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Seven levers for corporate- and business-function success: Capabilities (lever 7)

Capability building cements the other six levers, integrating them so they become far more powerful than any one or two (or even four or five) could be on their own.

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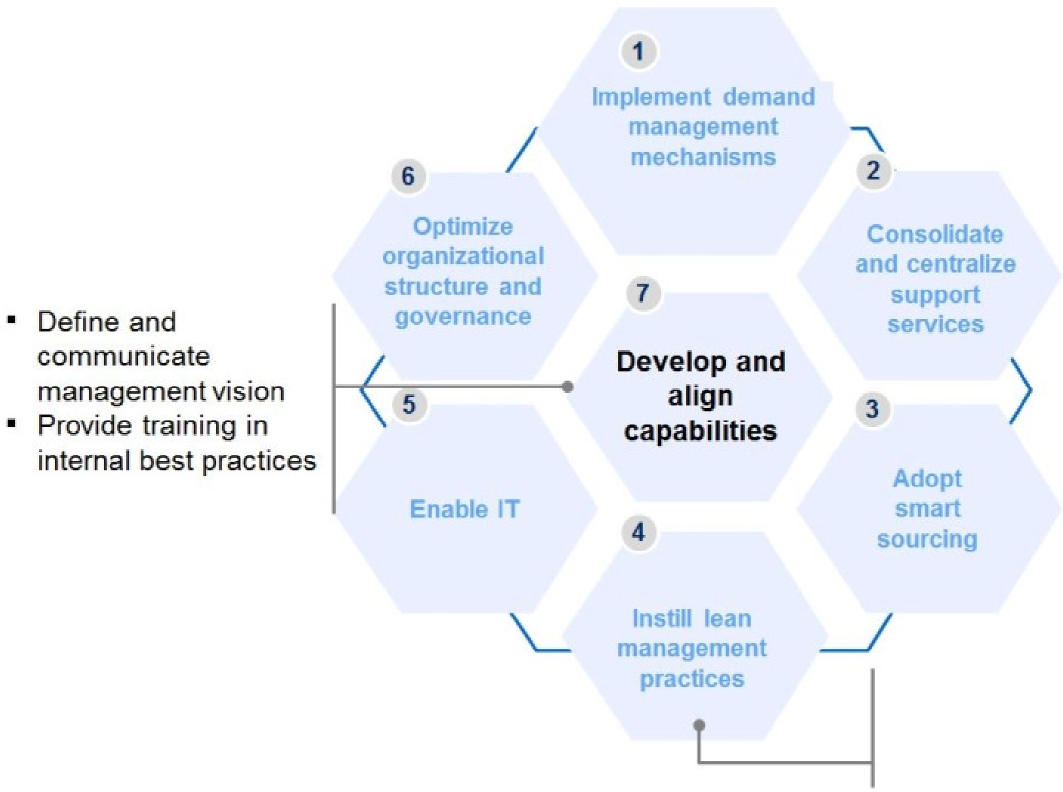
The final piece in the corporate- and business- function puzzle concerns people (Exhibit 1). Once the organization has pulled the other six levers, almost everything about how people do their jobs will have changed. Before, even senior personnel in functional roles likely spent most of their day responding to emergencies and navigating around obstacles. But as routine problem resolution is automated and governance structures are revamped, those basic tasks disappear.[1] The head of HR in a business unit, for example, now has much more time for activities that truly use her expertise, such as evaluating emerging talent requirements or adapting new people-development systems to the business.

Exhibit 1: Building capabilities is an important lever in developing efficient and effective support functions



SOURCE: McKinsey's Corporate and Business Function practice

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[1] See "Seven levers for corporate- and business-function success: IT enablement."

What organizations often discover, however, is that the transition to bigger challenges raises several new issues. The most essential is whether functional specialists will actually be able to engage in higher-level expert activities as required by the organization. Many personnel will need support in strengthening knowledge and skills that previously may have been useful for only 10 or 20 percent of the day, and now will account for 70 or 80 percent of their time.

A second issue is one of distance, both physical and organizational. How will people in shared-services locations understand the priorities of businesses located hundreds of miles away?[2] If, as is often the case, functional personnel are now supporting multiple businesses instead of just one, businesses may worry that their specific needs will get lost or that they will lose control over the work without dedicated staff.

A third issue arises once people have acquired all of the necessary skills and become familiar with the businesses they now serve: how do they find growth opportunities and advance their careers? Pulling the other six levers often leads to “flatter” functional organization structures, with a larger proportion of technical specialists and fewer managerial positions. How will the company retain people with higher capabilities, but lower chances of becoming a manager?

All of these issues ultimately point toward a new emphasis on enhanced capabilities: identifying which new capabilities are needed, assessing levels of attainment, implementing programs to fill gaps, reinforcing them through integrated incentives and career paths, and revamping them regularly as the business evolves.

- **Understanding the requirements.** The diversity of corporate and business functions means that simply identifying the skills people need—particularly those that are changing quickly—takes substantial effort in the context of a functional reorganization. Accordingly, the reevaluation of each function’s responsibilities[3] should enable a new definition of the general and role-specific capabilities required for each position. For example, the business-unit HR head may now need deep expertise in topics ranging from workforce planning and employee value proposition development to the application of lean-management practices to the HR organization itself. Repeated across the functions, requirements such as these form the basis for a new capability-building program.

- **Evaluating skills attainment.** With the skills requirements in hand, the organization then must regularly assess all of the functions to find the biggest gaps and focus its training resources. At a global automaker, the result was a color-coded grid that highlighted the most serious shortfalls in an easy-to-understand heat map (Exhibit 2). In the example shown, all of the listed finance employees need additional depth in data

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[2] See “Seven levers for corporate- and business-function success: Consolidation.”

[3] See “Seven levers for corporate- and business-function success: Organization and governance.”

coding and understanding the business, which became the top two priorities for training resources.

Exhibit 2: Corporate functions skill evaluation matrix

ONLY SELECTED SKILLS SHOWN

Department: Operational Finance

Skill area

Employee	Critical Thinking	Problem solving	Clear Quest ticket creation	Performance data coding	Data modeling	Business understanding	Excel
John Doe (Financial analyst)	2	2	3	2	2	2	3
Jane Doe (Financial analyst)	2	3	4	2	3	2	4
Jim Smith (Finance manager)	3	3	4	1	4	2	3
Average skill level of team	2.3	2.7	3.7	1.7	3	2	3.3
Desired skill level of team	3	3	4	3	3	3	3
Percentage of team needing training	**66%**	**33%**	**33%**	**100%**	**33%**	**100%**	**0%**

Skill rating key

0 None
1 Basic
2 Intermediate
3 Advanced
4 Superior

Skill gap key

Gap in skill
No gap in skill

SOURCE: McKinsey's Corporate and Business Function Practice

- **Building new capabilities.** Teaching new skills so that they "stick" with adult learners requires a different approach from the usual classroom-based instruction that corporate training programs have long emphasized. Improved understanding of how adults learn has led to a more engaging model, one centered on experiential learning through mentoring and showing-by-practice. These techniques were crucial for a provincial-level government that reconfigured its functions into a shared-services center supporting dozens of separate agencies. In adjusting to their new workplace, specialists and supervisors in services including payroll, time-and-expense reporting, and accounts payable needed to learn a variety of new skills—such as in following new standard procedures and engaging in rigorous problem resolution. Through a mix of side-by-side demonstrations, games that closely simulated the new working environment, and periodic classroom sessions, people were able to acquire the new capabilities both quickly and deeply. Within a few months of operation, the service center had reduced backlogs by 50 percent, while compliance with service-level agreements rose by more than 25 percent.

People who can work more effectively in their current roles often can take on new tasks as well. After learning that in several important roles, only a single person had the right skills, the automaker rebalanced its program to accentuate cross-training.

Finance-function staff learned multiple reporting tools in addition to the ones they used in their current jobs. As a result, the finance work force is now about 30 percent more flexible than it was before, reducing operational risk due to employee absence or turnover.

- **Forging new career paths**. If people are to continue taking capability building seriously after the initial, transformative push, they will need reinforcement in the form of new incentives and career-development support. A European insurer did that in part by incorporating its new expectations into explicit promotion criteria for all staff. Likewise, IT organizations have responded to reductions in conventional manager positions by expanding their pool of senior-expert roles, which reward technically oriented individuals who are uninterested in people-management duties. Other companies are adopting formal rotation programs that let high-potential performers break out of their specialties and learn more about fields adjacent to their own.[4] Finally, targeted mentoring can guide promising leaders toward the issues that senior support function leaders face.

- **Rejuvenating the content.** Because designing a capability program requires significant effort at the outset, the natural temptation is to treat it as essentially a one-time effort. But as a business changes, the requirements it has of its functional organization will change as well. A finance function might start its transformation with a strong focus on strengthening cash-flow analysis. Once it has freed up additional liquidity, though, its priorities may change to emphasize investment analysis instead.

Putting the levers together

The experience of a highly diversified industrial company illustrates how capability building cements the other six levers, integrating them so they become far more powerful than any one or two (or even four or five) could be on their own.

The company had grown through a long series of mergers until it comprised more than 1,000 different legal entities and 100 separate enterprise resource-planning (ERP) systems across dozens of countries. Transforming its corporate and business functions started with simple demand management: greater reliance on self-service in areas such as finance, where providing an easily configurable data set each month eliminated the need for hundreds of custom reports. Next, the company combined consolidation, smart sourcing, lean management, and IT investment in a completely restructuring of its accounting functions. By using emulator software, an external vendor created a single look and feel for data drawn from the company's

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[4] This strategy has been particularly fruitful in organizations that have adopted multi-functional "global business services" organizations for their business functions. By strengthening links among formerly isolated functional organizations, the common-shared-service operating model provides more career opportunities outside of a traditional function-specific career path.

dozens of legacy ERP systems. The simplicity of the interface made it easy for offshore employees to follow standardized end-to-end processes for tasks such as accounts-payable processing. Together, the changes reduced costs by more than 30 percent, but even more important were the dramatically shorter turn-around times and faster decision making that resulted.

Among the more difficult longer-term issues were those of organization and governance. Previously, business units largely controlled their own functional support, which lead to inconsistent practices and highly uneven quality. To prevent these shortcomings from recurring under its new model, the company negotiated detailed service-level agreements with the vendors operating its centers of excellence. An on-site company manager monitored the vendor's performance at each center on a day-to-day basis, supplemented by quarterly reviews that could result in reduced fees for failure to meet standards.

The final reinforcement came through a series of steps to improve capability building. A consistent performance-management system enabled the company for the first time to describe necessary skills across its entire organization, and identify gaps. With transactional work largely assigned to the outsourced centers of excellence, finance specialists' roles evolved to emphasize business-intelligence work, such as value-added analysis. As these skills developed, the company was able to design new career paths, and ensure that the capability-building itself evolved with the company■

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