Seven levers for corporate- and business-function success: IT enablement (lever 5)

A few simple disciplines when selecting IT investments can produce concrete improvements in a relatively short time with a modest budget

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For the introduction to this seven-part series on why and how companies can improve the effectiveness and efficiency of their business and corporate functions, please see "Seven levers for corporate- and business-function success: Introduction", June 2014, on the Operations Extranet.

Exhibit 1: Lean management (Lever five) provides a toolkit of approaches to start and maintain support function improvements
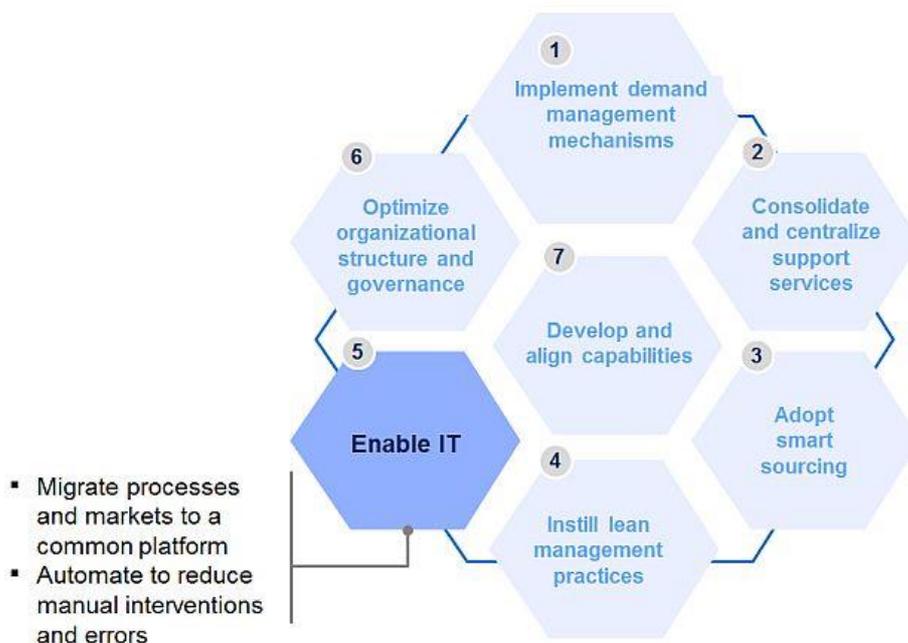
SOURCE: McKinsey's Corporate and Business Function practice

Corporate and business functions are often caught in the middle between the need to standardize and optimize processes and a general reluctance many organizations have about embarking on long and costly IT projects, which often are critical enablers of shared operations. New IT advances—ranging from cloud delivery and virtualization to artificial intelligence—are making it technically, financially, and managerially feasible to automate many more support-function tasks than was possible in the past.

The days of complicated, cumbersome IT systems for HR or finance are starting to fade. Sophisticated yet easy-to-use analytics tools, for

example, enable better manipulation of large data sets and can be "bolted on" to existing systems. These can obviate the need for each system to support customized reports. Also, new search technologies are becoming readily available and are able to answer "unstructured" questions (i.e., those posed in natural language, rather than in precisely-structured queries). This lets employees or customers extract required information from core systems on their own.

Cloud delivery of enterprise software is making support-function consolidation cheaper, while also proving easier to use and manage. Recent entrants limit the customization that is possible. This forces organizations to adopt more standard processes for common activities—which often are just as robust as any customization, but much cheaper to maintain.

While there are many exciting new technology developments, the offerings now available tend to be nascent, and a proliferation of options makes finding the right solution difficult. When investigating opportunities to take further advantage of technology, organizations should consider a few key principles:

- **Big is important, but small can be beautiful.** Once companies overcome the resistance to spending on business-function focused IT, "scope creep" can be a significant problem. Companies should minimize the budget overruns, implementation delays, and accelerated technological obsolescence that are endemic in large projects such as the replacement of ERP systems. Instead, organizations should focus on small-scale improvement initiatives, with well-defined business cases that can create significant payoffs in a relatively short time. As an example, rather than spend millions to rebuild its poorly received self-service HR portal, a business-services company hired a vendor to design a new website to serve as the visible "front end" for users. All of the technology that fed into the website remained unchanged, but the site was so much easier to use that adoption skyrocketed. This in turn freed time for managers and HR specialists. Total cost? Less than $200,000.

  Even relatively ambitious projects can benefit from externally hosted or cloud-based architecture. A manufacturing conglomerate with more than 100 separate ERP systems discovered that it could achieve most of its integration goals through an externally hosted "middleware" solution. Once it was implemented, the entire company's accounting personnel could use the same interface and capabilities, even though the underlying data still came from separate platforms. The decision saved millions of dollars and years of development time.

- **Made-to-measure, not bespoke.** Whereas customizing a corporate-function IT system used to mean writing (or rewriting) reams of code, today many enterprise-software products are sufficiently modular that their configuration options alone provide most of the adaptability that a company will need. One professional services firm, for example, sought to convert over four million HR records onto a new system built on a single

vendor's core platform. It initially estimated that at least 200 code modifications would be required, but IT architects were instead able achieve the necessary tailoring in less than two months by integrating about 30 standard add-on components.

- **Develop a roadmap and stick to it.** Even with many more configuration options, organizations must be disciplined about how much tailoring they allow based on what is truly necessary. Leaders must maintain control of the overall IT roadmap so that small "improvements" don't result in a proliferation of requirements or redundant applications. Every enhancement must have a clear value with a well-defined path to realization. For example, a global materials company is able to complete the monthly accounting close of its books in just two days—one day for each business unit, and one for the enterprise. They are able to do this because the head IT architect for the finance function imposes a strict prioritization on modification requests, approving only those that have substantial support across the organization. Consequently, the entire company operates on just four parallel instances of the same general ledger system. This makes it faster and easier to roll up information across the enterprise.

- **Allocate investments according to value.** Organizations with top-performing corporate functions focus more on providing new capabilities and less on making incremental refinements to legacy systems. And rather than just assess current IT gaps, these organizations further analyze each project to see which will most increase impact—regardless of how outdated the existing technology may be. For one organization, this meant prioritizing investments where small gaps in IT functionality had a disproportionate impact on efficiency and effectiveness. Areas where big gaps in IT functionality had less of an impact on the overall effectiveness of the function fell to the bottom of the list (Exhibit 2).

The evolution of technology solutions promises still greater opportunities to enhance corporate and business functions more quickly and cost-effectively. Data-mining employee and prospective recruit feedback increasingly allows HR departments to understand and improve companies' employee-value propositions. Social media analysis provides communications and marketing specialists with immediate feedback on how well media campaigns are working. And cheap, simple sensors allow corporate real estate departments to analyze facility utilization in ever-finer detail: one company placed sensors under conference-room chairs, discovering that it could better meet staff needs by dividing fewer, larger conference rooms into more, smaller ones.

Exhibit 2: Fill gaps according to impact on productivity, effectiveness

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The IT enablement lever is often seen as a high-cost, high-complexity "all or nothing" approach to improving corporate and business function processes. However, as the examples above illustrate, applying a few simple disciplines to the selection of IT investments can produce concrete improvements in a relatively short time with a modest budget■

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