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Executive Summary

Global G&A Survey: Insights

The G&A Vice Tightens. The pressure on management to reduce general and administrative (G&A) costs while improving business responsiveness has only intensified in the last 2 years. External business pressures and game-changing developments in the G&A arena have combined with internal company changes to force the rapid evolution of G&A practices and performance.

Demand Management Is a Hard Sell. Although recognized as a valuable lever for cost reduction, demand management—the idea that businesses should modify their demand for G&A services to achieve an optimal balance with supply—is largely unexplored. It is not the idea so much as the execution that impedes progress.

Shared Services: À La Carte Isn’t Smart. Satisfaction with shared services stems from a comprehensive, coordinated approach, yet few companies have implemented the full range of shared services mechanisms, such as service level agreements and chargebacks.

Outsourcing: The Sum of the Parts Is Greater Than the Whole. Most companies outsource... but only selectively and with cautious deliberation.

Offshoring: Neither Big Nor Bad. Despite media coverage to the contrary, most companies have yet to offshore...but not because of political sensitivities or bad press. Rather, their hesitation concerns the risks to service quality, doubts that claimed savings will materialize, and apprehension about possible disruptions to operations.

Global G&A Survey: Implications

Success Breeds Innovation. Companies that perceive themselves as “laggards” in the G&A management arena focus on “supply-side” cost reduction, whereas leaders explore a broader range of next-generation G&A management techniques.

If Complexity Is the Curse, Then Smart Customization Is the Cure. Self-described G&A laggards often point to complexity as a primary reason for their poor performance. Consequently, streamlining complexity has become a critical success factor in managing G&A.

Performance Measures Are a Missed Opportunity. Few Chief Financial Officers (CFOs) believe that implementing a formal performance management and quality assurance (QA) methodology contributes to the sustainability of G&A improvements. We identify this underemphasis as a missed opportunity.

C-Suite Support Drives Sustainability. The involvement and support of the Chief Executive Officer (CEO) contributes more to the sustainability of benefits from G&A efficiency improvements than any other factor.

Business Alignment Is Key. Most companies still do not sufficiently involve the business in G&A decision-making, despite a strong correlation between the presence of business alignment mechanisms and business units’ (BU) receptivity to various G&A cost control measures.
The New CFO Agenda:  
Global G&A Survey Insights and Implications

Within the past decade, best-in-class companies worldwide have been radically transforming internal service delivery and adding tangibly to their profitability. Realizing that they are their own customers, these companies have “brought the market inside,” investing effort and capital to achieve competitive G&A cost structures. They have consolidated dispersed and subscale services into shared services centers, applied process redesign discipline to reduce complexity, integrated and justified back-office technology platforms, shared internal G&A best practices across BUs, and outsourced or off-shored noncore transactional processes. Still, for most companies, significant challenges remain in improving the cost-effectiveness of their internal services. As the external environment shifts for a company’s core business and the marketplace for G&A services, so too does the internal economy of the firm as BU customers demand increasingly customized services. In this charged environment, G&A practices are evolving rapidly and fundamentally. This report examines both the traditional and leading-edge approaches to G&A management and their impact on company performance.

At the end of 2003, Booz Allen Hamilton surveyed more than 150 CFOs of large companies worldwide to understand current trends and best practices when managing G&A functions1 (i.e., overhead). The responses collected from this representative sampling (see Exhibit 1) offer real-time insight into not only the organization, operations, priorities, and performance of these overhead functions, but also the persistent challenges. This report summarizes these key findings and informs the reader of relevant articles written by Booz Allen about G&A problems and practices and, more importantly, how to remedy and/or optimize them.

This report is organized into the following sections:

- **Global G&A Survey: Insights**
  - The G&A Vice Tightens
  - Demand Management Is a Hard Sell
  - Shared Services: À La Carte Isn’t Smart

**Exhibit 1**
Survey Respondents Cover a Wide Spectrum

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1 “G&A” functions, for the purposes of this report, are defined as Facilities Management (Facilities), Finance and Accounting (Finance), Human Resources (HR), Information Technology (IT), Purchasing/Procurement (Purchasing), and Risk Management (Risk).
– Outsourcing: Sum of the Parts Is Greater Than the Whole
– Offshoring: Neither Big Nor Bad

• Global G&A Survey: Implications
  – Success Breeds Innovation
  – If Complexity Is the Curse, Then Smart Customization Is the Cure
  – Performance Measures Are a Missed Opportunity
  – C-Suite Support Drives Sustainability
  – Business Alignment Is Key

• The Future of Overhead

• G&A Readings Toolkit

Global G&A Survey: Insights

The G&A Vice Tightens. The pressure on management to reduce G&A costs while improving business responsiveness has only intensified in the last 2 years. External business pressures and game-changing developments in the G&A arena (e.g., strategic outsourcing, offshoring) have combined with internal company changes to force the rapid evolution of G&A practices and performance.

Despite the last few years of belt tightening, only 3% of the CFOs surveyed believe they have realized every possible overhead cost reduction opportunity. In fact, Exhibit 2 shows that nearly 85% believe that reducing costs is still the highest priority challenge they confront. Nearly 40% are focused on “supply side” savings (i.e., opportunities to reduce costs that will have little or no impact on the business units). Another quarter believe that cost reduction, at this point, necessitates collaboration with the business to modify/manage/reduce their demands for internal services (“demand side” savings). Still another 20%

Exhibit 2
84% of CFOs Consider Cost Reduction the Top Priority

see opportunities to do both (see G&A Readings Toolkit: Attacking Overhead Costs From Both Sides).

As Exhibit 3 illustrates, the increased pressure on internal service delivery stems principally from changes in the core business. In addition, G&A functions are feeling pressure from the external environment, including the competitive threat posed by outsourcers who are raising the bar on quality, innovation, and cost. Finally, internal challenges abound as BUs demand uniquely tailored product and service offerings, thus increasing the complexity load on G&A functions.

Demand Management Is a Hard Sell. Although recognized as a valuable lever for cost reduction, demand management—the idea that businesses should modify their demand for G&A services to achieve an optimal balance with supply—is largely unexplored. It is not so much the idea so much as it is the execution that impedes progress.

Exhibit 4 confirms our own experience in working with clients. Most companies focus on “supply-side” internal optimization measures when looking to reduce G&A costs. The techniques receiving the most emphasis are “reducing nonessential spending” (71%), “nonlabor cost restructuring (e.g., IT infrastructure)” (55%), and “standardizing services, processes and service levels to achieve scale and simplicity” (55%). Not surprisingly, CFOs report that the core business has been largely or very receptive to many of these cost control activities.

Although 45% of CFO respondents identify demand-side cost reduction as a top priority (see Exhibit 2), only one
in three report that they are, in fact, collaborating with the businesses to reprioritize or defer requests, and only a fourth are unilaterally deferring or denying low-priority business requests, where warranted.

Business receptivity to these measures suggests the reason. Less than half of the CFOs surveyed believe their core business is receptive to demand-side cost management levers (see Exhibit 4).

The failure of G&A cost reduction efforts usually stems from misalignments in the internal service delivery model. Business units and internal service providers are not seeing eye-to-eye, leading to frustration and mistrust. According to our CFO respondents, four of the top five reasons that cost reduction measures meet with resistance are “lack of communication” (38%), “services not tailored to business needs” (36%), “didn’t involve BU in decisions” (33%), and “work offloaded to BUs” (31%).

Business units often see demand management techniques as G&A functions’ abdicating responsibility for their own problems...and transferring them to the line. G&A functions, eager to please and to boost their customer satisfaction ratings, do not press BUs in discussions about service quantities and levels. All too often, the task of working with BUs to manage demand falls to junior staff in the service organizations. The counterpart decisionmaker in the BU is often a general manager—a clear mismatch. Booz Allen’s experience indicates that companies need to establish a more workable approach—more collaborative, better informed, and supported from the top—to realize the next wave of cost reductions through levers like demand management (see inset box and G&A Readings Toolkit: Driving Demand Management for Internal Services, and Optimizing Internal Demand).

Shared Services: À La Carte Isn’t Smart. Satisfaction with shared services stems from a comprehensive, coordinated approach, yet few companies have implemented a full range of shared services mechanisms.

When a company chooses to organize around shared services, it consolidates support services from headquarters and BUs into a single organization. Rather than functioning as an arm of the central hierarchy with costs allocated based on an ad hoc basis, this new shared services organization sits down and negotiates requirements and pricing with its internal business unit “customers.” Therefore, shared services can be used as a vehicle for both supply and demand management of G&A functions.

According to the Booz Allen survey, four of five respondent companies have implemented some form of shared services within their company. Although widespread in Asia, the model appears to be even more prevalent in North America and Europe (65% versus 86% and 81%, respectively). The IT function lends itself best to a shared services approach (80%), followed by Finance (74%) and HR (65%). Not surprisingly, Risk Management is the G&A function least likely to be shared (35%).

Of the companies that have implemented a shared services program, two-thirds are satisfied or very satisfied with initial results. The dissatisfied or neutral third point to numerous problems, including the inability to achieve or sustain expected cost benefits (42%), implementation roadblocks (30%), and a lack of perceived value on the part of the BUs (35%).

Our own client experience and correlation analyses suggest that the root of the dissatisfaction with shared services is the piecemeal manner in which it is often implemented. Success in shared services stems from the implementation of a comprehensive and mutually reinforcing set of alignment mechanisms, including:

- Service Level Agreements (SLAs)
- Chargebacks
- Physical consolidation of operations
- Joint business and G&A governance of the G&A function

Exhibit 4
G&A Measures Receiving Emphasis, and BUs’ Receptivity to Them

Note: Chart reports the percentage of respondents giving each G&A cost reduction lever either “strong” or “very strong” emphasis.

Source: Booz Allen Hamilton
When CIO Barbra Cooper arrived at Toyota Motor Sales in Torrance, California, 5 years ago, she knew a little something about demand management. She had worked in local government with a half-elected, half-appointed staff...so “everybody wanted everything.” She had to oblige these internal customer factions while complying with a law that mandated a balanced budget. That experience instilled in her a deep appreciation of the “internal economy” of any organization. Limited supply necessitates trade-offs in demand. Managing demand is not an option; it is a necessity.

Cooper took that philosophy with her to Toyota, where she applied it to the technology of selling cars. Cultivating a demand management ethic in a sales culture predicated on relationships was not easy. She had to teach her business customers a whole new vocabulary oriented around data-driven baselines, vetting methodologies, and the notion of building a business case for systems investments. Like any other G&A senior manager, she had to convey to the BUs the imperative of “saying ‘no’ to themselves.”

That meant communicating to the BUs and even headquarters in Japan the reality that their choices, to a large degree, dictated her expenditures. By making costs and options transparent, she began the slow process of education. “The businesses thought I was supposed to be the one saying ‘no’. The BUs would just ask for whatever they wanted, presuming I would push back when it got to be too much.” That’s not how you optimize performance.

Still, as compelling as demand management’s logic might be, the process of converting a corporate culture to this new way of thinking has been long and difficult. “You have to be considerate of the time it takes to institutionalize this kind of understanding. It is not a 1-hour meeting. It is more like a political campaign,” says Cooper. “The challenge is not just to tell constituents about your point of view, you have to actually win their vote. That means talking to people several times in the hallways, in the cafeteria, whenever you see them. It’s a sociological challenge. You have to know what buttons to push with which voters.”

The cornerstone of Cooper’s educational campaign is the undeniable logic that “technology is going to be too integrated a part of the car buying and building experience for the businesses to rationalize it away to some CIO/IT geek.” The lines are blurring, and businesses need to be aligned with internal services.

To institutionalize the principles of demand management in Toyota’s IT operations, Cooper has reoriented her top team, aligning it with the business divisions they serve: Auto, Parts and Service, Business Support (Finance, HR, and Procurement), and Affiliates. IT executives are now on site with their business customers rather than clustered in corporate, and business process analysts help plan resources and talent needs for this new customer-facing organization.

Cooper established a new Office of Demand and Supply Management to build and govern the requisite processes. On the demand side, IT is developing budgeting and portfolio analysis tools to gain greater insight on enterprise and divisional IT investment requests. On the supply side, Toyota has implemented an explicit resource management process to measure and manage their capacity, and groups are using Rational Unified Process® (RUP) methodology to plan and discipline IT expenditures. Cooper has also launched a mid-range (3- to 5-year horizon) planning exercise to “flag” the IT implications of stated business priorities on 3-year plans.

Toyota is evolving its demand management approach. “We’ve taken the first step. I can’t change the businesses. I can influence and educate them...but only at a certain pace. That puts the onus on me to design practical enough solutions that the businesses can digest them, but that still get us up the maturity curve.”
- Performance-based compensation based on key performance indicators
- Benchmarking of performance against outside companies and providers
- Access to external G&A services if businesses are dissatisfied with internal G&A services.

These alignment mechanisms stimulate collaboration between the shared services organization and the businesses and create a sense of shared ownership; therefore, it is not surprising that satisfaction correlates with the number of shared services mechanisms a company adopts (see Exhibit 5). The more aligned a shared services organization is, the easier it is to implement game-changing initiatives, such as demand management, strategic outsourcing, and offshoring.

That said, fewer than 60% of the companies surveyed have implemented any one of the top three alignment mechanisms: SLAs, chargebacks, and physical consolidation of operations. Only 9% of the companies with shared services have implemented five or more of the essential mechanisms. Most have only two or three in place; therefore, there is a significant and as yet untapped opportunity to boost shared services’ and, by extension, G&A performance.

Chargebacks—assessing businesses a fee based on the specific service and/or service level tendered (e.g., number of invoices processed, unit cost per employee)—are a particularly underexploited tool, primarily because they have been used in the past for cost recovery rather than to facilitate cost transparency. Chargebacks, as often implemented, do not provide businesses with the visibility they need into the fixed and variable components of prices; indeed, they often obscure the true cost impact of BU decisions. A true chargeback, however, should accomplish the opposite aim, helping BUs understand the true marginal costs and the fundamental cost structures of the services they desire through a chargeout mechanism that breaks out the fixed, variable, and overhead cost components of services.

Combining a transparent chargeback methodology with “evergreen” SLAs, aggressive benchmarking, and other shared services alignment mechanisms can unleash new rounds of savings in many companies’ G&A functions...if implemented properly (see G&A Readings Toolkit: Shared Services: Management Fad or Real Value?, and Shared Services Inc.).

**Outsourcing: The Sum of the Parts Is Greater Than the Whole.** Most companies outsource...but only selectively and with cautious deliberation.

Although 70% of CFOs report that they are outsourcing one or more processes, outsourcing to either a domestic or offshore service provider does not top most CFOs’ cost reduction agenda. As shown in Exhibit 4, less than a quarter of respondents are giving outsourcing either “strong” or “very strong” emphasis. Only 11% are giving offshoring either “strong” or “very strong” emphasis.

As Exhibit 6 indicates, the functions most likely to be at least partly outsourced are IT (83%), HR (58%), Facilities (51%), and Finance (36%); however, with the exception of IT, functions are rarely outsourced in their entirety. For example, although 54% of companies indicate they outsource some of their HR functions, only 4% outsource most of their HR functions. The functions they do outsource are often transactional and nonstrategic (e.g., Benefits Administration, Payroll), which is not surprising given that is where the outsourcing market is most mature.

Most CFOs (67%) are “satisfied” that their outsourcing efforts have met initial expectations, citing a number of advantages, including better service levels (36%), access to best practices and process improvements (35%), and lower cost for equivalent service (33%). That said, only 4% of respondents report being “very satisfied.” Booz Allen has advised numerous companies regarding outsourcing initiatives, and our experience confirms that marketplace maturity varies greatly from function to function. The IT outsourcing field is the most mature and developed; consequently, companies tend to outsource more, or even
most, of these functions. Finance and HR follow, but at a distance. Therefore, companies are well advised to remain selective in their choice of vendor and their bundling of functions to outsource (see G&A Readings Toolkit: Profits or Perils: The Bottom Line on Outsourcing, and Business Process Outsourcing and Offshoring).

**Offshoring: Neither Big Nor Bad.** Despite media coverage to the contrary, most companies report that they are not considering offshoring...but not because of political sensitivities or bad press. Rather, their hesitation concerns the risks to service quality, doubts that claimed savings will materialize, and apprehension about possible disruptions to operations. More than half of CFOs consider these hurdles to be quite or highly significant (see Exhibit 7).

Only 10% of the companies responding to our survey have even considered offshoring any part of their G&A operations. Those who have offshored cite numerous benefits, including lower cost for equivalent service (53%), better service levels (41%), and an opportunity to focus on other activities (38%).

When asked what functions they would likely or very likely offshore, IT once again tops the list, followed by Finance and Purchasing (see Exhibit 8). Given the maturity of the IT outsourcing market, companies appear to be more comfortable with the technology to manage IT processes remotely. Moreover, the size of the IT budget relative to the corporate budget prompts many companies to look offshore for savings.

Still, most companies restrict their IT offshoring to systems maintenance and hosting and to remote desktop support, not systems or standards development. The same holds true for Finance and HR, in which the activities offshored are usually transactional (e.g., accounts payable, collections, Human Resource Information System (HRIS), expatriate administration) rather than strategic.

Although offshoring remains a distant destination for most, CFO respondents did indicate the approach they would consider. Sixty-one percent would consider shifting work to an international outsourcer, whereas 50% would consider “captive offshoring” (i.e., shifting work to overseas staff within their own company). Only two-fifths indicated they would shift the work to an outsourcer who does not have a presence in the same country as the company itself. Large companies (>10B) gravitate toward captive offshoring, whereas smaller ones are more likely to ask outsourcers to move the job overseas.

Although off to a shaky start, offshoring is not so much a flawed business model as a victim of poor alignment between G&A services and their business custom-

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2 Although reliable data on G&A offshoring is difficult to find, Forrester Research estimates that only 250,000 “white collar” jobs in the United States have been offshored as of 2003...most in call/service center operations and IT.
ers. Our survey indicates that offshoring meets resistance from BUs in 40% of the cases in which it has been attempted. Moreover, a strong correlation exists between this lack of receptivity and the feeling on the part of the BUs that they have been left out of the design and implementation planning (see Exhibit 9).

Even though offshoring can be a valid and powerful value creation play, it is clearly not appropriate for every company or every situation. Companies should consider carefully what processes to offshore, conduct appropriate due diligence in selecting a site, and dedicate sufficient forethought and resources to the transition itself. If companies follow these steps, they can realize step-change improvements in operating efficiency and productivity (see G&A Readings Toolkit: Business Process Outsourcing and Offshoring, and Business Process Offshoring: Making the Right Decision).

Global G&A Survey: Implications

Success Breeds Innovation. Companies that perceive themselves as “laggards” in the G&A management arena focus on supply-side cost reduction, whereas leaders explore a broader range of next-generation G&A management techniques.

As part of the survey, CFOs classified their companies’ G&A functions as either “ahead” or “at par/behind” their competitors. Note that those who considered themselves behind the curve claimed that their primary focus was on cost reduction—specifically, supply-side savings—whereas those who considered themselves ahead of the competition were more broadly focused on multiple drivers: “driving innovation,” “reducing costs through demand management,” and “responding to business needs” (see Exhibit 10).

Even in the narrower arena of cost reduction, the two classes of companies differ in their approach. Leaders believe that they have tapped out internal process redesign opportunities, so they focus their cost reduction efforts on the more difficult but ultimately more fruitful task of collaborating with the businesses to optimize their demand. They invoke the motto, “do more with less,” and challenge the self-inflicted complexity caused by proliferating service offerings, service levels, and information systems. Laggards, on the other hand, are disproportionately focused on internal process optimization (see G&A Readings Toolkit: A New Take on Business Process Redesign). They chase efficiency by attacking the “how and where” of services offered rather than the “what and how much.”

It is apparent that success in the G&A arena goes hand-in-hand with an affinity for next-generation cost reduction techniques like demand management.

If Complexity Is the Curse, Then Smart Customization Is the Cure. Self-described G&A laggards often point to complexity as a primary reason for their poor performance. For example, almost 90% of the companies that describe themselves as behind the competition cite “managing a patchwork of different systems” as their main IT challenge. Only 43% of G&A leaders cite the same issue as their main challenge. Streamlining complexity has become a critical success factor in managing G&A.

The key is to identify the right balance of customization and standardization for each business customer in
the perpetual struggle between fully tailored G&A services and one-size-fits-all solutions. In our experience, a tailored business streams approach (a.k.a. Smart Customization) represents a wise compromise.

Smart Customization begins with the premise that, although different customers and products require differing levels of attention, 80% of business demands are routine and can be standardized and/or industrialized. The remaining 20% require more flexible and more expensive processes and solutions. By flowing the 80% through standard streams and overlaying the custom 20% on top, Smart Customization drives down the costs incurred to serve a customer, without jeopardizing service levels or flexibility. As a result, companies free up wasted resources and underutilized capacity (see G&A Readings Toolkit: No Place Left to Squeeze, and Managing Customization Complexity in Service Organizations).

Performance Measures Are a Missed Opportunity. Few CFOs (12%) believe that implementing a formal performance management and QA methodology contributes to the sustainability of G&A improvements. Because these metrics can be used as a valuable accountability and alignment tool, we identify this underemphasis as a missed opportunity.

Although only a fourth of companies jointly or centrally manage G&A functions, 45% describe their G&A operations as aligned to a broad set of shared general objectives. Still, most companies continue to use comparisons of the G&A budget or actual results to previous year(s) as the chief performance metric. The G&A budget as a percent of sales is also used by about half. Clearly, there is room for improvement in this area.

C-Suite Support Drives Sustainability. The involvement and support of the CEO contributes more to the sustainability of benefits from G&A efficiency improvements than any other factor, including performance monitoring, incentives, and strict zero-base budgeting (see Exhibit 11).

In general, direction and support from the top are critical to the success of any G&A initiative. Two of three CFOs believe that the selection of specific G&A senior leadership has had a high or very high impact on the performance of G&A functions.

In Booz Allen’s experience, when G&A practices meet with failure, it is often because senior leadership has not been adequately involved in the decisionmaking process. Instead, junior managers have been assigned responsibility for liaising with the BUs without being invested with the appropriate authority to be effective in the role.

Given the events of the past several years, G&A control functions are more in the spotlight, attracting increased Board attention. According to our survey, G&A leaders in the past year have been asked to provide more frequent updates to the Board on a wide range of issues (49%). Specifically, they have been asked to describe their approach to risk management (59%). This higher profile and the substantive challenges that accompany it will compel companies to seek high-level talent for senior “staff” jobs (see G&A Readings Toolkit: The New CFO Agenda).

Business Alignment Is Key. Most companies still do not sufficiently involve the business in G&A decisionmaking, despite a strong correlation between the presence of business alignment mechanisms and BUs’ receptivity to various G&A cost control levers (see Exhibit 12).

Without solid business alignment, many of the game-changing G&A plays we have discussed are doomed to failure. Demand management is predicated on an effective, mutually respectful dialogue between internal service providers and their BU customers. Offshoring and smart customization require close collaboration and strict rules of engagement between businesses and their internal or external service providers. As described earlier, business alignment consists of several mechanisms, including joint governance of the G&A functions, SLAs, chargebacks, and performance-based compensation based on key performance indicators.

Exhibit 11
C-Suite Support Contributes Most to Sustainability of Benefits

<table>
<thead>
<tr>
<th>C-Suite Support</th>
<th>Percent of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Involvement/support of CEO in G&amp;A initiatives</td>
<td>65</td>
</tr>
<tr>
<td>Monitoring benefits against plan, and taking corrective action as necessary</td>
<td>57</td>
</tr>
<tr>
<td>Implementing incentives aligned with G&amp;A objectives</td>
<td>43</td>
</tr>
<tr>
<td>Implementing strict zero-base budgeting</td>
<td>27</td>
</tr>
<tr>
<td>Keeping G&amp;A leadership team in place during and after implementation</td>
<td>15</td>
</tr>
<tr>
<td>Implementing formal performance management methodology (e.g., Six Sigma)</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Booz Allen Hamilton
Success in optimizing G&A performance moving forward hinges on three levers: 1) governance mechanisms that facilitate full and regular communication; 2) pricing signals that accurately reflect the provider’s cost structure; and 3) incentives that encourage BUs to make the right affordability tradeoffs.

Even though two of three CFOs assign high or very high importance to line involvement in G&A governance, our survey indicates that only a quarter of all companies are “high performers” when it comes to the degree of alignment between G&A functions and the business (see Exhibit 13). That finding is cause for concern. Until companies can bridge the gap between what they say and what they do, their success in achieving breakthrough improvements in G&A management is limited.

The Future of Overhead

Our Global G&A Survey confirms what our work with clients has long suggested: even a decade into the customer-focused transformation of internal services, companies still approach the G&A challenge with a supply-side mindset and an “us versus them” mentality. Unenlightened business managers continue to dismiss G&A services as overhead, while demanding more and more of them. Functional leaders continue to battle to satisfy demand, while hacking away at costs. The impasse has arrived. Senior executives need to look beyond immediate obstacles to the role they want internal services to play as crucial enablers of BU performance. To build this better functional mousetrap inside their firms, they must first buttress traditional “supply-forward” cost management techniques with “customer-back” demand-focused redesigns of internal services. They can then begin to apply a more holistic approach to a wider scope of internal services, moving beyond traditional functions such as IT, Finance, HR, and Procurement, to a broader set of internal services including Engineering, Marketing, Quality, and Supply Chain, and for some companies, even aspects of Product Development.

G&A Readings Toolkit

Making Overhead Outperform. This strategy+business reader comprises 14 articles about next-generation G&A practices and how to implement them. From the case for outsourcing to the logic of demand management to the evolution of shared services, this book covers the gamut of internal service delivery enhancement techniques.

Attacking Overhead Costs from Both Sides. Standout companies are stepping back and adopting a new and broader perspective on the age-old cost reduction problem, one that encompasses not only traditional supply-side cost restructuring (e.g., business process reengineering, shared services, enterprise resource planning and strategic outsourcing) but also demand-side optimization strategies. Approaching the cost reduction challenge from both sides has unlocked major benefits and savings for such companies.

Driving Demand Management for Internal Services. The search for step-change cost reduction sets up a natural contest between line and service organizations. BUs complain that they bear the brunt of the belt-tightening and point to support services as a drain on their resources. Support functions point to benchmark studies, indicating they are performing at best-in-class levels and have already squeezed out potential cost savings. Can they both be right? In a word, yes.

Optimizing Internal Demand. As always, companies look to internal services first to pare expenses. What is differ-
ent now is the lens they are applying: the perspective has broadened. Instead of relying solely on supply-side tactics to trim costs (e.g., process reengineering, automation, outsourcing, offshoring), companies are now also managing the demand for internal services, challenging service providers and BU customers to make serious affordability and service-level tradeoffs.

**Shared Services—Management Fad or Real Value?** In the mid-1990s, the challenge was to combine corporate scale with the superior service, customization, and focus associated with decentralization at a price and quality standard that were competitive with the best the marketplace had to offer. A new approach, known as shared services, was created.

**Shared Services Inc.** Companies are looking to leverage the millions of dollars and accumulated years of experience they have invested in running highly efficient internal shared services operations. Many believe that the next wave of value is an extended enterprise play, in which shared services moves beyond the walls of the corporation, either as a seller of services to external customers or as a buyer and aggregator of external services for internal clients.

**Profits or Perils: The Bottom Line on Outsourcing.** Many companies have encountered obstacles in their effort to realize the promise of outsourcing, usually resulting from mistakes in decisionmaking and implementation. This report proposes a model for improving the likelihood of success in these new supply relationships.

**Business Process Outsourcing & Offshoring.** Having exploited most of the first-generation cost savings available through outsourcing, leading companies are now focusing on business model transformation. They are looking beyond IT and G&A services and are outsourcing processes closer to the core, including line operations, often using offshore resources. Moreover, many are exploring ways to commercialize their own world-class internal services through spinoffs and joint ventures.

**Business Process Offshoring: Making the Right Decision.** Offshoring business processes can offer companies across a range of industries an opportunity to lower costs by 40% or more. Still, offshoring is not for every firm...and certainly not for every business process.

**A New Take on Business Process Redesign.** Product-focused organizations are becoming increasingly customer-centric and are learning that their current processes cannot deliver on new market requirements. Once again, companies are reevaluating and redesigning their business processes—customer facing and noncustomer facing—in search of increased customer value and internal efficiency. This new round of business process redesign (BPR) differentiates processes based on customer profitability and cost to serve, occurs within the context of an overall organizational change, and is built on sustainable behavior change.

**No Place Left to Squeeze: Rethinking IT Cost Management Strategies.** For many companies, cost cutting in the IT area is expected to deliver 40% or more of overall G&A savings. The problem is that many organizations are already struggling with budgets that are barely adequate to meet the demands placed on their IT function. With no place left to squeeze, it is time for a new approach: Demand Management.

**Managing Customization Complexity in Service Organizations.** Too many service companies have embraced customization in their quest for growth without adapting their operating model to balance the necessary complexity costs that result. Consequently, companies outgrow their operating model, thereby risking their business resilience. The solution lies in adapting the “DNA” of the organization to identify, isolate, and optimize complexity.

Booz Allen offers a broad array of services to help senior management of large companies identify, diagnose, and remedy common organizational roadblocks to effective execution.

**The New CFO Agenda.** According to a benchmark survey conducted by Booz Allen, best-in-class companies are increasingly recognizing corporate officers’ role in setting strategic direction, allocating resources, and serving as an “early warning system.” Particularly visible is the CFO, who has now become an internal investment banker and custodian of value-based performance management.

Also contributing to this article were Anil Kaul and Ashok Divakaran.
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