



Operations power performance:

Managing risk and delivering value

Survey analysis of more than 400 executives to understand how operational teams are contributing business value



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Top findings from the survey

Increasingly intense regulation and governance and changes in market structure are cited as the key forces driving business transformation today.

Building automated processes that integrate risk management, audit trails and compliance processes is the most effective strategy for adapting to more intense regulatory and governance requirements.

Risk management is rated by all executives as the most important overall strategy in their organization's response to global challenges.

Firms with strong adaptability performance are more likely to say they will invest in a wide range of operational activities.

There is an expectation, especially among C-suite executives, that operational leaders will initiate proposals to advance the organization's broad strategic goals.

About the survey

This survey—conducted and analyzed in the spring of 2014 by The Economist Intelligence Unit in partnership with Broadridge Financial Solutions to ascertain how operational teams are contributing business value to their companies—garnered responses from 414 executives from around the world engaged in securities-related businesses. Leaders of buy-side operations, sell-side operations and corporate management are nearly equally represented. More than 40% of survey respondents hold C-level positions, including 19% who are CEOs. Asia-Pacific, North America and Europe each account for about 30% of the survey sample. About one quarter of the companies represented have \$5bn or more in annual global revenue, while 39% have less than \$1bn in revenue.

Business power of operational change

For the first time in the modern financial-services era, the majority of business leaders appreciate the transformative power of operations and are eager to have the chief operating officer (COO) play a leading role in driving business model change. In today’s connected, global business environment, COOs have greater visibility on regulation, changes in market structure and shifting client needs.

Today’s more complex business context—shaped by globalization, increased regulation, market shifts and technological advances—pushes companies to look beyond core operations to be more dynamic in terms of meeting customer demands, expanding into new markets and providing a safe and reliable investor-centric environment. Indeed, our survey reveals that expanding into new markets is the overarching business orientation for most organizations and that more intense regulation and changes in market/industry structure are the most daunting challenges they face.

With operations units at the helm, the most adaptable firms are leveraging risk management (including customer onboarding) and front-

office activities to overcome these challenges while at the same time, driving value to the business. Moreover, our survey shows that greater integration across business functions and implementation of new operational business models are required to support improved performance.

The new normal: Regulatory change and market shifts

The highly regulated, increasingly global and constantly changing landscape has become the “new normal” for financial firms. Securities-related companies—both on the buy and sell side—are re-evaluating their business models as they refine their strategies to tackle ongoing challenges, including intensified regulation and governance, growing globalization and changes in industry and market structure.

Increasingly intense regulations and governance as well as changes in market structure stand out as the key forces currently driving business transformation. These two factors are cited by 35% and 32% of executives, respectively, as the top challenges to the success of their organizations (see Chart 1).



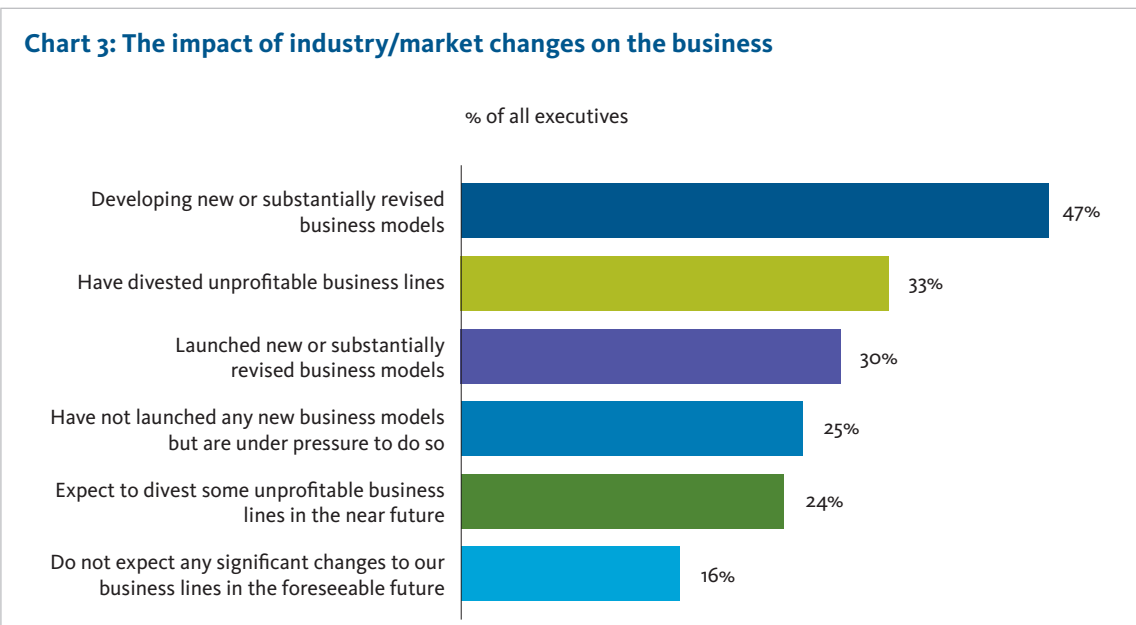
Executives say that managing risk (39%) is the most important overall strategy for responding to these challenges, followed by investment

in product differentiation and innovation, and meeting increasing customer demands, both with 34% (see Chart 2).



The largest proportion of executives (43%) say that building automated processes that integrate risk management, audit trails and compliance processes is the most effective strategy for adapting to more intense regulatory and governance requirements. As for changes

in industry or market structure, new business models stand out as the top approach for 77% of survey respondents. This includes 47% that are in the process of developing a new or substantially revised business model and another 30% that have already launched one (see Chart 3).



Surveyed executives weigh in on their most effective strategy for driving transformational change to best practices, manage operational risk and deliver business value:

“Setting appropriate standards when it comes to an operational risk framework.”

~CEO/President, Business Head

“Having a new IT architecture will improve everybody’s life: front-, middle- and back-office and clients.”

~CEO/President, Business Head

Creating an investor-first environment

In their efforts to adapt to globalization and technological advances, executives say they are highly focused on improving the overall investor experience, which had previously suffered from lack of security and excessive rigidity.

For example, 52% say they have used technology to improve customer service, while 50% have improved security and reliability and 44% have increased agility and adaptability. They are also

enhancing the investor experience in new markets by improving cross-border transaction capabilities (36%), increasing overall operational agility (34%) and adapting service offerings to meet local-market needs (31%) (see Charts 4 & 5).

Chart 4: The impact of technological advances on business model transformation

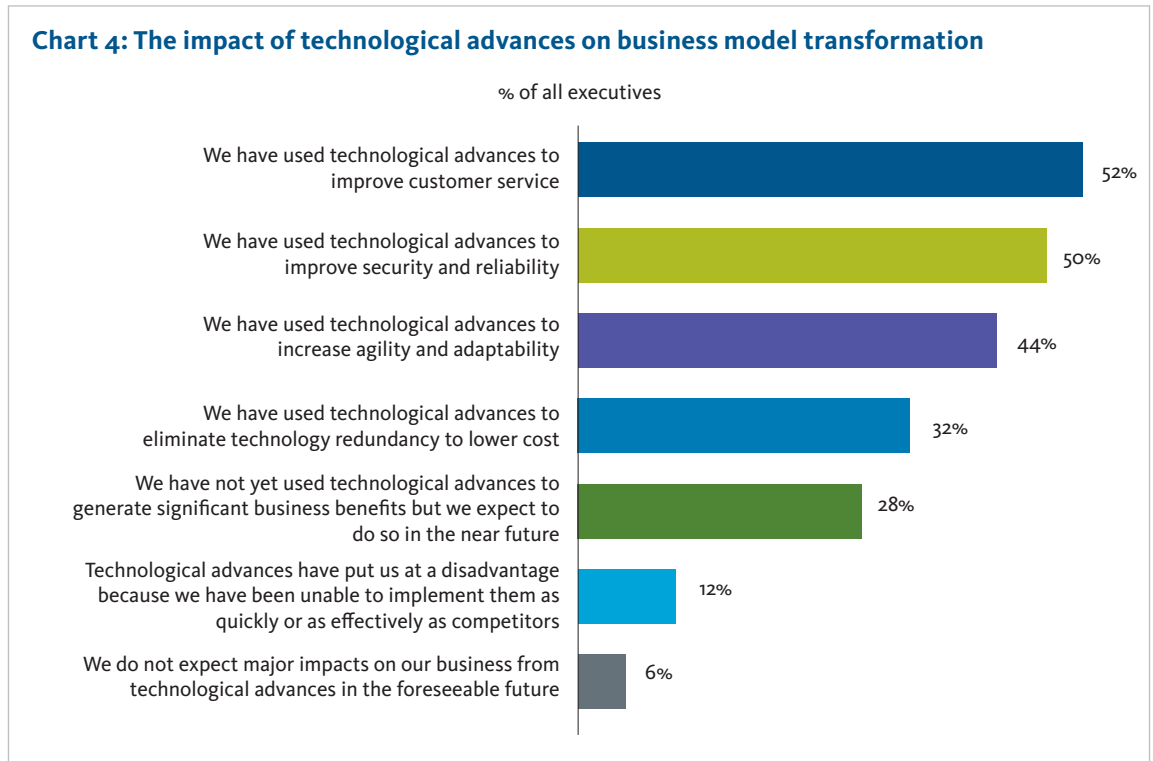
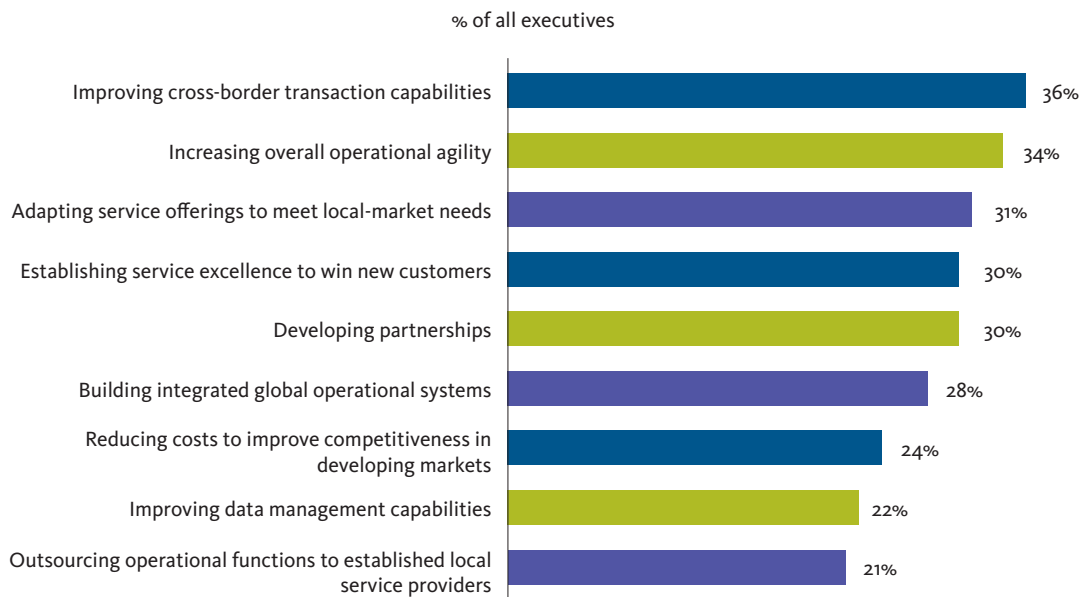


Chart 5: The role of operations in entering new markets



“Adopting risk management processes, which include risk, and control self-assessment.”

~CEO/Treasurer/Controller on the most effective strategy for managing operational risk and delivering business value

“Strengthen the framework for operational risk and bring the right resources with relevant skills.”

~CEO/President/Business Head on the most effective strategy for managing operational risk and delivering business value

Operational risk management drives value

The survey reveals that as they adapt to the broad changes sweeping the industry, financial firms expect their operational units to drive value to the business through a variety of activities. Risk management processes (including customer onboarding) stand out as the activities most consistently rated as having high potential across business units and across challenges to business success. This is aligned with the broader finding that risk management is rated by all executives as the most important overall strategy in their organization’s response to global challenges.

Executives engaged in corporate management agree with their operational counterparts that risk management offers strong potential for driving value to the business.

Based on the proportion of respondents rating each activity as having moderate or high potential, risk management is the top-rated activity for adapting to both regulatory reform (79%) and technology advances (78%). When it comes to adapting to globalization and market/ industry structural changes, risk management ranks second behind front-office activities as the initiative with the most potential to add value.

Operational activities with moderate or high potential to drive business value

Percent of corporate management executives	Regulatory reform	Globalization	Structural changes	Technology advances
Risk management	79%	86%	70%	78%
Compliance	74%	82%	67%	63%
Front-office	72%	91%	75%	69%
Customer onboarding	70%	86%	70%	65%
Regulatory reporting	70%	70%	57%	64%
Data management	68%	75%	60%	77%
Order management and execution	61%	73%	56%	64%
Clearance and settlement	61%	67%	55%	65%
Accounting and reconciliation	51%	63%	47%	63%

Leaders value adaptability as a key performance metric

Survey respondents were asked to rate their company's effectiveness relative to its peers on several different performance indicators. Executives from firms with above-average performance have adopted somewhat different strategies than lower-performing firms, providing some indication of best practices. The most notable differences between leaders and laggards are in the propensity to invest in key operational activities. While profitability is the most common overall performance indicator, adaptability is the most interesting benchmark because it affects a firm's ability to respond to the array of challenges facing the industry today. Moreover, the investment plans of the most

adaptable firms provide a good indication of the strategies that lead to high performance.

Firms with strong adaptability performance are more likely to say they will invest in every operational activity. Risk management stands out as both the biggest spending priority for highly-adaptable firms, mirroring their expressed priority areas. Spending intentions are strongly correlated with performance, with 91% of firms with well-above-average adaptability saying they will increase spending, compared with 80% of those somewhat above average and 67% of those who rate themselves as average or worse. Other operational areas with a particularly stark contrast in spending intentions between high-performing and average firms are customer onboarding and front-office.

The C-suite perspective: Operations advancing strategic initiatives

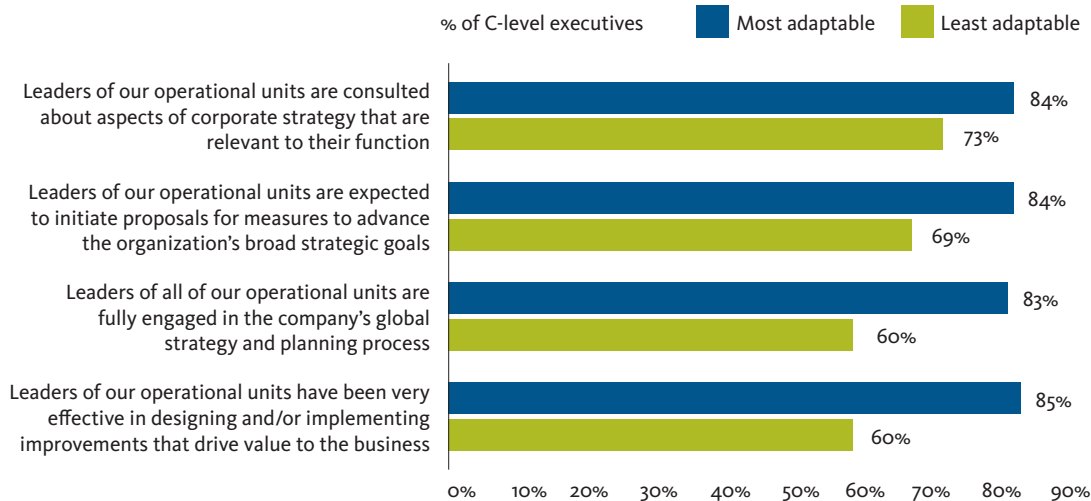
According to our survey respondents, collaboration across the organization and building systems that integrate functions across different business processes are seen as the most important ways for operational leaders to contribute to performance. In addressing the challenge of more intense regulatory and governance requirements, for example, 40% of all executives point to collaborating with other executives in the development of an integrated risk profile of the organization as the most effective approach. Another 37% point to training and awareness-raising to build a risk-aware culture, which is another strategy for breaking down silos and promoting concerted action.

The survey results indicate that the highest-performing firms in terms of adaptability have done the best job of implementing these types of operational improvements. This is confirmed by the opinions of the most senior executives, who have the broadest enterprise-wide perspective. About 83% of C-level executives from firms with

above-average adaptability say that leaders of their operational units are fully engaged in the company’s global strategy and planning processes. This compares with only 60% of C-level executives from less adaptable firms (see Chart 6).

There is an expectation that operational leaders will initiate proposals to advance the organization’s broad strategic goals. About 84% of the C-level respondents from high-performing firms agree that this is already the case in their firms, compared with only 69% of less-adaptable companies. The survey also demonstrates that strategic operations pay off in terms of performance: 85% of C-level executives from high-performing firms say that leaders of operational units have been very effective in designing or implementing improvements that drive value to the business. Only 60% of counterparts from less adaptable firms agree. This C-suite perspective validates our survey findings that reveal the increasingly strategic nature of operations today and its critical role in managing risk and contributing business value.

Chart 6: Operational leaders contribute the most value in adaptable firms



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