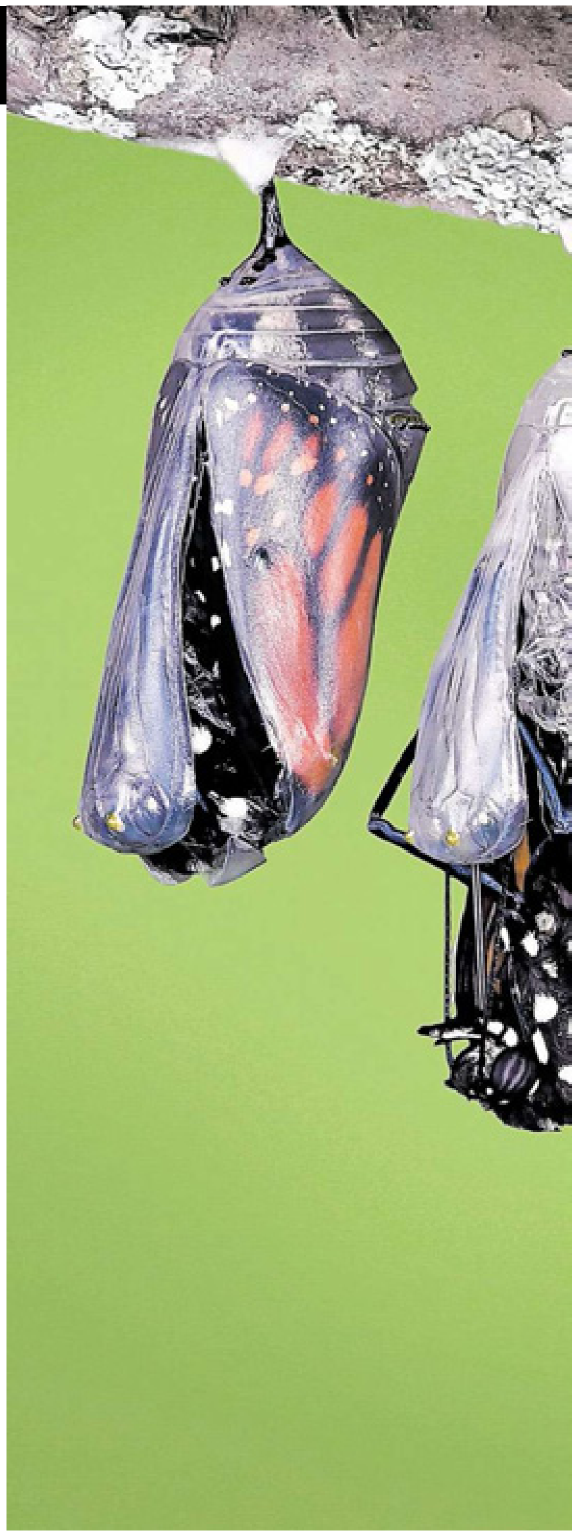
[ COMMERCIAL PROFILE ]

## PRICEWATERHOUSECOOPERS



# Transforming for value

As organisations make internal structures more cost-effective, analysts with PwC say the process will allow companies to focus on core activities

CORPORATIONS ARE beginning to emerge from the retrenchment and cost cutting brought about by the recession and are now seeking to transform themselves to drive future profitable growth. This is the view of Garret Cronin and Susan Kilty, consulting and tax partners respectively with PricewaterhouseCoopers (PwC).

"Organisations are now redefining what their structures need to look like to meet both the current and the future demands of the business," says Cronin. "There is now a lot of focus on what the best possible structure is, with companies trying to define the optimal structure for their particular needs."

While the optimal structure may prove an elusive goal for many long-established organisations, the transformation process will still yield benefits. "Structures need to be more cost-effective," Cronin points out. "And the transformation process will see processes becoming more simplified and standardised as a result. This will allow for a more standardised approach to managing businesses and facilitate an acceleration in decision-making capability. It's all about having the right information at the right time and in the right hands to make those decisions."

This may sound fairly straightforward, yet it can be anything but when it comes to restructuring existing organisations with long-established processes and protocols, not to mention embedded corporate cultures. For example, the old model for firms to expand into new markets was to more or less replicate the corporation and all its functions in miniature in each country or region. This led to massive duplication in areas such as IT, HR and accounting, and attendant higher costs.

Since the 1990s much duplication has been eliminated through establishing shared service centres for many back-office functions as well as outsourcing low-value or non-core activities. But this has not gone far enough, according to Cronin.

"There is a change in what is being seen as front-line and back-line activity," he says. "We have already seen IT, finance and other support services being standardised and brought into shared service centres or outsourced. We are now seeing higher-level administrative and HR functions being moved out of local organisations as well. This is particularly important for new and emerging markets where standardisation of processes will allow companies focus on those core activities required for driving growth, with support coming from centrally managed shared service centres."

The point being that a single or possibly a few shared services operations around the globe will support the organisation's activities in all markets with the only local functions being those linked directly to the market such as sales, marketing, production and so on. But organisations must plan ahead from a tax perspective when they seek to strip out local expertise, according to Kilty.

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"There is a tax angle here," she says. "Transformation is all about creating and protecting value and there is a need to ensure that the taxation aspects are right. There are risks on both the direct and indirect tax sides and all of these have to be managed as does local regulatory compliance. Tax can often be an afterthought but it has to be at the heart of the transformation agenda.

"The more you move towards the shared-service model, you risk taking 'the eyes and ears' of the organisation from a tax perspective out of the market. You have to make sure you get the balance right." Operating in different countries requires co-ordination of compliance requirements based on diverse accounting practices, legislative environments and local business customs. Kilty says: "In order to remain compliant, companies need to make sure that any changes in their processes, technology or people as a result of a restructuring of operations are sufficient to support them in identifying and addressing compliance obligations."

Undertaking a transformational agenda gives companies a chance to maximise the opportunities for process improvements in the form of time, costs, risk management and quality as they pertain to tax – all of which should lead to greater efficiencies and control over the tax affairs of the organisation.

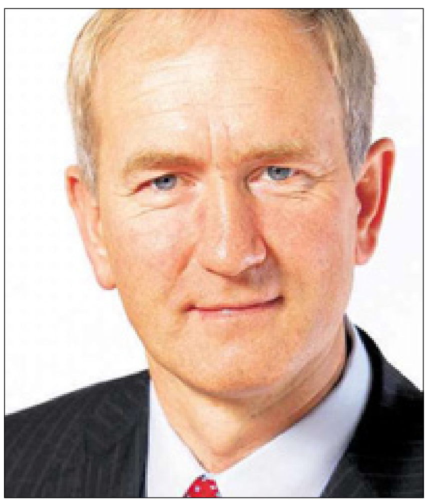
This brings us back to the balance between frontline and backline activities and what defines them. Cronin talks about efficiency, control and insight being three key areas of focus with efficiency and control falling mainly in the backline and insight being front line. "The best companies are investing in insight," he claims. "You need to have the right expertise locally to support the organisation and to understand what's happening in the market."

This balance is already being struck very well in the new generation of global corporations. "If you look at newer companies such as Google and Facebook, they are already doing this," says Cronin. "Companies like this ask themselves what they want in individual markets and invariably it involves market-focused activities like sales and marketing. After that it's about how they can support those people without adding cost in the location. If you were to ask most longer established companies what their operating model would look like if they were to start out fresh again, they would say it would not be like it is today. But it is easy to start with the optimal structure from a greenfield situation, where you have structures built up over a long period you may never get to the optimum."

For companies seeking to improve

their structures, the process begins with information. "The key enabler of business transformation is having an integrated enterprise resource planning system in place. Where you have one platform globally you are in a good place, but not many companies can say that," says Cronin. "In fact, a recent PwC study indicated that only 13 per cent of major corporations have their IT strategy aligned to their business strategy. I think we are going to see a lot more investment going into IT so that organisations can get to best in class. However, whereas you would think that IT investment should be business-led, very often it is still technology led."

He also points to further evidence for poor use of IT by organisations. "It is interesting to look at how organisations have grown over the past 10 to 15 years. In many cases it has been by being entrepreneurial, making bolt-on acquisitions and investment decisions at a local level. This has led to lots of different IT systems mushrooming up at a local level within the same organisation. A recent PwC survey found 62 per cent of respondents were still actively using spreadsheets, indicating a patchwork of different systems which don't talk to each other. If organisations want to bring more control back to the centre they need the right information coming through quickly."



**Garret Cronin**, consulting partner with PwC: 'The key enabler of business transformation is having an integrated enterprise resource planning system'

But quality is much more important than quantity in this respect. "It's not about how many key performance indicators (KPIs) an organisation has. It's about what you are measuring. One of our clients had 50 KPIs and we worked with them to reduce the number to just nine. They are now telling us that they know more about their business than they ever did before. The KPIs need to be focused on the business strategy."

This raises interesting questions in terms of the level of expertise required in areas such as tax or labour relations in different jurisdictions and where that expertise should be housed – locally or at the centre. "Making sure you have the right expertise available is critical," says Cronin.

"Some organisations will be able to hire people with the rights skills in some cases while others will outsource their requirements for tax, legal and other advice to professional firms." Amid all of this talk of structures and processes, Cronin argues that the most important component of the transformation process is people. "You have to make sure you have the right people making the right decisions for the organisation. Companies need to identify the skills needed to manage and drive transformation and either develop existing staff or recruit external talent to fill these needs – re-badging existing resources into new roles can often be a recipe for failure."

The picture they paint is of the optimally structured business being one that maximises shared services and has highly efficient information systems which enable effective central control with local activities confined largely to those which add value. Cronin says: "Whatever business structure you implement, it must be fit for purpose, where the value derived is measurable and implemented by the right people." i