

Cracking the process

Why is it so hard to develop a functional strategy?

By Berkeley's Charles Scott and Alasdair McGregor.

A good strategy gives ambition and clarity. Putting in place a clear strategy is a crucial way for a business – or a function within a business – to drive change.

Whether at the corporate level, or within a specific business unit or function, many organisations recognise the importance of strategy. The purpose is particularly clear for a whole business.

But what about the business support functions, like Finance, HR or IT? Having a good functional strategy is just as important as setting out your company vision. It is essential for good morale and engendering a sense of purpose; it will often drive operational efficiency improvements; and, most importantly, it helps to ensure maximum value is delivered to the overall business.

Given that the activities of these functions are pretty much pre-ordained and change little with the economic and competitive environment, you might think that defining their strategies would be relatively straightforward.

On the contrary, it is at least as demanding – if not more so – to develop an effective strategy for a business support department. So why is that? And what should you be aware of if you are embarking on such a task?

You can't change your customers

For a market-facing business, the choices available when developing strategy are largely unconstrained. The objective is simply to find those combinations of target market, value proposition and operating model which will give the business a strong and sustainable competitive position. It might be hard to find the perfect combination and challenging to manage the change to get there, but the actual choices over target market and proposition are in principle entirely free. You can consider any range of options; hence the numerous examples

of companies exiting markets or segments of markets, and entering new ones – M&S and its international business would be a case in point. A key business driver for targeting particular markets and customer sets is focus – i.e. to simplify the operation around customers with common needs and characteristics.

By contrast, a support function simply does not have this option. A Finance team could hardly decide to stop providing management accounting services to a particular sales department or regional division just because they cost more to serve than others. And yet, for support functions, the variation in requirements between internal customer sets may be very marked indeed. Take the provision of HR services in a multi-national oil and gas business. The working environment and HR service requirements of an oil rig operator, a petrol station attendant and an energy derivatives trader couldn't be more different.

A support function has to develop a strategy and operating model that can cope with these diverse needs.

It is difficult to know what good looks like

Whilst a market-facing unit will be receiving constant feedback from the market on whether its value proposition is a good one (customers are either buying or they are not), for support functions it is much harder to judge. It is very rare for there to be internal charging mechanisms that genuinely enable internal customers to understand the true cost of the service they are receiving. This makes it difficult for them to assess whether they think the service is delivering value or not. Without these metrics, there is little basis on which to provide meaningful feedback to the service to drive improvements. Other meaningful support function metrics can be extremely hard to establish and will often focus on inputs (the money spent

on a new reporting system) or operational service aspects (reports delivered on time, service availability) rather than on the ultimate outputs (the better decisions made by a sales manager based upon real-time information).

Strategy is about making choices. Without the metrics to provide a clear view on what good looks like it is hard to make those choices objectively. This has two consequences.

First, it encourages a focus on cost rather than value. How many times have you seen a 'strategic review' of a support function being simply another exercise in cost reduction? Costs are easier to measure and therefore something on which managers can show demonstrable progress.

Second, it tends to discourage leading edge innovation. For a market-facing unit there may be huge rewards in being first to market with an untried business model if it proves successful. But for a support function, without the value metrics which enable it to articulate a compelling business case, the risks rarely seem worth it. In short, functional strategy is more about being a fast follower than a market leader. Hence, often, the emphasis is on benchmarking, on understanding what existing best practice is, rather than on breaking new ground. This supports some types of change, for example following a well-proven outsourcing model for financial accounting. But it can prevent more ambitious strategic change that lacks an obvious cost justification, for example a new approach to managing talent.

It is tough to get decisions made

For a market-facing business unit, decision-making responsibility rests very clearly in the line, with the business leadership team, albeit they may need to seek approval from the Board. For support functions, it is usually much less straightforward.

The internal customers, i.e. departments from across the whole business, naturally see themselves as stakeholders in any change to their support organisation. They may also have a wide variety of different agendas and priorities, which need to be acknowledged and addressed. You may have to make trade-offs, favouring one set of internal customers over another. There might be resistance to changes which are seen as reducing levels of service or changing the way

it is delivered. And decisions are made even more difficult because the political influence of customer departments is often far greater than that of back office functions such as IT and HR (although Finance can be powerful in some organisations). So it is an unwise CIO who unilaterally decides to change the way that the IT service is to be delivered to the business by outsourcing the Service Desk or Applications Management functions without first consulting with their key business users and making the case for it.

In short, it is essential for the support function leadership to obtain widespread buy-in before making decisions which will have a substantial impact. But customer departments may have other more pressing priorities than engaging with the support function's strategy review.

All this means that to deliver a successful strategy for a back office function or shared service requires not only the usual analytical and creative skills but huge tenacity and patience to engage and broker agreement with all the disparate players.

To summarise...

In many ways the strategic options for a support function are more constrained than for a business unit. But it requires greater ingenuity to secure a good outcome: to address the complexity of serving different customer sets; to

make choices without an objective measure of value; and to carry multiple influential stakeholders with you through the decision-making process.

Being one step removed from the cut and thrust of red-blooded competition for customers does not free support functions from the need for strategy. A clear and effective strategic direction can benefit these functions as much as any other, driving the organisation's performance and improving the alignment and morale of its people.

So put aside the glamour of corporate strategy for a minute, and don't forget the importance of an ambitious, clear strategy for your Finance, HR or IT function. And then remember how hard it is to arrive at it.

Key points to consider

- Take time to understand the different needs of your internal customers, and think carefully whether and how you can address them all. What is the optimum operating model?
- Think about how you can objectively measure the value the function delivers. Try to put a broad but clear set of metrics in place that everyone can work towards.
- Make the time to secure the buy-in you need from your various stakeholders. Clearly articulate how they will see the benefits of change, and bring them with you on the journey.



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