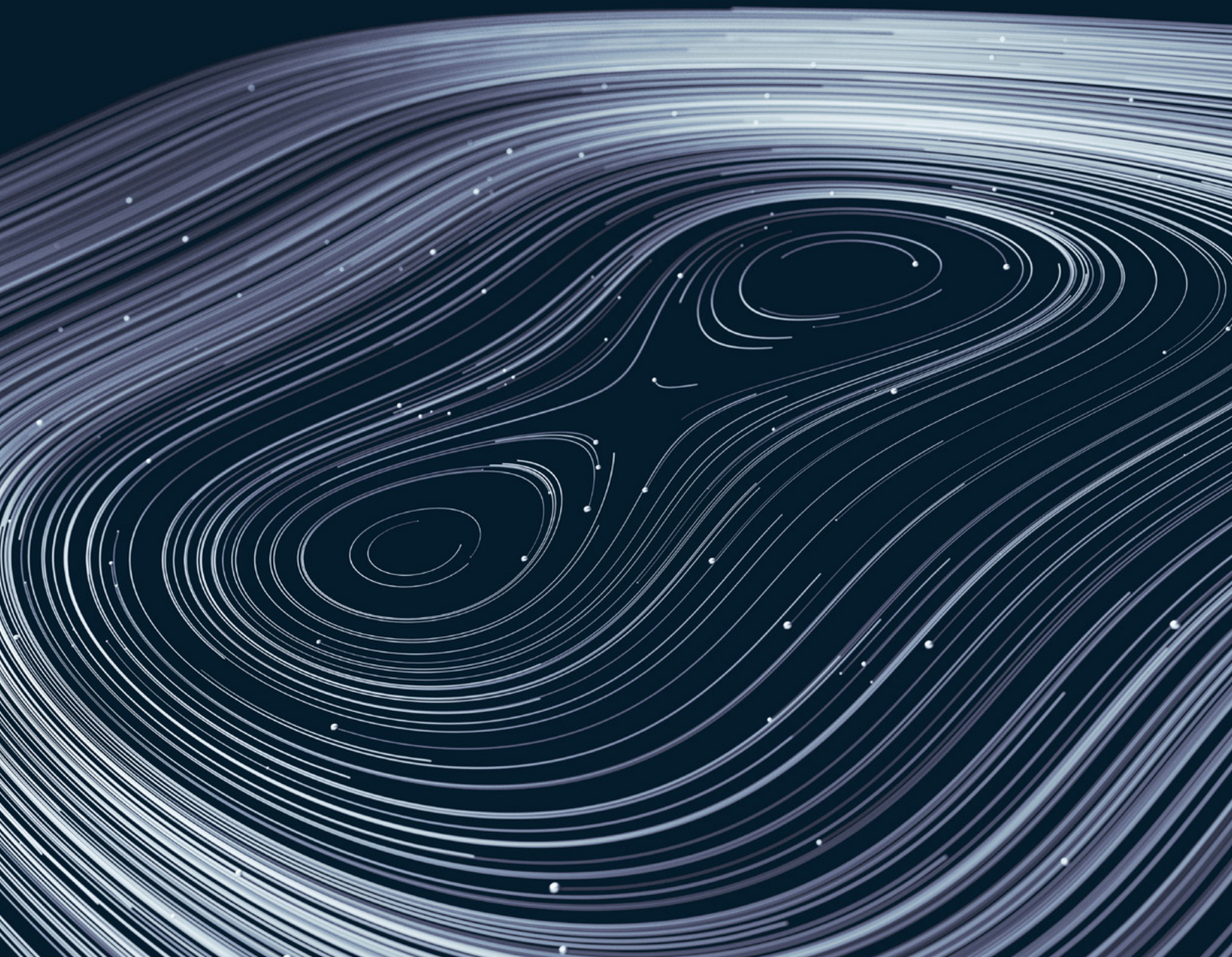


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# The future of corporate and business functions

An opportunity to Reset + Reimagine

June 2023

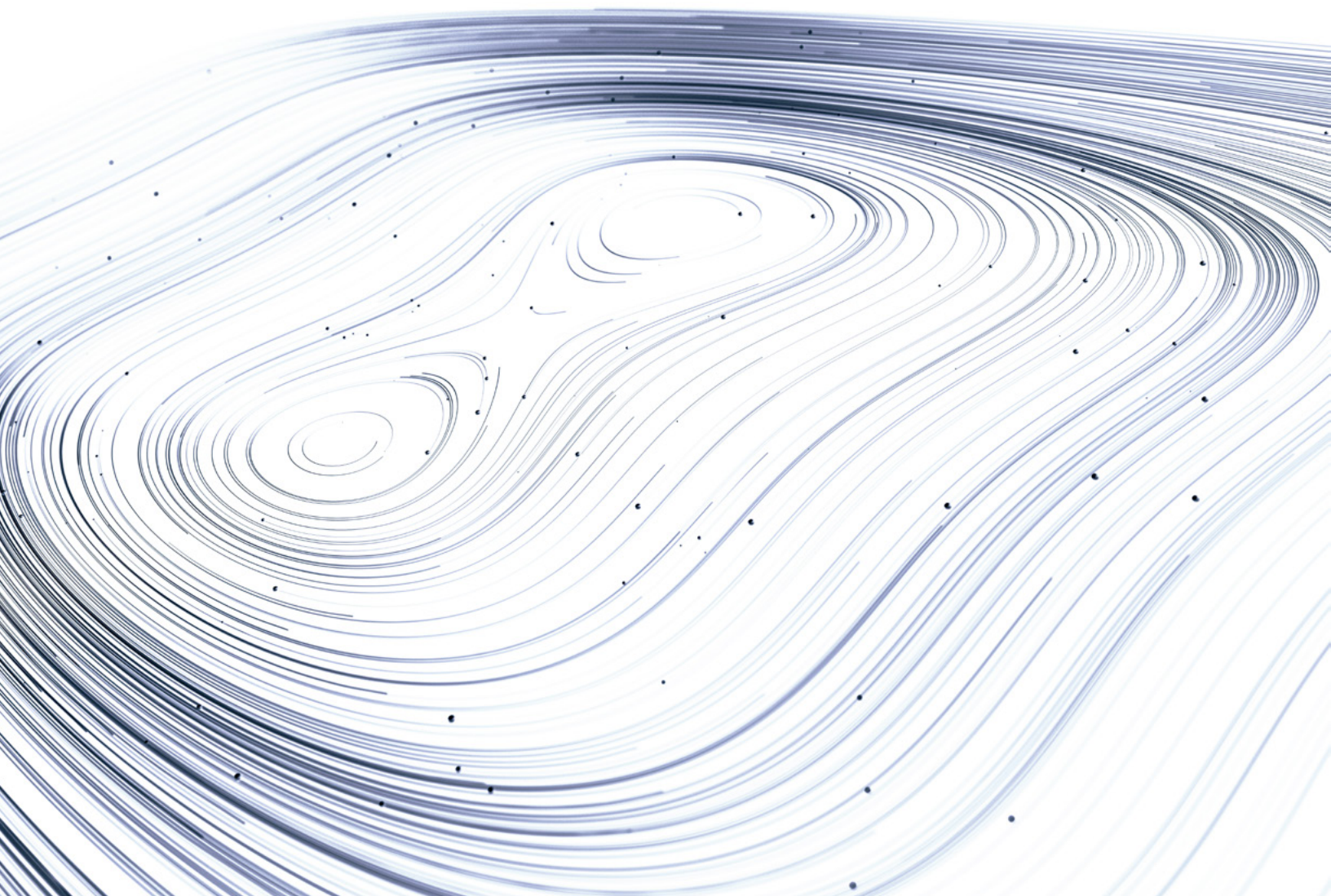




# Introduction

Over the past several years, organizations have adapted to seismic changes in their environment—a global pandemic, war, supply-chain disruptions, the rise of remote work, and a reconceiving of the corporation as a sustainable, inclusive enterprise, rather than just a short-term-profit focused business. And yet they still face unending volatility, only now in the form of high inflation, persistent labor constraints in many sectors, and the threat of recession. As a consequence, leading organizations are also fundamentally rethinking the way their corporate functions—such as HR, finance, procurement,

and real estate—will operate. Meeting the challenges will require companies both to **reset** these functions, especially to align to new cost pressures, and to radically **reimagine** some of these functions' fundamentals: what they do, how they do it, and most important, why they do it—the expanded impact they can potentially achieve in a digitally enabled world. This collection expands on both of these intertwined themes, identifying practical moves leaders can make to help their organizations navigate the present while preparing for the future.



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PART 1:

# Reset general and administrative expense to address cost

For functional organizations, recent experience underscores the need for sharper capabilities in cost management and planning for uncertainty. More broadly, that means learning how to better scale corporate costs in light of growing, stable, or shrinking revenue projections. The corporate center therefore plays a critical role in reshaping the organization for resilience, with shared business-services organizations also embarking on digital evolutions despite cost pressures. Finally, leaders find that they can learn new lessons from a powerful approach to building long-term flexibility: zero-based approaches to organization design.





Operations Practice

## Preparing for the future of SG&A

Shorter planning cycles, higher cost-cutting targets, and hybrid working models are defining how organizations reimagine their sales, general, and administrative (SG&A) functions.

*This article was written collaboratively by the global leaders of the McKinsey Corporate Business Functions Practice, a group that includes Michael Glaschke, Matt Jochim, Jung Paik, Abhishek Shirali, and Shubham Tiwari.*



**As the volatile business environment** of the past several years continues, it is clear that leaders need to reimagine their sales, general, and administrative (SG&A) functions beyond just ambitious cost-management programs. For many companies, the pandemic was a catalyst for transformative changes to operating models, and once-temporary fixes are now becoming embedded into new ways of working. Moreover, as macroeconomic and geopolitical uncertainties multiply, organizations are increasing the frequency of forecasting and shortening their planning cycles, building granular, driver-based budgets while preparing for multiple scenarios, allowing them to be more resilient and better manage volatility.

Simultaneously, a dispersed and evolving workforce continues to be a challenge. And, as the mass transition to remote working continues, and leaders embark on the next wave of automation and digital journeys—both for their own teams and their customers—plans are focusing on reskilling the current workforce and shifting investments towards digital channels and tools.

We see these trends come to life in the findings of our Global Executive Pulse Survey (see sidebar, “Our methodology”). Respondents report working on increased cost-reduction targets, rapidly modifying operating models, and redefining functional priorities. This major survey is undertaken on a semiannual basis. The latest iteration asked functional leaders across a wide range of industries and functions about how they are thinking about the future of SG&A.

## **Change is under way: five emerging trends**

Before the pandemic struck, the nature of SG&A functions was already changing to adapt to new workforce and customer needs—as well as to absorb wider socioeconomic effects. We found five emerging trends that are likely to shape SG&A functions throughout the coming decade.

Some of these trends were accelerated by COVID-19; as organizations managed its effects, overseeing a globally dispersed workforce and accommodating new talent requirements for SG&A work grew in importance. The extreme digitization of work became a clear priority, as well as an imperative to develop mitigation plans against increasing volatility. At the same time, shareholder concerns have kept evolving, encompassing far more than just financial performance (Exhibit 1).

## **The next wave of cost management**

Over the last ten years, SG&A functions such as HR, finance, and IT have continued to drive gains in efficiency. However, amid volatility, cost-reduction targets continue to become more aggressive. In our latest survey, respondents said they were aiming for an average cost-reduction target of about 16 percent for SG&A over the next year. This figure represents a 45 percent increase over our first survey, when targets hovered at around 11 percent—a time when organizations still had a more optimistic outlook on the business environment (Exhibit 2).

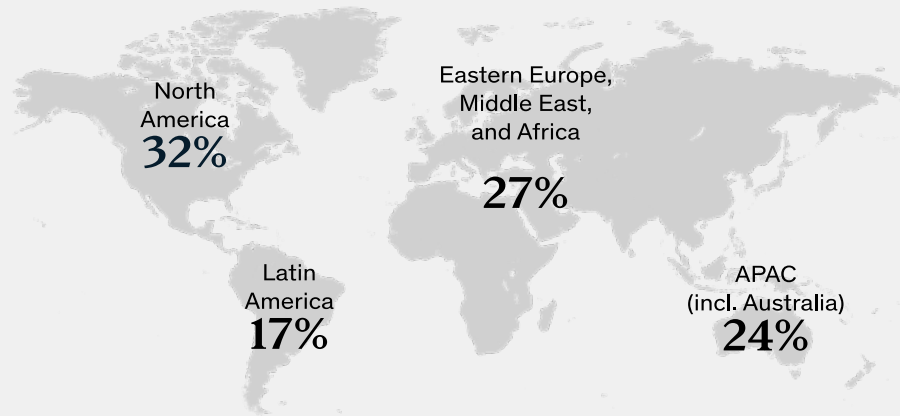
## Our methodology

The latest edition of our quarterly survey of senior executives across the world gathered responses from 200+ senior executives, split across the major geographic regions and with representation across manufacturers, service-industry organizations, and corporate functions (exhibit).

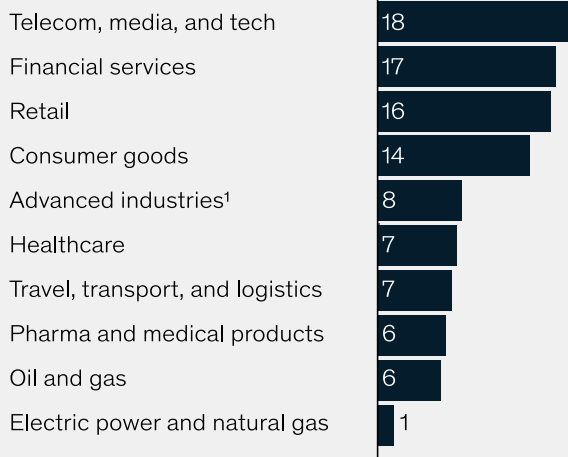
Exhibit

### We listened across industries and regions.

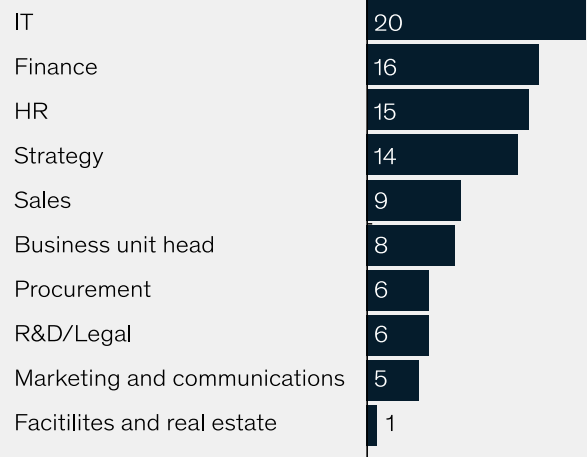
More than 200 senior executives



#### Industry, %



#### Function, %



<sup>1</sup>Advanced electronics, aerospace, automotive, defense, and semiconductors  
Source: McKinsey Corporate Business Functions Practice

Exhibit 1

## Five emerging trends are shaping the future of G&A.



Source: McKinsey Corporate Business Functions Practice

This urgent push can be seen in organizations embarking on the next wave of cost-management programs. One in two executives said that they planned to begin a cost-reduction program in 2021. However, uncertainty around the success of these programs continued to grow, with 70 percent of respondents saying they are unsure of whether the work will be successful—compared to 66 percent with that sentiment a year earlier (Exhibit 3).

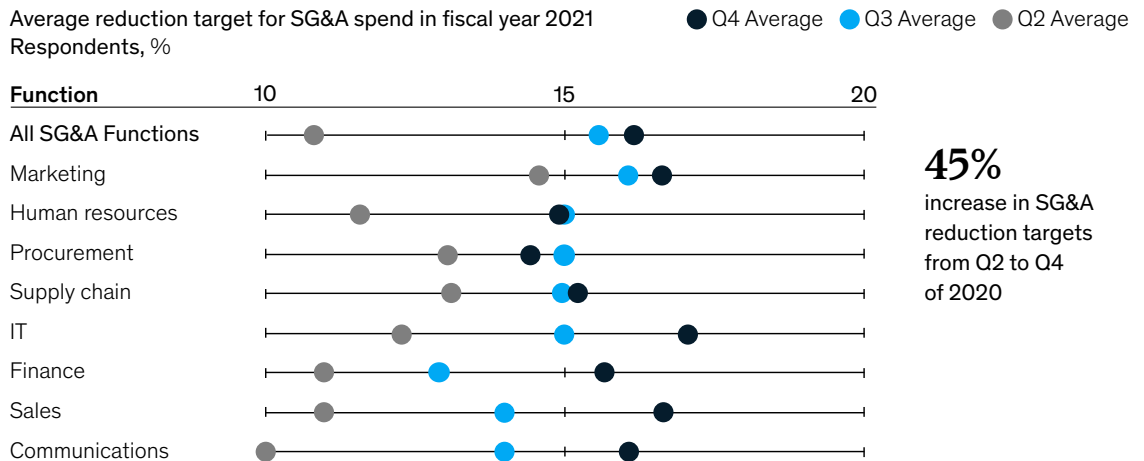
**This urgent push can be seen in organizations embarking on the next wave of cost-management programs.**



Exhibit 2

**A higher cost-reduction appetite still shows different aspirations across functions.**

**On average, executives call for a 10–20% reduction across functions**

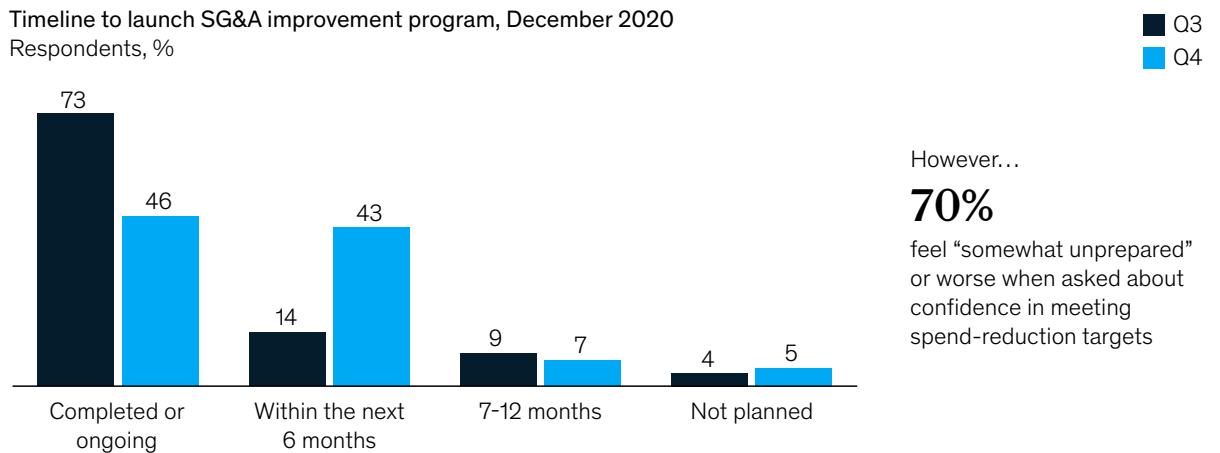


Source: McKinsey Corporate Business Functions Practice

Exhibit 3

**Organizations are preparing for the next wave of SG&A cost management.**

**But confidence in meeting targets is low**



Source: McKinsey Corporate Business Functions Practice

## Planning for uncertainty

As the pandemic continued, CFOs were required not only to act for the present, but also to start planning to become more resilient in the future. In response to questions about planning discipline, three out of five CFOs said they were increasing forecasting frequency, undertaking more regular scenario planning, and using the outcomes of these exercises to build driver-based budgets (Exhibit 4).

## The next wave of digital and analytics is here

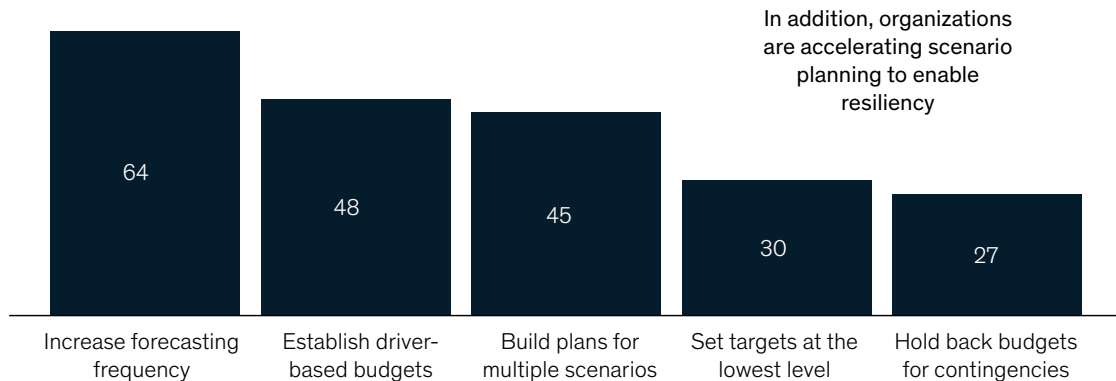
The past several years have shown the importance of digital and analytics solutions and automation for both SG&A teams and their customers. That importance has been reflected in investment levels, with two out of three executives saying that they had already increased spending in this area, and expected to continue to do so in future (Exhibit 5).

However, the reasons behind the investments varied, ranging from continued spending on existing strategic priorities to paying for short-term cost improvements. It should be noted that investments linked to strategic priorities were judged to be more successful than those with a short-term focus—a factor of success we've noted in our earlier work.

Exhibit 4

### CFOs are increasing forecast frequency and building driver-based budgets.

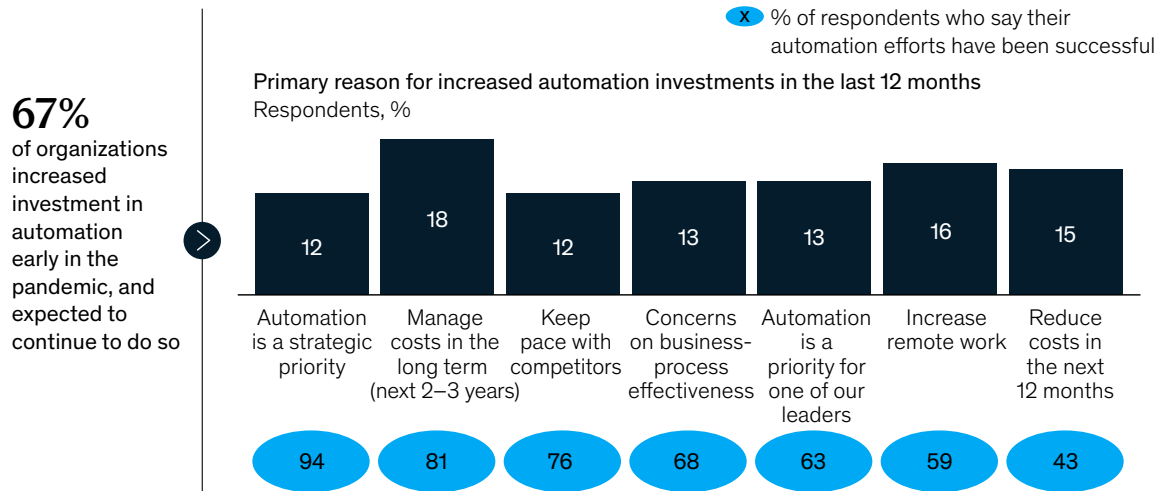
Finance-leader respondents, %



Source: McKinsey Corporate Business Functions Practice

Exhibit 5

## Regardless of goal, automation efforts were more likely to succeed when linked to strategic priorities, not short-term returns.



### Preparing for changing talent needs

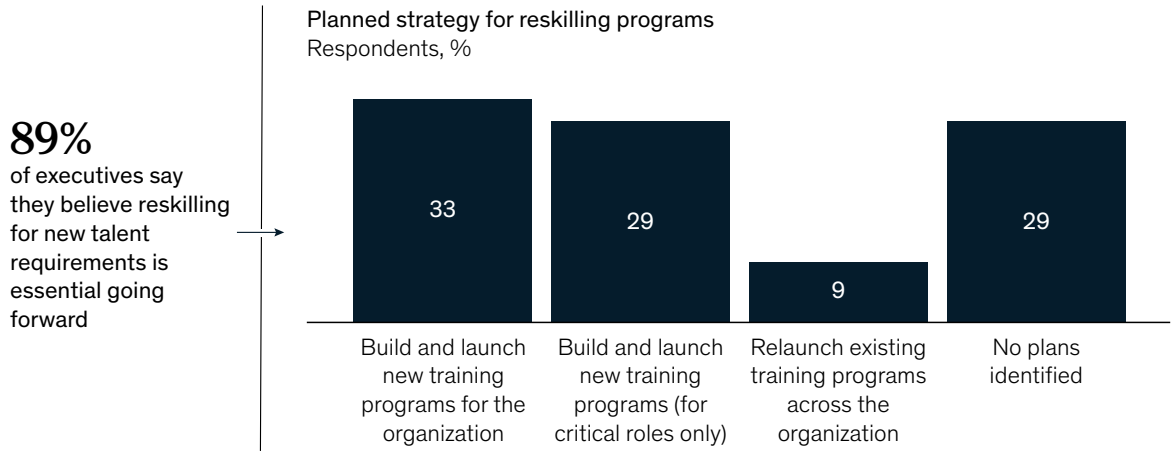
As organizations evolve their operations for the next normal, their talent requirements are simultaneously evolving. While the importance of reskilling is almost unanimously acknowledged, with 89 percent of respondents telling us that they believe reskilling will be essential in the future to meet new needs, organizations are not clear on the best way to run such programs. Strategies range across creating new programs for the whole organization, taking a more targeted approach, or relaunching existing programs. However, 29 percent of respondents have yet to identify how they want to develop any program (Exhibit 6).

As a result, many organizations have not begun reskilling programs, hampered by a mix of budget restrictions, a lack of understanding of future talent requirements, and insufficient senior-leader sponsorship.



Exhibit 6

**Reskilling programs are necessary, but getting started is hard.**



Much of the early pandemic was spent applying sticking-plaster solutions to allow organizations to act quickly. Now is the time to formalize new processes, such as frequent scenario planning, and embed them into daily working. And it is also the time to ensure that people have the skills they need to get the most from digital, analytics, and automation solutions. Doing so can help improve resilience for long term—even if uncertainty persists for the foreseeable future.

*This article was updated in June 2023; it was originally published in February 2021.*

The authors wish to thank Ryan Hamlin, Heiko Heimes, Piotr Kwasek, Roderick Lamb, Diana Mears, Rohit Panikkar, Samir Singh, Rob Whiteman, and Ed Woodcock for their contributions to this article.

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Operations Practice

# Acting where it makes a difference: The corporate center that can flex

The demands facing general and administrative functions are changing, strengthening the case for corporate centers to embrace more flexible operating models.



**In the postpandemic** next normal, general and administrative (G&A) functions are under pressure to become more digital, more agile, and better aligned to the needs of the wider business. The changes required to make those shifts must take place right across the organization, but the corporate center has a critical part to play in their success or failure. In a McKinsey survey of almost 300 global CXOs, 90 percent told us they believe that the corporate center will be a driver of change or a role model for the rest of the organization. And 70 percent of executives also expect corporate centers to become more relevant in the face of emerging demands.

As we have described elsewhere, those demands include the ability to react swiftly to a changing environment; basing those reactions on a thorough understanding of business needs; ensuring decisions are rapidly evaluated against internal and external data; and deploying resources flexibly when needed. To achieve these things, G&A functions will need to build a stable backbone for standard operations, together with a nimbler approach that can address change. The corporate center has a key role to play in realizing these adaptations.

## **Are you set up to succeed?**

Corporate centers take different forms, depending on the strategic goals of the organization and the role it requires the center to play in achieving those goals. As we noted in our article on corporate-center efficiency, companies have traditionally used one of three main archetypes. The “financial holding” corporate center took a hands-off approach, steering groups of highly independent businesses with a focus on investment and divestment decisions. At the other extreme, the “operator” used centralized skills and resources to run shared operations for the entire company. The most common archetype occupied the middle ground. “Strategic drivers” would steer the organization’s overall strategy, providing guidelines and policies but leaving execution autonomy to the business.

While any of these traditional archetypes can find ways to add agility to their operating models, a new generation of corporate centers has made it part of their DNA. In our work, we have identified two innovative archetypes. “Dynamic entrepreneurs,” popular among start-up incubators, take a more active approach than strategic drivers, with a selective focus on building infrastructure to support the organization’s priorities, and aggressively

## **What does it mean to be a dynamic entrepreneur?**

The dynamic-entrepreneur corporate-center archetype continuously assesses portfolio companies with a special focus on priority KPIs to drive aggressive M&A activity. Unlike the older financial-holding archetype, these corporate centers focus on acquisition targets in which access to

the corporate-center infrastructure has the potential to create additional value.

A dynamic entrepreneur will decide which central G&A infrastructure will be offered to each business in the portfolio based on the organization’s strategic priorities. That

might be HR and recruiting for talent-driven IT companies or procurement and vendor management for quality-driven manufacturers.

Beyond the infrastructure of the selected functions, a dynamic entrepreneur will grant broad autonomy to the businesses in its portfolio.



managing their portfolios (see sidebar “What does it mean to be a dynamic entrepreneur?”).

Most recently, we have seen the emergence of the “adjustor” archetype evolving among tech giants, a corporate center that frequently modifies its steering model according to the type and maturity of the businesses within the portfolio. An adjustor may even perform a different type of role for different parts of one business. Indeed, it is the flexibility of these innovative archetypes that make them an interesting option for organizations facing increasingly complex and fast-moving environments (see sidebar, “What does it mean to be an adjustor?”).

### **Building the corporate center of the future**

About two-thirds of the executives in our survey say that their organization is not ready to meet its current targets. And 75 percent say they have already kicked off programs to improve the efficiency and/or effectiveness of G&A activities. We believe that the transition to future operating models will require even greater changes to the corporate center. This belief is common both

among corporate-center executives and business unit leaders.

These future models will be designed to simplify business administration by eliminating the functional silos that characterize many G&A activities today. This will pave the way for work to be planned and executed along the end-to-end journeys taken by business stakeholders. And companies will increasingly use flexible, project-based resources that can quickly be redeployed to support changing business priorities.

Of today’s corporate-center archetypes, some are better equipped than others to take a leadership role in the transition to these future G&A models. Companies using the operator model, for example, are well positioned to break down functional silos and build end-to-end journeys for their stakeholders, as a recent example of an international chemicals player transforming its G&A functions shows. On the other hand, they may lack the outward-looking, commercial focus to help the business anticipate and respond to a rapidly evolving environment.

## **What does it mean to be an adjustor?**

The adjustor type of corporate center typically manages a portfolio of diverse companies or business units in fast-paced industries. The portfolio will often contain companies at levels of maturity, from start-ups to stable stand-alone businesses.

And adjustor actively monitors the situation of portfolio companies to understand

the most appropriate type of intervention by the corporate center. External shocks or priority changes are evaluated against the ability of the business unit to address them internally.

The adjustor may adopt the practices of any of the existing corporate-center archetypes, depending on the needs of

each business in its portfolio. It acts like a hands-off financial-holding type of center for some businesses. It drives policies like a strategic driver for others. And it offers active hands-on support like an operator for the rest.

The adjustor and dynamic-entrepreneur archetypes, by contrast, do have the necessary commercial mindset. And they can ensure that different types of roles can be deployed into agile flow-to-work pools to focus on new initiatives, while shifting repeatable tasks to a backbone of increasingly automated digital services.

For companies using the strategic-driver and financial-holding archetypes, most G&A activities are designed and executed outside the corporate center. These tasks are undertaken either by individual business units or by a separate shared services center. As a result, such corporate centers will play a much smaller role in the G&A transition.

### Time for a new model?

In the coming years, these differences, combined with other commercial and operational factors,

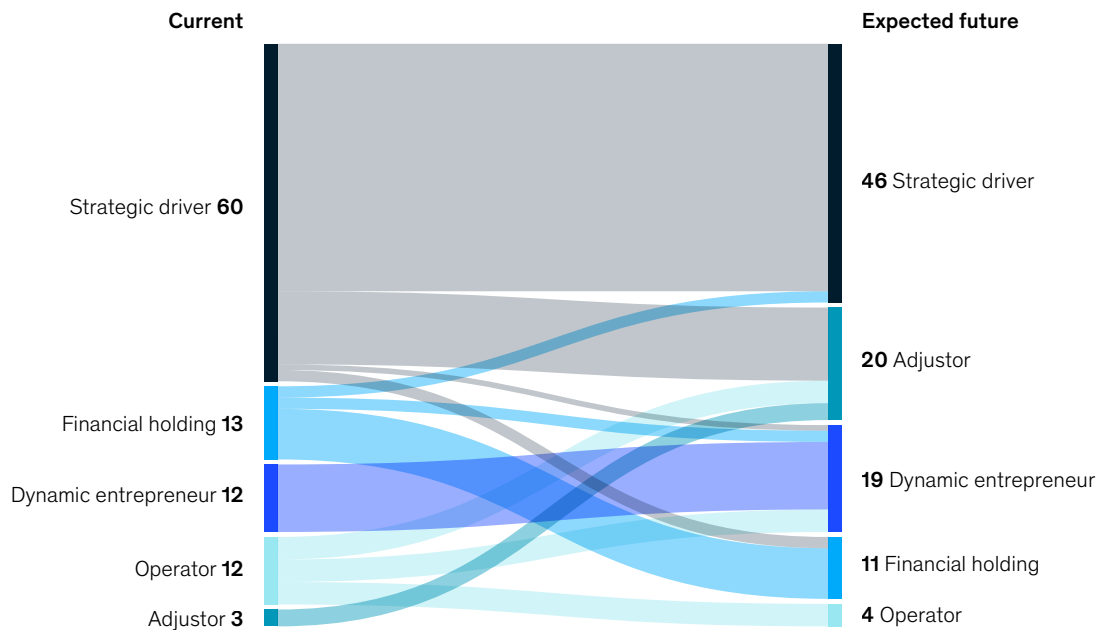
appear set to lead some companies to reevaluate their choice of corporate-center archetype (exhibit). Specifically, a significant shift is building toward the relatively new adjustor archetype, especially by strategic drivers and operators. This shift would allow corporate centers to offer support that is tailored to the different needs of various business units.

A second likely, and significant, change will be a shift from the operator, strategic-driver, and financial-holding archetypes to dynamic entrepreneur. In a volatile and uncertain world, the dynamic-entrepreneur archetype increases the organization's ability to make quick, data-driven business decisions and to allocate investment in a hands-on, agile way. The strategic driver will probably remain the most common archetype, given the sheer volume of its presence today. Operators, with their

Exhibit

## A shift in the distribution of corporate-center archetypes would likely lead to more adjustors.

Distribution of corporate-center archetypes, %



Note: 80 companies analyzed; data from 2017–2021  
Source: McKinsey analysis

strong (but slightly bureaucratic) governance over the business might be the most likely to change.

The changes are already starting to happen. For example, hiring talent for new advanced-analytics roles is one area where many organizations are considering the benefits of being a dynamic entrepreneur. This topic was cited as a top priority for 65 percent of the executives in our survey. And indeed, one midsize oil and gas company recently made the shift to the dynamic-entrepreneur archetype so that it could run its talent acquisition and IT platform from the corporate center.

Newer organizations, focusing on dynamic-growth industries and digital technologies, are increasingly choosing one of the innovative archetypes as their corporate-center model of choice. This is visible among venture capital/start-up incubators across Europe, many of which aim to support their portfolio companies where they believe they can make the most difference: in building up talent capabilities, scaling up sales, or designing effective strategies. They therefore choose to run their businesses as dynamic entrepreneurs.

### **What does this mean for your corporate center?**

Corporate centers will need to decide now how to support their organizations in preparation for

the future G&A trends—rethinking their purpose, considering how to set the organization up for success, and deciding what actions to take.

The part played by the corporate center in shaping the future G&A organization depends upon its archetype. If your organization is an operator, adjustor, or dynamic-entrepreneur type, the corporate center can play a significant role in adapting the organization. If your corporate center is a strategic-driver or financial-holding type, however, those adaptations must be driven elsewhere.

The biggest challenge lies ahead of organizations that chose to switch their corporate-center archetype from strategic driver or financial holding to adjustor or dynamic entrepreneur. These organizations need new capabilities to play a more hands-on role in the business. This is the only way to ensure that the corporate center can successfully support the wider organization in the adaptation and reinvention of G&A activities.

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Companies making decisions on these shifts will need to have a structured reflection on how best to manage their portfolios, control risks, access talent, and drive performance and efficiency in their organizations. The answers to those questions will shape the future landscape of corporate centers.

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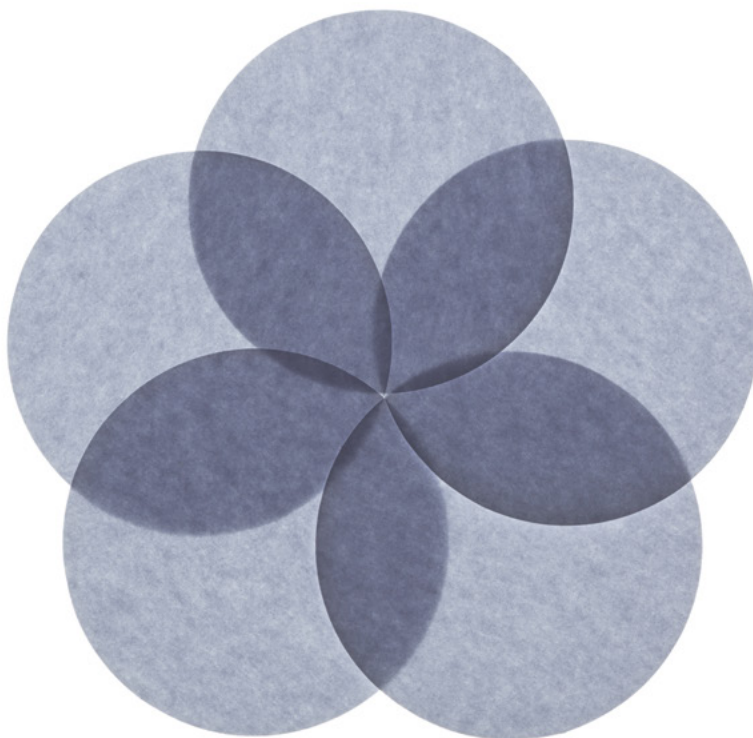


Operations Practice

# Global business-services sourcing comes of age

How can companies ensure their technology and business-services sourcing is creating real value? And how can service providers create propositions that support continued growth?

*This article is a collaborative effort by Ankit Arora, Hiren Chheda, Heiko Heimes, Anuj Kadyan, Jonathan Silver, and Samir Singh.*



**The global technology** and business-process-services industry, estimated to be worth up to \$900 billion to \$1 trillion per year, is expected to grow at an annual rate of about 5 percent over the next five years. As in virtually every sector of the economy, the COVID-19 pandemic tested the resilience both of the industry's clients and of the service providers—which stepped up their game in response. Our research indicates that more than 90 percent of global services hubs made the transition to a remote delivery model with virtually no loss of productivity, client service experience, or employee satisfaction.

As they look forward to the easing of pandemic-era restrictions, enterprises are further accelerating their digitization efforts and planning for a world where hybrid working is increasingly the norm. That's encouraging them to revisit several key decisions concerning future global delivery models.

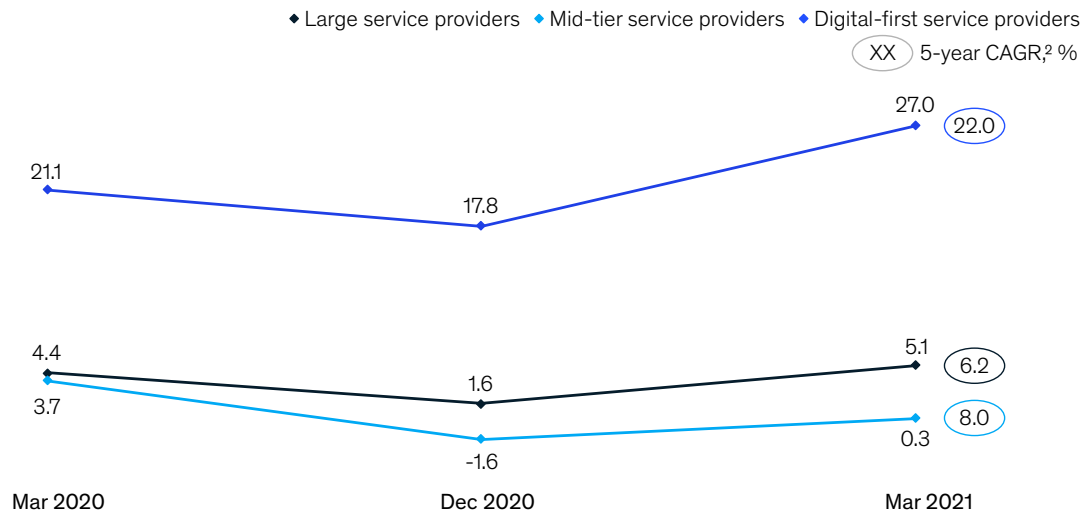
The growth of touchless customer interactions based on apps and self-service web portals is making the digitization of core processes a necessity, rather than a nice-to-have. In addition, the COVID-19 crisis has altered demand patterns, increased cost pressures, and made seamless remote-delivery capabilities essential.

Partnership with service providers continues to be an integral part of many companies' responses to these challenges, and providers are reporting expanding order pipelines. Large-scale service providers, for example, showed revenue growth of 5.1 percent for the first quarter of 2021, up from 1.6 percent in the previous quarter (Exhibit 1). Global sourcing deals are increasingly structured around targeted outcomes and delivered as a service. Instead of providing only skilled people, service providers will often supply process expertise and technology platforms as well.

Exhibit 1

## Growth in the global services-sourcing market is accelerating, led by a new breed of digital-first providers.

### Revenue growth of global service providers,<sup>1</sup> %



<sup>1</sup>Year-on-year revenue growth. Large service providers are those with revenue of more than \$5 billion (n=15); mid-tier service providers have revenue of \$200 million to \$1 billion (n=10); and digital-first service providers have revenue of \$500 million to \$2.5 billion (n=5).  
<sup>2</sup>Compound annual growth rate  
 Source: Company reports

On the other hand, the traditional service-provider advantages, including scale and access to talent, are being upended by end-to-end automation. Increasingly, depth of business and functional-domain knowledge, paired with the ability to pilot and scale up use cases deploying digital and analytical technologies, are becoming critical selection criteria for enterprise buyers. Digital-first service providers—companies with digital- and analytics-based offerings as a core value proposition—are now challenging incumbent players. Over the past five years, digital-first providers have grown by an estimated 22 percent, almost three times faster than comparable mid-tier incumbents.

## Five discontinuities driving the future of global sourcing

A set of discontinuities is creating critical shifts in the way enterprises source services, and the way service providers evolve their value propositions (Exhibit 2). First, tech-native companies are blurring boundaries to create new revenue pools. We believe these players are likely to drive nearly 75 percent of enterprise spend by 2030. Second, the pace of technological change is accelerating, with technology cycles expected to shrink by 50 percent over the next decade. This further reduces the time to market of new platforms and service offerings. Third, as enterprises streamline and standardize their processes, “as-a-service”

Exhibit 2

### Five discontinuities are reshaping the global sourcing of technology and business services.



#### Sectors without borders

Tech natives and digital reinventors appear likely to drive nearly 75% of enterprise tech spend by 2030

Leading players blur sectoral boundaries to target newer revenue pools; typically want to own the core technology but often outsource running the operations



#### Shorter technology cycles

Technology cycles likely to shorten by 50%, accelerating time to market

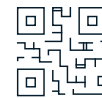
Ecosystems and alliances with niche technology platforms emerging as key; 30–40% of global sourcing over the next 5 years could be partnership- or consortium-led



#### Software eating into services

As more enterprises productize their domains, spend on software likely to be disproportionately higher than that of services

As-a-service–based offerings could be a major driver of future growth for service providers



#### Delivery's evolving future

Agile ways of working are proliferating, including hyper-digitization (eg, software that writes its own code)

A hybrid form of remote and distributed working is likely to continue to be an integral part of the delivery model



#### Barbell-shaped deal curves

Large deals are getting larger, with transformation at the core of the contracts; small deals are getting smaller, centering on specialized point solutions

Requires a new set of capabilities for enterprises to effectively source and service providers to drive growth



offerings could emerge as a central driver of global sourcing. Fourth, digitized and hybrid remote-based ways of working may continue to be an integral part of the delivery model.

Fifth, the scale and scope of global sourcing deals are rapidly evolving. The share of the deal market claimed by large deals (those with a total contract value of greater than \$500 million) has grown by more than 40 percent over the last five years, while the share claimed by small deals (total contract value of less than \$50 million) has shrunk by 16 percent. Large deals are increasingly becoming multitower and transformation focused, while small deals are focused on specialized point solutions.

### **For enterprise buyers, broader scope and flexibility**

As enterprises continue to transform their business and operating models, five considerations can help them carve out a win-win proposition for the sourcing of IT and business-process services.

- **Rethink and expand the scope of services.** Sourcing can now reach beyond the traditional focus on noncore and transactional services—recognizing that yesterday’s “core capability” probably won’t be tomorrow’s. Over the years, service providers have increased the maturity of their offerings to support integrated services, strengthening their industry-domain expertise and developing technology ecosystems that span both core platforms and digital edge solutions. Enterprise buyers can therefore look at sourcing options not only for transactional tasks but also for entire end-to-end service journeys.
- **See service providers as potential transformation partners.** For enterprise buyers, a new concern is to consider the transformational capabilities of service providers, including sector-domain experience and facility with digital and design thinking. Providers that excel in these skills can offer new commercial models allowing for consumption-based pricing, or even self-funded transformation. These arrangements often include a strong upfront commitment to

productivity improvement, with payout plans linked to business outcomes.

One global high-tech company worked with a service provider to significantly automate its legacy processes and move to an agile delivery model. The service provider rebadged the client’s staff in North America and Asia hubs, and upskilled and augmented the existing talent pool with next-generation agile delivery practices, backed by enhanced skill sets in automation, digital, and analytics.

- **Adopt flexible operating models.** More creativity could help buyers release value while retaining specialized knowledge. Options include carve-out models that transfer people to the service provider, and may also include the transfer of technology assets and infrastructure. Typically, enterprise buyers commit a minimum volume of business to the service provider over a longer term—for instance, up to 5 or 10 years—and new iterations include the provider managing the client’s transition to new processes and technology platforms.
  - **Access top talent with new workforce structures.** The pace and complexity of today’s business requires access to the most advanced capabilities. Enterprises are therefore searching for ways to tap into wider talent pools, such as independent contractors and on-call online-platform workers, especially for niche technology skills.
- A leading medical-distribution organization has widened its hiring channels by organizing hackathons with an open-source community of technology professionals. The company then short-lists candidates who create the best solutions. While it still uses the traditional channels of hiring (such as social media and job portals), the organization realized that the open-source community channels were far more productive, particularly to attract talent with expertise in niche technologies.
- **Strengthen risk management.** Digitization and the rise in remote working create new data-security and privacy challenges. Managing

those risks may require changes to operating practices, such as enhanced risk and security controls, improved recovery and business-continuity planning, new safeguarding policies, and additional cybersecurity training for employees. Concentration risks require continual reevaluation, particularly for critical business processes with a very low tolerance for delay.

### **For service providers, transforming for impact**

Even as enterprises look to accelerate capability building through effective service-provider partnerships, the value propositions of incumbent service providers are being challenged by digital-native specialists. These twin pressures yield five implications for service providers to continue to deliver value.

- ***Drive business outcomes.*** Service providers can achieve significant impact by bridging the gap between technology and business to help their clients achieve ambitious business targets. But doing so requires service providers to augment their functional-domain knowledge and gain a deeper understanding of underlying processes.

In a procurement engagement for a global manufacturing company, one service provider overhauled its client's buyer journeys. It created an integrated workflow tool that significantly improved the buyer experience and accelerated the average order-cycle time. The tool streamlined the process based on two major interventions. First, it enabled single-click buying, using an integrated electronic purchase catalog. Second, it created a structured supplier-approval process that was customized for each purchase category. In addition, the provider improved transparency by deploying real-time KPI dashboards, which measured performance relative to internal aspirations and the performance of the client's peers.

- ***Attract top digital talent and forge alliances.*** A significant share of the services economy is shifting to a technology-led approach, with a

broad range of businesses now competing in this space. These include vertical platforms for specific industries and functions, hyperscale cloud-service providers, and cloud-based application platforms. As incumbent service providers expand their offerings, they face the challenge of attracting in-demand digital talent—and navigating the market to find partners with distinctive capabilities to fill crucial gaps.

In our estimate, up to 30 or 40 percent of the opportunity pipeline for incumbent service providers could involve these types of partnerships. To capture that potential, service providers can reorganize and renew their capabilities to serve cloud and software-as-a-service providers. This could involve a strong partnership engine and a joint go-to-market strategy. In the most common model, the technology-platform player owns the core technology, while the service provider offers a complementary, highly skilled workforce.

A leading services provider has created an ecosystem of partners (including a cloud-based hyper-scaler and a workforce-optimization suite) to build a comprehensive portfolio of omnichannel contact-center solutions. By integrating cloud-engineering capabilities, the service provider created a range of as-a-service offerings, such as contact-as-a-service. This approach helps reduce clients' service-rate costs and accelerates time to market. It also allows the service provider to drive impact for clients across a range of outcomes: improving end-customer experience (through artificial intelligence-based chat bots or built-in analytics modules to generate predictive insights); increasing client revenue, through enhanced up-sell capabilities; and driving true operational excellence (through customized smart visual dashboards, or gamified routing of customer queries to the best available representatives).

- ***Offer transformation as a service.*** Transformation capability as a value proposition is increasingly becoming a differentiator, creating new openings for service providers

to expand their roles in serving their clients. Newer service offerings that emphasize design thinking, agile delivery, centers of excellence, and at-scale business-process automation can help challenge the client's legacy technology and business-process models.

For example, one global service provider has engaged with a North America-based financial institution, guaranteeing specific productivity improvements while investing to migrate the institution to a new cloud-based technology platform. The switch from owning the technology to a usage-based model reduces the institution's upfront costs while freeing its people to focus on core business development and product innovation.

- **Unlock innovation at scale.** Service providers back their promises by demonstrating innovative use cases with clear pathways to scale-up and value capture. For many providers, this will mean either building their internal capabilities or effectively partnering to form an innovation ecosystem.

Creativity can help in finding resources to support these. As part of several large engagements, one leading service provider often proposes to invest 1 to 2 percent of the annual contract value as an "innovation fund." The investment is intended to identify, pilot, and

scale up use cases based on the latest disruptive technologies.

- **Construct flexible commercial propositions.** Service providers are well placed to meet their customer's twin needs for greater efficiency and lower upfront costs. This can be done with variabilized cost models, such as as-a-service or output-linked pricing. In addition, depending on the scope, tenure, and size of the deal—along with time to value—service providers can offer upfront investments or productivity commitments. Flexible operating models are an increasing requirement as well; for instance, providers may consider buying out existing enterprises' operating units through a carve-out model. This may include rebranding, transfer of client technology assets, as well as build-operate transfer arrangements that hand new capabilities back to the client at a future date.

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Driven by rapid digitization and a post-pandemic normal, the next generation of services-sourcing models is at an inflection point. Enterprises will continue to drive tech enablement and consolidation of business-process services, and to integrate internal and external partner capabilities. As lines blur in the service-provider landscape, players have a chance to create new and profitable models that better serve emerging needs.

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The authors wish to thank Anusha Goel for her contributions to this article.

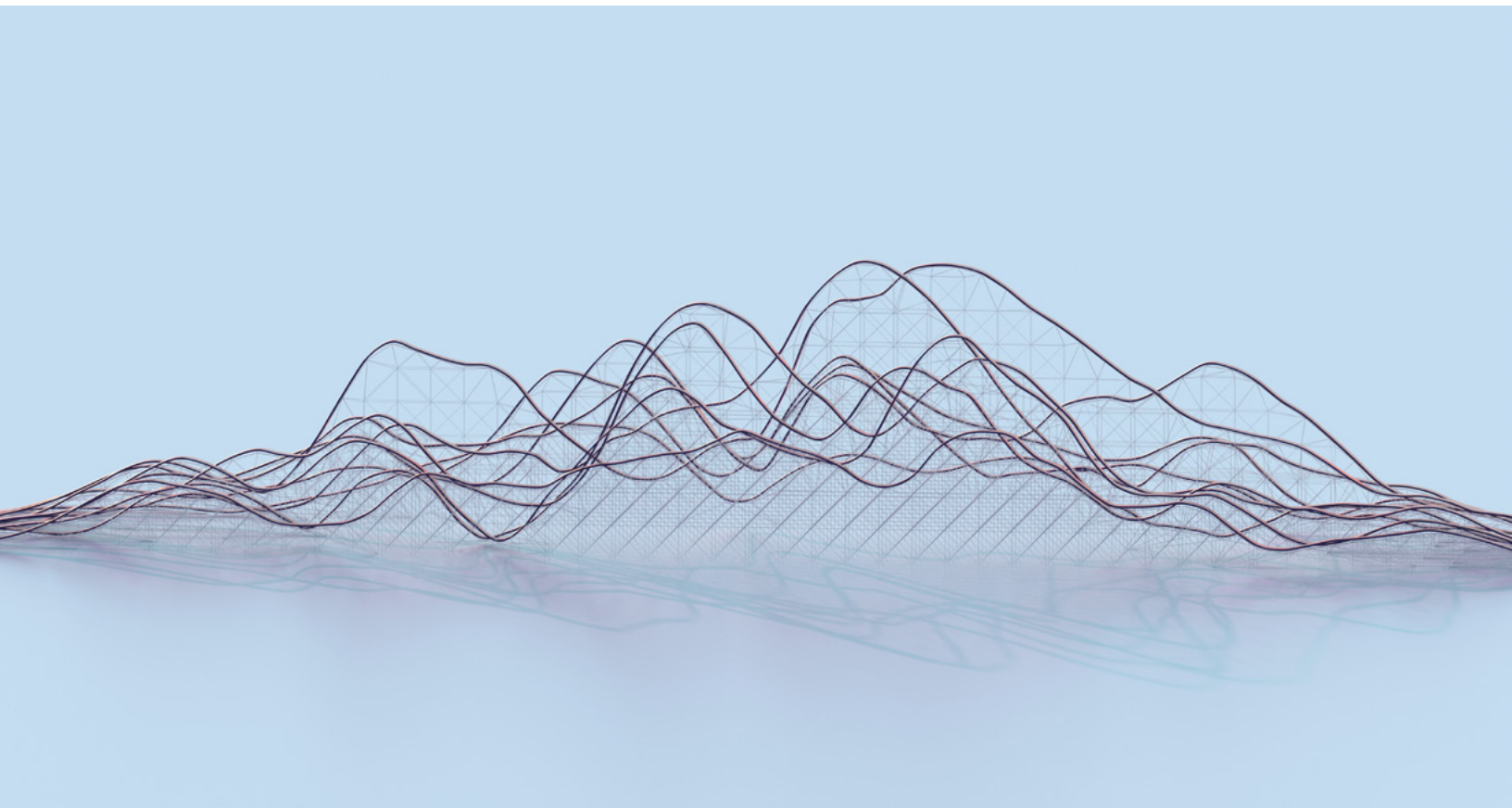
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Operations Practice

# Do your G&A functions fit your growth trajectory?

New research shows how a company's growth trajectory affects the size of its HR and finance functions. The insights can help leaders shape general and administrative functions to strategic needs.

*This article was a collaborative effort by Michael Glaschke, Heiko Heimes, Piotr Kwasek, Arkadiusz Malyska, Łukasz Niemiec, and Kristina Porfirova, representing views of McKinsey's Service Operations Practice.*





**The Covid-19 pandemic has shifted** the path of many businesses. While some companies are enjoying a boom, many others are experiencing significant distress. In this difficult and uncertain environment, executives report increased pressure to reduce costs in HR, finance, and other general and administrative (G&A) functions. For example, a McKinsey survey of more than 300 global CxOs found that cost-reduction targets for G&A functions increased by up to five percentage points between the second and third of quarters of 2020.

That survey also showed that most companies were still pursuing a one-size-fits-all approach to G&A cost management—a finding reinforced by research conducted in early 2021. CxOs reported cost-reduction targets of 10 to 20 percent across all G&A functions, and 80 percent said the dispersion between the targets for individual functions was less than 20 percent.

These findings suggest that companies may not be learning the lessons of the past. In the 2008 financial crisis, blanket cost-reduction measures ended up reducing the effectiveness of already-efficient functions, or harming organizations' ability to achieve their strategic objectives.

So how can a business make smarter resource-allocation decisions in G&A? Part of the answer lies in recognizing that a company's growth trajectory has a significant impact on the optimum size and makeup of individual functions. To examine this effect, we took an in-depth look at the HR and finance functions of around 300 manufacturing companies following different long-term growth paths (see sidebar, "Our methodology").

Exhibit 1 summarizes our top-level findings. It shows the average "improvement opportunity," or the difference between the size of the HR and finance functions in the companies we analyzed and their best-performing peers. All of the groups in our survey had the potential to improve their efficiency, with significant gaps to the top performers in their sectors. We were most interested, however, in the differences between the shrinking, stable, and growing groups.

As the chart shows, the two functions exhibit opposing effects. Among shrinking companies, the HR function was 19 percent more efficient than in the stable and growing groups. But the finance function was a different story: at shrinking companies, it was 13 percent less efficient than in

## Our methodology

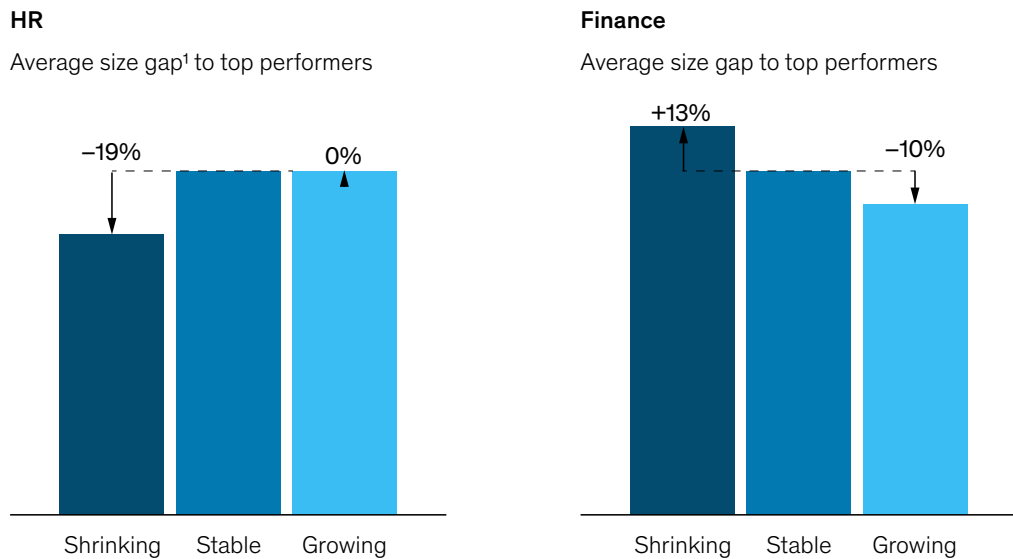
In this work, we analyzed data from around 300 manufacturing companies that had participated in proprietary McKinsey benchmarks on G&A performance over the past 20 years. We divided the companies into three groups—growing, stable, and shrinking—based on their average EBITDA growth over the five years leading up to the benchmarking exercise. Companies in the "growing" group showed a five-year compound annual growth rate of greater than 5 percent; "shrinking" companies shrank by at least 5 percent; and "stable" companies were those in the middle.

For each group, we looked at each company's support ratios in the HR and finance functions, which relate the number of staff in each function to the overall size of the business. Our initial, high-level calculations used aggregate data, comparing the average support ratio in the group with companies in the top quartile of our benchmark for G&A efficiency, after controlling for size, location, and industry segment. We then examined the HR and finance functions to see how much of what they did was "strategic" (such as organizational development in HR or financial planning and analysis in finance) and how much was "operational" (such as payroll administration or accounts payable). Comparing the size of the relevant subunits within HR and finance yielded a proxy for this measurement.

Exhibit 1

## An organization's growth trajectory has a split effect on HR and finance-function efficiency.

Compared to peers, shrinking companies' HR functions are more efficient, while their finance functions are much less efficient



<sup>1</sup>Difference between a company's efficiency-level size and the estimated benchmark for top-quartile efficiency.

stable ones, and some 25 percent less efficient than in growing group.

That finding makes intuitive sense. Shrinking companies are less likely to need to recruit new staff, and are more likely to reduce their headcount. Over the long term, that leads to lower demand for recruitment, staffing, and personnel-development resources. In finance, by contrast, falling profits might increase the need for cash-flow control, planning and budgeting, and expense-policy reinforcement.

A deeper dive into the data reveals a more nuanced story. In a second analytical step, we looked at the makeup of the two functions within companies. We compared the relative numbers of strategic roles, such as talent sourcing or tax planning, and operational roles, such as payroll or invoice

processing. Once again, we found important differences between functions.

### A split in HR: Shrinking operational roles

"Strategic" HR functions proved to be relatively similar across all three groups of companies in our analysis, with shrinking companies only slightly smaller, and growing companies slightly larger than their stable counterparts (Exhibit 2). That's unsurprising: strategic HR teams always have work to do in adjusting an organization's workforce to its changing needs. The nature of that work will change, however, with shrinking companies seeking to optimize the performance of their existing workforces, while growing ones focus on finding ways to acquire talent and fill emerging capability gaps.

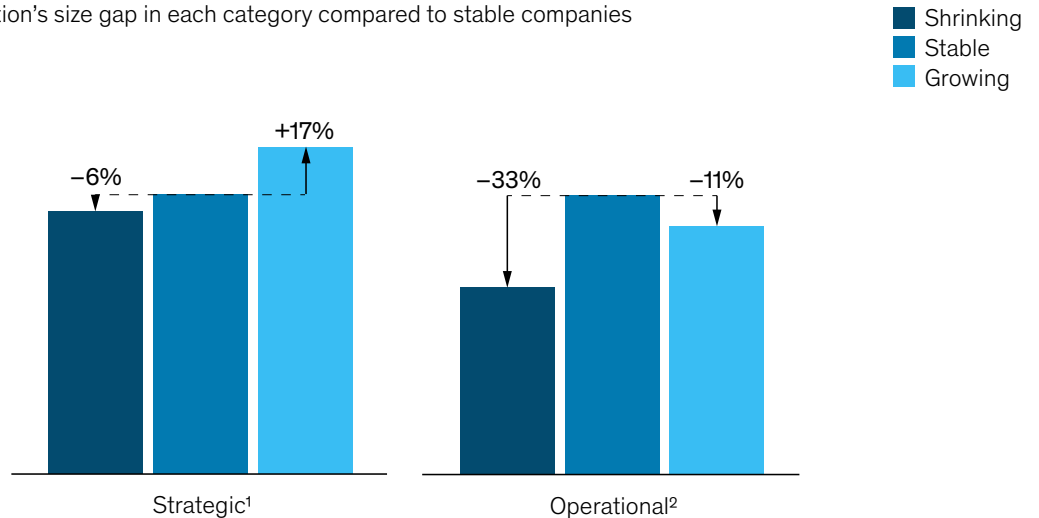
Exhibit 2

## At shrinking companies, strategic HR roles remain while operational HR roles plummet.

The size gaps within HR functions illustrate the different pressures that result from a shrinking business

### Strategic and operational HR functions

Average HR function's size gap in each category compared to stable companies



<sup>1</sup>Strategic HR functions include strategy planning and policy; organizational development; and compensation planning and performance management.  
<sup>2</sup>Operational HR functions include talent sourcing and recruiting administration; learning and development; employee community and services; benefits administration; time collection, attendance and payroll administration; and record keeping and reporting.

Operational HR functions in shrinking companies, by contrast, are significantly smaller than those in stable companies. There are two likely drivers here. First, operational HR staffing demand correlates both to the organization's overall level of employment and to its rate of growth. For example, the talent-sourcing and recruiting function in the shrinking company group was 35 percent smaller than the equivalent function in stable or growing companies. Second, the nature of operational HR activities makes them primary targets for optimization levers such as centralization or automation.

### Finance function: A premium for strategy

Different growth trajectories had the opposite effect on strategic and operational roles in finance. Our analysis revealed only small differences between the relative numbers of operational roles at shrinking, stable, and growing companies. Shrinking companies, however, invested more than 50 percent more resources in strategic-finance activities than did their stable or growing peers (Exhibit 3).

In shrinking companies, demand for higher levels of strategic finance-function support could be driven

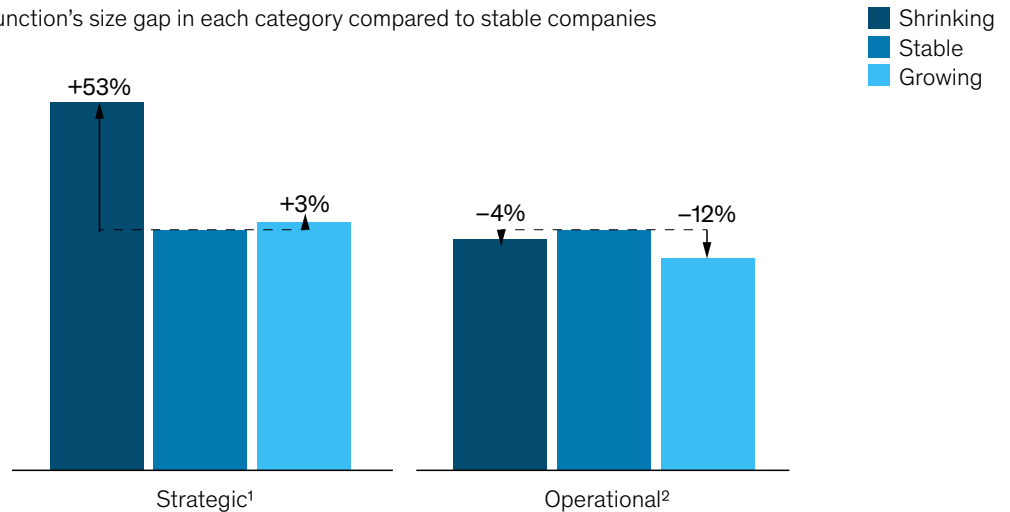
Exhibit 3

## Shrinking companies invest heavily in strategic-finance roles.

### Operational finance-function activities show little correlation to a company's growth trajectory

#### Strategic and operational finance functions

Average finance function's size gap in each category compared to stable companies



<sup>1</sup>Strategic finance functions include tax, treasury, and financial planning and analysis.

<sup>2</sup>Operational finance functions include general accounting, revenue management, and accounts payable.

by a number of factors. Thoughtful forecasting and budgeting, diligent P&L statement analysis, and strict internal reporting policies will all increase the workload of the finance department. And companies under financial stress also are more likely to need to minimize the cost of capital by optimizing debt-equity structures and better managing the timing of cash inflows and outflows, both of which are the responsibility of treasury teams.

Demand for operational tasks in finance, by contrast, tends to remain fairly stable whether a company is growing, stable, or shrinking. At one major chemicals company, for example, financial distress forced a large-scale cost-cutting effort across the business. Managers realized that there were few

opportunities for savings in the finance organization's shared-service center, however, since the work was driven by the differing requirements of the various regions in which it operated.

#### The case for tailoring cost management

This analysis reinforces the case for a targeted approach to cost management in G&A functions. Rather than imposing across-the-board savings targets, companies would likely do better to consider the impact of their short- and medium-term growth trajectory on demand for the services those functions provide. And the same reasoning applies at a more granular level. Within functions, different growth patterns will affect the demand for strategic and operational resources in different ways.



Furthermore, our analysis reveals standard practice, not best practice. Shrinking companies may need more strategic resources in their finance functions because there is more work to do. Or it may be because they are not flexible enough to deploy resources where they are needed most. Similarly, stable and growing companies might have larger HR functions because they lose focus on efficiency and cost discipline.

Every company, regardless of its growth trajectory, can aim to improve the effectiveness of G&A functions as well as their efficiency. That requires the use of more sophisticated levers than top-down cost targets. Ramping up automation and digitization, for example, allows G&A tasks that are more transactional to be completed using self-service portals with little human intervention. Equipping strategic staff with advanced-analytics tools—and the skills to use them—helps the existing workforce generate more value, more rapidly.

Those levers can be easy to forget when an organization focuses exclusively on tough G&A cost targets. The struggling chemicals player we described above avoided cuts to its operational finance function, but leaders were unable to secure

investment in a digitization project that they knew would deliver significant long-term efficiency improvements.

When they understand that demand for some roles will rise while it falls elsewhere, companies can also reskill or upskill existing staff to meet emerging needs. That approach retains experience and knowledge within the business, and moving personnel between functions can lead to improved mutual understanding and more effective cross-functional collaboration. High-performing G&A functions are increasingly adopting agile organizational approaches, with pools of specialist staff who flow to wherever demand is highest, forming cross-functional teams to deliver projects that address the highest priorities of the business.

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Benchmarking reveals evidence of nuanced decisions in how businesses structure their G&A functions depending on their strategic growth needs. These findings argue for flexibility and strategic thought in translating financial strategies into frontline operations.

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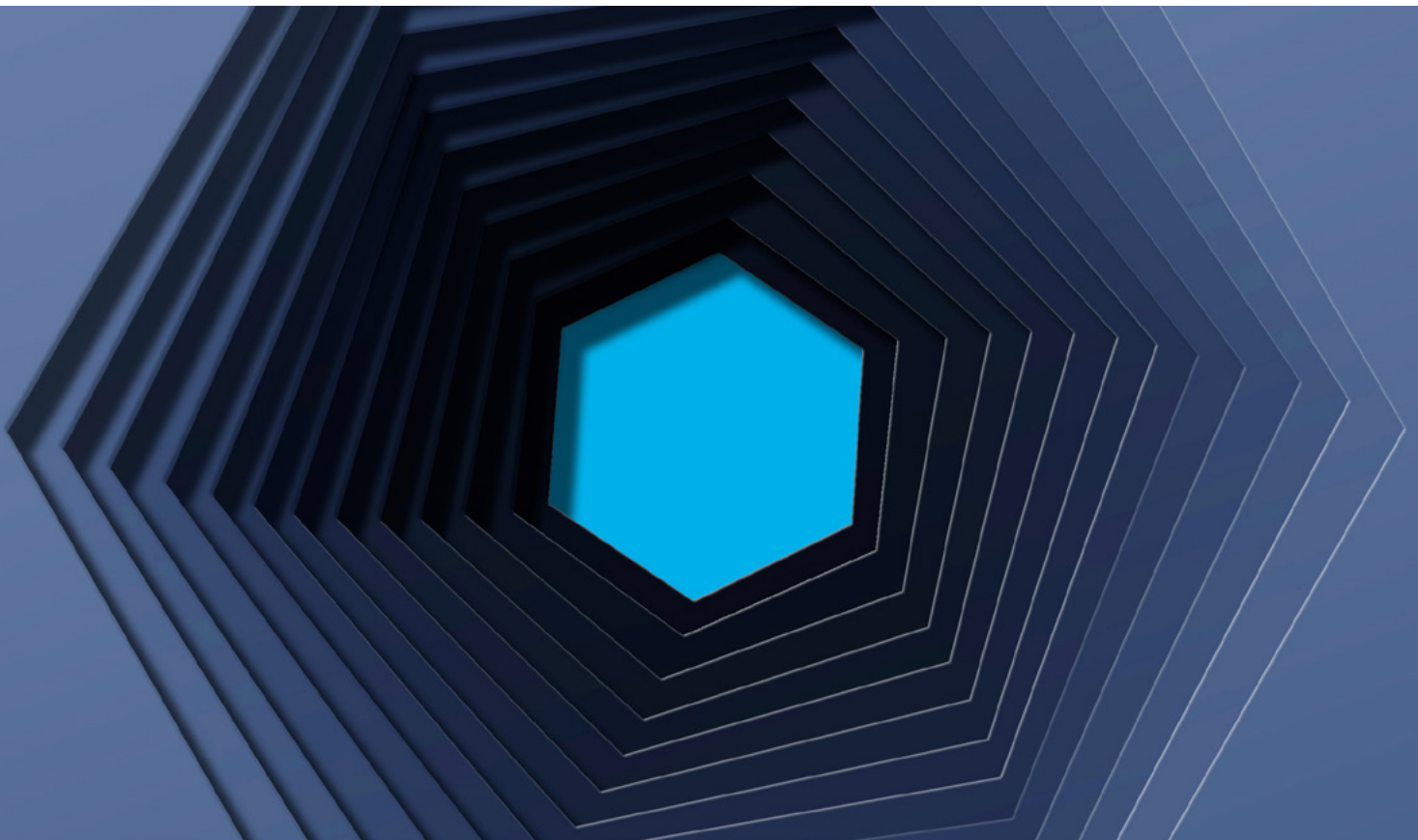
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Operations Practice

# The corporate center: Driving the next normal

As the COVID-19 pandemic continues, evidence is mounting that the next normal will bring key shifts. As organizations adjust, they're looking at the corporate center to take the lead in driving the change.

*by Torsten Bernauer, Nathalie Bouvier-Tersiguel, Heiko Heimes, and Abhishek Shirali*



**As the fight against COVID-19** continues across the globe, organizations are adapting their operations as they reimagine the next normal. Physical restrictions remain in many geographies, and while some companies have been able to return staff to offices, many have either closed again or significantly increased remote work. This is increasing pressures to improve remote working technologies and reduce spending on office spaces.

In our latest survey (see sidebar, “Our methodology”) of nearly 300 global CXOs across industries and functions, we found an increased imperative for sales, general, and administrative (SG&A) spend, while adjusting for the next normal. Our conclusions about how the role of the

corporate center is envisaged in the context of the next normal are laid out below.

### Cost is still king

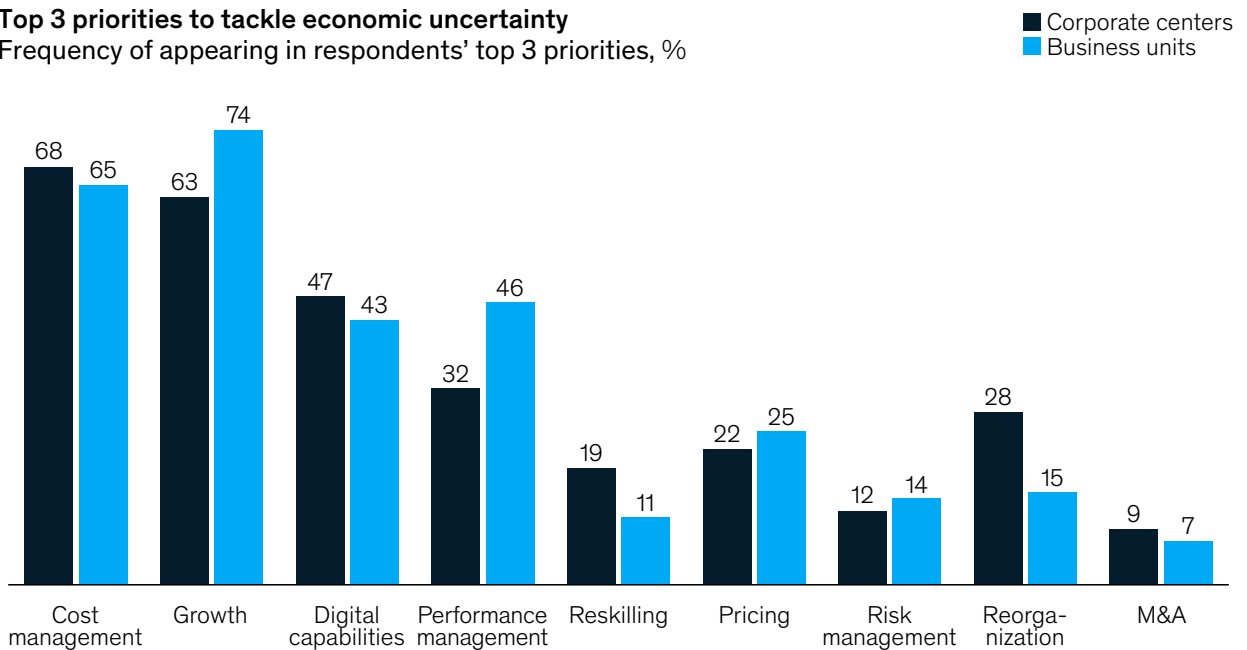
As we found in our earlier survey, cost management remains the highest priority across all parts of organizations—68 percent of respondents from corporate centers rated cost management as their highest priority. Growth and digital capability building follow closely, with differences across the organization. We especially noted the additional focus that corporate centers are placing on reorganization: 28 percent of these respondents included it in their top three priorities, compared to only 15 percent among business-unit respondents (Exhibit 1).

Exhibit 1

## Cost management, growth, and digital capabilities are top priorities in both corporate centers and business units.

### Top 3 priorities to tackle economic uncertainty

Frequency of appearing in respondents’ top 3 priorities, %



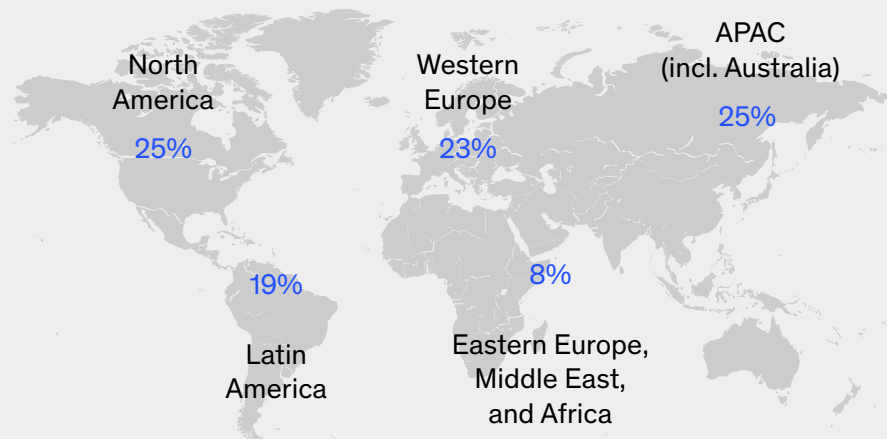
## Our methodology

The latest edition of our quarterly survey of CXOs across the world gathered responses from 283 C-suite leaders, split across the major geographic regions and with representation across corporate centers (67 percent of respondents), business units (25 percent), and shared services (6 percent) (exhibit). A wide range of sectors were represented, with the highest number of responses from the telecom, media, and technology subsectors at 22 percent, financial services close behind at 21 percent, and retail accounting for 15 percent. Functional representation was diverse as well, with finance, HR, procurement, and IT together accounting for just over 60 percent of the total responses.

Exhibit

**We listened across industries and regions.**

**289 CXOs  
as of September 2020**



### Industry, %

Telecom, media, and tech	22
Financial services	21
Retail	15
Healthcare	11
Consumer goods	10
Travel, transport, and logistics	7
Pharma and medical products	7
Metals and mining	3
Other	5

### Organization, %

Corporate center	67
Business unit	25
Shared services	6
Other	1

Source: McKinsey Corporate Business Functions Practice

## Light at the end of the tunnel?

In our last report, we suggested that while the cost-improvement train had left the station, the final destination for many SG&A programs was unclear, with targets varying substantially. It seems that little has changed in the intervening months: three-quarters of executives across the whole organization report having kicked off their improvement programs, but ambitions regarding target percentage reductions continue to differ slightly among functional roles.

Nevertheless, corporate-center leaders appear to be assuming a pivotal role in driving cost-reduction targets, particularly in facilities (21 percent), HR (19 percent), and strategy (18 percent). We also found that across all functions, executives envision target reductions of 15–20 percent over the next two years. Looking with more granularity across

functions, HR, strategy, and finance leaders working in corporate centers call for slightly higher reductions than their peers from business units (Exhibit 2). Additionally, within procurement functions, business unit–based leaders are calling for 20 percent reductions, compared to 15 percent reductions among corporate-center respondents.

## A new role for the corporate center?

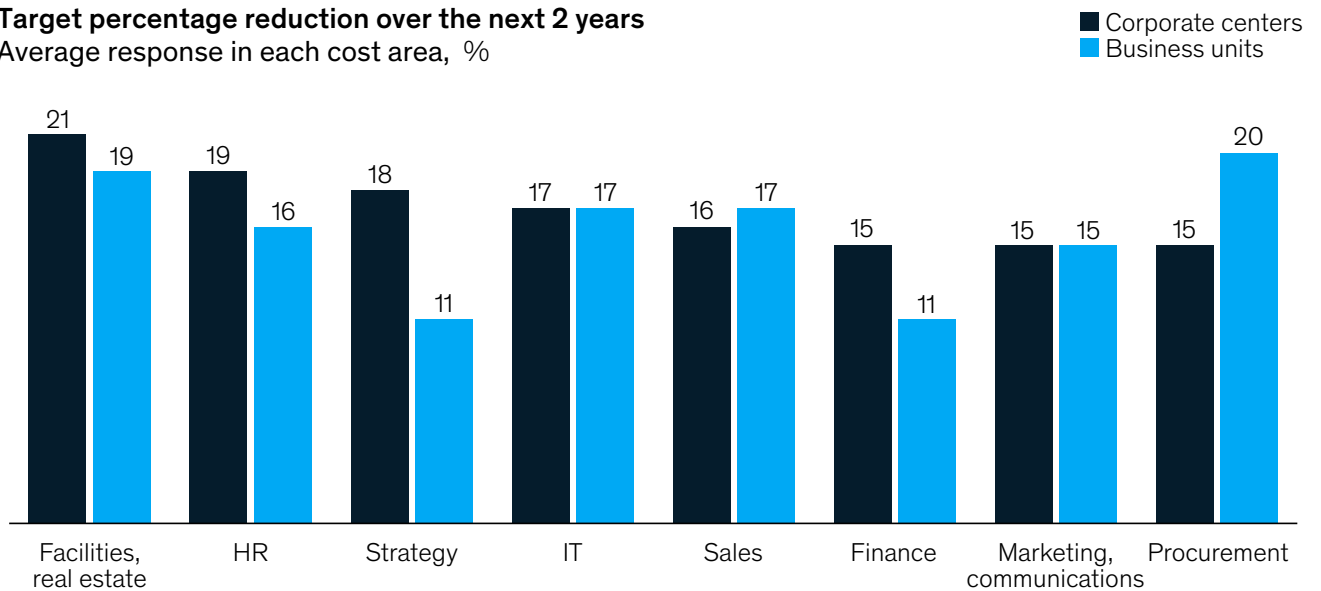
While cost considerations are one of the biggest drivers of the decision-making process, and tough choices will continue to be necessary across the whole organization as targets are set for the next normal, the role of the corporate center in leading the way is increasing in importance. We found that executives in all organizations expect the corporate center to drive change—and, increasingly, to serve as a role model across the whole organization.

Exhibit 2

### Real estate, HR, and strategy leaders in corporate centers call for higher reductions than do peers from business units.

#### Target percentage reduction over the next 2 years

Average response in each cost area, %





In particular, we found that while 90 percent of corporate-center executives believe that the corporate center will be a driver of change or a role model for the rest of the organization (Exhibit 3), 75 percent of business unit leaders are also aligned with this mission, which legitimizes and reinforces the role of the corporate center. We also found that more than 80 percent of the whole organization expects the corporate center to contribute to cost initiatives in line with, or even more than, the rest of the organization.

This could be important for overall organization success, as transformational work in the corporate center can serve as a beacon for the entire company, and efficiency in one functional area of the corporate center can imply efficiency in other functions.

This correlation is showing itself in practice, with about 80 percent of all executives envisioning the corporate center as driving strategy setting, and about 65 percent of executives seeing it as leading the financial direction of the organization (Exhibit 4). Additionally, corporate centers are expected to play a role in driving new ways of working, and also in driving an optimization of physical space.

### Challenges are equal, but pressures are not

We have seen all parts of the organization facing parallel challenges, with 50 to 70 percent of executives listing pressures to make changes to the working model, to work more efficiently (doing more

Exhibit 3

**More than 90 percent of respondents expect corporate centers to drive or role model change.**

### Which role will the corporate center play in changing ways of working?

Respondents, %

■ Corporate centers  
■ Business units

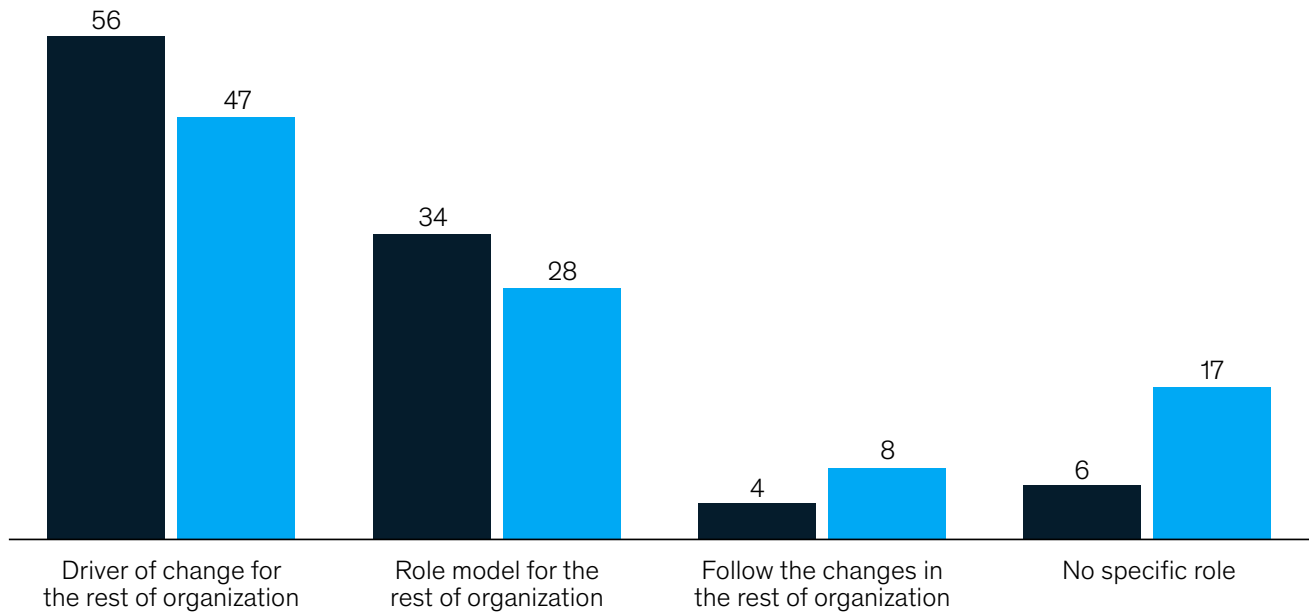
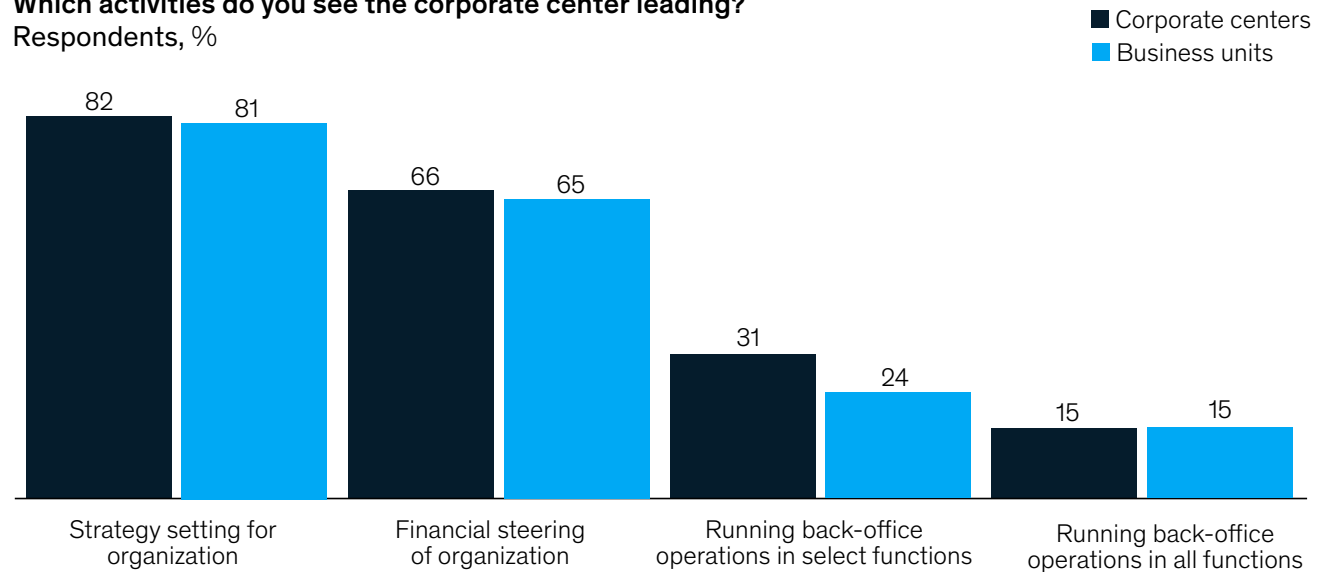


Exhibit 4

## Across organizations, executives see the corporate center taking a greater lead in strategy and financial activities.

### Which activities do you see the corporate center leading?

Respondents, %



with less), and to increase the adoption of digital technologies as their current issues to address.

However, corporate centers are setting higher goals regarding the adoption of work from home, likely because business units need a higher share of employees to work on-site, leaving remote working a lower priority. Furthermore, while all organizations are modifying policies to enable remote working, corporate centers are the frontrunners regarding reduction of travel, establishment of online training, and allowing people to work from home for more than two days a week (Exhibit 5).

The pressures being felt by business units to implement remote working extend beyond technological infrastructure. Business-unit executives list coaching (67 percent), burnout (64 percent), and workflow issues (50 percent) as specific challenges in the current situation—all challenges that seem to be significantly less relevant for corporate-center executives, with numbers

respectively reduced to 55 percent, 52 percent, and 37 percent (Exhibit 6).

### Does the rise of remote working mean the fall of the office?

With corporate centers facing fewer challenges relating to remote working, the question they now face is in their use of space. Many are planning aggressive optimization of office space in the next nine months, compared to business units. Our results showed that in the short term, 68 percent of corporate-center executives plan to reconfigure office space, versus 54 percent in business units. Additionally, over the mid term, 30 percent of corporate centers want to terminate existing leases early, compared with 14 percent of business units. Finally, as they look to the longer term, 55 percent of corporate centers plan to shift towards fewer and lower-cost locations, a step reported among only 28 percent of business-unit respondents (Exhibit 7).

Exhibit 5

### Remote work is being adopted across the organization.

**Top 5 policy modifications**  
Respondents, %

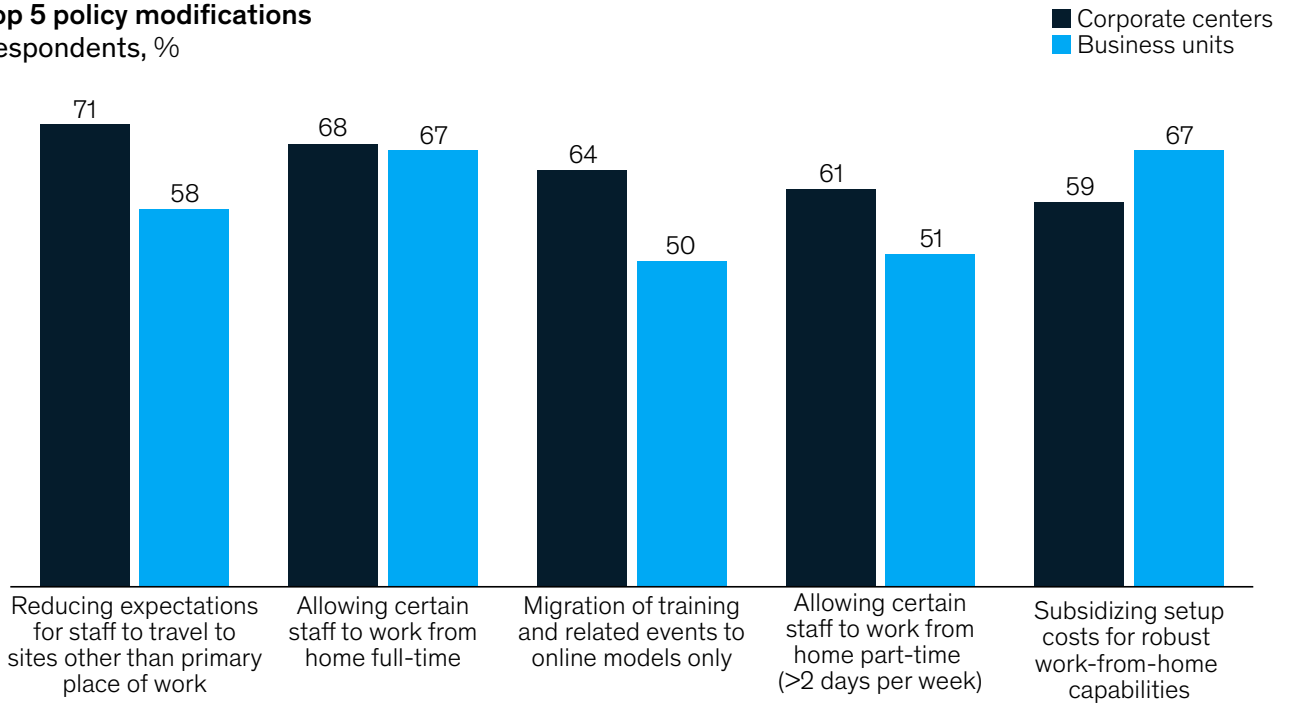


Exhibit 6

### Business units face greater challenges in sustaining remote working.

**Top challenges in sustaining work from home beyond current emergency situation**  
Respondents, %

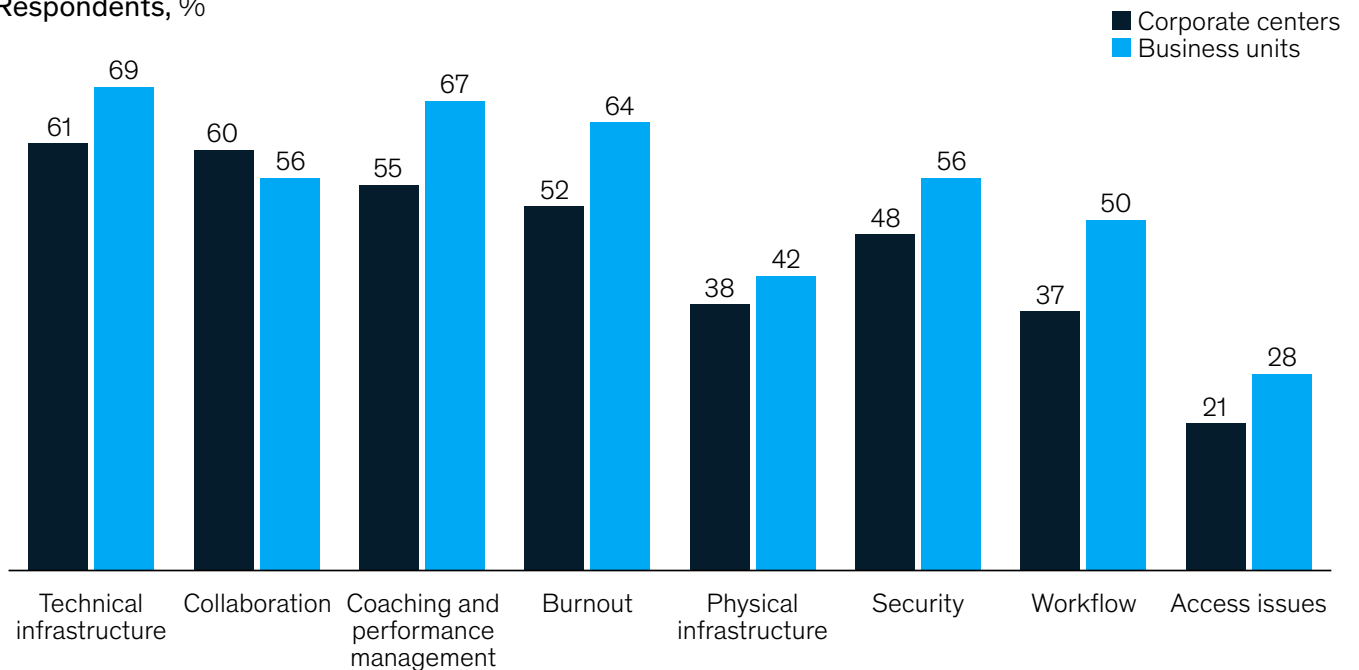


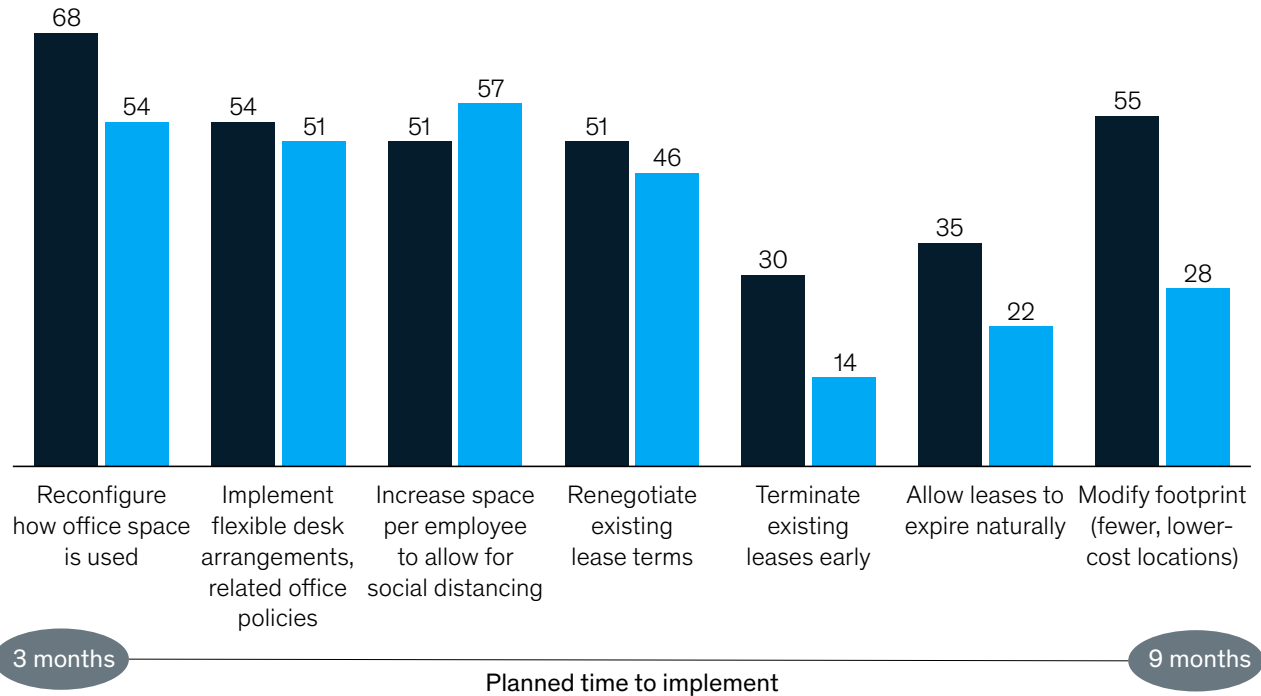
Exhibit 7

**Corporate centers are planning a more radical optimization of office space.**

**Top steps to optimize office space**

Respondents, %

■ Corporate centers  
■ Business units



Corporate centers and business units are experiencing different pressures as they adapt for

the next normal. And while cost remains the major driving factor behind decision making for all parts of the organization, there is a new opportunity for the corporate center to drive the agenda.

**Torsten Bernauer** is an associate partner in McKinsey's Munich office, **Nathalie Bouvier-Tersiguel** is a partner in the Paris office, **Heiko Heimes** is a partner in the Hamburg office, and **Abhishek Shirali** is an expert in the Atlanta office.

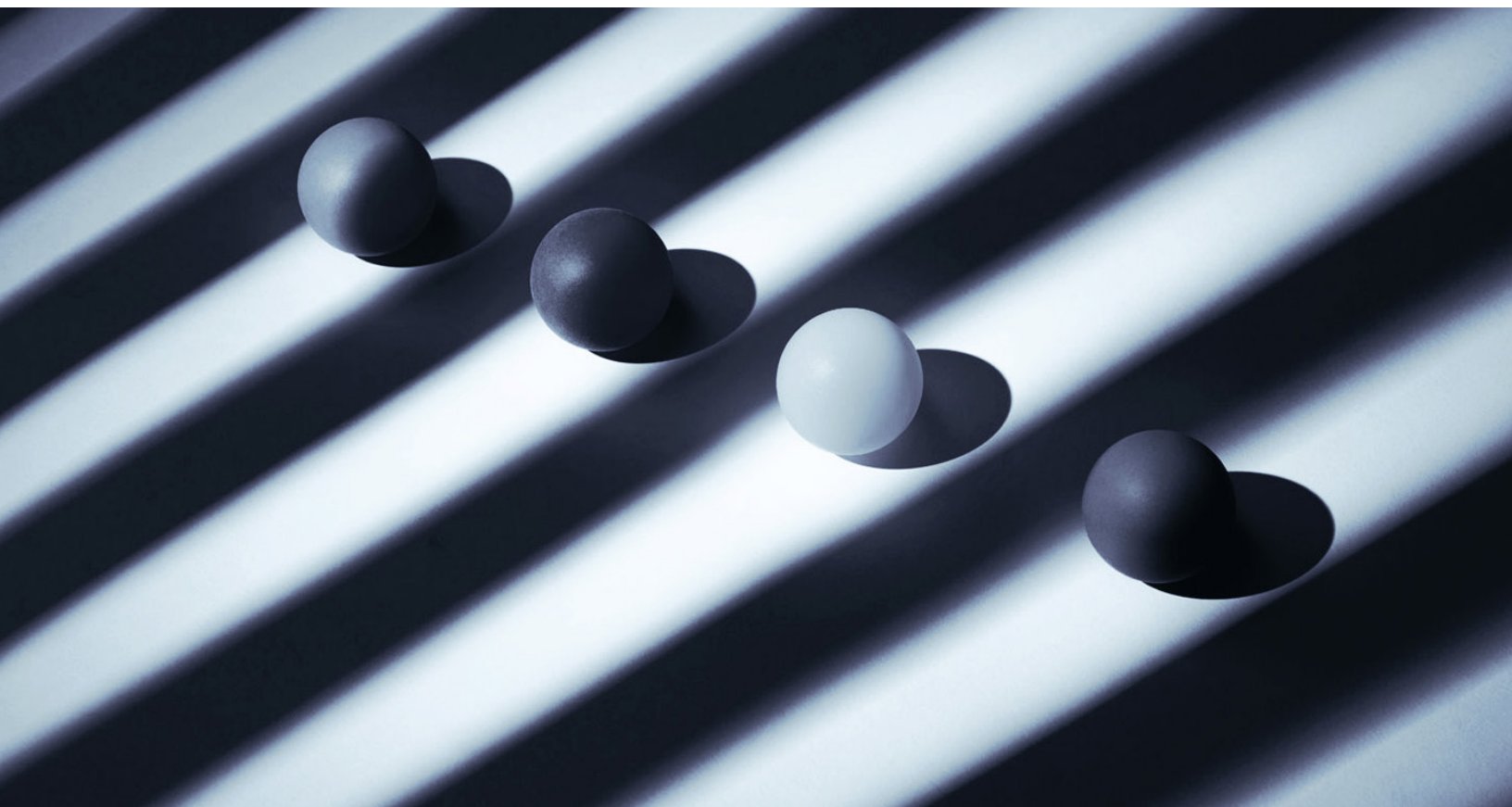
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Operations Practice

# The SG&A imperative in times of crisis

A crisis presents unique challenges in making wise spending decisions. Zero-based principles can help leaders move SG&A investments where they should be—rather than where they have always been.

*by Ankur Agrawal, Stefon Burns, Kyle Hawke, and Matt Jochim*





**Companies across the globe** continue to weather volatility in the wake of the COVID-19 pandemic, geopolitical uncertainty, supply-chain disruption, inflation, and concern over economic growth. Organizations are reassessing almost every aspect of their operations, asking urgent questions about how to allocate and deploy limited resources amid extraordinary stresses.

Leaders are responding on multiple fronts simultaneously—working to safeguard their employees and customers and to understand significant volatility in demand, supply, and cost.

To support their businesses in the short term—and, ultimately, sustain a recovery in the long term—organizations will need greater operational and financial flexibility. That will mean looking for opportunities both to preserve cash now and to be ready to reinvest nimbly for the future.

This requirement is leading CFOs to rethink how they can manage their sales, general, and administrative (SG&A) activities to identify opportunities for realigning spending in a rapidly changing business environment. Within separate business functions, leaders are also balancing the immediate need for resources against the longer-term need to build and maintain capabilities critical for a recovery, all while ensuring that their spending aligns with their corporate purpose and their many responsibilities to employees, customers, and communities.

One business leader noted that the easy decisions, such as those relating to travel and events, have already been made (or taken out of businesses' hands completely). By contrast, the majority of spending choices involve harder trade-offs, requiring new levels of visibility, governance, and thoughtful discussion so that leaders can align on priorities in making some of the most consequential decisions they are likely to face.

### **Lessons from resilient leaders**

In 2019, our colleagues demonstrated that resilient companies—those that most successfully weathered the 2008 downturn—moved faster to create balance-sheet flexibility than their peers,

and then accelerated faster as economic conditions showed signs of recovery. They achieved three times the improvement in operating expenses as a percentage of revenue than their “nonresilient” peers, and did so substantially earlier, “saving their powder” and preserving capacity to invest in growth, while keeping SG&A in line with sales as revenue fell. Additionally, most companies classified as resilient stand apart from peers on multiple financial and operational metrics through both downturns and recovery, including revenue and earnings before interest, taxes, depreciation, and amortization.

Building on experience from prior downturns, and recognizing the unique characteristics of current conditions, we suggest a four-phase approach to help organizations respond to the potential for prolonged economic uncertainty across the SG&A spend base. By utilizing some of the core principles of zero-based productivity, the approach enables increased spend visibility, enhances spend-management mechanisms, and improves the links between business strategy, financial forecasting, and frontline spending.

The four phases correlate to the stages we expect companies will follow as they find their paths to the “next normal” (Exhibit 1). In “resolve,” companies manage an immediate reduction in spend. In building “resilience,” organizations enable better spending choices by a deeper understanding of trade-offs. The “return” phase shapes longer-term reallocation and investment. Finally, “reimagine and reform” builds on new capabilities and knowledge to create a healthier long-term approach to SG&A.

#### **Resolve: Preserve savings**

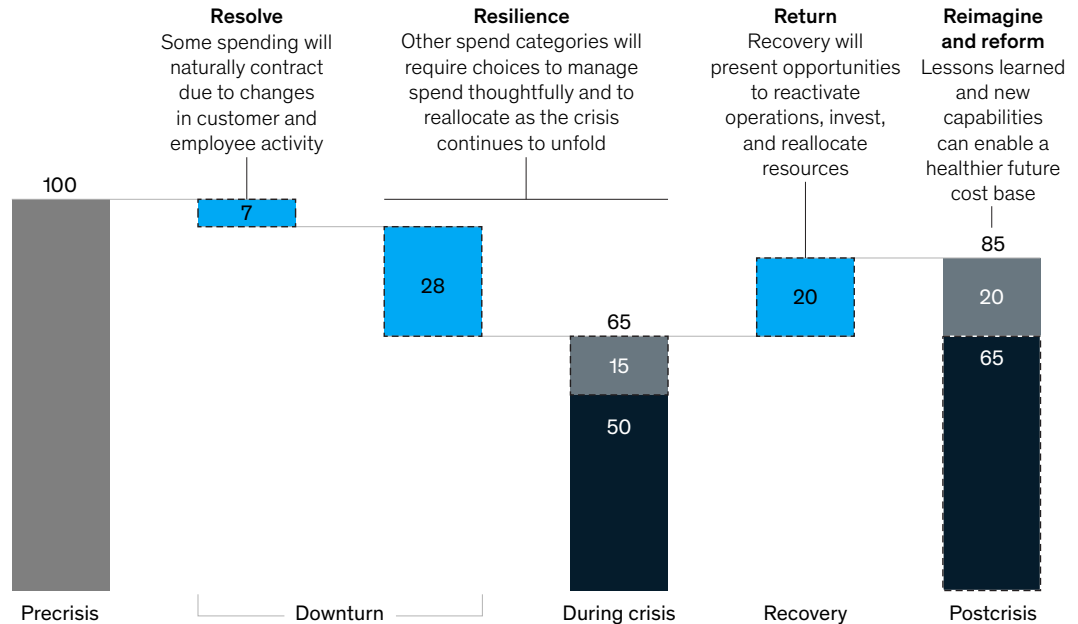
At the original time of publication in May 2020, many communities were under policies to shelter in place or stay at home. As a direct result, organizations saw an immediate reduction in some areas of spending due to lower activity levels from both employees and customers.

Perhaps the most glaring example was travel spend, which became effectively zero for many companies. Requirements for facilities maintenance and utilities fell almost as quickly, as offices closed and remote work increasingly took hold.

Exhibit 1

**Reviewing all sales, general, and administrative investments helps leaders make conscious, strategic choices.**

**Sales, general, and administrative investments, illustrative, indexed to 100**



By taking quick steps to increase spend visibility, finance leaders can capture and preserve such savings—perhaps to fund immediate needs such as for new worker-safety measures—before they are absorbed elsewhere in the organization.

**Resilience: Understand short-term spending trade-offs**

A second set of spend categories within SG&A functions were also affected, but indirectly because the connections between the demand drivers and the resulting spend were not as straightforward. Instead, these categories required a more involved set of choices about how to allocate resources—with a view not only to the immediate crisis but also to enabling longer-term changes as well.

In areas such as marketing, where return-on-investment (ROI) models often exist, a data-driven approach can inform decision making. For example, some campaigns, tactics, and brands that are no longer profitable are easy to pause. Similarly, for products where volatile demand is outstripping

available supply, uncommitted promotional spend can be curtailed. ROI-driven marketing models can also be used to reallocate investments across channels and geographies as consumer sentiment changes in specific markets.

In the same fashion, investment in IT was often readjusted to free up resources in line with demand. Most large organizations saw major increases in demand for cloud computing, videoconferencing, and other remote-work technologies. Additional support was required for virtual selling channels as stores remain closed or salespeople are unable to meet with customers.

To sustain greater flexibility while making spending choices, organizations usually need a mechanism for challenging spending requests—including those that are usually preapproved—based on a rigorous, ROI-focused process. These practices will reveal fast opportunities to implement shifts in strategy and policy as the crisis continues to unfold.

# Most large organizations saw major increases in demand for cloud computing, videoconferencing, and other remote-work technologies.

One organization recently launched a centralized spend-management team across its wide and distributed network of manufacturing sites. At each location, representatives from finance and procurement serve as spend challengers whose task is to question proposed allocations to make sure that each one has a thoughtful supporting ROI case. After remote training, the challengers now join daily videoconference sessions to review purchase requests across all indirect-spend categories. Purchase orders are approved, deferred, or denied based on rationale and criticality, freeing up resources almost immediately.

Through a similar process, organizations can challenge service levels across SG&A functions, embracing a zero-based approach by linking requests to essential requirements rather than the previous budget allocation.

## **Return: Make long-term resource-allocation choices in recovery**

As the weeks and months progress, organizations start to move beyond day-to-day crisis management, creating an opening to focus on decisions about how to reallocate resources to support recovery. One executive recently said, “Coming out of this, I want to put resources where they should be, rather than where they have always been.”

The strategic implications from longer-term application of zero-based approaches will naturally vary, but a few examples have repeatedly proved fruitful for businesses facing dramatic changes in their competitive situations.

- Shifting from fixed to variable-based arrangements with external service providers

allows for increased flexibility and agility as revenue uncertainty continues. When revenue outlook becomes more certain, these shifts could be reserved, reverting to more dedicated structures.

- Rethinking the balance of dedicated external sales staff and inside sales teams to focus higher-cost resources on the higher-value interactions and potentially reduce cost.
- Reevaluating service models, such as by creating tiered service levels (gold, silver, bronze) for different parts of the business. The team responsible for contract management, for example, would automatically route requests from sales teams serving key accounts to the highest-level service team, while requests from sales teams serving smaller customers would be routed to a self-service option based on contract forms.

For example, one company—with a postcrisis reallocation in mind—has scaled its reskilling initiatives with a focus on known areas of future investment, expanding its curriculum for customer-service managers to cover new digital and analytics capabilities. This first wave of trainees will form a stable future pipeline of shared-service-center managers, who will be well equipped to lead the updated function as the business emerges from the crisis.

## **Reimagine and reform: Reset the approach to SG&A**

With volatility already a rising concern for leaders over the past decade, the likelihood that reverberations will become part of the normal

course of business seems high. Companies that realign their SG&A management can build in even more flexibility and resilience. This is a time to codify innovation into entirely new ways of working, based on robust, virtual working capabilities, strengthened collaboration tools, and expanded channels and modes of communication.

To sustain new ways of working, managers will need to develop and deploy talent more effectively, such as through targeted, accessible, on-demand capability building to help teams work better in a remote environment. Managers themselves will likely need new training to oversee centralized pools of employees, replacing the duplicative “shadow functions” structure in which business units staffed their own HR, IT, or legal teams, often in addition to headquarters functions. And for everyone, opportunities for up- and reskilling will aid retention and transition as redesigned processes enable people to focus less on repetitive, low-value-added tasks and more on valuable decision-focused skills.

The final move to consider is to align incentives and role-model new practices. At one organization, a finance director took on a “cost category leadership” role to demonstrate the behaviors expected from other leaders. While her role was focused on optimizing spend in the category she led, she talked regularly with individual team members, sharing best practices, communicating challenges to senior leadership, and celebrating achievements so that everyone in the organization could see that the way people worked was really changing—and that everyone from the top team down thought the changes were important and valuable. Other organizations add a new budget-transparency component to their core performance-management systems, so that new behaviors and mechanisms are maintained postrecovery and reset cultural norms.

### **Shift the operating model**

To implement the new methods described above, three shifts in financial-planning and performance-management processes can help. These relate to spend visibility, budgeting, and resource reallocation (Exhibit 2). Across all three of these is one common theme: move SG&A investments

where they should be—rather than where they have always been.

### **Improve spend visibility**

Too often, corporate leaders have only limited understanding of what their organizations are really spending on. This is partially due to IT and financial-planning systems, and partially to a reluctance to share details by the people most directly responsible for costs—the cost-center owners.

But better visibility leads to better dialogues, choices, and trade-offs. The best type of visibility is always forward looking, so managers can make better decisions on spending before it occurs. Looking backward (for example, at budgeted amounts versus actual spending) is also helpful, as this visibility leads to a better understanding of any variances in budgets or plans. That helps cost-center owners develop action plans for future spending.

Achieving better visibility can be as simple as defining standard forecasting templates or tools, which are easy to aggregate and make comparisons across functions and geographies. Chronic uncertainty means that planning processes would ideally incorporate several forecasted scenarios. Nevertheless, with consistent application of the templates and tools across the scenarios, a simple set of key performance indicators can allow leaders to identify outliers, ask questions, and probe on granular investment decisions. This is in contrast to a black-box process, where forecasts are reviewed for SG&A in total at the business-unit level, and only compared to the prior year.

### **Move toward zero-based budgeting**

The second enabling shift allows for budgets and forecasts that work from the bottom up to identify what is required to meet current internal and external demands, especially when those demands are frequently changing. This can take one of two forms: a driver-based plan or a zero-based plan.

Driver-based plans are helpful for indirect spend and transactional activities where a productivity rate can be defined. A driver-based plan takes three inputs—the volume demanded, a rate of

## Better financial planning, capital allocation, and ways of work enable important mindset shifts.

	<b>Resolve</b> truly variable expenses as demand falls	Drive <b>resilience</b> by making choices on where to adjust as the crisis unfolds	<b>Return</b> to normal by reactivating operations and reallocating dollars to where they should be, not where they have always been	<b>Reimagine and reform</b> investment levels and expectations coming out of the crisis
<b>How</b>	<ul style="list-style-type: none"> <li>Spending visibility</li> <li>Spend linked to demand drivers</li> <li>Policy changes</li> </ul>	<ul style="list-style-type: none"> <li>Dialogue and debate on investments as scenarios unfold</li> <li>Spend management based on return on investment (ROI)</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly plan with discretionary investment fund</li> <li>Investments linked to ROI and approval process</li> </ul>	<ul style="list-style-type: none"> <li>New ways of working (eg, improved efficiency, technology enablement)</li> <li>Mindset and behavior change (change stories, role modeling)</li> </ul>
<b>Enablers</b>	<div style="background-color: black; color: white; padding: 2px;"><b>Spend visibility</b></div> <div style="background-color: #0070C0; color: white; padding: 2px;">Facilitate better dialogues on choices and trade-offs</div> <div style="background-color: #0070C0; color: white; padding: 2px;"><b>Scenario-based planning</b></div> <div style="background-color: #0070C0; color: white; padding: 2px;">Set up a plan-ahead team</div> <div style="background-color: #0070C0; color: white; padding: 2px;"><b>Intelligent zero basing</b></div> <div style="background-color: #0070C0; color: white; padding: 2px;">Link costs to drivers; force-rank discretionary investments to scale up or down easily</div> <div style="background-color: #0070C0; color: white; padding: 2px;"><b>Dynamic resource allocation</b></div> <div style="background-color: #0070C0; color: white; padding: 2px;">Create a pool of funds for investment requests</div>			

productivity, and a price per unit—to calculate the budget automatically and adjust the plan as volume changes. For example, a telecommunications company used a driver-based plan to model how many outsourced call-center agents would be required as call volume increased and decreased. An automotive-distribution company is using a driver-based plan to flex their driver and fleet capacity as volume declines in the near term and comes back in the recovery. In both examples, the companies have effectively merged their financial and operational plans to eliminate duplicative work and keep the two plans in sync.

A zero-based plan is relevant for more strategic and discretionary activities. A zero-based plan means truly starting with a clean slate, with no reference point or other inputs, which forces the manager to define what they truly need. For example, an appliance manufacturer is using a zero-based budget to define, force-rank, and prioritize all outside services spend. This organization started by asking cost-center owners to plan all one-time projects from a cleansheet and do their own prioritization. This

function-level prioritization was then aggregated for the executive team to review and decide how to allocate scarce financial and human resources. In this example, the executive team defined multiple thresholds that allowed them to pull back or further invest as market conditions evolved.

### Dynamically reallocate resources

The final operating shift required is toward dynamic resource reallocation, which requires cost centers to plan in two steps: first, only for their bare minimum needs, and second—separately—for value-added investments and strategic initiatives. This simple change enables decisions to be made as business scenarios unfold, so that management teams can promptly defer, pause, or accelerate strategic initiatives. It is also powerful in unlocking the tight grip managers hold on their budgets, and identifying which spend is truly discretionary.

In the first step, managers identify what is required to “keep the lights on,” using a simple but clear definition. For example, “If I don’t spend this for two years, will we lose significant sales or market share?”



In the second step, managers propose value-added activities, including both cost and benefits (financial or otherwise). These are aggregated and compared across the enterprise to make choices, and accept the implications.

Some companies choose to implement an “investment pool” approach. The executive team can make allocation decisions from a central pool of funds until they run out of good ideas or the fund is depleted. The first step is done annually to minimize work for the organization, and the second step is typically done on a quarterly (or even monthly) basis to fund new priorities as they come up throughout the fiscal year.

Other companies find a more workshop-driven approach to be helpful to create alignment. For example, the CEO of a European consumer-products company convened the leadership team for a series of full-day working sessions to discuss productivity proposals across businesses and functions, including the appropriate level of ambition, recommended changes, and implications across the business (such as for new processes, service levels, and ways of working). The team reached consensus on everything from harmonizing disparate management-report formats and changing the frequency and granularity of business-forecast updates to the role that HR business partners should play. The outcome was an aligned view of how the team would run the business going forward—and

the productivity improvements they would be accountable for (collectively and individually) as a result.

These sorts of changes are best supported by a compelling change story that helps managers see how their actions support enterprise priorities when they might conflict with function-specific ones. At one industrial company, this was supported under the banner of “margin resiliency” and a series of communications to show how individual actions could allow the enterprise to emerge from crisis stronger than they were coming in.

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Today’s pressures have sharpened the imperative for CFOs to drive SG&A cost transparency and capital preservation. And while aftershocks and uncertainty will likely continue in the short term, organizations should remain vigilant and hopeful, identifying spending opportunities, making short- and long-term spending choices, and resetting their cost bases—guided by the operating-model foundations of better spend visibility, zero-based budgeting, and dynamic resource reallocation.

A crisis presents unique challenges complicated by uncertainty. Zero-based principles can help organizations thoughtfully align on what’s important and put SG&A investments where they should be, rather than where they have always been.

This article was updated in June 2023.

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PART 2:

# Reimagine a digital vision of the future for corporate functions

For organizations not only to survive but thrive in 2023 and beyond, a digital reimagining of corporate functions can help them adapt to emerging market developments. Agility will likely prove essential, as will a new vision of productivity based on transformed enterprise platforms. Cutting-edge technologies can then reveal new ways to evolve end-to-end processes, including through advanced analytics—but to achieve lasting change at scale, leaders will need to determine which analytics success factors really matter.

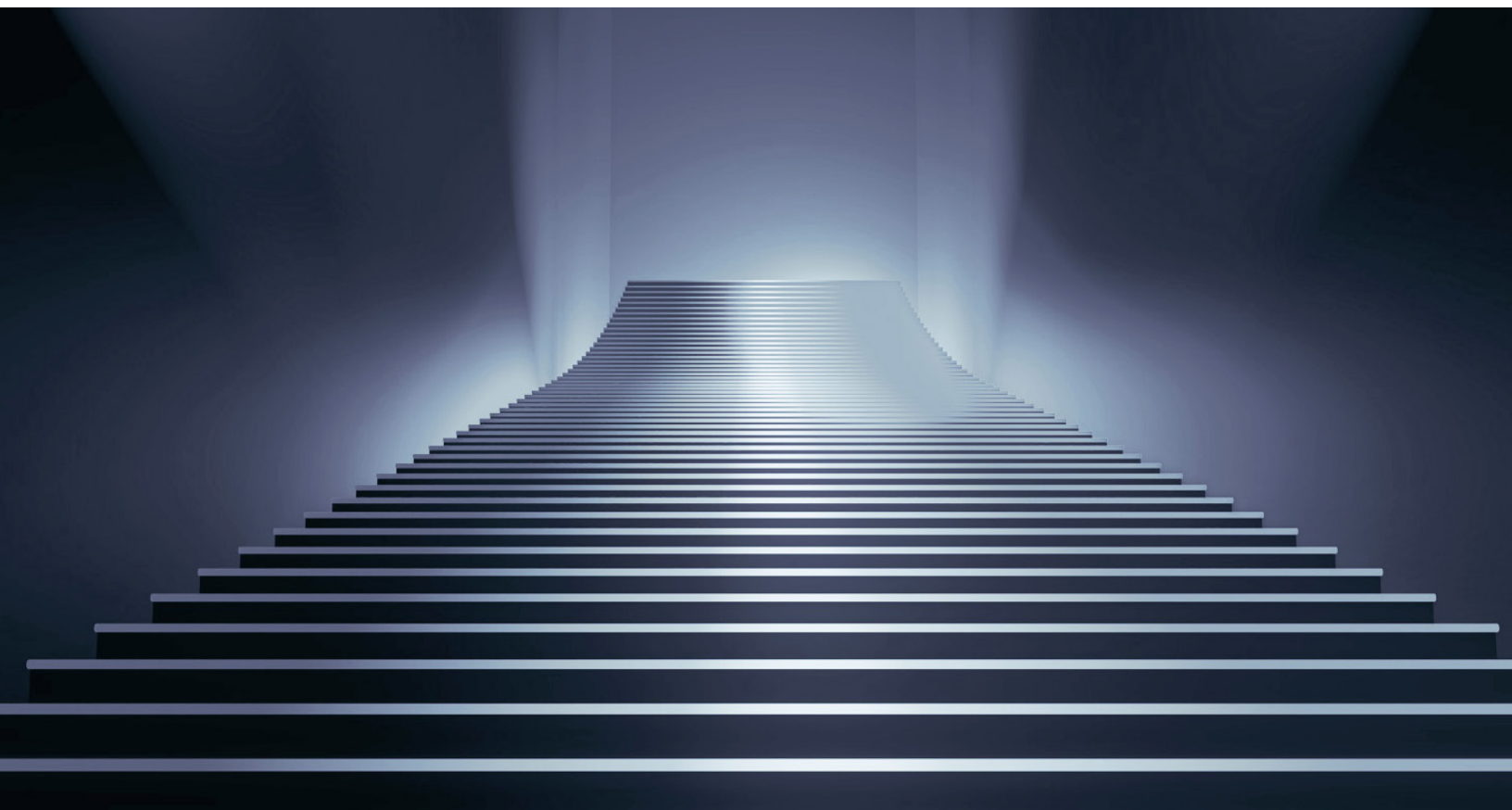


Operations Practice

# What matters: How to scale advanced analytics in corporate functions

Organizations are starting to embrace advanced analytics as a core pillar of innovation within their general and administrative functions.

*by Nikita Agarwal, Abhishek Shirali, Paul Welti, and Edward Woodcock*



**In recent years**, unprecedented disruption from the COVID-19 pandemic and geopolitical tension has forced businesses to rapidly evolve both their management processes and their business models.

In today's fast-moving and uncertain environment, the enabling general and administrative (G&A) functions of a business—such as HR, IT, and finance—increasingly need to provide rapid insights into ever larger and more complex sets of data to guide decision making and drive business performance. Without a firm grasp of advanced analytics, companies could struggle to understand how their business fits within the broader market and what can be done to ensure they remain competitive and successful.

Yet G&A functions face multiple challenges in implementing advanced analytics. Because companies traditionally view G&A functions as a cost center, finding the money advanced analytics requires is an uphill battle—particularly because it is difficult to show a direct correlation to top- or bottom-line growth. While there is often an indirect impact—for example, better forecasting can result in a more effective allocation and deployment of business resources—translating these effects into a compelling business case can consume resources that functional leaders would prefer to use in funding and scaling new analytical capabilities.

A new McKinsey survey of more than 300 leaders of various corporate functions (including CFOs, chief human resources officers, chief information officers, and general counsels) provides fresh insight into which types of analytics are being used by different G&A functions—and, even more importantly, which factors increase the chances of successfully introducing advanced analytics to provide business with powerful information on how to perform better.

### **The rise of advanced analytics in G&A**

The survey indicates that over half of corporate leaders (53 percent) are increasing their advanced-analytics investments for G&A functions, while only

1 percent are actively cutting back investments compared with the previous year.

These investments appear to be paying dividends, resulting in a significant uptick in the usage of analytical models and techniques within each function. This is happening most markedly in the functions that were most challenged operationally during the pandemic, especially because of increased labor turnover and the sudden transition to remote working.

For example, leaders of functions such as real estate and HR indicate that, over the next 12 months, they expect to almost double the number of different applications for analytical techniques, by 80 percent and 73 percent respectively. Even functions that have long relied more heavily on analytics—such as procurement and finance—are applying analytics to a broader set of situations, with usage expected to increase by 40 percent and 21 percent respectively.

A significant percentage of corporate-function leaders also report using more sophisticated forms of analytical techniques, beyond basic reporting, to provide usable insights to the businesses they support (Exhibit 1). The procurement function seems to be the most advanced in this regard, with more than 40 percent of chief procurement officers reporting they are now performing some form of predictive or prescriptive analytics to guide decision making.

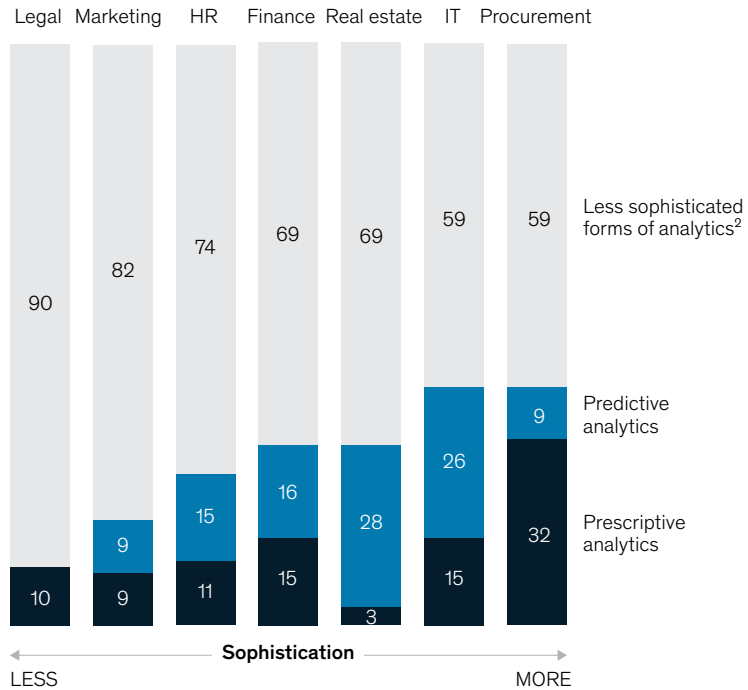
Other functions are rapidly catching up. For example, real-estate functions tasked to support a rapid shift to hybrid work are increasingly analyzing building attendance and remote-work data to shape their future building portfolios. In tandem, HR is bringing analytics to bear on issues such as workforce planning, candidate screening, and talent attraction (Exhibit 2).

These investments can be transformative for businesses (see sidebar, “Advanced analytics in action”). Since the mid-1990s, McKinsey research has quantified a company's “analytic quotient”—a

Exhibit 1

**Procurement and IT show the most maturity among corporate functions in deploying advanced analytics.**

**Level of sophistication of advanced analytics currently being deployed within corporate functions,<sup>1</sup>**  
 % of respondents (n = 302)



<sup>1</sup>Question: Respondents were asked to rate the sophistication of analytics they were able to deploy in their function on a scale of 1 (least mature) to 5 (most mature), where level 1 = basic reporting of data only; 2 = reporting with the ability to drill down into data; 3 = trend analytics; 4 = predictive analytics to inform decision making; and 5 = more advanced prescriptive analytics  
<sup>2</sup>Including basic reporting, reporting with drill-down capability, trend analyses, etc.  
 Source: McKinsey Corporate & Business Functions Survey of 302 senior executives globally across industries, May 2022

measurement of the maturity of the company’s analytics deployment, the effectiveness of its technology and analytics models, the strength of its data management, and the depth of the analytical skills among its employees. At companies with a higher analytic quotient, revenue growth is more than double that of peers with typical analytical capabilities, and five-year total shareholder returns is two and a half times higher.<sup>1</sup>

The challenge, nevertheless, is daunting, especially for businesses starting from scratch. However, the

survey reveals two ways for a company to begin its advanced-analytics journey.

**Identifying and selecting potential analytics applications**

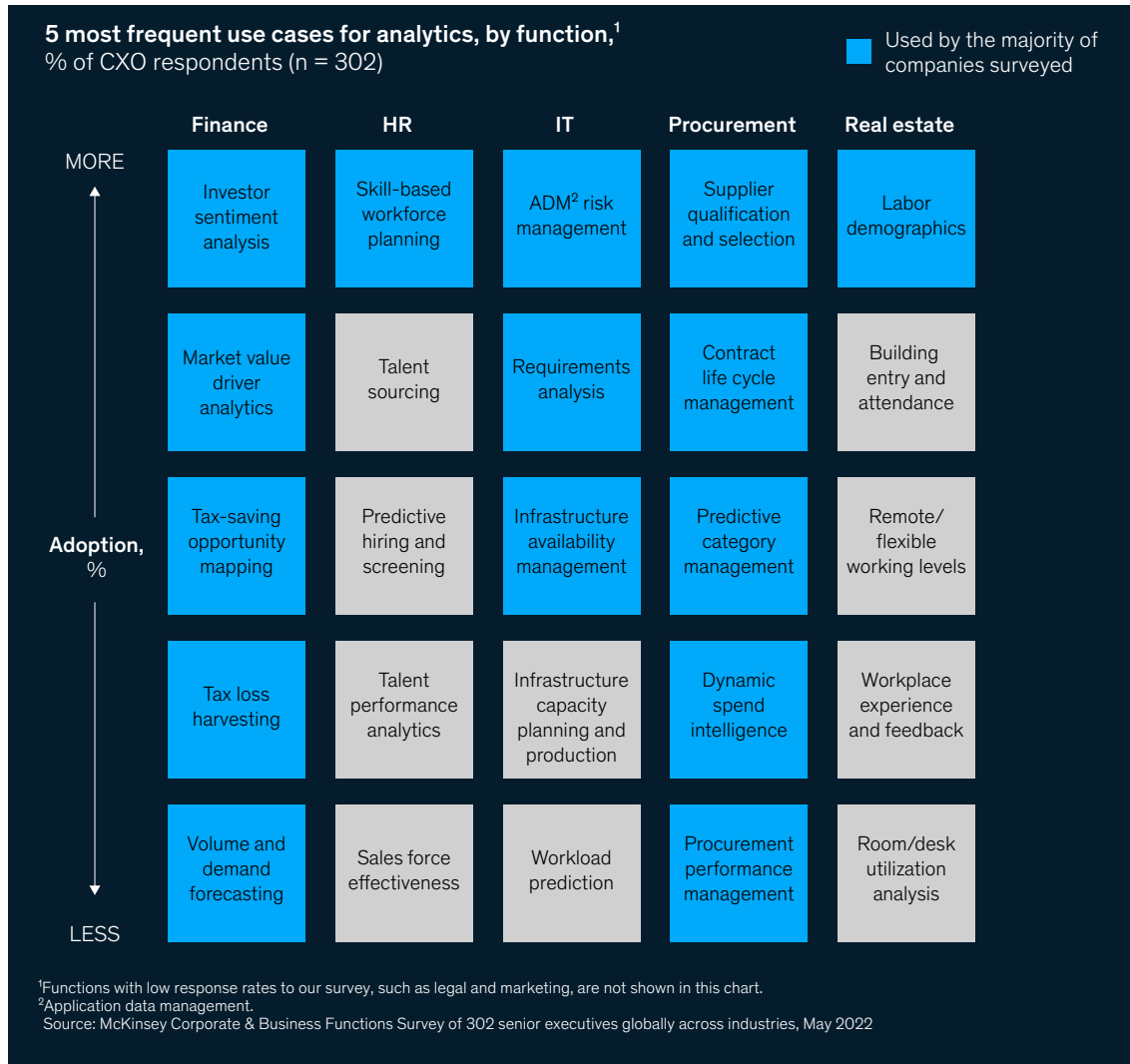
Companies face a complex decision-making process when deciding which functions and use cases to prioritize for advanced-analytics investment. Assessing the organization’s maturity in developing and deploying analytics can help pinpoint the best strategy and place to begin.

<sup>1</sup>McKinsey Analytics Quotient data set; S&P Global; Steven Klepper, “Entry, exit, growth, and innovation over the product life cycle,” *American Economic Review*, 1996, Volume 86, Number 3.



Exhibit 2

**HR and real estate show the highest potential for expanded analytics deployment.**



**Advanced analytics in action**

Companies can reap a whole range of more specific benefits from the implementation of advanced analytics in their corporate functions, as illustrated by a global industrial player that piloted the use of advanced analytics with three use cases:

**Improving cashflow forecast accuracy.** A predictive model was able to predict

outstanding accounts payable 90 days in advance, allowing the company to reduce cash on hand by 33 percent.

**Matching IT workforce to fluctuating demand.** A predictive staffing model more accurately anticipated the complexity and likely resource requirements for resolving help-desk requests, halving overtime due to unplanned events.

**Reducing procurement waste and risk.**

A dynamic spend cube flagged external spend compliance issues to category buyers, suggesting actions that generated opportunities to reduce the external spend base covered by the model by 5 percent.

Depending on the results, there are two routes a company can take to implement advanced analytics: adopting tried-and-tested analytics techniques or building a bespoke model.

For less mature organizations, research suggests a test-and-learn approach—one that allows staff to roll up their sleeves and start experimenting with potential use cases—may be an effective way to set up analytics capabilities by adapting examples that have been widely implemented elsewhere. For example, an HR department may want to start by focusing on the function's most basic analytics applications, such as understanding drivers of retention, predicting the future workforce's skills needs, or establishing predictors of job performance. With experience, more complex analyses can be added in subsequent waves. At the intermediate level, talent sourcing, salesforce effectiveness, management effectiveness, and employee motivation are potentially worthwhile analytics targets. The most complex and ambitious HR use cases include predictive hiring and screening, absenteeism forecasting, succession planning, and time-and-expense auditing.

While starting an analytics journey along the best-trodden pathways may be the most expedient option for many organizations, companies that are more confident in their analytical abilities may be able to realize value faster through a more formal prioritization process. This approach, which requires more time and resources but can be tailored more specifically to the company, applies a set of four filters:

1. *How well could the analysis answer the most important questions* inherent in meeting the business's strategic objectives?
2. *What business impact could result*—such as increased revenue, better-managed risk, or reduced operating cost—from the decisions that this analysis would inform?
3. *How vulnerable would implementation of the findings be to potential barriers*—such

as unavailable or poor-quality data, external dependencies, or legal considerations (such as data privacy)?

4. *How much will it cost*—including for system infrastructure, analytic and visual tools, and human capabilities?

By following this approach, stakeholders at a global agrochemical company were able to identify the people- and financial-management issues where analytics would matter most to a solution. For HR, improving performance management and staff retention were the top objectives, while finance focused on better demand forecasting, improved payables performance, and more accurate cash forecasts. Channeling resources to these priorities increased the odds that the analytics investments would pay off, building confidence and capabilities.

### **Starting and scaling advanced analytics**

Our survey of CXOs across a variety of industries, functions, and geographies identified six broad categories of enablers at the organizations making the best use of analytics in corporate functions (Exhibit 3).

Some factors had a greater impact than others.

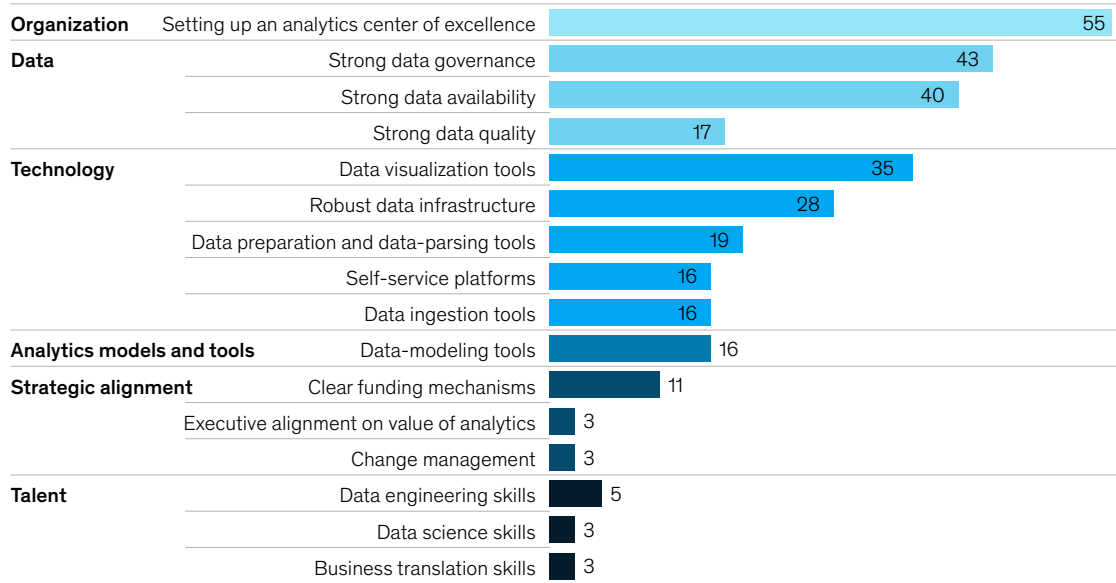
**Organization.** Among surveyed companies, setting up a dedicated analytics center of excellence (COE) was the single highest-impact factor on the deployment of advanced analytics: organizations with COEs applied advanced analytics to 55 percent more use cases than those without. This pattern held both where the COE focused on a single function as well as where the COE worked across multiple functions.

**Data management.** Not surprisingly, ensuring data quality also proved important. Organizations with strong data-governance and data-access practices were able to deploy analytics 43 percent and 40 percent more frequently, respectively, than organizations that rated themselves less capable in these disciplines.

Exhibit 3

## Six types of governance practices support adoption of analytics in corporate functions.

Increase in number of analytics use cases in functions adopting practice over those that did not, % increase



Source: McKinsey Corporate & Business Functions Survey of 302 senior executives globally across industries, May 2022

**Technology.** Analyses aren't worth much if decision makers can't understand them. Investments in data visualization and communication technologies, including in self-service platforms, can therefore make a critical difference. But technologies for achieving perfect data quality proved less decisive, suggesting that budgets could be reallocated elsewhere.

**Analytics models and tools.** Organizations that described their data-modeling platforms as "robust" delivered 16 percent more analytics use cases than their peers. Departments with tighter budgets, or at the early stages of the analytics journey, could consider prioritizing technologies that improve access to—or better visualize—data before allocating significant resources to building sophisticated analytics platforms. These tools are

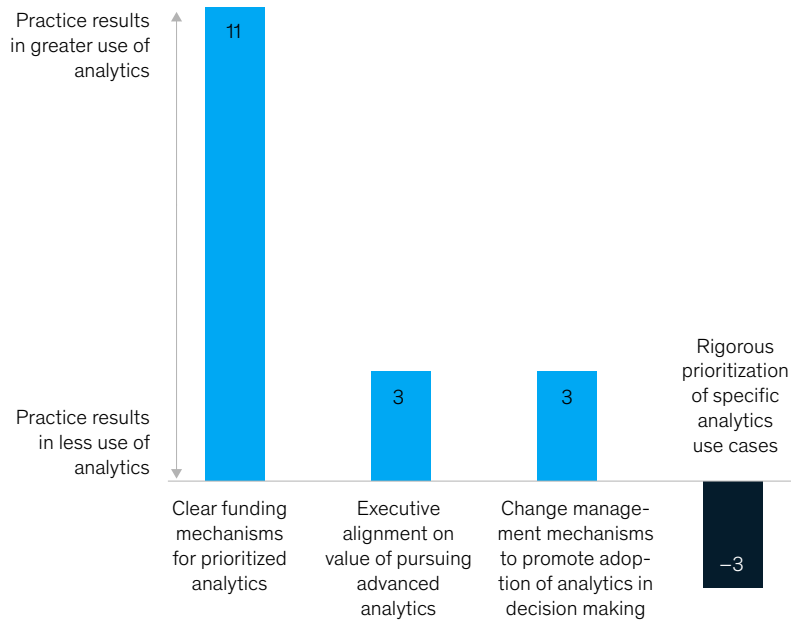
perhaps better reserved for organizations that have already benefited from the more foundational technology investments.

**Strategic alignment.** Leadership alignment on the value of deploying advanced analytics, together with a clear funding mechanism for necessary technology and talent investments, helps support wide adoption of analytics. But survey findings also uncovered a law of diminishing returns. Focusing too much on tactical prioritization, at the level of specific use cases, actually inhibited the broad use of analytics within an organization (Exhibit 4). Especially in the early stages of building and scaling analytics, the right balance appears to be a test-and-learn approach—rather than wasting time trying to align all stakeholders on which use case gets implemented first.

Exhibit 4

## Clear funding mechanisms and senior-management alignment matter more than specific prioritization mechanisms.

Impact of governance mechanisms on adoption of analytics use cases in functions adopting practice over those that did not, %



Source: McKinsey Corporate & Business Functions Survey of 302 senior executives globally across industries, May 2022

**The right kind of talent.** There are three major skill sets to consider for advanced analytics: expertise in analytical techniques, the ability to translate business issues into questions that can be answered with analysis, and data engineering capabilities. However, each had only a relatively modest impact on the rate at which corporate functions scaled analytics. The implication: a lack of depth in these skills is not the impediment leaders might think—making the test-and-learn approach practical for more companies.

### Getting started and building momentum

For companies starting on their analytics journeys, there is encouraging news. While the six governance practices all contribute to success

in standing up and scaling analytics in functional organizations, progress in even one or two can help build crucial confidence. Early on, the focus might be prioritizing the levers with the greatest impact and lowest upfront cost, such as setting up a COE and establishing a strong data management process. The next steps could then center on further sourcing more specialized talent and investing in analytics models and tools. Just two to three months of a learning-by-doing approach, starting with a small number of initial use cases requiring only existing capabilities, is often enough to build analytical muscle and achieve real impact—conditions ripe for further scaling.

Corporate functions that are further along the journey have a different challenge. They can

make progress by continually engaging with the business to refine and renew the list of high-value business questions that remain unanswered—and then sequencing the development of new analytic models based on their complexity. This cycle allows analytic teams to move incrementally to more complex use cases as they gain experience, and as successive data, technology, governance, and talent investments begin to pay off.

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Advanced analytics has the potential to improve the efficiency and accuracy of G&A functions when implemented successfully. Although implementing analytics may seem intimidating for companies just starting their advanced-analytics journey, application of these analytics can be a relatively quick and manageable process.

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The authors wish to thank Neha Arora for her contributions to this article.

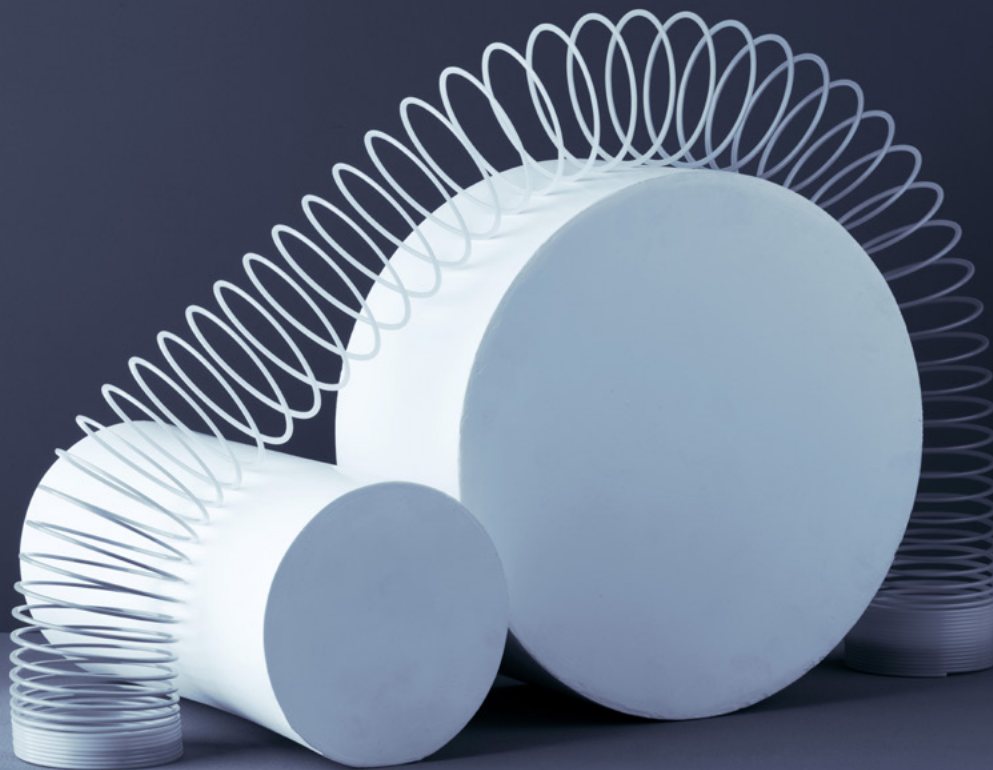
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Operations Practice

# How can corporate functions become more agile?

Faster decision making, better interdepartment coordination, and a sharper focus on business priorities are much more possible with the thoughtful adoption of agile models.

*This article is a collaborative effort by Alejandra Álvarez, Santiago Fernández Suárez, Nerea Joaristi, Victoria Lee, Michele Tam, and Edward Woodcock, representing views of McKinsey's Service Operations practice.*





**As global forces** create the need for companies to rapidly evolve their management processes and business models, the pace of change in corporate, or general and administrative (G&A) functions, such as HR, IT, procurement, legal, and finance, have lagged behind that of the wider organization. Having spent years focused on cost reduction and efficiency improvement, G&A leaders are struggling to respond effectively to new demands—a struggle made even more challenging by poor coordination between functions, which slows decision making and hampers the mobilization of resources to the most pressing issues facing the business.

In response to these pressures, a new operating model is needed for G&A functions—one that will help them quickly respond to rapidly changing circumstances and capitalize on the promise of digital, analytics, and new ways of working.

Some organizations have already embarked on these changes in functions such as finance, but few organizations have fully realized the potential of fully embracing agile ways of working throughout their G&A functions.

### **What does agile look like for G&A functions?**

To optimize for speed and flexibility, G&A functions should make changes that will eliminate the silos that traditionally occur between different departments. Adopting agile methods can unlock this change and drive better cross-department coordination, business–customer centricity, and strategic decision making. Agile operating models also allow G&A leaders to realign staff more efficiently toward the highest value-creating and value-protecting opportunities across the enterprise.

Agile offers a variety of approaches that can be applied to different profiles of work carried out across corporate functions. Repeatable work with clear, well-defined outcomes, performance measures, and end-to-end processes, such as in order-to-cash or procure-to-pay, can benefit from the creation of self-managing teams. For more complex work, G&A leaders can increase the agility

of their organizations by adopting agile organizing principles, such as cross-functional teams and flow-to-work pools. Under this model, staff operating in organizational silos (such as HR generalists supporting a single business unit) become part of a common staffing pool, which provides dynamic resource capacity to support emerging priorities as they spring up across the business.

Flow-to-work pools do not undercut the importance of strategic business-partnering roles that remain dedicated to the business area they support—or the staff roles that focus on providing the type of business-as-usual support usually associated with G&A functions (such as financial reporting, recruiting administration, or purchasing goods and services). These roles remain critical components of G&A functions by providing a one-stop shop for problem solving, along with strategic support for business leaders (in the case of business partners) or day-to-day support through highly digitized, stable processes, often run by small self-managing teams that form the backbone of the G&A function.

As illustrated in the exhibit, staff organized into these functionally aligned, agile pools can be pulled into either small work requests that can be handled by a single person (perhaps pulling together a new type of management report), or into cross-functional teams to work on more complex priority projects that require a diverse range of capabilities. This resourcing should be revisited regularly to ensure effective progress is made toward project outcomes as organization priorities evolve.

By using this model, organizations can better focus on the highest priorities and release some of the stranded capacity that can otherwise go to waste when resources are aligned to a single part of the business.

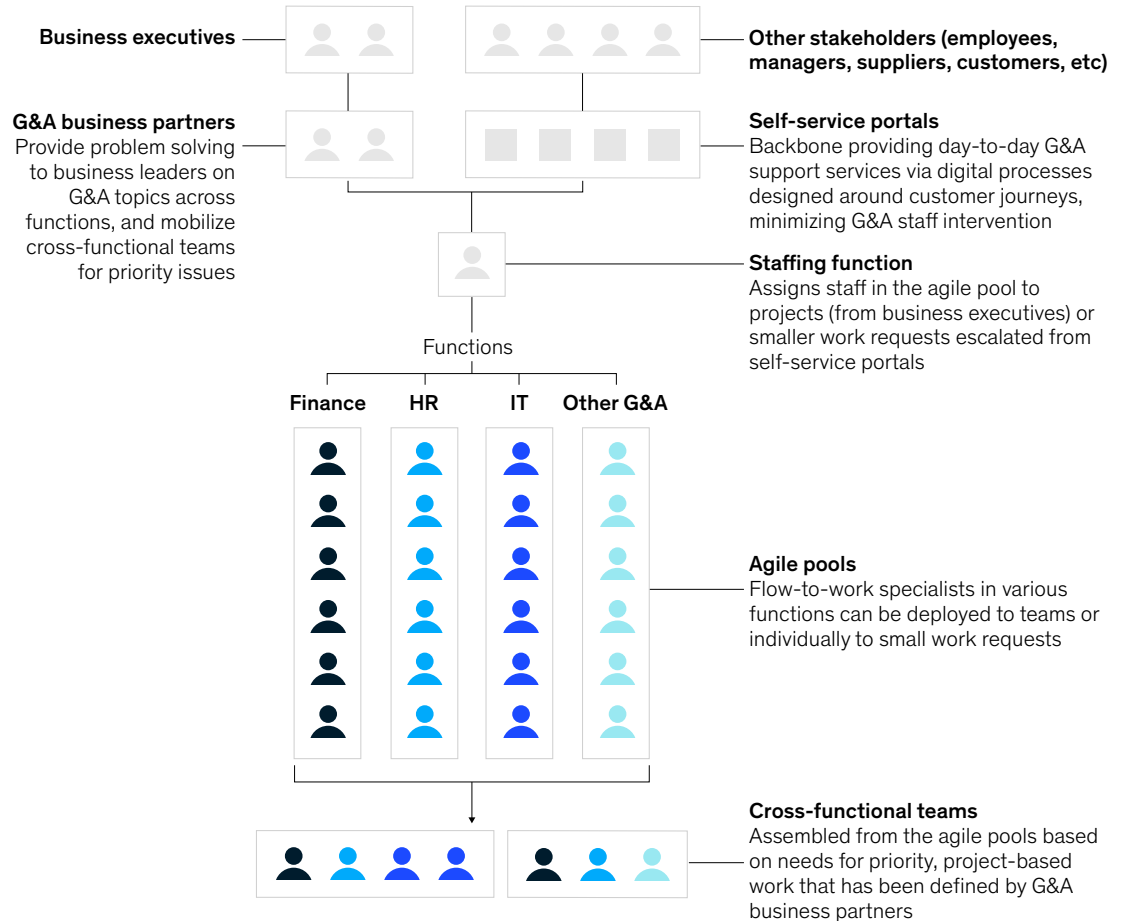
### **How organizations can bring agile to G&A**

Successfully implementing an agile flow-to-work pools model in G&A requires interventions across four dimensions of work: scope, structure, processes, and people. The scope of work performed by agile teams needs to be clear, as

Exhibit

## Deploying cross-functional teams drawn from agile pools enables general and administrative functions to meet complex business challenges.

### Roles involved in general and administrative (G&A) functions and the creation of cross-functional teams



not all tasks are suitable for this model; how work is identified, prioritized, assigned, and executed usually needs to be redefined; and the way people will work in the new model may require them to embrace new skills and different mindsets. The ultimate goal is to ensure that the right staff, with the right skills, are assigned to the right pressing business issues.

The most relevant aspects of agile G&A design can be summarized as follows.

*Defining the type of work performed by agile G&A teams.* G&A functions engage in a wide variety of tasks, from financial reporting or resolving IT queries to recruiting and onboarding staff. Some tasks, such as processing and paying vendor invoices, are best done by following a standard process; other tasks are governance and control activities that require specific expertise but little coordination with other people. That leaves a few tasks—particularly large and complex projects or novel requests, such as hiring a new role with

no existing job description—requiring heavy coordination between many types of staff with differing capabilities and expertise. This third category, involving largely ad hoc work, is where agile models excel.

***Prioritizing the right issues.*** Building issue-identification and prioritization mechanisms into regular business cadences is a critical tool for matching G&A staff to the most important work. A European telco achieved this goal via a quarterly business review (QBR) process, in which senior business leaders and G&A executives met to discuss progress against business plans, identify threats and opportunities, and generate a list of potential interventions through potential business projects. These projects were then ranked through a formal scoring mechanism that encompassed resource requirements, business criticality, and potential impact, and were matched against the available staff capacity to execute them. Finally, KPIs were established and reviewed in subsequent QBR cycles to ensure each project remained on track.

***Matching G&A staff skills and capacity to prioritize business demands.*** In many companies, managers have only a limited understanding of the skills their people have, and to what degree. One solution is to create a new staffing role responsible for identifying the skill profiles required for prioritized initiatives, and then assigning the closest talent matches from the agile pool to projects based on capacity. When appropriately skilled staff are not available, the initiative would be moved to a project backlog list. This approach helps balance supply and demand so that remaining resources can attend to smaller tasks by order of priority.

***Promoting skill development and perpetual capability building.*** Staff who operate in agile pools typically seek a dynamic career path that emphasizes ongoing growth and skill development. Organizations have approached this issue by defining a comprehensive set of competencies and skill levels, which allows employees to identify what capabilities the organization values and what is required to demonstrate mastery. Career progression is tied not to advancement within a

hierarchy but rather to demonstrating excellence across a specified set of capabilities. This type of progression is especially critical for flat organizations that have few layers of hierarchy, as it allows for career growth by increasing the depth of existing capabilities as well as expanding horizons to embrace new ones.

There are structural implications to maintaining a good balance between rapid assignment of staff to specific projects and providing them a home for ongoing career development. While organizations piloting flow-to-work pool concepts may initially opt to keep things simple by standing up a single pool of staff, organizing several resource pools around common skill sets creates opportunities to build connectivity with like-minded colleagues and provides mentoring and coaching opportunities to aid skill development.

## **Learning from successful agile G&A transformations**

The experiences of companies that have successfully deployed agile models in G&A functions highlights several important lessons:

***Alignment and conviction.*** It's crucial that the executive team, including the CEO, are fully aligned and embrace this change. Too often, structures, processes, and change-management programs are defined in a siloed way. By contrast, agile flow-to-work in G&A functions requires flexibility in assigning resources—and opening each functional unit to the organization-wide agenda. That way resources can flow to the highest-priority needs. Accordingly, the CEO can play a crucial role in highlighting agile as a priority—even if the transformation starts small, from a single function or unit.

***Culture and change management.*** Creating a state-of-the-art structure will never be enough if the people in that structure do not support it by embodying agile values and principles. At the top, a C-suite member who is not a servant leader, who pushes hierarchically made decisions or protects lack of accountability within teams will most likely

present a risk for the transformation's success. In successful transformations, decisions instead involve the entire organization, with input from bottom to top. Accordingly, the right set of people at every level can help in challenging the status quo and bringing in new mindsets.

**Structure, processes, and people.** A common misconception is that simply launching a new model is sufficient to achieve the benefits of agility. This is rarely the case, as benefits are usually seen only with proper execution involving multiple layers. Leaders should therefore think through the following questions:

- First, have we ensured clear accountability for resource-allocation processes across all functions? Are the project-prioritization processes in place to manage when resources aren't available?
- Second, do we have the right agile governance in place?
- Third, and most important, have we set clear strategic objectives?

**Adaptation and evolution.** It's important to be ambitious in change, as well as agile in adapting.

For example, the COVID-19 pandemic has shown that companies don't need to have all staff in one location and that remote-working arrangements are viable. An energy infrastructure company, for example, was highly successful in its entirely remote transition to an agile flow-to-work model.

**Communication and core ambassadors.** Finally, it is important to ensure adequate communication of the whole process, from the launch to the progress and changes that take place. While top-down leadership is vital, it is also important to involve the layer below the C-suite and a group of "change ambassadors," who can mitigate people's skepticism about the changes and smooth the transition to the new model.

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While many organizations are starting to experiment with agile, others have listed a set of prerequisites that they think they need to meet. But G&A functions don't need to wait for the rest of the organization to start their agile journey. Even small organizations can experiment profitably with agile, with a few simple guidelines helping increase the chances for successful implementation.

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Operations Practice

# How good are your internal operations— really?

When evaluating operational processes, human observation goes only so far. New data and analytics technologies can yield insights that are much more objective—and powerful.

*by Myesha Azim, Damian Lewandowski, Rohit Panikkar, and Leon Xiao*



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**Transparency in operations** is vital to businesses today, not just for reining in inefficiencies and waste, but also for troubleshooting work models, identifying areas ripe for training, and generally developing opportunities for improvement. As companies look increasingly at areas to automate—and contemplate spending big sums to do so—the need for such transparency becomes ever more important so that leaders don't make decisions blindfolded.

However, getting a clear, complete picture of service processes—measuring capacity, accuracy, and the time it takes to execute when they're functioning, as well as diagnosing breakdowns and bottlenecks when they're not—has long been a challenge for companies. The complexity of services, which often involve coordinating multiple functions in nonlinear ways, makes bad handoffs a perpetual problem. Add to these factors the burgeoning number of customer touchpoints and the accelerated move to remote working since the start of the COVID-19 pandemic, and the challenge looms even larger.

Yet the traditional approach falls woefully short. Manual observation and recording are time-consuming, labor intensive, and inflexible activities. The dependence on human observation to complete them makes it hard to filter out subjectivity; indeed, the very choice of what to examine can bias the process from the get-go. Logistical constraints often make a certain degree of extrapolation inevitable. In services, creating a sufficiently granular level of transparency has never been easy. The upshot is that companies may overlook the actual problem—or, conversely, an improvement that on its face seemed incremental but that could end up delivering major benefits.

How can companies arrive at this picture? An approach we call process insights, although still in its infancy, has shown promise. It marries technology tools and analytics in a disciplined, three-stage process that offers transparency, consistency, and objectivity. It can deliver insights in

short order, allowing for far faster yet more informed decision making, both tactical and strategic.

### **Taking a process insights approach**

High-stakes decisions require compelling evidence, and big data sets can deliver, offering agnostic, statistically significant evidence that can inform a robust analysis. Many new digital tools allow companies to monitor the way work is done. Along with big advancements in analytics, AI, machine learning, and computer vision, these new tools not only enable observation but also help companies analyze with great granularity. Companies can test historical assumptions, hunches, and hypotheses before committing resources to craft solutions. And they have the option to revisit these later to cull further insights or to inform other decisions (Exhibit 1).

#### **Capture, diagnose, analyze, improve**

Process insights involves capturing the activities that comprise a process—through tools that record it, from start to finish, while it is being performed. This data collection allows for rapid diagnosis and documentation. From here, a company can automate the start and end point for the given process to allow for large volumes of data (statistically significant enough to reveal task variations) for mining and analysis. With an accurate end-to-end picture, companies can derive insights and ultimately improve or reengineer the process.

Whether or not automation is the driving motivation, the process insights approach serves three basic purposes. It provides a proof point so that decision makers don't act on gut feel alone (“We think claims processing is way too complicated and is taking way too long”). It can reveal process information that leaders lack (“We have no idea how long it's really taking”). And it can be a litmus test to validate the expected gains of a new approach (“With the new process we're rolling out, we're banking on a 20 percent faster average time to process”).






Exhibit 1

## Process insights can create value from diagnosis through to performance tracking.

### Process insights technologies and their applications to use cases

● Most applicable   ● Less applicable   ● Not applicable

Stage of transformation	Use case	 Process capture	 Process discovery	 Process mining
		Understand, document, and categorize work	Uncover variation across teams via app-level screen capture	Visualize end-to-end process flows; use existing data to analyze process performance
Diagnose current state	Domain and process selection	●	●	●
	High-level walk-through	●	●	●
	Baseline data gathering	●	●	●
Design future state	Process redesign	●	●	●
	Click-by-click documentation	●	●	●
	Automated testing	●	●	●
Measure and track performance	Support and maintenance documentation	●	●	●
	Monitoring, performance, and orchestration	●	●	●
	Continuous improvement	●	●	●

### Technology enabled, not technology driven

Many companies look to technology as the solution. In itself, it is not. But when integrated with a process insights approach, tech solutions enable information gathering and analysis on a whole different level. By gathering inputs digitally, insights can be quickly generated. The idea is to establish a baseline for future benchmarking; to focus on the end-to-end process, not just what happens in the functional silos; and to ensure that the process is minimally disruptive to employees. Companies have the flexibility to analyze them with other inputs, at different times, and for short-term tactical, as well as longer-term strategic, issues.

Contrary to common perception, advancements in digital technologies allow considerable fine-tuning in implementation. Monitoring and data gathering, running in the background, can be conducted in a circumscribed way: targeted at the specific activities (and not everything that is performed on the given device), isolated from networks and the cloud, and designed in a way that respects the user's privacy. Process insights is not about adopting a single technology; rather, it's about layering on technologies to work with the existing technologies that power operations.

Finally, it's important to emphasize that the process insights approach is about augmenting, not supplanting, the intuition and knowledge of frontline personnel and subject matter experts. The whole point of it is to turbocharge insights, deepen the enterprise's understanding of processes, and ensure that resources are being applied to create the most value.

### **Process insights at work**

Although the process insights approach is still relatively new, the experiences of two organizations offer a good picture of how the process works and the kind of benefits it can deliver.

#### **Asian telco aimed to automate beyond the production line**

In addition to expanding its robotic process automation (RPA) program, one of Asia's largest telcos wanted to automate a substantial percentage of process work. The company set a goal to equip every employee with a robot assistant within two years. In its initial analysis, however, the company could not find a way to capture more than \$5 million out of a \$40 million savings opportunity it had identified. Leaders couldn't see how automating the company's many smaller, fragmented processes would be possible.

The company established a digital office dedicated to scaling up the RPA program and to making more inroads with automation in other areas. First, the office conducted a test of the process insights methodology to learn how to accelerate RPA for those smaller, long-tail processes. Leaders then designed a systematic approach to quickly capture the benefits of automating the production line. Their process insights exercise showed that they could realize about 90 percent of the savings opportunity through RPA and by applying different technologies and RPA together. They also discovered twice as many processes with automation potential than they originally thought.

These findings showed that the company would be able to accelerate and expand its automation

transformation two to three times faster than it could using a standard approach. The added visibility also enabled leaders to design a future operating model and governance structure and develop a tool that could measure and monitor end-to-end impacts.

#### **US manufacturer streamlined financial reporting**

A large US industrial manufacturer wanted to simplify and redesign its quarterly financial-reporting process, a process that involved hundreds of people across many silos. The company hoped to cut the unwieldy weeklong process to half the time.

Leaders chose to conduct a pilot first, to verify whether they could realize any savings compared with a control group. With the participation of about 30 employees (specialists throughout the company), the company captured more than 200 working sessions consisting of almost 300 hours of activity—thereby providing a high-level view of time spent on the overall process and component tasks, broken down by type of work performed (for example, financial analysis, procurement repricing, excel modeling, and chart generation).

In ten weeks, the company analyzed more than 50,000 separate steps, classifying outputs by product group and work function (finance, procurement, operations, and engineering), while maintaining individual users' anonymity. With this large, statistically significant data set, the company was able to evaluate the benefits of a streamlined approach against five key variables: total process time, whether weekend hours were needed, which work tools were used, to what degree noncore work displaced core work, and how much time was spent on non-value-added activities.

The results were surprising. In the pilots, each employee spent 42 percent less time on the financial-reporting process. Weekend work was no longer necessary. The company found that more than half of reporting activities were performed in spreadsheets, suggesting an opportunity to gain more efficiency by expanding the use of accounting software modules. Noncore process work was drastically reduced to an average of 1.6 hours per

participant. Finally, the company learned that one-third of the work was spent on non-value-added activities—suggesting big potential improvements through automation (Exhibit 2). And in addition to revealing which functions represented the biggest bottlenecks (the supply chain group), the process insights approach helped the company prioritize its automation initiatives and revamp governance for the process.

### Process insights' longer-term payoff

Beyond the short term, day-to-day benefits—addressing inefficiencies, troubleshooting bottlenecks and breakdowns, identifying people and areas in need of training, and facilitating the sharing of best practices—a process insights approach supports longer-term, more strategic benefits.

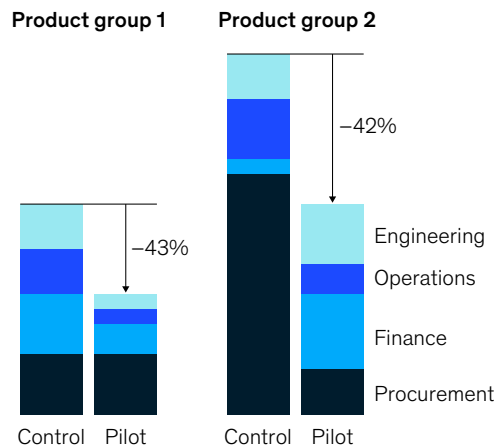
Companies can obtain a more precise view of work that has strategic value versus work that is more transactional in nature. Such discovery reveals the complexity of processes and thus has a bearing on decisions about outsourcing, automating, or reconfiguring processes or any component activities. Process insights can help uncover metrics for ways of working, which can help leaders make better decisions about how to manage teams. Moreover, the ability to visualize how work is changing over time can help companies evaluate the impact of process improvement and automation efforts. More broadly, it can help consolidate and disseminate best practices across functions.

The very process of process insights contributes to building a more tech-enabled workforce among those employees who are involved. Employees can move away from the more manual, repetitive,

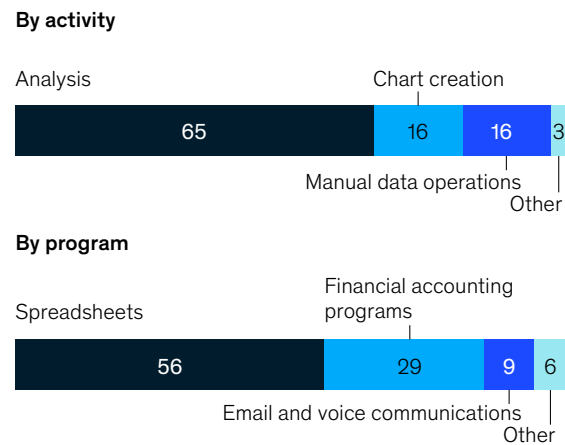
Exhibit 2

## Process insights can yield major efficiencies, measured both in time and the quality of tools used.

Response time for analysis requests for example product groups, hours<sup>1</sup>



Share of time used to execute process,<sup>2</sup> %



Note: Data exclude review meetings.

<sup>1</sup>Response times for analysis were assessed in two example product groups; hours normalized to one analyst per function; control data for group 2 were somewhat skewed by reporting differences between procurement and finance.

<sup>2</sup>Program-to-program comparative analysis not definitive.

and non-value-added tasks and perform more productive work, such as identifying ways to improve their work or overall process.

## Getting started

To decide whether and how to adopt process insights, companies can start by considering three questions: What important capabilities do we want to build? What skills and resources do we have to support the process? And what practical matters must we settle—such as software requirements, the number of processes and users, and legal and security requirements—before launching? Beyond these questions, it is also important to approach this undertaking with the right assumptions and intent:

- *Start with a hypothesis-driven approach regarding where to unlock value.* Use the approach to validate (or disprove) a hypothesis: to pinpoint and demonstrate value in a certain area, rather than looking for value in an area that is little understood.
- *Select the right tool for the job.* Process insights is less about finding a single platform that will solve all your needs and more about identifying a suite of technologies that can help you understand and manage operations holistically, based on your unique requirements.
- *Embed the technology in an overarching delivery mechanism.* The point of process insights is not to showcase analytics. It is most

effective, and most valuable, when embedded into an existing initiative, such as automation or continuous improvement.

- *Use process insights to augment—not replace—subject matter expertise.* There is only so much information contained in systems and data. The approach and technologies of process insights are no substitute for the knowledge and intuition of frontline employees and specialists. Findings should serve to substantiate (or invalidate) assumptions and help uncover new insights.

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Transparency is indispensable for understanding business processes. In the era of big data and analytics, and with the advent of task-capturing technologies, companies can now truly achieve it. A process insights approach, in tandem with such technologies, can help organizations pinpoint and reduce process inefficiencies everywhere in the enterprise those processes are performed. When implemented as part of a broader management system, the process insights approach serves both in the short term (to help tweak process design) and the long term (to support continuous improvement). Think of it as a holistic management approach with flexibility: it can work with low code or no code, in virtual collaboration environments, and in many other organizational circumstances and arrangements. Above all, process insights positions companies to make improvements that enable their people to perform the more valuable work they were meant to do.

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# Unleashing the next wave of productivity in corporate business functions

A how-to guide for maximizing the ROI of enterprise platform transformations

*This article is a collaborative effort by Raphael Buck, Denis Fomin, Heiko Heimes, Bjørnar Jensen, Bertram Ledwa, and Martin Weis, representing views from McKinsey's Consumer Packaged Goods, Digital, Operations, and Transformation practices.*



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## The case for digital platforms as a productivity accelerator

As the economy continues to absorb repeated shocks ranging from geopolitical volatility to persistent inflation, companies' business operating models are under more pressure than ever. Changes in consumer preferences, competition from existing players, and disruption brought by new ones create challenges on top of dramatically spiking costs. From 2020 to 2022, the UN Food and Agriculture Organization's Food Price Index rose by more than 60 percent and, as of mid-2023, remains about 25 percent higher than 2020 levels. The International Monetary Fund's (IMF's) World Economic Outlook for April 2023 projects global inflation to persist at 7.0 percent for the year, and notes that a "return to target is unlikely before 2025 in most cases."

To respond to these rapid, sweeping changes in the marketplace, companies need to be quicker and nimbler in their decision making. Yet many have failed to do what is necessary: transform their operating model to the new reality.

### The next wave of productivity from SG&A

Optimizing selling, general, and administrative functions, or SG&A, can be a powerful step toward this goal, especially when considered as a key digital strategy lever.<sup>1</sup> With the right end-to-end approach, these functions can transform from a "cost of doing business" into enablers that help the business manage risk, seize new opportunities, and make smarter strategic and operational decisions. In the consumer-packaged-goods (CPG) industry, for example, these elements can combine for EBIT improvements of 2 to 5 percentage points.

To enable this, companies must undertake a holistic enterprise platform transformation to redesign SG&A processes, digitally enable them, and optimize them from end to end to support and enable the overall business strategy. In this model, SG&A functions such as finance, human resources, IT, and other general and administrative services will form a "digital backbone" providing the services that the rest of the business relies on for day-to-day operations. Most of these services would be delivered through

self-service interfaces rather than through direct work by SG&A staff. Back-office tasks would be highly automated so that staff can concentrate on value-added activities. This will not only drive efficiencies, but enable more resources to be flexibly reallocated to new, value-adding activities and tasks in an operating model of the future.

### Don't fall into the incrementality trap

In practice though, efforts to digitally transform SG&A functions have often proven disappointing. In fact, nearly 74 percent of such attempts have not delivered their full potential value. But these efforts have been hobbled by one crucial mistake: the companies failed to take an enterprise-wide, end-to-end approach that looked at processes holistically across the business and aligned business and IT on common goals.

Such transformation must go beyond merely stitching together fragmented or inefficient processes with digital connections in order to make this happen. Rather, companies must rebuild their SG&A processes from the ground up, designing them for a digital environment and enabling them to take full advantage of next-generation enterprise software.

The implementation of new enterprise-wide technology platforms—such as the transformation of ERP-based landscapes—can present an ideal opportunity for such optimization. As companies adopt new, enterprise-wide systems, they can target processes that offer the most potential value for redesign, simplification, and standardization when moving onto the new platform, to make the most of out an enterprise solution's extensive capabilities.

## The key to ROI: Transforming SG&A end to end to get a jump on the competition

An enterprise platform transformation of SG&A functions offers a unique opportunity to holistically optimize business processes in a way that will maximize the potential of a company's technology, improve ROI, and clarify the business requirements for new platforms and IT stacks. In our recommended approach, a company looks at the transformation's potential value to the business, designs a target operating model, dives

<sup>1</sup> Simon Blackburn, Jeff Galvin, Laura LaBerge, and Evan Williams, "Strategy for a digital world," McKinsey Quarterly, October 8, 2021, McKinsey.com.



into the technological details, and aligns its business and technology to prepare for a transformation roadmap (Exhibit 1).

When companies attempt to transform SG&A, their approaches can vary widely. Some companies take the simplest, IT-oriented approach: implementing new or updated technology. The scope here is relatively narrow. New features, reductions in IT costs via faster processes, fewer clicks, and better data availability deliver minor value in most cases.

A few companies take the transformation a step further by transforming the functional operating model. This approach realizes value by reengineering processes, finding or creating synergies in the operating model, or reducing IT costs.

The recommended approach, however, is to expand the scope further and undertake a full, end-to-end transformation. This approach includes both of the above approaches—implementing new or updated technology and transforming the functional operating model—but goes beyond them to also include aligning the business with technology, which sets the company up to realize maximum value by digitally transforming processes from end to end, rather than focusing on only certain areas of SG&A. This enterprise-wide, process-oriented view allows the company to differentiate itself and improve

customer value through optimized SG&A functions like logistics, procurement, and finance. For example, these newly optimized processes could enable “perfect order delivery,” a streamlined product portfolio, and product-oriented organization.

A full, end-to-end transformation that aligns business and technology multiplies the potential value realized by the other approaches. When executed well, it streamlines end-to-end processes, defines procedures for eliminating waste and optimizing effectiveness, drives process standards, incorporates feedback procedures to facilitate improvement, and optimizes exception handling.

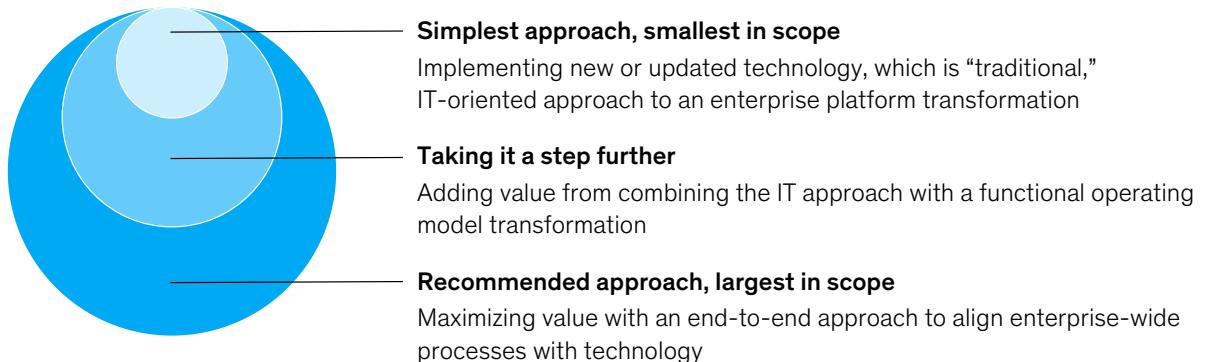
## How to execute: The Value Model

We recommend executing the proposed end-to-end transformation approach using the V-shaped Value Model, shown in Exhibit 2. This approach begins by taking a high-level view of the transformation’s potential business value and designing a target operating model, while also drilling down into the technology aspects of the transformation: assessing the company’s current technology landscape; aligning the business value, goals, and strategy with the planned technology; and planning a technology roadmap and approach. From there, the

Exhibit 1

**There are three typical approaches to enterprise platform transformation, which vary in scope.**

### Approaches to enterprise platform transformation



company moves up the “V” to again take a higher-level, business-wide view as it examines how the technology fits into end-to-end processes, how all relevant functions will be affected, and how the business’s strategy will be impacted and enabled by holistically optimized processes.

**V is for value: Identifying the value and changing the operating model to capture it**

The first, most critical step in driving the enterprise platform transformation is identifying and assessing sources of business value. This step involves building a high-level business case and quantifying the transformation’s potential value from an objective, “investor” point of view. Doing this step correctly is essential; if it goes awry, the entire transformation may be jeopardized. Assessing the business value sets the foundation for the entire strategy guiding the transformation.

Quantifying the value requires a hypothesis-driven approach that will quickly uncover the main value levers, such as automation and simplification, which will apply from end to end across the various SG&A functions. Potential improvements that would close

the gap between the current and desired operational models should also be identified. The implementation cost—including the technology, new operating model, and end-to-end business changes—must likewise be evaluated. To execute this step, companies can create a detailed list of value levers related to effort, risk, the project roadmap, and other factors to quantify the business impact of an end-to-end transformation.

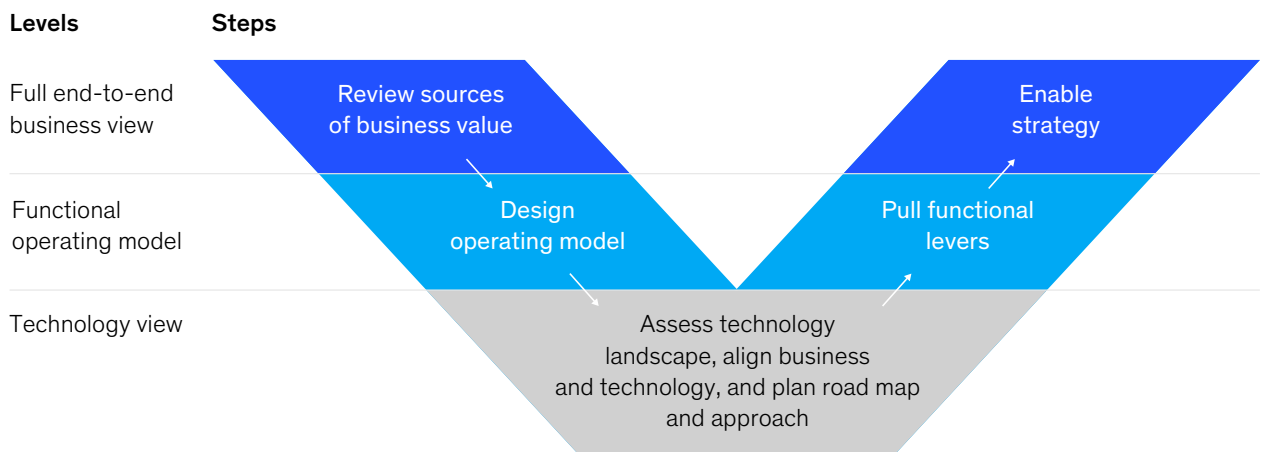
Once sources of business value have been identified, the target operating model must be planned and designed from the bottom up to take full advantage of digital capabilities from end to end. It should incorporate all business transformation initiatives—including quick wins—and provide guidelines for prioritizing and sequencing them.

To develop the target operating model, companies can identify major pain points and set priorities among all relevant functions. The new model is guided by key performance indicators that identify, track, and measure value levers and process complexities, risks, and timelines. And it can also consider sustainable change management by creating a transformation office, where transformation efforts can be centralized.

Exhibit 2

**The Value Model translates the end-to-end transformation approach to deliver the full potential value.**

**The Value Model approach**



## Case Example 1

As part of an ERP transformation, a major European packaging player reviewed the potential associated sources of value. To gain a clear “line of sight” on this business value, the approach contained the following:

- **Set a baseline and prioritized areas of focus.** Using a hypothesis-driven approach, a value baseline for core, end-to-end processes was set and prioritized based on resource intensity and value potential. (Since processes are typically cross-functional, they should be assessed from end to end.) Ultimately, four processes were focused based on resources and strategic relevance: order-to-cash, financial planning and analysis, procure-to-pay, and hire-to-retire.
- **Established the full potential business case for the transformation—beyond tech enablement.** The high-level architecture and the respective migration readiness was assessed as the next step. Major levers of simplification, such as tailoring reporting to business needs, which improved data quality and reduced demand, and redesigning the costing process in reporting activities, were identified. Additionally, automation levers, including self-service within HR processes and the automatic integration of income statements, became key opportunities for improvement.
- **Designed the transformation roadmap and setup.** All initiatives were sequenced on the roadmap based on factors like ROI and strategic importance to realize maximum value. The roadmap also accounted for interdependencies among initiatives, including required resources on a function and IT level. To be as efficient as possible in implementation, the roadmap included three types of initiatives with different relationships to the chosen enterprise platform.

### Connecting the V: Business and IT working together

Now the organization can begin the process of aligning business and technology in this transformation effort by drilling down to the technology architecture needed to enable its new, process-oriented operating model. This starts with assessing the technology landscape of the organization and then planning the technology roadmap and approach.

To assess the technology landscape, companies must look at their transformation’s architecture implications. They then check architectural decisions and platform strategy against best-practice reference architectures, define IT-enablement requirements for the target-state operating model, evaluate the architectural implications of improvement levers, and map those levers’ interdependencies.

To design their new architecture, companies can first determine how their overall business strategy, business processes, and IT teams interlink. Then, they can translate their strategy into optimized business processes facilitated by the new technology.

Next, companies can create a transformation roadmap by defining the requirements for transformation value assurance, aligning the roadmap with the company’s overall strategy. They can then create a high-level

rollout and milestone plan while integrating all the business and technology elements, including systems and various software toolchains. Initiatives within the roadmap are then prioritized based on several criteria, including ROI, interdependencies among initiatives, IT budget and capacity, and the respective function owners.

### Up the V: Delivering full potential value

Now that business and technology have been aligned, and the technology roadmap has been developed to maximize business value, the implementation roadmap can unfold. Key to the implementation’s success is a commitment to creating value. A complete transformation tool kit will enable value drivers to be executed through internal ownership, targets, detailed execution tracking, and a strict weekly cadence.

The company can pull functional levers and begin to enable its strategy as it implements the new platform. The mistakes of the past—chiefly, failing to take an enterprise-wide view and optimizing processes end to end—have been avoided. A holistic roadmap, in which technology and business support and enable one another to deliver full value, is now possible.

## Case Example 2

A consumer-products company operating globally in a specific category launched and scaled an enterprise platform transformation program spanning multiple SG&A functions. Its efforts included the following:

- Setting up a transformation office, where most transformation-related activities are now centralized. The office manages value assurance, sets standards across the enterprise, approves tools and machinery, and chooses state-of-the-art technology for the transformation.
- Implementing agile ways of working in global business services spanning multiple geographies.
- Redesigning processes from end to end and implementing them across functions using new technologies (SAP S/4HANA, Microsoft, ServiceNow, and other process-specific workflow enablers) on a strict timeline.
- Building the capabilities of more than 100 personnel to execute the program and adopt the new, agile way of working.

The project allowed the company to gain SG&A efficiencies of 25 percent within the first year of full implementation. It followed the Value Model illustrated in this article to align strategy with impact while also building the team's capabilities.

### Getting started

The holistic approach we recommend sets up companies for future success by allowing them to consider the whole value chain of their business as an integrated process network, instead of as siloed SG&A functions. According to a McKinsey 2021 survey of senior executives, optimizing SG&A is one of the most effective ways to meet targets and tackle current challenges. Indeed, superior SG&A performance has proven to be a strong predictor of success; companies that significantly improve their SG&A spending increase their EBIT margins by two to five percentage points.

The first step toward enterprise platform transformation of SG&A is to conduct an independent due diligence that includes a business diagnostic, a technical assessment, and a transformation design. Once this is achieved, embarking on the path to SG&A transformation is necessary—which, if done well and holistically, will quintuple the potential value realized and set the company up for long-term success in a rapidly changing industry.

This article was updated in June 2023.

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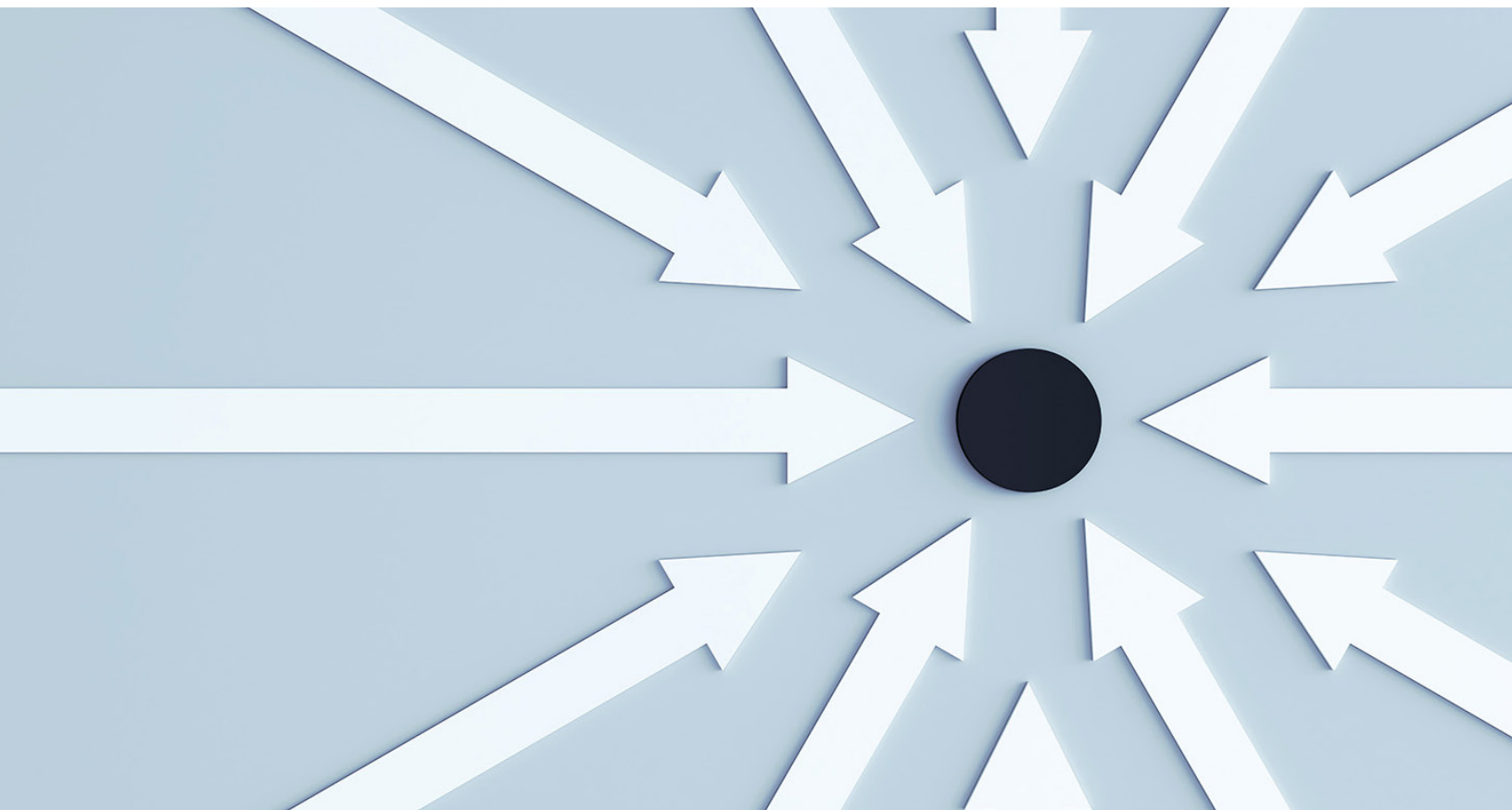
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Operations Practice

# The future of G&A: Revitalizing the heart of the organization

General and administrative functions are under pressure to become more digital, more agile, and better aligned to the needs of the wider business. A more strategic model could hold the key.

*by Heiko Heimes, Matt Jochim, Abhishek Shirali and Edward Woodcock*



**In 2020, businesses faced unprecedented disruption**, driven both by the direct impact of the COVID-19 pandemic and the acceleration of preexisting trends in the business, political, and social environment. In response, companies have been forced to rapidly evolve, both in their management processes and their business models.

In this fast-moving and uncertain environment, the pace of change in general and administrative (G&A) functions such as HR, IT, and finance can lag behind the wider organization. These functions have spent years focused on cost reduction and efficiency improvement. Now they are struggling to respond effectively to new demands, while poor coordination between functions slows decision-making and hampers the mobilization of resources to the most pressing issues facing the business.

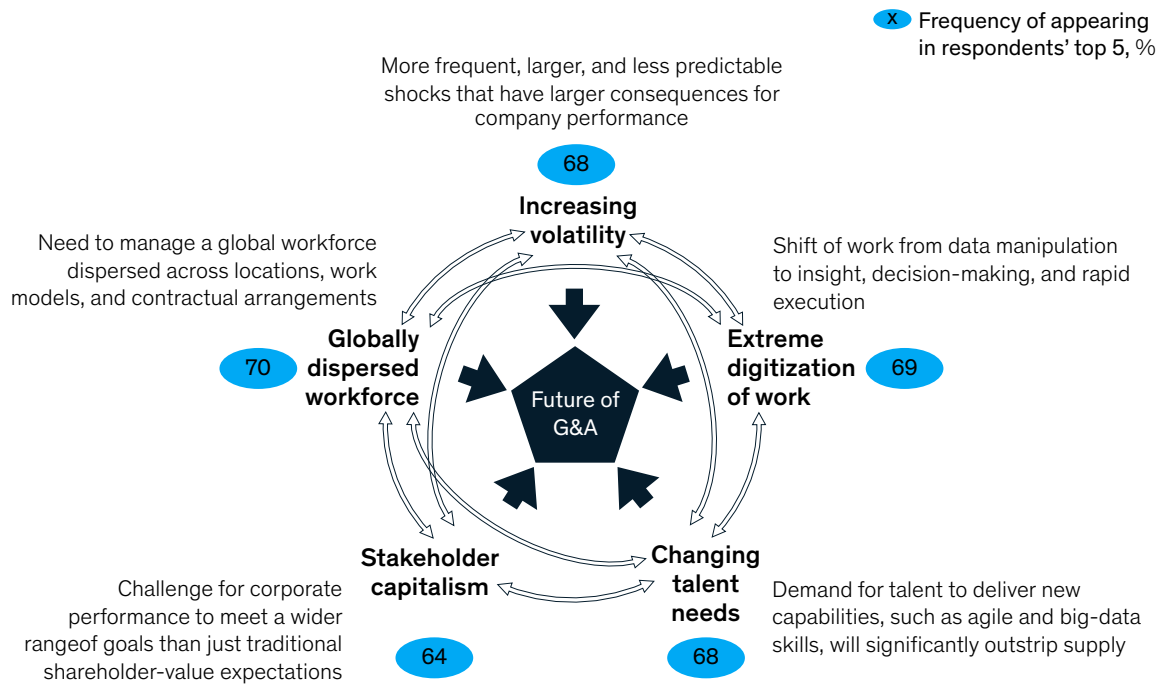
That's a significant source of frustration for business leaders. Reconfiguring supply chains, implementing

mass-scale remote working, or responding to dramatic shifts in customer needs are tough enough tasks on their own. They are even harder if critical internal business functions are unable to provide essential support.

The challenge goes beyond the immediate impact of the crisis and its aftermath. Over the coming decade, multiple interconnected trends will pressure G&A leaders to change both the work that they do and the way that they do it. External forces, such as increasing volatility and the need to balance financial performance and stringent environmental, social, and governance requirements will make G&A work more complex and more variable. Within the business, meanwhile, G&A functions will need adapt their tools, processes, and skills to make use of advanced digital technologies and support a globally dispersed workforce (Exhibit 1).

Exhibit 1

**Five emerging trends are shaping the future of G&A.**



Source: McKinsey Corporate Business Functions Practice



In our recent global survey of more than 200 senior executives, two-thirds of respondents told us that these trends will have a significant impact on the way G&A functions operate in the coming years. An effective response will be challenging for G&A leaders, but we believe that it also presents a chance to rethink the role of general and administrative functions in the modern organization. G&A could reposition itself from a cost of doing business to a key enabler, helping the business manage complex risks, seize emerging opportunities, and make smarter strategic and operational decisions.

## **A model for the future of G&A**

In this article, we propose a new model for G&A functions that is nimbler, even more productive, and more adaptable. It is designed to benefit from advances in digital and analytics, and can provide more commercially and operationally relevant insights.

Our vision for a future G&A model is based on four principles.

- Simplify the administration of the business by eliminating traditional G&A functional silos. Instead, work should be planned and executed along the end-to-end journeys taken by business stakeholders, such as a manager who needs to fill a vacancy, or a product-management team looking for help developing a sales forecast.
- Embed an outward-looking, commercially focused orientation in G&A staff, so they can help the business anticipate and respond to a rapidly evolving environment.
- Use digital and analytics technologies to generate relevant insights for the business, backed by strong automation, workflow, and data-management practices to drive efficiency.
- Separate G&A activities into two distinct types. Tasks that are needed to run the business should be delivered using highly predictable, digitally enabled processes. Elsewhere, companies will

use flexible, project-based resources that can quickly be redeployed between initiatives to deliver new capabilities and support changing business priorities.

These principles are realized through a new structure for G&A that reimagines roles across four pillars (Exhibit 2).

### **The digital G&A backbone**

The digital backbone provides the services that the rest of the business relies upon for its day-to-day operations. These services will be organized from the perspective of “customer journeys” taken by their users, who include staff across the wider business along with external stakeholders such as suppliers or job candidates.

In most cases, the delivery of these services will require less direct work by G&A staff. Stakeholders will get what they need through user-friendly self-service interfaces, such as employee and vendor portals or management-reporting dashboards. Back-office tasks will be highly automated.

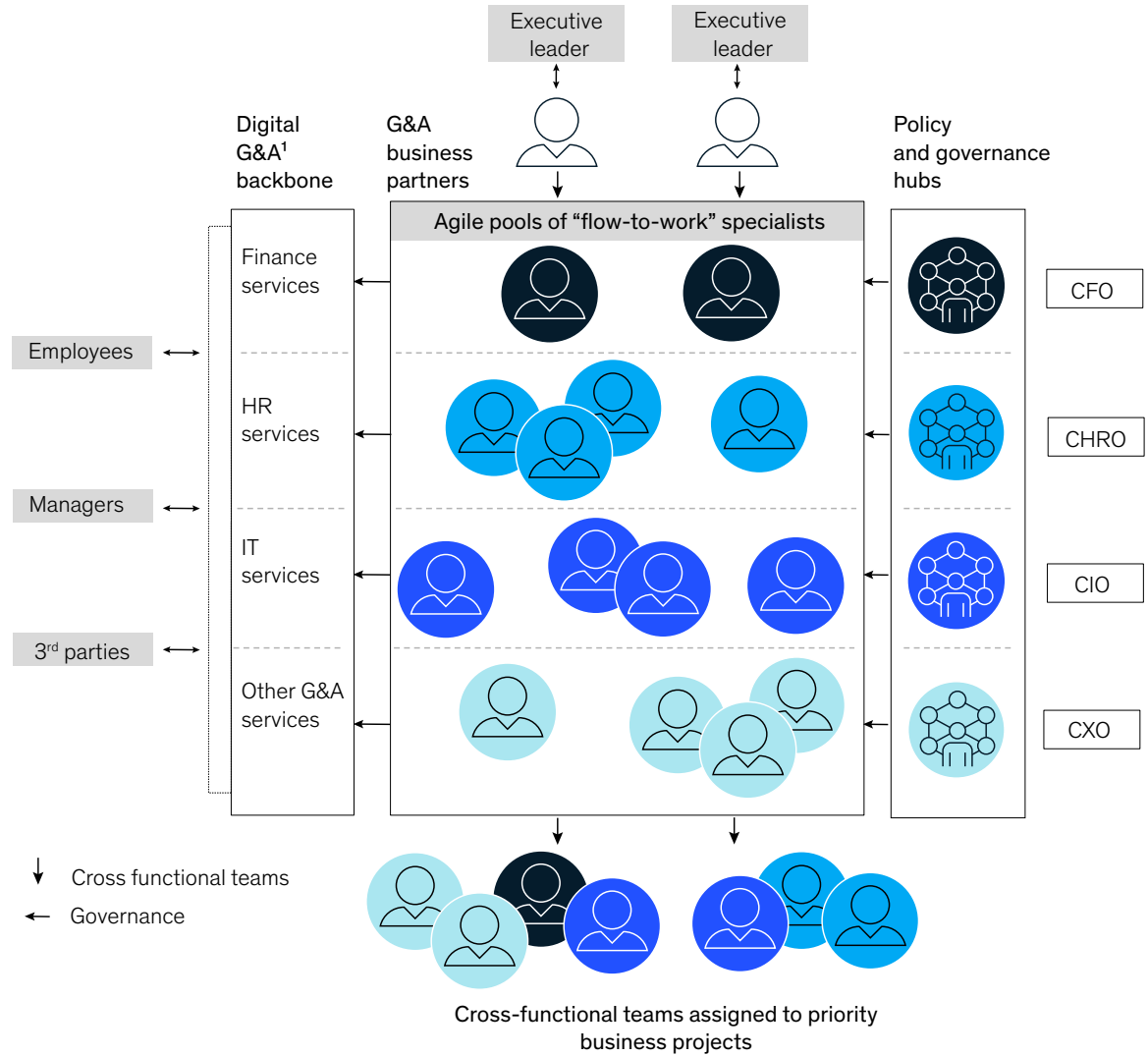
This shift of resources is already underway. Companies have significantly reduced the cost of day-to-day G&A support by using automation and self-service techniques. Across industries, finance costs fell by 25 percent in the decade to 2019, for example. Previous McKinsey research suggests that 64 percent of today’s data-collection tasks and 69 percent of data-processing tasks could be automated using existing technologies.

To take full advantage of the potential for automation in transactional tasks, companies will need to move beyond simply stitching together fragmented or inefficient processes with digital connections. Tomorrow’s G&A processes can be built from the ground up for the digital environment, allowing them to take full advantage of next-generation enterprise software.

As they design these processes, companies will also want to take the human factor fully into account. A poorly defined or rigid process will inevitably throw up issues and exceptions requiring human intervention to resolve. Leading organizations are

Exhibit 2

**The future G&A model reduces silos, quickly reallocates staff to new priorities, and maximizes time on value-added work.**



<sup>1</sup>General and administrative

minimizing these exceptions by designing flexible processes around the specific journeys that different users follow.

One European organization with billions of dollars in annual external spend used design thinking and a customer-journey approach to reconfigure

its procurement process for different roles (such as third-party vendors, production managers, lab technicians, and category managers). It provided each role with a streamlined, digitally enabled experience requiring minimal intervention, which channeled spend to preferred suppliers and delivered transparent outcomes.

### **The agile pool**

A common issue with traditional G&A functions is that resource allocation tends to be sticky. Staff are aligned to a particular role and part of the business and remain there for months or years at a time. As a result, workload may expand to fill the capacity of current roles as defined, while high-priority and strategically important projects may struggle to get the resources they need.

To overcome this challenge, organizations have started to experiment with more agile ways of working, including flow-to-work models in which colleagues are assigned to initiatives across different areas of the business on a project-by-project basis. By setting up these pools of G&A staff with different sets of capabilities, businesses can dynamically provide burst capacity to support priority initiatives in the parts of the business when they are needed, then ramp down and reallocate staff to other areas when they are not. These pools can also serve as skill-building opportunities that expose colleagues to a wider range of experiences.

One North American telecommunications provider, for example, used a simple work-intake tool and triage process to improve workflow in a 70-person financial-reporting and analytics group. Short, daily alignment meetings, backed by new standard operating procedures, helped prioritize requests and make assignments. This ensured staffers were constantly aligned to the most important business priorities, while balancing workload within the group.

Supplementing this closer matching of internal G&A staff to ever-changing organizational priorities, external labor markets are creating new opportunities to more dynamically manage the supply of talent through a wider variety of contractual arrangements beyond full-time staff, traditional contractor roles, or multiyear business-process outsourcing arrangements. Although regulations are in flux, the evolution of gig and part-time working arrangements lets organizations flex G&A staff capacity to fluctuating needs, so they can better manage resources in a zero-based manner from one budgeting period to the next.

In addition, changes in the wider labor market—driven by technology and evolving social preferences—are encouraging organizations to accommodate staff who work remotely part or most of the time. These trends will enable G&A functions to access new sources of talent, but they will also require different working practices and norms to ensure effective integration between employees performing both synchronous and asynchronous work, and potentially operating in different time zones.

### **Policy and governance hubs**

This part of the operating model will be responsible for developing the policies and governance practices needed to comply with internal standards and external stakeholder requirements. Policy and governance hubs will house groups of deep subject-matter experts on particular topics, such as tax planning, compensation, spend-category management, or cybersecurity. While similar to the “centers of excellence” (CoEs) common in today’s G&A functions, one major differentiator will be the emphasis on developing an external focus and making extensive use of business analytics to drive insights. For example, a forecasting CoE would work with digital resources to incorporate the most relevant external market trends and macroeconomic data into their models.

Volatile and uncertain environments will continually deliver new challenges, requiring organizations to anticipate, identify, and quickly react to rapid changes. The policy and governance hub can help the wider business with sophisticated modeling and decision-support capabilities, drawing on a wider range of internal and external data sources and advanced analytical skills.

In procurement, for example, a few companies are already using artificial-intelligence technologies to identify potential suppliers from publicly available databases covering millions of firms. In one successful approach, a machine-learning tool compares a natural-language description of the required supplier characteristics with suppliers’ descriptions of their own capabilities. Beyond identifying specific high-potential suppliers, the

tool can also create conceptual maps of suppliers sharing similar characteristics. That feature has helped buyers identify opportunities to source from sectors beyond their traditional supply base.

### **G&A business partners**

The need to rapidly deliver complex initiatives will require increased coordination between functions. Last year's mass transition to home working, for example, required IT teams to provide infrastructure and equipment, HR teams to develop new policies, and other functions to adapt their processes to suit the new model.

To better support such initiatives, G&A organizations will want to break down traditional functional silos and develop the capability to rapidly develop complex new services. Doing that requires effective coordination between G&A functions and their customers in the wider business.

This coordinating role would be the responsibility of a group of G&A business partners. These senior managers would work with business leaders to understand their requirements, then convene functional specialists from the agile pool—and experts from the policy and governance hubs—to deliver against those requirements.

This G&A business-partner role is uncommon today, but it has parallels elsewhere in the modern organization. In software and hardware development, for example, companies often appoint product owners or product managers, who act as the voice of the customer within the organization, coordinate work across functions, and are accountable for the financial performance of a product or project.

### **Getting started toward future G&A**

The transition to a next-generation operation model in G&A will not happen overnight, but organizations can chart a journey that builds upon work already underway.

First, companies can ramp up their automation and digitization efforts to build the *digital G&A backbone*. This would involve targeted investment in new technologies, along with a systematic effort to define end-to-end user journeys, followed by streamlining and reconfiguring processes to match. This effort will help G&A functions to provide better service to their customers across the business, while simultaneously releasing capacity to support other parts of the transformation.

The second step involves building the capabilities of existing functional centers of excellence, turning them into *policy and governance hubs*. Subject-matter experts from different G&A functions can be integrated into these hubs, which also become the place where new analytical tools and capabilities are developed. Performance metrics and management systems are adapted to ensure that subject-matter staff spend more of their time focused on business priorities.

Third, companies can define, pilot, and gradually grow *agile pools* of project-focused staff. This can be done incrementally, with the organization first designing the career path, organizational structure, staffing and assignment models, and project-definition and approvals process for this group. The new model can be piloted and refined using small pools of staff and a low volume of projects. Over time, the agile pools can grow as automation and digitization efforts release more capacity.

The fourth step introduces greater cross-functional coordination of responses to business issues. Initially this could be as simple as elevating the level of participation by senior G&A functional staff in business-focused meetings. A logical next step would be to establish a *G&A business partner* role, with a mandate to collaborate with business leaders to prioritize operational issues, convene function-specific subject-matter experts to identify solutions, and mobilize teams of appropriately skilled G&A specialists to define, develop, and deliver the responses needed to address them.

Alongside these changes, organizations should also take a systematic approach to *capability building*. They will need to retrain G&A colleagues for more complex, project- (rather than process-) driven roles, and provide them with tools needed to minimize time spent on low-value-added tasks. They will also need to foster a greater appreciation of the commercial and operational context of the business.

Interventions may include providing “low-code” automation platforms that allow G&A staff to take responsibility for automating the more repeatable parts of their own workload; training staff in techniques such as structured problem solving, influencing, and collaboration skills; or providing on-the-job skill building opportunities via structured short-term assignments and redeployment programs. And to further improve the flexibility of G&A functions, companies will need sustainable

models for new ways of working, including the management of remote staff and the use of alternative contractual arrangements.

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Sometimes seen mainly as a cost to be minimized, recent volatility has shown that general and administrative functions play a critical role in an organization’s ability to manage risks and respond to emerging opportunities. G&A functions are already changing, for example by embracing new digital technologies at an accelerating rate. We believe that G&A leaders can go further, rethinking their operating models to build functions that can collaborate more effectively, move more quickly, and offer greater support to users across the organization.

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