How Shifting Operating Models Can Help Transform Key Functions and Manage Risk

By Andrew Swanson and Patrick Brennan

The board's role is often to help leadership manage risk throughout the organization, and that task has become more difficult amid challenging economic conditions. Understandably, board members are generally risk-averse, but today, organizations need to be more aggressive in driving change to stay competitive.

A company's internal service functions can provide some low-hanging fruit—with opportunities to limit risk, scale resources up and down based on market and business conditions, and even better, manage costs. Boards are looking for answers, and in many cases, those answers come by taking a fresh look at internal operations and by leveraging external knowledge and insight.

Assessing Operational Value

Before making any specific changes, boards should call on leadership to evaluate personnel coverage and identify whether any changes are expected and where current and future gaps may exist. Internal business functions should be evaluated based on the operational value that they provide the organization.

When operational strategies are discussed, cost savings is commonly one of the driving forces, but it should not be the only consideration. Establishing stronger risk mitigation capabilities and gaining access to talent, skills, and technology that might have been previously unattainable should also be at the top of the list, because those can directly improve the ongoing health of the organization. In addition, running too lean can hurt the organization's ability to effectively compete. Organizations need to balance cost optimization with a view toward risk and future sustainability. Three delivery model options can help leadership teams get there.

Depending on the needs of the organization, business functions can be managed through a combination of shared services, co-sourcing, or managed services strategies. Any evaluation of how each model might fit the business should be based on factors such as cost, responsibility, and control, coupled with the ability to allow the function to add operational value and limit risk.

Shared services models allow companies have maximum control and responsibility because they rely on existing internal personnel. This strategy also involves the highest cost due to internal hiring and technology purchases, as well as higher risks due to turnover and related knowledge transfers.

Co-sourcing is a hybrid approach with external resources augmenting internal manpower. The operating model provides considerable flexibility along with moderate cost reduction because a portion of the personnel are not full-time employees.

Managed services arrangements feature minimum control and responsibility, with an entire function maintained by an external provider. Managed services provide considerable flexibility in the operating model, with the ability to flex up and down based on business and economic conditions and access to skilled resources when necessary. This option carries the lowest cost and lowest risk because the responsibilities for technology adoption and hiring are taken on by the provider.

Co-sourcing and managed services are commonly associated with enhancing capabilities within information technology (IT) departments. However, they may expand to other key business areas, including tax, finance, accounting, and human resources.

There is no one-size-fits-all solution, and in many cases, the optimal platform is likely a combination of all three models. Bringing in a qualified managed services provider doesn't increase risk, and instead can insulate the company against several key risks. Managed services enable a more proactive stance against risks, and boards should encourage leadership to consider adopting the strategy to some extent.

Exploring Managed Services

Managed services provide companies access to experienced talent with high-demand skill sets without the accompanying high salaries and benefits that full-time employees require. Providers can tackle crucial business functions that are outside the organization's primary focus, or give the company additional resources and a vast knowledge base that goes beyond your immediate employees. Whether you're expecting the leadership team to outsource, say, financial accounting, or to have an outside party handle the company's IT needs, a good provider can solve problems that have long been hindering the organization. They may also resolve issues that you didn't even know you had.


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