FIGHTING BUREAUCRACY

SUSTAINABLE REDUCTION OF CORPORATE COMPLEXITY

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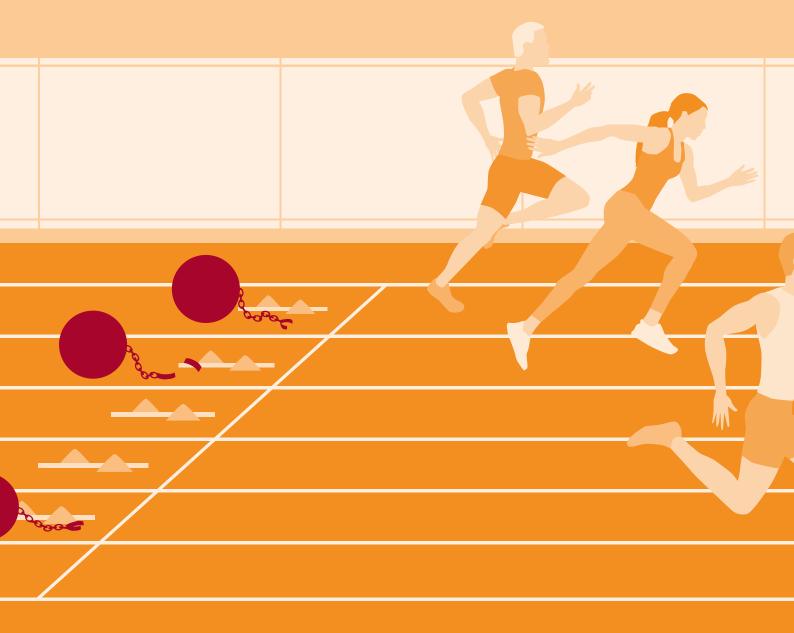
Management Summary

Under the umbrella of 'functional excellence' almost all companies have pursued major, mostly successful efficiency programs. Functional cost went down, standardization increased, automation went up. Also, speed and flexibility of internal support functions to react to changing business needs have improved. So are we all there yet? When business reality hits the ground, we all know about the frustration of corporate complexity and bureaucracy still being there: non-value adding alignment rounds, long email lists, slow decision making, unnecessary service levels and the like. Fighting it to sustain the new normal is a difficult task. The problem: Cost of complexity is not visible in the P&L. And only pushing standardization and automation further will not serve the purpose.

To secure already achieved savings and to initiate the next optimization wave, complexity needs to be managed in a better way. It is key to distinguish between external and self-induced complexity. While the first mostly reflects customer demands that have to be met to stay in the market or deals with the application of new regulatory frameworks, the latter needs to be in focus. We believe in walking the CoRe (Complexity Reduction) toolbox. CoRe is a distinct set of widely known optimization instruments: zero-based dimensioning, delayering, sound internal demand management, lean governance, end-to-end process engineering – to name just a few. But the tools need to be directed to the company-specific drivers of complexity. And the focus is on execution, on masterful leadership, on living up to it and on following through with it.

1. Management complexity: Understand the symptoms and recognize the need 2. Smart measurement: What exactly goes wrong? 3. Proven CoRe management instruments: How to free of the constraints 4. Implementation approach: How to make it work

1. Management complexity: Understand the symptoms and recognize the need

In a complex world there are no simple solutions. But as complexity in a company takes up time and resources there is no way around constantly fighting it. In striving for sustainable cost reductions, in a first step the nature of the problem has to be understood properly.

Rather than just one big lump of complexity, we are dealing with several distinct types of complexities. Broadly speaking, these can be classified in two groups: external vs. self-induced. External complexity originates e.g. from new regulations or the customers' demand for differentiation of products and services. Even if the objective cannot be to restrict the portfolio variety, the self-induced management complexity of handling the market-side demands must be limited. Therefore, in contrast to the business portfolio, e.g. the reduction of internal support products and services represents one major lever. Digital technologies help us to scrutinize the problem more deeply and effectively.
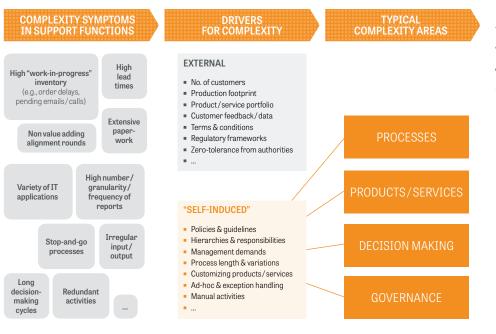
COMPLEXITY SYMPTOMS IN SUPPORT FUNCTIONS	DRIVERS FOR COMPLEXITY	TYPICAL COMPLEXITY AREAS

High "work-in-progress" inventory (e.g., order delays, pending emails/calls)

High lead times

Non value adding alignment rounds

Extensive paper-work

Variety of IT applications

High number/ granularity/ frequency of reports

Stop-and-go processes

Irregular input/ output

Long decision-making cycles

Redundant activities

…

EXTERNAL
- No. of customers
- Production footprint
- Product/service portfolio
- Customer feedback/data
- Terms & conditions
- Regulatory frameworks
- Zero-tolerance from authorities
- …

"SELF-INDUCED"
- Policies & guidelines
- Hierarchies & responsibilities
- Management demands
- Process length & variations
- Customizing products/services
- Ad-hoc & exception handling
- Manual activities
- …

PROCESSES

PRODUCTS/SERVICES
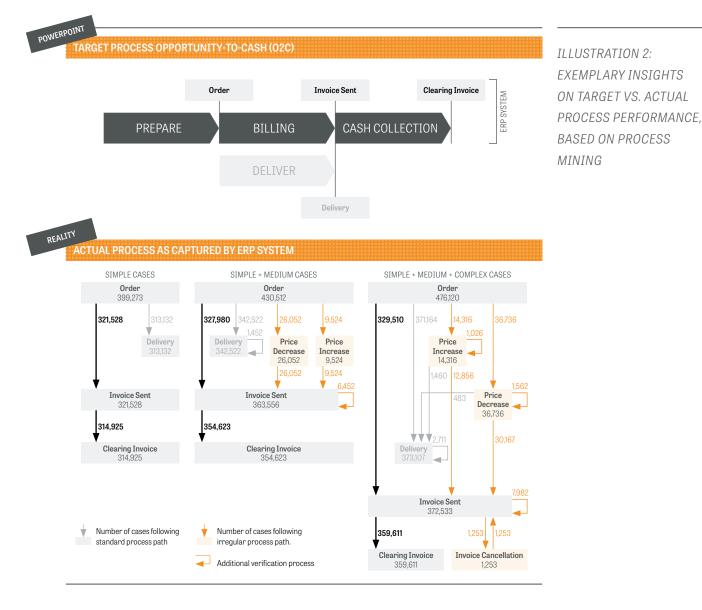
DECISION MAKING

GOVERNANCE

ILLUSTRATION 1: SYMPTOMS, DRIVERS AND MAIN AREAS OF COMPLEXITY

There are typical symptoms of self-induced complexity along four key areas: Signs for complexity in support processes are multiple or reversed iterations, long throughput times or repeated deficient outputs. Typical symptoms for overly complex support product and service level portfolios include a high share of regular working time spent on producing standard reports, providing information without related decisions or using standard IT bundles far from the actual demand. Poor decision making often becomes apparent when too many participants/signatures are required and if it takes too long until decisions are made. Finally, bad governance often comes from an uncontrolled growth of red tape, conflicting central/decentral strategies, conflicting decisions made on related topics or unclear responsibilities.

2. Smart measurement: What exactly goes wrong?

The measurement approaches are based on the four complexity areas explained above and are different for each area.

PROCESSES
PRODUCTS/SERVICES
DECISION MAKING
GOVERNANCE

As far as process performance is concerned, it goes without saying that only what is practiced matters. Optimization based on written process documentation will bring only very little improvement. For processes that are supported by ERP systems, process mining provides a cost-efficient way to receive a comprehensive view on the performed activities. The main focus of the analysis should be placed on identifying the drivers that impact the effort of activities, i.e. number of orders (standard vs. specific), data inputs (manual vs. automated) or iterations. When applying that smart measurement logic, it typically becomes apparent that many business activities do not follow the documented standards. Based on an understanding of the actual process reality, unproductive times and iterations can be reduced in an objective, fact-based and efficient manner.
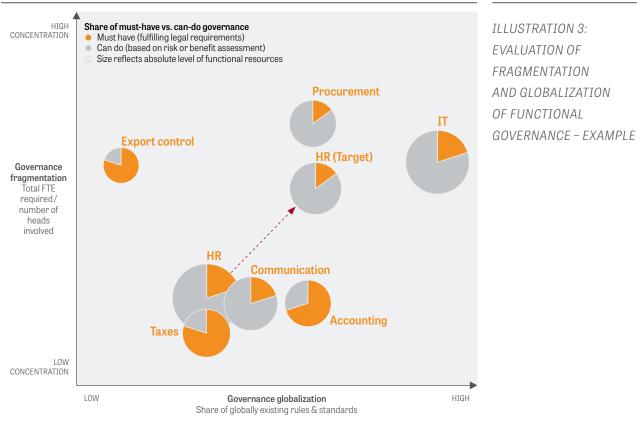
POWERPOINT

TARGET PROCESS OPPORTUNITY-TO-CASH (O2C)

ILLUSTRATION 2: EXEMPLARY INSIGHTS ON TARGET VS. ACTUAL PROCESS PERFORMANCE, BASED ON PROCESS MINING

REALITY

ACTUAL PROCESS AS CAPTURED BY ERP SYSTEM

PROCESSES
PRODUCTS/SERVICES
DECISION MAKING
GOVERNANCE

One of the primary drivers for sustainable cost reductions is the continuous examination of internal product and service levels. Typically, product and service portfolios of support functions tend to specialize and grow without corresponding internal demand and willingness to pay on the demand side. Therefore, the current scope, specifications and actual resource requirements (quantitative and qualitative) of products and services always have to be transparent. This transparency can be established based on functional product and service catalogs or existing functional SLA frameworks. It is not about introducing activity based costing, but about fact-based discussion between service provider and business.
To measure the complexity, this portfolio is to be reviewed regularly, by evaluating the resource demands differentiated by the products and service levels requested. Important: The primary goal of every portfolio review must be a reduction and simplification rather than a build-up.

PROCESSES
PRODUCTS/SERVICES
DECISION MAKING
GOVERNANCE

For decision-making, various factors must be reviewed to measure internal complexity: What are the rules for approval/signature regulations? Who has to sign? How many people are involved in the decision-making process and how long does it take to reach a decision? How much preparation and documentation is needed? Typically, these information cannot easily be generated and require quite some manual effort. Therefore the assessment should be done for key decisions that are perceived as being the most complex ones internally. Based on this information, an indication on the cost of major decisions can be calculated, e.g., total working time effort in FTE and thus approximated total cost in Euro, e.g. for a large contract bidding decision. Benchmarking this effort across business units or comparing it with similiar decision types helps to identify an adequate future decision set-up.

PROCESSES
PRODUCTS/SERVICES
DECISION MAKING
GOVERNANCE

Finally, for governance there are two core dimensions to be considered in smart measuring of internal complexity. On one hand, the degree of functional governance fragmentation matters. The degree of fragmentation can be measured by comparing the FTEs required for governance related tasks to the heads involved in these tasks. A value close to 1 means high concentration and therefore a high degree of specialization. Consequently, it is better to have only few, and primarily full-time positions to execute governance tasks. In contrast, a high degree of fragmentation drives complexity.
On the other hand, we have to ask about rules and standards that are in place globally and about which of them are applied. Here, a high share of local standards typically implies a low degree of standardization. This is especially critical if there are several layers of governance, e.g., global, regional and local in parallel.

HIGH
CONCENTRATION

Share of must-have vs. can-do governance
● Must have (fulfilling legal requirements)
● Can do (based on risk or benefit assessment)
○ Size reflects absolute level of functional resources

Procurement

Export control

IT

HR (Target)

Governance fragmentation
Total FTE required / number of heads involved

HR

Communication

Taxes

Accounting

LOW
CONCENTRATION

LOW   **Governance globalization**   HIGH
                  Share of globally existing rules & standards

ILLUSTRATION 3: EVALUATION OF FRAGMENTATION AND GLOBALIZATION OF FUNCTIONAL GOVERNANCE – EXAMPLE
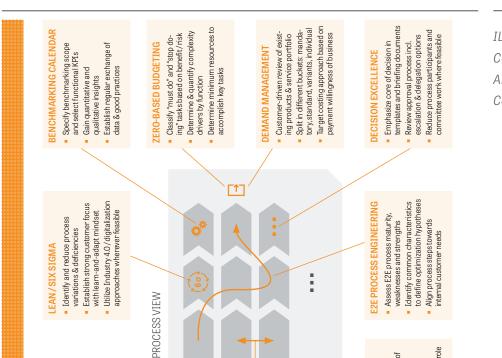
3. Proven CoRe management instruments: How to free of the constraints

There are several established CoRe (Complexity Reduction) management instruments available to cut down existing complexity and ensure sustainable cost reductions in support and overhead functions. Some of these instruments are specifically developed to optimize support functions, e.g., demand management. Others have successfully been applied in other fields, e.g., Lean / Six Sigma or agile organization. Some of them have a 1:1 relationship to one area only while many are useful in several areas. But all of them provide powerful means to simplify and reduce excessive support function bureaucracy and complexity.

ILLUSTRATION 4:
COMPLEXITY AREAS
AND AVAILABLE
CoRe INSTRUMENTS

INSTRUMENT BEARS POTENTIAL TO DECREASE COMPLEXITY IN THE AREAS...

	CoRe INSTRUMENTS	PROCESSES	PRODUCTS & SERVICES	DECISION MAKING	GOVERNANCE
SUPPORT	Zero-based budgeting	◑	●	◔	◔
	Demand management	◑	●	○	○
	E2E process engineering	●	◔	◑	○
	Interface management	●	○	◑	○
	Agile organization	◑	◑	◑	◑
DECISION	Lean governance	◔	◔	◕	●
	Decision excellence	◔	◔	●	◑
INFRA-STRUCTURE	Lean / Six Sigma	●	◕	◔	◔
	Benchmarking calendar	●	◔	◔	◔

Applicability of instrument
● very high ◕ high ◑ medium ◔ low ○ none

Illustration 5 provides an overview of how the CoRe instruments can be applied and used along the support function process chain and along the input-output relations.

OVERVIEW CoRe INSTRUMENTS INCL. EXEMPLARY LEVERS

BENCHMARKING CALENDAR
- Specify benchmarking scope and select functional KPIs
- Gain quantitative and qualitative insights
- Establish regular exchange of data & good practices

ZERO-BASED BUDGETING
- Classify "must do" and "stop doing" tasks based on benefit/risk
- Determine & quantify complexity drivers by function
- Determine minimum resources to accomplish key tasks

DEMAND MANAGEMENT
- Customer-driven review of existing products & service portfolio
- Split in different buckets: mandatory, standard, variants, individual
- Target costing approach based on payment willingness of business

DECISION EXCELLENCE
- Emphasize core of decision in templates and briefing documents
- Review approval process incl. escalation & delegation options
- Reduce process participants and committee work where feasible

LEAN/SIX SIGMA
- Identify and reduce process variations & deficiencies
- Establish strong customer focus with learn-and-adapt mindset
- Utilize Industry 4.0/digitalization approaches wherever feasible

E2E PROCESS ENGINEERING
- Assess E2E process maturity, weaknesses and strengths
- Identify common characteristics to define optimization hypotheses
- Align process steps towards internal customer needs

AGILE ORGANIZATION
- Apply delayering and implement focused backbone structure
- Assign non-standard tasks to cross-functional project teams
- Foster network building and inter-functional collaboration

INTERFACE MANAGEMENT
- Cluster internal interfaces based on complexity, internal volumes, degree of automation etc.
- Apply engineering instruments and delayering techniques
- Assign dedicated "interface manager" role

LEAN GOVERNANCE
- Separate must-have and can-do governance
- Calibrate governance appetite and perform risk/benefit assessment for can-do governance
- Reduce governance fragmentation and introduce "license to govern"

PROCESS VIEW

HR

ACCOUNTING

PROCUREMENT

...

ILLUSTRATION 5: COMPLEXITY AREAS AND AVAILABLE CoRe INSTRUMENTS

Note: The digital era has a strong positive impact on all of these instruments, ending the need for long-term IT-projects. Solutions will be much more versatile, flexible and customized.

4. Implementation approach: How to make it work

All problems measured and all instruments considered, there is still the question of how to approach it. What exactly needs to be tackled? One or several processes, one or several functions? Is it a one-time issue or will ongoing intervention be needed?
These and other relevant questions can only be answered depending on the specific situation. However, initial insight comes from the following case studies, based on selected recent project experience.

Case 1: Evaluation of critical demand for products / services

For years, the aviation industry has been a market with high cost pressure. Despite a constantly changing demand for their products and services, all support functions have to contribute to avoid the risk of site closings. The main challenge was to downsize current service levels, considering legal and regulatory requirements. Which products / services could be dropped in order to save a sum in the double-digit millions per year? Cost pressure was acute and strong. Therefore right from the beginning, the whole company was involved not just selected business units.

Over the course of just four months, the essential demand for functional support was determined:

- Elaboration of a service catalogue (400 services with resource estimates)
- Split into governance and service tasks (transactional / know-how driven tasks)
- Definition of demand owner
- Evaluation of criticality of products / services and identification of items to drop based on an evaluation grid together with the internal demand owner
- Discussion of optimization ideas for target product / service portfolio
  (what to do, how to do it, who will do it)

The outcome was a business-centered service product portfolio tailored around a new steering system to manage demand and cost.

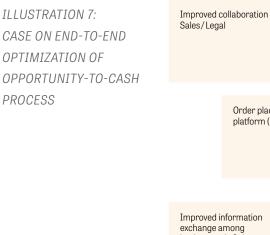| CLUSTER	CRITERIA	ACTION	EXEMPLARY ACTIVITIES		
MUST (Regulator)	▪ Definition of rules & standards ▪ Legal requirements	KEEP	▪ Aviation authority permit ▪ Quality management certification		
MUST (Business)	▪ Immediate business relevance / impact ▪ P&L relevant in < 3 months ▪ No potential	KEEP	▪ Financial reporting ▪ Billing / invoicing	BUSINESS PROXIMITY DEGREE OF REGULATION	
WANT (Business)	▪ Strategic importance ▪ P&L relevant in 3–12 months ▪ Potential of ~10%	EVOLUTION	▪ Customer relationship: contact management ▪ Definition business unit strategies		EXTENT OF INTERVENTION
CAN (Business)	▪ No strategic importance ▪ P&L relevant in > 12 months ▪ Potential of ~30%	REVOLUTION	▪ Generation of customer insights ▪ Employee communication (Intranet, print)		
MUST-NOT (Business)	▪ No business or strategic importance ▪ No P&L relevance ▪ Potential of ~100%	DROP	▪ Internal, qualified service provider steering ▪ Energy consulting		

*ILLUSTRATION 6:
CASE ON EVALUATION OF
CRITICAL DEMAND FOR
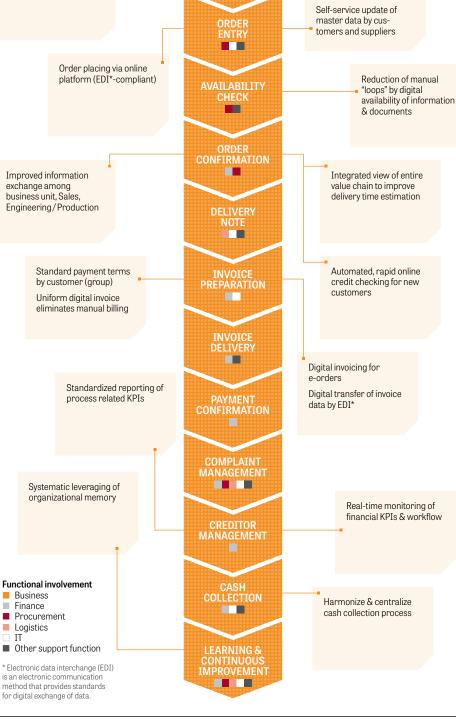PRODUCTS / SERVICES IN
THE AVIATION INDUSTRY*

Case 2: End-to-end optimization of opportunity-to-cash process

In a company with a highly diversified portfolio of standard and customized industrial products, the speed and transparency of the order handling process were below expectations. Over the entire opportunity-to-cash (O2C) process significant resources are executing support activities with a high share of cross-functional interfaces. Initial interviews had indicated high lead and order execution times, multiple iterations of some process steps and strong functional silo thinking besides other issues. The main challenge was how to optimize the process from an end-to-end (E2E) perspective with focus on interface optimization. Within 5 months the process was assessed and significantly improved:

- Scoping, illustrating and baselining of process based on country and business unit pilots
- Hypothesis building based on process maturity self-assessment
- Evaluation of throughput times and process iterations based on process mining
- Development of improvement initiatives, differentiated according to business types: product, project and service business
- Rollout of E2E process blueprint to other countries and business units

As a result, multiple measures were implemented leading to a measurable increase in speed, process consistency and output quality. To ensure a sustainable effect on cost reduction and speed, a team within Finance was assigned permanent responsibility for O2C optimization.

ILLUSTRATION 7:
CASE ON END-TO-END
OPTIMIZATION OF
OPPORTUNITY-TO-CASH
PROCESS

Improved collaboration
Sales/Legal

CLIENT REQUEST

Automatic verification of
customer master data

Self-service update of
master data by cus-
tomers and suppliers

ORDER ENTRY

Order placing via online
platform (EDI*-compliant)

AVAILABILITY CHECK

Reduction of manual
"loops" by digital
availability of information
& documents

ORDER CONFIRMATION

Improved information
exchange among
business unit, Sales,
Engineering/Production

Integrated view of entire
value chain to improve
delivery time estimation

DELIVERY NOTE

Standard payment terms
by customer (group)

Uniform digital invoice
eliminates manual billing

INVOICE PREPARATION

Automated, rapid online
credit checking for new
customers

INVOICE DELIVERY

Digital invoicing for
e-orders

Digital transfer of invoice
data by EDI*

Standardized reporting of
process related KPIs

PAYMENT CONFIRMATION

COMPLAINT MANAGEMENT

Systematic leveraging of
organizational memory

CREDITOR MANAGEMENT

Real-time monitoring of
financial KPIs & workflow

Functional involvement
- Business
- Finance
- Procurement
- Logistics
- IT
- Other support function

CASH COLLECTION

Harmonize & centralize
cash collection process

LEARNING & CONTINUOUS IMPROVEMENT

* Electronic data interchange (EDI)
is an electronic communication
method that provides standards
for digital exchange of data.

Case 3: Zero-based dimensioning within a carve-out scenario focusing on complexity drivers

As part of a separation process, support functions of the carved out unit needed to be readjusted. All that had to happen in a challenging market environment with increased cost pressure. At the same time, technology and market conversion provided promising growth opportunities through steady integration of smaller or bigger additional business models – either through cooperation or through M&A activities. Therefore, the project's main challenge was to identify the minimum staffing level to run the current business and to develop mechanisms to adjust resources based on changing business demands – both volume and specification wise. A 'plug-and-play' support organization was needed with high level of flexibility.

All group (e.g. HR, IT, Procurement, Controlling) and business (e.g. Communication, Quality, Supply Chain) support functions should be addressed simultaneously to avoid a short-term shifting of resources between functions. The target dimensioning should reflect both the current scope and size of the business, but also incorporate possible business model expansions and growth scenarios in the future.

Within twelve weeks an assessment of support function tasks was done, including:

- Identification of functional key tasks and classification of "must do" and "stop doing" tasks based on a benefit/risk assessment
- Definition of complexity drivers by function (e.g., no. of customers, no. of legal entities, automation level, consolidation layers, no. of ERP applications, no. of delegations, etc.)
- Quantification of link between complexity drivers and resources needed for key tasks
- Identification of minimum resources needed to run the current business size and to take advantage of potential business model expansions and growth opportunities

As a result, significant functional cost reductions and a blueprint applicable to scale support functions in the light of growth opportunities have been defined.

ILLUSTRATION 8:
CASE ON ZERO BASED
DIMENSIONING
(EXAMPLE ACCOUNTING)

KEY TASK	ESTIMATION / QUALIFICATION	AC ZERO-BASED SCENARIO TO SUPPORT CURRENT BUSINESS SCOPE AFTER OPTIMIZATION IN FTE	ADDITIONAL RESOURCE REQUIREMENTS IN FTE (SPECIFIED BASED ON COMPLEXITY DRIVERS AND AVAILABLE DATA SETS)
Accounts payable	Complexity drivers: ▪ Number of document lines to be processed ▪ Ratio between electronic invoices & postal invoices ▪ Number and complexity of guarantees ▪ Value limits ▪ …		
Accounts receivables/ revenue accounting/ claims management/dunning	Complexity drivers: ▪ Number/ complexity of invoices ▪ % automation ▪ Number/ complexity of claims ▪ …		
General Ledger Accounting and Financial Statements (incl. pensions, accruals, provisions)	Complexity drivers: # entities ▪ X very complex ▪ X semi complex ▪ X simple		
Asset accounting (IFRS and Local GAAP)	Complexity drivers: ▪ Standardization of depreciation scheme (pattern and duration) ▪ # assets / projects ▪ …		
Group consolidation	Complexity drivers: ▪ Consolidated Companies ▪ Consolidation currencies ▪ Number of consolidation layers ▪ …		

PRE-CONDITIONS:
▪ Oracle as core system is set
▪ Simplification of chart of accounts
▪ Simplification of cost allocation routines
▪ Reduction of number of legal entities
▪ Reduction of requirements regarding segregation of duties
▪ Acceptance of higher limits / value boundaries (invoices, BANF, etc.)
▪ E2E process teams established for P2P, O2C and A2FR to reduce manual efforts at site level
▪ Cross-functional harmonization (IT, Controlling, Accounting, Tax, Procurement) of application landscape (structure and features)
▪ …

Note: Typically, after an initial project phase a zero-based approach is implemented as a standard instrument for the functional mid-term planning or at least applied as periodic good practice for each function.

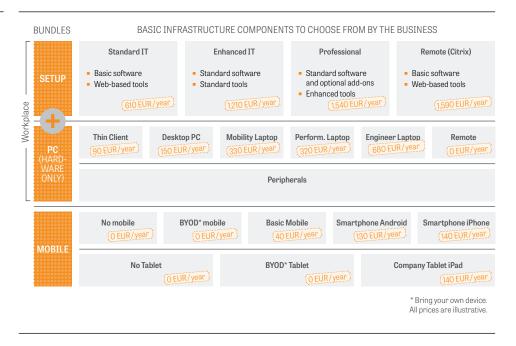## Case 4: Tailored demand management for IT support

In this chemicals company the existing IT cost charging and service provision was claimed to be non-transparent and too expensive. Therefore, a higher degree of demand-orientation was required, in order to give business units more control over their IT spending. The main challenge was to transfer a plain IT cost view into a demand-oriented IT product view – keeping complexity to a minimum. Even though similar problems existed for other functions, in a first step only IT was targeted to establish a best practice example that could be applied to others.

Within eight weeks the demand management approach was designed:

- Translate IT cost into meaningful IT products and services
- Define demand profiles with business and cluster products/services according to profiles
- Derive IT product/service list with distinct selection options, but limited number of products for low complexity
- Determine prices for products/services and simulate effects via testing with pilot business units
- Adjust cost steering concept accordingly (e.g., How and when are changes in selections represented in the business unit P&L? Who is responsible for remnant cost?)
- Adjust systems, processes and databases to reflect the new charging methodology

As a result, packages were determined according to different demand requirements that ensure a usage-based cost allocation and direct influence of business on their IT spending.

*ILLUSTRATION 9:
CASE ON TAILORED IT
SUPPORT: EXEMPLARY
MODULES*

| BUNDLES | BASIC INFRASTRUCTURE COMPONENTS TO CHOOSE FROM BY THE BUSINESS |

SETUP

Standard IT	Enhanced IT	Professional	Remote (Citrix)
■ Basic software ■ Web-based tools	■ Standard software ■ Standard tools	■ Standard software and optional add-ons ■ Enhanced tools	■ Basic software ■ Web-based tools
610 EUR/year	1,210 EUR/year	1,540 EUR/year	1,590 EUR/year

PC (HARDWARE ONLY)

Thin Client	Desktop PC	Mobility Laptop	Perform. Laptop	Engineer Laptop	Remote
90 EUR/year	150 EUR/year	330 EUR/year	320 EUR/year	680 EUR/year	0 EUR/year

Peripherals

MOBILE

No mobile	BYOD* mobile	Basic Mobile	Smartphone Android	Smartphone iPhone
0 EUR/year	0 EUR/year	40 EUR/year	130 EUR/year	140 EUR/year

No Tablet	BYOD* Tablet	Company Tablet iPad
0 EUR/year	0 EUR/year	140 EUR/year

* Bring your own device.
All prices are illustrative.

Note: The same logic does apply to other functions. For an industrial goods company with various business models, a demand management approach was implemented for the Legal function. A differentiated support model regarding manpower and know-how level was necessary, as project business compared to product business typically entails the need for significantly higher speed and customized services.

Stern Stewart & Co.

Stern Stewart & Co. is an independent strategy consulting boutique. Our advisory focus is on the core issues of management. These include strategy, transaction as well as performance management and transformation. We see company managers as strategic investors in the business and support them to increase the value of their company.

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