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Operations Practice

Driving value creation through G&A: Five ways to rethink your approach

General and administrative (G&A) costs are usually the first target for cuts. But they can actually be hidden sources of value for companies that know where—and how—to look.

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“We have to do something about G&A!”

That’s the commitment the leaders of a global industrials company made recently under earnings pressure. But rather than immediately cutting the G&A budget, the company took a more strategic approach.

Management realized that the company’s support functions, which made up the majority of its G&A costs, were central to several sources of value creation. For example, the procurement function was using strategic vendor partnerships to lead a wave of product innovation, while the finance function piloted the most promising use cases in the company for robotic process automation. Therefore, investing and building capacity made more sense than cutting costs.

It’s time for every company to re-evaluate G&A, just as this firm did. G&A isn’t just an expense line in the profit and loss (P&L) statement. Instead, it is an integrated set of roles that have the potential to create significant value (Exhibit 1).

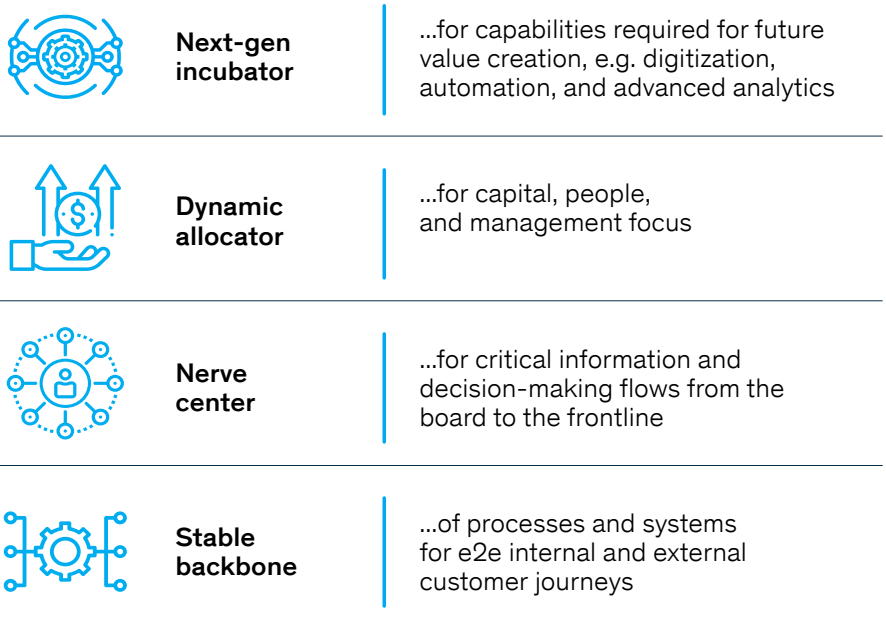
— *Next-generation incubator* for capabilities required across the enterprise, such as digitization, automation, analytics, and innovation. For example, the data that enables advanced analytics often flows through functional centers of expertise (COEs)/hubs, IT-architected warehousing, business rules created by finance, and marketing and product databases. Our colleagues estimate that artificial intelligence will add $13 trillion to the global economy in the next decade.

— *Dynamic allocator* for capital, people, and management (for example, the central roles of finance and HR in budgetary and workforce planning). Because it creates a growth advantage, a dynamic allocator can be worth twice the enterprise value of its less agile counterpart over a twenty-year period.

— *Nerve center* for critical information flows between the board and the front line. In an increasingly complex world, company CEOs and boards must assimilate trends and data from around the globe.

Exhibit 1

G&A drives value creation in four critical ways.



— *Stable backbone* of processes and systems for end-to-end customer journeys. For example, a bank customer opening an account needs support from the bank's marketing, operations, credit, and IT functions. Next-generation operating models are based on these customer journeys.

These roles often act in concert—and, taken together, their benefits deserve a central place on the C-suite agenda. For example, when an Asian consumer and retail business recently sought to improve its sales-performance insights, it redirected resources to data visualization (dynamic allocator), recruited and pooled analytics capability in a joint finance and data hub (next-generation incubator), upgraded and consolidated legacy data warehouses (stable backbone), and remapped its business rules and process flows for performance reporting (nerve center).

How should companies go about driving value creation through G&A? We offer five suggestions for rethinking the approach:

1. *Look beyond the labels.* Set the scope of any improvement effort to address all activity and investment that supports the business's sales and operations. This typically stretches beyond the traditional definitions of G&A.

2. *Design for the customer.* Where the customer is internal (i.e., an operating business unit), take the opportunity to help the support and service-provider parts of the organization deliver value.

3. *Solve the productivity equation.* This means targeting both cost savings (efficiency) and performance (effectiveness).

4. *Start from a zero base.* Prioritizing activity and investment on a granular level, based on the value it helps to create, can drive more-than-incremental change.

5. *Commit to the journey.* Sequencing optimization and reinvestment over at least two years can ensure that the momentum from early pilot projects scales to full, sustainable change. Thereafter, improvement needs to be continuous.

Look beyond the labels

Accounting definitions typically determine the scope of a G&A or overhead-cost review. This can leave value on the table: general ledger or payroll definitions often miss functional activity and spending located within sales and operating business units.

These definitions also reinforce silos and the limitations they bring. Focusing the effort on only some of the company's departments and teams inhibits the value that can be created from a full operating-model redesign and end-to-end process improvement—through automation, for instance.

A more effective starting point is to take an expansive perspective on what the "support organization" includes. This construct should include all activity and investment that supports and manages the company's core value creation. In most cases, this happens not only in support functions but also in the sales and operating business units.

At the industrials company under earnings pressure, the CEO found a simple way to define the scope of a two-year support-organization improvement program: she included all activity that didn't directly engage with an internal or external customer or serve to manufacture, handle, or deliver the product. This working definition kick-started meaningful conversations within the organization about what it meant to support the operating businesses, even before any improvement or design work began. Furthermore, it doubled the scope of the program in comparison to a narrower accounting definition of corporate overheads, eventually including specialist functions such as health and safety, supply chain, engineering, research and development, and innovation.

Design for the customer

Once a broader definition of the support organization is in place, companies should focus on delivering value for their internal customers. This helps position the respective functional strategies (for example, how the finance function will operate) as part of the broader business strategy.

The challenge is to be truly customer-centric: designing the support organization and associated activity around internal business customers in line with their needs. Soliciting customer feedback rapidly identifies waste—mostly activity that doesn't fit customers' purposes. Interrogating business priorities helps companies identify support work that's relevant and necessary, and target superfluous or legacy work for elimination.

As the Asian consumer company looked at its performance reporting, it began by identifying at least twenty weekly customized internal reports. Producing these, plus answering and analyzing follow-up queries from senior management, required the effort of hundreds of people across finance, IT, marketing, and data functions, as well as various sales teams.

Despite this substantial investment in understanding performance, results sometimes conflicted or changed for no discernible reason—a source of frustration in executive meetings. In other words, these reports were inefficient and ineffective because they didn't add up to a single source of truth.

The company asked a cross-functional working team comprising both report creators and their internal customers to address these pain points. The group included IT solution architects who provided the feed and warehousing for the unstructured performance data, financial planning and analysis (FPA) team members from finance who created many of the reports, and the reports' internal consumers, such as business-unit leaders and the financial controller.

The group solicited customer feedback on what really mattered in the future of performance reporting, and rapidly aligned on a set of guiding design principles—for example, consolidate and migrate all performance data to a single warehouse managed by IT according to agreed business rules. This yielded a more streamlined process for internal reporting and queries, higher confidence in the underlying data, and 20 percent savings on service delivery from the support organization.

Solve the productivity equation

An equation that defines productivity as a relationship between effectiveness and efficiency is a useful heuristic for driving more value in support activities.

Productivity is:

$$\frac{\text{Fit-for-purpose output / Effectiveness}}{\text{Total costs of functional activity / Efficiency}}$$

Improving effectiveness means increasing the numerator; improving efficiency means decreasing the denominator.

Either change increases productivity, and improvement along these two dimensions is mutually reinforcing, as illustrated by an investment bank that wanted to revamp its global finance function. The bank's leaders found that a transparent, detailed service catalogue, with corresponding service-level agreements (SLAs) agreed-upon by the business units, let it reduce finance costs and make capacity levels more predictable—both measures of efficiency. These improvements also helped the business units collaborate with finance in a more informed way, producing more useful insights, as well as raising effectiveness.

In designing and implementing improvement in the support organization, we find that once the function strategy is set, a combination of five value levers address effectiveness and efficiency (Exhibit 2).

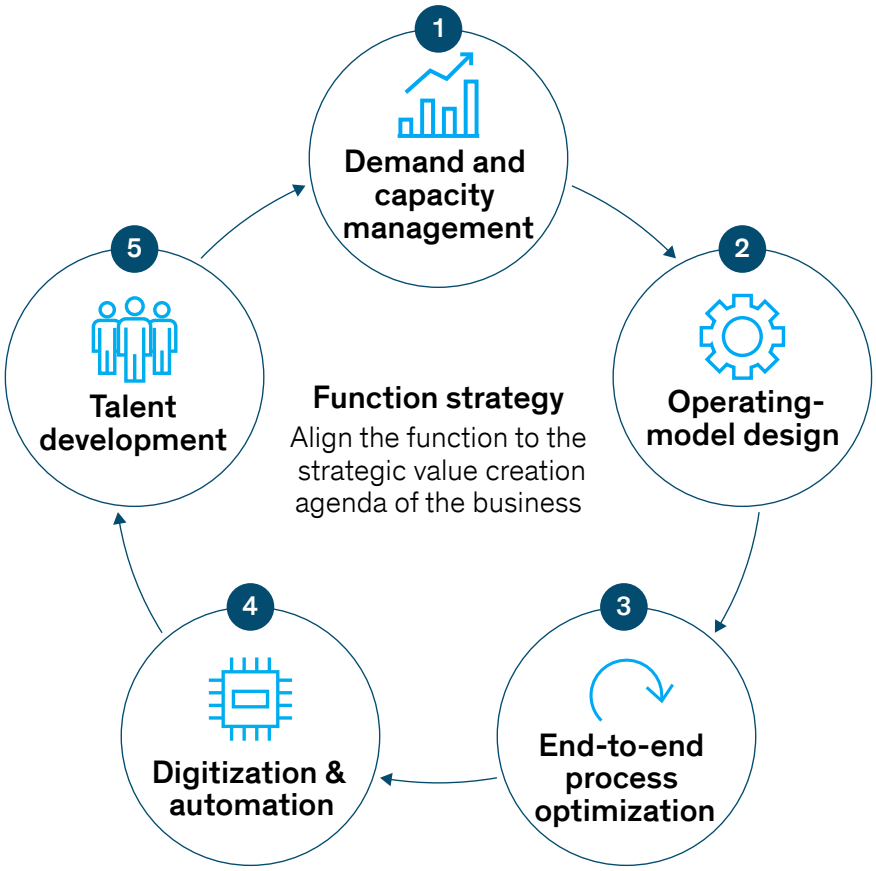
1. *Demand and capacity management.* Shape the scope of work to be performed around high-value activities, and align capacity and segmented service levels to specific business priorities.

2. *Operating-model design.* Build effective, agile, balanced organizations in optimal locations to sustain economies of scale and skill.

3. *End-to-end process optimization.* Apply customer-back process design to eliminate

Exhibit 2

Integrated value levers address effectiveness and efficiency.



low-value complexity, via simplified workflows reinforced with lean management.

4. *Digitization and automation.* Reimagine work enabled by data, automation, robotics, and artificial intelligence.

5. *Talent development.* Source, develop, manage, and scale important internal and external capabilities to support the business.

Select and sequence the value levers

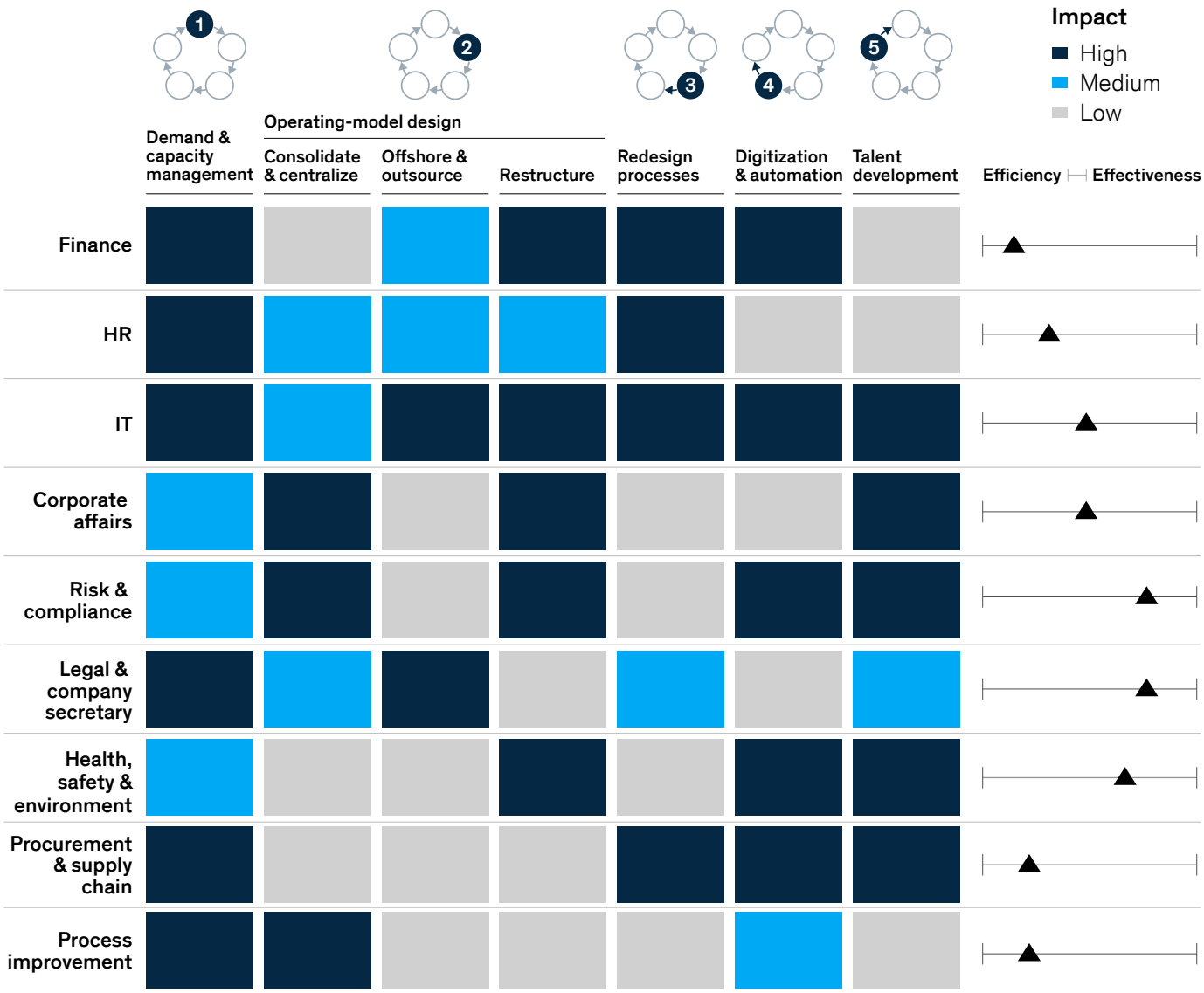
In any given situation, the question is which levers should be pulled, in what order, and how forcefully. When an integrated energy company undertook a broad improvement program for its support organization, it created a grid in which it assessed the potential impact of each lever on each function, together with a determination of whether the function should be optimized more toward efficiency or effectiveness (Exhibit 3).

For every function, demand and capacity management—in other words, controlling the amount and nature of the activity itself—mattered. As described in more detail later in this article in "Start from a zero base," the idea is to first reexamine which work needs to be done, and then optimize how the work is delivered.

For the remaining levers, the efficiency-versus-effectiveness scale provided an initial lens, which then needed to be combined with a perspective on the function's potential for improvement. For the finance function, the

Exhibit 3

The value levers' impact varies by function.



company sought a step-change in cost efficiency, so it prioritized deeper, process-based change. This involved consolidating the corporate and business-unit finance teams to minimize handoffs (restructure), enhancing the enterprise resource planning functionality for core finance processes (digitization and automation), as well as optimizing workflows to reduce idle time (redesign processes).

By contrast, for functions focused on nonfinancial risk (such as risk and compliance, legal and company secretary, and health, safety, and environment), management's risk tolerance and the functions' comparatively low cost base led to optimizing for higher effectiveness.

Build a new way of working

When the chief risk officer began redesigning the risk and compliance function, one of her first actions was to define a new process-safety framework,

which was critical for some of the upstream operations. By soliciting technical input from across the organization, this exercise revealed that scattered throughout the company were a number of professionals with decades'-long technical and practical, grease-under-the-fingernails experience. They were now mostly middle managers, and were often several organizational layers removed from day-to-day operations. No one had previously considered these people risk experts—yet they knew the most about protecting the company from operational risks.

The company needed an operating model designed to unlock this latent capability. It created a new flow-to-the-work pool of "risk champions," which enabled these managers to act as ad hoc risk experts (Exhibit 4).

Start from a zero base

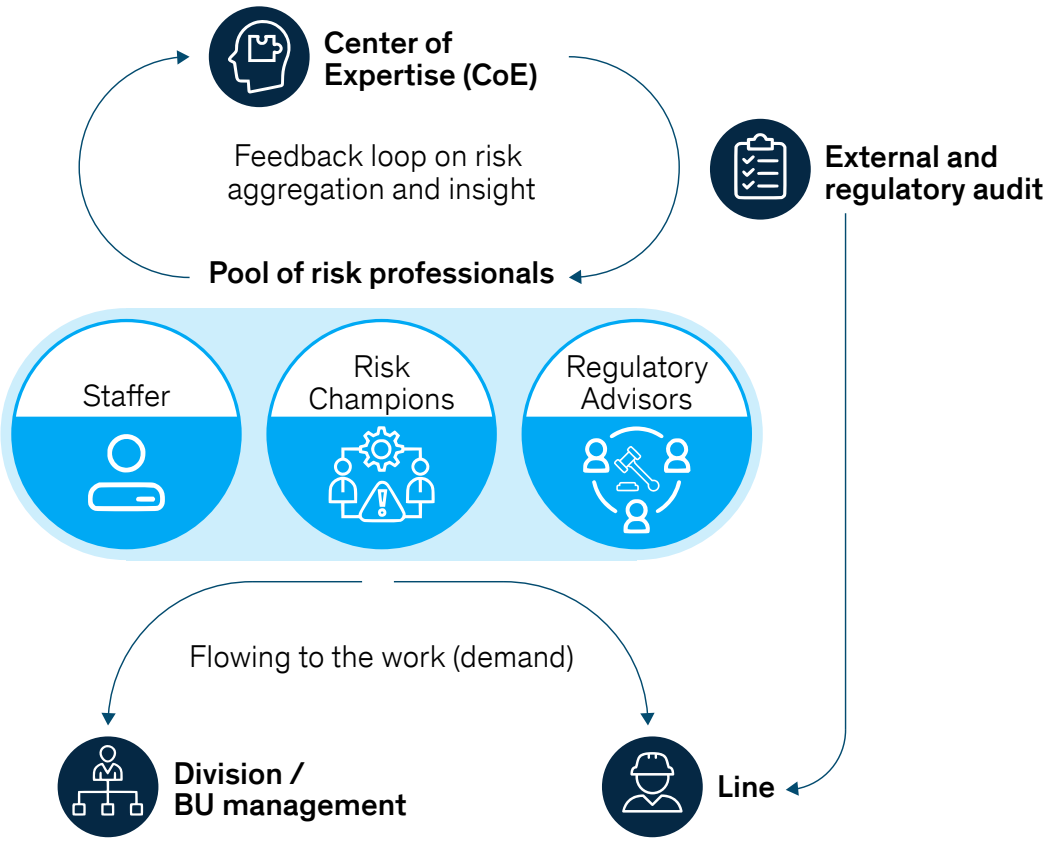
The global industrials company's approach to functional costs typically involved incremental compression during the annual budget-planning cycle. This led to minimal cost savings, rarely represented a sustainable change to any actual activity, and had every department swimming in its own lane, without regard for cross-functional or end-to-end improvement.

Once the company decided to pursue a more substantive change, redesigning from a zero base was critical to unlocking its full potential. The company used a methodology that focused on prioritizing activity by framing the support organization in two different ways:

— First, it defined the "survival" or "momentum" minimum for each of its functions. This is the

Exhibit 4

The risk & compliance function became agile.

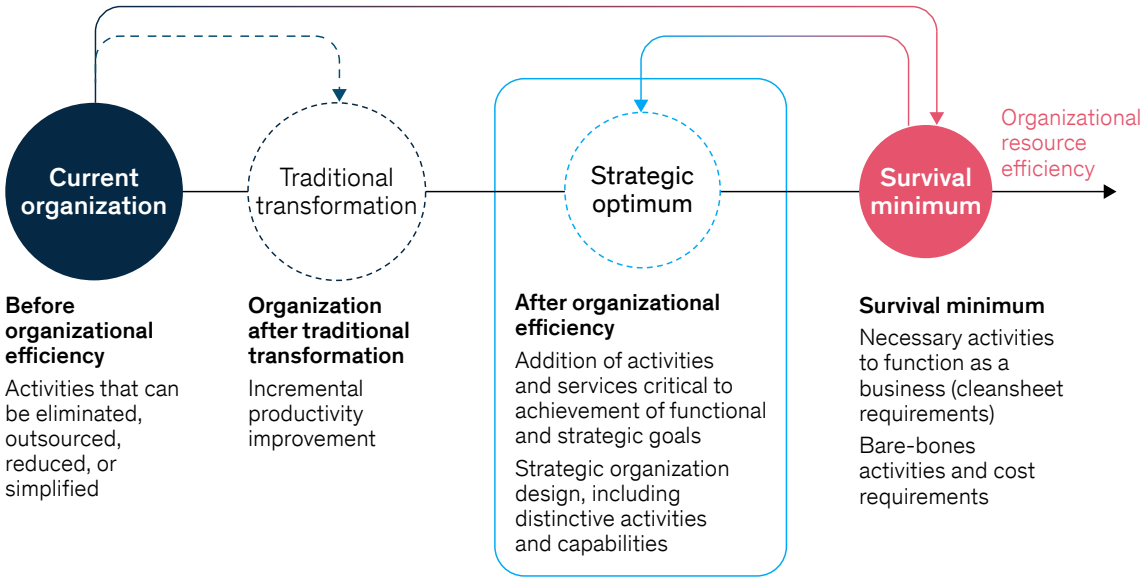


minimum activity to support status quo business operations for one to two years. For a function such as finance or HR, this minimum could represent 20 to 40 percent of baseline activity, and might not include strategy or transformation functions at all, as these activities were essentially discretionary for it.

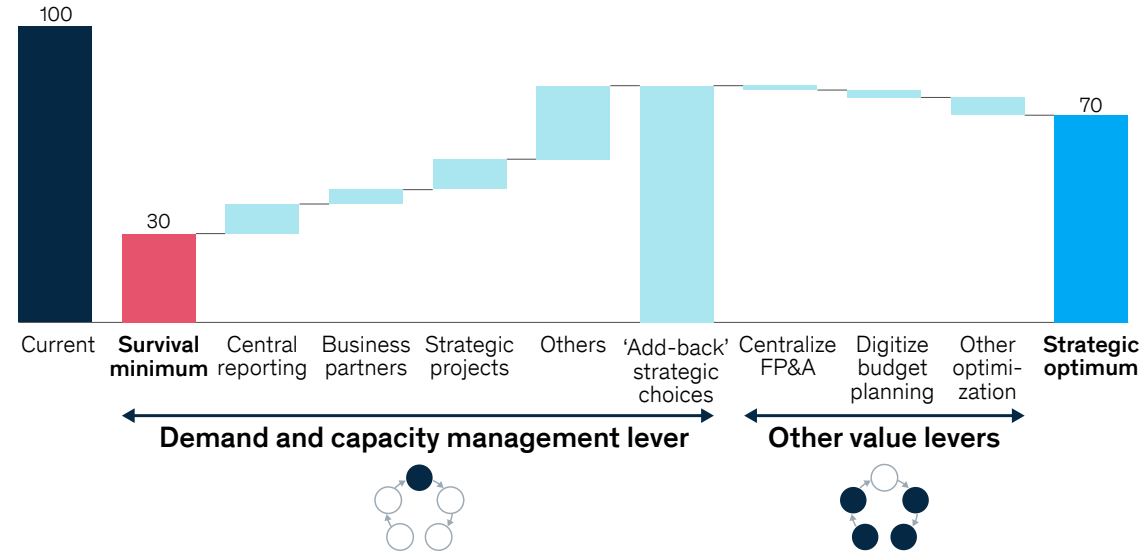
— Second, it purposefully added back the strategic choices each function needed to make to achieve its strategic optimum: the activity, capabilities, and capacity required to fulfill the company's overall strategy or value-creation agenda (Exhibit 5). In this case, the company reinvested in enhancing logistics capabilities

Exhibit 5

A zero-based approach finds the 'strategic optimum.'



Illustrative example: Zero-based build-up of a finance function, Indexed costs



(a core competency for the industry) and in product innovation for growth.

For management, zero-basing's power is that it prioritizes demand management (the first of the five levers in "Solve the productivity equation")—reducing, de-scoping, and removing work to leave the most fit-for-purpose output. This activity-based design provides deeper, sustainable improvement over time because it changes the work itself, not just resourcing or capacity levels.

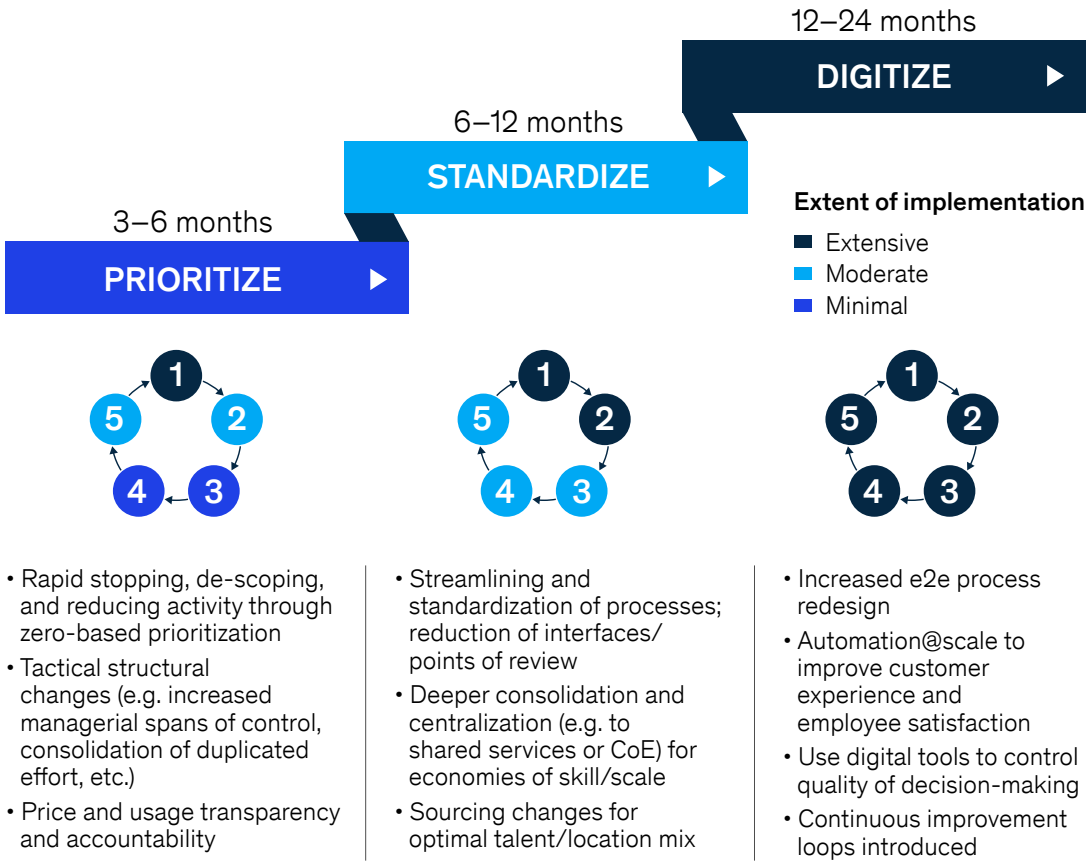
Once the company aligns around the strategic optimum for the support organization, it must apply all the other value levers to maximize efficiency and effectiveness. This could include redesigning operating models (including the way the support organization interacts with the business), smart sourcing or partnerships that deploy the best talent to deliver the work, and embedding the right technology for each task.

Commit to the journey

To capture the full value of any support-organization improvement, companies must commit to a starting phase of one to two years of implementation and reinvestment. The risk for the global industrials company, and for others that want to "do something" about G&A spend, is that they bank the initial cost savings that naturally flow from rapid demand and capacity management, such as eliminating lower-value work. But they don't exploit deeper structural, technological, and process-driven changes that take longer and require investment (see Exhibit 6).

Exhibit 6

The full implementation journey leads to lasting impact.



The improvement, moreover, should be continuous and constant. The global industrial company's CEO, CFO, and CHRO actively steered the value-lever sequencing to ensure that their teams remained committed to the improvement process beyond initial structural fixes.

When companies do commit to the full opportunity, reinvestment typically shifts resources from transactional to more strategic activities, and toward a talent mix that emphasizes the cross-functional and analytical capabilities of (for instance) data scientists, agile coaches, and product owners. Additionally, automation and other tech-enabled improvements build on early momentum to deliver full effectiveness and efficiency, further cementing sustainable change.

There are enormous rewards available for companies that get G&A right. The global industrials company is on track to realize around 25 percent savings in G&A spend. But more important, it now has renewed clarity and purpose about where to invest in its support organization. This includes digitizing essential capabilities, such as its supply chain and logistics, while enhancing its commercial offerings and customer experience through ongoing

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