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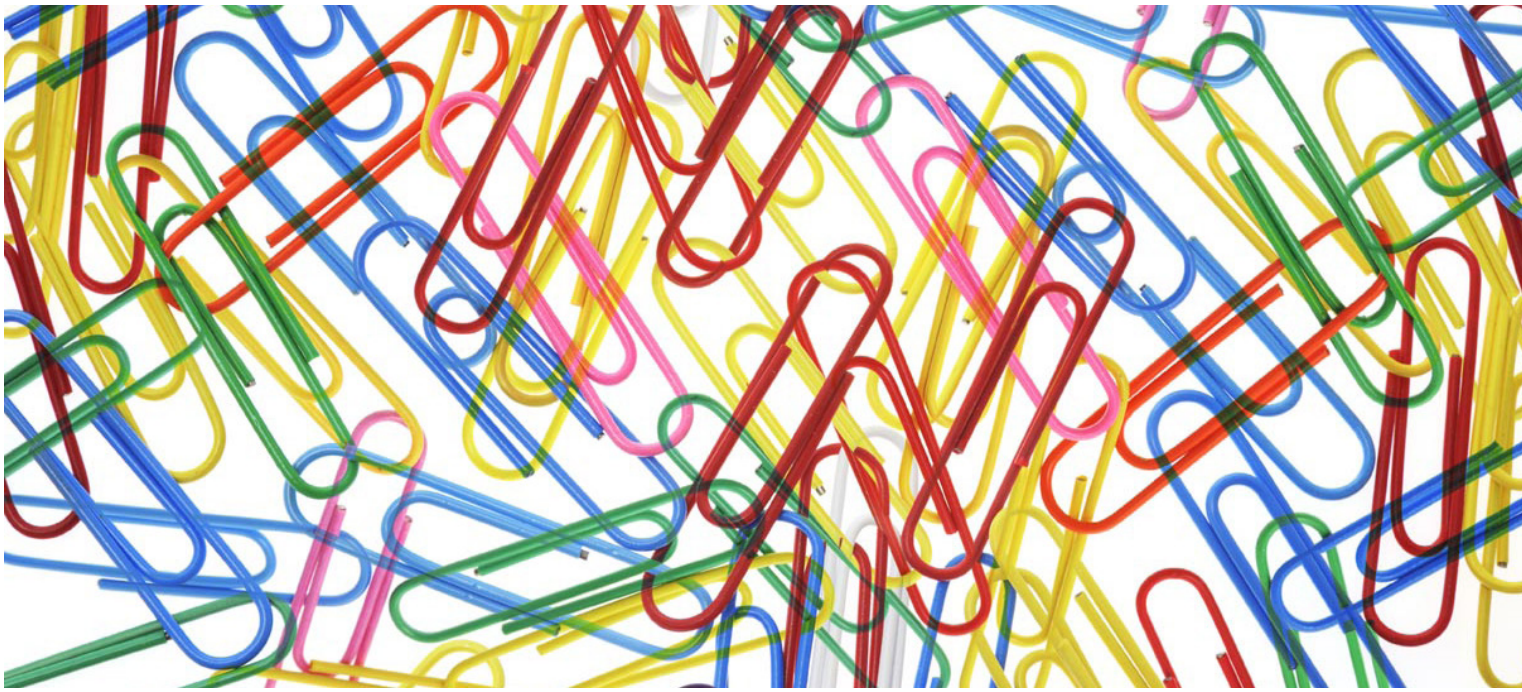
Case studies in reducing process complexity in G&A and shared services

Driving to capture the next generation of continuous improvement in service delivery transformation

The second in the series "Addressing General and Administrative (G&A) Complexity"



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Introduction

You've moved G&A processes into a shared services structure, but costs are high and lead times long. What's the next step toward better performance? The CFO of an industrial manufacturing company couldn't help but express his frustration: "We started an efficiency program four years ago and saved a lot. But our costs are still high because what's coming into our center is a big mess: each line of business has its own forms, prices, billing terms, credit approval processes, and order-entry methods. It's crazy, really – it feels like every transaction is a one-off." Find out how this CFO fixed the problem on page 10.

"IT demands from the business units are out of control. We can't add people fast enough. Moreover, we spend a significant amount of time enhancing legacy systems. We will not be able to improve efficiency until we reduce the volume and variability of demand." What did this CIO of this company do to get a grip? See page 14.

In 2008 a food processing company struggled with declining profitability, despite competitive manufacturing processes. The pressure was on the CFO to cut costs, dramatically and permanently: "We had implemented lean concepts in production, but hadn't addressed the same problems – waste, redundancy, rework, and bottlenecks in our G&A processes. So, I had to ask: could lean work in the back office?" Read the answer on page 19.

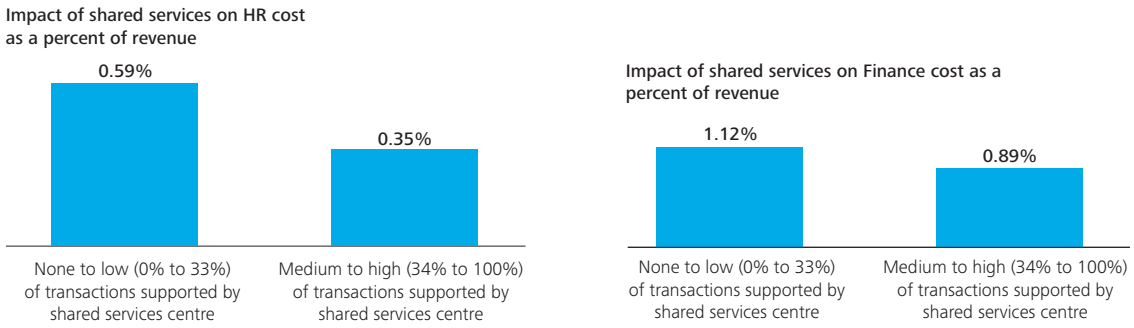
According to a recent Deloitte benchmarking survey,[1] a shared services organisation is an effective tool for better G&A performance. The data shows that the greater the number of transactions supported by shared services, the better: more transactions result in a decrease in the cost of finance processes as a percent of revenue; a decrease in the cost of finance transaction processing as a percent of revenue; and a decrease in the cost of HR as a percent of revenue (figure 1). Add in automation and the savings are even more dramatic (figure 2).

The rationale behind shared services is the efficiency to be gained through centralisation and consolidation. That's why more than 75 percent of the companies participating in our survey said that "process performance" is the most important key performance indicator in assessing their shared services organisation and that "process improvement" is their #1 priority for driving value creation.

Taking shared services to the next level

But in a typical company, a shared services organisation alone may not deliver top-quartile G&A cost performance. Why not? Because process complexity can cancel out many of the gains achieved by centralisation and consolidation through shared services. Unless a company addresses complexity, it may not be able to capture more value from its shared services organisation – whether that value comes from enhancing service delivery or from expanding its scope to include processes from other functional areas.

Figure 1: The shared services structure provides cost advantages in functional service delivery

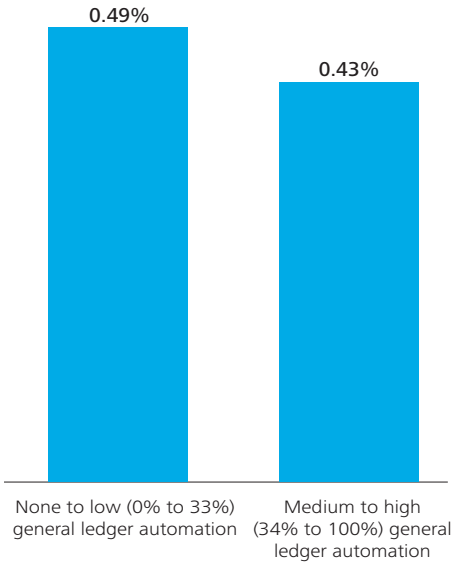


Source: Deloitte Global Benchmarking Center

[1] Download a copy of the paper http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/IMOs/Shared%20Services/us_sdt_Addressing%20general%20and%20administrative%20complexity_061711.pdf

Figure 2: Automation can reduce costs in a shared services structure

Impact of general ledger qutomation on Finance transaction processing cost as a percent of revenue



Source: Deloitte Global Benchmarking Center

In the first paper," Addressing General and Administrative (G&A) Complexity: The next frontier in cost-cutting,"[2] we made a distinction between two sources of complexity; that which is incoming and that which exists within the G&A functions themselves. Often, a G&A function cannot affect "incoming" complexity, but can only manage its impact by responding and adapting; this is the case when complexity is caused by the company's portfolio of customers, products, or suppliers. We refer to this source of complexity as business model complexity. But sometimes complexity exists within the G&A functions. We call this source of complexity operating model complexity. In these cases, G&A processes, organisation, or IT infrastructure may have become more complex over time. These operating model complexities are typically within the span of control of the G&A functions and can be exposed and reduced. Given those two sources, we then detailed four types of complexity in G&A: portfolio, organisational, process, and information infrastructure (see the sidebar).

Without a purposeful effort to reduce process complexity, G&A functions will inevitably miss real opportunities for greater efficiency and effectiveness. In fact, Deloitte research shows that a typical manufacturing company can cut G&A costs by 15-20 percent by reducing complexity.

Four types of complexity in G&A functions

- **Portfolio complexity:** This complexity relates to the number of unique customers, products, promotions, customised billing options, and consumers' special needs/requests. Portfolio complexity is generally considered "incoming" complexity for G&A functions and can, therefore, only be managed.
- **Organisational complexity:** This complexity relates to the number of unique business units (BUs), divisions, and departments, as well as their geographic footprint. A complex organisational structure adds layers and interfaces that can slow decision making, obscure responsibilities and accountability, and make G&A service delivery rationalisation difficult. The level of complexity increases with intricate matrix organisations, variability of policies across businesses, and unclear decision rights, accountabilities, or governance structures.
- **Process complexity:** This complexity relates to the number of unique inputs to a process and the complexity of the process itself. As complexity grows, so does the number of exceptions to a process, which in turn drives work-arounds, degrading the overall process performance. Lack of process standardisation, numerous handoffs, wide variation in task completion time, and poor information flow also drive process complexity.
- **Information infrastructure complexity:** This complexity relates to the number of unique applications, specialised systems, outputs and reports, degree of customisation, and the accuracy and standardisation of data. Inaccurate and non-standard data puts a lot of complexity into an operation. In addition, inadequate or poorly-implemented technology, outdated platforms, a lack of integration, and unnecessary levels of customisation can give rise to complex workarounds, variability in applications across or within businesses, and specialised systems.

[2] Download a copy of the paper at http://www.deloitte.com/view/en_US/us/Services/additional-services/Service-Delivery-Transformation/76b3ebbfe0890310VgnVCM2000001b56f00aRCRD.htm

G&A Process complexity: An overview

In G&A functions, process complexity is evident in many symptoms: poor and costly service delivery, multiple handoffs and changeovers, an excess of "exceptions" to standard processing, and an imbalanced workload.

In our work with companies from many different industries, we've identified three primary types of process complexity within G&A functions (figure 3):

- **Input complexity** comes from sales and marketing, procurement, customer relationship management, and other upstream functions. The greater the number and variety of inputs, the greater the complexity in G&A functions. When inputs are not standardised, G&A processes have high "set up times and lead times" and excessive "work in process inventory" (in the form of invoices or orders waiting to be processed, emails not answered, or calls not returned). Reducing this type of complexity begins with an end-to-end view of the larger processes with an eye to standardisation.
- **Output complexity** is driven by demand from internal customers; these outputs could consist of the number, frequency, and granularity of reports in finance; the number of benefit plan options, job titles, and incentive compensation plans in HR; and the number of applications, degree of customisation, and variety of applications in IT. Reducing this type of complexity requires aggressive demand management, backed up by cost/benefit analyses.
- **Workflow complexity** occurs when processes are convoluted, redundant, and generally stop-and-go. As complexity grows (typically because of out-of-control inputs and outputs), so does the number of exceptions to a straightforward or standardised G&A process. This type of complexity is primarily resolved by implementing lean principles and practices.

Figure 3: G&A functions have three types of process complexity

Input complexity	Output complexity	Workflow complexity
• Number of unique inputs to a process and variability of these inputs • Examples: – Setup time for order entry clerk to switch between order types – Amount of safety stock required as variety of products manufactured increases	• Number of different demands on processes from internal customers • Examples: – Number, frequency and granularity of reports in finance – Number of benefit plan options, job title, and incentive compensation plans in HR	• Number of exceptions to a process due to increased input & output complexity, which in turn drives workarounds, degrading overall performance • Examples: – Number of handoffs – Variation in task completion time

We've also identified four strategies for reducing G&A process complexity:

Segregate

Reducing complexity begins with understanding the work being done, and then segregating transactions into straightforward (easy) and complicated (difficult). While that seems like common sense, very few G&A functions (even those in a shared services structure) are organised around processing requirements and workflow. For example, one of the main triggers of poor G&A performance is a high degree of variability in inputs. If everything from paying invoices to closing books is a potentially "one off" activity, and if there's no distinction between the typical and the exceptional, G&A processes will be stop-and-go.

Adapt

The next step is deciding: what can be changed and what cannot? For transactions that can be tweaked, "adapting" consists of applying the principles of lean and Six Sigma to back-office processes. For example, in G&A functions, "set up" might consist of logging out of one computer system and into another (because of poor systems integration) or processing multiple, disparate invoice types (because of poor standardisation and/or workflow segregation). Once these activities are identified as fixable, a company can decrease their causes. Activities that delay G&A workflow, such as gathering data or populating standardised forms, would be put outside the process; those that couldn't be detached would be simplified and automated.

Reduce

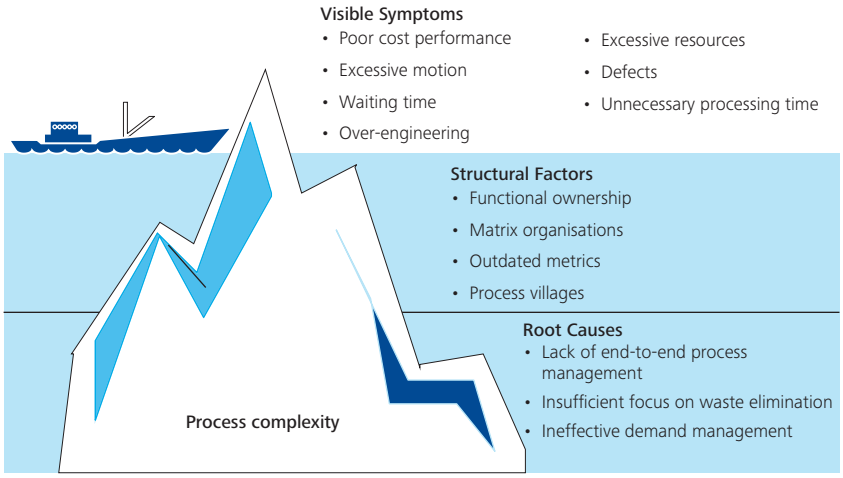
Output complexity can be reduced through demand management – a technique for rationalising workload by reducing the number and variety of outputs produced by a process. Demand management requires a detailed assessment of the value of each output relative to the cost of producing it. Reducing demand removes complexity and non-value-added work from a process and can have significant implications on G&A process performance.

Simplify

This strategy addresses reducing, or virtually eliminating, non-value-added work and automating transactions as much as possible. When a G&A process itself is complex, or when technology is not used to support an end-to-end process, the number of workarounds and hand-offs increases, as does the use of one-off tools such as spreadsheets. All these expediencies increase time, errors, and costs. Complexity can also be the result of complicated organisational structures and processes, as well as conflicting policies and priorities. A technique called "visual value stream analysis" can be used to expose process complexity (see the workflow complexity case study on page 19) and illustrate opportunities for simplification.

Most of the symptoms of process complexity relate to a limited number of structural factors and root causes. Addressing process complexity to improve the efficiency and effectiveness of a shared services organisation requires a focus on root causes rather than on symptoms (figure 4).

Figure 4: Sustainable improvement comes from addressing the root causes or complexity



In this paper, we share case studies that show the application of four strategies – segregate, adapt, reduce, and simplify – to reduce each of the three types of complexity: input, output, and workflow.

Input complexity: Case study

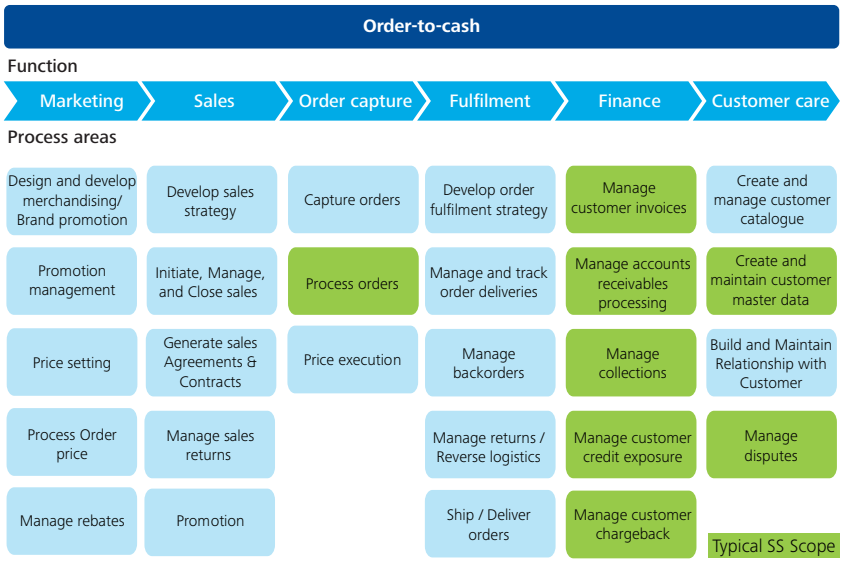
The greater the number and variety of inputs, the greater the complexity in G&A functions. The first step in reducing input complexity is taking an end-to-end process view.

Inputs come from sales and marketing, procurement, customer relationship management, and other upstream functions. Input complexity affects a G&A process in a few important ways:

- **Setup time.** While not as significant as a production line changeover in a manufacturing plant, setup time for an order entry clerk – the time it takes him or her to switch between different order types, billing arrangements, and order entry systems – can be wasteful.
- **Work-in-process (WIP)**. In manufacturing, the greater the variety of products manufactured, the greater the need for safety stock. In a G&A process, WIP can also build up in the form of invoices or orders waiting to be processed, emails not answered, or calls not returned, for example. The more WIP, the longer the "lead time" (the time it takes to serve internal or external customers, decreasing customer satisfaction); the clock starts when a request is made and it ends at delivery. WIP also limits flexibility and masks problems, as feedback is waiting in WIP.

The number of inputs to a process typically explodes when front-end decisions are disconnected from their downstream implications. For this reason the first step in reducing input complexity in G&A functions is an end-to-end process view (figure 5) that includes upstream and downstream activities.

Figure 5: An end-to-end process view makes visible the activities that drive complexity in G&A functions



Source: 2011 Deloitte Global Shared Services Survey

Case study: The order-to-cash process

> "We started an efficiency programme four years ago and saved a lot. But our costs are still high because what's coming into our center is a big mess: each line of business has its own forms, prices, billing terms, credit approval processes, and order-entry methods. It's crazy, really – it feels like every transaction is a one-off."

A US-based global company was engaged in several structurally disparate businesses, each operating with a high degree of independence. Of the company's $14 billion in revenue, 30 percent came from precision, customised parts (along with variable pricing); 60 percent came from standard parts, sold through distributors on fairly consistent delivery schedules; and 10 percent came from related businesses, including sales of fully assembled machinery.

Not surprisingly, the company's order-to-cash (OTC) process was very complex. All told, the enterprise had eight variations of the order entry process. For different types of customers the company had different forms and procedures, prices, billing relationships, credit approval processes, and order-entry methods.

Every order funneled through the same people at the shared services center: first, a clerk would process a customised order manually (after interacting with manufacturing and sales); next, the same clerk would process a standard order as part of a bulk transaction. In addition to shifting between forms and processing requirements, the clerk also had to switch among many different ERP systems and applications. Similarly, invoices included far more detail than what was needed or what the customers wanted; filling in that detail often required manual intervention.

As a result, the overall OTC process was stop-and-go, sluggish, labour-intensive, and costly. In fact, G&A costs had risen to 10 percent of revenue. Implementing a shared services organisation had saved the company $140 million, but the failure to reduce complexity in the OTC process had left an additional $350 million in potential savings on the table.

Working with Deloitte, the company took another look. The root cause of the problem was the lack of an end-to-end process view among the company's executives – a view that exposed disconnects between upstream input decisions and their downstream implications. The sales team had no visibility into the actual "cost-to-serve" customers or the complexity created by offering such variation in invoicing. Needless to say, this process had not been moved into shared services.

The project team took these steps to reduce input complexity and improve service delivery:

Simplify

By improving visibility across the end-to-end process, the team gained a holistic view; causes of excessive variability in inputs were more readily identified. Some inputs – while adding complexity – were deemed value-added because they increased customer satisfaction and contributed to customer loyalty. Non-valued added inputs were targeted for elimination. For example, several inputs within the customer credit review process were only marginally useful but very time-consuming for the finance staff. Eliminating these from the standard process dramatically improved the productivity of credit management personnel. In addition, customer cost-to-serve metrics (including the cost of processing different invoice types) were calculated and shared. Customers were offered options that still met their needs, but also dramatically reduced invoice complexity.

Segregate

After reducing as much of the non-value-added invoices as possible, the team segregated remaining invoices into two groups: straightforward (easy) and complicated (difficult). The straightforward invoices were routed to one set of clerks, while the complicated invoices were routed to another set of more experienced clerks. This reduced set-up time and improved flow for the easy invoices, while directing the difficult invoices to those best prepared to deal with them.

Of course, the company had to enforce compliance by standardising forms and procedures; in many companies this is an organisational or political stumbling block that the G&A functions have to resolve through leadership and leverage.

The CFO was surprised to discover that the stakeholders in the OTC process – including sales, order management, customer relationship management, and finance – were willing to change their own behaviors as long as two conditions were met: 1) they had some say in developing the "to be" OTC process flow and cost model; and 2) the company's customer relationships were not harmed. Within two years, a significant portion of the company's OTC process was moved to shared services. OTC process costs were reduced by 25 percent, while accounts receivable days (a measure of lead time) were significantly improved. Overall, G&A costs as a percent of revenue ended up in the top quartile of the company's peer group.

What's driving complexity in G&A inputs?

OTC Sub-process	Input	Complexity Driver
Order and quote receipt	Order type	Number of different order types (POS, work order, contract MSA), level of product customisation, technical complexity, different languages, currencies, product/service mix
	Account type	Different account types each requiring different treatment / due diligence / service levels (clear definition of low / med / high priority)
	Billing arrangements	Number of different billing arrangements, complexity of each billing arrangement, flexibility of Ts & Cs
	Order changes	Number of order changes, magnitude of changes
	Catalogs & product info	Integrated product / service catalog, clearly defined product service info and corresponding mapping to a pricing master (to generate accurate quote)
	Channels	In-bound or outbound call centre, internet, mail
	Ordering systems	Number of different ordering systems; integration between multiple systems (if applicable)
	Customer service centers	Number of locations with different language requirements, different order taking processes
	Order taking personnel	Different levels of technical capability, training, process understanding, geographic location, language
Credit authorisation	Credit limits	Number of credit limit bands (appropriate credit limits for customers, based on risk, history and strategic importance)
	Credit information	Number of different credit information providers
	Credit approvals	Number of different credit approvers
	Credit personnel	Different levels of technical capability, training, process understanding, geographic location, language
Order entry	Order entry system	Number of different order entry systems, input screens
	Customer master file	Different customer master files, different fields populated for different customers
	Order entry personnel	Different levels of technical capability, training, process understanding, geographic location, language
Shipping & customer invoicing	Shipping system	Number of different shipping systems, input screens
	Invoice formats	Number of different invoice formats, complexity of invoices, detail provided, measurability of products/services provided, language, currency
	Invoicing system	Number of different invoicing systems, input screens
	Invoicing terms & conditions	Different payment terms, discounts
	Shipping & invoicing personnel	Different levels of technical capability, training, process understanding, geographic location, language
Payment receipt & cash application	Payment methods	Different payment methods including electronic payments, wire transfers, paper checks, cash
	Bank data	Different format of bank data from different banks
	Remittance detail	Difference in amount or inclusion of remittance detail for different payment methods
	Payments & cash apps personnel	Different levels of technical capability, training, process understanding, geographic location, language
Receivables managment & collections	Accounts receivable system	Different accounts receivable systems
	AR aging reports	Different AR aging reports, including different definitions of past due, different languages, currencies
	Contact tracking system	Different contact tracking systems
	Short pay policies	Different short pay policies
	Collections personnel	Different levels of technical capability, training, process understanding, geographic location, language

Output complexity: Case study

Output complexity results from internal customers' demands on the process. To fix this problem, begin by saying that the internal customer isn't always right.

Outputs are driven by demand from internal customers; these outputs could consist of the number, frequency, and granularity of reports in finance; the number of benefit plan options, job titles, and incentive compensation plans in HR; and the number of applications, degree of customisation, and variety of applications in IT.

Output complexity is frequently exacerbated by a "concierge" mentality as the shared services organisation tries to provide internal customers with whatever output they request. Reducing this type of complexity requires aggressive demand management backed up by cost/benefit analyses, SLAs, and chargebacks.

In the context of the next generation of value capture in shared services, demand management is the discipline of rationalising the "asks" of customers. For many companies, this means overcoming demand management negligence (figure 6). In contrast, demand management competence anchors on three essential steps: understand, manage, and control.

Understanding demand

Prior to managing demand, the current state needs to be assessed. This requires assessment of as-is demand management processes and practices, benchmarking usage levels and costs, conducting detailed analysis of demand drivers, evaluation of demand management opportunities and solutions, and definition of a demand management plan.

Managing demand

The management of demand requires reconfiguring demand specifications, standardising products and services, redefining demand management procedures & practices, re-engineering of demand management processes and implementation of tools to fulfill processes.

Controlling demand

Once a demand management process is in place, demand must be controlled on an ongoing basis. This requires measurement and reporting on usage levels and patterns, monitoring compliance with demand management processes and practices, monitoring new demand requirements and usage characteristics that may arise, periodically re-evaluating demand management policies, processes and tools, and tracking business case benefits.

Building a demand management competence requires a focus on building capabilities around policies, processes, enablers, governance, and change management.

Focusing on activity drivers

The process of reducing output complexity begins with a governance structure, the policies and procedures to guide service level management. Then what's required is a method for continually monitoring costs against a baseline. Next, G&A functions need a way to manage demand: one tool for doing that is the demand-driven service level agreement (d-SLA), which rationalises requests from business units.

A d-SLA focuses on activity drivers: an IT example would be hours of application development time; for HR it might be average cost per call in the HR call center. The need

Figure 6: Demand management negligence has multiple causes and serious implications

Causes of demand management negligence	Implications of demand management negligence
Process • Lack of data to analyse consumption levels and understand consumption patterns • Lack of processes to forecast and reconcile consumption • Poor policies and controls to influence consumption levels **Organisation** • No clear organisational owner for managing demand • Absence of rewards/penalties to reinforce consumption behavior • Poor understanding of drivers of demand **Systems** • Lack of consumption tracking and analysis tools • Inadequate cost allocation and chargeback solutions	**Operational Inefficiencies** • Uncoordinated service requests prevent vendor from streamlining supply chain • Service provider may not be able to provide quality service due to unexpected usage spikes • Non-compliance with obligations related to resource level thresholds • Difficulties in invoice reconciliation **Cost Inefficiencies** • Unnecessary additional charges • Erosion of shared services business case • Inability to adequately budget for expenditures

for cost detail visibility critically informs the design of the d-SLA. Cost visibility comes through the identification of cost drivers by functional area (e.g. number of invoices for A/R). The d-SLA moves away from allocation of costs (flat rate or budgeted rate) whenever a cost can be attributed to a business customer. But achieving greater visibility can require more resources (figure 7): d-SLAs address this problem by acting as an incentive to reduce demand, while enabling the measurement of the impact of an activity on the supply side and demand side.

On the supply side, the d-SLA requires suppliers to commit to unit rates. The shared services center agrees to consistently reduce unit rates as efficiency improves. However, not all costs are charged back; the shared services supplier must ensure process improvements and efficiencies are gained as a result of demand changes. On the demand side, the d-SLA enables BU's to decrease costs by consuming less services. In addition, the d-SLA can charge for process errors or inefficiencies, creating demand-side incentive to fix data, address problematic end-customers, etc. Finally, the d-SLA allows buyers to decrease costs by consuming simpler / automated services rather than complex or manual services.

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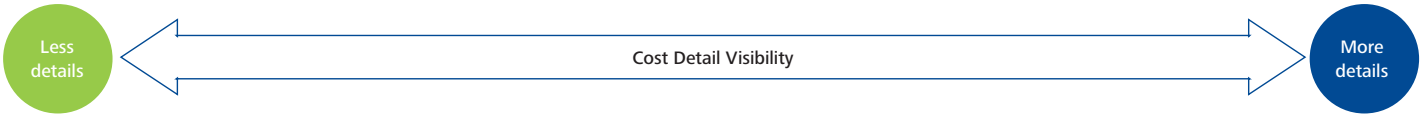
At its most basic, a d-SLA is a measurement and chargeback system. In effect, a "variable" cost model can be sised for customer demand, thereby avoiding allocations of large fixed costs. As business units pay only for services consumed, the shared service organisation can control costs during cycles, without giving up effectiveness. On the supply side, the shared service organisation is motivated to improve performance; on the demand side, burgeoning demand is kept in check. Hence, the development of d-SLAs should be aligned with the strategic objectives of the business units and of shared services.

As a formal mechanism to simplify and standardise services, a d-SLA establishes two-way responsibilities, improves transparency of costs, and allows different businesses to be served by a single back-office organisation. For example, in the record-to-report process, routine demands are segregated from exceptional ones. Then, shared services can make a defensible business case for differentiated pricing; the more time-consuming and labor-intensive outputs would cost the internal customer more. One of two things would likely happen: the number of exceptions would decrease or shared services could afford additional staff to satisfy the costly demand.

Of course, within the d-SLA model, the use of resources should be balanced. Using too many people to staff and/or manage the d-SLA approach could be counter-productive; the model should be system-enabled and simple.

Figure 7: Cost visibility improves demand management competence



No specific allocation	Flat rate	Cost driver based allocation	Service based costing	Direct cost assignment and billing	Market based pricing
No allocation to business units, with costs recorded below the operating margin	Based upon one metric (for example, revenue or headcount) The metric is not necessarily the driver for the cost	Based upon a metric that approximates the distribution of cost (other than headcount). Appropriate when other cost methods cannot be effective and/or their administrative burden is prohibitive.	Based on per-unit pricing of services developed for aggregation of associated costs (labour, systems, overhead, etc.). Appropriate when transaction detail would influence demand positively and/or directly tracking usage is difficult.	Resource usage directly assigned to appropriate customers. Appropriate when direct tracking is not overly burdensome and/or usage of resources varies significantly based on customer demands.	Costs defined based on market prices for services. Base on actual volumes

Case study: Management reporting in IT

> "IT demands from the business units are out of control. We can't add people fast enough. Moreover, we spend a significant amount of time enhancing legacy systems. We will not be able to improve efficiency until we reduce the volume and variability of demand."

A global manufacturer found itself with tremendous complexity related to demand for IT shared services.

The company had 4,000 IT applications with 15,000 interfaces. A culture of continuous improvement drove an increase in demand from the business units – from 340,000 hours in 2008 to 2.2 million hours in 2011. Demand also varied widely year-to-year by business unit. At the same time, a large portion of IT project hours were spent on "sunset" technologies and minor changes. Inconsistent governance and poor business case discipline resulted in over-threshold projects. Finally, the IT chargeback model was based on a percentage of BU revenue and did not directly tie to the amount of consumption (figure 8).

Declining revenue forced the company to significantly reduce its structural costs. The CIO determined that continuous improvement requirements, coupled with a lack of cost visibility and accountability by the business units, had led to high complexity and costs. The solution: demand-driven SLAs and project rationalisation to reduce structural costs. The project team took these steps:

Reduce

To reduce the level and variability of demand for IT services, the company started with demand-driven SLAs with a direct charge-back to the business units based on IT hours expended. Second, all project work had to be "re-justified" based on value to the enterprise. Finally, significant projects were reviewed post-completion to assess whether the intended benefits were achieved.

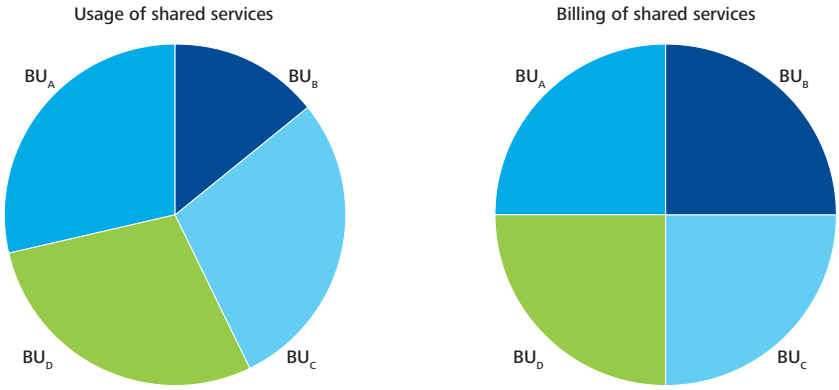
Adapt

To address the variability of demand, the company outsourced applications development and maintenance for certain application domains so that it could "flex" this contract workforce as demand fluctuated.

Simplify

To charge back IT shared services to the business units, the company simplified and standardised time reporting for 3,000 programmers. A new timekeeping system included standard operating procedures for everyone.

Figure 8: A disconnect between services and charge-backs reduces G&A cost efficiency



- Usage is tracked by one or two drivers for each business unit

- Charges for services are divided up, sometimes proportionally to FTE allocation
- Billing not based on a per transaction basis, a more variable metric

Workflow complexity: Case study

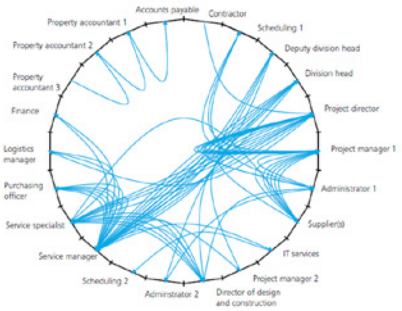
Workflow complexity is the result of input and output complexity, inadequate policies and/or poor policy enforcement, and non-standard processes. Attacking it requires process standardisation, waste reduction, and process flow improvement.

As complexity in G&A functions grows (typically because of out-of-control inputs and outputs), so does the number of exceptions to a straightforward or standardised process. As the number of exceptions to a process grows, overall process performance is degraded: workflow becomes convoluted, redundant, and generally stop-and-go. Symptoms of workflow complexity include long cycle times, frequency of hand-offs and non-value-added work, poor and costly service delivery, repeated "changeovers" and downtime, and an unbalanced workload.

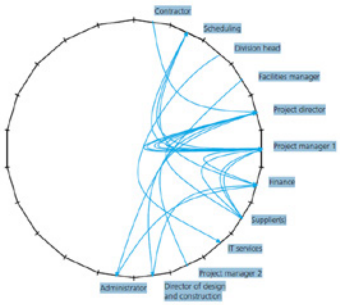
Unproductive workflow in the back office can be fixed the same way it's fixed on the factory floor: by applying the principles and techniques of lean and Six Sigma.

Figure 9: Value stream mapping creates "before" and "after" views of a complex process

"Before" visual value stream mapping



"After" visual value stream mapping



Before	After
• 23 handoffs across 3 sites	• 5 handoffs
• 14 different individuals/groups involved	• 4 different individuals/groups involved
• 17 steps per request and payment	• 11 steps per request and payment
• 29 days from invoice date to payment	• 1-2 days from invoice to payment
• $22 per transaction (based on 4K transactions)	• $9 per transaction (based on 4K transactions)

Deloitte project artifact.

Lean

The objective of lean is to improve the speed of a process by reducing non-value-added work or waste. The principles of lean allow people in a process to: 1) understand value from the customer's point-of-view; 2) identify those activities that add value, as well as those that do not; 3) sequence value-added activities tightly so that the service flows smoothly toward the customer; 4) let customers pull value through the process; and 5) continuously improve the process based on the first four principles.

Workflow complexity shows up in non-value-added work, a significant driver of process complexity. In fact, Taiichi Ohno (designer of Toyota's Production System) argued that non-value-added activities add up to "seven deadly wastes" (see the sidebar for G&A equivalents) that should be methodically attacked. For example, manual work-arounds and unnecessary hand-offs should be eliminated.

Opportunities for improving process flow can be apparent through visual value stream mapping, as illustrated in figure 9. Nodes on the circular graph represent stakeholders in a process, while lines represent process flows, system transactions, and communication. Unlike process flow diagrams, visual value stream analysis reveals the substantial back-and-forth interactions required to clarify requirements, address roadblocks, and secure approvals. The spiral graph is used in conjunction with a model that captures the universe of transactions to identify redundant steps, unnecessary activities and roles, conflicting policies and procedures, and administrative impediments. Traditional value stream mapping is also effective in identifying non-value-added work. Traditional value stream mapping focuses on analysing and designing flows at the system level (across multiple processes) that focus on reducing and/or eliminating non-value added process steps.

Six sigma

The objectives of Six Sigma are to reduce variability (caused by defects, variation in demand, and inconsistency in performing an activity) and bring a process under statistical control. In a distributed back-office process, standardisation is crucial: the ability to reproduce quality consistently depends on developing an efficient process, codifying it, translating it into effective practices, and enforcing adherence across an organisation.

In G&A processes, standardisation can be more effectively achieved through strict adherence to the ERP system's workflow, as well as through explicit operating procedures, specification documents, process maps, and business rules. Process standardisation reduces workflow complexity by reducing variability in a distributed process, limiting non-value-added work activities, and disseminating leading practices across the company.

Case study: The procure-to-pay process

> "We've implemented lean concepts in production, but hadn't addressed the same problems – waste, redundancy, rework, and bottlenecks – in our G&A processes. So, I had to ask: could lean work in the back office?"

Despite several cost reduction initiatives over a two-year period, a $3B food processing company couldn't reduce its G&A costs by more than seven percent. G&A efficiency continued to lag the best performers in the company's two industry segments/channels: grocery stores and food services. "What else can we do?" the CFO wanted to know. When the economy took a turn for the worse in 2008, that question became more urgent. Working with Deloitte, the company discovered that its procure-to-pay process was one area that inhibited further savings opportunities.

Because the business units had a lot of autonomy, transactions and policies weren't standardised, and invoices were being sent to some 450 field locations. Some units handled purchase orders manually, unable to use the company's ERP system; others had some degree of automation, but it wasn't integrated with enterprise applications.

As a response to fraudulent activity several years before, approval limits were set very low, P-cards were taken away, and manager approval was required for nearly every purchase. As a result, 77 percent of invoices in the field were under $500, with a large portion of those under $25. The average cost to process a manual invoice was $14.00! Not surprisingly, no one followed a universal standard for master data naming, thereby making impossible several efficiencies, such as inventory management, vendor validation, centralised governance of approvals, and invoice-PO matching. The overall procure-to-pay process was slower than leading practices not by hours but by days. In fact, no one even had an end-to-end view of the process.

Seven deadly wastes: A G&A view

Auto manufacturing	G&A function
1. Excessive motion 2. Waiting time 3. Overproduction 4. Over-processing 5. Defects 6. Excessive inventory 7. Transport	• Chasing approvals, searching for information • Waiting for approvals and meetings • More information and accuracy than needed, producing too soon • Multiple approvals, poor resource leveling • Rework, failing to meet customer needs • Extra supplies, personal printers • Transporting further than needed

The project team recommended a lean solution that 1) moved transactional activities into a shared services structure, supported by an automated workflow, 2) standardised processes across the company's 500 locations, and 3) required strict adherence to the ERP workflow, removing numerous hand-offs and manual workarounds.

The project team took these steps to reduce work flow complexity:

Segregate

The team identified routine and recurring invoices (such as utilities and rent) that could be paid without approvals, using blanket POs on certain recurring invoices (e.g. lawn care, snow removal). Small vendors were required to submit monthly invoices. Many new activities (e.g. receiving invoices, responding to AP inquiries) were centralised under shared services.

Adapt

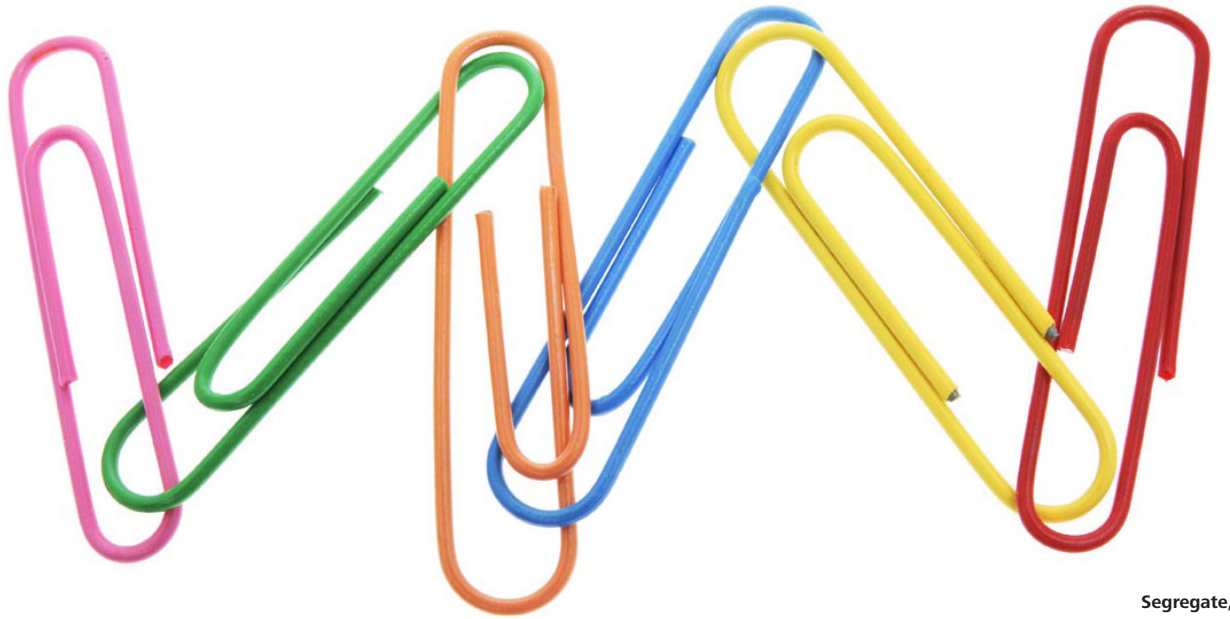
Existing automation technologies (such as invoice scanning and approval workflow) were leveraged and expanded to reduce processing time; approval thresholds and processes were modified to reduce hand-offs and waiting time. Redundant and duplicate efforts, occurring in the field and at headquarters, were identified and eliminated.

Simplify

Visual value stream mapping identified multiple purchasing approvals throughout the process. Approvals were moved to the beginning of the process through the use of purchase requisitions. Credit and procurement cards were introduced for smaller dollar purchases to reduce the number of invoices processed. The team standardised the vendor master file so that GL codes would be populated automatically, thereby reducing the time needed to create and approve a purchase requisition. Finally, the consolidation of operations into one A/P system reduced set-up and processing time.

Collaboration among stakeholders in the procure-to-pay process helped to forestall resistance. The extra effort of creating POs in the field was offset by reduced invoice handling and the simplified approval process. Vendors were required to do their part by consolidating invoices and accepting P-cards, while managers rebuilt employees' faith in the automated AP workflow.

Thinking lean and standardising through Six Sigma reduced workflow complexity and saved this company an additional $13 million annually.



What's driving complexity in G&A workflow?

Process	Pain point	Example(s)
Initiate purchase requisition	Waiting time for approvals	• Budget approval is a lengthy process with excessive wait time
	Need for end-to-end visibility	• Fleet loses visibility into order after shipment • Long lead times lead to excessive inventory • BI tool was purchased for analytics but is not widely used
	Manual activities	• A formal receipt process is needed. Currently corporate allows receipt at remote locations to make sure they receive the proper items • There needs to be better tracking of inventories at facilities. Currently the person responsible for receiving goods manually checks against the PO
Purchase of goods & services	Multiple systems	• Non-company employees (i.e. vendors) do not have access to ERP system. As a result a manual work-around is used
	Need for tolerances on price	• Tolerances are available on quantity but not on price. It is not possible to receive goods in ERP system if the price on the product does not match the PO • Need to use mark-up and mark-down fields in ERP system. Discounts should be automatically applied as mark-downs and surcharges should go into work queue for approval
	Manual activities	• Items are not automated • Min/max levels have not been updated in ERP system. Currently a manual system to update min/max levels • Process for tracking scrap and slow moving items is manual • MRP is manually entered into ERP system
	System checks are needed	• There is no validation which creates challenges in selecting the right part/service category
	Need for automated guidance in ERP system	• PO creation activity should be supported by automated guidance in ERP system (e.g. How to determine if the supplier is a preferred supplier and if the right price is being charged)
	Decentralised purchasing	• ERP descriptions are not precise, making it difficult to cross reference other locations before ordering a part – Although descriptions are set up centrally in the ERP, there is no check to make sure that they are standard
Process accounts payable	Manual activities	• Transactions are manually uploaded into ERP system via spreadsheet upload process. Volume is the key driver because there could be multiple invoices for multiple GL accounts. Fleet is the only group with portal for electronic invoicing. • Vendors do not put enough information on invoices (e.g. PO numbers) . A/P has difficulty determining whether to go through PO process or not if PO number is not on invoice • Electronic approval process is needed. Although e-scan is used to image all invoices, (PO and non-PO), it takes days to receive approvals (some managers approve once a week). Once the approval is received, the invoice is re-imaged
	Centralised governance	• Per the current policy, invoices of $1,000 or less should not require approvals. However, in some cases, BUs set their own limits and inform shared services about what needs to be approved
Receive goods & services	Manual activities	• The process for checking for open POs is manual • POs are not automated for min/max items
	Process discipline needs to be improved	• Some POs are created after the purchase is made. This is because there is no approval process until payment. Checks are in place only at receiving and payment • POs may or may not be generated. Some contract services (e.g. hardware equipment) is being bought on-line instead of through PO • Employees sometimes use P-cards at discount stores • Plants sometimes use local vendors to avoid shipping times (if supplies needed same day) • Need a checkpoint/approval during PO creation (to ensure that a preferred vendor is used, PO has right price, specifications are correct)
	Inconsistent master data	• There are several GL codes for temp labor, professional fees, etc. AP needs to ensure that GL codes are accurate • There is no clear definition as to where transactions should get coded. Sometimes transactions are coded to wrong GL account
Disburse supplier payment	Manual activities	• AP data in manually entered when invoice and PO are matched
	Long cycle times	• Discounts are sometimes missed due to long cycle times
Overall process governance	Policy enforcement	• There are inconsistent policies across BUs or inconsistent enforcement of policies

Assessing G&A process complexity: A diagnostic

Addressing process complexity begins with an understanding of its root causes. A diagnostic, framed by benchmarking data, establishes acceptable performance parameters and – even more important – sets the bar for process improvements based on leading practices by industry and/or function.

Even processes in a shared services organisation can be improved; in fact, complexity often persists, as it stays attached to processes even when they're moved into a shared services model (as happens in a "lift and shift" approach).

What's the goal in getting rid of complexity in G&A? Nothing less than a service delivery transformation.

The following questions form the basis of a process complexity diagnostic:

- Do you know the true costs of your G&A process? How do your G&A process costs compare to those of competitors? To leading practices? (Benchmarking data provides a critical perspective.)
- What process complexity "symptoms" are evident (e.g. long cycle times, multiple handoffs, poor service and quality, frequent "changeovers" and downtime, excess of "exceptions" to standard processing, imbalanced workload, and a high cost-to-serve)?
- How much variety is there in the inputs to the process? Is this variety extreme? What portion of inputs requires extra processing time? What portion is routine?
- How much variety is there in the outputs of the process? Is this variety extreme? Who governs demand for these outputs? Is cost to serve visible to internal customers? Are chargebacks tied to demand?
- What is the level of "exceptions" to the process? Has the process been automated? If so, are there manual work-arounds that do not follow the automated workflow?
- Is process performance measured?
- Are processes standardised across the organisation?
- Does the organisation support or defeat cross-functional collaboration?
- If you imagined a "blue sky" start-from-scratch G&A process, what would it look like? What parts of the vision would be non-negotiable? If you had limitless resources, how far from practical is that vision?

After assessing the impacts of complexity in their processes, G&A functions can begin to apply the strategies outlined in this article and, in doing that, take shared services to the next level of value-creating performance.

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