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What does automation mean for G&A and the back office?

A lot. By incorporating available technologies, redeploying employees, and reimagining processes, companies can improve their performance and reduce their costs dramatically.

by Alexander Edlich, Allison Watson, and Rob Whiteman

The performance of general and administrative (G&A) functions varies dramatically among companies, and the differential is poised to widen. As new forms of automation—fueled by advances in areas such as robotics and artificial intelligence—transform the world of work, G&A functions will be transformed, too.

Some of the impact will show up in costs. We've shown before that top-quartile companies operate at nearly half the cost of their bottom-quartile counterparts in the same sector.[1] Those cost differentials will grow with the increasing use of automation.

Just as important, automation brings with it the potential to improve the quality, speed, and flexibility of work dramatically—and this is where some of the most exciting opportunities in G&A reside. Successful G&A-improvement programs, which in our experience can generate twice as much impact from gains in effectiveness as from increased efficiency, not only improve decision

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[1] See Robert Levin and Allison Watson, "Maximizing the value of G&A," *McKinsey Quarterly*, June 2016, McKinsey.com.

making and the allocation of resources but also help employees to work more effectively. As the pace of automation accelerates, the opportunities for improving performance will only increase.

TECHNICAL POSSIBILITIES

McKinsey Global Institute (MGI) research suggests that companies can automate at least 30 percent of the activities in about 60 percent of all occupations by using technologies available today. These findings are consistent with what we've seen in the G&A functions of many companies. For example, about 20 percent of the tasks of a typical finance unit's record-to-report (R2R) process are fully automatable (requiring no human intervention) and nearly 50 percent are mostly so (with technology undertaking most of the work). Similarly, in the HR hire-to-retire (H2R) process, about 30 percent of all tasks can be fully automated and another 30 percent mostly automated.

As the cost of technology falls and its capabilities grow in areas such as robotic process automation, machine learning, and natural-language generation, the economic case for automation is improving rapidly. A major financial institution recently found that it made economic sense to automate nearly 35 percent of finance-function tasks right now. The technology to automate another 35 percent of tasks—though not in a remunerative way— was technically feasible.

STRATEGIC POTENTIAL

What those automation figures fail to reflect are the possibilities created by reimagining business processes. Assigning machines to handle discrete tasks and plugging new technologies into existing processes may generate savings, but they won't take advantage of automation's potential to elevate your G&A function into a more strategic asset. That requires redesigning processes and organizational structures around both current and anticipated automation technologies.

Of course, sustaining G&A improvements has always forced companies to get things done in new ways, to reconfigure roles, and to adapt the workplace culture. But the changes are likely to be bigger for large-scale automation efforts. Consider the experience of a global insurance firm that used a set of automation technologies to redesign an overwhelmingly manual and error-prone process. At any given time, tens of thousands of policies were held up as a result of exceptions, and management faced mounting pressure

from regulators to meet mandated deadlines. More than 30 employees were tasked with working the backlog, and it took about five to seven minutes to bring each policy out of limbo.

Robotic process automation provided a way out of this logjam, as high-performing employees were redeployed to more valuable work. The automated process virtually eliminated errors, cut processing time by 50 percent, and reduced costs by even more. The new, automated process also proved highly scalable.

Another major financial institution, already long established as an industry leader in efficiency, embarked on a rapid program to incorporate automation technologies—such as robotic process automation and natural-language generation—into its processes. Taking advantage of existing market-ready innovations, the company launched use-case pilots to validate new opportunities and build out the necessary capabilities. Even more significantly, rather than just considering how to apply innovations to existing steps of traditional workflows, the company realized that it could reap the greatest benefits by redesigning existing processes—grouping automatable tasks, eliminating handoffs, and resequencing approvals to get the most out of automation. That resulted in a wholly novel model, which drove game-changing performance and efficiency improvements. A reimagined regulatory reporting process, for example, made it possible to complete, in as little as an hour, steps that had previously taken a week (exhibit).

INTO THE FUTURE
Companies understand that getting started is the easy part; a small centralized team, with help from third parties, can build a few bots or algorithms. But scaling is hard. One way to keep the momentum going after demonstrating early success is to support automation efforts across functions and lines of business by establishing centers of excellence (COE). Effective ones create user-friendly playbooks, contribute advanced expertise, build business cases, manage vendor relationships, track the impact of changes, and develop new capabilities. By working with the business to execute organizational change, maintain automation solutions, and manage risks, the most successful of these units also ensure that automation has a real impact.
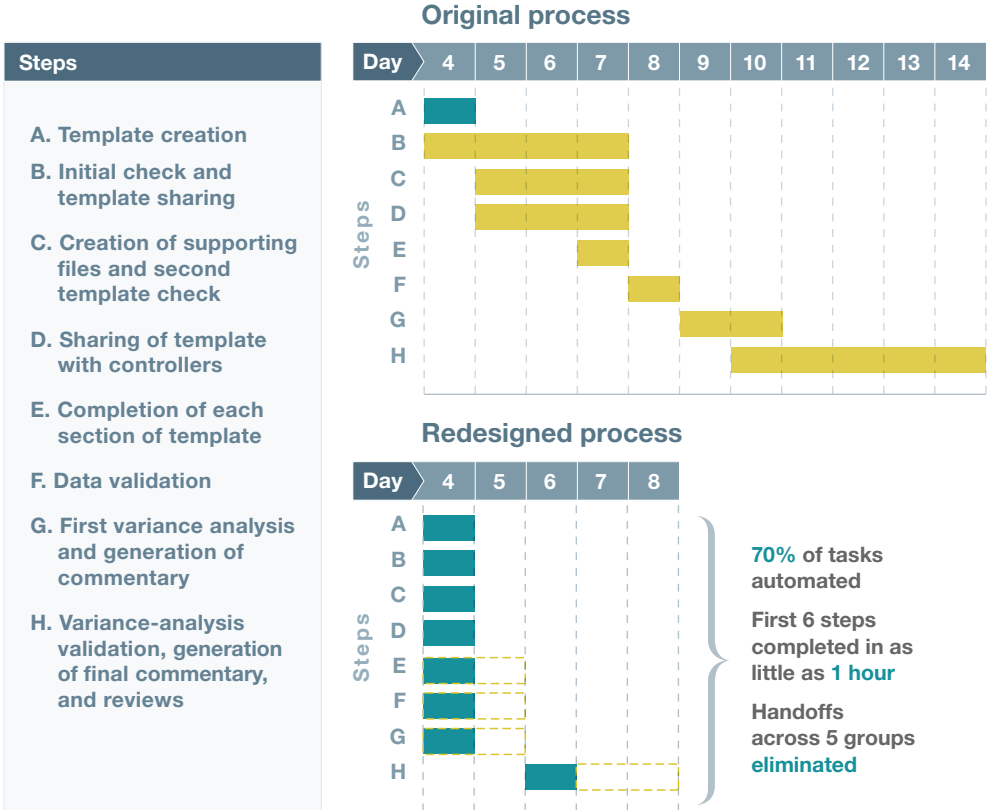
One of the biggest risks of automation is demotivating or frightening the people your organization must mobilize to compete effectively. Some of

Reimagining how processes work can make automation a game changer.

Disguised example of global financial institution, regulatory reporting

■ Automated step   ■ Manual step   ⬚ Manual adjustment (1–2 days)

Original process

Steps		Day	4	5	6	7	8	9	10	11	12	13	14
A. Template creation	A													
B. Initial check and template sharing	B													
C. Creation of supporting files and second template check	C													
D. Sharing of template with controllers	D													
E. Completion of each section of template	E													
F. Data validation	F													
G. First variance analysis and generation of commentary	G													
H. Variance-analysis validation, generation of final commentary, and reviews	H													

Redesigned process

Day	4	5	6	7	8	
A						**70%** of tasks automated
B						
C						First 6 steps completed in as little as **1 hour**
D						
E						
F						Handoffs across 5 groups **eliminated**
G						
H						

the fears are misplaced: humans are needed to build bots and to "teach" artificial-intelligence platforms how to perform their tasks, some of which will always require the active involvement of humans. Critically important social, emotional, and creative capabilities, for example, are difficult to automate. Bots can't persuade a leader to run a business unit in a different way or design a new human-resources strategy with millennials in mind.

But automation, if implemented effectively, will inevitably lead to changes in organizational structures, to redefined roles—and, sometimes, to redundancies. There's no point in pretending these realities don't exist

or trying to hide an automation program behind closed doors. Honesty and transparency are critical. So is a commitment from top management to pursue, as part of any automation effort, initiatives that will benefit employees by eliminating routine work they don't enjoy, creating opportunities for them to acquire new and increasingly important technical skills, and using the proceeds of automation to fund roles that support the business in exciting new ways. Finally, it's imperative to be open, from the outset, about how you will treat employees who no longer have a role in the organization.

None of this is easy, but the alternative—being caught flat footed as competitors gain an edge through automation—is a risk that's not worth taking. Automation at its best can help companies to uncover entirely new ways of executing traditional processes and radically new possibilities for operating more quickly, efficiently, and effectively. That makes automation a strategic imperative for G&A functions. The top-quartile companies of tomorrow will be the companies that start the journey today. ⓠ

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Another take on automation

"The effective use of automation requires the transformation of processes, changing what people do."

For more, see the full McKinsey Global Institute report, *A future that works: Automation, employment, and productivity*, on McKinsey.com.