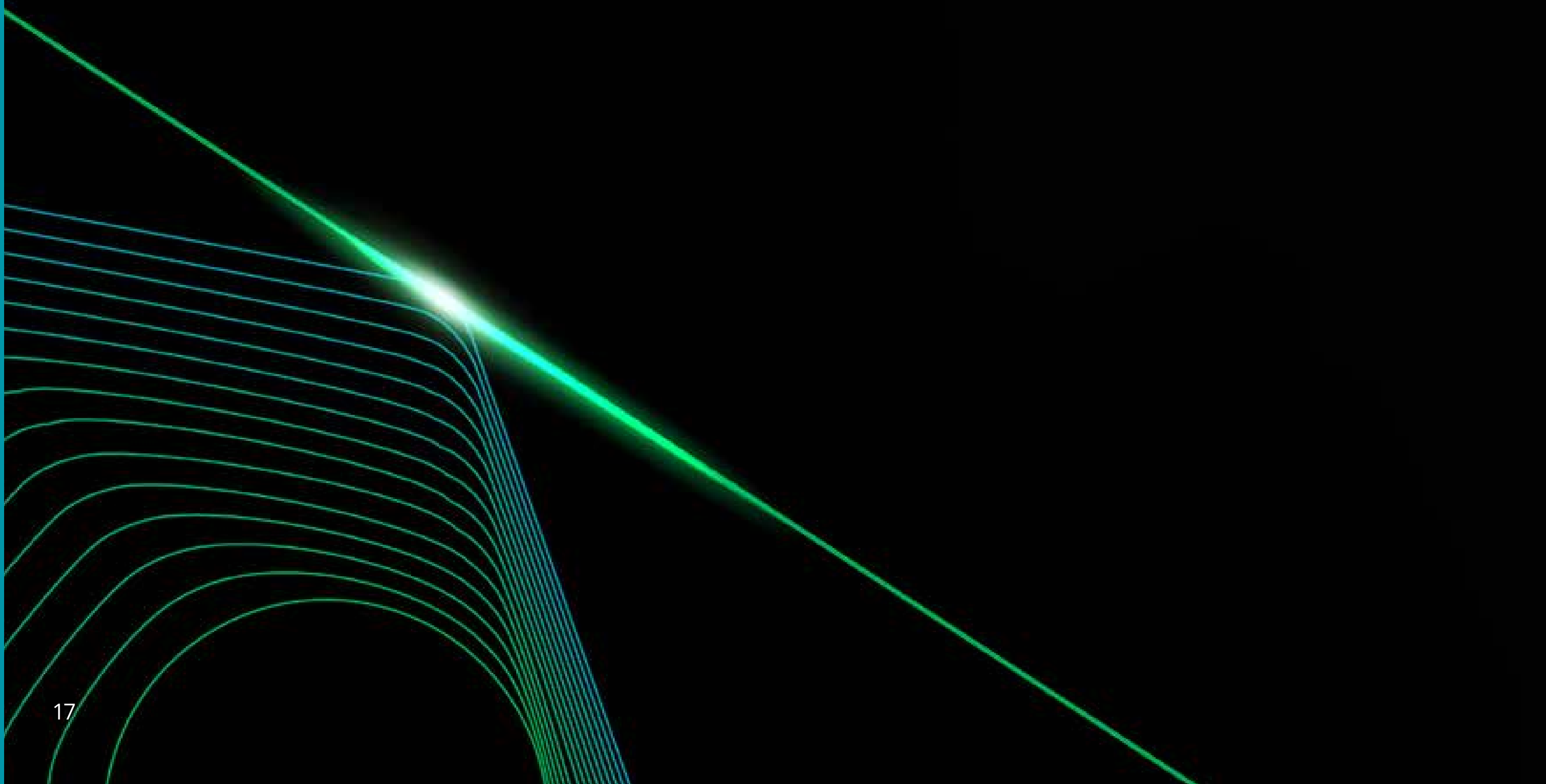
Debt to differentiation

Mitigating organisational debt: Key to unlocking new opportunities

In today's dynamic business environment, the concept of organisational debt is gaining traction from leaders across industries. It is important to understand where this debt exists within different functions, how it is defined and measured and the strategies to mitigate it to drive effective change. Additionally, recognising how this inherent debt can contribute to an organisation's growth and transformation is essential, as it aligns with the organisation's overall strategy. Exploring organisational debt is crucial for companies and leaders looking to navigate the complexities of modern business and unlock new opportunities for success.

The four quadrants of business processes: Identifying opportunities for improvement

As organisations navigate the complexities of modern business, understanding the interplay between operational debt and business value becomes increasingly crucial. A two-by-two framework that categorises various business processes based on their value and associated debt is an effective way to visualise this relationship. The framework highlights the challenges organisations face and guides them towards strategic initiatives that can enhance overall performance.



In the framework, the upper left quadrant—Question Mark—represents scenarios where high business value coincides with high debt. This is often the case with core business processes, typically tied to legacy systems. Organisations often struggle to unlock the full potential of these operations. The pressing question that arises is: How do we differentiate this debt and shift our focus to initiatives that can help alleviate the burden?

The top right quadrant, termed Stars, is often considered the “magic quadrant.” It signifies high business value alongside low debt, representing a condition where organisations have successfully implemented transformation and automation strategies. In this optimal state, the benefits of reduced debt and enhanced business value are clearly evident.

In the bottom left quadrant—referred to as Dogs—we find low business value paired with high debt. This quadrant encompasses manual and repetitive processes that, while essential, have not evolved sufficiently to drive significant growth. Here lies an opportunity for automation and transformation making the debt in this quadrant more manageable compared with the complexities faced in the Question Mark quadrant.

In the bottom right quadrant—known as Workhorses—we see low business value and low debt. This quadrant often flags the presence of redundancies within the organisation, highlighting areas ripe for enhancements and efficiency gains.

Turning debt into dividends: Insights from key functions

Across finance, technology, supply chain, and risk and compliance, key areas of improvement were identified. High-debt areas were found to be major obstacles to growth, while low-debt areas offered opportunities to improve efficiency. The focus was on prioritising the most critical issues in each function and finding ways to turn these challenges into opportunities. This strategy helps improve operations, boost revenue and increase value for shareholders, showing how addressing debts can drive growth and make businesses stand out.

"Data democratisation must go hand in hand with integrity, security and quality. The sheer scale of organisational debt embedded in data systems and legacy processes underscores the urgent need for a clear data strategy and retention policy—one that reduces redundancies and accelerates the transformation agenda."

**– Chandrashekhar Mantha,
Partner, Chief Growth Officer - Assurance,
Deloitte India**

Key outcomes and insights

Some key insights and takeaways from each of the four functions:

Finance

Key outcomes

The finance function relies heavily on a few individuals' tribal knowledge. To reduce these dependencies, knowledge transfer and process-driven approaches are needed. Centralisation and automation will enable skill development, job rotation and continuous upskilling to decrease attrition.

Teams currently operate in silos, creating reconciliation challenges. Data centralisation is essential, and outsourcing non-core activities while focusing on business collaboration can help alleviate this issue.

Established organisations possess many legacy applications that complicate agility. Application rationalisation is necessary for improved efficiency.

Performance needs to be predictable, requiring standardised data definitions and interpretations. Data democratisation is crucial, and technology should be the key enabler in this process.

Risk, controls and compliance

Key outcomes

Data integrity, security, quality and size are crucial for compliance. While compliance does not dictate what data to store, it influences storage methods and access rights. A strong data strategy and retention policy are essential.

Organisations should regularly evaluate their enterprise applications, minimise redundancies and use existing tools to effectively manage debt.

Reducing debt also involves formal documentation of legacy processes to clarify dependencies. Organisations need to consider where their data is stored and anticipate associated risks.

Awareness and upskilling are vital in the risk and compliance function. C-Suite executives should invest in developing a multi-skilled workforce to drive change through automation.

Organisations should shift from a reactive risk management approach to a proactive strategy.

Supply chain

Key outcomes

Organisations must benchmark all aspects of the supply chain, from sourcing to distribution, assessing cost versus value and possibly considering different industry standards. Monitoring business KPIs is essential.

Transitioning to Software-as-a-Service (SaaS) is crucial. While the full shift may be time-consuming, high-impact activities can be adopted sooner to minimise debt.

It is important to analyse the balance between “Business as Usual” and new feature development, even if the ratio is skewed. Continuous feature addition shows value generation and debt reduction.

Resource optimisation should be regularly evaluated to enhance core functions and processes.

Ongoing ROI measurement is vital for identifying opportunities to adjust strategies and reduce data redundancies.

Technology

Key outcomes

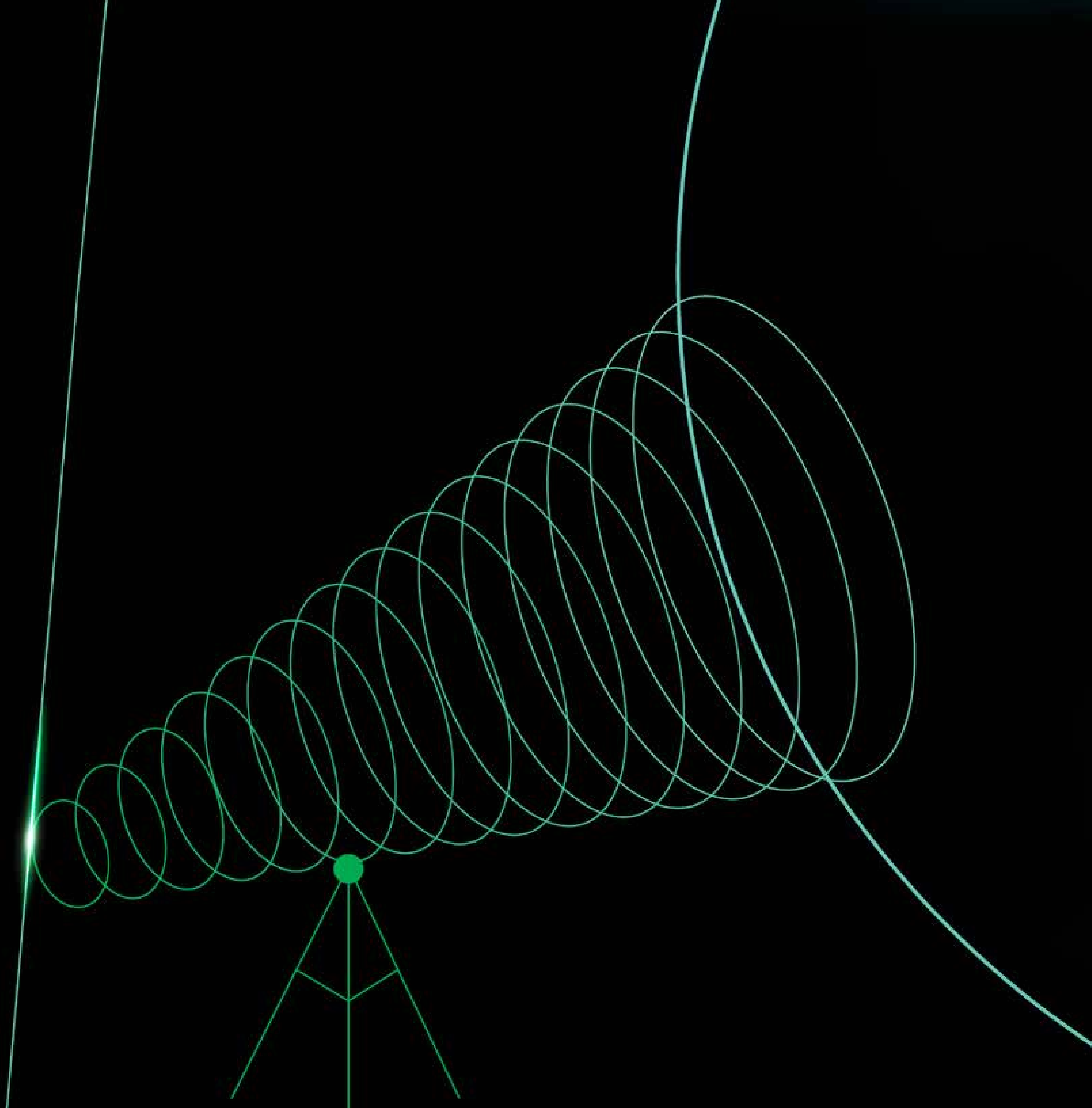
Organisations must eliminate outdated technology to avoid high maintenance costs that hinder business changes.

Customisations and process knowledge are often confined to a few individuals, leading to increased debt; automation is essential.

Properly optimising licences can significantly reduce costs and alleviate financial burdens.

Knowledge of legacy systems is concentrated among a small group, necessitating new systems and processes to manage technical debt.

Changes to systems often create integration challenges that add to overall debt.



The way forward

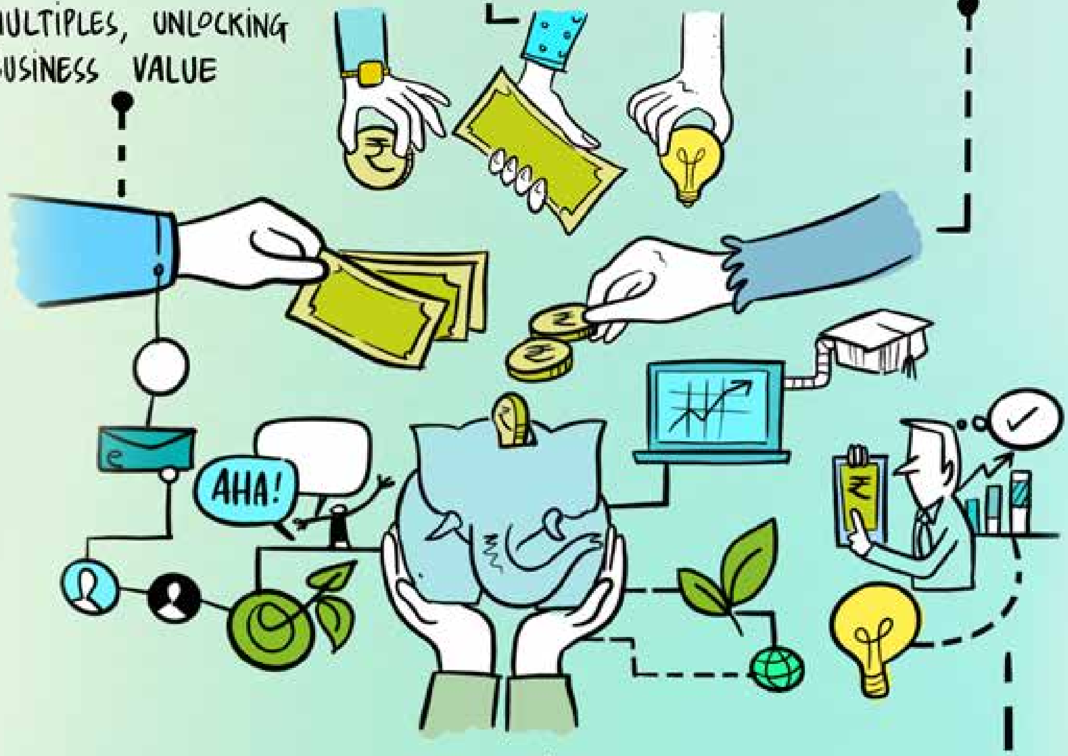
To address the debt associated with various functions, a series of measures are needed. These include documenting process knowledge related to legacy systems, rationalising and optimising licences, and implementing organisational change management. Additionally, efforts will be made to reduce the number of layers in enterprise architecture, invest in employee awareness and upskilling and preserve data integrity, quality, sanctity and security. There is also a focus on optimising infrastructure by eliminating redundancies, centralising and democratising data and enhancing enterprise applications by utilising existing resources while periodically assessing the organisation's needs. Lastly, it is crucial to continuously measure the return on investment to ensure ongoing improvement in core functions and processes.

DEVIL'S IN THE DEAL DETAIL

OPTIMISE CAPITAL STRUCTURE, RAISE FUNDS STRATEGICALLY AND CONSIDER INTEREST ARBITRAGE AND EXIT TAXES

SPLITTING CONGLOMERATES TO ATTRACT THE RIGHT INVESTORS AND MARKET MULTIPLES, UNLOCKING BUSINESS VALUE

BALANCE WEALTH CREATION, DISCOVERY AND DISTRIBUTION IN STRATEGIC DECISIONS



WEIGH OPTIONS BETWEEN INDIA AND OVERSEAS LISTINGS, FACTORING IN MARKET POTENTIAL, TAXES, INVESTOR PROFILE AND JURISDICTIONAL GROWTH

ASSESS IPO AND M&A PATHS CASE-BY-CASE BASED ON BUSINESS STAGE, PROMOTER GOALS AND MARKET CONDITIONS