



## Innovations in Outsourcing: The Cisco Experience



Case Study

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### CISCO ENCOUNTERS A COMMON PROBLEM AND FINDS UNIQUE, INNOVATIVE SOLUTION

Global companies are challenged to provide statutory and tax support for local entities and new markets. Traditionally, deploying such support from companies core ERP systems is time consuming and expensive. In addition implementing Accounting Support Services in multiple geographies with multiple local partners, each with their own methods and procedures does not meet the need for low cost, rapid and scalable business solutions.

Cisco battled that common challenge, and won.

Cisco reinvented its approach by shifting from a local country-based entity service model to a global process oriented, largely centralized, entity support model that realigned functions to drive consistency of processes and roles across the organization. Cisco's innovative outsourcing approach developed and implemented standard ways to support a wide diversity of local business, legal and tax requirements.

The local team or Partner Eco-system specializes in the statutory, tax and other compliance requirements within each country. All other finance operations (such as invoice processing, payables, collections, reconciliation, general ledger support) are supported by a regional language center or low cost global delivery center in India. Standardized governance and reporting packages efficiently connect the local statutory and tax process requirements with the global accounting support team This operating model enables Cisco to employ certified professionals as required locally but doing so through one common contract and set of processes, and in an accelerated timeframe.

This case study outlines Cisco's journey to best practice through innovation, communication, and trusted partnerships.

### COMPANY OVERVIEW

Innovation is part of Cisco's DNA.

It goes back to when a husband, Len Bosack, and his wife, Sandy Lerner, both worked in computer operations at Stanford University. Located in different buildings of the college campus, Bosack and Lerner were frustrated because technological limitations prohibited them from emailing one another during the workday. A technology had to be invented to deal with disparate local area protocols; and as a result of solving their challenge - the multi-protocol router (and, thus, Cisco) was born.

Since its founding in 1984, Cisco has shaped the future of the Internet by creating unprecedented value and opportunity for customers, employees, investors and ecosystem partners. It has become the worldwide leader in networking - transforming how people connect, communicate and collaborate.<sup>1</sup>

Cisco<sup>2</sup> went public on February 16, 1990, with a market capitalization of \$224 million. Today, Cisco employs more than 73,000 people in 460 Offices across 165 countries. The 2011 Annual Report reveals revenue reached \$43 Billion, an increase of 8% over 2010. Through quarterly dividends and aggressive stock repurchase program, Cisco returned \$7 Billion to shareholders. It is the only company with market share leadership across all segments of Storage (area networks), Web Conferencing, Routing (Edge/Core/Access), Digital Video (IPTV), Wireless (LAN), Networked Home, Switching (Modular/Fixed), Security, and Voice.

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<sup>1</sup> Excerpt from Cisco overview provided by Cisco Newsroom at <http://newsroom.cisco.com/overview>

<sup>2</sup> It lists on the Nasdaq stock exchange as CSCO. Its web address is [www.cisco.com](http://www.cisco.com)

Much of Cisco's success can be directly attributed to a handful of business practices. A 2009 feature article written by Charles Waltner lists Cisco's ability to reinvent itself at the top of the list. Waltner describes a philosophy of change, "Cisco's strategy has been driven by a prescient belief that Internet protocol, the language of the Internet, will be the great unifier for all computer and communications networks. 'Even as late as 2001, telecommunications executives laughed at John Chambers for saying phone calls would be free, but they don't laugh about that now,' says Zeus Kerravala, an analyst with the Yankee Group. 'A lot of people didn't believe Internet technology could carry all forms of communications. But Cisco did, and that has helped them stay ahead of the curve.'" <sup>3</sup>

Indeed. Cisco CEO and Chairman John Chambers articulates the power and importance of innovation, "Cisco's strategy is based on catching market transitions—the market transitions that affect our customers. With the proliferation of video and collaborative Web 2.0 technologies, the network continues to evolve from the plumbing of the Internet— providing connectivity—to the platform that will change the way we work, live, play and learn."

Knowing how reinvention is at the core of Cisco corporate culture, it comes as no surprise that, when Cisco identified the need to reform its financial and accounting services, the natural course was to seek out an entirely fresh and innovative approach.

### **SUCCESS OUTGROWS OLD PRACTICE**

Through an overlapping three-pronged strategy of Building Internally, Acquisition, and Partnerships, Cisco has consistently grown throughout its history, developing from a small networking player to a \$45 Billion Networking powerhouse spanning many markets and agencies.

Meeting the legal and cultural accounting and financial requirements of multiple countries is complicated. The differences range from nuanced to dramatic and require specialized experience and knowledge. For most of its history, Cisco dedicated Chief Accountants to personally oversee and manage local entity accounting, tax, and statutory requirements. Obviously, engagement in 165+ countries (and growing) meant disparate policies and procedures that led to overly cumbersome, inefficient operations.

Concurrently, Cisco business has become more complex as it expands into new products and technologies (e.g., home networking), customer segments (e.g., commercial, consumer), and geographies (e.g., emerging markets). Cisco is expected to continue its growth over the next few years, particularly in areas such as emerging markets. Future growth will likely come from both organic means and acquisitions, adding more business complexity over time.

The macro environment in which Cisco competes is fast moving, hard, and fickle. Companies who choose not or cannot respond to constantly changing trends and technologies find themselves losing market share quickly or, worse yet, becoming obsolete. Cisco needs to deal effectively with issues of globalization and market shifts, competitor agility and commoditization, and the increasing complexity of solution delivery.

Additionally, Cisco has increased its offerings portfolio to include provision of services as well as products. There is increasing need to expand physical presence around the globe to be in touch and accessible with customers. Increasing the speed of market entrance brings a highly prized competitive edge.

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<sup>3</sup> Cisco's Silver Anniversary: A history of Reinvention; Waltner, Charles, December 10, 2009; [http://newsroom.cisco.com/dlls/2009/ts\\_121009.html](http://newsroom.cisco.com/dlls/2009/ts_121009.html)

As leadership contemplated future challenges, it became obvious that accounting is a foundational solution that supports multiple platforms. Mike Ward, Director Global Shared Services, plainly asserts, “If we don’t get Finance and Accounting in place, we will not enable the business to accelerate into new market opportunities.”

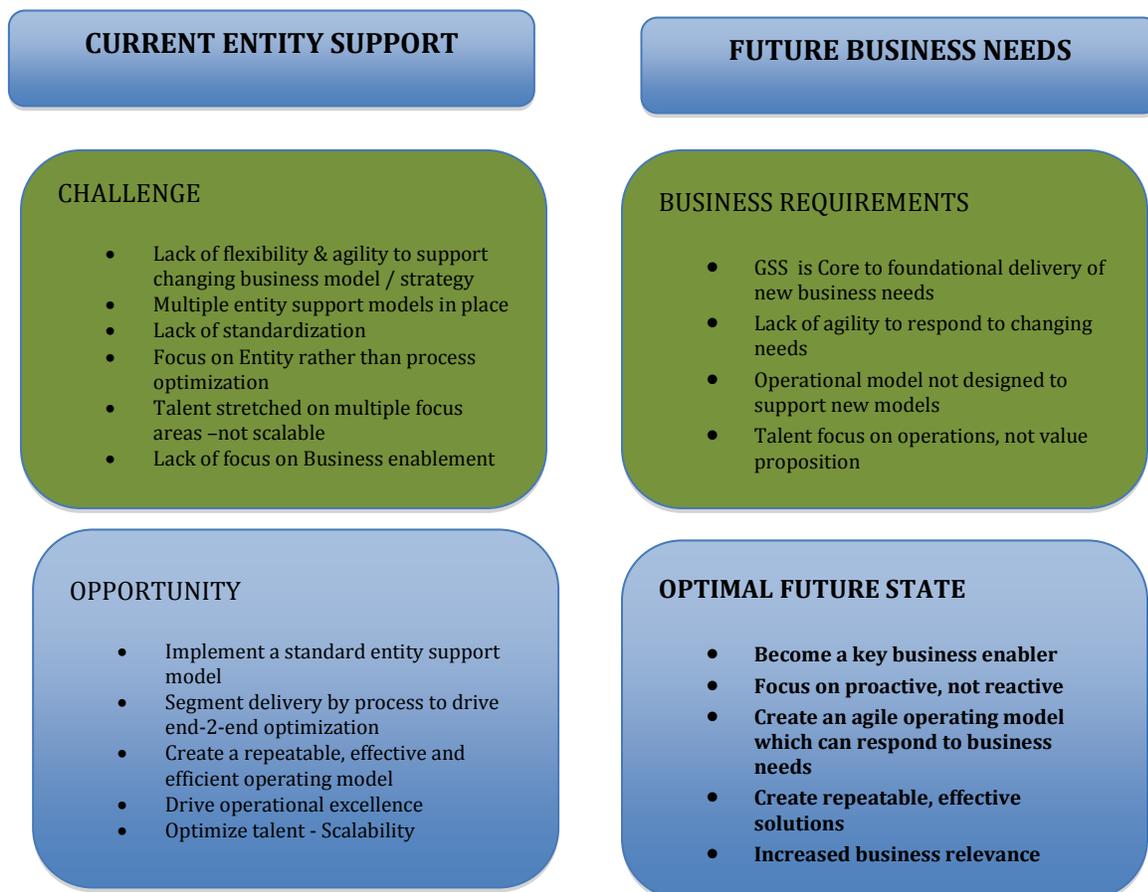
Cisco’s continuous improvement process identified that, in order to support the company’s strategic objectives and projected growth, it was essential that Cisco’s centralized Finance and Accounting Shared Services Organization (FASSO) become effective and efficient, highly scalable, and flexible to accommodate future growth and increasing business complexity.

Reducing support services cost was critical to respond to the competitive nature of the industry. Just as importantly, an improved system would provide capacity for growth and agility within the marketplace.

### IDENTIFYING THE CHALLENGES AND OPPORTUNITIES

There is dual consideration for areas of change – to invent a model that effectively meets current entity support needs and to do in a manner that readily evolves to meet future business needs. Intense scrutiny and collaboration identified the challenges and the opportunities.

Figure 1: CHANGE: TWO AREAS OF FOCUS



### **CISCO CREATES THE INNOVATIVE ENTITY SUPPORT MODEL**

In early 2010, CISCO embarked on an effort to strategically drive cost efficiency and operational excellence. The core component of this initiative is the innovative Entity Support Model (ESM). The new model shifts Cisco's approach to support of local entity accounting, tax and statutory requirements from a country based, local entity service model to a process oriented, integrated global entity support model. The model consists of a partnership between two teams - the Accounting Services team that focuses on local business support, governance and compliance activities and the Global Operations team that is responsible for operational delivery.

The Entity Support Model moves toward centralized accounting processes, providing best-in-class front line business engagement and optimized operational delivery. Importantly, Cisco's Entity Support Model enables Cisco to enter new markets faster, less expensively and with lower business risk.

The Entity Support Model resides within the FASSO component of Cisco's Global Shared Services (GSS). GSS is approximately a \$104 million organization within Cisco Finance. Employees within GSS are spread across 25 locations and more than 214 legal entities. FASSO accounts for 69% of GSS. Savings resulting from developing this model approximate \$5 Million Per Annum ongoing, with growing benefits in productivity, global standardization and scalability.

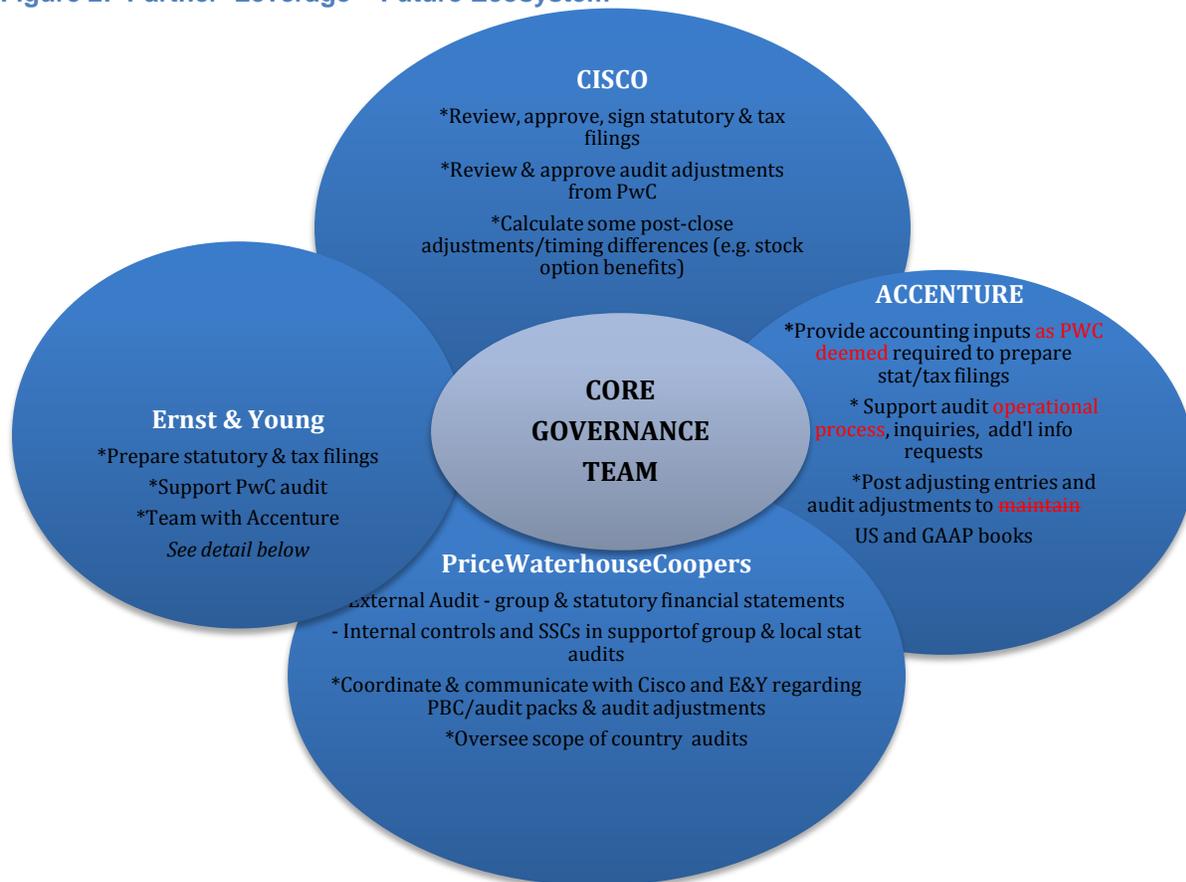
### **GLOBAL PARTNERS BRING VALUE AND INNOVATION**

To create the new ESM model, Cisco searched for the right mix of vendors through a rigorous RFP process. The result is a collaborative arrangement with three primary global partners. The Ernst & Young firm provides local statutory and tax advisory services. Accenture provides global back office support services. The firm of PriceWaterhouseCoopers has the responsibility of conducting external audits, thus assuring compliance and integrity.

Mike Ward provides Cisco's objectives for Outsource partners. "We knew we needed partners who could advance the ESM project from concept to reality. Our expectation was to find vendors who could bring the best practice – the best knowledge – to bear. We did not want to invest huge amounts; we wanted vendors who offered their own investments as well. Our question was always 'How do we make sure we work seamlessly with our vendors?'"

Cisco leadership explained the ESM model rationale and roll out using a PPT deck entitled "Accounting Transformation – Entity Support Model – Making the Vision a reality. Cultivating strategic relationships, the goal was to leverage the best practices and ideas of key strategic partners. Division of responsibilities are depicted in the following graphic:

Figure 2: Partner Leverage – Future Ecosystem



Everything that is not required to be handled locally is done through the global service center where Accenture provides a first-level analysis of local information and insight based on its knowledge of Cisco, the process, and leading practices. As BPO provider, Accenture puts together a comprehensive package of essential information, and then passes the data directly to Ernst & Young to proceed with local filings and legal requirements.

Getting the vendors to work together is what Mike Ward calls “the sweet spot.” Ward explains, “Our chief accountants (CA) and controllers used to sit in the middle of the activity, receiving reports and information, reviewing same, and then handing it off to the next person. When Accenture and Ernst & Young work directly with one another, it frees up our people to concentrate on company priorities. As CAs no longer have to manage the details, they can also accept broader assignments and, overall, fewer resources are required.” Ken Hollender, Director BPO Services, sees many advantages as well. “Think of the kid’s game of whispers. Working directly with Ernst & Young is a ton more efficient. Information passed through multiple people and levels tends to be complicated – not always accurate – certainly, not efficient. It isn’t a model that leads to continuous improvement. We are pleased to bring value to Cisco in this way.”

Cisco’s role is now primarily one of governance. Operations are managed through multi levels of communication, transparency, and accountability. The first level builds around tools<sup>4</sup> and technology that

<sup>4</sup> Primary tools include Accenture’s APC, Ernst & Young Tracking Tools, and Cisco’s internal controls

drives visibility to enable planning. Next, people are in place that manage relationships. They work from centralized locations of each partner and communicate daily regarding their respective assigned areas. The contract itself, of course, is critical in providing WLAs, measures, objectives, and a solid base of understanding. And, finally, there is a centralized governance team to handle escalations, disputes, and future planning.

The Accenture/Cisco relationship is described by Hollender as a “very hybrid transaction and FTP model that is evolving into a results based agreement with the heavy intent to always drive improvement through the entire process.” Although it is not an easy task to drive continuous improvement through capabilities and mobilization **and** work on customer satisfaction, Hollender believes Accenture has successfully merged those points into alignment to drive improvement across the relationship and to the benefit of Cisco.

Governance efforts are led Cisco Global Process Controllers pairing up with country and regionally focused Entity Controllers. The Cisco Process Controller manages and drives efficient, standardized global process accounting activities while the Cisco Entity Controller, supported by Chief Accountant Managers and Chief Accountants is responsible for delivery across entities, ensuring that tax and statutory requirements are met.

Cisco is able to have a global contract and global common procedures (even with disparate operations at the local level) and drive commonality as deep as it can to improve efficiency and control and to reduce the risk of being found non-compliant in a local geography. This approach enables Cisco to create a repeatable, effective and efficient operating model that can scale to support its business growth throughout the world, regardless of size, tax and statutory laws.

### ONE SIZE DOES NOT FIT ALL

ESM is bold, transformational, and forward-looking. It takes into account Cisco’s business direction and its holistic, end-to-end view provides the agility to meet changing business needs.

What ESM is not.....is easily accomplished. After all, Cisco needed to consolidate the statutory and legal requirements of hundreds of country into some kind of standardized, easy-to-access, efficient system. Was it even possible?

To assist the process to standardize, simplify and organize entity support models, Cisco identified five key solution drivers – statutory complexity, tax complexity, local presence, systems enablement, and finally, scale and diversity. It was impossible to design a single system to meet the intricate needs of the global footprint.

However, Cisco was able to align the synergies and define four future state operating models:

- **Tier One – Globalized** – An optimized global support model, leveraging Shared Service Centre (SSC) capabilities
- **Tier Two – Regional** – A regional support model leveraging SSC capabilities
- **Tier Three – Outsource** – An outsource vendor model to support entity end-2-end
- **Tier Four – Complex** – An exception model due to local complexity that requires ad hoc solutions.

The mix is designed to be ever changing and adaptable, with countries moving from Tier to Tier naturally as programs and local conditions evolve. With help from their vendors, Cisco invented a portfolio of standardized options to provide services, and ESM was launched.

Figure 3: Solution Mix, Before and After ESM

|      | TIER ONE | TIER TWO | TIER THREE | TIER FOUR |
|------|----------|----------|------------|-----------|
| FY10 | 0%       | 33%      | 41%        | 26%       |
| ESM  | 45%      | 9%       | 40%        | 6%        |

The numbers tell the story. From a cost perspective, the ESM initiative has created significant savings for FASSO (the net run rate savings for the ESM initiative is approximately \$5M on an on-going basis). Cisco anticipates additional savings realization as more processes are brought in to into the model, and implementation is finished.

**EMS – NOBODY SAID IT WAS GOING TO BE EASY**

With the diversity of statutory requirements around the world, teams can easily get bogged down trying to understand each country’s requirements. Cisco’s approach was to redesign a traditionally local and customized process into standardized processes that use a common set of information to and from the local entity. This allows the local experts to do their job efficiently and effectively to support local needs but offers uniformity at the global level.

Accenture is a trusted partner that provides leading analytical and industry experience as well as insight and innovation into Cisco’s business, resulting in tangible business outcomes. The team undertakes analytics on transactions, understands the insights and then identifies opportunities to improve and add value and business outcomes. Rather than having a custom-developed approach for each country, there is a broad definition of requirements that includes the possible things a new entity may want.

Initially Accenture defined, based on knowledge of Cisco and past experience, a common set of reports and requirements that can be quickly deployed to a local entity. This standard report package is delivered through standard channels to give the local compliance team quick access to information they may need. In a similar way, based on Cisco’s financial policies, Accenture helped Cisco define what information it needs for corporate accounting administrative activities and reporting and each local country provides that required information.

While the actual information needs vary country to country, Ernst & Young’s team is familiar with the now standard protocol and, when engaging its resources in a new local market, can quickly pull the information needed from the comprehensive package.

Cisco approached the transition in two phases. The first phase was a Virtual transition, that is roles and responsibilities changed, but people stayed in their original spaces. Cisco orchestrated a three-month synchronized Virtual launch across the global regions. During this phase, the reorganization assigned people to begin performing in their new role from their current locations. Entity-focused teams were replaced by a combination of Chief Accountants responsible for entity-specific accounting and Process Leads responsible for process accounting. A direct consequence of reengineering the organization was the need to have detailed knowledge transfer sessions between employees to ensure a smooth and seamless transition.

A detailed knowledge transfer plan was developed which took into account each employee and skill-set. A skill-gap analysis was conducted to identify the key areas in which the employee would need to be trained to ensure a seamless transition to his/her new role.

Mike Ward and his team quickly learned the virtual model had limitations. It was easy for people to “slip back” into their comfort zones and return to old habits and behaviors. What’s more, a lot of skills and

specialized knowledge were hidden within the depths of the corporation.

The second phase of ESM deployment was accelerated to move from the Virtual phase to a centralized Physical relocation of resources. Bangalore was selected as the main ESM center, with RTP and Krakow serving as spokes to support language and near-shore requirements. The ESM objective is to centralize as much as possible, putting complex functions together, and optimizing in a few centers. An unexpected advantage of completing the Physical Phase is the addition of new employees, who eagerly accept the corporate objectives and bring new energy to the workforce.

### KEYS TO SUCCESS

At one point, the transition team identified that, to accomplish the re-invention, 80% to 85% of the retained employees would significantly change roles and responsibilities. While this degree of workplace change caused some anxiety, it was greatly offset by a number of factors. As part of the plan, Cisco conducted a stakeholder analysis to determine all the people who needed to communicate at different points of time. The team also focused significant attention on identifying potential risk areas and developing an effective risk mitigation plan. The plan assessed a number of areas ranging from clarity of vision, capacity to deliver and early momentum to identifying and gauging the execution potential of the ESM core team, to the organization's ability to sustain the change.

Cisco's corporate culture is also important. Cisco employees are encouraged to reach their own potential and jobs frequently shift within the organization. Rob Fulnecky, Director Accounting Operational Excellence, quipped, "It may be true the Cisco culture simply has a low tolerance for boredom. But, it is more likely that accepting change is a natural consequence of never resting on our laurels – constant reinvention conditions us to be open to transformation."

Another aspect of Cisco culture is a commitment to disclosure and open communication. Employees were kept current about events and possible impacts on their individual concerns. All hands meetings and one-to-one interactions were held. Executives tirelessly communicated with stakeholders to assuage fear. The open communication strategy proved successful. Offers of retention bonuses and incentives were unnecessary as Cisco moved forward.

And, finally, the ESM project enjoyed total support from top executives. The idea to streamline and standardize had actually been suggested years before 2010, but, without buy-in from the executive level, did not prevail.

### RESULTS TO ADMIRE, AND REASONS TO REPLICATE

Some reasons are clearly evident as we reiterate a \$5 Million+ ongoing savings. ESM, by its standardized, streamlined approach, cuts costs. Mike Ward provides a good example, "Cisco had used Ernst & Young prior to EMS. Our analysis shows, with ESM, Cisco is actually investing less money with Ernst & Young even though they are providing more services for us." Ernst & Young remains satisfied with partnership with Cisco because they can develop a broader global alliance moving forward, supporting broader business enablement and expansion.

Yet, there are many more benefits than reduced back office expense.

Cisco has solved a problem that is common to all global companies: How to maintain compliance and efficiently support local requirements while optimizing operations, maintaining the integrity of business policies and systems, and supporting business growth.

Cisco is able to have a global contract and global common procedures (even with disparate operations at

the local level) and drive commonality as deep as it can to improve efficiency and control and to reduce the risk of being found non-compliant in a local geography. ESM enables Cisco to create a repeatable, effective and efficient operating model that can scale to support business growth throughout the world, regardless of size, tax and statutory laws.

This BPO arrangement is not a labor arbitrage story; this is about risk and value. It is far more than just taking headcount out of an organization and dropping it into a shared service center. This innovative solution reduces both talent and compliance risk and offers a platform to build out true end-to-end responsibility related to tax and reporting issues.

The ESM expands the accessible labor pool available to GSS. Furthermore, other big advantages of the new operating model are effective resource utilization and mitigation of attrition risk. This is possible because all employees are equipped with the same skill set, across processes and entities. Additionally, previously redundant roles were removed, thereby enabling better resource utilization. The new operating model is much simpler (when compared to the previous model) making it easier and more flexible to scale as required by the business. Perhaps most importantly, this innovative global/local solution for tax and statutory support gives Cisco the flexibility to support its rapidly expanding operations and achieve its growth objectives.

All this being said, the real take away message was best articulated by Julie Karasek, Project Management Lead, who helped drive the human tsunami of Cisco's innovative change, "ESM demonstrates that large change is possible. It is always scary, but, when we approach it right, it can happen...and it's really important."

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