(Re)Designing the HR Organization

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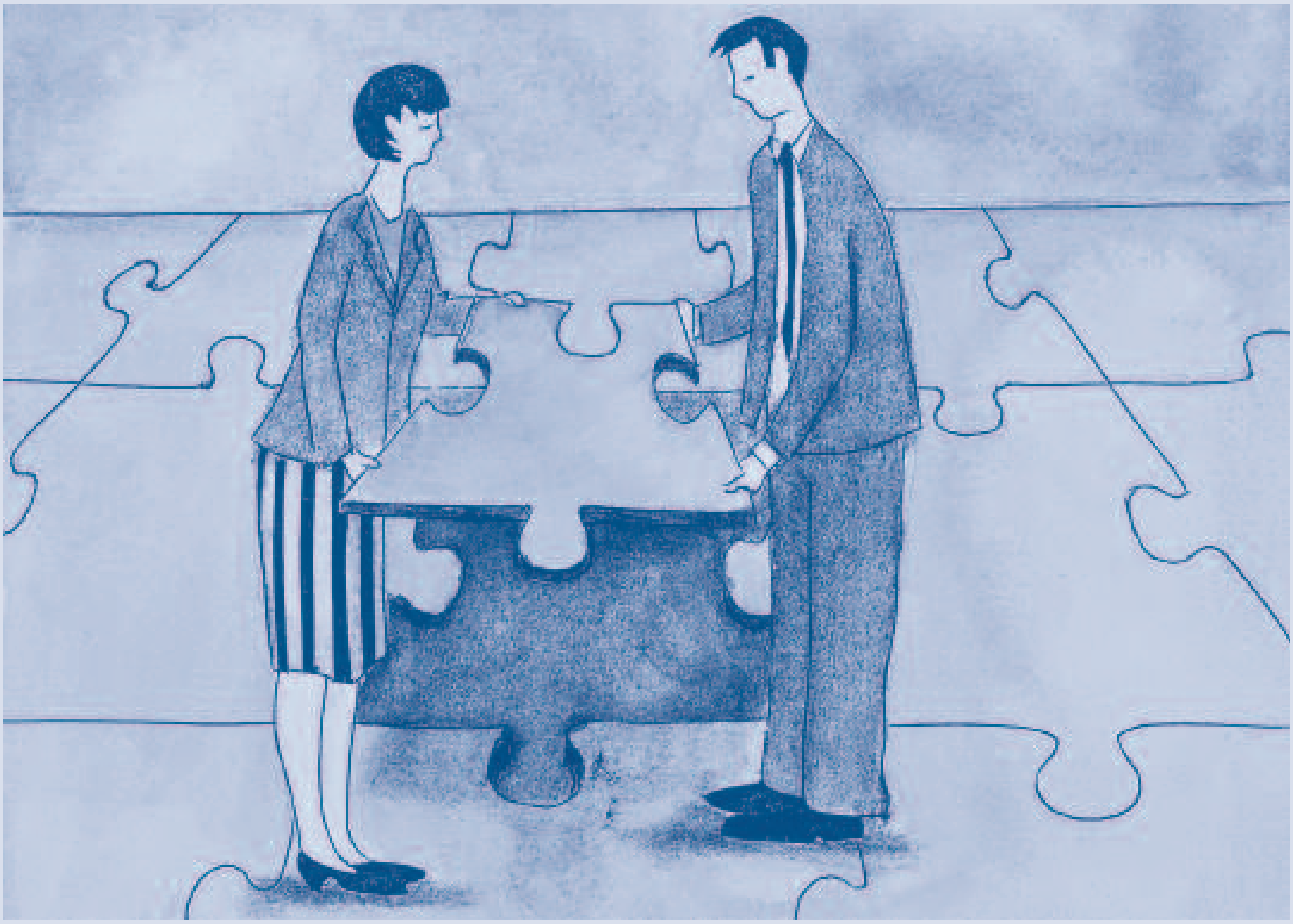

Many HR functions have gone through the process of transformation over the past decade. This redefinition of the work of HR is intended to allow a more strategic focus on talent management and organizational capability while systematizing and controlling the cost of transactional work. Little formal consideration has been given, however, to how these new complex HR organizations should be configured to best achieve these goals. This article highlights the operational challenges created by the most common organization design used by HR departments—the business partner model—and presents an emerging model—the solutions center—that is intended to address these flaws. Each model is described and discussed and a set of considerations for the HR leader is offered in order to maximize the effectiveness of the chosen organization design.

Over the last decade there has been a profound shift in the work of the HR function. The publication in 1997 of David Ulrich's *Human Resource Champions* spurred HR leaders across various industries to realign their organizations in order to undertake "strategic business partner" work. At the same time, a focus on cost-cutting and efficiency aimed at staff functions in general—and at HR in particular—has pushed much HR transactional work into shared services or to outsourced vendors.

For many HR departments, this process of "transformation," as it is popularly called, has been a wrenching experience. It has required rethinking the fundamental role of the HR function and shifting the definition of the HR "customer" from the traditional focus on the employee to an almost total focus on the management ranks. The goal has been to create an organization that can deliver the necessary, daily (but low value-added) transactional work of HR consistently and efficiently while at the same time undertaking complex consulting and project-based work that is intended to further strategic business initiatives.

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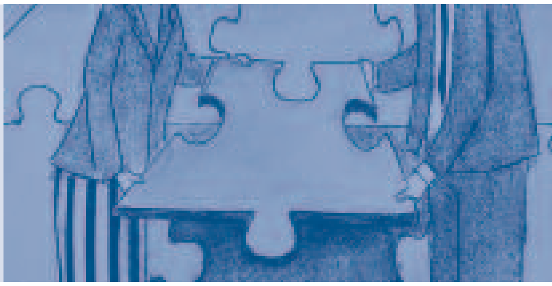


Many companies are still in the midst of this process, and it will be a number of years before we know if these changes will have paid off for the organizations they support. In the meantime, much attention has been paid to redefining the new work of HR. However, although most human resource departments have been through one or more major restructurings in the past 10 years, less consideration has been given to how to best configure these new HR organizations.

This article highlights the challenges created by the most common organization design currently used by HR departments and presents an emerging model that is intended to address these flaws. The article concludes with a set of considerations for the human resource leader in order to make their chosen organization design model more effective.

Why a Focus on Organization Design?

The demands on the human resources function have never been greater. Since 1970, the world's 50 biggest companies have tripled in size, and the number of consumer products introduced each year has increased 16-fold (Useem & Useem, 2005). Many firms have expanded internationally, and even those that have not face new competition from abroad as their products and services rapidly commoditize. As businesses become more complex, so must the HR organizations that support them. The design of the HR department must parallel the many dimensions of the business. If there are multiple products, customers, geographies, or service lines, then HR needs to support them all. As a result, today's HR organizations face many of the same dilemmas as the businesses they work with, such as how to:

1. Build strong functional/product expertise while aligning around customer segments
2. Design in flexibility without adding cost
3. Connect the front and back of the organization and have them work together seamlessly
4. Deliver complex solutions through the formation and dissolution of teams
5. Get the benefits of both centralized infrastructure and decentralized decision-making

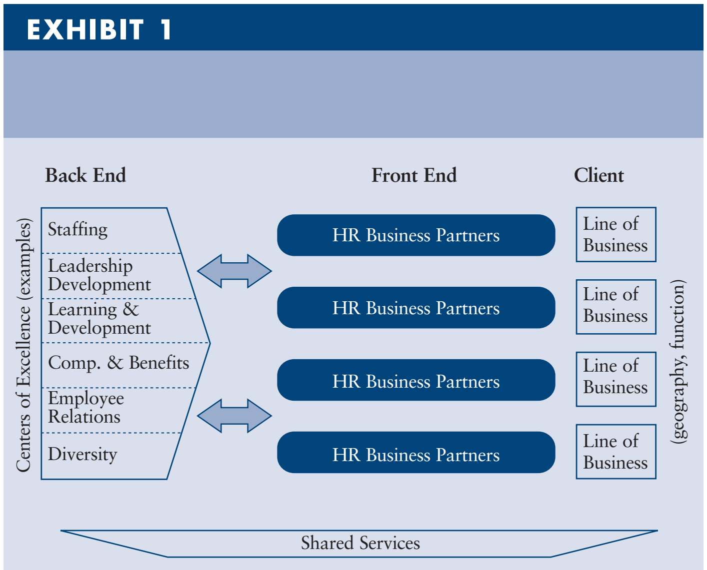
A fundamental principle of organization design is that a change in strategy requires a new set of capabilities and a realignment of the core elements of the organization (Galbraith, 2005). There are some basic choices in design, but it is not easy to say that there are "best practices." The notion of best practice implies that there are configurations that can be copied and applied successfully in a variety of situations. However, the unique combination of strategies, market factors, and the life cycle stage of a given company and its existing capabilities will determine what type of design is appropriate. The HR department cannot guide line managers through the process of managing these organizational challenges if they have not been thoughtful and deliberate about solving these quandaries themselves. For the new HR, organization design has become a core competence, and it must begin at home.

Two Models of HR Design

The shift in the work of the HR function has been brought about by a number of factors. First, the fear of massive systems failures in the run-up to Y2K spurred the installation of enterprise technology systems such as PeopleSoft and SAP. Some organizations used this as an opportunity to take advantage of the improved operational effectiveness promised by these systems and streamlined and systematized routine work. Second, the economic downturn beginning in 2000 exposed many HR organizations as ill-prepared to help businesses through the restructurings, downsizings, and mergers that many experienced during the early part of this decade. Third, HR became an easy target for cost reductions. The halcyon days of the 1990s had seen the adoption of numerous management fads and the blossoming of talent management and work/life programs that were rarely reevaluated once rolled-out. Business leaders began to ask hard questions about outcomes, metrics, and the value of all these programs. Finally, during this time businesses were beginning to outsource repetitive, transactional back-office work, and pushed HR to do the same.

Organization Model #1: Business Partner

The most common organization design employed in reaction to these external changes can be termed the business partner model. It developed in direct response to a fear that the business perceived HR as becoming too centralized and disconnected from the business and too inwardly focused on issues of little importance to managers out in the field. Its hallmark is a close alignment of HR staff to the lines of business.



It has three components as illustrated and described here.

1. *A customer-facing front end.* The staff at the front end are typically called business partners, strategic partners, strategic advisors, client relationship managers, or HR consultants. Most in this role come from a generalist background (in this article, business partner and generalist will be used interchangeably). The role of the business partner is focused on diagnostic, consultative, and organization development work, although it tends to retain a broad scope of responsibility for work in areas like employee relations and staffing as well. This front end is usually quite robust. Typically, each line of business (or region, or function) is given a team of HR business partners, with every manager down to some specified level assigned a dedicated HR person. The rationale is that the business partner is best positioned to truly understand the needs of the business by building relationships and gaining localized business knowledge. In many firms the business partners are matrixed to both the manager they support as well as to a senior HR leader to further this connection to the business.
2. *A product-focused back end.* These are small specialist groups that produce programs and policies and provide decision support. In the model they are usually called practice groups, centers of excellence, or centers of expertise (in this article they are referred to as the COE). The COEs are comprised of some combination of resources in specialized areas such as compensation, benefits, employee relations, learning and development, talent management, staffing, diversity, and workforce planning. In some versions of the model, the COE has enough staff to deliver programs themselves. More often, they depend upon the business partners to roll out the programs they create to the business.
3. *An operational service center.* The creation of the service center is intended to reduce costs and improve quality by systematizing and reducing transactional work. In addition, by taking employee-centered work away from the generalists, it theoretically frees up their time to focus on higher-value, management-focused work. The service center may be centralized internally, outsourced, or provided through multiple vendors. Its mandate is to process transactions, administer payroll and benefits, answer queries, resolve low-intensity employee relations issues, and generate data. The service center concept was made possible not only by the availability of enterprise technology systems but by a philosophical shift that employees can and should take care of many of their own human resource needs through self-service mechanisms.

Each part of the business partner model has a distinct mandate and set of measures. The staff members in each part require different sets of skills for success. From an organization design perspective, it makes sense to separate them into distinct units, as it allows for focus and the development of deep skills. The challenge, then—as in any organization with such disparate parts—is how to pull them back together in the eyes of the customer who perceives HR as one function and expects to receive seamless service, whether it is the resolution of a payroll issue or support for an organizational change project.

The experiences of those who have tried to make the business partner model work show that there are many obstacles to its success.

Determining Who Owns the Client

The most common issue in the business partner model is the tension between the front end—the generalist staff tightly allied to their lines of business—and the back end, which includes the specialized centers of excellence focused on enterprise programs.

Every HR department talks about "one team, one HR," but the reality in many is internecine squabbles over who "owns" the client relationship. Typically, the business partner determines when the centralized specialists should be brought in. From the specialist's view, they are often brought in too late; the assessment has been done, the project scoped, and they can have little impact on the shaping the work. Many specialists complain that they do not work enough with clients directly. The business partner uses them selectively as a shadow resource and coach. They are frustrated that their full capabilities are not utilized, and that they lack the satisfaction of working with clients and seeing projects to completion.

On the other hand, in some companies, when specialists from the COE are brought in too early, the business manager challenges, "Why do we need to have so many HR people in the room?" In many organizations there is conflict over the role of the specialists: whether they are there to serve as an objective consultant into the project or as a full partner with the generalist.

In most organizations employing the business partner model, the HR leader has made clear that the business partner owns the relationship. The intent is that the internal hand-offs should work like a general practitioner model in medicine or a general contractor model in construction. In those models, the generalist manages the relationship, coordinates the work, assembles the team, and refers outside to the best resources when necessary. Perhaps because the difference in skill set between an internist and an oncologist or a general contractor and an electrician is clear, these hand-offs can be made with less of the competition that seems to undermine the working relationships in so many HR organizations. In fact, in HR the best working relationships are often reported between the generalists and the lawyers in employee relations or the specialists in executive compensation. There, the lines of expertise are clear and there is no loss of face for the generalist to bring in a more highly skilled partner. However, when the work touches on organization development, talent and staffing, and working with management teams, the definition of expertise is much more blurred. If generalists are neither doing transactional work, nor filling the role of talent management and organization development specialist in front of their clients, then many may ask, what is left of the job? Are we just project managers, and is that a satisfying role?

Why is the business partner model so difficult for HR organizations to execute? Some attribute it to a fundamental uncertainty. After

10 years, HR's place at the table is not yet secure. Even as the business asks for more help developing and retaining talent and managing complex organizations, HR worries about its contribution. The new HR work has been fairly well defined, but not all HR generalists who were brought up as staffing and employee relations professionals have successfully made the switch to an identity centered on talent management and organization capability. And many are not sure they want to. In addition, the measures of success in the new work are fuzzy. As a result, many generalists focus on becoming indispensable and important in the eyes of their clients, even if it is sometimes at the expense of their colleagues.

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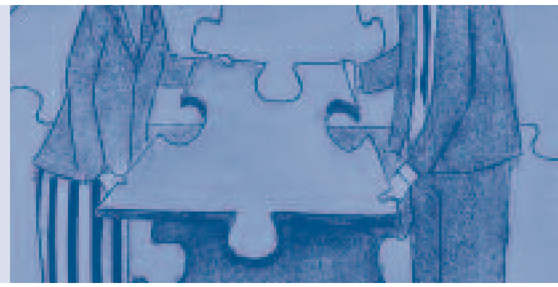


Assembling Teams

A second major issue is that a majority of the staff is dedicated to line of business work. Even if they do not report to the business, the alignment of a large proportion of available resources into the lines of business reduces the ability to move people quickly when opportunities and needs arise elsewhere. The business always can find work and projects for its HR staff, and is reluctant to see them work on projects in other divisions or on enterprise projects, especially when the business is being allocated costs for those HR heads. If the project is high-profile enough, such as an acquisition, resources do get shifted. But it is the smaller projects—with opportunities to transfer learning, provide a stretch development assignment, or just help out and get the work done more quickly—that fall by the wayside.

As the rate of change in business continues to accelerate, there is increased need for an HR organization that can reconfigure itself quickly. As more of the high value work in HR becomes project oriented, the ability to assemble and reassemble teams with the right talent mix quickly will continue to become an essential organizational competence. Unfortunately, a design that locks up a lot of talent on line-of-business-specific initiatives works against flexibility.

Delivering Organization Development Services

Another challenge created by the business partner model is how to best deliver organization development (OD) work. Many HR leaders are finding that, no matter how much lower-level transaction work has been shifted away from the generalists through technology, employee self-service, internal shared services, or outsourcing, there remains a significant load of high-level transactional work. This could include recruiting for a senior-level position, or dealing with a complex or sensitive employee relations issue. Or it could be rolling out a program driven by a regulatory change. The business partners require some slack in their schedule so that they can respond to these needs. Therefore, they cannot be used to provide capacity on OD project work.

Many HR leaders have wavered on how best to deliver organization development services. Is this really the new work of the generalist? If so, how do we deal with skill gaps and capacity issues? Or, should the generalists be supported by a centralized OD group? Or should a centralized OD group lead this work with assistance from the generalists?

Some HR leaders have gone the route of building a centralized OD team, housed in a COE group. The intent is to create a consistent methodology and set of tools, provide an objective view, transfer skills to the HR generalists and serve as their coaches, and at times lead cross-business or enterprise-level OD projects. Typically, a small, highly skilled OD team is formed to partner with the generalists and transfer skills to them by collaborating together on the work. But, as many have found, this seemingly simple set-up—in effect, an internal consulting group—was difficult to make effective. One issue is the tension described here between the business partners in the field and the specialists in the center over roles. In addition, some have found that it is hard to attract highly skilled organization development specialists and keep them motivated if they do not have ownership of projects. In addition, because any one generalist does not see enough projects to build a high level of skill and confidence, the small, centralized OD team is often over-stretched.

After struggling to build the skills of the business partners through this vehicle, some have decided that the money is better spent on buying methodology and high-end expertise from the outside when needed rather than trying to create it internally. They are focusing on building a more consistent, if less ambitious, level of organization development skill among the business partners. For example, after finding that parts of the business are resistant to seeing more than one person in the room from HR, one major financial services company stopped trying to partner internal OD experts with generalists, and let the generalists take the lead. But, then they found that it was too hard to attract strong OD talent if they are not working directly with the client. As a result, they have gone the route of building more front end competence in the generalists and bring in external consultants for complex or specialized projects.

At National City Bank, organization development is also a business partner responsibility, but a centralized group of design specialists, called organizational architects, helps with high-level conceptual design in the lines of business and lead enterprise-level projects. These specialists work at the invitation of line-of-business HR, but also are empowered to "knock on the door" proactively if they see something out of alignment.

At many organizations, success seems to depend on the quality of the personal relationships between the generalists and OD specialists. Although good working relationships and mutual respect are a necessary foundation, it is often insufficient in the absence of a clear process and set of roles and responsibilities. Many HR departments are still struggling to figure out how best to deliver organization development services to their clients.

Balancing the Business and Enterprise Agendas

Another major challenge in the business partner model is getting the right balance between functional, enterprise, and line of business initiatives. Inherent in the design is a separation between the line of business focus and the enterprise focus. The front-end business partners are designed to have a different set of priorities than their counterparts in the centers of excellence. But what should be a healthy tension that stimulates honest debate about priorities and resources too often degenerates into recrimination and conflict.

One tendency is for the generalists to "go native," as one HR leader terms it. Believing that the COE is not focused on the right issues, or frustrated by the wait for resources to attend to the specific needs of their business line, the business partners begin to recreate the capabilities of the specialists. Of course, this is a common problem whenever work is centralized. Everyone agrees with the need for common standards and solutions, but no one in a field organization really wants them to apply to their situation. As another HR leader put it, "a lot of stuff comes from the center in the form of directives. But corporate HR always faces the credibility gap, in that they do not understand the needs of the business. As a result, programs from the center can even be sabotaged. There's a feeling in the field that 'I do not work for you; you work for me.'"

Often the tensions built into the design are exacerbated by how HR initiatives are funded. When the business partners identify a business need, the usual process is for them to broker with the COE to create a solution. If the COE determines that the product could be of use across the enterprise, it begins a process to involve the business partners from the other lines of business in the design. This is a logical approach to ensure that everyone has input into the solution and it meets the needs of the whole company. The catch is that the other lines of business may not have this program high on their priority list, and have little interest in paying for their business partner to sit on a team dedicated to a product that they may not yet need or want.

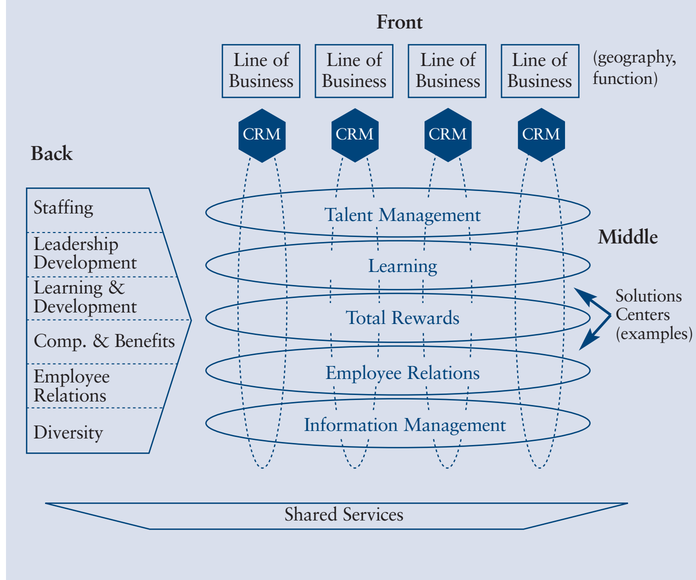
Organization Design Model #2: The Solutions Center

The business partner model can be seen as a successful transitional design. It has served to build much-needed credibility for the HR function through a close alignment to the business managers who are paying the bills. The model has helped to push a generation of generalists toward becoming talent management and organizational development specialists.

For many organizations, the business partner model has not lived up to its promise, and is beginning to outlive its usefulness. Despite all the investment in technology and shared services, many HR departments still have heavy front ends full of junior and senior generalists decked up against layers of managers, undermining the anticipated cost savings. The tensions between the front and back and debates over who owns the customer sap energy and creativity from the work and divert focus. The business partners do not want to be merely brokers of other groups' services. And the centers of excellence are unsatisfied with their supporting-cast role.

The level of alignment to the business in this model has improved customer service for individual line managers, but the case has not been made that more value for the enterprise overall has been created. As one HR leader put it, "Managers love their HR person but are still unhappy with HR. Just like people like their Congressman, but hate Congress." Hence the "Why I Hate HR" article published in *Fast Company* that made the rounds of every HR person's inbox last year (Hammonds, 2005).

EXHIBIT 2



Recently, a next-generation model of the HR organization has emerged that attempts to address some of the flaws of the business partner configuration. It has the same basic shape, with the addition of a new component—a matrixed group of functional specialists that are the delivery engine for the back-end COE and the front-end business partners. At Deutsche Bank, this new group is an integral part of "HR solutions," the delivery capability of HR, and the term nicely captures that the intention of this organization is about integration and flexibility. Essentially, the model turns HR into an internal professional services firm.

If the business partner model is characterized by a robust front end, this model is notable for its robust middle. It is worth examining each component and how it seeks to redress some of the failings of the business partner model.

On the surface, the front end looks like that in the business partner model described previously. The model preserves a dedicated customer-facing team. But there are important differences in terms of the structure and size of these teams.

Structure: Instead of multiple layers of generalists with similar skill sets decked against a hierarchy of managers, these business front-ends are small teams with a mix of skills centered on the work of organization assessment, design and development, and talent management. In some cases, OD specialists are integrated into the team, with the shared reporting relationship intended to remove much of the tension caused by having them sit back in the COE. (For enterprise work, a few OD specialists can be kept in the COE, often as part of the development side of the learning and development unit.)

The front end staff function much more as customer relationship managers (CRM). This CRM no longer manages a team of generalists and junior generalists, and cannot judge her worth by the number of staff she manages. Nor does she have enough direct control over resources to do the job on her own. It is solely an integrative role. As a result, the job depends heavily on strong personal competencies such as influence, relationship building, political savvy, and organizational agility, as much as deep HR knowledge.

Size: The solutions center model has a very light front end: At the extreme, just one person for a whole line of business or function. The size of the team is based on the complexity of the business, not the number of employees or size of the management team. No longer does each manager on an executive team have a dedicated HR person. The small size of the front-end teams is a key attribute of this model; ratios of one business partner for every 500 or more employees are not uncommon. Purposefully, the CRM only has enough capacity to manage the client relationship, diagnose issues, configure specialist teams, and coordinate (but not manage) projects. It is closer to a pure account manager model, such as one might see in a sales organization.

Deliberately, all the extra hands have been pulled out of the front end and pushed to the middle in order to force interdependency. At National City Bank, where they have implemented the solutions center model, the small front-end teams are compelled to use other parts of HR for design and delivery support. Resizing and taking away the team management aspect of the CRM role is intended to drive a culture of collaboration. No longer is it a question of who carries out the work, as the CRM no longer has direct control over enough staff to deliver it directly. Disconnecting the majority of staff from the front end also makes for much easier shifting of resources to those parts of the business that have differentiated human capital requirements, because the people are not all tied up in the front-end business units.

The centers of excellence in this model are similar to those in the business partner model; however, they are also "lighter," consisting of small groups of true specialists with deep expertise that make policy and adjudicate issues but do not usually deliver the work. They also provide a link externally and to other business functions—such as strategic planning, finance, or process reengineering—whose work more and more overlaps with that of HR.

Staff for the robust middle—the new feature in this model—is drawn from the ranks of both the junior and senior generalists as well as the centralized practice groups. This is the solutions center, sometimes also referred to as field staff. These staff are configured into teams of semi-specialists around functional areas such as recruiting/staffing, employee relations, compensation, HRIS, and learning and development, and are matrixed by function, line of business, and sometimes geography. Because the solutions center is not owned by the business, these staff can be assembled into teams around other cross-business dimensions, such as job family. Employee groups with specific characteristics (e.g., operations, IT, or sales) are often more alike across lines of business than they are different. In the business partner model, there is no easy way to attend to the particular human resource needs of these job families. For example, at Unilever, the business is organized around key processes. General managers lead the brand and product lines laterally with virtually no direct staff. With a solutions center type model, HR is able to support both the vertical and horizontal organizations equally well.

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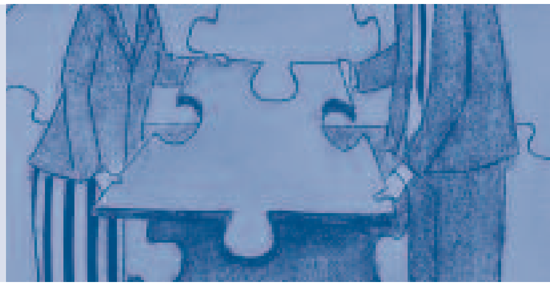


At National City Bank, which is also employing this model, the field staff have been reconfigured primarily along regional lines explicitly to break what had become an overly strong connection to the lines of business. National City Bank found that the employees in the several business lines in California have more issues in common around labor laws than they do differences by business line. In addition, the co-location of field staff saves travel time and furthers an enterprise perspective.

The solutions center has multiple roles and its work can come from a variety of sources. For example, the solutions center might have an Employee Relations team. A CRM could contract with this team to assess patterns of employee relations issues within a line of business, identify best practices in other parts of the enterprise, or create and deliver a customized response. The COE might use the team to implement a new enterprise-wide employee relations policy change or program. At the same time the service center would be forwarding employee relations issues too complex for it to handle to the team for resolution.

The solutions center model has a number of appealing qualities:

1. The ability to configure teams simultaneously around multiple dimensions that mirror the complexity of the work, rather than simply the business hierarchy.
2. Broader and deeper analysis of HR issues and trends. Part of the solutions center's leadership responsibility is to identify patterns, root causes, and options. These patterns across business line, geography, job family, function, etc., are often not visible in the business partner model.
3. The alleviation of the client ownership issue. In this model, work can originate anywhere. The CRM is the primary (but not the only) conduit for client contact.
4. The ability to assign resources against what is most important in the business and flexibly reallocate them when priorities change. The solutions center model holds the promise of great efficiency—ideally, everyone is spending time on the highest value work and projects. In addition, these cross-functional projects become a mechanism by which HR can share knowledge and standardize best practices across the enterprise.
5. It acknowledges the reality of HR work at this point in time. The business partner model assumed that all transactional work would be outsourced or disappear into the service center, and that generalists would only be focused on the "strategic," when in fact much traditional human resource work has not gone away. This model makes clear that not everything is a policy decision or organization development work; there is a need for skilled "doers," and their work should be explicitly managed.
6. By making this work visible and managing it centrally, the function can gain the same types of operational efficiency as have been gained with the Tier One transactional work that has already been moved to

shared services. The solutions center shares many characteristics of a high-level service center. Through the use of technology, case management, training, and career path management, the function can create enterprise consistency where desired and generate meaningful metrics and data for better decision-making.

This design model holds great promise, but it is a sophisticated design that requires strong governance structures and processes, as well as a management team with comfort (and, ideally, experience) working in a truly collaborative way. The trade-off for flexibility in organization design is fragmentation. And the more the work is fragmented, the greater the number of interfaces and hand-offs, and the more coordination across organizational boundaries is required.

The model requires HR staff who are comfortable with responsibility for delivering work when they may have no authority over the resources. The staff have to be willing to let go of control and trust their colleagues. Given the poor experience that so many HR departments have had building strong working relationships between the generalists and COEs, this is a model that many will need to build toward, rather than install. The structure itself helps to break old mindsets, and strong governance, process, and linking mechanisms can help to clarify roles, hand-offs, and interfaces.

The size of the change-management hurdle posed by this model should not be underestimated, however. The business partner's response to this model is likely to be, "We can't centralize this work; it's too important. If I don't have control over the staff, how will my business get its work done?" In fact, there is a real danger that although this model is good for the enterprise it may not be perceived as a benefit to division and function managers. In order to build the foundation of trust that is necessary in order to deliver the same level of service to the business, Deutsche Bank is making a significant investment in technology and process mapping as it installs this model. For any company contemplating this structure, whatever the solutions center staff is working on must be immediately available and visible to the CRMs through some set of project and case management tools. Equally important is the education and persuasion of the line managers, who are used to their generalists being all-knowing and involved in all issues. In the solutions center model, the limited number of staff at the front end makes it impossible for the CRM to continue to be involved. They will need to become comfortable saying, "My colleagues are handling it; I can find out about it and get back to you." This model is highly dependent upon a lot of honest feedback and a mindset of "how can I help my colleagues" and real measures and rewards for doing so.

This model also requires an HR leadership team that on the one hand is willing to make hard decisions to set priorities and defend and sell those decisions to business managers. Otherwise, the business leaders will perceive this change as a take-away and begin building their own stealth units outside of the HR structure to get done the work they feel is unattended to. On the other hand, the HR leadership team has to be highly adept at coordination and managing a process and project based organization.

This model changes every aspect of how work is carried out. Deutsche Bank, which is implementing this model globally, has learned that you cannot short-change the time spent clarifying how the hand-offs and interfaces are intended to operate. One way to avoid this is to bring in managers from finance, IT, and operations areas that have already implemented similar models successfully. Although this model is new to HR, IT areas in particular have already moved to complex matrix structures in order to balance enterprise and line of business demands. There is great opportunity to learn from their experiences.

At Lincoln Financial, as a result of the change to a similar model three years ago 60 percent of the HR staff moved to other parts of the company or were replaced. In re-staffing, HR leadership found was that it was just as important to hire people who came with a positive experience working in a matrixed and collaborative environment as it was to hire people who had the right HR skills.

Design Considerations

Regardless of the nuances of the design selected, the trend is clear. The HR organization is only becoming more complex as it strives to serve the wide range of business needs inherent in most any company today. In order to manage this internal complexity, and keep it from being visible to the client, HR leaders need multiple mechanisms to drive collaboration and coordination. A few are offered here.

An Integrated Plan

In many HR organizations, the conflict over limited resources arises from an undisciplined approach to managing initiatives. Becoming a valued business partner has often meant saying "yes" to clients more often than "no." Just as a business must manage its product portfolio to trim underperformers continually, HR has to control proliferation of programs and projects. This is, of course, difficult when there are so many disparate demands.

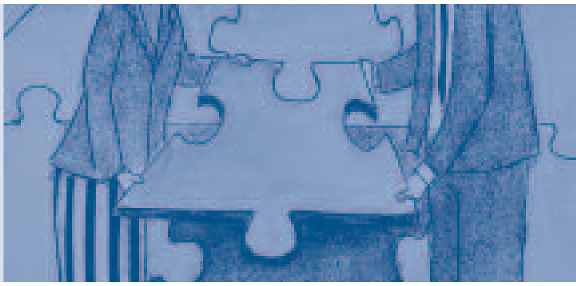
Some HR departments are moving to multi-year human capital strategies that link more closely to the overall business direction, rather than the traditional roll-up of the line of business needs. Rather than spread budgets and people around thinly, the multi-year strategy takes an integrated look to determine what the real business requirements are. Is it acquisition integration, recruitment and assimilation of new executive talent, or international expansion? Is it to promote cross-selling, horizontal integration, or business flexibility? How will we meet these needs on top of our base-line, necessary work? At Unilever, the HR leadership team creates the strategy together from the top rather than rolling up each individual area's projects. In this way, the human capital strategy communicates not just milestones and deliverables, but also the HR philosophy: "what we will do, how will we do it, and what will we not do."

When you configure an organization from the strategic needs outward, it quickly becomes clear that the new HR organization is project based, no longer strictly functionally based. Its key capability is how quickly it can assemble teams around needs and opportunities. Just as important is how well it can disassemble those teams and make its best performers available for new work. For example, Marriott keeps national level priorities to a very few (three or four) that are directly linked to business initiatives. Team members are brought together from across HR to ensure that these priorities are met. The HR department focuses its capability on those few key priorities, knowing that there are always unexpected projects that require some slack in the system. A critical part of the HR leader's role becomes keeping that focus on the plan. As one Marriott HR leader says, "A pop-up, but critical, must-do project, like implementing an FSLA change can break you. We've gotten smarter about leaving some capacity to deal with those and in our ability to shift priorities to accommodate them without abandoning the important agenda."

Distributed Leadership

Another way some HR leaders have found to create more goal alignment among their team is to give each leader responsibility for a major enterprise process. For example, a senior business partner decked against a line of business would also have responsibility for the enterprise performance management process. At National City Bank, the CRMs may spend up to half their time contributing to core processes. They have found that this approach provides a number of advantages. The CRMs and COE staff—who still retain ownership of these enterprise processes and projects—become interdependent and invested in one another's success. The CRMs have the opportunity to build some depth of skill and gain leadership experience. The distributed responsibility helps to mesh the line of business and enterprise views. In addition, it is an efficient approach. In many companies, the same core staff are asked to serve on multiple committees on top of their primary jobs, stretching them thin. The distributed leadership approach means that fewer senior people need to be fully involved in all these initiatives. They know their colleagues are responsible for consulting with them, and they trust that their line of business needs will be taken into account when decisions are made. This alleviates some of the line of business/COE tension, as each part of the organization takes the lead on some aspect of the central work agenda. To make this mechanism work, the reward system must be also realigned to foster shared success. Distributed leadership is not an easy model, as it requires a team that works well together. On the other hand, by forcing interdependence, it can be used to build a more collaborative leadership group.

In order to make sure the right discussions happen, the heads of the COE groups, the heads of the business partners/CRMs, and the head of the solutions center must be peers. A mistake would be to head the solutions center with a role subordinate to the other two.



Leadership Team Design

The design of the HR leadership team is a key element to making any model effective. The quality of the leadership team's dialogue and decision-making regarding what people are working on and how resources are used is integral to the function's success. Too often, the dynamics created by the roles designated to sit on the leadership team are overlooked. As described previously in the business partner model, the heads of the COE and line HR units are the primary players on the leadership team, and are often at loggerheads because the assumptions, objectives, and measures embedded in the model actually work against collaboration.

An advantage of the solutions center model is that the head of the solutions center can balance out this dichotomy. But in order to make sure the right discussions happen, the heads of the COE groups, the heads of the business partners/CRMs, and the head of the solutions center must be peers. A mistake would be to head the solutions center with a role that is subordinate to the other two, as the power of this new perspective and voice will quickly be lost. Interestingly, companies moving to employ this model report that the head of the solutions center is a hard role to fill. Some are looking toward candidates from operations areas that have gone through similar transitions, opting for strong operational management skills and experience over deep HR knowledge.

Job Rotation

Well planned job rotation is another mechanism to break down barriers and create better peer relationships among HR managers and their teams (see Lawler, et al., 2006, 44). At Marriott, HR has begun to rotate COE leaders out into senior generalist roles, particularly people who have worked in talent management and organization capability roles. They find that it is an effective way to build general management skills among the HR leadership cadre, and it has created more empathy and better relationships among the senior staff.

Joint hiring and talent discussions can also help to create interdependence. At Lincoln Financial, formal reviews of staff include input from all the HR leaders they have contact with. This has helped create a sense of a shared talent pool that all HR managers have accountability to develop.

Governance

Many companies are essentially federations with weak centers. The line of business that makes the most money gets the most votes. This dynamic is reflected in the HR team. Conflicts among the lines of business rise up until they land on the HR leader's desk, awaiting a declaration of victory.

Creative and thoughtful governance is yet another way to knit the organization together and ensure that the right perspectives are in the room to balance competing objectives and determine priorities. In a complex organization, the leadership team is not always the best vehicle for addressing all issues.

Councils and steering committees that involve second- and third-level managers are a way to govern such decisions as standards, commonality vs. customization, staffing of special project teams, allocation of scarce resources such as OD staff, and HR development and training. For example, Unilever has addressed the tension between how much to do the same and how much to do differently by using a council to determine the "non-negotiable solutions." These are enterprise processes such as the global compensation structure, work levels, competencies, and performance management that will be standardized and built by the COE. The lines of business are then permitted to customize as they choose in other areas.

Communication

The reliance on downward communication that most organizations exhibit inevitably leaves mid- and lower-level staff feeling disconnected. The different messages they hear from their leaders undermine their own ability to work together across organizational boundaries, which presents a challenge, because the direction of the HR organization is toward multiple dimensions in which a majority of the staff will sit on horizontal as well as vertical teams.

At Old Mutual, one of the largest financial services companies in South Africa, the company holds an "HR Day" every month to bring together the HR leader's centralized and the business's decentralized HR reports to share information and identify and resolve issues. Connecting this level laterally and helping them build strong working relationships is as important as bringing together the leadership team.

Building a Decision Science for HR

Many of the tensions and management challenges discussed here stem from the fact that the function is trying to house both a "decision science" and an "HR practice" within one organization. Boudreau and Ramstad make the point that, in the same way that marketing is the decision science of sales, and finance is the decision science of accounting, HR can be thought of as having two components: a professional practice and a decision science centered on talent management and organization capability (Boudreau & Ramstad, 2005). With the advent of service centers and outsourcing at one end and the focus on talent management and organization capability work at the other end of the HR spectrum, the practice and decision science of HR continue to diverge.

Rather than to separate them further, a more fruitful path may be to explore how to better link these two ends of HR. This would mean thinking of the service center not simply as a device to save costs or to free up generalist time, but as a source of data for decision-makers. It would mean designing the solutions center not just as a flexible way to carry out HR work, but as an engine of trend analysis and a vehicle for measuring the impact of HR work (*see* Lawler, et al., 2006, 87).

As part of a redesign, there is an opportunity to bring a new rigor and methodology to decision making, modeled on the finance and marketing function; to use, for example, technology and analytics to forecast leader profiles and bench-strength needs against projected business growth goals. At National City Bank, HR IT has been lifted out of its home in operations and made part of the HR Strategy group to ensure that the unit's focus is on building capability for front-end decision support, not only the smooth running of back-end administrative systems.

Marriott currently has one of the most comprehensive contracts with an outsource provider. A primary driver is the ability to gain access to technology and systems that could not be built and managed internally, and to the information that those systems can collect—what Marriott terms "metrics of consequence." For example, at a company like Marriott, productivity is a key business measure. Up to this point, the finance department has had the best information around productivity data, although it was from a limited financial perspective. The inability to provide hard data had marginalized the HR contribution when decisions were being made. Now HR will be able to do statistical modeling and create a new partnership with finance in service to the business. For example, Marriott will begin to quantify and predict the actual revenue impact that vacancy rates in sales positions will have on a group of hotels. As a result, it expects that better talent, resource, and investment decisions can be made based on these real-time business performance measures. Of course, this requires HR staff who have the analytical, information integration, and consulting skills to turn this data into information that will truly improve business decision making. It is clear that the next generation of HR competencies will prominently feature such analytical skills (*see* Boudreau & Ramstad, 2006).

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Organization design is fast becoming an essential HR capability. One of the best ways HR leaders can build this skill is by involving their key staff in the experience of examining their own function through a disciplined process, using a sound methodology and the same tools they intend to apply to their clients. (It is said that only until doctors are patients do they understand how much pain medication is really needed!) The organizational change process itself then becomes a way to learn, teach, and create the culture of openness and collaboration that is being pursued.

This article has made the point that the work and structure of the HR function will only continue to grow more complex. This is all the more reason to invest time in clarifying roles, interdependencies, and interfaces. By achieving a greater level of such clarity around its own work, HR departments will be well positioned to enable the businesses they support to operate quickly and flexibly under changing conditions. In the process, HR can maintain its seat at the strategic table as businesses move forward to face the global challenges of the coming decades.

BIOGRAPHICAL SKETCH

Amy Kates is a principal partner in Downey Kates Associates, a management consulting firm based in New York City. She specializes in organizational design and is the co-author, with Jay Galbraith and Diane Downey, of the book *Designing Dynamic Organizations* (Amacom, 2002). Amy also has 15 years of experience in the fields of executive development and human resource strategy and structure and works with clients in the United States and internationally.

She currently serves on the board of the Organization Design Forum, an international professional group for organization designers and teaches organization design at the MBA level at the Center for Technology, Economics & Management in Copenhagen. She is also the author, with Diane Downey, of "The Challenges of General Management Transitions" in *Filling the Leadership Pipeline* (Center for Creative Leadership, 2005). Amy has a master's degree in city and regional planning from Cornell University.

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