Creating an optimized organisation

Key Opportunities and Challenges
Profitability for organisations is a given. Organisations that are not competitive as measured by profit, in the absence of the sustained monopolistic position, may fail. Profitability may continue to be a business issue in the future, but the accepted path to profitability is likely to change. Increasingly, profitability may come from some combination of increased revenue and decreased cost. Thus organisations are expected to simultaneously formulate and pursue their revenue and cost strategies.

With the organisations entering new age of economic uncertainties, competing by capability maximization may become the new name of the game. Such organisational capabilities are created using combination of limited resources dispersed within the organisation. Optimized organisations ensure that the resources are leveraged to their best potential to create the unique capabilities. Ideal state optimization results with the concurrent maximization of resource efficiency, effectiveness and utilization.

Recent changes in the global business landscape have triggered the organisations to pursue optimization. Some of the key triggers in this regard are globalization, pace of change, profitability through cost and growth, focus on capabilities, complex regulatory environment, mergers and acquisitions, rapid technological evolution and high customer expectations. These changes are expected to set the direction and pace for optimization. Organisations of all sizes and from most industries may consider optimization in near future; however the nature and scale of optimization may differ.

Creating and sustaining an optimized organisation may require extraordinary leadership commitment. Key avenues of optimization may be explored and leveraged only with the right leadership intent. Leaders may not be able to sustain the optimization effort without investing to change the fundamental mindset of people. In other words, leaders may need to create the culture of optimization. In many cases, leaders may also need to manage a parallel cultural transformation, with focus on optimization, as they lead efforts to create an optimized organisation. Dimensions of culture, such as knowledge sharing, resource consciousness, collaboration, inspirational challenges, openness to change and team working may need to be strengthened.

Furthermore, creating an optimized organisation may require much deviation from the normal ways of working within the organisation. Such deviations may impact the work profile of individuals, teams, functions and organisation at large. In the case of creating a shared services organisation or outsourcing select work activities, significant number of employees may get relocated or even separated. Managing such people issues may hold the key to success of creating an optimized organisation. Thus, in a nutshell, leaders may be expected to create the fundamental traction for change in their pursuit to truly realize the benefits of optimization.
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The global economic uncertainty has unleashed a wave of unprecedented challenges for the world’s economic order. Organisations can no longer take the liberty to underutilize their own capabilities. While this is one side of the coin, the other side of the coin, on the contrary, holds a great promise. Organisations today have an entirely new way to compete by maximizing their existing capabilities. The tough challenge here is to identify, synergize and leverage dispersed capabilities within the organisation; and the ability to do so may be the key source of competitive advantage in the current times. Organisations typically create capabilities through utilization of resources at multiple levels. Optimization is about ensuring effective and efficient deployment of existing resources for capability maximization. Some of the key avenues of internal resource optimization include process re-design for efficiency, technology up-gradation, workforce planning, role clarification, goals cascading, skill alignment, cross functional/departmental communication, organisation de-layering and team based governance. Thus, it is imperative that dimensions of organisational framework-structure, workforce, processes and technology be aligned to the overall objective of optimization. Culture weaves all the said elements into a uniform thread, hence strengthening the alignment. While it is important to explore individual dimensions of the organisational framework to identify avenues of optimization, it may be observed that the real opportunity for optimization is locked in the way these dimensions interact with each other.

Workforce optimization is a key element in creating an overall optimized organisation. Simply stated, it is about getting the right set of employees, at the right time, at the right cost and at the right place. It seems like organisations have to get a lot of things ‘right’ in order to reap the benefits from workforce optimization. This often seems to be the reason why most organisations don’t even attempt it. However in the changing economic scenario, organisations can no longer take the liberty of continuing with the misaligned workforce. Appropriate ‘workforce planning’ and negotiating the right ‘workforce contract’ (part time, temporary, permanent, contract employees) are the two key facets of workforce optimization. Organisations are thus increasingly exploring diverse internal/external partnerships to realize the objective of workforce optimization.

Organisations deploy combinations of different delivery models to realize the benefits of optimization. The delivery models define the nature of interactions among the structure, workforce, processes and technology. One of the ways organisations optimize their overall value chain is by strategically outsourcing select work portfolios. Even though strategic outsourcing enables organisations to maximize capabilities and ensures high resource utilization, it also involves a fair degree of risk. In another approach, firms create a separate shared services organisation within the larger organisation. Creating a shared services organisation provides a unique opportunity to leverage both, the economies of scale and the depth of expertise. Many firms choose to bundle the standard transactional work of functions such as finance, human resources, information technology, procurement etc. into a separate service organisation called ‘service centre’. Additionally, many firms also bundle special expertise (required only on need basis) into a separate organisation called ‘centre of expertise’. Both ‘service centre’ and ‘centre of expertise’ may together constitute the shared service organisation. Driven by the pressures of reduced cost and timely service delivery, many firms also deploy self service delivery model, in addition to the above delivery models. Interactive technology and seamless processes integration underpin the effectiveness of the delivery models.

Executive Summary

The global economic uncertainty has unleashed a wave of unprecedented challenges for the world’s economic order. Organisations can no longer take the liberty to underutilize their own capabilities. While this is one side of the coin, the other side of the coin, on the contrary, holds a great promise. Organisations today have an entirely new way to compete by maximizing their existing capabilities. The tough challenge here is to identify, synergize and leverage dispersed capabilities within the organisation; and the ability to do so may be the key source of competitive advantage in the current times. Organisations typically create capabilities through utilization of resources at multiple levels. Optimization is about ensuring effective and efficient deployment of existing resources for capability maximization. Some of the key avenues of internal resource optimization include process re-design for efficiency, technology up-gradation, workforce planning, role clarification, goals cascading, skill alignment, cross functional/departmental communication, organisation de-layering and team based governance. Thus, it is imperative that dimensions of organisational framework-structure, workforce, processes and technology be aligned to the overall objective of optimization. Culture weaves all the said elements into a uniform thread, hence strengthening the alignment. While it is important to explore individual dimensions of the organisational framework to identify avenues of optimization, it may be observed that the real opportunity for optimization is locked in the way these dimensions interact with each other.

Workforce optimization is a key element in creating an overall optimized organisation. Simply stated, it is about getting the right set of employees, at the right time, at the right cost and at the right place. It seems like organisations have to get a lot of things ‘right’ in order to reap the benefits from workforce optimization. This often seems to be the reason why most organisations don’t even attempt it. However in the changing economic scenario, organisations can no longer take the liberty of continuing with the misaligned workforce. Appropriate ‘workforce planning’ and negotiating the right ‘workforce contract’ (part time, temporary, permanent, contract employees) are the two key facets of workforce optimization. Organisations are thus increasingly exploring diverse internal/external partnerships to realize the objective of workforce optimization.

Organisations deploy combinations of different delivery models to realize the benefits of optimization. The delivery models define the nature of interactions among the structure, workforce, processes and technology. One of the ways organisations optimize their overall value chain is by strategically outsourcing select work portfolios. Even though strategic outsourcing enables organisations to maximize capabilities and ensures high resource utilization, it also involves a fair degree of risk. In another approach, firms create a separate shared services organisation within the larger organisation. Creating a shared services organisation provides a unique opportunity to leverage both, the economies of scale and the depth of expertise. Many firms choose to bundle the standard transactional work of functions such as finance, human resources, information technology, procurement etc. into a separate service organisation called ‘service centre’. Additionally, many firms also bundle special expertise (required only on need basis) into a separate organisation called ‘centre of expertise’. Both ‘service centre’ and ‘centre of expertise’ may together constitute the shared service organisation. Driven by the pressures of reduced cost and timely service delivery, many firms also deploy self service delivery model, in addition to the above delivery models. Interactive technology and seamless processes integration underpin the effectiveness of the delivery models.
Optimized organisation

As strategic promises turn into daily actions, organisation’s capabilities need to be redefined to sustain and integrate individual competencies. Organisational capabilities may serve as the DNA of competitiveness. They are the things an organisation always does better than its competitors do. Such capabilities may be hard or soft, depending on the unique context of the organisation.

Organisations typically create capabilities through utilization of resources at multiple levels. Optimization is about ensuring effective and efficient deployment of existing resources for capability maximization. Organisations adopting this transformational approach derive benefits greater than just cost saving. In fact, they are able to leverage synergies across levels, ensure value creation, increase competence, deliver quality, strengthen infrastructure, and, most importantly, improve business results.

Organisational optimization is the result of interplay between utilization, efficiency and effectiveness.

**Utilization:**
It is the proportion of the available time (expressed as a percentage) for which the resources are deployed.

**Efficiency:**
It is the ratio of the output to the input of the resources.

**Effectiveness:**
It is the extent of the match between the actual outcome and the intended outcome of the resources.

Ideal state optimization results with the concurrent maximization of utilization, efficiency and effectiveness.

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Key triggers for creating an optimized organisation

Recent changes in the business landscape have triggered the need to create an optimized organisation. Some of the key triggers, in this regard, are mentioned below.

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Source: KPMG in India analysis
Globalization:
Globalization seems to dominate the competitive horizon. The concept is not new, but the intensity of the challenge to get on with it is. Globalization entails new markets, new products, new mindsets, new competencies, and new ways of thinking about business. In times to come, many organisations may have to evolve new models for attaining global agility, effectiveness and competitiveness. Additionally, organisations may also have to devise means to consolidate their dispersed capabilities to provide unparalleled value to the customers at reasonable cost.

Pace of Change:
This is perhaps one of the most challenging eras of the business history. The speed of change is unprecedented. Organisations seldom have time to adapt themselves to the rapidly changing business landscape. Ways of working are becoming obsolete with each passing day. Innovation and self discovery have become new catalysts for growth. Changing employee demographics is posing yet another challenge for organisations. Increasing number of baby boomers in the west and increasing number of millenial in the east is causing unique organisational challenges in the respective countries. Employees and consumers are increasingly becoming aware of the organisation's responsibilities towards communities and environment. All this, along with changing customer preferences and expectations, is making business even more challenging in current times.

Profitability through Cost and Growth:
Profitability for organizations is a given. Organisations that are not competitive as measured by profit, in the absence of the sustained monopolistic position, may fail. Profitability may continue to be a business issue in the future, but the accepted path to profitability may likely change. Increasingly profitability may come from some combination of increased revenue and decreased cost. Thus, many organisations are simultaneous working on their revenue and cost strategies. In current times, the focus however seems to be more on cost strategies.

Focus on Capabilities:
Organisations are increasingly focussing on indentifying and strengthening their existing capabilities. Organisational capabilities are the DNA of competitiveness. They are the things the organisation always does better than that of the competition. Organisational capabilities may be hard (such as technology) or soft (such as innovation). Soft capabilities are more difficult to create and replicate. They are often the source of sustainable competitive advantage to the organisations.

Complex Regulatory Environment:
Organisations are expected to comply with the statutory and regulatory provisions of the countries they operate in. Compliance with the complex and evolving regulatory and legislative requirements is a top-of-mind objective for organisations of all sizes. Changes in the regulatory framework have acted as a catalyst leading the organisations to roll back and work in a constrained environment with little scope to deliver on its strategic objectives. Organisations have to revisit their programs, policies and processes in order to be compliant with the laws of the land.

Mergers and Acquisitions:
Mergers and acquisitions, divestitures and outsourcing continue to be some of the key drivers in organization's plan to drive revenue growth, reduce costs and grow profits. Historically, many of these major business changes have not generated the expected business value. The upheaval caused by integrating with another organisation significantly challenges the way both organisations conduct business. Moving ahead in an indecisive environment is demanding, but a business commotion is an excellent time to look at ways to optimize across the organisation.

Technology:
Rapid evolution and adaption of technology has been the defining feature of the current decade. Technological innovations occur faster than we can keep up. Technology has made our world smaller, closer and faster. In an environment of burgeoning computer literacy, ideas and images spread quickly worldwide. Technology overcomes geographical distances as well as language and cultural differences.
Thus the above may likely set the direction and pace for optimization. Organisations of all sizes and from most industries may consider optimization in near future; however the nature and scale of optimization may differ.

As mentioned earlier, organisations typically create capabilities through utilization of resources at multiple levels. Resources are deployed within the organisational framework of structure, workforce, processes and technology. Organisations create value for stakeholders through synergic interactions among the above listed dimensions of the framework. Each dimension is aligned to the overall organisation strategy. Optimized organisations attempt to maximize this synergy by ensuring high utilization, efficiency and effectiveness of resources deployed within the framework. Leadership provides the necessary traction for synergy maximization and culture weaves all the said dimensions into a uniform thread, hence strengthening the alignment.

Exploring key avenues of optimization

Global economic uncertainties are triggering new ways of competition. One of the ways organisations are competing in the current scenario is by creating an optimized organisation, in other words, ensuring maximum utilization, efficiency and effectiveness of all the dispersed resources at multiple levels within the organisation. The challenge here is to identify key avenues of optimization and to action upon them to realize the desired benefits.

Key avenues of optimization may be explored around the four dimensions of organisational framework, namely, structure, workforce, processes and technology. Organisation culture and leadership may be separately discussed for their ability to strongly impact the creation of the optimized organisation.

Illustrates key avenues of optimization for each of the above mentioned dimensions.

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<thead>
<tr>
<th>Key Optimization Axes</th>
<th>Dimensions of Organisation</th>
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</thead>
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<td>Role Clarification</td>
<td>Structure, Workforce Planning, Process and Technology</td>
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<td>Role Duplication</td>
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<td>Goals Cascading</td>
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<td>Skills Alignment</td>
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<td>Communication Flow</td>
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<td>Structure, Workforce, Process and Technology</td>
</tr>
<tr>
<td>Leadership</td>
<td>Structure, Workforce, Process and Technology</td>
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</tbody>
</table>

Source: KPMG in India analysis

• Exploring structural optimization

Structure of the organisation provides a blueprint of the overall value chain of the organisation or the way work gets done in the organisation. It is broadly about grouping of individuals into departments and departments into organisation with appropriate hierarchy and span of control. It is also about ensuring optimum communication, coordination and integration across departments.

Although there may be numerous avenues of optimization around the structure, some of the key and most impactful ones are as follows.
Role Clarification:
Role clarification is a systematic process of collecting information that identifies similarities and differences in the profile of a particular role with that of others. Typical outcome of the role clarification process is a validated document with following heads.

- Role Identification: Title and department in which the role is located.
- Role Content: Tasks, activities, constraints on actions, performance criterion, critical incidents, conflicting demands and working conditions.
- Employee Characteristics: Technical knowledge, manual skills, verbal skills, written skills, quantitative skills, mechanical skills etc.
- Internal Relationships: Boss and other superiors, peers and subordinates.
- External Relationships: Suppliers, customers, regulatory, professional industry, community and union/employee group.

The process helps employees understand the finer differences between roles. It also helps to remove the ambiguity in role expectation and prevents overlap of efforts among team members. Thus an organisation may avoid losing significant number of man-hours. Role clarification process may be best carried out within a group or team, rather than individually. Conducting role clarification in a group not only enhances understanding of the role from an individual perspective, but also enables the understanding, clarification and development of role profile from a team’s perspective. This helps enhance working relationships and coordination, and provides an opportunity to develop synergies to deliver optimum results as a team.

Role Duplication:
Organisations with multiple subsidiaries or divisions may have a separate set of support functions for each subsidiary or division. Each set of support functions service the unique requirements of the respective subsidiary or the division through a mix of multiple roles. The arrangement is best suited to meet the specific and differentiated requirements of each subsidiary or division. However, the situation in which the requirement is not much differentiated, having a separate set of support functions proves to be much expensive on account of role duplication across subsidiaries or divisions. Hence it is advisable to create a centralized pool of such support functions and to lend their services as and when required to each subsidiary or division. This may help eliminate unnecessary role duplication within the organisation.

Role duplication may also be the result of inadequate role clarification. Multiple roles within the organisation may be performing same set of activities with little or no value-add for the organisation.

Goals Cascading:
Goals cascading is a process in which the organisation level goals are cascaded down to the division levels goals, next to the function level goals and lastly to the individual level goals. The process ensures strong alignment of the individual goals to the overall organisational goals. The process also aims to avoid the misdirected effort of employees within the organisational framework.
In the fast changing business landscape, ways of working are also rapidly changing. Employee skills and know-how are fast becoming obsolete. Employees are expected to continuously up-skill themselves so as to keep pace with the rapid change. Skill alignment is a process used to ensure that the skills of the employees are always current and are tightly aligned with the overall business requirement. Organisations may also choose to buy the related skill set from the market so as to ensure that its skill inventory is always updated and ready to execute the business strategy. In another perspective, leaders of the organisation may ensure that the execution of the strategy to be formulated should be well within the stretched skill levels of the employees. Misaligned skill-set causes much loss of efficiency and effectiveness for the overall organisation. Skills specialization may be another way by which organisations may attempt to bring about the necessary efficiency and effectiveness in the overall system.

Team based governance is one of the emerging avenues of creating optimization within the organisation. Under the team based governance model key decisions at the cross-functional or enterprise level are taken by a group of individuals instead of dispersed individuals. Such a group decides on issues which typically do not get addressed at the division or functional level. Team based governance helps realize the objectives of the organisation as illustrated below:

<table>
<thead>
<tr>
<th>Team Based Governance</th>
<th>Individual Based Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequate cascading of enterprise level strategy/agenda</td>
<td>Inadequate cascading of enterprise level strategy/agenda</td>
</tr>
<tr>
<td>Team members to decide on behalf of the organisation on collective issues</td>
<td>Decisions on collective issues rests with dispersed individuals</td>
</tr>
<tr>
<td>Active knowledge sharing or intelligence sharing</td>
<td>Inadequate knowledge sharing or intelligence sharing</td>
</tr>
<tr>
<td>Active opportunity to develop enterprise level leaders</td>
<td>No such creation of an opportunity</td>
</tr>
<tr>
<td>Common support infrastructure</td>
<td>Distributed support infrastructure</td>
</tr>
<tr>
<td>Unified ownership of decision making and implementation</td>
<td>Separate ownership of decision making and implementation</td>
</tr>
</tbody>
</table>

Source: KPMG in India analysis
Communication Flow:

Communication flow within the organisation may happen through vertical or horizontal means (or combination of both). While many organisations have mastered the art of vertical communication (as may be inferred through the lines in the organisation structure), few actually leverage the strength of horizontal communication. Following are some of the key benefits of engaging in active horizontal communication.

- Improved Coordination
- Better Productivity
- Better Implementation of Decisions
- High Cordiality among Employees
- Better Teamwork
- Active Knowledge-sharing

Meaningful horizontal communication is often impaired by rivalry, territorial behaviour and over-specialisation of job functions, which erects barriers leading to in-group/out-group exclusion, the use of jargons and other excluding codes, and a reluctance to share information. Therefore, it is critical for the leadership to create a culture which may encourage seamless horizontal communication.

Organisation De-layering:

De-layering is the process of pruning the administrative structure of a large organisation by reducing the number of tiers in its hierarchy. Many businesses are moving towards flatter organisational structures through de-layering. Cost savings through reduction in overheads is one of the main reasons for majority of organisations to contemplate de-layering. While for some organisations, the realization of such a saving is the primary objective of de-layering, however for others, a flatter structure may result in freedom from bureaucracy, faster communication, higher motivation and better decision making.

Exploring workforce optimization

In many organisations the workforce cost is a significant proportion of the total operating cost. Workforce cost optimization is an indispensable element in creating an overall optimized organisation. Simply stated, it is about getting the right set of employees, at the right time, at the right cost and at the right place. It seems like organisations have to get a lot of things ‘right’ in order to reap the benefits from workforce optimization. This often seems to be the reason why most organisations don’t even attempt it. However in the changing economic scenario, organisations can no longer take the liberty of continuing with the misaligned workforce. Appropriate ‘workforce planning’ and negotiating the right ‘workforce contract’ (part time, temporary, permanent, contract employees) are the two key facets of workforce optimization. Organisations are thus increasingly exploring diverse internal/external partnerships to realize the objective of workforce cost optimization.

Organisations conduct workforce planning for variety of reasons such as cost pressures, aging workforce and approaching retirement wave, current and projected labour shortage and to meet growth targets. Most of the workforce planning exercises may be triggered on account of following two problem statements.

**Problem Statement - 1:**
Organisations may want to adjust their workforce planning norms due to the change in their working ways. Working ways of organisations may change on account of adoption of new technology, process redesign, role redesign and other miscellaneous changes in the environmental conditions. Many organisations conduct workload analysis or time-motion study to re-define their workload norms.

**Problem Statement - 2:**
Organisations may need clarity on the total number of people it may want to hire/drop over short, medium and long term. This may facilitate the organisations to plan for the recruitment
or separation activities. Organisations may deploy expert forecasting, scenario planning, Delphi technique or simple extrapolation (based on a business metric) to determine the numbers required over multiple time horizons. The numbers may further be adjusted taking into account the environmental variable and internal turnover patterns.

The biggest challenge to workforce planning is for the leadership to believe that it is an organisational initiative and not an HR initiated. The leadership needs to be fully committed to invest time, money and effort to realize the benefits of most appropriate workforce planning techniques.

Organisations today aim to maintain a flexible workforce in order to closely monitor costs. All over the world there is an increasing trend to hire third party contract workers for required peak periods rather than have full time employees round the year. More and more organisations are inclined towards negotiating temporary contracts rather than have full time employment contracts. Unfortunately, the cost and flexibility benefits from utilizing contract labour are often sub optimized, as the ‘right number’ of contractors with the ‘right skills’ is not necessarily the ‘right match’ for the work at the ‘right price’. Applying the following four techniques while determining the contracts may help maximise benefits:

- Manage the total (Right Number)
- Know what expertise is needed (Right Skills)
- Pay best market rates (Right Price)
- Align resources to the work (Right Match)

By achieving the right mix of workforce utilisation along with the mix of contracts handed out an organisation can work into the future with the most optimised workforce and may reap maximum benefits for the organisation.

• Exploring process and technology optimization

A process is a sequential listing of activity targeted at the creation of a product or a service. Each activity of the process may be mapped to its respective owner. Organisations may attempt to create optimization through process re-design. It is an initiative targeted to increase the overall effectiveness, efficiency and utilization of the resources required to produce the targeted output in a given activity.

Process redesign ranges from redefinition and streamlining of the existing process to the complete reinvention of the process by re-defining its very basic foundation. Process re-design may be a one-time intervention rather than a set of incremental changes. Process redesign has thus been popularly defined as “the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance such as cost, quality, service and speed”.

Business process redesign, contrary to popular belief, is not a mere automation of tasks to reduce cycle time or human effort. It transcends to the identification of non-value adding activities in a process that can be obliterated to produce an equally or more competitive end product. Technology may then be used to the advantage of the redefined process steps. Organisations opt for business process re-design for multiple reasons, ranging from the reinvention of products and services in order to satisfy changing customer needs, to the achievement of cost-savings, to the determination of a cure for low-efficiency and non-productive methods of doing work, to the harmonization of work methods across multiple entities – the end goal always being optimization.

The aim of process re-design can be viewed as the reduction or complete removal of process inefficiencies by doing away with the 8 key ‘process wastes’:

1. Overproduction, i.e. production without consumer demand
2. Excessive periods of waiting between consecutive process steps leading to under-utilization of resources

3. Unnecessary movement and handling of resources causing damage and reduction in resource-life without value-addition to the product/service.

4. Over-processing of the intermediate or final product/service through redundant activities to achieve the same result.

5. Stocking of excess inventory – raw material, Work-in-Progress or finished products - awaiting further processing or consumption without the existence of demand for the same.

6. Defects in intermediate or the final product/service causing multiple levels of rework or scrapping of the same.

7. Additional process steps due to ineffective layout leading to delayed processes and ergonomic concerns for workforce.

8. Underutilization of workforce knowledge and skills.

An organisation’s strategy and business plan act as the main drivers for a process redesign initiative. A redesigned process is accompanied by redefined results that in turn are envisioned to contribute to the achievement of the organisation’s goals. A five-lens approach can be used by organisations’ to prioritize the order in which business processes may be re-designed:

- Performance – processes which are performing the worst in cost or cycle-time.
- Importance – processes which are most critical to the achievement of business results.
- Feasibility – processes that are expected to be most successful post-redesign.
- Cross-functionality – processes that have least cross-functional impact, demanding minimum re-design of other related processes in order to be successful.
- People-impact – processes that do not directly impact controversial areas such as employee compensation, promotion etc.

Processes broadly define the norms of the work flow and the information flow. Much of the workflow and the information flow may be made more efficient and effective by deploying appropriate technologies. Given the information intensive aspects of most businesses these days, information technologies are receiving disproportionate attention. Also with the rapid evolution of the information technologies and their proactive adoption by the industry, organisations may no longer be able to ignore the interplay of the information technologies with the business processes.

There may be 3 key categories of information technologies that may be relevant to the implementation and the operation of the optimized organisation: information technology infrastructure (including the wired or wireless network), general purpose information technologies (such as spreadsheet or e-mail), and process specific information technologies (such as payroll applications). The same is illustrated below:

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Level-1-Information Technology Infrastructure:
Information technology infrastructure includes the hardware and software that comprise
the backbone of computing and communications for the business. This means everything
from the wires and the cables that carry e-mail and web content to the microwave
links between office buildings located in cities or countries. Information technology
infrastructure may be classified into following types.

- **Hardware**: Network hardware, servers, networked peripherals, wireless networks.
- **Software**: Network operating system.
- **Systems**: Internet, intranet, security, power, world-wide-web.

Information technology infrastructure is the basic investment required to create efficient
and effective business processes. However, it is important to note, that the benefits of the
infrastructure are typically realized at the other two levels. Many organisations pool the
information technology infrastructure requirements of multiple subsidiaries or divisions to
obtain the economy of scale and related synergies.

Level-2-General Purpose Information Technologies:
General purpose information technologies may be applied to the core and the ancillary
processes of almost any business. Also they may be used by individuals in small, independent
groups within the larger organisation. Such information processes make the work
processes and the work interactions more efficient and effective.

General purpose information technology may be classified under following sample types.

- **Data Storage**: Data archiving, data warehousing and database management.
- **Data Processing**: Data aggregation, localization, personalization, data encryption and
data mining.
- **Data Communications**: E-mail, messaging, paging services, web phones.
- **Data input/output**: Application service providers, interactive voice responses,
  measurement, reporting, voice portals, logging and monitoring.

Level-3-Process Specific Information Technologies:
Process specific information technologies provide the efficiency in supporting a particular
business activity. For example, although a spreadsheet and database management system
might be used as tools in the payroll function, use of these and other general purpose
tools would probably not result in the most effective use of the employee time. A much
better approach would be to use a dedicated accounting package tailored to the needs of
the payroll function. Actual time saving and efficiency comes from predefined templates,
preconfigured mathematical calculations, automated back-up facilities, and the use of visual
metaphors in the interface that decrease training time.

Following are some of the examples of process specific information technologies.

Examples: Administration support, knowledge management, payroll, finance, human
resources, material planning, procurement, CRM and ERP.

- **Interplay of structure, workforce, process and technology: The real source of optimization**

While it is important to explore individual dimensions of the organisational framework to
identify avenues of optimization, it may be observed that the real opportunity for optimization
is locked in the way different dimensions of organisational framework (structure, workforce,
processes and technology) interact with each other.
Organisations create value for stakeholders through synergic interactions among structure, workforce, processes and technology. Thus, it is imperative that each dimension is aligned to the overall objective of value creation. Any potential misalignment in any of the dimension, even though individually it may be optimized, may result in huge loss of optimization for the overall organisation. The same is represented below.

Leadership for creating an optimized organisation

Creating and sustaining an optimized organisation may require extraordinary leadership commitment. The above avenues of optimization may be explored and leveraged only with the right leadership alignment. Leaders may be expected to lead organisations in a way very different from the way they may have been traditionally leading the organisations. Leaders, in the new arrangement, are expected to realize the following outcomes for their respective organisations. In other words, following are some of the key leadership imperatives of an optimized organization.

- Leaders are expected to identify/encourage others to identify key opportunities of optimization within the organisation.
- Leaders are expected to assess the potential benefits of the optimization opportunities against the associated risks (such as the loss in the value creation).
- Leaders are expected to effectively conceptualize the plan to leverage the existing opportunities of optimization.
- Leaders are expected to effectively manage complex stakeholder relationships while executing the plan to leverage optimization opportunities.
- Leaders are expected to skilfully manage the change process so as to institutionalize the changes required to create an optimized organisation.
- Leaders are expected to create a culture of optimization within the organisation.

Thus, leaders in the organisation may be expected to demonstrate behaviours different from their usual set of expected behaviours. In other words, there may be a need to re-define or adjust the existing leadership competency framework.
Leadership competency framework provides the ‘To-Be’ state of the leadership behaviours and acts as a guiding light for leaders. For leaders to provide the necessary traction for optimization, it is advisable that the leadership competency framework may be derived from the above leadership imperatives of the optimized organisation.

One or more of the following leadership competencies may be the part of the overall competency framework for the leaders of the optimized organisation.

- **Change Leadership:**
  The leader creates a compelling business case for organisational change and identifies critical success factors and potential obstacles to change. He/she gains buy-in from key stakeholders and builds commitments from change agents.

- **Relationship Leadership:**
  The leader influences and gains buy-in and commitment to the desired agenda from multiple quarters. He/she establishes, maintains and utilizes a broad network of relationships with internal and external stakeholders. He/she also identifies the best ways to suit situations to win support, gain co-operation, and overcome barriers; and builds and executes complex, tailored influencing strategies.

- **Execution Leadership:**
  The leader demonstrates the ability to convert strategies into effective and systematic implementation plans; anticipates roadblocks in advance and plans solutions accordingly. He/she prioritizes and optimizes utilization of resources to ensure timely accomplishment of specified objectives. He/she also delivers high quality work and ensures flawless execution focusing on reducing costs and time; and increasing quality and benchmarking against the best.

- **Business Results Leadership:**
  The leader exhibits drive and energy towards achieving goals and results; maintains and adheres to high performance standards. It is demonstrated by a desire for doing one’s own work well or for competing against a standard of excellence. The leaders display ‘entrepreneurial effort’ - taking ownership and ensuring that the opportunity is capitalised upon.

**Optimization culture**

Leaders may not be able to sustain the optimization effort without investing to change the fundamental mindset of people. In other words, leaders in the organisation may need to create the culture of optimization. In many cases, leaders may need to manage a parallel cultural transformation, with focus on optimization, as they lead efforts to create an optimized organisation.

In the words of Edgar H. Schein, culture may be defined as a pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught new members as the correct way to perceive, think, and feel in relation to those problems. Such shared assumptions are the most fundamental and non-malleable aspect of creating an optimized organisation. Leaders may need to focus disproportionately to evolve a culture conducive to creating an optimized organisation.4

Following dimensions of culture may be strengthened so as create an optimization mindset.

- **Knowledge Sharing:**
  Optimization is nurtured when information, from both within and outside the organisation or system, is widely gathered, easily accessible, rapidly transmitted, and honestly communicated.

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Resource Consciousness:
Employees at all levels may need to be conscious of the efficiency, effectiveness and utilization of the resources being deployed to create the necessary value in the organisation. This fundamental mindset of resource consciousness may help identify various (big and small) optimization opportunities and may ultimately help create an optimized organisation.

Collaboration:
People collaborating with each other to achieve common business objectives is a fundamental prerequisite to create optimization. It is the willingness to work co-operatively with others within the matrix of the organisation and to be a part of a team. It is also about proactively confronting issues and taking the required action to enhance team effectiveness.

Inspirational Challenges:
Leaders in the organisation may indicate the importance and necessity of optimization, set inspirational goals and challenge teams to realize them.

Openness to Change:
This is one of the most fundamental cultural attributes which organisations try and strengthen in their overall cultural framework. With change becoming the new status quo, people have no option but to embrace change and proactively contribute in change institutionalization. Openness to change is typically dependent on factors such as change history of the organisation, existing culture, change leadership and effective change management.

Team Working:
Optimization is likely to break many silos previously existing in the organisation. Employees may be expected to pool their respective efforts to jointly create value for the stakeholders. Assumptions around team working may need to be clarified so as to create team accountabilities, rather than individual accountabilities.

Leadership has a very critical role to play with respect to building the culture of optimization. Firstly, the leaders may have to lead by example by demonstrating what they preach. Secondly, the leaders may have to create practices/frameworks within the organisation that may encourage employees to whole heartedly embrace the above mentioned cultural attributes. For example, one of the ways this is done is by setting specific behavioral goals and providing associated rewards for employees who demonstrate such goals.

Delivery models of optimization
The above identified avenues of optimization may be leveraged in an arrangement in which the organisations ensure efficient and effective deployment of existing resources, with adequate utilization, for capability maximization. Such an arrangement may be called a delivery model.

Delivery models define the nature of interactions among the structure, workforce, processes and technology. Additionally the delivery models also help realize the intended synergies that may arise in the interaction among the structure, workforce, processes and technology. Thus, in a nutshell, the delivery models help determine the rules of the game.

Some of the key delivery models which are currently being used by the organisations are:
1. Shared Service Model
2. Self Service Model
3. Outsourcing Model
4. Hybrid Model
• **Shared services model**

Shared services is a collaborative model in which a subset of existing business functions are concentrated into a new, semi-autonomous business unit that has a management structure designed to promote efficiency, value generation, cost savings, and improved services for the internal customers of the parent corporation, like a business competing in the open market.\(^5\)

Creating a shared services organisation provides a unique opportunity for corporations to leverage both, the economies of scale and the depth of expertise. Many firms choose to bundle the standard transactional work of functions such as finance, human resources, information technology, procurement etc. into a separate service organisation called ‘service centre’. Additionally, many firms also bundle special expertise (required only on need basis) into a separate organisation called ‘centre of expertise’. Both ‘service centre’ and ‘centre of expertise’ together may constitute the shared service organisation. Driven by the pressures of reduced cost and better service, many firms are rapidly adopting the shared services structure. However the transition from the existing structure to the shared services structure is also accompanied with multiple challenges. Managing such a large scale change requires much foresight and dexterity.

A shared services organisation may evolve from an organisation only servicing the internal need of the parent corporation to an autonomous for-profit organisation which may compete in the open market.

From the parent corporation’s perspective, a shared services organisation may hold following promises.

- **Reduced Cost:**
  There is a constant pressure from internal corporate clients to provide cost effective products and services.

- **Improved Service:**
  The shared business unit’s customer-oriented focus should result in better service to internal customers, than typical in-house services.

- **Fewer Distractions from Core Competency Activities:**
  With back office and other non-critical activities handled by shared services, the management of the parent company is free to focus the company on its core competencies.

- **A Potential of Creating an Externally Focused Profit Centre:**
  At one end of the evolutionary spectrum, a business unit following the shared services model can be operated as a near autonomous entity competing for business in the open market.

- **Increased Efficiencies:**
  Standardization of processes and associated technologies (wherever appropriate) can provide improved quality of services at comparable or lower prices. There is constant pressure on the business unit to increase efficiency and internal customer satisfaction.

- **Decreased Personnel Requirement:**
  With the ability to concentrate and focus resources for particular purposes in a shared business unit, fewer employees are generally needed to provide the same results. In addition to rightsizing, the shared services model often allows downscaling, in which new methodologies and efficiency improvements allow junior staff to take over tasks once controlled by more expensive senior staff.

- **Improved Economies of Scale:**
  Like a traditional centralized approach, shared services concentrates purchasing and other formerly dispersed business activities, resulting in greater buying power and greater concentration of specialized resources, such as specialists in certain aspects of accounting. This concentration allows for increased economies of scale, compared to the original corporate structure.

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\(^5\) Bryan Bergeron, Essentials of Shared Services, John Wiley and Sons, Inc., 2003
One of the key promises of the shared services model is that it may help cut the overall operational cost of the organisation. As a rule of thumb, the cost saving from rightsizing or downscaling should be more than the cost incurred in supporting additional management structure of the shared services organisation.

Secondly, with the shared services organisation, the management of the parent company is free to focus the company on its core competencies. Following are some of the opportunities for shared services. In other words, the organisation may consider housing the following support activities in a shared services organisation.

- **Administration:**
  - Inventory, mailroom, printing, records management, supply and training.

- **Customer Service:**
  - Computer customer support, field service and telephone customer support.

- **Finance:**
  - General accounting, payroll processing, purchasing, taxes and transaction processing.

- **Human Resources:**
  - Recruiting, relocation, staffing, training and workers’ compensation.

- **Information Technology:**
  - Application development, end-user support, maintenance and training.

- **Real Estate and Physical Plant:**
  - Cafeteria services, facilities information systems, facilities maintenance and security.

- **Sales and Marketing:**
  - Advertising, direct mail, field sales and telemarketing.

### Self services model

Driven by the pressures of reduced cost and timely service delivery, many firms also deploy self service delivery model, in addition with the shared services or outsourcing delivery model. Interactive technology and seamless processes integration underpin the effectiveness of self service model.

Self service, as the name suggests, enables employees to complete much of their own transactional work, such as attendance and leave management, compensation structuring, and change in contact details etc., on their own. This essentially unlocks the bandwidth of some of the supporting functions, such as the human resources or the finance, to focus on more their strategic aspects. On the other hand, for employees this means more control and flexibility over their own affairs.

The key here is to strategically identify those specific activities which may be carried out by employees themselves. Majority of such activities may previously lie in the domain of the human resources or the finance function.

Standardized processes and used friendly technology interface and the two key prerequisites for an effective self service model. Standardized processes help capture large volumes of data from large number of employees from across the organisation. The data may be analyzed to draw meaningful inferences and may also be used to do standardize reporting. User friendly technology interface is essential to provide consistent employee experience and helps build the overall system credibility.

### Outsourcing model

The outsourcing model is a step extension of the shared services model. Under the outsourcing model the support activities identified to be carried out by a separate shared services organisation, may actually be carried out by a third party outside of the overall organisation.
Organisations of all sizes are partnering with outsourcing firms to streamline operations, enhance capabilities, and greatly improve efficiencies. Outsourcing can work for any size company in any industry; there is no correlation between the success of an outsourcing program and the size or type of the company. Following are some of the key triggers for outsourcing.

- Achieve reduction in cost, improvement in quality, service and momentum.
- Gain access to superior capabilities of the service provider.
- Earn cash back in case of sale of assets from the customer to the vendor.
- Release resources for other purposes.
- Reevaluating problematic functions.
- Focus on core capabilities.
- Lower operating cost.
- Minimize risks.

It may be important for organisations to identify their core processes or their key avenues of value creation. This is what the organisations may excel at doing. Additionally, such core processes may also act as a source of competitive advantage for organisations. In the next step, organisations may evaluate their non-core activities for outsourcing. In this step, organisations may compare the outsourcing model option with other delivery options such as creating a shared service organisation within the larger organisation to maintain overall control and oversight on such non-core activities or processes. Organisations may need to evaluate the risks and benefits associated with each delivery model.

Many organisations are exploring the option of outsourcing in multiple fields. Some of the fields in which the outsourcing is most widely used is indicated below.

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>55%</td>
</tr>
<tr>
<td>Administration</td>
<td>47%</td>
</tr>
<tr>
<td>Distribution and Logistics</td>
<td>22%</td>
</tr>
<tr>
<td>Finance</td>
<td>20%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>19%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>18%</td>
</tr>
<tr>
<td>Contact Centers/Call Centers</td>
<td>15%</td>
</tr>
<tr>
<td>Sales/Marketing</td>
<td>13%</td>
</tr>
<tr>
<td>Real Estate/Facilities</td>
<td>11%</td>
</tr>
<tr>
<td>Transportation</td>
<td>8%</td>
</tr>
</tbody>
</table>


Note: Numbers do not add up to 100% since respondents selected more than one answer

No delivery model is without its challenges, and outsourcing is no different. Some of the key challenges which organisations face while using outsourcing as an delivery option are mentioned below.

Firstly, organisations need to choose their outsourcing vendors after much due diligence. Finding a suitable service provider requires a thorough knowledge of the vendor landscape, including capabilities, delivery processes, quality of work, and ability to innovate.
Collecting and analyzing this information, especially regarding offshore vendors is a time-consuming and complex process.

Secondly, organisations need to provide for effective governance of the vendor relationship. Measuring the value of an outsourcing relationship- contracts and Service Level Agreements (SLAs)- require technical, legal and process expertise. Likewise, control over the outsourcing process may require local presence at the vendor’s location, as well as knowledge of the outsourcer’s culture.

Lastly, organisations executing the outsourcing contract may have to manage the employee transition from the customer to the outsourcing vendor (if required). Such employee issues may be sensitive to manage and in some cases may lead to unnecessary litigations.

- **Hybrid model**

In case of hybrid model, organisations may choose to deploy combinations of the above mentioned delivery models, such as shared services, self service and outsourcing, to bring about the necessary optimization.

Delivery models may be combined in following two ways:

- **Distributed Process:**
  
  Under distributed process arrangement, a particular business process may be delivered using a combination of different delivery model such as shared services, self service and outsourcing. The same is illustrated below:

<table>
<thead>
<tr>
<th>Hybrid Model</th>
<th>Illustration of the distribution process</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shared Services</strong></td>
<td><strong>START</strong></td>
</tr>
<tr>
<td><strong>Self Services</strong></td>
<td><strong>Activity-2</strong></td>
</tr>
<tr>
<td><strong>Internal Function</strong></td>
<td><strong>Activity-4</strong></td>
</tr>
<tr>
<td><strong>Outsourcing Partner</strong></td>
<td><strong>Activity-3</strong></td>
</tr>
</tbody>
</table>

*Source: KPMG in India Analysis*
Concentrated Process:
Under concentrated process arrangement, separate business processes may be delivered through independent delivery models such as the shared services, internal functions and outsourcing. The same is illustrated below:

<table>
<thead>
<tr>
<th>Hybrid Model</th>
<th>Illustration of the concentrated process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Function (Process-1)</td>
<td>![Diagram of Internal Function (Process-1)]</td>
</tr>
<tr>
<td>Shared Services (Process-2)</td>
<td>![Diagram of Shared Services (Process-2)]</td>
</tr>
<tr>
<td>Outsourcing Partner (Process-3)</td>
<td>![Diagram of Outsourcing Partner (Process-3)]</td>
</tr>
</tbody>
</table>

Managing change in creating an optimized organisation
Creating an optimized organisation may require much deviation from the normal ways of working within the organisation. Such deviations may impact the work profile of individuals, teams, functions and organisation at large. In the case of creating a shared services organisation or outsourcing select work activities, significant number of employees may get relocated or even separated. Managing such people issues may hold the key to success of creating an optimized organisation. Thus seamlessly transition the organisation from its existing state to the desired state of optimization should be one of the top priorities of the leadership.

Management of change in creating an optimized organisation may be addressed in following 3 phases.

- Analysis Phase:
Analysis is about assessing the risk and cultural readiness of the organisation for change while concurrently laying the foundation for a compelling vision and executable change strategy, as tailored to the unique context of the organisation. Following key areas may be addressed in the analysis phase.

  - Business Case and vision for change: Why do we need to change, what are the desired benefits, and how does it impact us?
- **Change Risk Analysis**: What organisational risks need to be identified and managed to improve readiness for change?

- **Change Strategy**: What is our overarching strategy to prepare the organisation for change?

  - **Engagement Phase**:  
    Engagement is about proactively addressing and mitigating change resistance. This phase is focused on engaging and mobilizing leaders and stakeholders through a structured change network and driving awareness, buy-in and ownership through a series of interventions. Following areas may be addressed in the engagement phase.

    - **Change Leadership**: How do we help ensure that we have galvanized leadership consensus for the change and how do we mobilize them to manage their stakeholders?

    - **Stakeholder Management**: How do we manage stakeholders through the change with a particular emphasis on proactively mitigating behavioral resistance?

    - **Involvement Strategies**: How do we get stakeholders groups involved in the ‘what’ and/or ‘how’ of the change to develop their buy-in and gain active involvement in making it a success?

  - **Delivery Phase**:  
    Delivery is about moving to the ‘implementation’ mode of the change journey by preparing affected stakeholders for the new people, process and technology impacts of the change. The change strategy in delivery is more pragmatic and focused on helping ensure the workforce is being equipped with the right tools to be positioned for success. Following areas may be addressed in the engagement phase.

    - **Organisational Integration**: Is the operating model and organisation structure aligned to the strategy and does it create an environment that positions the workforce to be successful?

    - **People Transition and Workforce Effectiveness**: Once we understand the impacts, how do we help position the workforce to successfully adopt the future state business model?

    - **Benefit Realization and Sustainable Performance**: How do we measure and monitor progress to help ensure sustainable benefits?

It is imperative to carry out the communication activity in all the three phases. Communication is a strategic change lever to proactively manage organisational and individual resistance and enable buy-in. Its purpose is not just to convey information, but to also support changes in behavior – persuading people to take action that will help the organisation achieve its objectives. Following are some of the key change benefits of effective communication.

- Enables consistent messaging across the organisation and time

- Engages stakeholders

- Optimizes awareness and ownership

- Mitigates change resistance

- Drives behavioral change by managing expectations of segmented audiences.

Thus organisations may need to create and execute detailed change plans so as to realize the benefits of optimization.
Conclusion

Thus with the organisations entering the new age of economic uncertainties, competing by capability maximization may become the new name of the game. The tough challenge here is to identify, synergize and leverage dispersed capabilities within the organisation; and the ability to do so may be the key source of competitive advantage in the current times. Also organisations may need to leverage the existing resources by ensuring maximum efficiency, effectiveness and utilization. The profit, in the current scenario, may come as much form cost as it may come from revenue. Consequently organisations are expected to have a comprehensive cost strategy along with a well crafted revenue strategy. In other words, now is the need to create an optimized organisation.

There may exist multiple avenues of optimization along the four dimensions of organisational framework—structure, workforce, processes and technology. Some of the key examples in this regard may be process re-design for efficiency, technology up-gradation, workforce planning, role clarification, goals cascading, skill alignment, cross functional/departmental communication, organisation de-layering and team based governance. However, it may also be observed that the real opportunity for optimization is locked in the way these dimensions interact with each other.

Organisations deploy combinations of different delivery models to realize the benefits of optimization. The delivery models define the nature of interactions among the structure, workforce, processes and technology. Some of the most commonly deployed delivery models are shared services model, outsourcing model, self service model or hybrid model.

Implementation of the above mentioned delivery models may be a daunting task from change management perspective. Employees, team and organisations may have to deviate from their usual ways of working to new and unchartered ways of working. In case of creating a shared services organisation or outsourcing select work activities, significant number of employees may get relocated or even separated. Managing such people issues may hold the success of creating an optimized organisation.
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