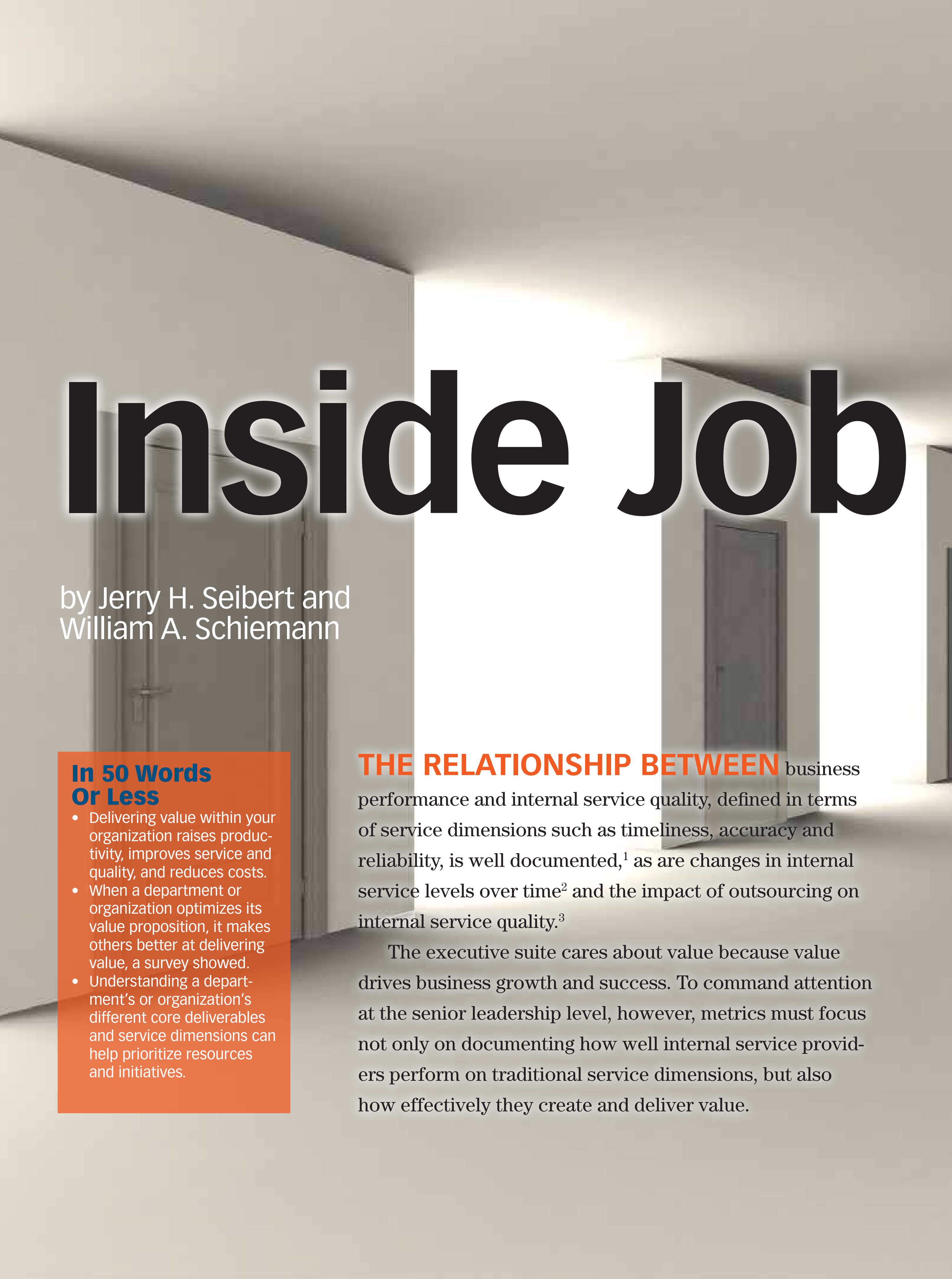


Inside Job

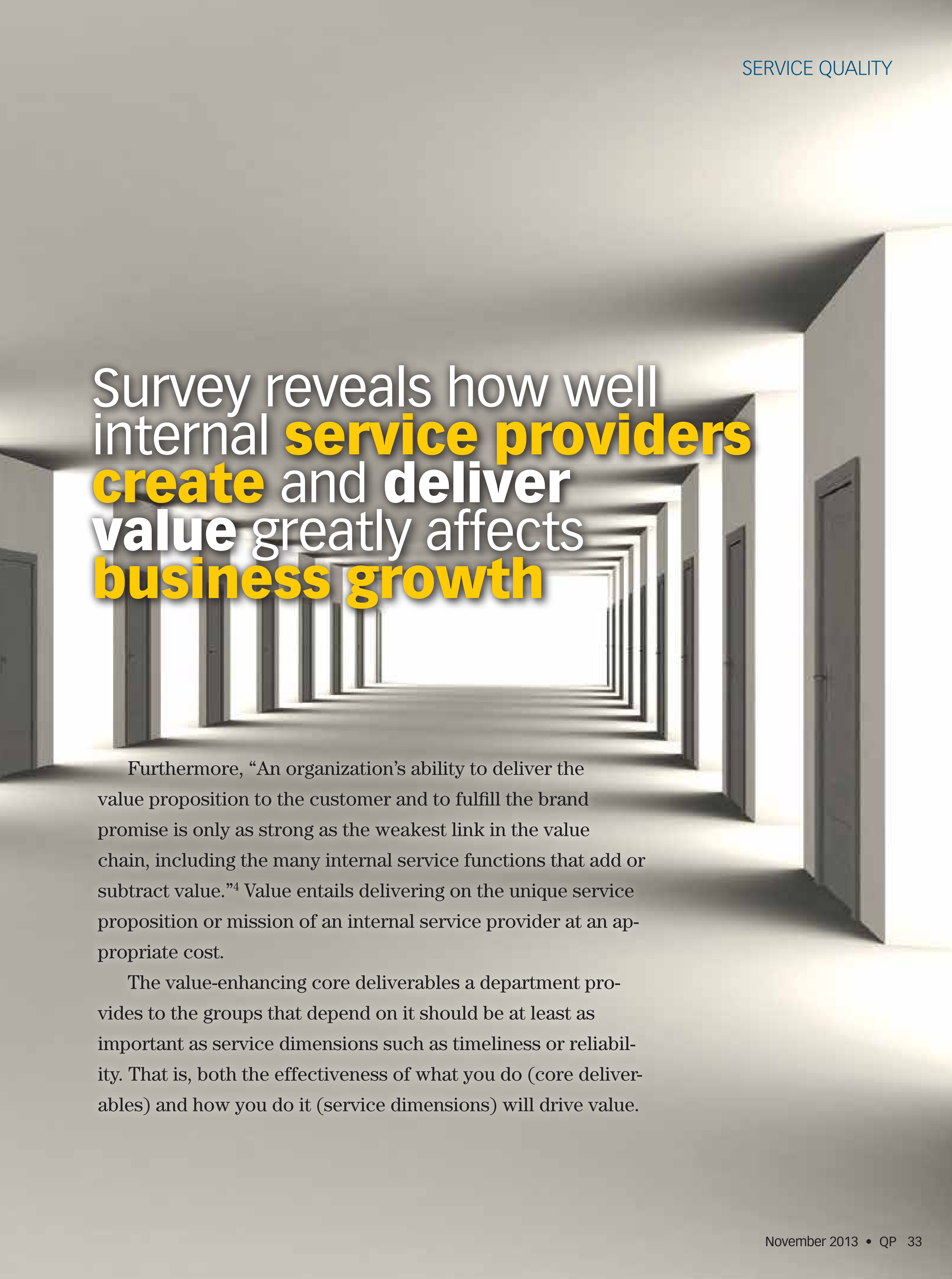
by Jerry H. Seibert and William A. Schiemann

In 50 Words Or Less

- Delivering value within your organization raises productivity, improves service and quality, and reduces costs.
- When a department or organization optimizes its value proposition, it makes others better at delivering value, a survey showed.
- Understanding a department's or organization's different core deliverables and service dimensions can help prioritize resources and initiatives.

THE RELATIONSHIP BETWEEN business performance and internal service quality, defined in terms of service dimensions such as timeliness, accuracy and reliability, is well documented,[1] as are changes in internal service levels over time[2] and the impact of outsourcing on internal service quality.[3]

The executive suite cares about value because value drives business growth and success. To command attention at the senior leadership level, however, metrics must focus not only on documenting how well internal service providers perform on traditional service dimensions, but also how effectively they create and deliver value.



Survey reveals how well internal **service providers create** and **deliver value** greatly affects **business growth**

Furthermore, "An organization's ability to deliver the value proposition to the customer and to fulfill the brand promise is only as strong as the weakest link in the value chain, including the many internal service functions that add or subtract value."[4] Value entails delivering on the unique service proposition or mission of an internal service provider at an appropriate cost.

The value-enhancing core deliverables a department provides to the groups that depend on it should be at least as important as service dimensions such as timeliness or reliability. That is, both the effectiveness of what you do (core deliverables) and how you do it (service dimensions) will drive value.

Previous Metrus Institute and QP research collaborations have focused primarily on the service dimensions—the "how" but not the "what." In the study presented here, we examine the relative importance of core deliverables and of service dimensions that drive internal value, focusing on four corporate functions that, in most organizations, have stakeholders throughout the business: finance, HR, IT and procurement/supply chain. Data were gathered through an online survey sent to ASQ members and customers—mostly in North America. Among the 537 respondents, 64% were managers or senior executives. The most frequently represented industries are listed in Table 1.

Risk of unperceived value

Chief HR officers, chief strategy officers and IT heads often say their departments are delivering value, but their internal stakeholders don't understand it. Whether they are correct, the situation presents real risks. When departments cannot demonstrate their direct value, they are at risk of being outsourced or dismantled, with their functions reallocated to other departments.

More than one HR department, for example, has seen responsibility for compensation and payroll shifted to finance or outsourced, or labor relations and compliance activities moved to legal. Failure to deliver adequate value leaves stakeholders of any department highly frustrated.

When we asked study participants if they could eject and replace any department with a completely new and improved version, 83% had at least one department in mind. Figure 1 shows some departments have more stakeholders ready to push the eject button than others, but no department is immune.

This isn't so surprising when you consider that for most departments, only about half of their stakeholders rated them as delivering good or very good value. Figure 2 (p. 36) shows the range of ratings across 15 departments. One implication of these findings is fairly clear: In most organizations, every department could do a better job of value creation.

To help us better understand these judgments of value, we also asked participants to rate certain departments on several characteristics. In particular, we wanted performance evaluations of some of the typical activities, or core deliverables, that these departments provide. Further, we gathered feedback on the way these departments interact with their stakeholders. These aspects of service, such as being proactive, reliable and aligned with strategic needs, were strongly associated with business performance in prior studies.

However, no matter how well a department communicates with its stakeholders, how responsive or how willing it is to put in extra effort, if it doesn't deliver on its central responsibilities, it cannot produce the necessary value.

If, for example, the IT department deploys a customer relationship management system that cannot keep up with changing requirements of customer service and sales reps, a friendly and courteous help desk will not make up for the lack of functionality. Nor are promptly returned phone calls from HR likely to counterbalance a flawed hiring process that loses top candidates to the competition. To deliver the greatest levels of value requires operational excellence and outstanding service.

We took a closer look at four departments: HR, IT, finance and procurement/supply chain. Participants evaluated the performance of these four departments on several core deliverables they perform on behalf of their stakeholders. Six to 10 unique core deliverables were assessed for each department.

Some of the HR function's core deliverables, for example, included talent acquisition, succession planning, and compensation and benefits administration. Each department also was rated on eight service dimensions:

1. Understands your business needs.
2. Anticipates your needs and requirements and is proactive.
3. Is an innovative partner.
4. Delivers what it promises when it promises.
5. Aligns with the strategic needs and priorities of your organization.
6. Possesses the required knowledge and skills.
7. Possesses the necessary resources to meet your needs.
8. Is willing to put in extra effort when necessary.

Value drivers

The survey findings reveal it is not safe to assume either core deliverables or service dimensions are the most important drivers of value across service providers. For example, for two departments—procurement/supply chain

Industries represented / TABLE 1

Most frequently represented industries	Percentage of participants
Manufacturing	26%
Business and professional services	12%
Pharmaceuticals/ medical devices/ biotechnology	8%
Hospitals and healthcare services	5%
Aerospace	5%
Government	5%
Transportation and automotive	5%
Technology/ telecommunications	5%

and finance—the top three value drivers are all core deliverables (Table 2). That is, they are focused on what the department does rather than how it does it.

In contrast, for HR and IT, two of the top three drivers are service dimensions. This may reflect the frequency of interaction between each of these departments and its stakeholders. It may be that contact with HR and IT occurs more frequently, given the nature of the functions these departments perform. It also may be that their roles simply involve more service interaction with stakeholders, whereas for procurement/supply chain and for finance, the interactions are more about delivering product.

Interestingly, the least important driver—14th out of 14—for procurement/supply chain is actually the most important driver for HR: "Has the necessary resources to meet your needs." Many HR departments are responsible for a broad portfolio of services. HR's stakeholders may see a disconnect between HR's scope of responsibility and the resources allocated to the department.

Understanding the relative importance of different core deliverables and service dimensions can help a department leader prioritize resources and initiatives. Leaders who don't understand the relative importance are likely to allocate scarce resources to improving deliverables or services that may not buy them much in terms of perceived value from stakeholders. Furthermore, there are wide differences in contributed value across drivers. For procurement/supply chain, for example, the two top value drivers are:

1. "Purchasing (requisition process and issuing purchase orders)."
2. "Leverages supplier expertise (for cost savings and revenue growth)."

These drivers have three to five times the impact of the least powerful drivers: "Contract negotiation" and "Has the necessary resources to meet your needs." In IT, an interesting finding is that "Software design (development or engineering of custom applications and databases)" has three times the importance of "Help desk (technical support for commercial or in-house applications)."

Surprisingly, there seems to be no correlation between how well a department performs a function and how important it is as a value driver. In other words, the poorly executed core deliverables are not necessarily the ones that become the most important value drivers. For the procurement/supply chain function cited earlier, for example, "Leverages supplier expertise" had a mere 28% favorable rating, and it was one of the top two value drivers.

In contrast, "Is an innovative partner" also was poorly rated (26% favorable), but was not a high value driver. The key point here is that you cannot simply survey your stakeholders and focus on the poorly rated areas because some are far more important than others in driving perceptions of value. In a world of limited resources, this type of strategic prioritization will allow department leaders to leverage scarce resources.

High, low-value delivering organizations

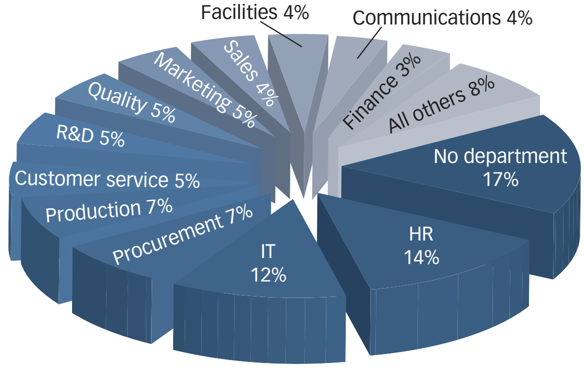
What do departments or organizations that deliver high levels of internal value do differently from their counter-

Top three value drivers for each department / TABLE 2

Procurement and supply chain	Weight	IT	Weight
Purchasing (requisition process and issuing purchase orders)	17.5%	Possesses required knowledge and skills*	11.4%
Leverages supplier expertise (for cost savings and revenue growth)	11.3%	Software design (custom applications and databases)	10.5%
Sourcing process (identify and select qualified suppliers)	9.8%	Has the necessary resources to meet your needs*	9.1%
HR	**Weight**	**Finance**	**Weight**
Has the necessary resources to meet your needs*	8.4%	Accounts payable	9.9%
Talent acquisition	8.2%	Budgets (for example, preparation, review and assistance with)	8.2%
Understands your business needs*	7.3%	Invoices and billing	8.1%

*Service dimensions; the same eight service dimensions were rated for each department.

What department would stakeholders replace? / FIGURE 1



parts elsewhere? How much impact is there on organizational performance?

To answer these questions, we created a total value index (TVI) by averaging the ratings of the overall value delivered by each of the 15 departments (see Figure 2 for a list of the departments). We compared the organizations in the top and bottom quartiles of the TVI. Top quartile TVI organizations were considered to be delivering high internal value, while bottom quartile TVI organizations were considered to be delivering low internal value.

In high-TVI organizations, the four departments we targeted for further examination (finance, HR, IT and procurement/supply chain) were more likely to ask for feedback from their stakeholders. About half proactively sought performance feedback, while just over a quarter of the departments in low TVI organizations did so (see Figure 3).

A 61% majority in high-TVI organizations have mutually agreed-upon performance metrics versus 35% in low TVI organizations—that is, they and their stakeholders have negotiated the measurements that are used to evaluate their effectiveness. Service level agreements (SLA) also are more common in high-TVI organizations, particularly for IT departments.

The cost of working with an internal function includes direct, indirect and even intangible costs (time, hassle, rework, complexity, conflict and money). With that definition of cost, we asked whether the cost of working with our target departments was very low to very high. Ratings of cost were higher in the low-TVI organizations. Apparently, these low-rated internal suppliers are perceived to have many direct and indirect costs related to dealing with them.

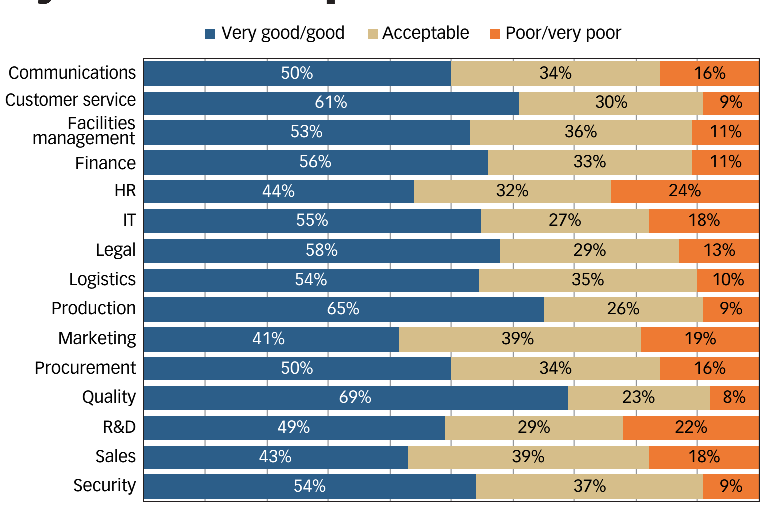
What leads to a low TVI? In addition to a lack of interest in measurement and feedback, there may be fundamental performance issues related to competencies or processes. Does staff have sufficient business acumen? State-of-the-art function knowledge? Service skills? Are there opportunities to drive quality gains or enhance speed of delivery with appropriate process improvement techniques? More generally, are smart decisions being made regarding operational investments and initiatives? These are central questions that must be answered by any department not delivering adequate value to stakeholders.

Enhancing the value of others

We also wanted to know whether departments with high internal value delivery were more likely to help other groups improve their own value proposition. Does their focus on value, for example, translate into helping other departments improve service or quality, reduce costs or boost productivity?

It is easy to imagine that a highly effective department—one that takes the time to truly understand the business needs of its stakeholders, is innovative and is closely aligned with its stakeholders' priorities—would be increasing the value of its stakeholder and partner. Even more broadly, we would expect that high-TVI orga-

Ratings of overall value delivered by selected departments / FIGURE 2



DETERMINING IMPORTANCE

To determine which core deliverables and service dimensions are the most important value drivers for each of the four departments, we used a regression technique called relative weights analysis (RWA) that is ideal for survey data such as that gathered for this study.[1] It produces more robust predictive models because it effectively takes into account the many interrelationships (correlations) among survey items.

The weight in RWA is typically reported as a percentage representing the proportion of variance accounted for by each driver. As a group, the core deliverables and service dimensions did a very good job at predicting the overall value delivered by each of the four departments, explaining 50 to 60% of the variance in overall value. *—J.H.S. and W.A.S.*

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nizations would outperform low-TVI organizations on a variety of business metrics.

The results showed there is indeed a virtuous cycle: In high-TVI organizations, departments are not only more effective at delivering value to their stakeholders, but they also make their stakeholders better at delivering value. Ten percent or less of the departments in low-TVI organizations were able to help their stakeholders enhance their own value. More than 40% of the departments in high-TVI organizations, however, were able to help stakeholders improve service, improve quality or increase productivity, and 35% helped their stakeholders achieve financial cost savings (Figure 4).

As expected, organizations with high internal value functions also outperformed the low internal value organizations on overall business metrics. Figure 5 shows the high-TVI organizations were at least twice as likely to be leaders within their industries on financial performance, customer satisfaction, quality and productivity.

Our study found a wide range of value being delivered by the four departments that were the focus of the research: procurement/supply chain, HR, finance and IT. Differences in internal value were strongly associated with organizational performance in terms of overall organizational performance and for the departments that depend on these groups. Best practices for delivering value included a focus on measurement and feedback: setting up performance metrics, asking for input from stakeholders and even implementing formal SLAs.

When all of these factors are in place, departments can not only optimize their own value proposition, but they can also enhance the value of others. Leaders in internal value delivery help their stakeholders raise productivity, improve service and quality, and drive down costs. QP

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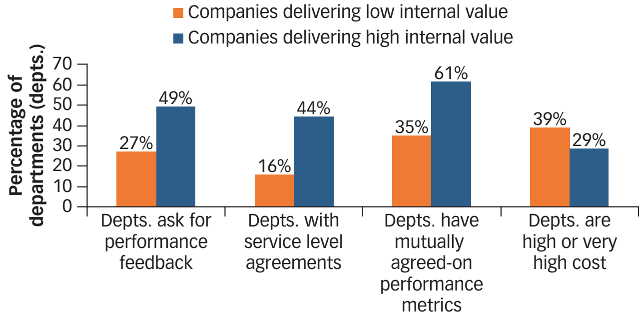
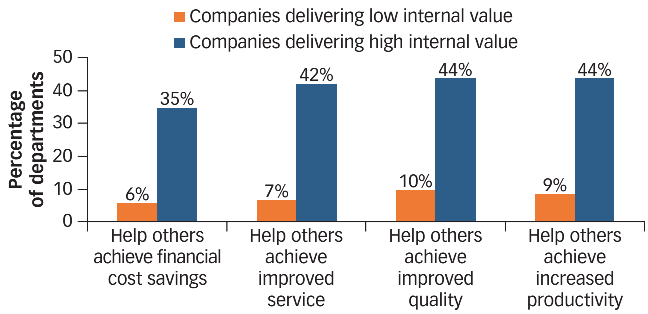
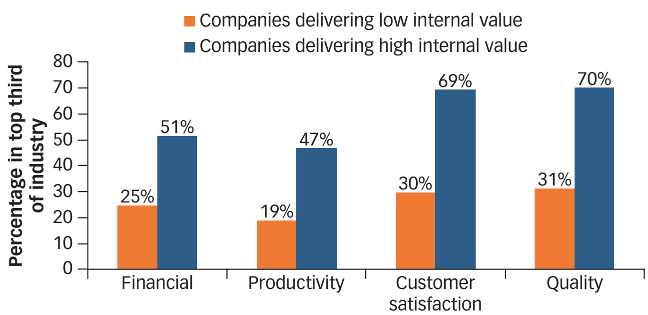
Operational differences between high and low value delivering companies / FIGURE 3

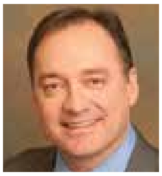


Do departments help others to enhance their value? / FIGURE 4



Relationship of internal value and business performance / FIGURE 5





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