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WHAT TO DO WHEN SUPPORT FUNCTIONS AREN'T READY FOR DIGITAL

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VIRTUALLY EVERY COMPANY IN every industry is focused on digitization, yet in the realm of support functions, such as HR and finance, most companies are closer to the starting line than the finish line. BCG recently surveyed representatives from more than 900 companies and found that only one in five companies is positioned to capitalize on the advantages of digital technology.

Although that number is lower than one might expect, it means that most companies can still seize the initiative and give themselves a first-mover advantage by systematically implementing such emerging technologies as robotic process automation and artificial intelligence. Our research and client experience show that the benefits of digital include cost reductions of 30% to 40% through improved productivity. Moreover, by using digital to transform support functions, companies can improve service levels and create new value. The financial performance of the top companies in our analysis was markedly better than that of the overall group.

To help organizations capture these advantages, we have identified seven best practices of digital leaders. These include having a centralized shared-service center (SSC) in place, end-to-end processes focused on business value, and an emphasis on building digital capabilities. All have one imperative in common: companies need to start taking action today.

Only One in Five Companies On Track

In late 2017, we conducted a global benchmarking study of more than 900 companies in eight industries across 45 countries to gauge the level of digital maturity in support functions. The results showed that only 21% of responding companies are digital leaders. These companies are not at the finish line yet, but they are well positioned to capitalize on emerging technology by putting the right mindset and organizational elements in place. Of the remaining companies, 61% have taken some initial steps to digitize their support functions, and—surprisingly—18% *have not begun the journey at*

all. Notably, our results are based on the self-assessment of companies' digital maturity by their own employees, which means that the actual picture could be worse. (For details on the survey, and a link to diagnose the digital maturity of your organization, see the sidebar "A Digital Maturity Diagnostic for Support Functions.")

Given the benefits of digitization, it's worth asking why such a sizable group—four out of five companies—has not made more progress. According to our experience, the biggest barriers lie in the mindset and structure of the organization. Many companies still operate support functions as a set of siloed independent units that often take a very traditional approach, focusing on the provider of the service rather than the customer. When these companies make improvements, they tend to think small, applying spot solutions to minor internal process issues. In other words, these companies lack the kind of bold vision that can win over the senior leadership team and lead to a complete transformation with re-designed, end-to-end processes.

By contrast, digital leaders are actively putting the conditions in place to capitalize on digital. Rather than think of support functions as a back-end, lower-value offering, these leaders regard them as a critical part-

ner to business units, capable of unlocking new value and boosting performance. Not coincidentally, our results show a clear correlation between digital maturity and financial performance, in both revenue growth and profitability. (See Exhibit 1.) These leading companies are not simply using digital to reduce costs. Instead, they are launching more ambitious programs in which technology can lead to much better outcomes in terms of not only service levels but also overall performance.

Seven Best Practices

On the basis of our work with clients, our proprietary research, and interviews with company leaders, we have distilled the experience of digital leaders into seven best practices. Implementing these practices will propel companies at all digital maturity levels to the digital future.

Mature SSCs. Our data shows that companies with SSCs outperform the rest of the pack in several key ways. They are more than twice as likely to implement digital projects according to plan (avoiding cost overruns or schedule delays), and they are better able to use digital to improve the efficiency of processes. (See Exhibit 2.) They also generally have a critical mass, management focus, centralized capabili-

A DIGITAL MATURITY DIAGNOSTIC FOR SUPPORT FUNCTIONS

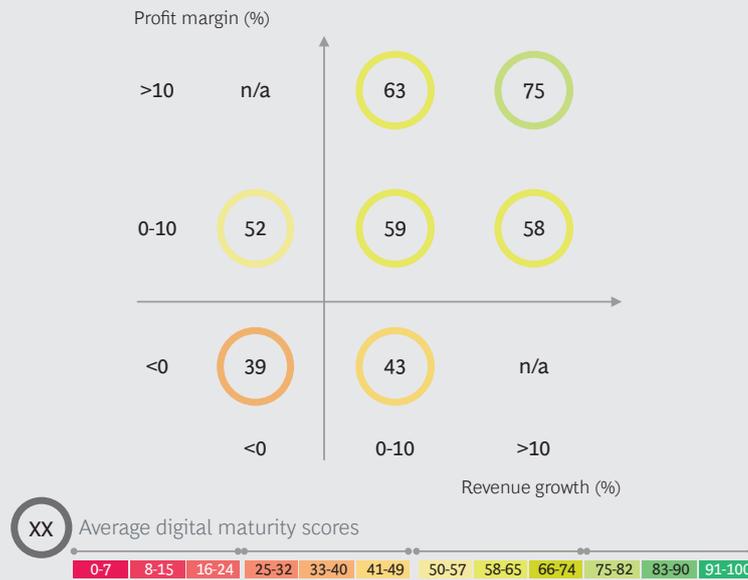
Companies that want to assess the digital maturity of their support functions can use a diagnostic tool that BCG developed, called the Digital Acceleration Index, which looks at technological maturity in all functions and processes. (See "Beyond the Hype: The Real Champions of Building the Digital Future," BCG article, July 2017.) Thus far, more than 2,200 companies across all industries have participated in the assessment.

One aspect of the tool looks specifically at support functions. The tool consists of

a [survey](#) with 20 questions, each with a scale of one to four, across seven dimensions of support functions. In order to be a digital leader, companies must report a maturity level of four in at least three of the seven dimensions and a maturity level of at least three in the remainder.

Companies can use the tool to better understand their level of maturity and benchmark themselves against competitors in their industry or region.

EXHIBIT 1 | Companies with Higher Digital Maturity Scores Show Better Financial Performance



Source: BCG analysis.

ties, and a culture that is less silo-oriented than other organizations. SSCs need not be geographically concentrated (for example, in the company’s headquarters); rather, they can be spread out among multiple locations. The most mature SSCs have already thought about redesigning processes and being more proactive about meeting the needs of internal clients. As a result, they are better equipped to use digital. (See “How Digital Can Turbocharge Shared Services,” BCG article, June 2017.)

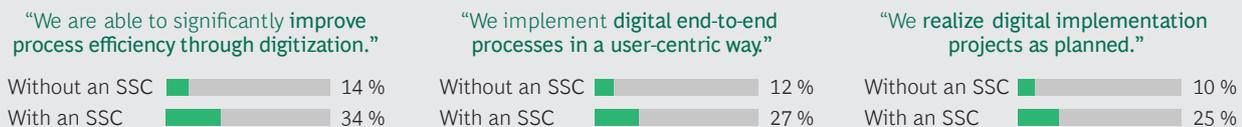
functions, yet each team considers only its own small slice of the overall process. As a result, teams don’t see how inefficiencies along the way can destroy business value.

Rethinking processes on an end-to-end basis and considering interfaces among all involved functions help to reduce this friction and improve service levels. In addition, by using analytics and other digital tools, companies can make sure that the new processes deliver business value.

End-to-End Processes Focused on Business Value. Today, processes are often designed and provided by segregated teams within individual support functions, such as finance, HR, and compliance. These teams have deep functional expertise, but they can be hindered by such a silo-based approach. Many processes span multiple

User-Centric Design Principles. Companies also need to design end-to-end processes around the user experience. Many internal services are complex and time-consuming—often unnecessarily so, leading to friction and frustration for internal clients. In contrast, digital leaders have shifted their mindset and designed processes from

EXHIBIT 2 | Companies with Shared-Service Centers Are Better Prepared for Digitization



Source: BCG Digital Maturity of Support Functions Survey 2017.
 Note: SSC = shared-service center.

the user’s perspective. User-centricity leads to processes that are far more intuitive, improving service levels, reducing user errors, and boosting efficiency.

For example, a leading pharmaceutical company struggled with a high number of data-entry errors on purchase orders. Users entered the right category for a key data point only about 50% of the time, leading to protracted corrections. An analysis of the problem found that users were getting confused by unclear categories when they created a purchase order. In response, the company developed an algorithm that predicted the right category for users on the basis of other data they had entered. (Users could choose from three options, with a probability for each.) With the algorithm in place, the number of incorrect entries immediately dropped by half, and the algorithm’s accuracy will continue to improve as more data becomes available.

Agile Ways of Working. Implementing digital and redesigning processes require a high degree of collaboration. Support functions that operate in silos and use traditional project-management approaches simply won’t be able to move fast enough, particularly given the speed at which new technologies are evolving. Leading companies are therefore working in new ways, such as through agile implementation teams. These teams bring together experts from various departments of an organization to more quickly redesign processes,

choose specific technologies, and get solutions in place. Notably, new smart-automation technologies are far more conducive to agile, especially when compared with traditional enterprise software. In our research, 70% of digital leaders are using these new approaches, compared with just 11% of midrange companies and only 3% of laggards. (See Exhibit 3.)

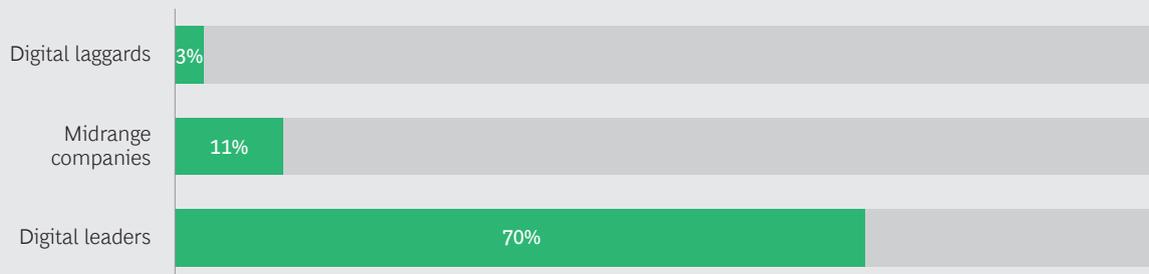
Digital Capabilities. One factor that clearly differentiates digital leaders from laggards is their focus on building the right capabilities. Rather than functional expertise in specific areas, such as finance and HR, companies will increasingly rely on digital talent—people with skills in programming, analytics, and data science who can apply their expertise across all support functions.

Most companies also need to build up agile capabilities, such as process design. To develop these capabilities, organizations need a workforce plan that details specific know-how and skills. The plan needs to be integrated into recruiting and hiring strategies, as well as the company’s training and development programs.

A Digital Center of Excellence. Because digitization requires building up new capabilities, it also impacts the structure of the organization. A clear best practice from our research is to bundle digital capabilities into a single unit—such as a center of excellence or digital hub—and then deploy people from that team on a project basis to

EXHIBIT 3 | Companies with Digitally Mature Support Functions Are Far More Likely to Implement New Ways of Working

“WE USE **NEW WAYS OF WORKING** (SUCH AS AGILE) ACROSS FUNCTIONS AND WHERE APPROPRIATE; THEY ARE AN **INTEGRAL PART** OF OUR WORKING MODE.”



Source: BCG Digital Maturity of Support Functions Survey 2017.

implement technology throughout all support functions. The majority of digital leaders (60%) have started to bundle digital competencies in this way. The centralized unit also coordinates standards for the company, works with solutions from third-party vendors, and makes other enterprise-wide decisions regarding digital.

Multiple Vendors. The majority of digital leaders (70%) source technology from multiple vendors and cooperate with the best vendors on multiple projects. Given the speed at which digital advances, this kind of multiple-vendor strategy requires regular market research on new technologies, applications, and plug-and-play solutions. The effort takes time and resources, but it also yields dividends: identifying the best solutions from a manageable number of vendors that can work together in clusters provides the

highest value, and it prevents the company from becoming dependent on any one provider. (See the sidebar “Using Outside Vendors and an Internal Algorithm to Improve Processes.”)

How to Start the Journey

The best practices we identified can seem overwhelming, especially for companies that haven’t started their digitization journey yet. Yet the pace of digital technology is only going to accelerate, and companies that continue to deliberate or stall—or try to apply traditional strategic thinking to digitization—risk falling further behind. There are some clear steps that companies need to take, starting today, in order to begin the process.

Understand your company’s current level of maturity. First, you need to establish an

USING OUTSIDE VENDORS AND AN INTERNAL ALGORITHM TO IMPROVE PROCESSES

A blue-chip company wanted to apply digital technologies, such as robotic process automation and artificial intelligence (AI), to improve its support functions. The company already had a strong foundation in place—a global shared-service center, standardized end-to-end processes, and a thoughtful mix of outsourcing and offshoring. But the organization hadn’t yet capitalized on digital. It began with a single process: the administrative steps required to fill a customer order, known as order to cash.

The company began by mapping the entire set of steps a customer would follow, from placing the initial order to sending payment. It looked at pain points and determined that deductions (such as volume discounts for customers that placed large orders) were a recurring problem. In Western Europe alone, the company processed—manually—about 200,000 deductions each year, consuming significant time among clerks and key account managers. In addition,

more than 80% of all claimed deductions were ultimately approved by the company, meaning that the administrative burden wasn’t yielding any value.

In response, the company acquired a third-party software tool that could automate the deduction process. The tool could link directly to the company’s existing enterprise software, so it could be used from day one. In addition, the company built an AI algorithm that could review other information the customer entered and correctly allocate a deduction to the right promotion. The algorithm increased the transparency of promotions, enabling managers to more accurately monitor the performance of specific brands.

In all, the new approach is faster and more precise, with a lower risk of human error. Clerks get some of their time back to devote to more value-added processes, managers get better information, and customers get a better experience.

objective baseline that indicates your organization's readiness to embrace digital. In this regard, some executives may have an overly optimistic assessment. Our research showed this clearly: among respondents at different seniority levels, top managers reported a higher level of digital maturity than did midlevel managers and nonmanagement experts and specialists. That disconnect could cause senior leaders to try launching initiatives that the company is not yet ready for.

Assess any digital projects currently underway. Next, determine the status of projects, both ongoing and completed. Only by generating some transparency among all digital projects can companies begin to prioritize among them, likely shutting some down and allocating resources to the others.

Start a series of lighthouse projects. Digital transformations require an enormous effort by employees to change the status quo. Lighthouse projects are your chance to convince skeptics and prove the worthiness of this journey: take several processes for a single region and use agile to rapidly build solutions that deliver on the manifold promises of digitization. This approach will generate quick lessons on how to apply digital more broadly across the organization. It will also build momentum and get stakeholders to buy in.

Scale up lighthouse projects into a broader transformation program. Once your company has completed several lighthouse projects, the senior team can define a vision for spreading digital throughout the organization, along with a roadmap for implementation. Digitizing support func-

tions goes far beyond simply automating tasks to save money. A new generation of services will actively create value for the business. Accordingly, you may opt to launch a full transformation that positions support functions as digital champions for the entire company, inspiring customer-facing business units to adopt digital technology in order to transform their performance.

As part of this transformation, you should review and redesign processes. It's important to break down the user experience for a given process and then build it back up from end to end. The design process requires identifying and understanding users' frustrations and moments of truth to get to underlying root causes. Only from this holistic view can you start to envision digital solutions to unique process challenges.

Build a roadmap. Last, based on your ambitions and prioritized ideas, build a comprehensive roadmap for the transformation, taking into account the company's organizational structure, digital capabilities, existing digital solutions, and external vendors.

DIGITAL TECHNOLOGY HOLDS tremendous potential to transform support functions, but at many companies today it is merely a buzzword. As our research shows, nearly 80% of companies have significant work to do in order to capitalize on the benefits of digital to improve their support functions. By understanding the best practices we have identified, companies can establish a long-term vision for digitization. And by taking more immediate steps, they can begin the journey to a digital future.

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