

BUSINESS AND MANAGEMENT

LEARNING . KNOWING . DOING

THEME

Breaking the Barriers: Enterprise, Competitiveness, Growth and Development

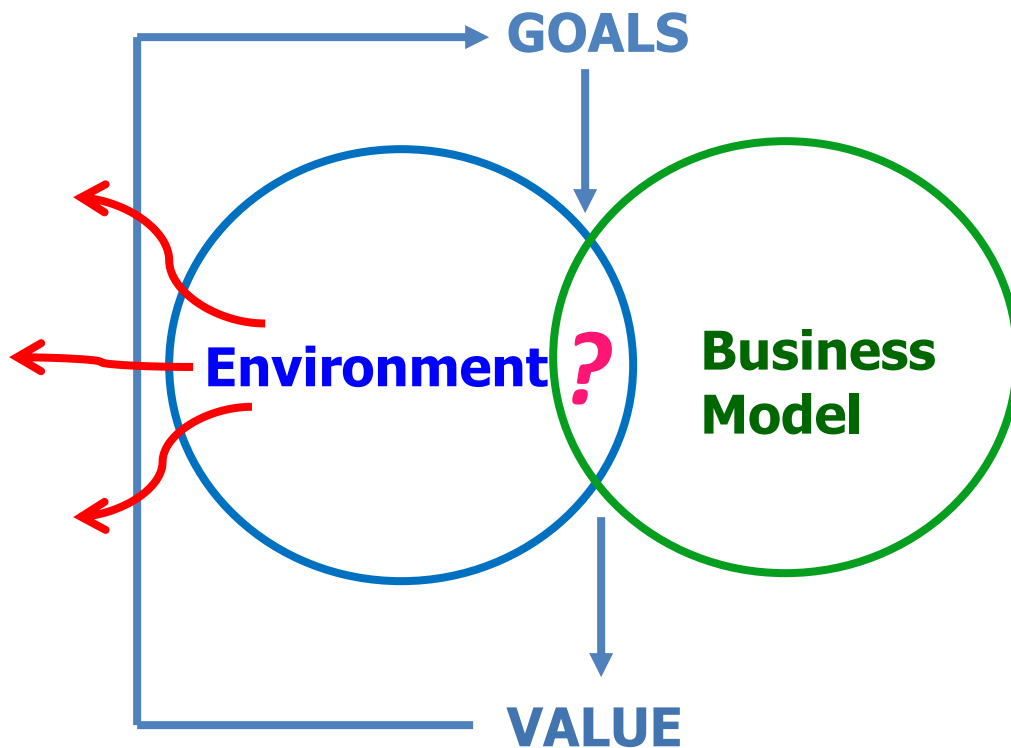
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NCB-UWI Sponsored Research in Corporate Transformation

Developing Business Models

How do business models evolve during corporate transformation for Caribbean-based financial institutions in pursuit of profitable growth and regional expansion?



Environment:

External forces that influence firm behaviour and performance

Business Model:

Priorities, systems, arrangements and activities to create and deliver value for stakeholders

A financial institution is an entity that originates or facilitates monetary transactions on behalf of clients (Federal Reserve Bank of New York, 2012)

✓ Business Models for Corporate Transformation

Technical Paper 1

- | | |
|---------------------------|------------------|
| I. Profit Models | Twila-Mae Logan |
| II. Customer Value | Trevor Smith |
| III. Dynamic Capabilities | William Lawrence |
| IV. Human Resources | Noel Cowell |

✓ Business Intelligence as an Enabler of Corporate Transformation

Technical Paper 11

- | | |
|--|-----------------------------------|
| I. A Hybrid Approach to Enterprise Business Intelligence & Data Governance | Maurice McNaughton |
| II. Customer Analytics & Data-driven Transformation | Lila Rao-Graham & Gunjan Mansingh |

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Profit Models - Twila-Mae Logan

Theoretical Framework for Profit Models

- Dupont Analysis

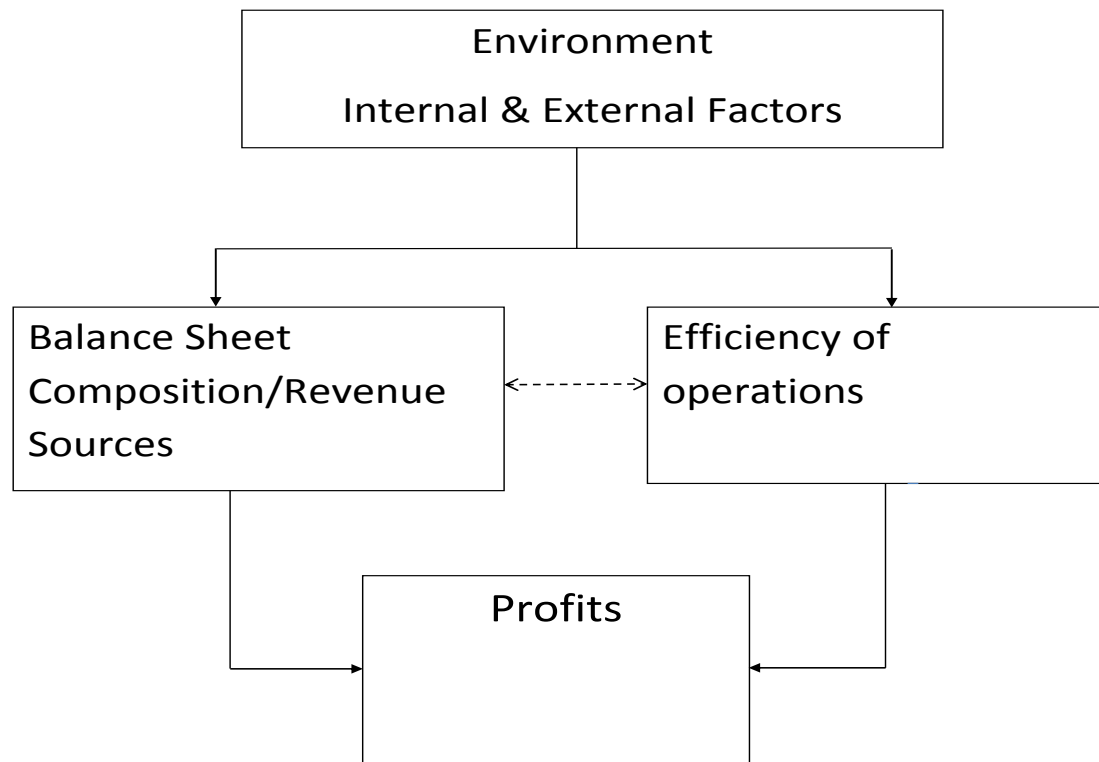
- ROE = Profit Margin × Asset Utilization × Leverage

- Production Function

- Output = f (capital, labour)

Research Model/Questions

- Do internal and external environment in which the FI operate affect the cost and profit efficiencies and how does this impact on profits?
- Do changes in cost and profit efficiencies impact the FIs' profits?



Methodology & Data

- Regression Analysis
 - Panel Data
- Stochastic Frontier Analysis
 - Gamma Distribution
- All Caribbean countries
- Deposit taking institutions
- 1999-2013

Determinants of Efficiency

- **Profit Efficiency**

- Cash, inflation, real interest rate
- Deposit, loan income, GDPCG, spread, weak currencies
- Loan portfolio, size

- **Cost Efficiency**

- Spread, inflation, non-interest expense
- Personnel expense, loan portfolio, size

Summary

- Traditional intermediation is cheap but not profitable
- Labour is “cheap” relative to capital
- Size matters for cost efficiency not profit efficiency
- Which is most important?
 - ROE, ROA, Cost efficiency or Profit efficiency?

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Customer Value - Trevor Smith

Research Question

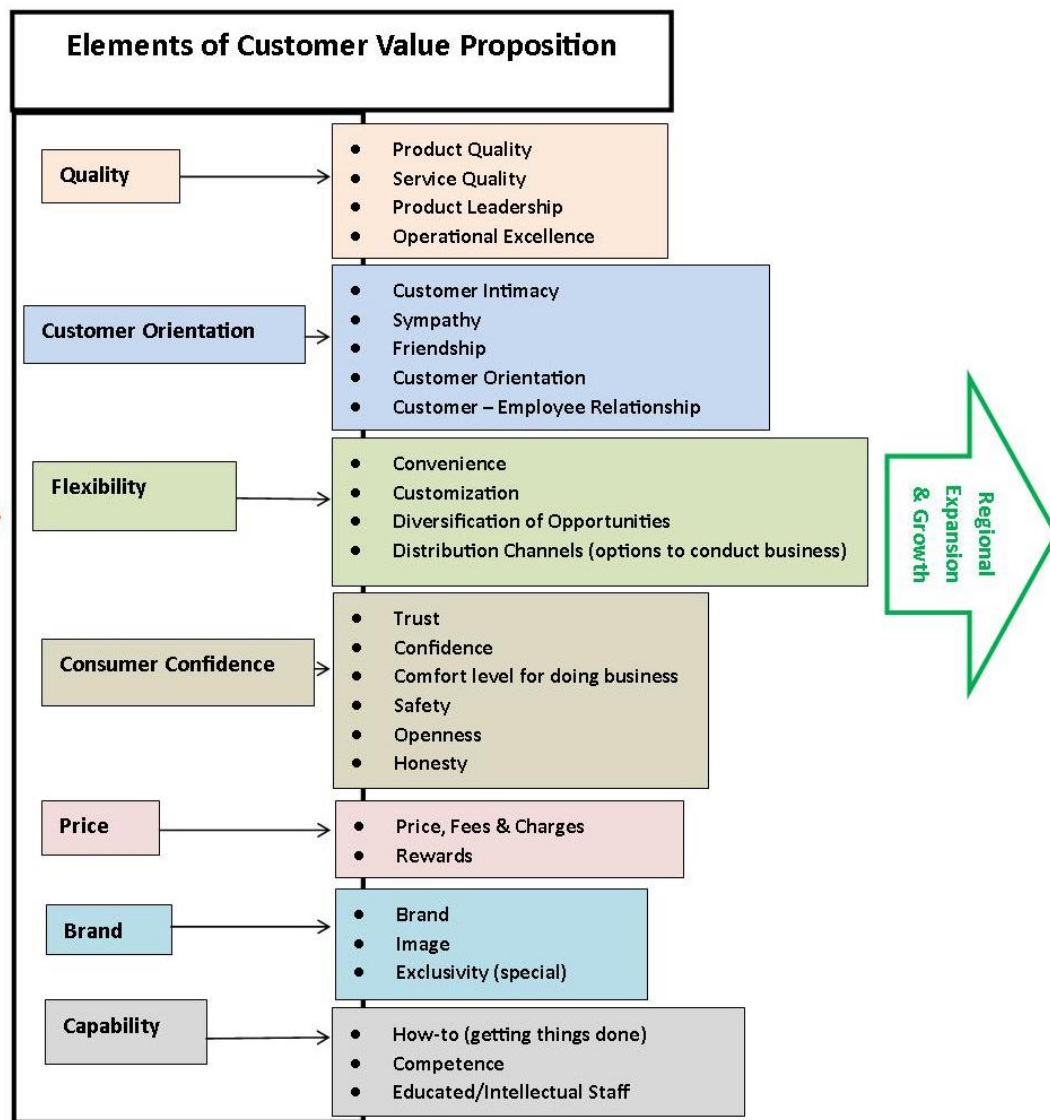
What are the **customer value propositional elements** that are influenced by corporate transformation and simultaneously drive regional expansion and growth of Caribbean-based financial institutions?

Base Theory: Product Life Cycle (Levitt, 1965)

1. **Develop** 2. **Grow** 3. **Mature** 4. **Decline**

Theoretical Model for Aligning Corporate Transformation and Customer Value to Regional Expansion and Growth

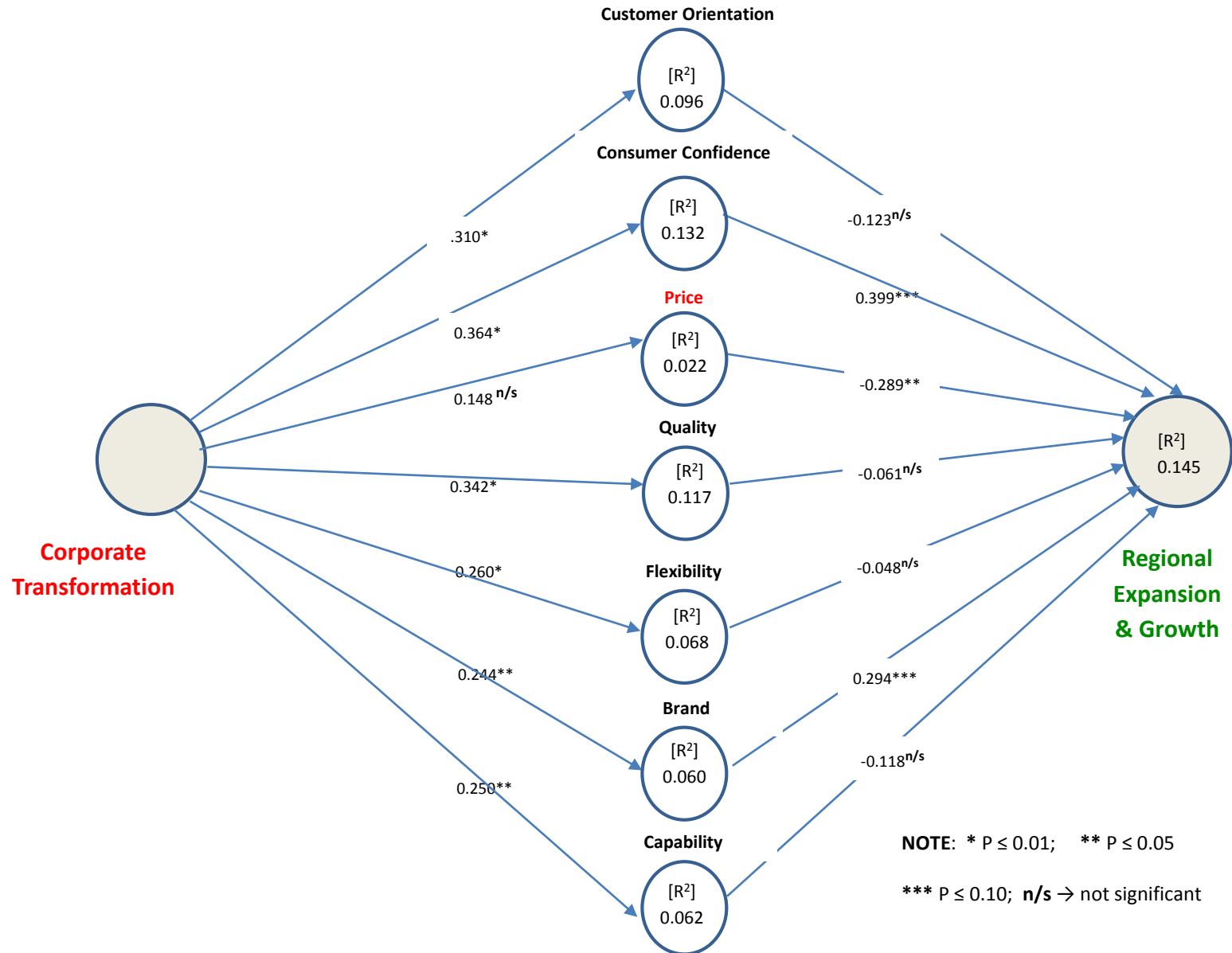
Corporate
Transformation



Method

- Telephone Survey
- 80 Financial Firms across 10 English-Speaking Caribbean Countries
- 243 Customers
- SEM

Results



Contribution

Theory:

- Extension of Levitt's (1965) Product Life Cycle to include product/service price and value added domains

Practice:

- Corporate transformation initiatives of financial firms must be focused on price, while continuing with customer value propositional improvements of brand, consumer confidence, firm capability, etc.
- Price, consumer confidence and branding (in that order) are the main contributor to regional expansion and growth of financial firms

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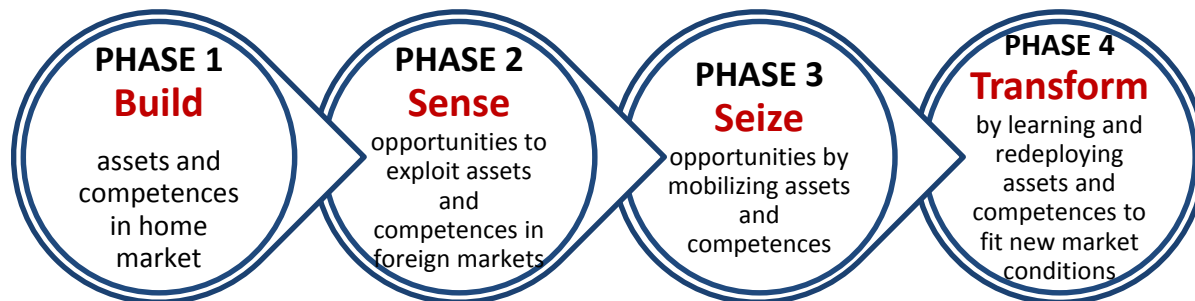
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Dynamic Capabilities - William Lawrence

How does a Caribbean-based financial institution develop dynamic capabilities for corporate transformation from local to regional operations?

Concepts and themes:



CASES	BUILD	SENSE	SEIZE	TRANSFORM	PERFORMANCE
JMMB	Securities brokerage	Secondary demand for debt securities	Joint Venture with partner residing in target market	TQM to delight customers	Assets Yr 0 = US\$0.2 b Assets Yr 15 = US\$1.5 b ROE Yr 0 = 38% ROE Yr 15 = 22%
RBTT	Merchant banking	Complex project financing needs	Acquire control of underperforming CAC banks	Lean practices for efficient service delivery	Assets Yr 0 = US\$0.4 b Assets Yr 15 = US\$2.3 b ROE Yr 0 = 15% ROE Yr 15 = 17%
RBL	Trade Financing	Unmet demand for export finance	Part ownership of banks in target markets	Low risk-taking to minimize bad debt	Assets Yr 0 = US\$0.7 b Assets Yr 15 = US\$2.9 b ROE Yr 0 = 16% ROE Yr 15 = 17%

Proposition

Corporate transformation from local to regional operations can arise from superior, knowledge-based assets and competences transferred overseas through strategic partnerships to overcome liability of newness and foreignness.

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Human Resource - Noel Cowell

The Contribution of HRM

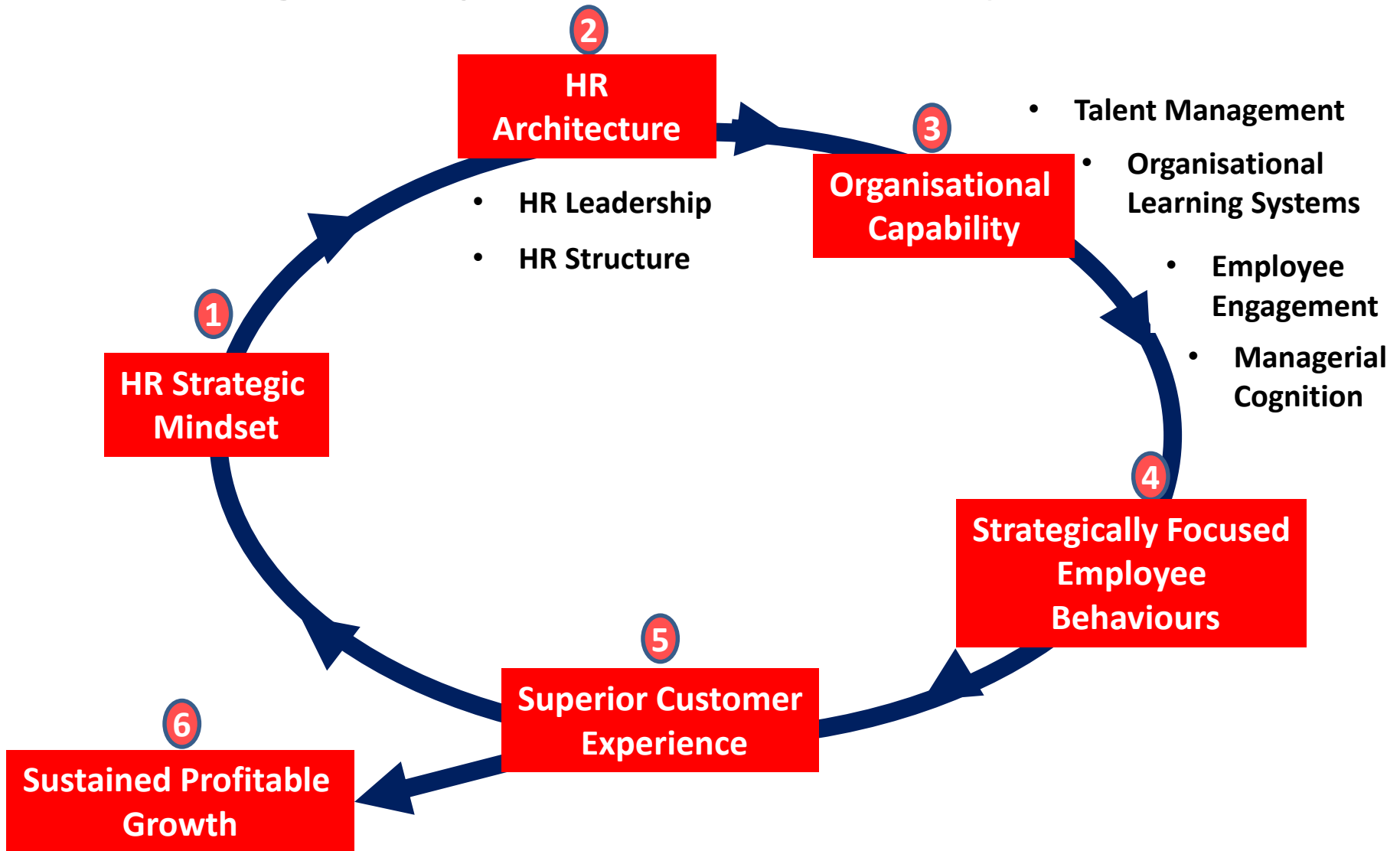
- **Question:** How do successful Caribbean-based corporations **leverage HR** to achieve sustained growth and profitability? In other words it is about how HR becomes a strategic asset in Caribbean corporations
- **Method:**
 - Major Caribbean-based corporations (finance & non-finance) about 20 in three countries.
 - Interviews with HR leaders (top and some middle) – theoretical sampling driven by the “discourse”
 - Thematic analysis of data

Key Findings

“Subject to more detailed quantitative analysis” – major Caribbean companies are deploying in various measures world class HRM systems – **adapted** from best in class practice and **adapted** to suit their own environments.

If Caribbean firms want to leverage **HR** they must . . .

High Performance Work Systems



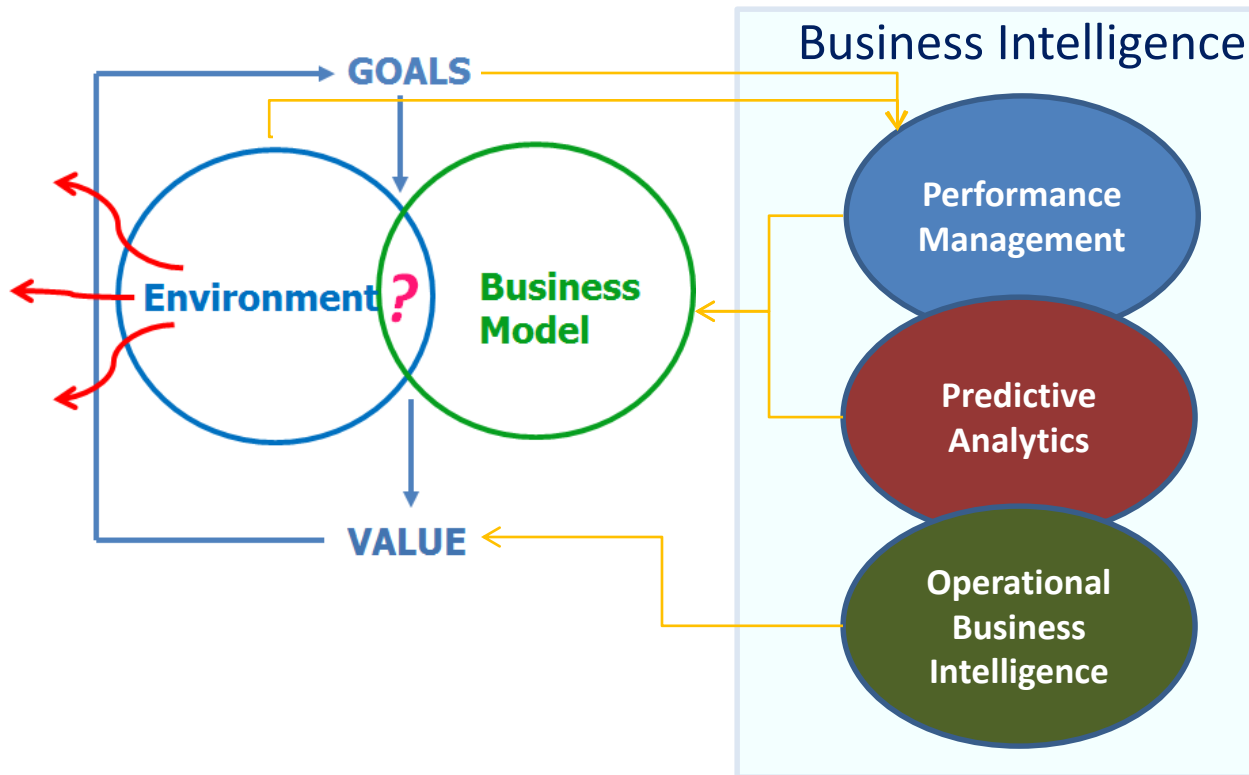
Business Intelligence as an Enabler of Corporate Transformation

- I. A Hybrid approach to Enterprise Business Intelligence & Data Governance
- II. Customer Analytics & Data-driven Transformation

Maurice McNaughton
Lila Rao-Graham
Gunjan Mansingh

Main Research Question - Technical Paper 11

How does *strategic business intelligence* inform and enable *business model evolution* during corporate transformation for Caribbean-based financial institutions?



Performance Management:

helps an organization determine how to align strategic and business planning with operational execution – using analytics, and processes to track, monitor and measure innovation and performance

Predictive Analytics

discovery-driven analysis that leverages current information assets augmented by “what if” scenarios that can help predict future behaviour. Key enablers include data mining, model development and model simulation.

Operational Business Intelligence:

Analytics generated as part of the operational business processes and provides real-time reporting or analytics to monitor / support effective business processes and decision-making.

Business Intelligence involves the analysis, presentation, and delivery of critical information to business users, to drive operational and strategic decision-making and ultimately creating Business Value from Data Assets

Enterprise Approach to BI: Top-Down vs Bottom-Up?

Bill Inmon view (2005)

- Corporate Data warehouse as the “single organizational repository of enterprise wide data across many lines of business and subject areas that: Contains massive and integrated data; Represents the complete organizational view of information needed to run and understand the business”

Ralph Kimball view (2006)

- Prescribes functional datamarts as a “bottom-up, dimensional approach to business intelligence, which are ultimately aggregated into the corporate data warehouse”

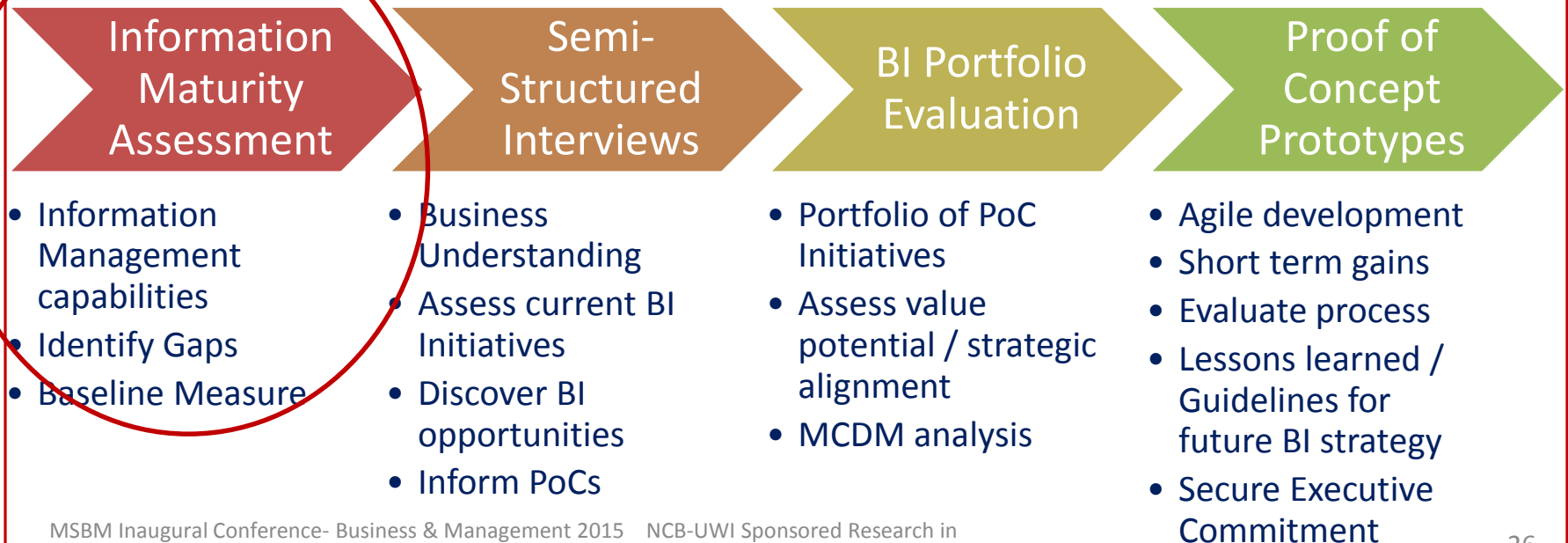
Enterprise Approach to BI: Top-Down vs Bottom-Up?

Characteristic	Favors Inmon Approach	Favors Kimball Approach
Nature of the organization's decision support requirement	Strategic ✓	Tactical
Data integration requirements	Enterprisewide integration	Individual business areas
Structure of data	Non-metric data and for data that will be applied to meet multiple and varied information needs ✓	Business metrics, performance measures, and scorecards ✓
Scalability	Growing scope and changing requirements are critical ✓	Need to adapt to highly volatile needs within a limited scope
Persistency of data	High rate of change from source systems	Source systems are relatively stable
Staffing and skills requirements	Larger team(s) of specialists ✓	Small teams of generalists ✓
Time to delivery	Organization's requirements allow for longer start-up time	Need for the first data warehouse application is urgent ✓
Cost to deploy	Higher start-up costs, with lower subsequent project development costs	Lower start-up costs, with each subsequent project costing about the same ✓

Adapted from Breslin (2004). "Data Warehousing Battle of the Giants." *Business Intelligence Journal*

Agile BI – A Design Science Approach

- How does *strategic business intelligence* inform and enable *business model evolution* during corporate transformation?
 - How do Caribbean organizations **develop** and **leverage** the requisite **dynamic capabilities**, **information resources** & **data assets** to support strategic BI?
 - How do Caribbean organizations use Business Analytics to **enhance** customer service quality / efficiency & innovate products and services?
 - How do Caribbean organizations acquire **Agile Business Intelligence capability** that is **Enterprise in scope** and **Agile in execution**?



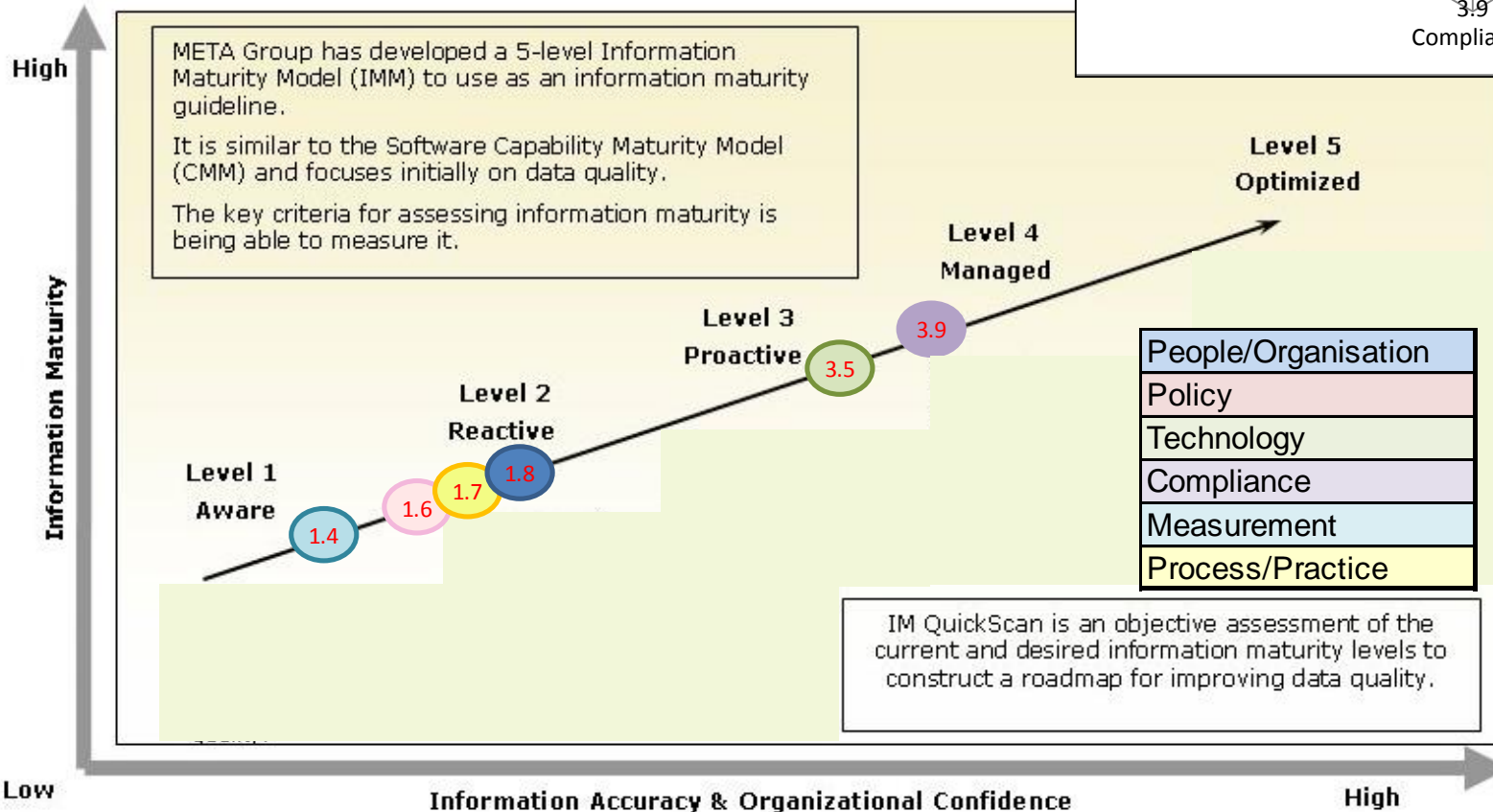
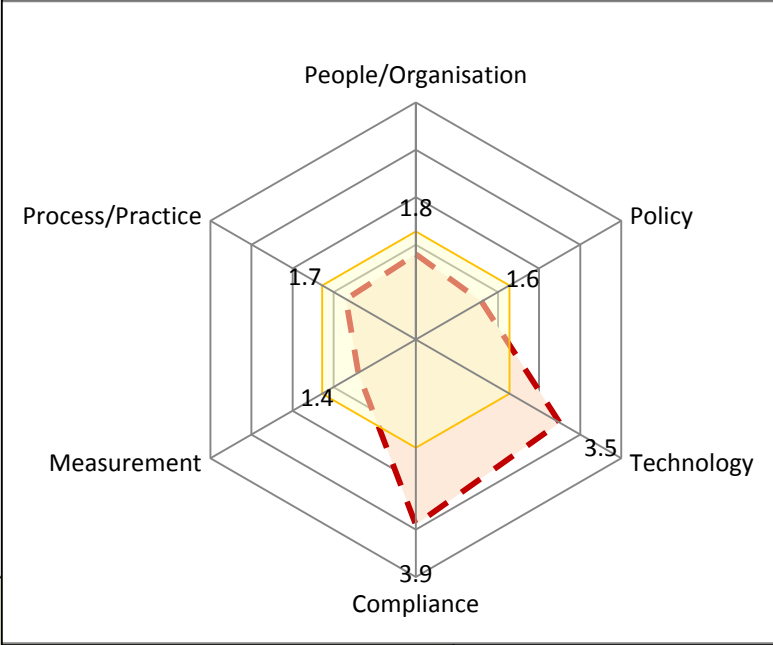
Why Information Maturity Assessment?

- Maturity Models popular in I/S Discipline
 - Measure & Benchmark Organizational capabilities: People, Process & Things (Objects)
 - Establish Capability Gaps - Formal assessment of: *Where am I today? Where would I like to be?*
 - Basis for informed development programs & continuous improvement
 - Self- / 3rd party Independent-Assessment
 - Best Known: CMMI – Software Development
- Maturity Models exist for specific domains:
 - Software Development, Project Management, Business Process Management, IT Business Value, *Information Management*

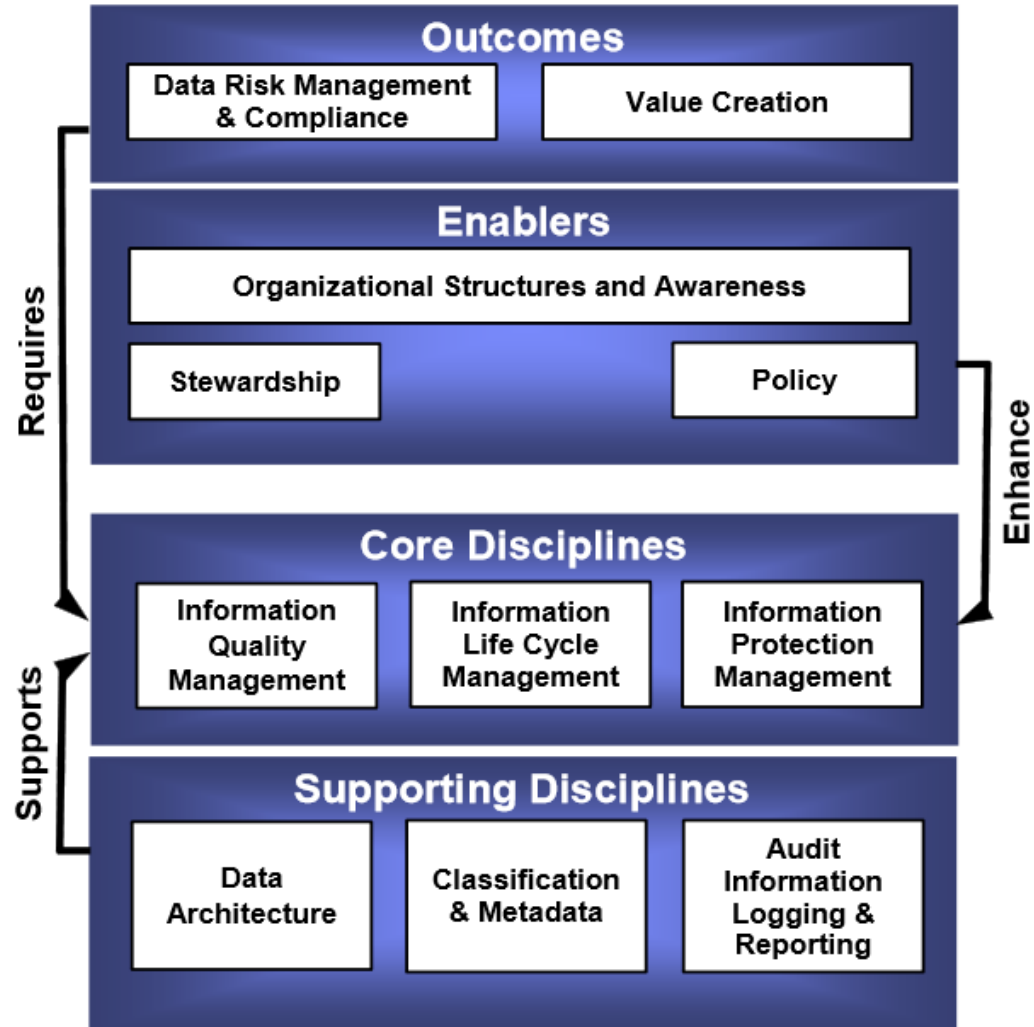
IM Assessment - Scope

Categories	Definitions
People / Organisation	Considers the human side of Information Management, looking at how people are measured, motivated and supported in related activities
Policy	Considers the message to staff from leadership. The assessment considers whether staff are required to administer and maintain information assets appropriately and whether there consequences for inappropriate behaviours.
Technology	Covers the tools that are provided to staff to properly meet their Information Management duties.
Compliance	Surveys the external Information Management obligations of the organisation.
Measurement	Looks at how the organisation identifies information issues and analyses its data.
Process / Practice	Considers whether the organisation has adopted standardised approaches to Information Management

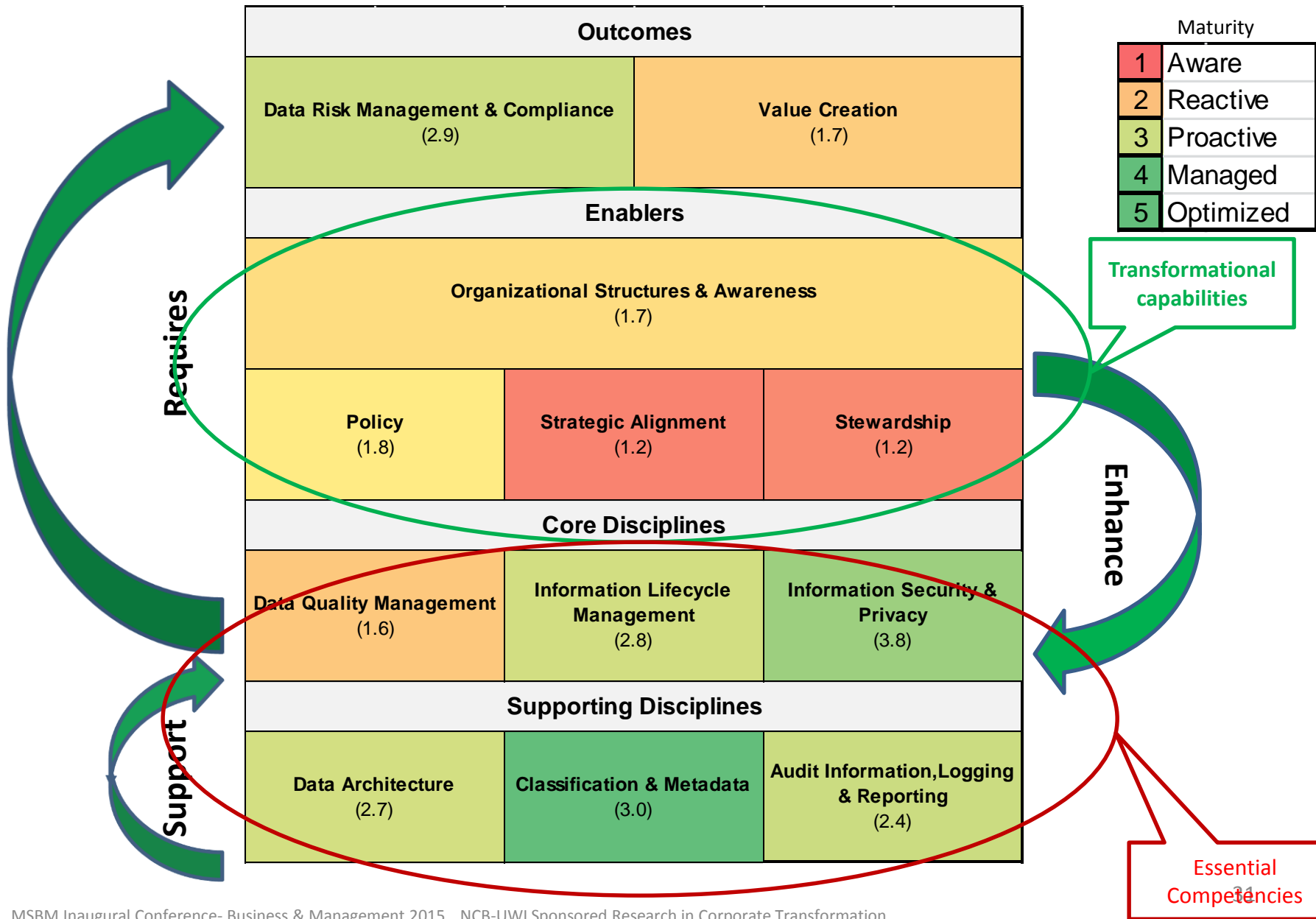
IM Assessment – Outcome (Hypothetical)



IBM Data Governance Council Information Governance Maturity Model



IM Assessment Outcome – Perspective II



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Case Studies

Case 1: *First American Corporation (FAC)*

- Changed its corporate strategy from a traditional banking approach to a customer relationship-oriented strategy.
- The transformation made FAC an innovative leader in the financial services industry.
 - Turned around from a multi-million loss to a multi-million dollar profit organization.
- Done through investing significantly in a DW which was *aligned with an important strategic vision.*
 - “Adopt a customer relationship-oriented strategy by ensuring that the *customer is at the center of all aspects of the company’s operations.*”

Approach

- To get change needed required a long term strategy.
- Needed to compete more effectively:
 - Could not be low cost provider because lacked economies of scale of larger institutions.
 - Could not compete for large accounts because market dominated by large national and international banks.
 - Product differentiation was not feasible because easy to duplicate products.
- Differentiated themselves on service, which evolved into customer intimacy
- Quickly realized to do this effectively needed access to data.
- Invested in a DW that stored data about customers - behavior, buying preferences and client value positions.
- Developed using phased approach - required the setting of clear goals, involving the right people.
- The phase approach ensured the stakeholders see tangible **business** benefits early in the process.

Case 2: *Harrah's Entertainment*

- Differentiated itself in the casino industry through building customer loyalty.
 - Required an understanding the lifetime value of their customers.
- Transformed from an operations-driven to marketing-driven company.
 - Previously viewed each casino as a stand alone business
 - Moved to building customer loyalty to all properties
- Used data driven initiatives to understand customers and offer personalized customer service based on their needs.
 - Meanwhile competitors built multi-million dollar facilities with lavish features

Critical Success Factors

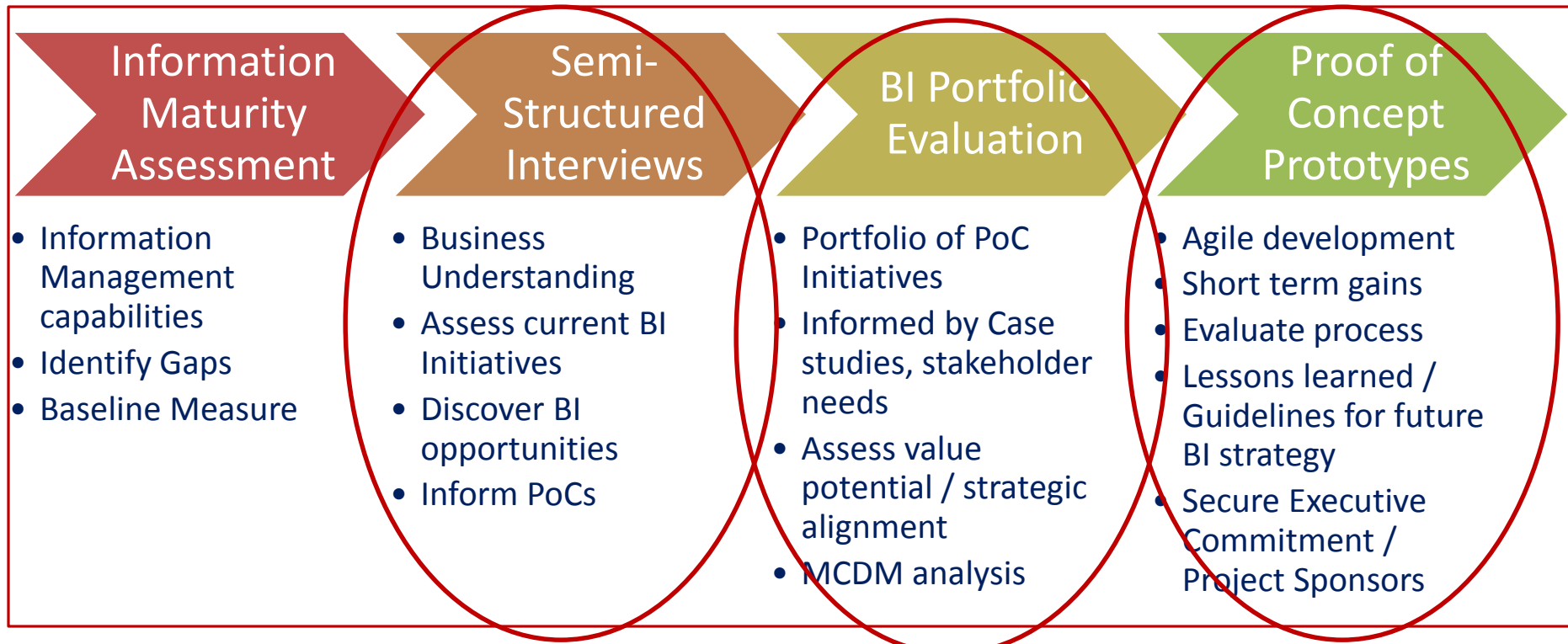
1. Align Data Driven initiatives and strategic objectives.
 - Data and technology play a critical role in fulfilling the strategy
2. Change mindset of employees.
 - E.g. FAC changed from “banking by intuition” to “banking by information and analysis”
3. Communicate initiatives to all stakeholders.
4. Identify Champion at the senior level
5. Ensure Quality of data
6. Identify right team with right skills (e.g. IS, marketing)

IBM-DGC Maturity Model Assessment

Outcomes		
Data Risk Management & Compliance (2.9)	Value Creation (1.7)	
Enablers		
Organizational Structures & Awareness (1.7)		
Policy (1.8)	Strategic Alignment (1.2)	Stewardship (1.2)
Core Disciplines		
Data Quality Management (1.6)	Information Lifecycle Management (2.8)	Information Security & Privacy (3.8)
Supporting Disciplines		
Data Architecture (2.7)	Classification & Metadata (3.0)	Audit Information, Logging & Reporting (2.4)

1	Aware
2	Reactive
3	Proactive
4	Managed
5	Optimized

Data Driven Transformation Methodology - Steps



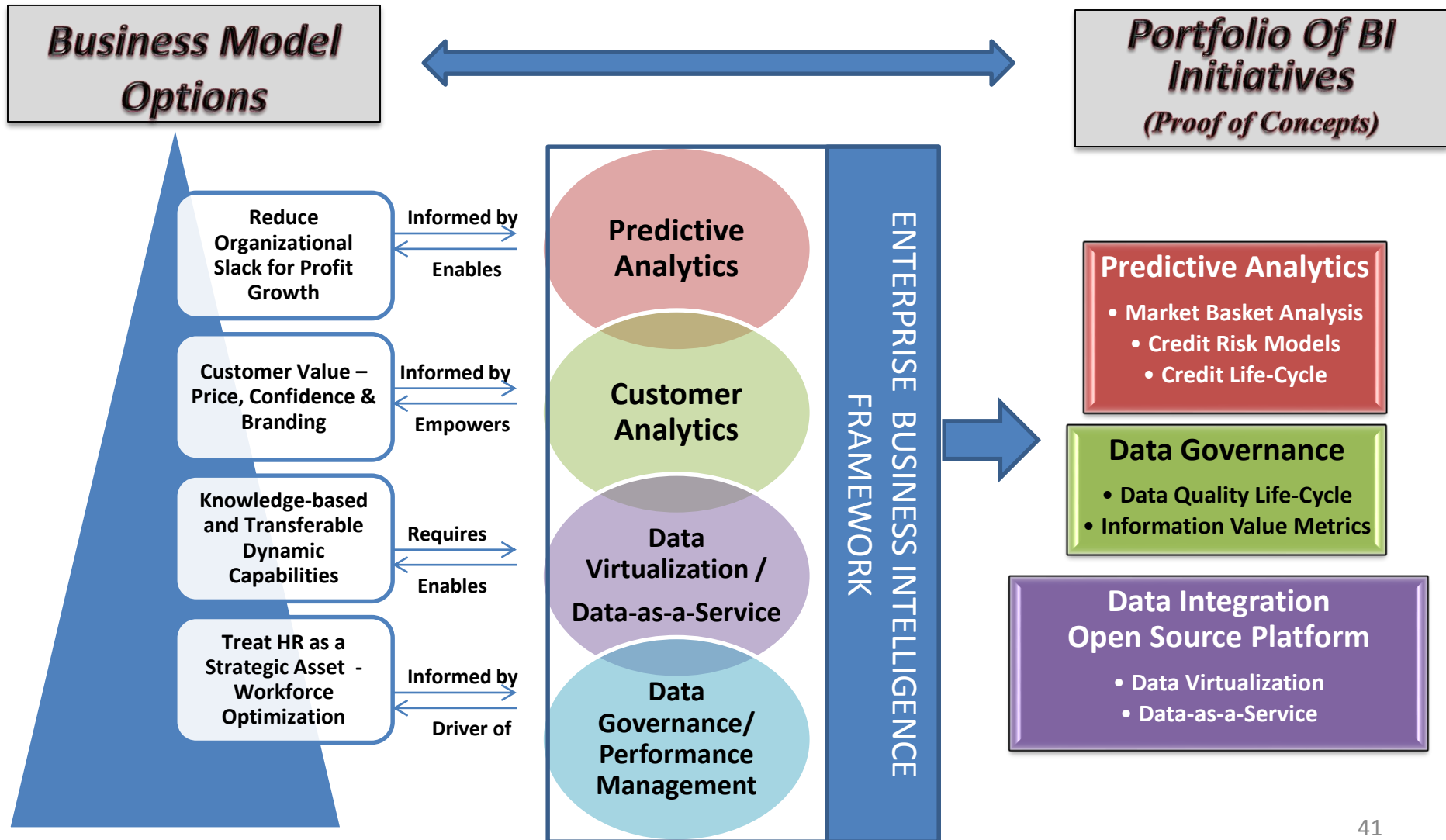
Key Insights... thus far

- For **Business Intelligence** (BI) to be transformational, it must be Enterprise in Scope, Strategically Aligned, Executive-driven, and Portfolio-based
- **Information Maturity Assessment** is a key foundational step for BI Capability benchmarking and Program Development
- While core technology & process competencies are required, their effectiveness is enhanced by Key organizational enablers such as **Executive sponsorship, policy signalling and organizational mechanisms that encourage Data ownership & Stewardship**

Key Insights... thus far (cont'd)

- **Proof of Concept initiatives** help to secure/reinforce **Executive Commitment** by demonstrating Business Value of Advanced Analytics, systematic Approaches to Data Quality Management, Agility of Data as a Service
- Deployment agility enabled through use of **Open Source Software**: reduced lead-time/cost/time-to-value, increased experimentation, pervasiveness
- **Data quality** is critical to BI success - Derive a formal DQ process to maintain its quality
- Stakeholder engagement throughout the process and identifying a **designated Champion** at a senior level are Critical Success Factors

Research Integration



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