Right-sizing Support Functions Part II

This portion of our two-part interview on eradicating inefficiencies from support functions also features Reinhard Messenboeck, a partner and managing director with the Boston Consulting Group, explaining the steps companies can take to eliminate over-layering or duplication. "… The most important lever is to get the service level discussion going between those who provide a service and those who actually take it up, and thereby reduce service levels to the right level. When you look at … a total possible savings range being 100%, you'll probably get about 30% to 40% of those savings out of that specific lever."

Knowledge@Wharton: Can you give an example of a company that managed to figure out how it is possible to do things differently and then how they went in and changed things?

Reinhard Messenboeck: One that did it extremely well was a logistics company transporting large pieces of [equipment] on huge vessels, across the oceans. This is a difficult industry under a lot of cost pressure, and they basically took out whatever they had in [excess cost] in their operations —at least they felt had. But, it still wasn't good enough.

Discussions around further cost reduction were difficult because people were arguing [further cuts would eliminate] 10%, 20%, or 30% of … my people. The CEO said, "Well, then if that's the end of where we can get to, then we'll change the whole environment in which we run our company." So, they moved from a very localized, country-by-country set up. He said, "We will as of now run it on a global scale; certain things will be global…."

First came sales and service. Then they took out all the support functions and drove them — on a global scale. That allowed people to have a completely different view on things, and question, do we really need this on a local level? Do we really need to have an HR Department doing recruitment in Germany or is it good enough to do that for Western Europe? And thereby, you have a completely different discussion then previously in the old environment.

In the old governance structures, that just didn't happen. I think what the real success was that it wasn't just maybe getting another 5% [in cost savings] through a different global structure, but it enabled another critical

questioning of, "What do we really need? Where do we move to? And how can we change our whole delivery model?" And they actually created another 25% savings on top of what they had done before.

Knowledge@Wharton: Companies that have been successful overall with this, what are some of the steps they took?

Messenboeck: In general, when you embark on such a journey, the first and foremost critical thing is that you understand and agree in your senior leadership about, what you aim for. Is this another, let's say, 5% cost takeout, keeping everything where it is? Or are we talking about a radical transformation and thereby changing not only what's happening in the support functions but also, indirectly, what's happening in the whole business? And that needs to be discussed first.

That's all about scope and speed. How quick do we need to see results? How much do we want to see? And how much do we want to involve the organization? These are critical questions that leadership should ask themselves and align on, so that later, when things start to roll, they can compare and adjust according to the principles they've laid out at the beginning. Once that such a discussion has taking place and is agreed upon, then it's important to take stock, really understand where's our starting position is, where do we actually jump from, and then decide, how far are we are going to move?

A cost target or speed target needs to relate to a base line. So, you say, "I want to take out 25% of costs over three years, and the cost to achieve this is allowed to be whatever is the annual savings." Then you get a very clear breakdown of what needs to happen over what sort of

time, and thereby, also, a good understanding of which methodologies, which approach can you can use in order to achieve that. Which is the next step?

We often find in these discussions that people have things in their mind that they want to do. Like, "I want to engage the whole organization," and then, at the same time, they want to change their set up, and move things to India." It will be difficult to involve everyone and ask them whether they want to move their job to India. So, there are certain things which are contradictory. And once you've set your mind on certain goals, you need to make sure that your approach to achieve them actually fits it. That sounds a bit trivial, but you often find that there are these processes which are, in terms of engagement, in terms of duration, in terms of swiftness of execution — they don't match the original goal of a company.

Knowledge@Wharton: Once you have that plan established, what are the next steps?

Messenboeck: Suppose you have set your targets. Then the next step is to really work on detailed plans to deliver against these targets. Once these have been developed, it's a rigorous management process of making sure it happens. Try to remember — the key ... is not to make the changes, but to arrive at your goal. [For example:] I worked with a bank in Germany and they were so stuck on doing a certain change that they forgot to monitor what they actually tried to achieve. Before they actually implemented that sort of change, they had already arrived cost-wise, at the point where they wanted to be.

Then, you can have a discussion whether it's really useful to let go of another 300 people or whether you want to do that at another time or not at all. So, it's always key to keep focusing on where you want to get to, so at the other end, if there's a cost lift up, due to other effects, inflation or whatever, you adjust your plans so you arrive at — at your target.

And last but not least, and [something] that's core: Use such [initiatives] to foster a different kind of thinking, a different philosophy of how you look at cost, and make sure you don't have these big programs all the time or every two years. You have to have continuous discussion around the best use of resources, between

units — the ones who produce and the ones who take it – and also on the budgeting level — on a quarterly basis so, you make best use of your enterprise resources, especially at the support function level.

Knowledge@Wharton: When you go into a company, as — as a consultant, how do you actually observe that there's inefficiency? What do you look for? How do you see it? You mention that sometimes the waste is invisible, it's not laying around on the shop floor.

Messenboeck: We look at it through four lenses: Number one, we measure how many resources are attached to certain activities. So, how many HR people do recruiting?

Number two, we look at organizational structure — how deep is it? How spread out [vertically] is it? Typically, you find that if they are too spread out or too deep they are inefficient.

Number three, what do they deliver? What sort of key process indicators or key performance indicators do we find? How long does something take? How long does it take you to get your monthly closing? How long does it take you to do your budget? How long does it take you to actually get someone hired if you have an open position?

Lastly, number four, we look at the internal ... quality of service. What's the feedback that HR gives finance? What's the feedback that procurement gives – the quality of service — the timing, the level of service and so on?

So, if you look through those four lenses and evaluate, it gives you a really good picture where the real problems lie and how to overcome them.

Knowledge@Wharton: Would you give an example of a company that actually did that?

Messenboeck: We worked with a chemical company in Europe, we found — just taking their finance and their HR function, that they had very different issues. The finance function was actually very lean, very narrow structured in their organization, but they didn't get involved in any kind of business-related needs. They didn't provide the numbers that people needed to do sales forecasting, to do proper client-based budgeting,

to do proper pricing and so on. They were not lacking on the cost side, but, they were lacking on the content side. What do they deliver?

On the other hand was HR, which was seen as very receptive. They were always there if you needed them — they were very friendly but they were inefficient. So, it took them a long time to do anything — the recruiting process took three months when it shouldn't take longer than six weeks to find the right person. There were actually twice as many [staff members] as you would assume from an industry benchmark and their structure was complicated.

So, within the same company, but under different leadership and with different histories, you can find very different issues that require then different approaches to get them into a state of excellence.

Knowledge@Wharton: What are the most typical inefficiencies?

Messenboeck: On the support function level, the most important lever is to get the service level discussion going between those who provide a service and those who actually take it up, and thereby reduce service levels to the right level. When you look at, let's say, a total possible savings range being 100%, you'll probably get about 30% to 40% of those savings out of that specific lever, with other levers being: getting structure right; getting processes right; getting automation going; maybe doing some offshoring or getting services to the right price. That all is usually only about half the size of what you get from getting the service levels adjusted to what's really needed.

Knowledge@Wharton: What kind of savings do you see when companies go into this deeply?

Messenboeck: An average program would yield a saving of about 25% to 30%. That's on the one hand, not being too radical. But, on the other hand, it is worthwhile to engage in discussions about whether things need to change or should we just take out, for example, 5%?

Then you often see people just changing minor bits, not really questioning themselves, just doing a little bit on the fringes and trying to get everything through the door as previously. I think the biggest side effect is

that you get a different culture of discussing things, and you can cut decision time by half and get a lot of better understanding of what the other person's actually doing. How do we provide real support as a support function to the business, instead of being a bureaucratic burden on someone?

There are a lot of indirect benefits from a process where you engage the organization — not just a support function, but, also the units that work with those support functions so that they interact and develop a new way of working.

Knowledge@Wharton: You have a one-time reduction in cost, but, you've also set up a situation where some of those inefficiencies that crept in are less likely to creep back in in the future?

Messenboeck: Exactly. What you try to do — and we all, being human, will never fully succeed — is to reduce the level of old problems coming back — structures being more complex, governance becoming more complex, people just being added on to create complex processes and information flows. All of this is shrunk down to an acceptable level, keeping in mind that for many companies cost is important, but cost is only a means to actually achieve revenues.

In a business that might be growing, expanding, you might acquire things. It's important to look at costs and — and these support functions — but it's important to look at them as not only a cost center, but as a way of enabling the other functions to deliver their best.

Knowledge@Wharton: What do top leaders struggle with most with such cost-cutting programs?

Messenboeck: The biggest issue we find is that there is little alignment on the actual goals. The real underlying issues that you try to address, often are passed over by saying, "We need to save 20%," and then, people trying to push their own agenda indirectly by saying, "This is in scope, this is out of scope, we have to do this, we have to do that." But that only comes out over time — so, misalignment or non-existing alignment at the beginning is the biggest issue that we observe hindering efforts on a senior management level.

And the second one that's key for such a program to succeed is to engage over time and not to declare

victory when you've basically only started to see how it could work. Really sticking with it, supporting your people, pushing them, but also a pat on the back where it's required is extremely helpful and powerful in order to make such a program a success.

Knowledge@Wharton: What do companies that get it right do differently?

Messenboeck: In a company performing well, we see two elements: One is typically an open arena to discuss core issues on a senior level. That doesn't mean that this is a democracy and everyone can raise their hand and they take a vote. They can still have a very hierarchical decision process, but there's an open discussion to get the real issues out and then align on it, and then everyone pulls on the same side of the rope into the same direction. That's number one.

Number two is to bring that down one level deeper into the organization or three levels, where people in various functions interact. Get them to align on what they want to achieve, rather than on what they are doing.

[That means] a goal-oriented and solution-oriented thinking process, rather than, "I need to deliver step one, two, three, four." That the difference between a well-functioning company and one that's struggling.

Knowledge@Wharton: You link this kind of cost efficiency drive to shareholder value.

Messenboeck: What we saw when we looked at it by industry and in various countries is that there's a clear correlation between a three-year total shareholder return and a change [reduction] in the SGNA cost for sales, general and admin — which comes close to our support function definition.

There's a bit of the question of the chicken and the egg. Is it good companies also have good support functions, or is it good support functions creating good companies? We believe that there's certainly a correlation between being good and having good support functions. Whatever position you're in, aim for good support functions, and it will help you drive the rest of the company and total shareholder return.

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