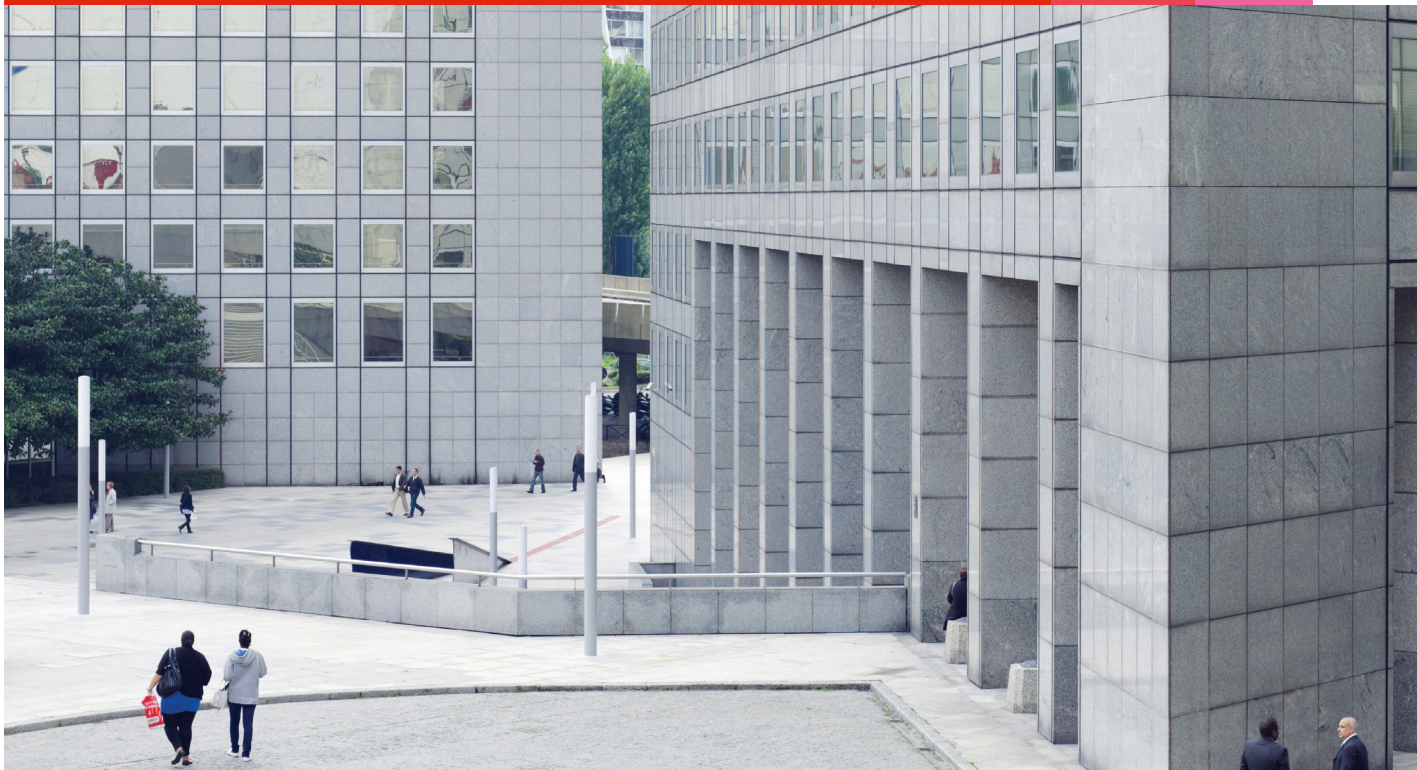


Ending the endless reorganisation

Building an adaptable
operating model

August 2012



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Introduction

Too often we see financial institutions shift their business strategies but fail to adapt their operating models. The result? Risk soars, performance stalls – and competitors pounce.

64%

of respondents working for financial institutions have undergone a review and redesign of their organisation in the last 12 months.²

When financial institutions fail to adapt their operating models as their business strategies shift, they often struggle to remain competitive as they attempt to take action across key areas that are shaping today's CEO agenda— restructuring, regulatory reform, globalisation and changing consumer demands. Many financial institutions attempt to adapt their operating models, but believe that they are always playing catch-up—once a major reorganisation is completed, the strategy has shifted and another overhaul is needed.

This tendency to underestimate the need to adapt was discussed in the PwC FS Viewpoint entitled

Risky Business: Why Managing The Risks Of Evolving Business Models Is The Key To Avoiding The Next Financial Crisis:

Humans tend to recognise dramatic changes and take the actions necessary to escape danger. However, we are not as quick to identify and act on risks associated with subtle, incremental changes that occur over time.

Consider, for example, a well-known analogy: If a frog is thrown into a pot of boiling water, it will jump out. However, place a frog in water that is at room temperature and raise the temperature one degree per hour until it reaches the boiling point and the frog will likely stay in the pot, oblivious to the danger until it is too late¹.

This publication will discuss key change drivers in more detail and highlight the operating model implications of each scenario.

¹ 'Risky Business: Why Managing the Risks of Evolving Business Models is the Key to Avoiding the Next Financial Crisis,' January 2011, www.pwc.com/fsi.

² PwC analysis based on webinar survey results. 'How financial services companies can execute the right people strategy,' December 13, 2011.

Shaping today's CEO agenda

We have observed our clients wrestling with multiple business issues as they navigate market, regulatory and financial changes.

Changes impact financial institutions' operating models in different ways. This is in part due to the pace at which changes typically occur and the degree to which they are linked with business strategy.

	Key change drivers
Rapid Change	Restructuring In a survey conducted at PwC's global mergers and acquisitions (M&A) conference in 2011, 75% of financial institution CEOs indicated they were planning to restructure their organisations over the next 12 months. ¹ While restructuring—which includes M&A, divestitures, initial public offerings (IPOs) and consolidation—can help to boost shareholder value and competitiveness, we observe that many organisations do not understand what changes to their operating models are required for a successful restructuring.
	Responding to regulatory reform Regulation has significantly influenced financial institutions' need to change their regulatory reform strategies and 73% of financial institution CEOs are 'extremely' or 'somewhat' concerned that over-regulation will threaten their business growth prospects. ²
Incremental change	Implementing globalisation strategies According to PwC's annual global survey of CEOs, more than half of financial globalisation strategies institution CEOs strongly agree that emerging markets are more important than developed markets to their organisations' futures. ³ This is a key reason why many institutions have changed their company strategies in the past two years.
	Meeting changing customer demands The traditional financial services operating model is structured around internal customer demands product groups and geographies. Tension between groups has grown as they work out conflicting approaches to address the needs of increasingly global customers. Many institutions are also modifying their operating models to promote innovation and develop more customised, relationship-based products.

¹ PwC, 'Sharing Deal Insight: European Financial Services M&A News and Views,' August 2011.

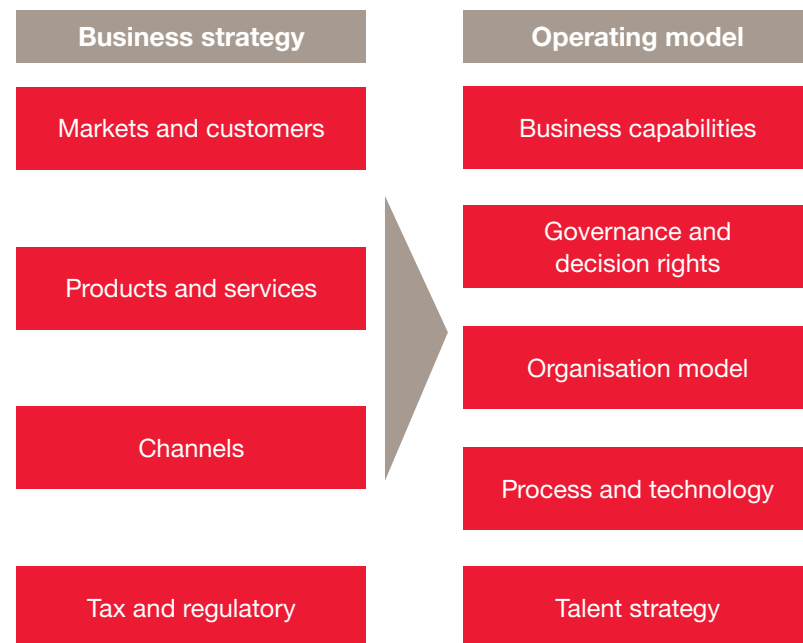
² PwC, 15th Annual Global CEO Survey, 2012.

³ Ibid.

How do institutions assess and reshape their operating models to support their long-term business strategies?

An operating model bridges the gap between an organisation's business strategy and its operational resources.

It plays an integral part in the organisation's tactical plan to achieve its strategic goals. As financial institutions assess the ability of their operating models to guide the effort. The answers to the below questions will help create a shared understanding of the financial institution's goals and how it should build its operating model to achieve them.



Key questions

Organisation strategy:

- What is your go-to-market strategy?
- To what extent should governance and decision rights occur at the global or regional level?
- To what extent do the organisation principles centre around product, geography, customer or function?

Organisation capabilities:

- How important is it to develop experts across products, geographies, customers or functions?
- What are the required organisation capabilities and what is your talent sourcing strategy to fill critical gaps (such as build, buy or rent)?
- What is the degree of emphasis on product innovation?

Business performance objectives:

- To what degree is the overall organisation strategy focused on profitability vs. growth?
- To what degree is cost containment/reduction a priority?
- To what degree is operational excellence emphasized as a competitive advantage?

Culture and management practices:

- To what degree do you empower employees to make decisions?
- To what degree is the organisation culture consistent throughout the organisation?
- Where are there inconsistencies in management practices that should be addressed?

Restructuring

Market and regulatory conditions are driving financial institutions to restructure and mergers and acquisitions are on the rise. In our view, many institutions underestimate the work involved in making restructurings successful.

Scale

If the strategy includes future growth through acquisition, the operating model is designed to accommodate future acquisitions. Key considerations include:

- What is the target geographic footprint and how do we plan to get there?
- Do we have the right product sets and people/technology capabilities to effectively compete on the larger field?

Flexibility

If designing for flexibility, the operating model enables rapid adaptation to customer demands/channels, regulatory changes, and technology requirements

- Which pieces of the acquired organisation should be integrated? Which should remain stand-alone?
- Should certain divisions be run as portfolio companies to facilitate a potential spin-off in the future?
- Which decisions should reside at the local level to enable faster speed-to-market? If efficiency is a strategic priority, key considerations include:

Efficiency

- Which functions—such as finance, human resources or IT—can be operated as shared service centres for the enterprise?
- What process and technology changes will help us take advantage of cross-selling opportunities?
- Which elements of the governance structure should be fully integrated, and which should remain independent?

Restructuring is on the upswing—but will financial institutions be able to make it work?

In our experience, banks with less than \$200 billion in assets find it difficult to thrive or even survive in today's environment. They often lack critical size, adequate capital ratios and sufficient deposits. As a result, we expect to see more M&As and consolidation in coming years.

What are the strategic business objectives?

In our experience, successful financial institutions have designed their operating models based on their long-term M&A objectives.

Many underestimate the operational changes necessary.

According to PwC's 2011 M&A Integration Survey, the three most common integration challenges reported by deal makers were:

- Integrating information systems.
- Establishing the right organisation model, people management, and work processes.
- Aligning operating procedures and business processes with new strategic and operational priorities¹.

¹ PwC, 'Do the Right Things. Get the Right Results. Findings from PwC's 2011 M&A Integration Survey,' p.10, www.pwc.com/us.

At the other end of the spectrum, institutions are spinning off businesses or launching IPOs to raise capital and improve their valuations and debt-to-equity ratios.

Moving out of the nest

The financial services industry led IPO activity in the US in 2010, with 34 deals valued at \$5.3 billion and contributing to 20% of total IPO volume.¹ Others have found that ‘bigger isn’t always better’ and have decided to divest certain business units in order to create more nimble organisations, recapitalise balance sheets or change their perception on the street. In the broker-dealer space, the Volcker Rule will force many companies to divest business lines that invest in private equity and hedge funds.

Regardless of the motive, we have observed that institutions creating a new company— either through IPO or divestiture—often face many of the same hurdles. More often than not, companies are not well-prepared to manage these obstacles.

Common issues	Key considerations
Corporate governance	<ul style="list-style-type: none"> • Who will be responsible for business-critical decisions such as oversight of financials, capital allocation and compensation management? • How will roles be divided between the home office and sub-functions (or between the parent company and divested unit) with regard to performance management, risk management and regulatory reporting?
Public company capabilities	<ul style="list-style-type: none"> • Which short-term capabilities are needed to support independent operations? Which long-term capabilities are needed to support ongoing growth? • How will the increased needs for risk management and compliance be addressed? • Are key public company functions—such as finance, internal audit, tax and legal—adequately staffed and prepared for operation? • Do functions such as investor relations, public relations and marketing need to be developed to manage communication with external stakeholders?
Defining the relationship with the parent company	<ul style="list-style-type: none"> • Has a transaction agreement been documented to define the relationship and provision of services between the parent and divested company? How long is the agreement valid for? • Is it likely that the divested company might be re-integrated with the parent company in the future? • What role, if any, should the parent company play in the strategy and operations of the divested unit?

¹ PwC, 2010 US IPO watch: Analysis and Trends, March 2011, p. 3, www.pwc.com/us.

Regulatory reform

In our view, financial institutions will likely be forced to adjust their operating models to respond to regulatory reform, one of the biggest threats to sustainable growth in the industry.

To cope with emerging regulations, financial institutions will find their operating models impacted in three key areas:

Governance and Decision rights:

- Unprecedented global regulatory changes are impacting decision rights. Financial institutions are faced with interpreting and implementing a variety of regulatory reforms across the territories in which they operate (e.g., Dodd-Frank in the US, Basel III worldwide and Solvency II in Europe).
- Leading institutions are focusing on their ability to manage, monitor, respond and adapt to regulatory changes efficiently on a global scale.

Organisation model:

- In light of Dodd-Frank, which increases accountability and transparency requirements, financial institutions are rethinking their organisation models.
- Leading institutions are considering how employees on the front line interact with support functions, including risk management, finance, technology, human resources and legal. Rather than just complying with regulators' requirements, they are updating operating models to engage regulatory authorities in key business decisions and to clarify the organisational structure, roles and responsibilities.

Talent strategy

- The recent Office of the Comptroller of the Currency (OCC) consent orders have led many large mortgage providers to assess how their mortgage businesses function and whether their teams have the right skill sets and capacity to examine how risk is monitored, stress-tested and managed throughout the operating model.
- To thrive in this new environment, leaders have been assessing their existing talent capabilities, determining how talent gaps will be filled (build, buy, or rent) and considering whether new organisations should be formed to manage regulatory needs across the organisation. What role, if any, should the parent company play in the strategy and operations of the divested unit.

Focus on risk:

80% of financial institutions plan to allocate more senior management attention to risk management.¹

80%

Change in strategy:

64% of financial institutions indicate that regulation has significantly influenced the need to change their strategies.²

64%

Increase headcount:

37% of financial institutions are increasing risk manager headcount as a step toward improving risk management at their firms.

37%

¹ PwC, 14th Annual Global CEO Survey, 2011.

² PwC, 15th Annual Global CEO Survey, 2012.

Globalisation strategies

Many financial institutions are jumping on the bandwagon to expand internationally. However, they often face challenges in designing and executing a successful global operating model, particularly in emerging markets.

Many financial institutions are making the leap abroad in an effort to diversify risks and create potential new revenue streams.

While developed economies are expected to grow by 1.9% in 2012, emerging markets are projected to expand by 6.1% over the same period.¹ CEOs recognise the need to go global; however, many financial institutions are facing challenges in designing and executing the operating models required to flourish in emerging markets. In order to prepare for these global initiatives, leading financial institutions are implementing:

Global decision rights and related business processes

In foreign markets, the sheer distance between the corporate centre and regional offices has hindered timely communication and decision-making. Leading financial institutions have organised themselves in such a way as to promote rapid decision-making, effective risk management and clear communication to respond to customer demands more quickly.

Organisational models and talent strategy in a new market

Emerging, fast-growing markets such as Asia, Latin America and the Middle East are becoming more attractive options for conducting business, primarily due to their stronger political and regulatory environments and lower operating costs.

Institutions launching new businesses in emerging markets will have to redesign long-term operating models to support business strategy—including updating their organisational models, building new technologies and customer channels, integrating existing functions and considering how to deploy talent in these markets.

Regulatory and cultural requirements

Differences in global, regional and local regulatory and cultural requirements continue to create complexity in developing appropriate operating models for multinational entities. Financial institutions should carefully consider how to address these issues to meet customer needs while demonstrating respect for local working norms.

¹ International monetary fund, World economic and financial surveys, 'World Economic Outlook,' September 2011, p. 2, www.imf.org.

Changing customer demands

Institutions increasingly face growing tension created between multiple regions, product groups and functions. This is impeding the ability to deliver the level of intimacy expected by increasingly global customers.

Setting the ground rules

As financial institutions have expanded globally, reporting relationships and decision-making responsibilities have grown more complex—with global and regional-based teams crossing paths with enterprise-wide product business units and functions such as finance and risk.

Leading institutions have recognised that clear design principles and interaction frameworks are needed to manage communication and decision rights across groups. Generally, customer decisions should be owned and executed closest to the market and location of the customer, while maintaining clear global links to better service global customers. Functions with centralised mandates—such as risk management, finance and compliance—should operate globally to enable an over-arching view of the firm and to support consistent application of principles.

Key success factors

In addition to clearly defining accountabilities and communication protocols, leading financial institutions promote timely adaptation to changing client needs by:

- Supporting a sound performance management system that allows information to cascade quickly as strategies shift and realignment is required.
- Establishing 'centres of excellence' that are able to respond rapidly to areas of business demand with specialists, leading practices and technology capabilities.
- Maintaining a customer-focused workforce that is willing to alter course based on market or regional changes. This includes, for example, the ability to shift decision-making style from centralised to decentralised, increasing teaming and blending generalists with specialists as circumstances change.



Leading financial institutions are designing new operating models that encourage idea generation and collaboration among teams. These models are helping them respond more quickly to customer demand and stay ahead of the curve.

Testing the innovation waters

The demand from customers for more customised, relationship-based products has pressured financial institutions to venture into new, untested territories. Innovation has become a high priority and global innovations teams are a growing trend at leading financial institutions.

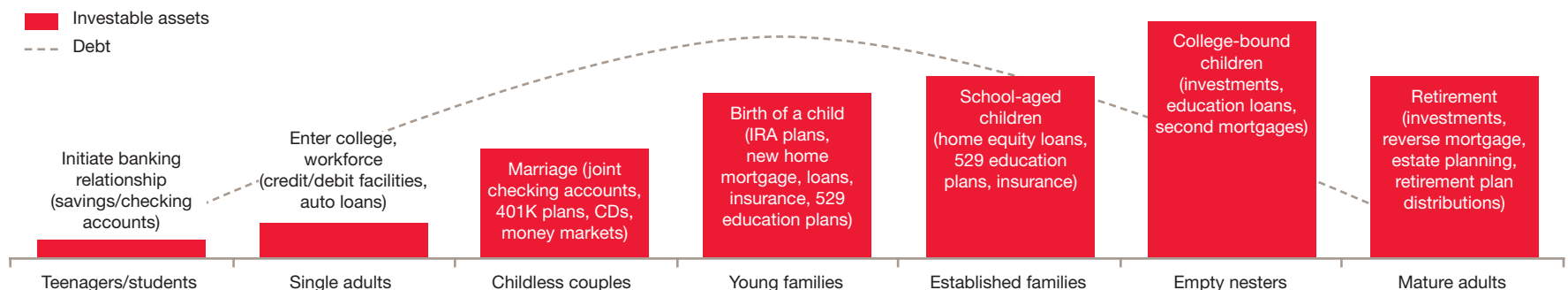
Following examples set in the technology and consumer products industries, leading financial institutions are developing new models—such as research and development functions—to encourage collaboration among teams with diverse skill sets to quickly generate and implement new product and service ideas. When executed effectively, these functions have generated new ideas efficiently, while linking with existing risk frameworks and delivering high-quality products in shorter time frames than ever before.

Breaking down the barriers to a customer-centric operating model

Leaders have recognised the criticality of understanding customer needs and linking them to the ‘financial lifecycle’, thereby supporting stronger relationships and cross-selling. Institutions are redesigning their operating models to transition focus from the traditional organisation/product basis to a more customer-oriented view. For example:

- Implementing technology that integrates customer data across systems and provides a single view of customer transaction history and behaviours.
- Revamping employee compensation and incentives to reward customer-driven performance and innovative thinking.
- Promoting product design capabilities that keep customer needs at the forefront.

Illustration of customer financial lifecycle



Components of an operating model

In this turbulent global economy, financial institutions cannot always stick to the same operating model. To successfully anticipate and respond to changes in the environment, institutions should incorporate leading practices that support adaptability and resilience.

Operating model components	
Areas	Leading practices and key success factors promoting adaptability
Business capabilities	<ul style="list-style-type: none"> Resource management processes effectively match business capability talent supply with demand. Cross-selling opportunities to customers through multiple channels are captured. Assignment of profit- and loss- centres evolves, based on changes in the external marketplace.
Governance and decision rights	<ul style="list-style-type: none"> Decision-making responsibilities are clearly assigned and there is a clear path for issue escalation and resolution Local leaders are empowered for market/customer decisions, while responsibilities for areas such as risk management and capital investments are centralised. Decision-making styles adapt to market needs (e.g., shifting from consensus to command and control for urgent, important initiatives).
Organisation model	<ul style="list-style-type: none"> Broad-based design of job roles and responsibilities enables flexibility and rapid reconfiguration to respond to business strategy changes (e.g., mergers, entry to new markets, development of shared service centres). Teaming across functions, business units and geographies facilitates a matrix reporting structure. Group and individual performance metrics are aligned through all levels of the organisation.
Process and technology	<ul style="list-style-type: none"> Business performance reports are effectively collected and disseminated to support timely decision-making. Continuous process improvement is part of the organisational mindset. Technology investments support business capabilities driven by customer and market demand.
Talent strategy	<ul style="list-style-type: none"> Hiring and employee development processes enable development of both generalists and specialists. A diverse range of incentives and reward mechanisms are designed to meet workforce needs.

Business strategy leading processes

- Flexibility in product/ service design enables the development of reconfigurable solutions.
- Pricing is flexible and based on market and segment demand.
- Timely entry and exit into new and existing markets are thoughtfully assessed and continuously monitored.

There are many barriers that cause operating models to fall behind business strategies. However, leading institutions are providing the support needed to identify and execute on critical operating model changes.

Common obstacles that financial institutions face when assessing and redesigning their operating models include:

Lack of strategic clarity

Unclear business strategy and goals make it difficult to link business strategy with actionable changes to the operating model.

Middle management resistance

Middle management resistance to new ways of working and thinking can often derail an attempt within the organisation that is striving to drive innovation and change.

Competing priorities

Competing priorities and limited time and resources may impact effective operating model planning and redesign. This eventually leads to suboptimal return on investment.

Difficulty articulating the future state

Inability to visualise and articulate the operating model into tangible customer and operational practices and interactions can impact productivity and result in loss of key talent.

How do leading institutions address these obstacles?

- **Designating an executive sponsor to oversee and manage the effort**—an influential sponsor is needed to make tough decisions and engage the right stakeholders. These factors are critical in gaining agreement on the future state and demonstrating long-term commitment to change.
- **Exploring the impact of the new operating model on customers**—avoid customer attrition by committing to a positive customer experience throughout the transition.
- **Engaging employees**—make clear to employees what their roles will be under a new operating model and design incentives to retain critical talent. This can help maintain productivity and build grassroots support for changes.
- **Transitioning seamlessly**—enable a seamless transition for both employees and customers. This may require, among other things, developing new capabilities, redesigning front-office functions quickly and collaborating on the back-end to deliver the same communications and level of service both internally and externally.

Well-constructed operating models should address five key components to enable the organisation to execute its business strategy.

There are many definitions of the term ‘operating model’, but we believe that the following five components are the key areas that financial institutions should focus on to support the long-term success of their business strategies:

Business capabilities	Core capabilities (such as relationship management, product design, data analytics) that are required to execute business strategy. Non-core capabilities can be sourced from external service providers.
Governance and decision rights	The process of defining business decisions and determining accountable decision-making groups or individuals. The process can be enterprise-wide or specific to a function and assigned on a global, regional or country basis.
Organisation model	Includes service delivery, geographical location and organisation option (centralised, decentralised, shared service, centre of excellence). Functional groupings, reporting structure, target headcount and functional responsibilities for each function/sub-function are typically determined.
Process and technology	Refers to priority policies, processes and systems needed to execute workflows, including enabling infrastructure, applications, tools and data required to execute business processes. It also allows for providing products and services to customers and critical information to key stakeholders.
Talent strategy	The management of the overall talent lifecycle, including workforce planning, recruitment, on-boarding, employee development and performance management.

A Framework for success

An operating model helps an organisation translate core business objectives, vision and strategy into an executable plan.

The approach outlined below assesses an organisation's core enterprise and functional capabilities and provides a framework for determining how it should organise itself (within business units, functions and locations) to execute the business strategy.

	Diagnose	Design	Build	Implement
Activities	<ul style="list-style-type: none"> • Articulate, define/refine strategy and vision • Define core business capabilities • Establish and test operating model hypotheses • Diagnose operating model effectiveness for: <ul style="list-style-type: none"> – Business capabilities – Governance and decision rights – Organisation model – Process and technology – Talent management • Establish organisation baseline (spend, headcount by role, function and location) • Identify pain points, root causes, and improvement opportunities • Develop recommendations and business case 	<ul style="list-style-type: none"> • Define design principles • Develop operating model options, including: <ul style="list-style-type: none"> – Go-to-market orientation (product, customer and geography) – Dedicated vs. shared functions – Shared services vs. centre of excellence – Governance/decision rights (P&L ownership and decision-making committees) • Evaluate and select preferred operating model • Define balanced scorecard • Refine organisation baseline and business case 	<ul style="list-style-type: none"> • Define and build consensus around key operating model structures, business priorities and potential benefits • Define and build organisation structure • Confirm headcount requirements • Align with governance decision rights, business processes, and talent strategy • Develop implementation roadmap and delivery timeline • Develop internal support structures to guide transition while maintaining core business • Refine business case • Develop organisation and workforce transition plan 	<ul style="list-style-type: none"> • Reorganise key business units/ functions around the new operating model • Develop a dashboard of key performance indicators to assist management with refining the new operating environment • Implement change impact plan • Transition workforce, including defining and executing staffing and selection process • Continuously monitor, evolve and manage risks
Outputs	<ul style="list-style-type: none"> • Strategy and vision documented • Operating model hypotheses • Business capabilities map • Business case, including initial recommendations 	<ul style="list-style-type: none"> • Defined principles of design • Operating model design • Balanced scorecard • Refined business case 	<ul style="list-style-type: none"> • Organisation structure, job design and competencies • Headcount requirements • Refined business case • Workforce transition plan • Implementation roadmap 	<ul style="list-style-type: none"> • Dashboard aligned with revised operating model and balanced scorecard • Implementation solutions • Interaction model • Ongoing monitoring programs

The operating model has five key components that should be considered during each phase (diagnose, design, build, implement) of the approach.



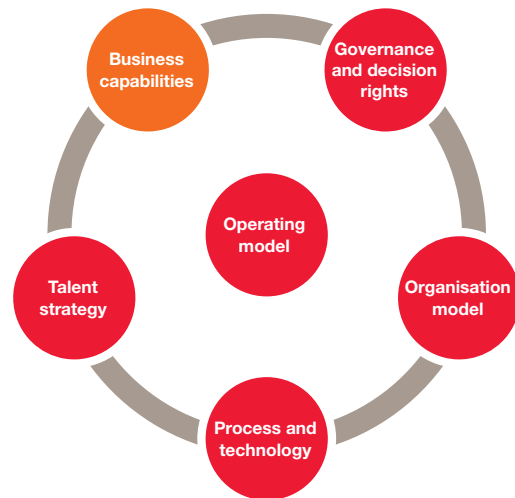
The five components of an operating model are closely interrelated and should be considered together. For example, to redefine business processes and technologies, an organisation should consider which talent requirements are necessary to implement new processes or systems.

The following pages discuss each of these components in detail.

Business capabilities

Establishing clear business capabilities that are aligned with business strategy and objectives, as well as mapped to services and functions of the organisation.

Business capabilities refers to core capabilities (e.g., relationship management, product design, data analytics) required to execute business strategy. Non-core capabilities can be sourced from external service providers in line with strategic business requirements.



Key steps

Define required business capabilities

Conduct organisation diagnostics

Implement/refine the business capabilities

Activities

- Understand business strategy and strategic objectives (growth, profitability, cost, etc.).
- Define the core business capabilities required to execute the strategy (future state).
- Develop business capability map and decision matrix.
- Map capabilities to services and functions.
- Assess the organisation to gain an understanding of current state vs. future state capabilities.
- Identify gaps and actions plans to address gaps.
- Identify common capabilities that could be leveraged across the business, including those functions that should be owned and executed centrally, regionally or locally.
- Create business capabilities overview map.
- Conduct a business capabilities impact assessment, including linkage to processes, technology and talent requirements.
- Develop external customer facing content for launch (if required).

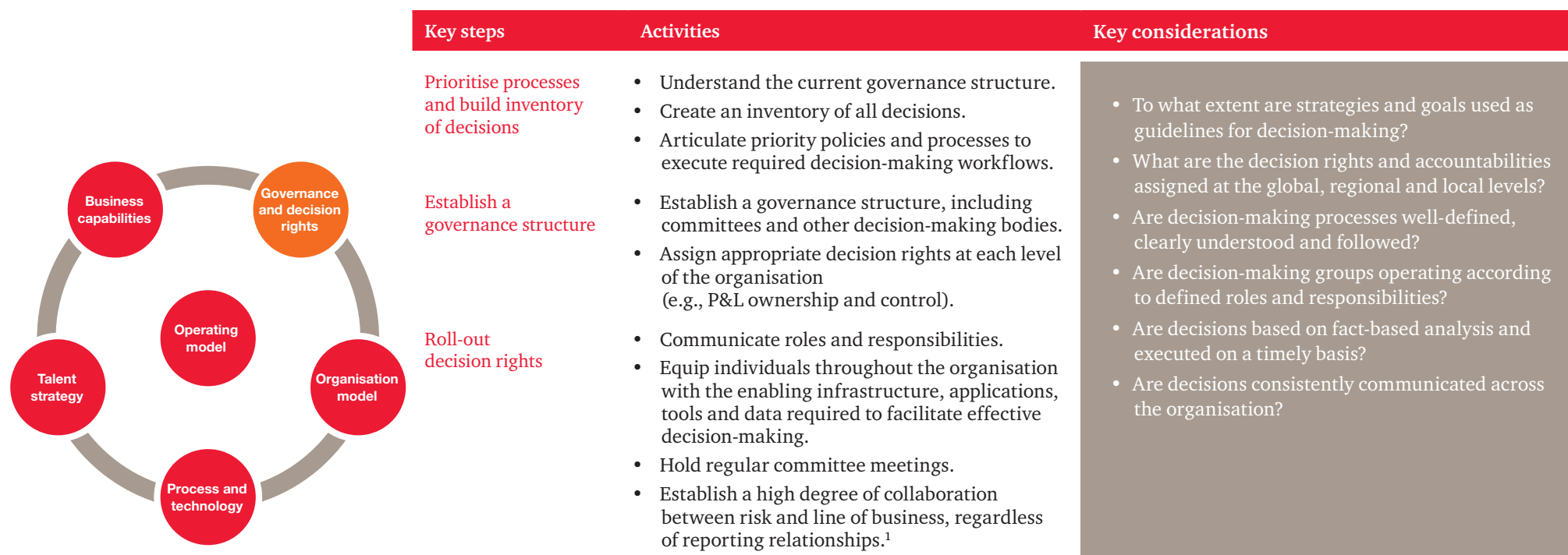
Key considerations

- What are the organisation's business objectives or strategy and do the capabilities drive toward those goals?
- Have organisation core capabilities been assessed and agreed to at an enterprise-wide level?
- How is the need for these capabilities conveyed to leadership so that the right people can be deployed?
- What capabilities are specific to each line of business? Identify behavioural definitions for each competency and levels of development required by each role.
- How does the organisation encourage its people to embrace changes in business capabilities without causing divisions?
- Have pivotal roles been reviewed, zeroing in on the competitive differentiators that influence customers in their buying decisions?

Governance and decision rights

Establish a corporate governance structure that provides clarity around prioritised policies and clearly defines decision rights.

Decision rights refers to the codification of business decisions and the accountable decision-making groups/individuals. Decision rights can be at the enterprise level or specific to a function and can be assigned on a global, region or country basis. Have you developed a decision-rights structure that assigns decision-making permissions to the appropriate levels of accountability?



¹ PwC, 'Cure for the Common Culture: Building Effective Risk Cultures at Financial Institutions,' April 2011, www.pwc.com/fsi.

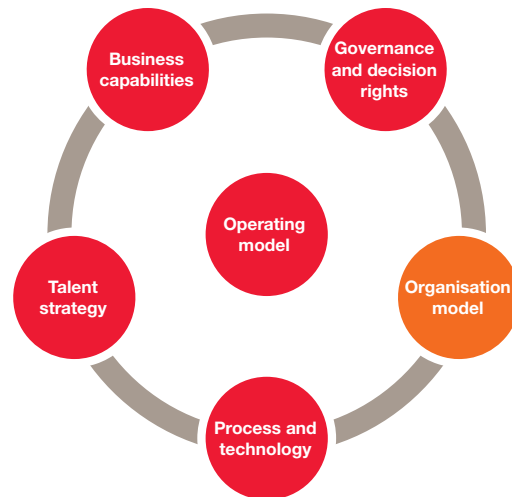
Organisation model

Aligning the business units with the sources of profit is critical in the design of any organisation model.

The organisation model includes two elements:

- Service delivery that determines choices of location and the organisation option.
- The functional groupings, reporting structure, target headcount and functional responsibilities for each function.

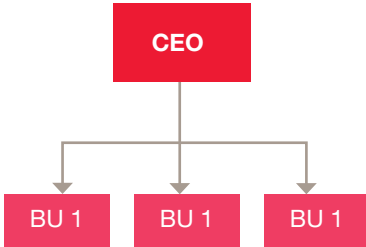
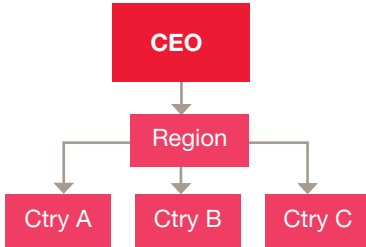
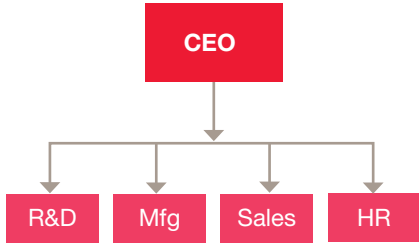
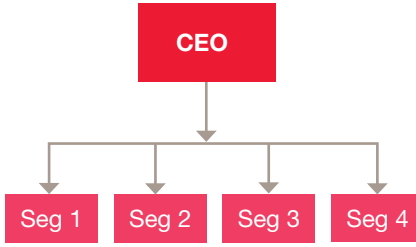
To alleviate any confusion upfront, companies should establish leadership and clarify key management roles and interrelationships early.



Key steps	Activities	Key considerations
Decide on location and organisation option	<ul style="list-style-type: none"> • Assess current delivery model. • Decide on corporate and business unit locations. • Decide on an organisation option: centralised, decentralised, shared service, or centre of excellence. 	<ul style="list-style-type: none"> • Are roles clearly defined? Do people know what is expected of them and what they are accountable for? • Which activities are best centrally managed by a shared service centre vs. being managed by the business units? • Are self-service, off-shoring and/or outsourcing leveraged for commodity-like services? • Which functions should be dedicated to countries/regions/localities? • Does the organisation model support the achievement of strategic goals and objectives? • Are roles and responsibilities well-defined and understood by all levels of the organisation?
Centralise common functions	<ul style="list-style-type: none"> • Determine those common functions that can be centralised vs. those that should be dedicated to the business lines or outsourced. • Determine functional groupings, reporting structure, target headcount, and functional responsibilities for each function and sub-function. 	
Execute the organisation model	<ul style="list-style-type: none"> • Align and communicate roles, responsibilities, and reporting relationships. • Transition to the new organisation structure. 	

*An organisation model should support alignment with the business.
When it comes to choosing a structure, there is no one size that fits all.*

Industry examples of leading organisation structures are illustrated below. Many institutions implement hybrid structures, combining elements of the predominant models in order to achieve an organisation structure that best supports broader operating model needs.

	Product-driven 	Geography-driven 	Function-driven 	Customer-market-driven 
Description	<ul style="list-style-type: none"> Each unit is responsible for the entire value chain relating to a product/suite of products. 	<ul style="list-style-type: none"> Each region has full control of all activities within its geographic boundaries. 	<ul style="list-style-type: none"> Functional expertise supports core competencies and can be based on company value chain. 	<ul style="list-style-type: none"> Organised around customers, market segments or industries that are dedicated to serve the unique needs of each market area.
Advantages	<ul style="list-style-type: none"> Eliminates complexity of coordination across functions. All resources support the same product. Adaptable to fast-changing external environment. Consistent across geography. 	<ul style="list-style-type: none"> Increased flexibility to enter emerging markets. Heightened responsiveness to region/country requirements. Economies of scale due to shared regional functions. Increased ability for local talent sourcing and management. 	<ul style="list-style-type: none"> Enables consistent global management practices. Enables economies of scale. Enables deployment of talent on a global basis. Enables end-to-end global process ownership. 	<ul style="list-style-type: none"> Supports global customer strategy. Able to respond to market/customer change. Increased opportunity for cross-selling.
Disadvantages	<ul style="list-style-type: none"> High-cost structure due to poor economies of scale. Conflicts between product and customer strategy. Missed opportunities for cross-selling. Global business strategy more difficult to implement. 	<ul style="list-style-type: none"> Inability to serve global/regional customers. Global business strategy more difficult to implement. Conflicts between countries, regions and global. Duplication of functions. 	<ul style="list-style-type: none"> End-to-end model difficult to construct. Limits organisation flexibility. Difficult to manage for numerous product/service lines. Conflicts between functions and products. 	<ul style="list-style-type: none"> Difficult to create global/regional operational efficiencies. Duplication of functions. Vulnerable to changes in customer priorities. Higher cost structure.

Process and technology

Implementing unified systems, operations and processes across all business units will provide a consistent approach to daily operations.

Process and technology refers to policies, processes and systems to execute workflows to provide customer products and services, including determining the required infrastructure, applications, tools and data required that will allow execution. Processes and technology will need to be prioritised and aligned with business objectives to implement the overall business case.

Establishing standard operating procedures that allow business to be conducted across the organisation in the same way is critical. Providing standardised core processes, systems and tools will support that objective and will provide efficiencies for data management and reporting



Key steps

Activities

Key considerations

Review current processes and technology

- Conduct a process/technology review to understand the link to the organisation's structure and approach.
- Interview key stakeholders to identify pain points/constraints/challenges with current processes/technology.

Develop alternatives

- Generate hypotheses to identify new, inefficient or redundant processes and/or technology elements.
- Gather/refine competitor/industry leading practice information.
- Perform opportunity analysis (benefits), quantify associated costs and build business case and framework for improvement.

Develop and implement

- Develop refined business processes.
- Establish enabling infrastructure, applications, tools and data required to execute processes.
- Develop implementation plan and align systems/workflows with the plan.
- Launch and monitor new technologies and processes.

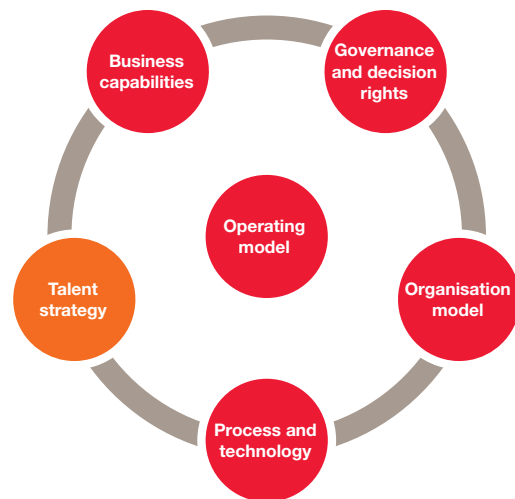
- How agile are your operations and technology? Will they provide you with the adaptability needed to meet changing market and regulatory demands?
- What processes are in place to ensure that all technology is deployed in a similar fashion across all lines of business, company-wide?
- How is employee readiness for the adoption of different processes and technology determined? How are employees encouraged to make these changes stick?
- What internal and external triggers create a case for change?

Talent strategy

Developing a forward-looking talent strategy that focuses on the skills and roles needed to achieve business objectives in the future will help support a sustainable pipeline of talent for the long term.

Talent strategy includes effective management of the overall talent lifecycle, such as workforce planning, recruitment, on-boarding, development and performance management.

Changing workplace demographics are placing more emphasis on an organisation's ability to effectively manage its workforce and to ensure that people can be engaged through multiple locations. This is particularly important for retaining top-performing employees in roles where highly skilled talent is in demand.



Key steps	Activities	Key considerations
Assess the current talent management program	<ul style="list-style-type: none"> Assess hiring, on-boarding, deployment, and retention strategies and practices. Assess strategic workforce planning approach and inputs. 	
Design and build	<ul style="list-style-type: none"> Refine strategic workforce planning approach using gap analysis against leading practices. Design and build a talent management program that develops and employs a consistent, equitable and inclusive talent identification process. 	
Implement and monitor	<ul style="list-style-type: none"> Put in place the necessary programmatic efforts to support the talent management program, including consistent career paths, performance management measures, knowledge-sharing of best practices, consistent communications, change management and leadership programs to facilitate succession planning. Implement and monitor the talent program. 	<ul style="list-style-type: none"> What skills will be required to drive your vision, manage your risk and differentiate your business? Are the right resources with the appropriate skills appointed into key positions? Have you established and communicated clearly-defined career paths, staff development and succession planning? Do people have the appropriate intercultural skills and awareness to operate on an effective global basis? Do employees feel personally connected to their jobs, teams and/or the organisation? Are global mobility programs enabling the deployment of talent on a seamless global basis?

Summary

Today's financial institutions are responding to an unprecedented set of internal and external driven changes, ranging from macroeconomic challenges, emerging market growth, customer demands, regulatory review, optimising cost and productivity. These changes impact the industry at a fast pace, causing financial institutions to rethink their business strategies and the way they operate. As a result, these organisations are also under increasing pressure to redesign their operating models with more flexibility to successfully anticipate and respond to these changes.

In order to develop an operating model that promotes adaptability, financial institutions need to consider leading practices across all five operating model components – business

capabilities, governance and decision rights, organization model, process and technology, and talent strategy. An effective operating model transformation involves understanding core business objectives and how they interrelate. In addition, strong leadership and employee engagement is critical to enable a seamless transition for both customers and employees. Our PwC approach is designed to help financial institutions develop flexible operating models and achieve long-term success with their business strategies. It translates core business objectives, vision, and strategy into an executable plan across four key phases – diagnose, design, build, and implement. Additionally, this approach explains how the five operating model components should be considered during each phase to execute the business strategy.

Contacts

If you would like to discuss any of the issues raised here, in more detail, please contact any of those listed below, or your usual PwC contact.

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