

Designing an Integrated HR Function: What the CHRO Needs to Know

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One of the most important decisions a CHRO makes is how to design the HR function. The design of the organization – structure, power, roles, decision processes, reward systems, and staffing profiles – sets the framework for what work gets done, how well the work is executed, and the satisfaction for both clients and HR staff of working with and in the function.

As strategies change, organization designs change.ⁱ Leaders are always adjusting the shape of their organizations in response to their specific context. However, a number of broad trends, across industries, are influencing how HR leaders are configuring their functions. These include changes in business models that are forcing a more globally integrated HR function and rising expectations that the function can provide both higher order decision support along with flawless process and transaction execution. HR leaders are finding that the widely-used Business Partner/Center of Excellence structure is inadequate to respond to these trends. After discussing these factors, we provide some observations regarding how CHROs are responding in the design of their HR functions.

Factors forcing changes in the design of the HR function

Changing business models

Today's corporate business models are modern implementations of some old concepts such as matrix and synergy. Previously, companies preferred to implement autonomous profit center models. If the company sold business-to-business, it used autonomous business units. If it was sold business-to-consumer, it used regions and countries as profit centers. These models continue to exist, but increasingly more companies are returning to matrix designs. Still other Western companies are learning to master synergies in order to offer solutions and leverage intellectual property.

Many companies are rediscovering the performance benefits of the matrix organization. They have replaced the myth that "Matrix doesn't work" with the question of, "How do I make a matrix work?" The recessions of 2001 and 2009 have shown the defects of the autonomous P+L model. Whether business units or countries, the autonomous P+L model leads to duplication and silos, which lock up talent. The benefits of strong functions are that they reduce duplication and share talent across P+Ls. So those companies that have performed well in the recessions are

those that have mastered the function-profit center matrix. Their profit centers have delivered new products and services while their functions have reduced costs and shared talent. The benefit of the matrix is good business performance and functional excellence.

Once a company has mastered the two-dimensional matrix of functions and P+Ls, it encounters a higher performance bar. Nestlé and Philips are now implementing three-dimensional matrix designs consisting of countries, business units and functions. The graduates of the 3D matrix can then try organizations like Procter & Gamble's Four Pillar structure by adding a customer dimension. IBM has gone even farther in creating multi-dimensional designs, which include customer segments, channels, solutions and so on. Indeed these companies are seeing real advantages by getting good performance on all dimensions. However, the good performance comes at a price of organizational complexity. Herein lies a role for HR. Most managers have not experienced this level of complexity. Most HR departments are increasing their competence levels in organization design and development. They are helping management design and manage in this new multi-dimensional matrix environment.

The other trend is to introduce synergies across businesses. Western companies are experiencing competitive threats from companies in emerging markets. These emerging market companies are introducing lower cost products for their own countries that are being embraced by developed countries as well. So as products commoditize, Western companies are combining products into customized solutions and leveraging intellectual property across business units. IBM is the best example of a solutions provider while Disney provides the model for leverage. If the portfolios of business units for these two companies were examined, we would call them conglomerates. Yet both are able to combine disparate businesses to create value for customers and shareholders.

The portfolio of IBM consists of semi-conductor components, hardware products, software products, high technology services, business consulting, IT solutions, and financial services. Clearly IBM's portfolio qualifies it as a conglomerate. Yet all of these products and services are combined into solutions under their Smart Planet initiative. The products and services are combined into smart traffic systems for the city of London, smart electric grids for the island of Malta, and smart food chains from "farm to fork" for Norway. Just as the products and services must work together in a smart solution, so must IBM's business units work together to create the solutions. How do they do it? First, they have units for customer segments. These units have the responsibility to combine products and services and customize them for their customer segment or industry. Second, IBM has designed a system of human capital that creates a collaborative environment. People are both selected and self-select; they are promoted, rewarded and developed in programs that foster synergies across businesses. The HR department is a key player in creating the solutions capability.

Disney is the champion of the intellectual property leverage model. Starting with Disney characters such as Mickey Mouse, Snow White and Pinocchio, the company has learned to use all of its businesses to offer products based on these characters. The most recent success story using the model is Hannah Montana. Starting as a half-hour program on the Disney channel, Hannah Montana's popularity spread to novelettes and magazines through Disney Publishing and albums and songs through Disney Music and iTunes. Disney Consumer Products has

licensed Hannah Montana to all types of apparel and teen product manufacturers. In the 2007 Christmas season, Hannah Montana was the largest selling product line at Macy's. These successes have been followed by a full-length film for theaters and DVDs, a yearlong concert tour, and now an ice show. Disney Stores will feature Hannah Montana promotions designed to sell books, albums, merchandise, DVDs, concert tickets and other Hannah Montana memorabilia. Disney is currently planning an interactive theme park attraction at Disney World. Indeed a business unit at Disney would be under pressure to show why it is not profiting from the popularity of Hannah Montana.

How does Disney successfully execute cross-business unit synergies when synergy has proved to be so elusive elsewhere? The answer is that the company has designed an organization specifically to create synergy across all of its businesses. Originally there was a Synergy Group run by a VP who reported directly to the CEO. After a while, it was disbanded and responsibility was moved to the business group level in a Marketing and Synergy department. Each business unit is expected to produce business ideas that are profitable and can be leveraged by other Disney businesses. These ideas are gathered, funded and reviewed in the annual planning process. The plans are presented to the top 100 executives in a gathering of the "Cast of 100." Everyone is supposed to know what is going on in all of the businesses. The HR practices are to build and reinforce the synergy capability. People are selected and removed based on their ability to generate and implement leveragable ideas. The compensation system rewards these people as well. The high potentials all go through a two-week Synergy Boot Camp. So the strategy, structure, processes and HR human capital system are all aligned around creating value through synergy.

Fashion houses like Armani and Ralph Lauren also use the leverage model. Apparel maker VF Corporation and shoe retailer Collective Brands are perfecting their versions of the model. Intel and Qualcomm both strategically leverage their microprocessor architectures to deliver superior organizational and economic performance. Whether it is characters, brands, design capabilities or technologies, all of these companies are learning to leverage their intellectual property across their business units.

Today's business models require a human resource function able to build the collaboration that support the matrix and synergy-driven organizations through the capabilities of organization design and human capital creation.

Requirements for Higher Order Decision Support

The outward manifestation of HR's response to these business model changes, are structural designs that affect where work is done, and how the roles of HR leaders are combined, as we will discuss below. However, these structural design elements need to place decisions and decision support where they are most vital, and to ensure high-quality talent and human capital decisions wherever they are made.ⁱⁱ Vital talent decisions are usually not made solely by HR professionals, whatever their role. Decisions about talent deployment, talent implications of mergers and

acquisitions, talent reductions and additions, etc., are significantly influenced or made by line leaders outside the HR function. One reason for frustration with current HR designs is that the best decision framework, or the most informed and qualified HR decision expert may not be in place when vital decisions are made. While HR processes, HR costs, and the roles of HR leaders get a great deal of attention in HR design, decision support is often at the heart of the problems they are solving.

For example, a core premise of an effective decision science in areas such as Finance, Marketing and Operations is to provide frameworks that are consistent whether decisions are made at corporate, unit or functional levels. Examples include “net present value,” “customer segmentation,” and “logistical optimization.” Business units do not reinvent “net present value” or “logistics optimization,” to suit their particular preferences.

An important future goal of HR organizational designs is to maximize the quality of decisions, not just HR practices or costs. Thus, HR leaders often wrestle with competing frameworks for common problems such performance evaluation, optimized talent acquisition systems, measuring and evaluating incentive compensation systems, and identifying and deploying talent across the organization. Traditional HR designs, relying solely on strictly-delineated roles such as business partner, CoE, and operations leaders, often produce divergent frameworks across business units or functions that may have little resemblance to each other, or to those supported by the CoE.

IBM, for example, realized in 2003 that their system for identifying and deploying global talent needed a better language. Decisions about talent deployments often happened only when IBM’s HR or business leaders happened to know each other, and could “translate” the capabilities resident in one unit, against the needs of another unit. The solution required a common language for employee capabilities, consisting of about 300 “role descriptions.” The supporting HR design elements included building a small team of language governance leaders, who double-hatted in high-level HR functional roles as well as support for key business units and functions.ⁱⁱⁱ

HR functional design is often driven questions of cost and process, but the core dilemmas often are more fundamental questions about the talent decision frameworks that will be used, and the type and quality of the decision support the design will create.

How CHRO’s are responding

The Business Partner/Center of Excellence model, which became popular in the 1990s, features three components. Business Partners (BPs) are aligned to the major operating units of the firm, in a hierarchy of generalist support from mid-level managers to senior leaders. BPs manage the HR relationship, serve as the main point of contact for their clients, and diagnose and provide solutions across a broad spectrum of client needs. The Centers of Excellence (CoEs) are typically small groups developing enterprise policies and programs and providing support to the BPs in the form of tools, advice, and highly specialized expertise. The third element of the model is a Shared Service, either in-house or outsourced, to process transactions and address individual

employee questions and needs. ERP systems provide a platform for manager and employee self-service and data management in the function.

Many HR leaders have fully implemented this model with sound processes, clarity around roles and responsibilities, and talented staff. Nevertheless, many are frustrated by a number of flaws inherent in this model:

1. Resources are not flexible. They are locked up in the business units or geographies. Everyone is busy but HR leadership is not clear if everyone is doing the highest impact work. Rather than facilitating the matrix or synergy business model, by aligning to the business units HR exacerbates the fragmentation of the business.
2. HR planning is often a roll-up from the business units or geographies. HR staff is overwhelmed; clients are happy with their business partner but wonder what the HR budget is being spent on.
3. Resources are allocated by number of employees or current revenue, not differentiated by business unit need. Start-ups, innovations, emerging markets are under-attended.
4. Frustration between the business partners and the COEs – who works for whom? An “us” and “them” friction between the center and the field. Frustrated by slow response time from the center, the Business Partners recreate talent models and programs, diverging in the language and frameworks used across business units. Information is hoarded and the opportunity to impact high value decisions is lost.

As businesses try to get more out of their portfolios, the CHRO is under pressure to create a function that can help to integrate the business units. As a result, the HR function needs to be ahead of the business in this regard. Along with IT, Finance, Marketing, Supply Chain and other functions, HR needs to foster commonality where variability in work, process, or policy only adds cost and creates conflict. The BP/CoE model presumes that HR mirrors the business in order to create alignment. However, this tends to create a support function that mirrors the fragmentation of the business, rather than serve as the glue that helps connect the operating units closer together.

CHROs are responding by converting the traditional hierarchies of generalists into deployment teams, managing the intake process and limiting who contract for work, and using rotations and dual hat positions to link the HR leadership team more tightly together. Each is discussed below.

Deployment teams, rather than generalists

In the typical BP/CoE model generalists are renamed business partners and told to focus on “strategic” high-value work. They are promised that all “transactional” and low-value work will migrate to shared services or self-service. Unfortunately, no matter how robust the shared service center, there remains a whole body of work that doesn’t go away – projects, process execution, high value transactions – and which neither the newly rebranded business partners, nor the experts in the COEs see any longer as falling within their role.

This work, the ownership of which is the source of much friction in HR organizations today, needs a new role for execution. We see this new role variously called operational executors^{iv}, deployment teams, delivery teams, field services, or solutions centers^v. In order to create this capability without adding headcount requires a change in the BP structure.

CHROs are creating a thin layer of strategic business partners aligned to top business executives. Rather than a hierarchy of generalists underneath these business partners, however, the new models have teams of specialists – talent, organization development, compensation, learning, employee relations, etc. – that can be deployed against business needs as they arise and across business unit boundaries.

These deployment teams are not a pool. They most often spend the majority of their time working together supporting the same operating unit. This allows the staff on the teams to maintain knowledge and relationships with the business and HR colleagues. The big idea, however, is that while they may work with and be managed by an HRBP, do not “belong” solely to one operating unit. Rather, conceptually they are the “property” of the HR function and can be redeployed as the need arises. For example, they can be marshaled to assist with an acquisition, roll-out of a new program, or the opening of a new facility.

In addition to flexibility, the deployment teams allow individuals and the function to build specialist depth. For example, a team member may support the HR work of the R&D function for 80% of her time. However, she also wears a second hat as a member of the extended Talent Development CoE. She would participate in the talent team’s key meetings, training and learning opportunities, and become highly competent using the company’s talent tools and methodology. Her talent role will be activated when she serves as the point person for the annual talent review process in R&D. She may also support the talent review process for another function. Further, when there is an acquisition during the year in one of the business units, she assists with getting talent assessments completed quickly.

These specialist roles rotate so that the team members experience a series of deep learning and application working across a variety of business situations and with expert colleagues from the CoEs. Rather than a model that perpetuates a cadre of low skill generalists that serve mid-level managers and execute perhaps less than critical work, this more focused career path providing variety, depth, and exposure to senior members of the HR team, while ensuring the most important priorities of the function are met.

Intake process

In order to ensure that the deployment team members are focused on the right work, the intake process must be redefined so that only the true Business Partners and the CoE leaders can contract with the business for work. Therefore, generalists can no longer agree to facilitate meetings or conduct 360-degree assessments, or source training solutions for employee populations that may not fit into the strategic human capital plan.

Of course, deployment team members continue to interact with employees, answer questions, and may even serve a point person for mid-level managers. The difference in this model is that the deployment team members cannot commit the resources of the organization. The benefit of limiting the intake process to a higher level is that it focuses resources on the highest priorities and forces the HR leadership team to work together to set, monitor, and adjust the plan and manage the resources of the organization holistically.

Integration of the HR leadership team

A highly integrated HR function, just like any business unit, requires a high performing leadership team. The team must see its role not as a collection of functional experts or representatives of a business unit but as an enterprise leadership team. Metrics and rewards have to be set to ensure interdependence. The definition of success for one must be dependent on success for all. In addition to rewards, the team needs a vigorous planning and priority setting process. They need to know the skills resident in the HR organization in order to make smart decisions about allocation of resources. CHROs are finding that a powerful way to integrate the HR team is through rotations between Business Partner and Center of Excellence roles. This helps to break down “we/they” perspectives and build a more general management perspective. For small HR teams, or those where forcing an enterprise view is critical, some CHROs have found that dual hat roles are effective. Members of the HR leadership team each serve as a BP for a business unit or function as well as leading a COE team. Broadening positions in this way also helps to elevate the performance of the next level of HR staff. Leaders with such a wide span of control are unlikely to micro-manage.

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Organization design has become an important part of the HR service offering to the business. The CHRO has an opportunity, with the design of the HR function, to demonstrate the power of alignment among strategy, structure, process, rewards, and talent to support business models that require highly integrated decision making across organizational boundaries.

ⁱ Galbraith, *Designing Organizations*

ⁱⁱ Boudreau & Ramstad, *Beyond HR*

ⁱⁱⁱ Boudreau, IBM's Global Workforce Initiative

^{iv} Ulrich, *Human Resource Champions*

^v Kates, *(Re)Designing the HR Organization*