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Center Stage for the Supporting Cast

A Comprehensive Approach to Realize the Hidden Value of Support Functions

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A Comprehensive Approach to Realize the Hidden Value of Support Functions

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AT A GLANCE

Far from being cost centers that merely keep the lights on, support functions should play pivotal roles in enabling companies to win in the marketplace, manage costs, and secure and allocate key resources.

THE CAPABILITIES MACHINE
Support functions develop the "metacapabilities" that help a company navigate volatile markets and shift business models. Yet, too often, they suffer from a vague mission, organizational complexity, wobbly governance, or a dearth of talent.

DIMENSIONS OF EXCELLENCE
A company needs to take a holistic view of the enterprise—across both functions and layers—in order to understand how each part influences others, assessing each function for both *efficiency* (the cost and speed of a service) and *effectiveness* (the value added to the business's high-priority concerns).

IMPROVEMENT TOOLS OF THE TRADE
A holistic assessment reveals where the biggest problems and opportunities lie. Benefits of the recommended approach go well beyond cost reduction to include higher-quality output, harmonized processes, and clear mandates for each function.

CAN'T SUPPORT FUNCTIONS please get some respect? Perhaps they lack the sizzle of sales and the heft of production—functions that contribute directly to generating revenues and profits. Nevertheless, human resources, finance, procurement, marketing, IT, and other support services play pivotal roles in a company's fortunes.

Support functions are at the heart of a company's ability to achieve a competitive advantage. They enable organizations to identify new market opportunities and mobilize resources to seize those opportunities quickly. And they help companies manage ongoing cost pressures by running the back office efficiently and minimizing administrative burden.

Yet, in many companies, support functions suffer from inadequate governance or a lopsided focus on costs—much to the detriment of their value-adding potential. In this Focus report, The Boston Consulting Group offers a holistic approach to optimizing support functions through the assessment of both efficiency and effectiveness, using improvement tools specifically suited to each situation. We start by describing the often-overlooked value of these functions, as well as the challenges that typically keep companies from realizing their latent value.

The Capabilities Machine

All functions not directly involved in a company's core development, production, and sales processes—commonly referred to as general and administrative functions—constitute support. These include basic services such as payroll and accounting, governance activities such as audit and risk management, and strategic services such as corporate development and marketing—services that help senior management steer the business and identify and seize opportunities. The line between support and core business functions is sometimes blurry. For example, IT in an information-based business and procurement in a retail chain not only support other business functions but also are themselves core functions.

In concert, support functions serve to develop "metacapabilities" that orchestrate activities across the company and help it navigate volatile markets or shift from one business model to another. Metacapabilities differ from usual line duties in that they focus on what's required to succeed in the business. For new products or markets, the critical metacapabilities are those that allow a company to identify, evaluate, and act on opportunities: support functions should be able to provide the kind of insights that inform senior management's decisions, facilitate rapid mobilization of financial and human resources, and promote quick ramping up of opera-

tions internally and through external suppliers. For a more mature business, the important metacapabilities involve continuous process improvement, stable and cost-efficient access to scarce resources, and harmonization and collaboration across units in order to optimize performance and send early warnings of problems that require adjustment.

Support functions also help multinational companies resolve the tradeoffs between local autonomy and global standardization. On one hand, companies need to foster customer-driven innovation and be responsive to shifts in local market demand. On the other hand, companies benefit from setting common standards and exploiting economies of scale. To resolve this tradeoff, support functions should provide metacapabilities that foster collaboration within the organization. These mechanisms include a culture and a reward system that promote cross-functional and cross-layer thinking, and a management information system that provides a view into every pocket of the organization.

How Support Functions Go Awry

Although support functions play these crucial roles, senior management tends to underestimate their contribution, in many cases viewing them only as overhead costs on the financial statement. It is not surprising that the recent economic crisis prompted many companies to implement across-the-board cuts in general-and-administrative frontline support and back-office functions. However, we see the following structural problems persisting at many companies:

- *A Vague Mission.* When support functions lack a clear mission—their tasks and accountabilities abstractly or poorly defined—they can't focus on high-priority areas.

- *Organizational Complexity.* A complex or ill-defined organization in which responsibilities overlap promotes redundancies and conflicts that slow decision making. Fragmented or unaligned activities also hinder the use of best practices across the company.

- *Wobbly Steering.* The steering of internal functions, which includes requirements and control measures, typically lacks the explicit cost and quality specifications of contracts with external suppliers.

- *Detachment from Internal Customers.* Support functions often neglect to consult internal customers about their needs and priorities. As a result, internal customers have limited influence on the quality and price of services.

- *A Dearth of Talent.* Even with a clear mission and a sound organization setup, some functions lack the talent to realize their potential. In some cases, employees are in the wrong positions, and, in others, the functions convey a humdrum image to potential recruits.

- *Heavy Costs Relative to Benefits.* It's not just the high cost of support that's a problem. Employees in business units often comment on the poor quality of service, slow response, and bureaucratic mindset.

Clearly, wholesale cuts cannot address these issues. Worse, they might destroy value-creating activities, and management might be inclined to neglect the opportunity to redesign and restructure.

So it's worth taking a fresh look at support functions at a time when growth is uneven and markets are characterized by increasing volatility and complexity. Standardized, lean processes still matter, of course, in reducing costs and freeing up resources for more strategic value-adding activities.

In today's environment, however, there's a premium on organizational agility and collaboration among divisions, locations, and other relevant units. Support functions need to work at orchestrating such collaboration while continuing to deliver at a competitive cost. In short, they should excel at both efficiency and effectiveness.

From Top to Bottom, a Holistic Approach

To attain excellence in support functions, it's important to take a holistic view extending across both functions and layers. A useful way to conceptualize the multiple dimensions of excellence is to think of them as forming a pyramid. (See Exhibit 1.) The dimension at the top sets the course for those underneath, and all dimensions work together to improve the efficiency and effectiveness of a support function.

EXHIBIT 1 | A Pyramid Defines the Dimensions of Excellence

Source: BCG analysis.
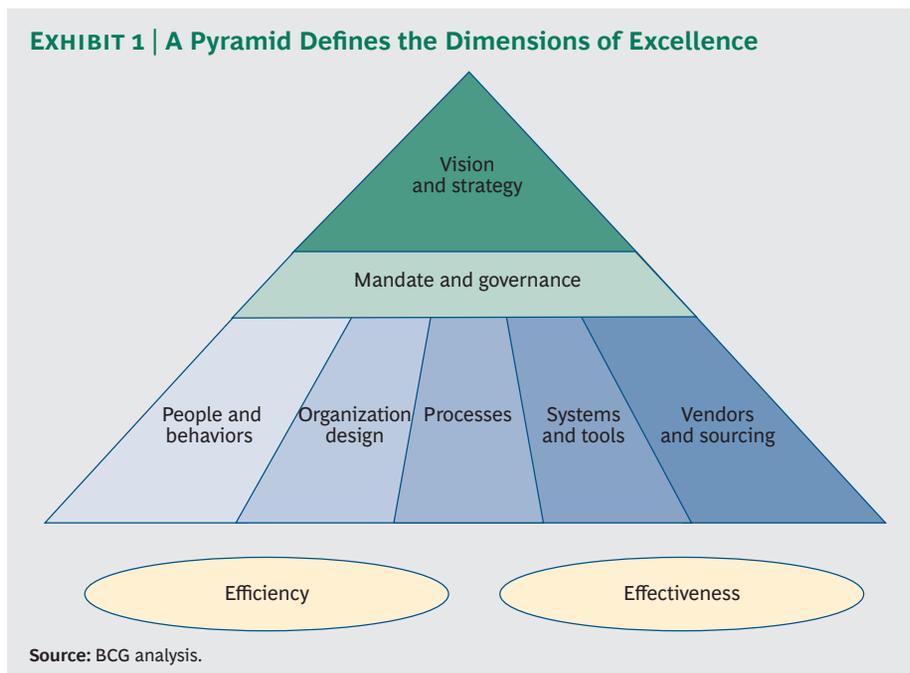
Vision and Strategy. It's essential to define how each function supports the overall company strategy and how it aims to add value. The primary purpose should be defined in terms of the desired outcomes—for example, strengthening the compa-

ny's position in a fast-growing foreign market or in the launch of a specific product. Proof of excellence will be manifest in the alignment of the function's strategy with the company's strategy and that of other corporate units.

Mandate and Governance. To execute the chosen functional strategy, a support function must understand which activities are the highest priorities and succinctly define the mandate for each activity. We group support activities in four categories:

- *Must-have* activities are those that are required for compliance with legal requirements or to ensure proper corporate governance (for example, preparation of external financial reports).

- *Should-have* activities are mandated by the executive committee (for example, executive reports).

- *Other should-have* activities are mandated by other units (for example, reports for a business unit).

- *Self-mandated* activities lack an internal customer (for example, reports used by the finance function itself).

Sorting activities this way, through joint provider-customer discussions, helps prioritize the activities and define service levels, quality, price, and performance metrics. Self-mandated activities, in particular, deserve the critical question: are they truly necessary? Proof of excellence in the mandate and governance dimension is a sound ranking process that produces clear mandates for each activity as agreed to by both providers and customers.

These two upper parts of the pyramid define the overall objectives of a function. The dimensions in the lower part constitute the means for achieving those objectives.

People and Behaviors. The caliber of the personnel and the culture in which they operate have a profound impact on the effectiveness of a function. Too often, the culture lacks an entrepreneurial bent or operational experience, or it promotes ivory tower concepts that don't reflect the realities of the business units. Proof of excellence in this domain consists of the right blend of functional, core business, and interpersonal skills; a practical orientation to results; and a collaborative approach.

Support functions have to keep pace with dynamic staffing requirements by anticipating which technical skills and business experience the company will need for the *next* phase of business. The one constant, however, is the imperative for rigorous performance management, well-defined career paths, and succession planning.

Organization Design. Support functions face a tradeoff between getting close to each part of the organization they serve and minimizing their own complexity. It helps to distinguish between services and governance. While services should be close to the internal customer, governance activities (such as HR strategic planning) should be centralized to maintain common quality standards and promote best

practices. Even execution of services need not be completely localized, as a significant share of back-end resources (for example, HR payroll specialists) can be clustered centrally.

Proof of excellence is a lean organization design that bundles resources where appropriate as it keeps front-end activities close to the frontlines. Maintaining the right balance will require regular review and refinement.

Processes. Broken or inadequate processes are among the problems we encounter most frequently—whether because of low levels of automation and IT support, redundant process steps, or reworking to fix mistakes. Many companies fail to standardize processes and spread best practices across the organization. Cross-functional or cross-layer processes, in particular, often lapse into inefficiency because no one has defined them from end to end or assigned owners to manage the entire chain of steps. Processes that minimize waste and rework, make effective use of automation and information flows, and are standardized throughout the organization are proof of excellence. Major efficiency gains can also be realized by applying lean principles and reengineering the way tasks are performed, without having to invest in automation or workflow tools.

Systems and Tools. Support functions can leverage their know-how and multiply their impact by using the right tools. HR controlling, for instance, can go beyond analysis of current staffing levels by using simulation tools to anticipate future staffing supply-and-demand requirements. A small, practical set of key performance indicators (KPIs) selected to measure the function provides comprehensive proof of excellence. In each case, companies should take care to avoid bureaucracy that creates more work than added value.

Vendors and Sourcing. Although governance functions of a company's core functions should, by definition, remain internal, support services may be better provided by external providers. In some cases, such providers can offer lower cost because of their specialization and economies of scale. The regular assessment of services for potential outsourcing and regular tracking of external vendors' performance are proof of excellence.

The dimensions discussed here act in concert to build high-performing support functions. Excelling at just one or two won't be sufficient. Fixing processes alone, for example, will have a limited upside because that neglects the effect on people and culture and, thus, could undermine the proposed solution. It takes the commitment of senior management—along with the cooperation of multiple departments—to address the issues holistically.

What should reassure senior managers is that "excellence" need not be a theoretical concept. Excellence is a concrete, measurable goal that can be assessed through metrics on two fronts—efficiency and effectiveness. With a sound assessment of the facts, one can define hard targets for improvement, laying the groundwork for choosing specific measures. From our case experience, we have defined a comprehensive and proven set of measures with which to make major improvements on both of those fronts.

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## Efficiency: Applying Scientific Analysis to Each Activity

The metrics associated with efficiency track quantitative data such as the number of personnel or total costs. Effectiveness is generally measured in terms of qualitative metrics, but these should be rigorous as well. As with any other metrics dashboard, the trick is to keep a sharp eye on what really matters in advancing the company's strategy and priorities.

To determine efficiency, start at the most basic level—raw size. A support function's size can be compared with that of industry peers and best-practice companies. If appropriate, the benchmarking can be extended to compare different business units or locations within the company, using internal exemplars as the reference points.

Size benchmarks alone reveal the barest outline of a function's efficiency. To fill in the details, it's critical to learn what support personnel actually do—not their job descriptions, but the day-to-day reality of how people spend their time. An activity-based analysis shows *who* does *what* for *whom* and at *what costs.* It lays bare the work life of support staff and opens the door to subsequent improvement measures, such as an activity-based *optimization.*

An activity-based analysis can be conducted using BCG's standardized approach, which covers as many as 200 activities in an area such as finance or IT. (See Exhibit 2.) Even if it aims at a detailed view, the actual process of data gathering and analysis is straightforward and can be done with limited effort. The data are typically provided by department heads who complete templates, indicating the number of employees allocated to each activity, as well as the internal recipients and the amount of external support per activity.

EXHIBIT 2 | An Activity-Based Analysis Covers a Broad Range of Functional Areas
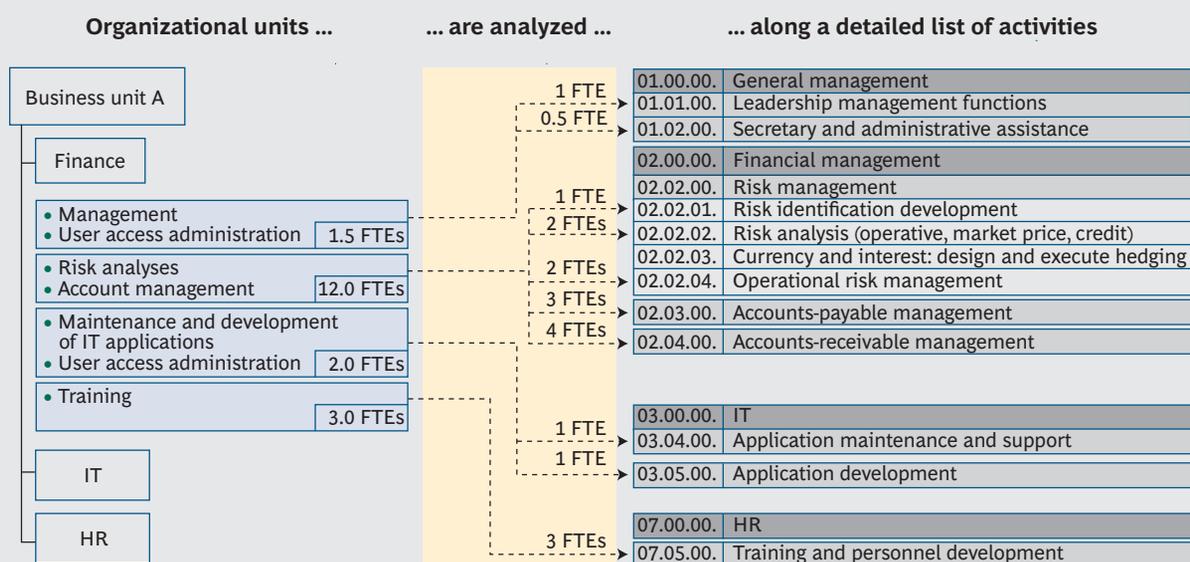
Source: BCG analysis.
Note: FTE = full-time equivalent.

The data can be complemented by information about spans of control and layers of management, typically available in the HR system. Software tools can help with the analysis. For instance, BCG's OrgBuilder software helps gather and analyze the data; generates a clear view and insights into a company's structure, models, and organizational scenarios; and assesses several scenarios' impact on head count and costs. During a reorganization, OrgBuilder keeps close tabs on progress by tracking each position and person until the reorganization is complete.

Using this combined approach increases accuracy and—through one-on-one meetings to validate the results—also gains middle managers' trust in the accuracy of the baseline, which is critical for the optimization process.

Activity-based analysis reveals a reality that may be quite different from the organization chart. At a European bank, we conducted an activity-based analysis that covered more than 5,000 employees in more than 50 divisions, within six weeks. The results illuminated costs, capacities, spans of control, and number of management layers in the different activities. For instance, the controlling department at headquarters employed 20 full-time equivalents (FTEs), in line with comparable banks. But when we summed up activities across the bank, we found 90 FTEs in other organizational units engaged in controlling activities, such as branch staff who compile daily sales reports.

Once we had illuminated the resources that were actually being spent on controlling tasks, bank management was able to start thinking about how to restructure the activity. In terms of spans of control, some managers had just two team heads reporting to them, and just two people were reporting to each team head. On the basis of this analysis, it became clear how resources should be reallocated. Large parts of controlling activities were centralized, leading to a flatter hierarchy, clean interfaces between central and local units, and the elimination of redundancies among organizational units.

Activity-based analysis also allows managers to identify opportunities for automating processes and sharing best practices. These opportunities frequently emerge from dispersion analysis that shows striking inconsistencies in the way a particular function handles the same activities in different regions or markets.

An international pharmaceutical company that sells generic drugs was serving a number of countries with substantially different market structures. In some countries, the doctor was the key customer; in others, the pharmacist or the insurer was. In each country, it had been left to support personnel to devise channel solutions, so the company was operating multiple subscale systems, even for such critical processes as online ordering. It made sense to rationalize the solutions by clustering the types of demand and then supporting each cluster with a single company-wide solution.

An FTE-based assessment should always be supplemented by a total-cost assessment that includes outsourced services. This is essential for benchmarking expenditures relative to the range of tasks performed. If the IT function, for instance, does much of its application development and maintenance through external providers,

Activity-based analysis reveals a reality that may be quite different from the organization chart.

only a comprehensive benchmarking of costs can reveal that function's true efficiency.

What makes such assessments powerful is the objective, fact-based description of support functions they generate. Generalized excuses that may have endured for years sound less convincing when everyone can see the hard facts associated with inefficiencies, breakdowns, and process gaps.

Effectiveness: Through the Lens of the Internal Customer

Efficiency is the first half of the equation; success also hinges on how effective the support function is at addressing high-priority issues for the business units that comprise its internal customers. Yet at many companies, one hears common complaints about support functions being too slow, bureaucratic, or detached. When employees from headquarters announce, "We're from corporate, and we're here to help," more often than not, they are met with mistrust in the business units. Support functions at the same organizational layer, meanwhile, may be perceived as too cumbersome or disconnected to add much value.

To capture such perceptions in a useful way, internal customers should be surveyed regularly for their view of a support function's capabilities, responsiveness, work quality, and sense of priorities. True, these are perceptions rather than objective facts. Nevertheless, such surveys can elicit descriptive information which, when combined with the quantitative data, allows managers to identify key issues and opportunities. And one can calibrate the output by comparing a company's survey results with benchmarks.

In addition to perception-based metrics, other KPIs should be used to assess the outcomes of a function. In the HR function, for example, useful metrics could be the company's position in employer rankings, the number of unsolicited applications for employment, and the time it takes to fill vacancies. The activity-based analysis can provide the basis for these assessments, as it collects both input metrics (on, say, FTEs and costs) and output metrics (on the quality of services).
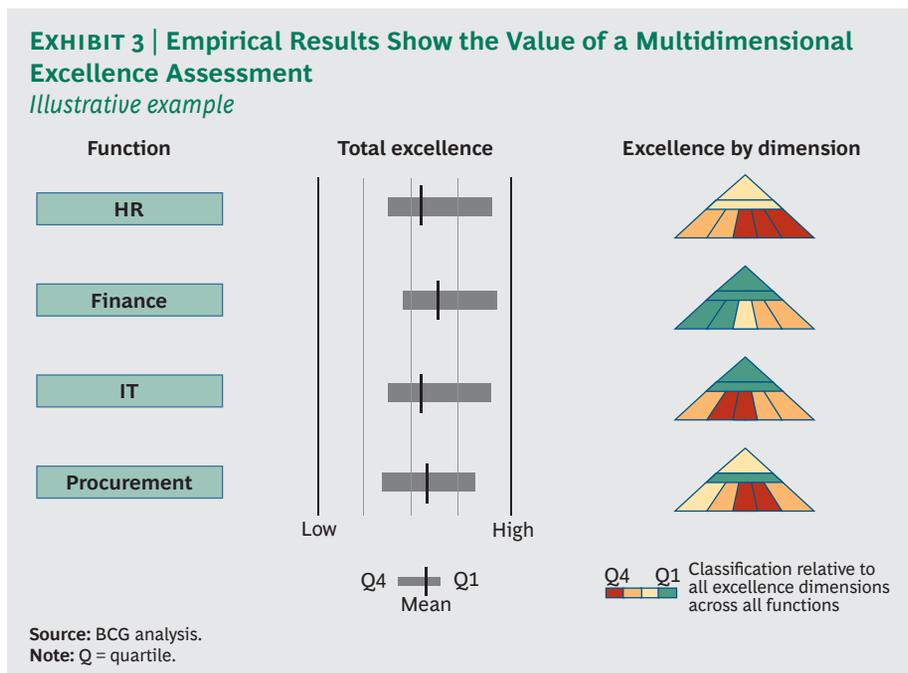
The recent experience of an international consumer-goods manufacturer illustrates the value of combining qualitative and quantitative assessments. The company's HR function had been under intense cost pressure for several years, and a quantitative benchmarking assessment showed that the HR staff was extremely lean. However, a survey of internal customers revealed that HR was perceived as highly ineffective, adding little of tangible value. That was not surprising, given the undifferentiated nature of previous cuts. Critical areas, such as recruiting and development, were thinly staffed and spread across different departments, while less important activities, including payroll and administration, were overstaffed. HR leadership, eager to reduce costs, had neglected to invest in high-caliber specialists and was paying the consequences. Several parts of the pyramid needed attention: its faulty mandate, dearth of qualified people, and ill-defined organization structure.

The finance function's profile was very different. Benchmarking showed that it was clearly oversize relative to the finance function of the company's competitors, with

large savings potential in accounts receivable and accounts payable. The qualitative survey, meanwhile, revealed issues that contributed to its excessive size: no standardized planning processes, ill-defined reporting templates, and frequent ad hoc requests from the controlling department. These problems fostered inefficiency in the finance function and lowered the value it delivered.

This case highlights a classic trap in which it's easier to trim value-adding activities than transactional ones. No one wants to overwhelm the payroll department, causing employees to miss paychecks. It appears to be easier to cut an area such as talent management, even though the long-term effect could be devastating.

To avoid such traps requires getting a comprehensive view through multiple analyses of both efficiency and effectiveness. Exhibit 3 provides an example of such an assessment that BCG did after surveying 1,500 participants, from a range of industries and locations, about their perceptions of different support functions. Participants assessed various support functions quite differently. Finance is perceived, on average, as a strong performer relative to other functions, along most of the dimensions, with only minor issues in two dimensions—systems and tools and vendors and sourcing. HR and procurement, on the other hand, need improvement along nearly all dimensions. Finally, IT excels in the vision and strategy and mandate and governance dimensions. However, given the low ratings in other dimensions, it appears that IT has not effectively exploited these assets to bring the functional "strategy" to life, resulting in a low "total excellence" score.

EXHIBIT 3 | Empirical Results Show the Value of a Multidimensional Excellence Assessment
Illustrative example

Function	Total excellence	Excellence by dimension
HR		
Finance		
IT		
Procurement		

Low   High

Q4 — Q1
Mean

Q4   Q1   Classification relative to all excellence dimensions across all functions

Source: BCG analysis.
Note: Q = quartile.

These empirical results illustrate the value of a multidimensional view of support functions, which helps to identify the hot topics in each support function. No single assessment can give the full picture; no single analysis can reveal root causes.

Internal customers as well as providers should contribute to the analysis. It's equally important to de-average the data by delving into individual subfunctions, activities, regions, and other relevant organizational units. That's how you find the pockets of waste and the gems of best practice. (See the sidebar "Tips from the Field.")

Tools of the Trade

Once the holistic assessment of support functions is complete, each of the dimensions in the corporate pyramid can be addressed through appropriate improvement tools. Typically, three different patterns emerge, and each requires a different combination of tools. (See Exhibit 4.)

Role-related issues, for instance, are characterized by an unclear functional strategy, an ill-defined scope of activities, and ineffective governance and steering mechanisms from the center—all of which detract from the function's value. Among the useful tools will be the definition of a clear functional strategy and a vision for how to add value, as well as the redefinition of the role and mandate of the center relative to the other layers.

EXHIBIT 4 | The Three Typical Issue Patterns Have Corresponding Tools for Improvement
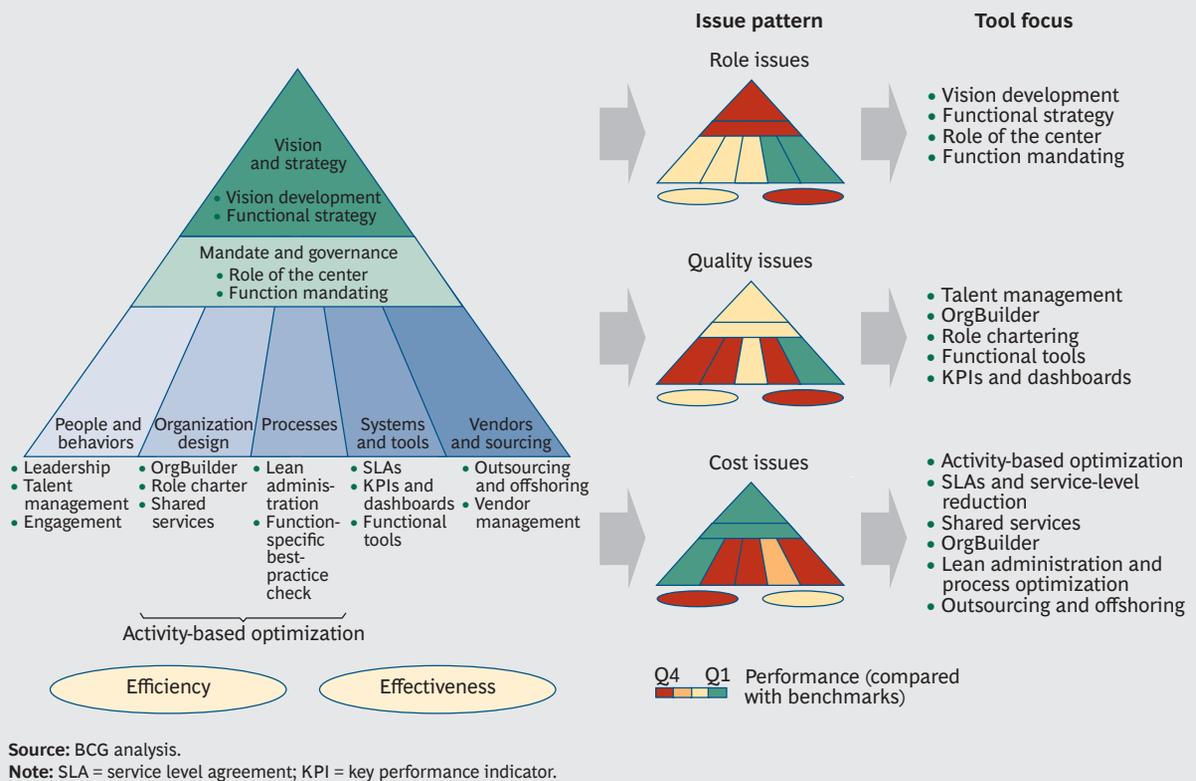
Concerns related to quality are commonly rooted in an inadequacy of talent in the function, a distorted organization setup, and insufficient use of tools and systems. These deficits limit the effectiveness of the function—the ability to bring to life even a concise vision and mandate. Improving quality requires a blend of people-centered measures (such as better talent management), organization-focused measures (such as using BCG's OrgBuilder to model different organizational scenarios, or redefining the role charters), and systems-related measures (improving the functional tools and defining an effective set of KPIs).

Even if a function performs effectively, its value might come at too high a price. Many cost-related problems stem from redundancies in the distribution of tasks across the organization, overlong processes, and scant use of external providers. The tool set for remedying these defects includes measures such as reducing the functional service level, reorganizing the function, optimizing process flows, and bundling activities in shared services and even outsourcing them. Three case examples demonstrate how the tools work in practice.

DEFINING THE FUNCTIONAL STRATEGY AT A TELECOMMUNICATIONS CARRIER
At a multinational telecommunications carrier, the top of the pyramid was in sore need of repair, presenting a classic example of the role issues described above. The company's corporate center for HR, finance, IT, and other support functions was

large relative to the company's overall size. The center not only defined and controlled policies, it also tried to go further—defining detailed processes and even implementing entire projects and pushing them out to every country in the company's organization. HR, for example, was going beyond defining strategic HR priorities to centrally supervising the recruiting processes and diversity policies of every country, despite huge cultural and market differences.

Ambition, however, was running up against reality. The company had grown through the acquisition of autonomous companies in each country of operation. Because those local operations, for the most part, ignored the center's initiatives, there were numerous redundancies and frequent conflicts. The center, in a bid to wear down the local operations' resistance, kept building up its staff.

The dysfunction, analysis showed, was rooted in an unclear and inconsistent vision and strategy of support functions at the center. The center's ambition did not match the business requirements of telecommunications, an industry in which core processes such as branding and account management work best when handled locally.

Provocative diagnoses like this one do upset some managers. But the company, working with BCG, swallowed hard and decided to restructure its corporate center. We clarified the overarching role of the center: to set strategy for the regional divisions and actively spread best practices to promote innovation and realize operational synergies. But the center would not intervene directly in local business operations. For individual support functions, it made sense to distinguish between regular operations and select initiatives. For the former, the center would focus on policy setting and oversight, while the divisions would be responsible for execution. For urgent concerns, the center would get involved in executing a complete solution, such as the implementation of a group-wide consolidated accounting system.

This clearly defined less-is-more vision and strategy now serve as the basis for specific changes in each of the other parts of the pyramid: for example, detailed mandates, a new organization design, and different staff requirements.

ACTIVITY-BASED OPTIMIZATION AT A PHARMACEUTICAL COMPANY
The experience of an international pharmaceutical company exemplifies the pattern of cost concerns: the company had problems with efficiency rather than the overall vision or mandate of its support functions. In this context, activity-based optimization was the appropriate intervention.

This intervention started with a detailed look at resources and costs for different activities, locations, and processes. (See Exhibit 5.) Our analysis gave the company a clear view of how it spent resources. Consider the order-to-cash process. By mapping all of the activities involved—from customer order to payment collection—we found that the company was using 250 FTEs.

Having that detailed breakdown of activities allowed us to define seven opportunities to improve the process, and we were able to sort them by their expected benefits and the complexity of implementation. (See Exhibit 6.) Analysis of the accounts-receivable function showed that productivity ranged from 10,000 to 50,000

EXHIBIT 5 | A Detailed Analysis Illustrates the Use of Resources at a Pharmaceutical Company

| Country \ Task	(1) General management	(2) Financial management	(3) IT	(4) Communications	(5) Marketing and business development	(6) Sales	(7) HR	(8) Strategy	(9) Real estate and infrastructure	(10) Legal and intellectual property	(11) Compliance	(12) Logistics	(13) Sourcing and purchasing	(14) Supply planning	(15) Quality management	(16) R&D	(17) Regulatory affairs	(18) Other	Total	Nonemployees and outsourced (%)
Country A																			30	10
Country B																			40	65
Country C																			50	2
Country D																			60	11
Country E																			70	30
Country F																			80	60
Country G																			90	30
Country H																			100	50
Country I																			150	10
Country J																			200	10
Country K																			250	25
Country L																			300	15
Country M																			330	15
Country N																			340	15
Country O																			360	15
Country P																			400	40
Country Q																			400	25
Country R																			1,000	25
Total	50	150	130	20	260	2,250	100	10	150	70	10	250	50	100	200	50	400	0	4,250	25
Nonemployees and outsourced (%)	30	5	50	10	5	0	0	10	0	60	40	0	30	0	0	30	40	NA	10	

◯ = 50 FTEs

Source: BCG analysis.
Note: FTE = full-time equivalent; NA = not applicable.

EXHIBIT 6 | Improvement Opportunities Are Assessed on the Basis of Their Expected Benefits and Complexity

Potential efficiency initiative

A Finance
- 1 Bundle accounts-receivable management
- 2 Bundle accounts-payable management
- 3 Bundle general-ledger management

B Order management
- 4 Automate order entry
- 5 Increase automation of customer service

C Supply chain
- 6 Increase supply chain transparency and reduce in-country inventory and levels of supply-planning staff

D
- 7 Implement a bundled function to orchestrate indirect sourcing for a region
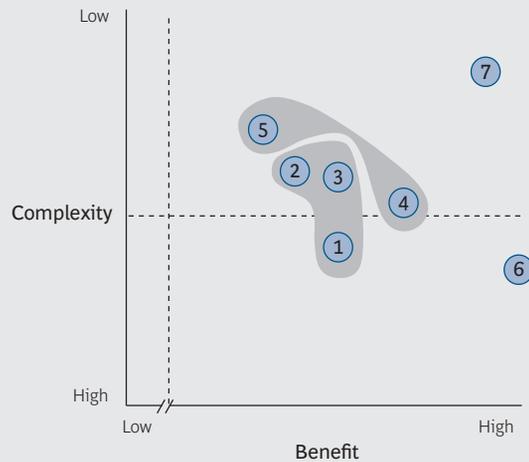
Source: BCG analysis.

invoices per FTE, depending on location. The data, combined with external benchmarks, suggested that a target of 40,000 was attainable for all locations through automation and bundling and would result in considerable savings, largely by cutting around 40 percent of the FTEs. An analysis of the supply chain revealed efficiency problems in the form of high inventory, elevated staff levels, and ill-defined service-level agreements. On the basis of these results, the company reduced in-country inventory and harmonized its service-level agreements.

The striking aspect of the activity-based view is its ability to identify powerful improvement levers that otherwise escape notice. These concrete, detailed measures also allow managers to track progress closely during implementation.

Organization Redesign and Delayering at a Consumer Goods Manufacturer

The consumer goods manufacturer with dysfunctional HR and finance functions, already mentioned as an example, had both quality- and cost-based problems. An analysis revealed that the organization comprised eight reporting layers and that the average span of control in each management layer was fewer than five people. Because many managers were responsible for only a few subordinates, management capacity was being wasted and decision making was slow and distorted.

The subsequent organization redesign started at the top level—with the CEO himself taking on additional direct reports. The number of management layers for all support functions declined from eight to six, and the average manager's span of control increased from fewer than five people to about seven.

Broader spans of control rein in excess management, trigger the elimination of noncore activities, and allow the organization to focus more on its customers.

The complete restructuring of finance started with relatively quick and easy wins, such as redesign of the central finance group, which freed the controlling staff from accounting-based activities and shifted them to a consultant-like, forward-looking role. Subsequently, more comprehensive and complex measures—such as bundling activities into a shared-services center—helped the group reach a cost-savings target of around 40 percent.

In HR, measures focused on adding value to the business units. Central HR was restructured with units dedicated to talent acquisition and management, and more administrative areas were trimmed. These moves helped align resources with their appropriate purposes: strategic activities carried out by central HR and administrative tasks performed by the service functions and the regions.

Overall, delayering at the consumer goods manufacturer led to gains in both efficiency and effectiveness. Broader spans of control reined in excess management, triggered the elimination of noncore activities, and allowed the organization to focus more on its customers.

A key aspect of the process was obtaining a nuanced picture through a blend of quantitative and qualitative assessments of, for example, the perspectives of functional employees as well as their internal clients. Involving employees early on also helped communicate to them why the redesign was necessary and gained their engagement in bringing about the actual changes.

Confront the Reality and Fix It

Support functions are opaque to most senior executives. CEOs and chief operating officers may base their judgment of support functions on their personal relationships with the heads of finance, HR, and IT. But apart from those relationships, how does the broader support function interact with the rest of the organization? Is it lean or fat? Streamlined or riddled with redundancies? Pursuing the right goals and aligned with the business units or detached from the rest of the organization?

For all the talk about adding value in support functions, the gap between ambition and reality is far from negligible. Our holistic approach to closing that gap brings fact-based analysis to bear, applying rigorous and pragmatic metrics and methodologies to the concept of excellence so that support functions can be usefully assessed and substantially improved. Examining different dimensions allows a comprehensive and de-averaged picture and, thus, enables a company to address all the relevant issues with targeted measures.

The two broad aspects of analysis—efficiency and effectiveness—combine to create a rich picture of each support function. One aspect reveals the scale and location of waste; the other illuminates gaps in leadership, employee engagement, and strategic priorities. In concert, the two identify the points where support functions truly add value and where they fall short, and they show the way toward specific measures for improvement. The benefits of this approach go well beyond cost reduction to include higher-quality output, harmonized processes, and clear mandates for each function.

Of course, organizational changes will provoke resistance from some of the affected employees. So we find that it's critical to stick with the defined targets rather than get into lengthy discussions with recalcitrant employees: it's important to avoid discussions that might lead to incremental improvements instead of major steps forward. As with every major organizational change, commitment and attention from top management throughout the process is essential to success.

Support functions lie at the heart of a company's ability to ensure competitive advantage. In industries ranging from generic drugs to basic telecom services to computer hardware, markets are commoditizing, putting downward pressure on prices. Global markets have become more volatile, and the half-life of any particular competitive advantage has become shorter. Effective support functions allow companies to face these challenges with greater confidence of success.

For More Information

To get an initial assessment of your company's support functions, please visit BCG's Support Functions Quick Check at http://quickcheck.bcg.com. At this website, you can respond to several questions that focus on the effectiveness of a specific function, as well as others that indicate rough estimates of capacities and costs. After you have entered your responses, the website will immediately provide a quick review of your functions and how they compare with reference values that are based on BCG's benchmarking data and project experience.

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