Re-definition of enterprise boundaries.

Outsourcing and New Technologies.

The case of a banking group.

Abstract: An enterprise of course is not an art work, but it is born as the art work, from a concept that defines on one hand what we want to offer to the market (business idea) and on the other hand the best organization to do it in a winning way (business combination). It is not enough in fact to face the market with the winning idea, but we must be able to propose it in a more efficient and effective way than competitors. For these reasons, it is used the technique of outsourcing. Keeping in mind its own market of reference, the enterprise therefore analyzes itself, with regard to its activities, its competence, but also its core processes (Business Process Outsourcing), after the segmentation of all the activities it is made of and also the added value created. This work applies these theories to a recent case of re-organization of IT functions, in an enterprise belonging to the Italian banking industry.

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As it has been remembered in a recent work on the outsourcing technique (Gervasi, Ballarin, 2007), Michelangelo once said that a piece of marble is already a sculpture and the sculptor just has to take away what’s more! He meant to say that the artist’s genius expresses itself in the conception of his work, while for its realization it is important to make as well to reduce to minimum the imperfections by taking away what’s pointless.

An enterprise of course is not a work of art, but it develops as well from a concept that on one side defines what we want to offer to the market (business idea), as well as at the same time the organization suitable to do it in a winning mode (business combination). Actually it is not enough to enter a market with the winning idea, but it is necessary to propose it in a better and more efficient way than the competitors. The perfection, as we keep the former similarity, grows bigger and bigger as the organization is getting rid of the functions “not core”, focusing on the activities necessary to reach the so called business combination.

The tool that can help the enterprise to reach the best dimension, with the right weight of its own strategic activities is the outsourcing, meant as way of redefining the enterprise boundaries in search of a position of competitive advantage.

The enterprises’ networks, the economy of the so called “districts”, that in the last quarter of the XX century played a not minor role in our Country, are phenomena based on a heavy recourse to outsourcing, even if in an extensive meaning. The topic is still very hot and it has been accentuated by some phenomena that today can be considered as open questions and key issues for the development of enterprises.
Among them, the role played by ICT in the global economy. The IT today can be considered as a “pillar” for the strategies of an enterprise: the quality of an IT system determines in fact the rapidity of answer and the efficacy with which an enterprise plays in its market. Nevertheless the item should be reformulated: since the IT system is crucial it must be excellent, and this can rarely be obtained by a “self-made” approach. Besides that, the so called “frontiers strategies” that are being implemented (for example the strategies of integration among enterprises, mergers and acquisitions) have played the role of “accelerating factor” for the importance of IT systems. The enterprises, as independent organizational structures, have to interact actively according to their business, once they are merged or integrated: how can it be helped and made it possible a dialogue among such structures? From here the crucial role of IT systems, as channel of communication and integration.

But also the globalization had a perverse effect on the boundaries of the enterprise and the decision of outsourcing. In the USA, for example, the attention is already strongly focalized on the fact that in some cases a part of the outsourced activities is located overseas, in low labor cost Countries. Enterprises gain efficiency, but the Country “sic et simpliciter” loses workplaces that very often cannot be regenerated, because these activities are much more expensive than those that have been delocalized.

A very important question is to be raised: why establish an enterprise in this context? There is an important answer to this issue: that is to obtain excellence. In an environment which lives among the above mentioned features, the only enterprises that survive are those that are able to generate excellence not to be found elsewhere. The path to do it is
made of many challenges, from the choice of the market to the choice of products and services, to technologies, organization, to the relationship with customers and finance. In each of these fields, we need “avanguarda” solutions in order to make the business and the service model winning, and difficult to be imitated. On each of them is played the game of the total success of the enterprise.

That being so, enterprises, when they want to maintain or gain competitive advantages, do need suitable profitability and capability of self financing, they do need to own a critical sizing and to concentrate only on few activities in order not to waste energies and resources, and to emphasize the internal knowledge and abilities, in an environment that shows, also a gathering of imitative capacities and therefore a permanence of competitive advantages shorter and shorter.

What where the premises of this scenario?

- The necessity of the enterprise to critically analyse its own competitive boundaries and its chain value with a focus on its business areas where the enterprise can really compete (ICT technologies, critical mass of customers, economy of scale, synergy capacities);

- Beyond its core business, the enterprise must constantly create all the support activities that are necessary for the right working of the organizational engine: it would be necessary to give importance to these internal activities not only on the basis of their closeness to the mere productive aspects but on the basis of their strategic value, and so considering their interrelation with the factors that are necessary for the competitive success.
What are, therefore, the strategies that can be pursued by the enterprise?

- Capacity to innovate: we mean it not by the technical profile but as the capability to project and manage truly new models of service for customers, new contents and performances of the products and services, new techniques of production and selling, new methods to structure the organization, new ways to manage the *time to market*, and therefore to minimize the time between the idea of a certain product or service and its commercialization.

- Strategy of the so called “slim enterprise”: flexibility as competitive weapon and research of new strategic paths through external lines. In other words it is extremely important to increase the competitive skills by an efficient and equilibrate blend between internal and external resources, emphasizing a systemic approach oriented to rule strategic and managerial problems: it’s a problem of sizing!

**The objects and the frame work**

The present work has the task to analyse the topic of re-definition of enterprise boundaries, in order to get a position of leading competitive advantage.

We will try to create theoretical *framework* to understand how the literature of strategy and organization has faced the issue of the boundaries of enterprises and the search for success positioning. The work will include the most recent surveys and analysis made by famous international research and Consultancy Companies. The first Chapter will introduce the concept of “outsourcing” trying to collect many definitions that have been
given from very different points of view, both technical, legal and from the human resource involved, etc.

Such a theoretical picture will contain, in the second chapter, some organizational and strategic considerations, since from one side we will try to understand the relationship between the organizational models of the enterprise and the choice to externalize, on the other side we will try to analyze the strategic reasons that lead to choose this external solution.

From this point of view we will analyze also the decisional phases about the enterprise boundaries with a tribute to the most recent paradigms that have been presented in international contexts. Herewith we enclose a chart containing a brief overview of the most recent studies on the topic, realized by some of the most important consultancy companies worldwide.
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<th>References</th>
<th>Key points</th>
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<tr>
<td>McKinsey, 1999</td>
<td>A market truly made of enterprises is being established, on the awareness that the growth by external lines is no more an exception, but it is vital lifefluid for the life of the same enterprises.</td>
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<td>McIlvor, Cambridge University, 2005</td>
<td>Companies focused their strategies in concentrating their action on a limited number of key-areas by externalizing activities that they used to keep inside. Therefore, outsourcing has implied a re-design of enterprise’s boundaries among the company, its suppliers and customers. If on one hand outsourcing assumed a very important role among strategic options of companies, on the other hand outsourcing must be handled very carefully, because of the complexity it brings to many organizations.</td>
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<td>Bain, Global 2007 management tools and trend survey</td>
<td>Among the priorities recorded by the survey, there is “outward bound”, 6 managers out of 10, are looking outside their company to innovate and most of all to growth. They declare they will work (also by outsourcing) with China and India, countries that will be vital for the success in the next 5 years. In the scoring of the most utilized tools, 5° place for the analysis of core competences (79% of preferences), 6° the outsourcing (77%), 7° business process re-engineering activities (69%).</td>
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<td>McKinsey, 2007</td>
<td>The first bet to be won in each organization, this is the main topic of McKinsey’s vademecum, is the advanced utilization of Internet technologies for collecting the innovative dynamics that stay outside the company’s boundaries. New products must be always interpreted as the result of the indications of many subjects – customers, users, suppliers, consultants, business man, professionals – but with regard to a recent past we must use a “co-creation model”, that is distribution outside (toward the companies partners network) of the processes of innovation. An other “must” is that of &quot;consumerization&quot;, i.e. the entrance in the company of the consumer’s habits; a model that shows itself with the “co-creation” of products and services by the utilization of consumers as truly real true innovators. In simple words, the new recipe to be &quot;time to market&quot; and satisfy the real demand of users, is to involve – in a controlled way – customers in developing, testing, promoting and post-selling activities of the products.</td>
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The third chapter will try to study on what basis the activities of the enterprise can be divided, starting from the famous Chain Value by Porter, with a special application in industrial sectors, until the most innovative models that are focused on the service and the customer (the Value Shop Analysis and The Value Theory Network).

These issues will be implemented also by some reflections on organizational items based on the theory of inter-organizational relationships and networks.

The fourth Chapter has the objective to conceptualize an approach that can be used to describe the outsourcing technique, by proposing a paradigm of analysis for the to be defined “core” activities, when this choice can be done. In this case, much emphasis is given to the processes, that truly represent the “core” of organization, since they ensure continuity to the business, also in trouble times and when major changes happen. We will describe also the Business Process Outsourcing, to testify the importance of the processes.
At last, Chapter 5, has the aim to tell an empirical case of success in the banking sector, and it has the aim to describe this case in the competitive context of today’s financial enterprises.
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