Right-sizing Support Functions Part I

When it comes to cutting costs, support functions often get overlooked. Their inefficiencies are not simply "lying around on the shop floor," for everyone to see, says Reinhard Messenboeck, a partner and managing director with the Boston Consulting Group. And while support functions often are viewed as ancillary, they actually reside "close to the decision makers." A board typically controls an organization through support functions such as HR, finance and the budget process. They are "the brain and nervous system of an organization."

In this two-part Knowledge@Wharton interview, Messenboeck provides a wide-ranging look at where support functions typically stumble — by building unnecessary layers of management or controls, or by losing sight of key goals. Typical savings that can be wrung out of support programs — with the right approach — often reach 25% to 30%.

Part I looks at how inefficiencies crop up in support functions within organizations: "No one creates inefficiencies on purpose. These things grow over time."

Knowledge@Wharton: I want to welcome Reinhardt Messenboeck, a partner and managing director at the Boston Consulting Group in Berlin, also known as BCG. He is an expert in cost and efficiency, and he's going to talk with us today about that — especially about getting costs removed and efficiencies put into support function of organizations. Thank you for joining us today.

Reinhard Messenboeck: It's a pleasure to be with you, Steve.

Knowledge@Wharton: You're also a co-author of a recent piece of BCG research called "Beyond Cost Cutting." Cost and efficiency has been the focus for many companies in this long downturn. Yet, some still haven't gotten it right.

Messenboeck: When we look at cost issues for companies, we typically find there are reasons and scope well beyond costs that need to be addressed? What do I mean by that? When we think of cost, it's basically a resource — people or anything you procure. And you put it to some sort of use.

Beyond making sure you get it at a right cost level, you also need to make sure you use it to the appropriate level for what you want to achieve. What we often find, especially in support functions — and that's the focus of this paper – is that that this led to the question, "What do you get from your support function?" It's a terribly difficult one, because people do not see anything really being produced by these support functions — and

hence, you can look at the cost of them, and often, you find these efforts which — we call "Captain Cope." So you reduce [costs] and then somehow hope people will do something sensible afterwards. But, very often you find that people don't spend much time thinking around "What do these people do and what should they be doing?" — and, therefore, give the support functions a different kind of role within an enterprise.

Knowledge@Wharton: The support function, by — the word "support," suggests it's not central to the company. Yet, your study is based around the idea that you're really missing something if you think of it that way.

Messenboeck: The reasons why we think support functions are critical and — and that's also what evidence shows us — is that first and foremost, they're close to the decision makers. So, board members typically exercise power over the organization through support functions — that being HR, finance, controlling procurement and so forth…. Running, for example, a budgeting process … you exercise power over all your facilities with monthly reporting. The support functions, in that sense, are basically the brain and nervous system of an organization and help you to steer it.

And hence, they're not just a cost bucket, and albeit, a small one, compared to procuring large machinery or raw materials, but they're elemental for both the culture you have in an organization and also the way the whole organization is run.

Knowledge@Wharton: Please define support functions.

Messenboeck: It is a difficult term to define because support means different things in different industries. Picking one — in the banking industry, a risk function, monitoring credit risk — is really closely embedded in the business, or at least, it should be, while — the same applies in an oil producing company. But, for example, if you're selling paper, then risk doesn't really come that close. It becomes more of a support function than a core business function. The typical functions that we always see are HR, finance, controlling, legal strategy, business development, and then there's special ones like compliance or risk investment or procurement, which have a bit of a business specialty to them, depending on the industry.

Within them we find different roles. For example, in HR you have something which is quite strategic, like setting the leadership training program or recruiting the right leaders and then developing them. Then, you have some very transactional activities and roles, like payroll, for example. These support functions then have to live these double lives of being, on the one hand, a driver of the business and the business agenda of the senior management, while on the other hand doing some transactional things cheap and to high quality standards.

Knowledge@Wharton: You mentioned finance as a support function. Some might think that finance was a core function.

Messenboeck: Let me give you another way of defining this. When we define support functions, we typically include anything that doesn't have direct client interaction. So, finance interacts with other departments, be it sales or procurement, but it typically doesn't interact with the real customers of a company. These parts of a company that basically lie within the company and help to run it, that's what we call support functions.

Knowledge@Wharton: What key issues do you tend to see around clients, when it comes to support functions on a strategic level?

Messenboeck: We often see a difference between what the enterprise actually tries to achieve, the company, and what these support functions are delivering. One

core questions is, "What role should a support function actually exercise?" Should it be, for example, the driver of the business? Or should it provide numbers to stay with the finance example?

Depending on what role that you give your finance department, you have a very different set up, and you have probably different distribution of resources between the finance function and the actual production facilities. And you have completely different governance. If you have a central function in finance, it is driving the business — you might have a finance committee that's chaired by finance. But if you have very strong production area that is actually using finance as a provider of numbers, you might not have such a committee and that sort of governance. It's crucial to organize based on what you are trying to achieve, so you have a clear understanding of the role and the mandate of a support function.

Knowledge@Wharton: What do you typically find companies are missing when they look at these functions from the strategic level?

Messenboeck: We often find that support functions evolve and develop over time. After — several years, and maybe after some changes in the environment, you find that the role that a support function is actually exercising doesn't fit what the company really needs. So, you might have an HR function that is trying to exercise some sort of process control in the various businesses, while these businesses do not want that.

And what happens? So, you then start to replicate functions. So let's say the recruiting guys from the HR central function try to recruit for the business, but the business doesn't want them to recruit for them, so they to recruit their own people. Then HR tries to put a stay on this and, for example, creates a recruitment board. So, then the business needs to employ people, on the business line, to provide data for that recruitment board and — and support it, and over time you create complex structures, which all come from not discussing what the real role of HR should be. Should they provide that sort of support or should they not? If you do not align this, you create inefficiencies.

The special thing about the support functions is that you do not see these inefficiencies or we might call it "waste."

You don't see this lying around on the shop floor. After some time people find themselves complaining about complex processes, long lead times to decisions, endless amounts of alignment, which they've all created themselves, but they don't remember what actually led to that sort of situation. In order to overcome it, they typically build another layer on top of it, another governance, another committee, another person who handles and provides more data. That usually escalates a problem rather than solving it.

Knowledge@Wharton: That's at the more strategic level, what about at a tactical level? What kinds of mistakes do you see?

Messenboeck: Let's assume the mission of a support function and the leadership's idea of what they should do are aligned. The next step is to operate with the right structures and processes. First, we typically look at structures. By structures, we mean two things — one is organizational, the org chart, how many layers do you have and thereby, how fast does information flow up and down in the organization, and how distributed is it [laterally]? What do you lump together to ensure a flow of information?

The other part that's also important is what's your actual relationship to the businesses? I'll give you an example. We worked with a client where we found that the businesses were very self-mandating, so they were doing, basically, all HR work in their department themselves — they had their own HR people, they did people development, training, recruiting and so on. So, after discussing this, they decided that it would make much more sense to do some very operational things like shift planning at the place where it really needs to happen, at the sites, but to bundle more general things like training via the HR Department, and have the people still sit where they were originally sitting. So, getting the governance and the location of the people right [is important] so that you both have effects of bundling things, but at the same time, you are close to the business where you need to be close to the business.

As a second step, processes and service levels need to be aligned. What do we mean by that? It's important to have a discussion around, "How often do you need

something? How big does it have to be? How deep and how well explained?" A typical area where this happens — and where it goes overboard — is with reports. We tend to find with many reports — none are made with bad intentions. But after some time, the reason to create a report and the fact that you create a report, they don't match anymore. For example, in the 2000s we helped an energy company in Germany that was still producing a report for the Allied Forces, which have left many years back. It's not that they didn't know history, it was that they produced a report, someone found it useful, and it got a life of its own…. Look at reports: Understand who really needs it. How often do you need it? How deep does it have to be? Can you cut it down and add interaction between those who provide services and those who actually use it, and have a discussion, which often doesn't exist?

Knowledge@Wharton: You also write about the idea of complex, historic structures that grow up and keep going, similar to the report example. Then, there's no feedback loop with customers.

Messenboeck: No one creates inefficiencies on purpose. These things grow over time. One of the typical mechanisms is that, if something happens, we add things. That's also one of the reasons why it's so difficult, when you discuss with, say, the head of risk, whether he needs another person to fulfill some sort of new report required by the Bank of India. You can't win, because obviously, this report is required, otherwise, the bank will close.

So, having a discussion around priorities of all the other things that you're actually doing in your department, and then finding out: Could we leave something out? Could we do something more efficiently? It's a different way of tackling these things. Historically, we find that people usually don't have these sorts of discussions. You don't have a discussion between someone who's doing something and their internal customers in a structured way. You have discussions when the need comes up, when someone raises their hand and says, "I need more resources — another person, another building, another piece of machinery," whatever. Then, you have a very small, tight area in which you have a discussion and in which [management] tends to lose.

A customer of mine said, "It's easier to send a camel through a small hole in a needle, then to get a forklift out of the budget in one of our factories." That's because once you discuss the forklift, people will come to you and say, "Everything will break down if we don't have the forklift and we can't deliver to China anymore and so on and so forth."

But you don't have a discussion about priorities, and would there be something else we could do and decommission and thereby, actually, fund the forklift? Instead [ask]: What are our total priorities? How do we use all of our resources best? That's a discussion we often find is missing. And that enables a lean, but also, a focused center and support function that do things that their customers actually desire.

Knowledge@Wharton: You specifically mention, in the study, the point of not having a proper feedback loop around this issue.

Messenboeck: What's often difficult for support functions is that they don't have someone who is giving them orders or who demands things from them. So, they tend to self-mandate themselves. All of a sudden, you find in your inbox and email from someone who writes, "We have now developed a new training manual for something, or a new training course or a new procurement process and so on." And people ask themselves, "Where's this coming from? Who asked for it and why is it useful?"

So, these questions tend not to be raised, and the actual support function is self-mandating…. They are trying to do the best for the company, but … the best intention often [leads to] the worst action. What's really critical is to have a feedback loop between those who create a service, like a new procurement process, and those who are on the receiving end, and who actually have to live with it.

So, is the whole reason for doing this, the whole complexity — is it actually serving a purpose or not? [It should be for] your board members to decide whether you want to have a crisper procurement process, or

leaner, smoother, more flexible ways of procuring things. You can take that decision based on a discussion, rather than on the opinion of one unit, which is basically creating their own work.

Knowledge@Wharton: Why don't companies fix this? They don't see it — what's the problem?

Messenboeck: That takes us to … human behavior. After living in a complex process for a while, people tend to live with it and manage within a process, rather than — stepping out of it and trying to fix it. We often find that if something doesn't work, people tend to put extra resources on top of it or another governance layer in order to fix it.

If your budgeting process creates strange numbers, people basically extend the whole process and put maybe some extra check points into it, and a budgeting governance body to run it, rather than stepping back and saying, "Something doesn't work here, we need to do it differently but we still need to stay lean." So, you often find that there's extra control if something doesn't work, rather than fixing the original problem.

Again, this is not because people are stupid, but because they come out of an environment they're used to, and so their solutions typically fit the environment they find themselves in. One of the core elements to overcome this, especially in companies that [already] have gone through one or two rounds of cost reduction or cost optimization, is to change the whole setting in which such discussions happen.

You need to help people to find the reason why now it's possible to do things differently; think differently about the whole way we run things, think differently about the whole amount of services we provide, the service levels we provide, the way we interact. And that is often the difficult thing — how do you break this up? You have a discussion which is free of other discussions that have happened in the past, and thereby … radically transform the support functions, and … indirectly the rest of the organization.

Founded in 1881 as the first collegiate business school, the Wharton School of the University of Pennsylvania is recognized globally for intellectual leadership and ongoing innovation across every major discipline of business education. With a broad global community and one of the most published business school faculties, Wharton creates economic and social value around the world. The School has 5,000 undergraduate, MBA, executive MBA, and doctoral students; more than 9,000 annual participants in executive education programs; and a powerful alumni network of 93,000 graduates.

Knowledge@Wharton is the online business analysis journal of the Wharton School of the University of Pennsylvania. The site, which is free, captures relevant knowledge generated at Wharton and beyond by offering articles and videos based on research, conferences, speakers, books and interviews with faculty and other experts on current business topics.

The Boston Consulting Group is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with more than 78 offices in 43 countries.