Redesign Functions to be Integrators

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Gregory Kesler
Amy Kates

Functions (including HR, finance, IT, legal, marketing, and supply chain) can serve as the mortar that holds the building blocks of a closely related portfolio of businesses together. The HR organization integrates the operating units by delivering common approaches to selecting people, by creating alignment with the right rewards systems, and by stewarding leadership talent as a company-wide asset that can be redeployed across businesses. Finance creates integration by driving common measurement systems, setting financial targets, and helping ensure that capital moves to the right opportunities in the portfolio. Corporate IT, legal, and supply chain functions all play similar roles in holding the separate organizational building blocks together. The more there is opportunity to gain benefits from synergy between business units, the greater the opportunity for functions to serve as integrators.

The "Problem with Corporate"

Today's corporate-center functions often struggle to define the distinct value they add to the growth agenda for the business. In many companies, corporate staffs suffer identity crises, and the top talent is drawn to big jobs in the operating units rather than to roles in the center. For example, division presidents often love their own HR partners but rate the competence of the overall function consistently low, and are constantly battling to reduce allocated costs from the center. Conflicts over roles and decision rights become commonplace, staffers are frustrated with their ability to have impact, and successive rounds of cost reduction continue to reduce capability indiscriminately. This dynamic repeats itself between the corporate level and the divisions and from the division or regional level down to the local units.

Companies that make the most progress in designing effective finance, HR, and IT functions create tight focus on how and where work is generated. They view the functions not just as compliance or service entities but as important information conduits and horizontal integrators. The ability of the functions to bring the right information forward enables better business decision making.

These companies have taken up the challenge to design the function from "end to end." This means examining all activity and resources in the function at the center, across geographies, and across business units as a collective in order to reconsider the overall cost and impact the function has on the business. The challenge starts with visibility. In many organizations it is difficult even to pull up headcount figures for a function such as finance around the world.

In end-to-end function design, the value framework is converted into a delivery model and then an organization structure. The "center" and the "field" are designed as one integrated capability, with separate but linked roles to play. The human resources organization is a good example to illustrate the benefits of an end-to-end view of function design, but this analysis applies to any support function. In the traditional approach, "global" responsibility is assigned to the center, which manages an overarching HR strategy and a well-defined set of corporate HR activities and resources for the greater interest of the enterprise. In this model, the regional and business HR teams are closely aligned with the business leaders. Their costs are budgeted by the businesses, and they have considerable leeway in practices and in staffing their own functions. In many companies, they customize corporate initiatives to fit local needs. This popular model has served to create an effective “strategic business partner.” Business leaders with a competent partner are generally satisfied with their local support. However, the model misses the opportunity to leverage the function as an integrative device for the enterprise. Typically, one finds:

Limited consistency in core HR processes, deliverables, and impact on the business.

Wide variation in HR skills and talent

Higher total HR costs, due to proliferation of functional resources and often redundancy across units

Limited information and best practice sharing or talent movement across the operating units

The end-to-end model, in contrast, establishes global HR responsibility for the entire function. Local HR resources usually continue to report to business leaders, but with strong accountability back to the center or with matrix reporting. The result is lower overall cost—though costs in the center go up—and a consistent approach to core practices. Perhaps more important, the potential to automate services is substantially better; and with redesigned processes, service delivery can be greatly improved across the company.

Of course, as with any structure, there are trade-offs. In the end-to-end model, the risk is lack of responsiveness from the center. As power is shifted to the center with the mandate to integrate and create consistency where variation doesn’t add value, the center tends to dictate. Rather than enabling the business units, the center becomes a bottleneck, slowing decision making and constraining ideas and innovation. The cause of this predictable and negative consequence of shifting power is a lack of clarity regarding the role of the center. Merely defining a split between center and field is too simplistic. In fact, the “center” does not have to refer to work and people who sit in the corporate offices at all. Companies are becoming more creative about leaving centers of know-how out in the geographies, where they remain close to the businesses, customers, and employees. This helps reframe the centralized versus decentralized controversy into a more useful discussion.

The center plays three distinct roles in a function. When articulated clearly and then staffed appropriately, the center becomes an enabler of strategy rather than the ill-regarded overhead it has too often become.

The Value Delivery Framework for the Corporate Center

The center-led portion of a function can be designed around a three-box value delivery framework that helps ensure the best integration benefits. The three distinct roles in the framework are

1. Function oversight and strategy
2. Thought leadership
3. Selected services

All support-function work should fit into one of the three buckets and should meet the “rules” that accompany that work. Work that does not fit into one of the three is a candidate for elimination. Figure 10.1 summarizes these roles and rules.

Figure 10.1 Value-Delivery Framework for Functions in the Corporate Center

	Function Oversight and Strategy	Thought Leadership	Selected Services
Key Activities	• Strategy, policy • Global standards, stewardship of key priorities in the strategy • Fiduciary controls	• Center of expertise • Best practices and measurement • Develop priority capabilities • Consultants to divisions	• Guide optimal service solutions (central, field-based, virtual, outsourced) • Execute all service commitments
Rationale	• Basis of global strategy and approach to growth • Common process • Economies of scale	• Expertise that is difficult or expensive to replicate • Best ideas attract division users • Ensure focus on most critical capabilities • Help build one culture	• Selective basis only: Supporting global brands, customers, projects Substantial economies available • Best alternative sought: central, field-based, outsourced
"Rule"	Mandatory	By request	Mandatory participation once agreed to with divisions

Function Oversight and Strategy

This is the work of the top functional executive and a small group of team members. It is policy work and requires a level of authority to achieve compliance, where necessary, suited to the governance model of the corporation. This role of the function is to create strategies that solve vexing problems. In finance, these might be how the company will manage debt and equity, manage currency fluctuations, or fund strategic initiatives. In human resources, it means how to source and reward the right talent, shape culture, develop future leaders, and manage employment costs. The outputs should be few and robust, linked to the business model of the company, and appropriate to its size and geographic complexity.

The oversight role is most effective when focused on creating the criteria and algorithms for decisions and educating the business units on how to make good strategic choices. Too often, the oversight role is defined as making and signing off on decisions. This only serves to disempower the business unit, obfuscate accountability, and slow the speed of decision making.

The "rule" here is straightforward: policy, fiduciary requirements, and high-level strategy are treated as "mandatory," but only around a quite small list of items.

Thought Leadership

Thought leadership work is focused on building capabilities. The key here is to be very selective about subject matter focus, and then to staff with high-powered players who will bring the best ideas to the business. This is the work of the "few and the fabulous," argues Cynthia McCague, Coke's former HR officer. These are not service delivery people; they are too few in number to get involved deeply in hands-on initiatives. They build capabilities the business units need in order to execute their strategies. At the corporate level, these must be capabilities that fit most or all of the businesses in the portfolio. Nancy Tennant Snyder, vice president of leadership and strategic competency development at Whirlpool, has focused her efforts on making Whirlpool the most innovative appliance company in the world, and after nearly ten years of sustained effort, Whirlpool is just that, with tangible new product results across all categories. Snyder's team's focus was on building skills, practices, and a culture deep inside the divisions

The deliverables from thought leaders are programs, best practices, new processes, consulting, and training to others to carry out the practices. They provide critical know-how and insights to the policymakers. Snyder argues that these teams should start small and build on quick wins with sustained focus over time. Interestingly, Snyder reports directly to the CEO, not within human resources.

The scope of these teams depends on the nature of the company's overall structure. In companies with closely related operating divisions, like Whirlpool or P&G, there are obvious points of shared capability across the units. Thought leadership functions are more difficult roles to establish in holding companies, where the interests are more diffused and the operating governance is more of a confederacy. This is part of what distinguishes GE from typical holding companies. Its ambition is to manage key talent and capital from the center—to integrate by driving managerial competence, a common culture, and best practice across its businesses.

Often, these smart people hired into the center begin to see their role as making policy, ruling on decisions, reviewing the work of the local staff, and rolling out new procedures and programs. The conflict is exacerbated when individual staff members are asked to play both a policy oversight role and a thought leadership role, and can't or don't articulate which hat they are wearing when interacting with their colleagues in the field. Where possible, oversight and thought leadership roles should be separated. The business units should also be empowered to challenge the thought leaders when they begin to stray into oversight roles, and dictate rather than enable.

The governance rule here is "optional." Business units may refuse these deliverables, but the key is to make the ideas so compelling that internal customers will be pulled to them because they are the best solutions available to solve the company's business problems.

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Selected Services

The business case for shared services is usually based on efficiency and cost. Work is brought together, standardized, and managed through a single point of accountability. Shared services can also serve an integrative function. Innovation requires ideas, freedom, and creativity. Paradoxically, it also thrives when there is a common base of organizational infrastructure that enables people from different disciplines and parts of an organization to work together seamlessly. Common communication systems, pay and reward practices, and reporting conventions all facilitate the flow of information, resources, and ideas across organizational boundaries. Shared services that create common infrastructure can facilitate this integration.

The key in shared services is to be “selective.” Shared services organizations have made their way across the continents promising consolidation, automation, low-cost labor, and outsourced solutions. Sometimes they work out as planned. Often they don’t.

The rule here is “mandatory participation once the businesses have signed on” to the business case. This makes it critical to get the service contract right. There are real efficiency gains to be realized from service teams located in logical geographic clusters that can service multiple business units, supported by technology. These organizations need solid business cases, reviewed in detail and endorsed by the business leaders, with payoffs that can be measured. Service contracts must be laid out in detail, committing the service delivery units to specific targets, such as cycle time, throughput, customer satisfaction, and cost per transaction.

Center-Led Versus Centralized

Once there is a clear, contracted understanding around the value delivery framework, the options for organization structure are numerous. The HR chief in a well-known multinational company challenged design teams to avoid locating thought leadership work in the headquarters. Instead, teams completed an exhaustive inventory of internal best practices around the world. They discovered that Europe ran the best general management education programs, Latin America had seated the best practice for performance management, and the United States had implemented the most effective talent review process.

Regional practices had to be scaled up to serve as the “center” for this work. We find that distributing work in this way increases ownership on the part of the business leaders. No longer is headquarters synonymous with the center of all good ideas. Resources can remain colocated in the geographies, which further reduces tension between the corporate function and the businesses served, and generates a much larger pool of talent from which to recruit.

The example underscores an important idea that reframes the centralized versus decentralized paradigm. *To centralize an activity is to bring control over it; to make an activity “center-led” is to bring integration to it.* The center may be a function in the headquarters, or it may be an effort by separate work centers to tie their work to a single strategy or a set of standards. For most companies today, the challenges are too complex for leaders to adhere to simple notions of centralized versus decentralized organization.

About the Authors

Gregory Kesler consults with corporations in organization design, executive talent management, and human resource planning. He has led whole-company redesign projects and has developed and implemented succession planning practices and executive assessment at global companies.

Greg is the author of numerous articles and book chapters, including "New Thinking from Drucker's Legacy: Design Your Governance Model to Make the Matrix Work" (*People & Strategy,* Winter 2010) and "Using a Reorganization to Test and Grow High-Potential Leaders" (in *Leadership Development*, Pfeiffer, 2009). His article on HR transformation received the Walker Prize from the HR Planning Society. Greg is also an editor of the journal *People & Strategy.*

Before beginning his consulting career, Greg held senior HR management positions in the United States and Europe for three Fortune 200 companies. At Pitney Bowes, he served as vice president of human resources for North America.

Greg can be reached at greg@kateskesler.com and at 203.761.7771

Amy Kates works with leaders and their teams to assess organizational issues, reshape structures and processes, and build depth of management capability. In addition to her consulting work, she teaches organization design in the Executive MBA program at the Executive School of Business in Denmark and through and Cornell University. Amy is also an editor of the journal *People & Strategy.*

Amy is a coauthor, with Jay Galbraith, of the book *Designing Your Organization: Using the Star Model to Solve Five Critical Design Challenges* (Jossey-Bass, 2007) and, with Jay Galbraith and Diane Downey, of the book *Designing Dynamic Organizations: A Hands-On Guide for Leaders at All Levels* (Amacom, 2002). She has published numerous articles and book chapters on the topics of organization design and talent management, including "The Challenges of General Manager Transitions" (in *Filling the Management Pipeline*) and "Matrix Structures and Virtual Collaboration" (in *The Handbook of High Performance Virtual Teams*).

Amy can be reached at amy@kateskesler.com and at 212.349.3522

The authors can also be reached through www.kateskeslar.com