Break out from the G&A cost treadmill

How support functions can delight their customers, not just cut costs.

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Support functions seem to be working harder just to stay in place. Despite all their cost-cutting since the financial crisis, they're finding it awfully tough to please the business heads who are their most important customers.

Most companies have managed to contain their general and administrative (G&A) costs in recent years through a relentless focus on functions such as information technology (IT), finance, human resources (HR), legal and facilities. Over the past two years, US companies cut, on average, 18% of their G&A costs, according to a recent Bain & Company survey of support function heads and operating executives in roughly 770 companies.

Yet those measures aren't translating into higher satisfaction among the business leaders. Some 60% of business executives in our survey still believe their organizations' support functions are ineffective, cost too much or both.

We sometimes hear from support function heads that continual cost-cutting sacrifices service quality and leads to lower satisfaction among business leaders. However, the data shows otherwise; in fact, efficiency and effectiveness often go hand in hand. In the finance function, for example, we analyzed data, provided by SAP, from 4,000 companies worldwide. The top performers in service quality had consistently superior efficiency metrics, whether they were based on revenue or head count.

So is the problem a failure by support function executives to communicate the benefits of all their hard work? Or are there more systemic issues at play? Our research and work with support functions suggest that it's the latter.

Not just cheaper, but smarter

Support functions have long had the mandate to work smarter with the same, or fewer, resources. Now their challenge is to adapt to changing business expectations by tackling the root causes of inefficiency and ineffectiveness.

Several trends of late have recast what business customers expect from their support functions. For one thing, centers of economic activity continue to shift from the developed to the developing world. As part of that shift, a more global, mobile workforce is changing the way that employees and suppliers collaborate. More complex regulation has increased workloads and put a premium on new types of expertise. And new digital technologies, workflow automation and analytics are improving the efficiency of work processes but also placing new demands on support functions.

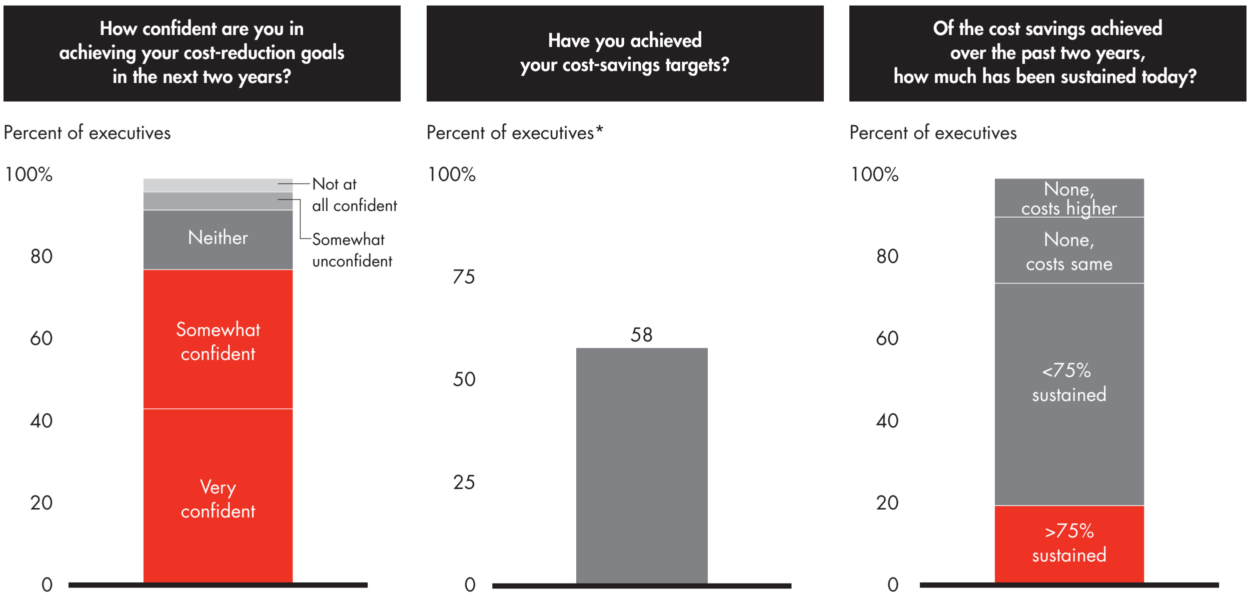
Business heads want support functions to evolve from being operating resources and cost centers to full-fledged partners in executing strategies. To make that transition, high-performing companies focus on efficiency *and* effectiveness.

Business leaders contending with these issues want their support functions to evolve from being operating resources and cost centers to full-fledged partners in executing strategies—and at times even revenue generators or profit centers. For example, talent acquisition and development ranked No. 1 on CEOs' agendas in a 2011 PricewaterhouseCoopers study of roughly 1,200 CEOs worldwide. But a Bain survey of 971 companies shows that fewer than one-third of CEOs are satisfied with their organizations' progress in this area. CEOs expect their HR departments to lead the charge by moving beyond a focus on compliance and delivering employee services to developing and executing talent strategy.

At the same time, companies have perhaps grown overconfident on the cost front. In Bain's survey, while 78% of executives were confident in their ability to achieve their G&A cost-savings goals, only 58% successfully delivered on their targets and only 19% sustained their savings after two years *(see Figure 1)*.

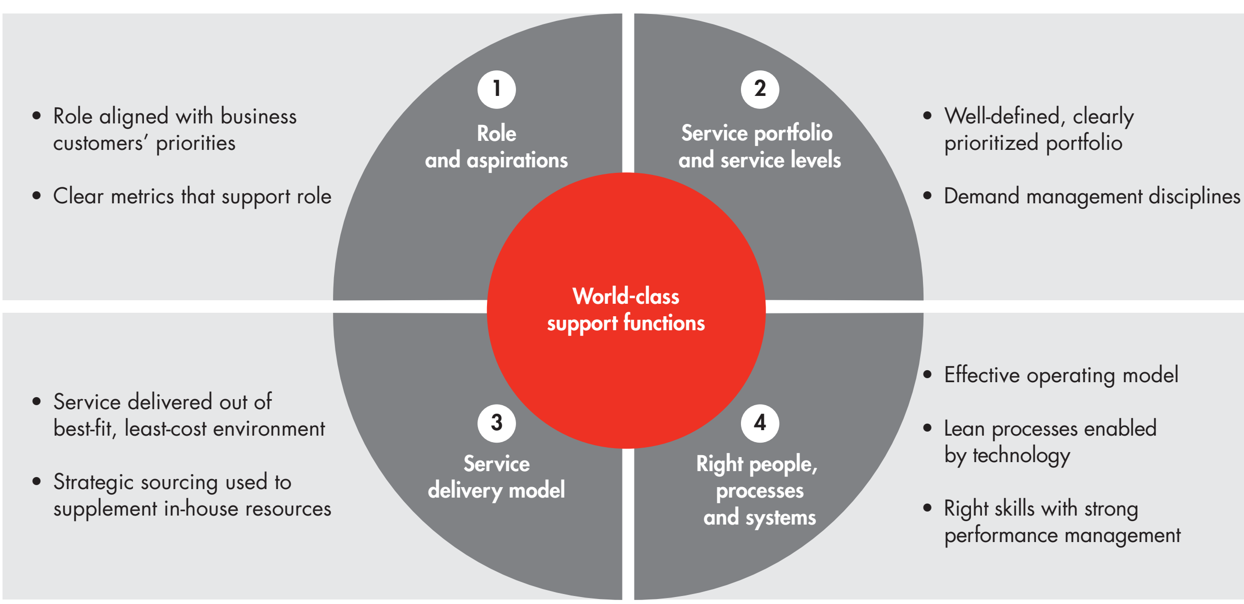
To create lasting improvements in efficiency and effectiveness, high-performing companies focus on getting four things right *(see Figure 2)*:

Figure 1: Support function managers may be overconfident about cost savings



*Success rates do not vary significantly by target size
Sources: 2012 Bain & Company US G&A survey, n = 767; 2011 Bain & Company/EIU SCT survey, n = 276

Figure 2: To improve effectiveness and efficiency of support functions, high-performing companies get four things right



Source: Bain & Company

- The appropriate *role* for support functions, so that each one can determine how to anticipate and adapt to evolving trends in external market conditions, business strategy and culture

- The *service portfolio* and *service levels*, determining which activities should be best in class and which can be simply good enough to meet business needs and manage demand

- The *service delivery model*, fundamentally changing how work is done in order to simplify and eliminate low-value activities

- The *right people* in the *right jobs* with the *right priorities, processes, systems* and *incentives*, in order to ensure that changes stick and costs don't creep back in

Companies that have addressed these elements are forging stronger relationships within the business and seeing excellent results in both efficiency and effectiveness.

New roles for new aspirations

As business leaders expect support functions to contribute more to the success of their enterprises, the functions are under pressure to emphasize higher-value activities *(see Figure 3)*. A few examples:

- The IT department traditionally focused on raising productivity and managing costs. Today, IT is being asked to enable new business models and help bring new products to market quickly.

- Finance no longer simply compiles reports on past performance; it now plays a prominent role in helping business leaders make better business decisions.

- Legal has diversified beyond traditional lawyering to play a leading role in compliance and risk management.

- HR is increasingly measured on its ability to develop high-potential employees, retain stars and fill skills gaps.

Figure 3: Support functions are evolving to raise their value to the business

	Traditional		Today
Information technology	Back office; reducing costs and improving productivity	→	Back and front office; enabling revenue growth and innovation while reducing costs
Finance	Backward looking, internally focused, transactional	→	Forward looking, externally focused, greater emphasis on decision support
Human resources	Compliance, delivering services such as benefits efficiently	→	Supporting leadership in winning the war for talent and developing the next generation of leaders
Legal	Traditional lawyer services, gatekeeper for outside counsel, win at all costs	→	Supporting growth, actively managing risk
Real estate and facilities management	Ensuring space is available and facilities are operating properly and safely	→	Enhancing competitiveness by creating environments that are personalized, efficient and profitable

Source: Bain & Company

- Real estate is often the largest long-term asset on the balance sheet. Companies want to manage their real estate portfolios more as a financial investment than as a cost of doing business.

One sign of change is how support function leaders now spend their time. A 2011 Cornell University survey of chief HR officers suggests that they spend 70% of their time, on average, with business leaders, outside of managing the HR function. And a 2012 survey of chief legal officers by Altman Weil finds that they spend, on average, 58% of their time with business leaders.

Dialogues with internal customers signal a good start for functional heads becoming more influential in senior-level decisions. These dialogues also give functions an opportunity to raise their effectiveness by adapting their roles to better address new business demands.

New demands often stem from external market conditions. When profit pools within an industry shift, businesses often need support functions to take on new roles. Consider how the rise of intangible assets over the past two decades has pushed intellectual property protection to the forefront, with the legal department leading the charge. This is occurring not just in high-tech industries like smartphones, but also in apparel, where Lululemon and Calvin Klein recently battled over design patents for yoga pants.

Responding to such shifts in market conditions, companies may change their business strategies, targeting new customer segments, products, geographies or channels. This, too, may lead to new roles for support functions. For example, in the technology sector, some companies focus on innovation and require strong HR capabilities to recruit and retain highly skilled technical talent. Other companies may focus on low cost, requiring an HR organization adept at recruiting less-skilled labor, often offshore.

Even when companies operate under similar market conditions and have similar strategies, they may have different cultures that influence the roles for support functions. Take the healthcare sector. While many companies in the sector are centralized and organized around functions, Johnson & Johnson is highly decentralized and organized around more than 200 operating companies. In decentralized cultures, support functions customize policies and processes to the needs of countries or business units, and they often report to the operating company heads rather than to functional leaders at corporate headquarters.

Tuning the service portfolio and service levels to manage demand

In many companies, the workload of support functions is reaching unsustainable levels. A 2012 outsourcing services survey by Gartner suggests, for example, that 20% of IT functions in US enterprises manage more than 5,000 distinct applications in their organizations worldwide, and the number of applications exceeds 100,000 for financial services companies.

Demand management—the idea that the business reduces its demand for support services to better match supply—can sometimes be perceived by business leaders as an excuse. Savvy support function heads thus have steered the dialogue with their customers to a different framing of the solution: a joint determination of which activities should be best in class and which should simply be good enough *(see Figure 4)*. Where the initial assumption tends to favor best in class, business expectations actually might not be that high, or may have changed.

In some instances, a shift in market conditions means that support functions will have to change their priorities in spending and in the capabilities they emphasize. The home improvement retail industry illustrates this point. Whereas past growth focused on new store openings, future growth is expected to come from growing same-store sales through a superior, personalized in-store customer experience and e-commerce. For IT departments, this means a shift to new capabilities, such as world-class analytics around inventory management and merchandise assortment, website commerce and omnichannel design, where each channel blends seamlessly with the others. Lowe's, for example, has been successfully overhauling its IT project portfolio, shifting its investments and bridging skills gaps since 2010.

Figure 4: Time for trade-offs

IT function example

	Good enough	Best in class
Market agility	Adapt to new situations and decisions of the business	Increase business's ability to seize new opportunities
Business management	Provide meaningful data to aid decision making	Support real-time decision making
Quality	Adequate IT products for the business and customers	Products delight business and customers, raise productivity
Customer focus	Reliable at all customer touchpoints	Customers actively recognized and targeted
Innovation	Stay up-to-date on emerging technologies	Embrace new technologies to enhance business
Cost position	Competitive cost	Lowest cost
Speed to market	New products and services get to market in timely manner	New products and services get to market very quickly

Source: Bain & Company

In other instances, it is no longer affordable or necessary to be best in class. Support functions have a big stake in choosing their spots—always in collaboration with the business.

When Kraft Foods undertook a review of its marketing department, it found that spending on consumer and shopper insights sometimes exceeded what the businesses required. The company had built a premium, innovative consumer insights group that was centrally run, but a fresh look showed that all businesses didn't need the same level of customized research. In many cases, lower-cost standard or syndicated research would have sufficed. So Kraft developed a lean center model that renegotiated contracts with external vendors and tailored research spending to the specific requirements of a business or product category. That effort reduced marketing's costs by nearly 20% while aligning the function more closely with the priorities of each business unit.

With the trade-offs explicit, support functions should put in place the mechanisms to create transparency and accountability for service usage and costs. Metrics, balanced scorecards, service-level agreements and chargebacks can be helpful. They serve to reinforce the alignment between support function and business on which areas should be best in class and which can be good enough.

A clean-sheet reassessment of the service delivery model

Many support function improvement programs highlight actions that can be taken quickly, with minimal investment. These programs typically achieve only about one-third of the full savings potential, and costs often creep back in within two quarters.

After years of cost reduction, there are few easy pickings left. Achieving and sustaining a high level of improvement entails a fundamental change in the service delivery model—that is, how people work together to provide the highest-value support to the business.

One starts by looking within the four walls of each support function. High-performing companies move beyond streamlining their business processes to reexamining how functions perform each of their activities. This approach, called zero-based budgeting, examines which activities are truly necessary and how they should be performed, and which could be eliminated. The greater a company's aspirations, the deeper the structural changes required (see Figure 5).

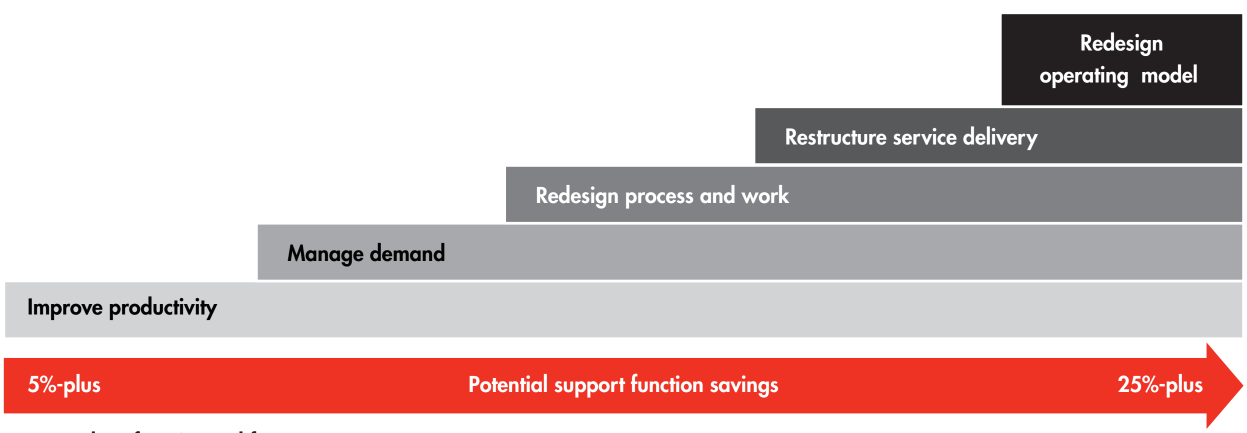
One retail bank in the Asia-Pacific region used this approach to capture a cost reduction of more than 20% for targeted head-office activities over one year. The savings came from eliminating low-value support activities, better managing nonlabor-related expenses for part-time employees and making select process improvements. For instance, the bank removed duplication of project, training, planning and analytic staff between central support functions and line divisions. And paper-based communications to customers and among employees migrated to digital channels.

The bank was then able to invest more where support functions needed enhanced capabilities, including management reporting and customer migration to digital channels, such as smart ATMs, while maintaining its cost-to-income ratio.

Optimizing within each support function is rarely enough. Some of the biggest gains can come from looking across support functions and tackling the forces beyond the control of any single function. The forces that create complexity and inflate cost for support functions include regulatory regimes and the structure of a company's business portfolio, organization, processes and systems.

For example, most companies have matrixed reporting lines by customer segment, product, geography, channel or function. If a company is organized around product, geography and function, each support function likely assists business leaders in each product, geographic and functional group. As the number of cells in the matrix multiplies, cost and complexity may grow

Figure 5: The greater a company's improvement aspirations, the deeper the structural changes required



Examples of tactics and focus areas

- Reduction of low performers
- Contractor optimization
- Procurement

- Policies
- Specifications
- Service levels
- Consumption-based chargebacks

- Lean Six Sigma
- Standardization
- Automation

- Talent mix of senior vs. junior and generalist vs. specialist
- Shared services
- Outsourcing
- Offshoring

- Role of center
- Decision effectiveness
- Incentives

Source: Bain & Company

because support functions feel obligated to populate every cell in order to respond to each business's needs.

Untangling cross-functional complexity can be a tough task, often requiring support functions to collaborate with their business customers. But the effort is worthwhile, because it generally yields the greatest return in efficiency and effectiveness. At times, complexity can be sharply reduced by rationalizing the number of business applications supported by IT or management reports created when finance closes the books. In other cases, complexity can just be better managed, for instance, by simplifying a company's chart of accounts for finance or limiting the number of HR employees involved in recruiting.

The experience of Kraft Foods shows how different interests within an organization can be reconciled so that the entire enterprise benefits from lower costs and simpler processes. By 2010, Kraft had gone through several rounds of cost-cutting, but none of them had fully dealt with the causes of cost and complexity ingrained in the operating model and those processes that involved multiple functions. In fact, for the typical business unit, which had responsibility for profits, less than one-third of overhead costs were directly in its control.

In 2011, Kraft decided to take a bolder approach, targeting a much larger reduction in costs by simplifying the support service portfolio and attacking the root causes of complexity. This entailed a highly collaborative, cross-functional effort that examined costs over the entire cycle of a process, regardless of which budget line item they appeared in. Kraft then decided to pursue initiatives spanning the support functions, which would generate both major cost savings and simpler, more effective processes.

With costs revealed, senior management reached a consensus: They established the rule that if a division or business unit bore more than 70% of the cost of a shared service, that unit had complete authority over the cost and nature of that service. This simple ground rule changed the game, creating a greater sense of accountability and a customer-supplier mentality. Kraft not only achieved cost savings worth three times that of the previous program, but it also defined a service delivery model that's much better tuned to the priorities of each business.

Make the changes stick with the right people, processes and systems

Proposed changes and a new organization chart may look great on paper, but the plan will fail to deliver the expected results unless a company has the right people, processes and systems in place to put the changes into operation and make them stick. This may take more time and cause more disruption than managers anticipate.

Chief HR officers executing CEOs' agendas, for instance, worry most about the caliber of their staff. In the 2011 Cornell University survey mentioned earlier, 58% of chief HR officers in the US and 97% of those in Europe cited their teams' competencies as the primary obstacle to achieving CEOs' agendas—nearly twice the number of the second-most mentioned challenge.

That is understandable, given the speed and level of change that HR teams are coping with. Many are moving from a dispersed HR generalist model to a shared-services environment with centers of excellence and HR business partners. The role of HR business partners requires different skills, such as working with business leaders to attract, develop and retain top talent. Simply rebadging generalists as HR business partners doesn't work, and forward-thinking companies have instead begun to institute training for new skills, recruit new people and redesign performance management for the new roles.

One big push, however, can't transform an organization. To keep service quality high and prevent costs from creeping back in, the organization must be primed for regular course adjustments and process improvements.

A global beverage company dealt with this challenge as part of its recent transformation from a decentralized group of country units to a more centralized organization aligned around business units. As the business reorganized, the finance department needed to adapt to the new structure. The department's costs were 50% higher than industry benchmarks, and service quality ranked below average. In particular, finance was understaffed and lacked high-quality skills in decision support.

Under the old organization, 40% of finance's staff had dual roles, performing both transactional work and decision support. In the new organization, decision support was separated from transactional work, leaving only 10% of the staff with dual roles for smaller geographies. Most transactional work was moved out of the business units into shared services, allowing the finance team that remained in the business units to focus primarily on decision support.

While centralization would reduce costs and separation would sharpen the focus on higher-value decision support, the quality of decision support for each country couldn't improve substantially without a thoughtful review of people, processes and systems.

Many people in finance weren't prepared to take on dedicated decision-support roles. So the beverage company retrained some of them, moved others into different positions and recruited new people with the right skills. The company redesigned underlying decision-support processes so there would be consistent standards across the business units. And it invested in new systems, including business intelligence tools, to raise productivity and the quality of financial analysis.

The beverage company also made two key moves to help instill a culture of continuous improvement. First, the company trained the finance team to collaborate more effectively with business units. Second, it created the chief performance officer (CPO) role to lead continuous improvement globally through training and regular sharing of best practices. Because the CPO directly reports to the chief financial officer (CFO) and works with units across geographic regions, the stature and importance of cross-regional sharing of knowledge and best practices grew.

Countering the resistance

By their nature, support functions exist to serve the broader business, so when the business faces cost or growth pressures, support functions feel the pain keenly. When the business strategy shifts, company performance deteriorates or a reorganization occurs, the urgency for support functions to transform can be intense. During stressful times, support function leaders commonly express several concerns:

"Saving a few dollars in my area isn't worth the risk." To allay this concern, make sure everyone understands the imperative for change and has a clear picture of the ultimate goal. A compelling case for change needs to be articulated and reinforced by senior leaders, who should look for opportunities to improve both efficiency and effectiveness, not just cut costs.

"It's not clear who makes which decisions, so how can we improve?" Before a function tries to optimize, it's essential to clarify the operating model—that is, the high-level blueprint that defines where and how the most critical work gets done: defining roles, accountabilities and governance. When implementing shared services, is it the CFO or the business unit head who decides which finance activities will move into shared services? As part of the collaboration between functions and business units, it is important to clarify how ties are broken to avoid stalemates along the way.

"We can't save money until we reduce the workload that the business units are requesting." Support functions won't succeed as order takers, listening and responding to any and all requests. Pushing the problem back to the business units rarely results in much progress. Rather, support functions will thrive as order makers, actively identifying customer needs and shaping demand. Support function heads will benefit from raising the frequency and quality of their dialogue with internal customers and redesigning their service delivery around this shared view of success.

It's one thing for support function heads to have a seat at the table and quite another to be perceived as full business partners. Trust will come through the steady accretion of victories in business effectiveness—victories that happen to be cost-efficient as well.

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