

Shining the Light on Shadow Staff

Understanding and Minimizing Hidden Staff Costs

Peer into the hallways of any business unit, and you will likely find “shadow staff,” people performing tasks that duplicate those performed elsewhere in the organization, typically by corporate functions (e.g., HR, finance, IT). No matter the industry, shadow staffs lurk in the corners of most large enterprises. Once brought to light these positions can add another 30 to 80% to total support staff head counts (see Exhibit 1). In the case of one telecommunications carrier we worked with, the shadow IT staff was three quarters as large as the entire official IT department. As one CIO client put it, “Even the shadow organizations cast shadows.”

The traditional prescription for shadow staffs has been to identify and eliminate these redundant positions, but this approach is flawed in our opinion. By weeding out shadow staffs in the business units, a company does not actually address the root cause of the problem, only its symptoms. As many companies have discovered, a shadow staff position is like the head of

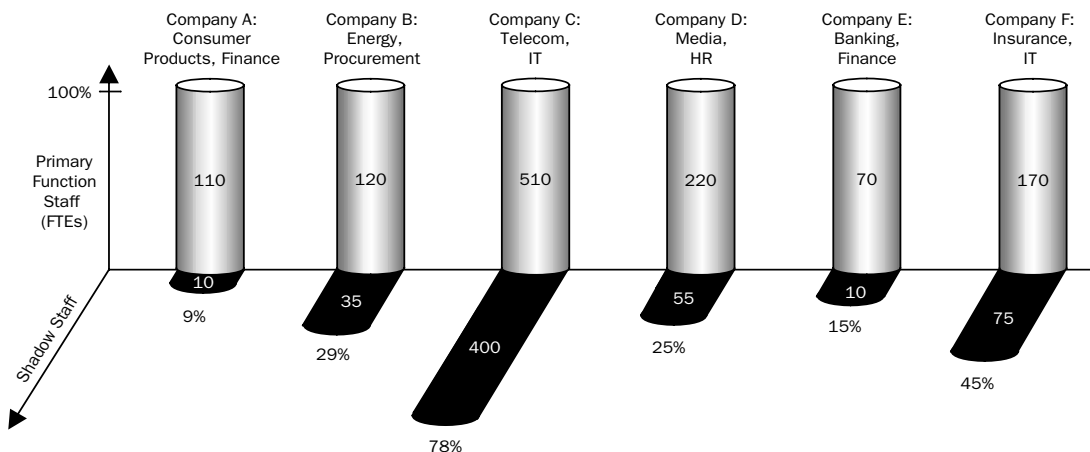
a hydra. You cut it off, and two more grow back in its place. To improve operational efficiency over the long run, an organization needs to understand the reason shadow staffs exist ... and then remove that reason, not necessarily the position. That is the surest way to eliminate duplicative and wasted effort.

“Mine The Noise”

When organizations are not running smoothly, the points of friction in the operating model can often be valuable sources of information. Rather than systematically sweeping away problems and issues, companies should “mine” them for useful intelligence. Understanding what went wrong is the first step in getting it right.

Shadow staffs are leading indicators of problems in a company’s operating model. They serve as “workarounds” for failed or inadequate processes and functions in the service delivery model. If a corporate function is not meeting the particular needs of a business unit, the business will fill the gap by hiring its own personnel.

Exhibit 1
Casting Shadows



Source: Booz Allen Hamilton

The problem here is not the existence of shadow staff, but the inadequacies in the normal service delivery model that prompted the business unit to circumvent it.

While shadow staffs pop up everywhere, support functions such as IT, HR, purchasing, and finance cast, by far, the greatest shadows. Examples of shadow staffing that we've come across include:

- Meter readers at an electrical utility sitting at desks and crunching financial data
- IT staff spread throughout an airline's organization despite the existence of a centralized IT department
- Administrative assistants at a professional services firm maintaining e-mail servers
- Engineering drafters at a defense contractor writing software code, even though all programming is out-sourced.

While perhaps amusing on a case-by-case basis, the proliferation of shadow staffs can debilitate a company. In addition to the direct costs of duplicate labor, there are collateral costs associated with breakdowns in communication and cooperation between organizational units.

Shadow Drivers

People are rational creatures. They will make the best decisions they can based on the information available to them and their ability to process it. If shadow staffs exist, they exist for a reason. They address meaningful gaps in the overall business model in one of five areas 1) Availability, 2) Access, 3) Quality, 4) Cost, or 5) Governance (see Exhibit 2).

Driver 1: Availability of Service

"We don't have a choice."

When multiple managers independently hire staff to fill the same service gap, then clearly the corporate functions have failed in making needed services available to the enterprise. Sometimes, however, a business unit's needs are unique. In such cases, it might make sense to keep that particular service housed in the business unit, where it can be close to customers.

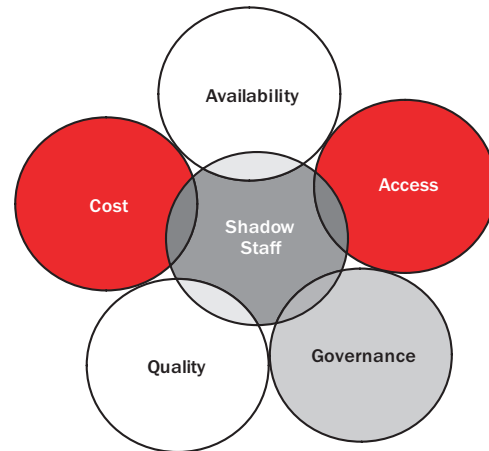
Driver 2: Access to Service

"Sorry, we're all out."

Even when a needed service is available within an organization, not all managers may have ready and equal access to that service. Access is a particular issue in IT application development. Smaller business units are often frustrated at their inability to compete for limited, budget-driven, centralized IT resources. Are competing investments being evaluated in the

Exhibit 2

Is Your Organization a Breeding Ground for Shadow Staff?



Source: Booz Allen Hamilton

appropriate context and with the right yardsticks? Again, shadow staffs can be a flag for further study.

Driver 3: Quality of Service

"Mercedes? How 'bout a Chevy?"

Just like any other consumer, line managers will "shop" elsewhere if they are not satisfied with the products and services they receive. Dissatisfaction can result from poor quality (e.g., inadequate speed, accuracy) or simply a mismatch between what customers receive versus what they desire. For example, a manager may require and be willing to pay for a customized financial report instead of the standard "canned" product offered by finance.

Driver 4: Cost of Service

"It's cheaper if we just do it ourselves."

"We can do it for less" is the most common rationale used by managers to justify their shadow organizations. However, in most cases managers are reacting to what they perceive to be excessive cost allocations or outside vendor invoices without full information. To really evaluate the cost of providing a service, you need to assess the full economic impact of that decision, including associated overhead charges. If, after this analysis, the manager can still do it for less, he or she should be encouraged to do so.

Driver 5: Governance of Service

"Who's gonna stop me?"

The lack of effective governance mechanisms acts as the final green light in the development of shadow staffs. If there are no clear corporate policies defining roles and responsibilities or measures and incentives to monitor and encourage desired behaviors, then shadow staffs become an unofficially sanctioned fixture in many organizational structures.

Minimizing Shadow Costs

Clearly the first step in addressing the hidden costs of shadow staffs is to understand the magnitude of the challenge. Without counting heads and understanding the size of both acknowledged and shadow staff, it is hard to diagnose the root cause of the problem or monitor improvement.

Since shadow staffs are, by their very nature, hard to identify, it is recommended that companies capture and categorize *all* costs incurred within the organization. We refer to this exercise as “four walling,” counting all the costs in the four walls of the organization. This effort will require not only staffing system information, but also close analysis of budgets, as well as interviews and surveys designed to ferret out information on who is really doing what.

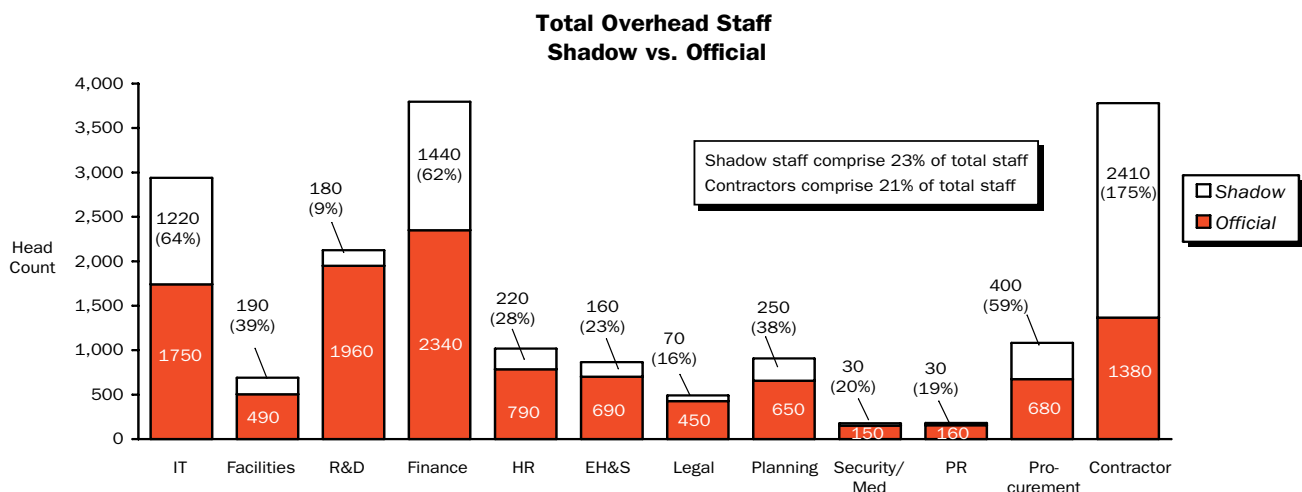
Exhibit 3 features the rather dramatic results of this analysis for one Global Fortune 100 company. When included in functional head count, shadow staff positions accounted for 23% of the total. In finance and IT, shadow staffs were two thirds as large as the official staff in these functions.

Once the magnitude of the shadow staffing problem is understood, companies need to address the “why” of this phenomenon to prevent its recurrence. Which of the drivers noted above is responsible for the appearance of shadow staff and how can service delivery systems be modified to disable that driver?

Based on our experience, we’ve seen several solutions take hold, all designed to improve cost transparency and optimize service delivery.

Exhibit 3

Shadow Staffs Rival Official Staffs in Size



Note: Numbers in parentheses are percent of official head count represented by shadow staff

Source: Booz Allen Hamilton

Shared Services

More and more, companies across industries are consolidating support functions from headquarters and business units into a single shared services organization. Rather than functioning as an arm of the central hierarchy with costs allocated to the rest of the organization, this new support services delivery organization operates in a more commercial context. It sits down and collaboratively plans requirements and pricing with its internal business unit “customers” and competes, in some cases, with alternative service providers to win business.

This move to treat support services like a business introduces market-like discipline and incentives to the internal service delivery model. The transparency and responsiveness that results addresses all of the key drivers of shadow staff formation – availability, access, quality, cost, and governance.

Demand Management

Demand management is another way to address the shadow staff cost issue. To date, companies have attacked internal service costs from the supply side, applying reengineering techniques to increase efficiency and productivity or leveraging best practices and scale. Our recent client experience, however, suggests that managing the *demand* for such G&A services yields as much, if not more, in terms of cost savings and benefits. One of the most important tools in managing demand is pricing.

Fit-for-Purpose Solutions

Conventional wisdom has long held that one-size-fits-all solutions result in the lowest overall costs, but

our recent client work suggests that logic is faulty. Standardized solutions actually overserve many business users while underserving others. The result is higher than necessary costs and dissatisfied users who are not receiving an appropriate level of service (i.e., a Mercedes rather than a Chevy). Conversely, if service providers offer too many options (e.g., supplying each business unit a customized menu of services) without establishing sufficient scale or standards, costs quickly and predictably escalate.

Fit-for-purpose solutions represent the happy medium in the enduring tug-of-war between one-size-fits-all and custom-tailored service offerings. Fit-for-purpose solutions are tailored but efficient service delivery solutions that align supply and demand for various customer segments at optimal levels. By assessing

the economics of service delivery from a cost-to-serve and ability-to-serve perspective, and by segmenting customer needs and priorities, companies can radically restructure service delivery, resulting in a set of affordable yet responsive solutions.

Governance Mechanisms

Corporate policies, processes, and performance measures can help drive the organization toward one or more of the above solutions. Policies should clearly define the roles and responsibilities of each organization unit in the provision of services. Key processes, particularly within HR, can serve to highlight the emergence of shadow staff, so that the organization can respond swiftly. Finally, performance measures and incentives can motivate adherence to desired behaviors among both business and service units.

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