

## Corporate Center Design in Complex, Global Companies

### *Designing functions to drive agility and leverage*

Tom Falkowski, Greg Kesler, Amy Kates

Kates Kesler, LLC, February 2019

#### *“How are you adding value?”*

That’s the question Neville Isdell, Chairman and Chief Executive Officer (CEO) of the Coca-Cola Company, asked the functional leadership of the company in March of 2005. Isdell challenged his corporate leaders to rethink how they were supporting the operating units around the world.

Isdell’s question is one that we still hear from many CEOs today, whether they are leading legacy companies undergoing strategic transformation or high-growth digital firms facing new complexity brought on by multi-dimensional strategies, or they are just looking to simplify and gain efficiencies.

Leaders continue to be frustrated with the performance of corporate functions, alarmed by rising headquarter costs, and the proliferation of ever new functional departments in areas such as risk management and digital technology that create work and demands on the business units. (Campbell, Kunisch, Muller-Stewens). Unfortunately, the design of effective corporate centers continues to be an often-neglected discipline in the organization design community.

We worked with Isdell and his team to redesign nine corporate center functions at Coca-Cola and since then have supported the end-to-end redesign of hundreds of functions. Most of this work has been in global companies with multiple lines of business undergoing significant growth or change. This article shares what we have learned about how to design the corporate center to drive growth, agility, and efficiency.<sup>1</sup>

---

<sup>1</sup> A note about definitions that we use. Corporate center, headquarter, or “enabling” functions are those that are found in nearly all organizations to support operations. Typically, they include human resources, finance, information technology, legal, communications, procurement, and strategy. “Business” functions are the unique set of units that drive a specific business strategy. These are typically manufacturing, supply chain, engineering, product development, research, marketing, channel management, and sales. The design concepts discussed here apply to both, but in this article we are focused on the enabling functions.

## *Common organizational challenges*

Regarding the corporate center, the organizational design challenge for many leaders of complex global organizations is threefold:

- How do we design corporate functions to maintain accountability and agility *within* the business units, while at the same time, gaining the benefits of resource leverage and scale *across* the portfolio?
- In a world where being “local” is become increasingly important to many businesses, how do companies maintain corporate cohesion while also empowering business units with the decision authority they need in order to respond quickly to market opportunities?
- How can we design diverse functions such as finance, human resources, and technology, to deliver highly varied expertise, compliance, and transaction services within a consistent, cohesive design philosophy that fits the company culture?

The core dilemma for global companies is how to be both big and fast. Classic organization design work focuses on choices regarding how to group similar lines of business, how to organize geographic markets, and the best lens for profit and loss reporting to drive the right balance of focus and integration. We would also suggest that a key component to driving agility and leverage is the design of corporate functions.

In our work, we focus leaders on four lenses for effective corporate center design. Each is discussed in this article.

1. Company strategy and capabilities
2. Enterprise operating model
3. End-to-end function design framework
4. Star Model activation

## 1. Company strategy and capabilities

We believe strongly that effective organization design begins with identifying the strategic priorities and differentiating capabilities that are unique to the organization. Figure 1, which depicts Jay Galbraith's classic Star Model, puts strategy at the top.

This makes sense when designing an enterprise or business unit that is competing out in the market. However, we actually find that many functional leaders spend *too much time* on strategy. A finance function strategy for one company looks a lot like the finance function strategy across most other companies. And, your finance function is not competing against mine.

We find it is better to identify the key tenets of the business strategy and articulate how the function will specifically build and deliver the capabilities that the business needs in order to win. Ask:

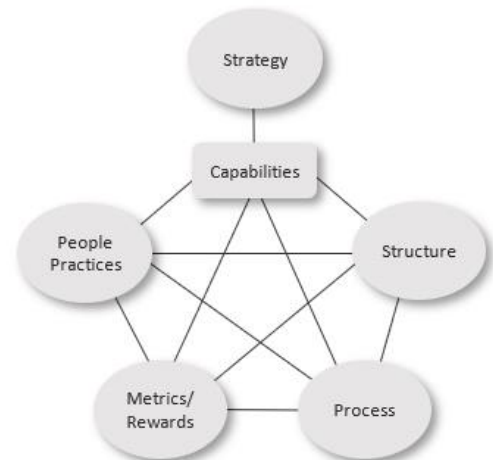
- Is our functional work based on old strategies? Do we have resources deployed to outdated priorities?
- Are we striving for measure up to external best practices that aren't even relevant to our company's strategy? Where do we need to be "best in class" and where do we need to be "best in cost?"
- What are the new capabilities the company needs and what is our role in building them? To create capacity, what work should we stop doing, automate, or outsource?

*Starting with company strategy and capabilities moves us away from inwardly focused design efforts that are disconnected from the business to functions that are designed to enable the business and its strategies.*

## 2. Enterprise operating model

The "enterprise operating model" describes the relationship of the components within the company to one another. Today, many companies operate in an ecosystem. The relationships with customers, partners, and suppliers beyond the walls of the corporation also shape the operating model. Operating model choices can be depicted simply on a continuum as shown in Figure 2. The left column represents

**Figure 1: The Star Model**



a single integrated business and the right column represents a holding company. Between the extremes are closely- and loosely-related portfolios of business units. The operating model defines the level of

**Figure 2: Operating Model Continuum**

	Single Business	Closely Related Portfolio	Loosely Related Portfolio	Holding Company
<b>Business Strategy</b>	Single enterprise strategy guides units with minor variations	Complementary portfolio of business units – strategy to leverage scale, assets, and expertise	Diverse, relatively autonomous businesses – strategy is to leverage only a few targeted synergies	Businesses are separate entities; no synergies expected
<b>Enterprise to Operating Unit Relationship</b>	Decisions held at the enterprise	Business units own global strategy and most P&L decisions Enterprise functions have strong control over process and talent	Business units own full P&Ls Often must collaborate with strong regions in global models	Enterprise focused on buying and selling, financing, and executive talent All operating decisions placed in business units
<b>Business, Market, and Function Relationship</b>	Often a single P&L Direction comes from organizational center – the enterprise level Process and practices are common Either a functional organization or a simple function/business or function/geography matrix	Business units own P&L, but... Synergies expected at the front (shared customers), middle (shared technologies) or the back (infrastructure) Common process and practices where possible to enable shared objectives Typically, a three-dimensional matrix	Strong business unit orientation with functions often reporting into the businesses Some scale benefits and some shared process and practices, often focused on support function shared services Typically, a business/geography matrix for global companies	Stand alone operating units return financials to parent No common processes No matrix
<b>Role of the Executive Team</b>	Operating decisions forum	Management synergies forum	Portfolio management forum	Relationship building forum
<b>Company Examples</b>	Apple, Cisco, Coca-Cola	IBM, P&G, Nike, Philips	GE, J&J, Unilever	Berkshire Hathaway, 3G Capital, Textron

← Greater Resource Leverage

Greater Business Unit Agility →

integration needed across business units as well as the extent to which the needs of each business unit are common or unique. These insights then set out the basic roles that business units, geographic territories, and corporate functions play in the company, as well as define basic decision rights that characterize the interactions among these units. Taken together these “stakes in the ground” provide consistent guidance that all functions can follow in designing management processes, decision rights, and workflows.

Companies that operate at the extreme left of the continuum tend to have a single business model (way of making money) and a structure built around business functions, such as Coca-Cola, which is solely in the beverage business. These leaders run the operations of the business together. Diversity in the business tends to be by geography and brands, rather than product line or business unit. The business functions drive the business and the enabling functions drive a high degree of commonality in policy and practice across the geographies.

Companies that operate at the extreme right of the continuum are holding companies that optimize local business agility. Each business unit operates with high autonomy so that it can be moved in and out of the portfolio easily, a model commonly found in private equity or family run conglomerates. The corporate center tends to be quite small and focused on enterprise strategy and financial oversight, rather than operational control.

The most complex design questions arise in the closely and loosely related portfolios. The typical organization implications for closely and loosely related business portfolio are shown in Figure 3. In these cases, business leaders want to achieve both high degrees of business autonomy along with the leverage of resources that comes with common processes and practices.

**Figure 3: Organization Design Implications of the Operating Model**

	Closely Related Portfolio	Loosely Related Portfolio
Strategy	<ul style="list-style-type: none"> <li>• Integrated functional planning process</li> <li>• Common processes and standards</li> </ul>	<ul style="list-style-type: none"> <li>• Business independent planning processes</li> <li>• Selected common processes and standards</li> </ul>
Capability	<ul style="list-style-type: none"> <li>• Enterprise focus on critical capabilities</li> <li>• New capabilities are collectively scaled</li> </ul>	<ul style="list-style-type: none"> <li>• Business unit centric approach to building new capabilities</li> </ul>
Structure	<ul style="list-style-type: none"> <li>• Extensive use of COEs and shared services</li> <li>• Similar functional orgs across the BUs</li> </ul>	<ul style="list-style-type: none"> <li>• Leaner corporate staff</li> <li>• Selected use of centers of expertise and shared services</li> <li>• Functional support embedded in divisions and BUs</li> </ul>
Process	<ul style="list-style-type: none"> <li>• Tradeoff decisions and resource allocation decisions made across business units</li> <li>• Common processes, systems, metrics and KPIs</li> <li>• Clear decision rights – Function focused on how; BU focused on what</li> </ul>	<ul style="list-style-type: none"> <li>• Some tradeoff decisions and resource allocation decisions made across business units</li> <li>• Select common processes, systems, metrics and KPIs</li> <li>• Greater ability to opt out of common requirements</li> <li>• Decision rights strongly at division/BU level</li> </ul>
Metrics/Rewards	<ul style="list-style-type: none"> <li>• Combination of enterprise and BU objectives</li> <li>• Rewards balanced across enterprise and BU results</li> </ul>	<ul style="list-style-type: none"> <li>• Combination of enterprise and BU objectives</li> <li>• Rewards balanced across enterprise and BU results with greater weighting on BU results</li> </ul>
People Practices	<ul style="list-style-type: none"> <li>• High level of talent sharing</li> <li>• Common career paths and talent development</li> </ul>	<ul style="list-style-type: none"> <li>• Talent managed independently</li> <li>• Little movement of talent across divisions</li> </ul>

When times are tough, and companies are looking to cut costs, they tend to move left on the operating model continuum in the quest for greater integration and leverage across the business units. When companies are seeking to drive growth, they tend to loosen the reins from the center and move to the right. This allows each business greater degrees of choice and agility.

Unfortunately, business leaders often tend to swing the pendulum across the operating model continuum as a reflection of leadership style rather than strategic change. The over-correction is perceived by employees as an inevitable oscillation between centralized and decentralized philosophies as different leadership regimes come and go. Eventually, employees learn to largely ignore the rhetoric that accompanies these changes, knowing in 24 to 36 months the pendulum will likely swing back again.

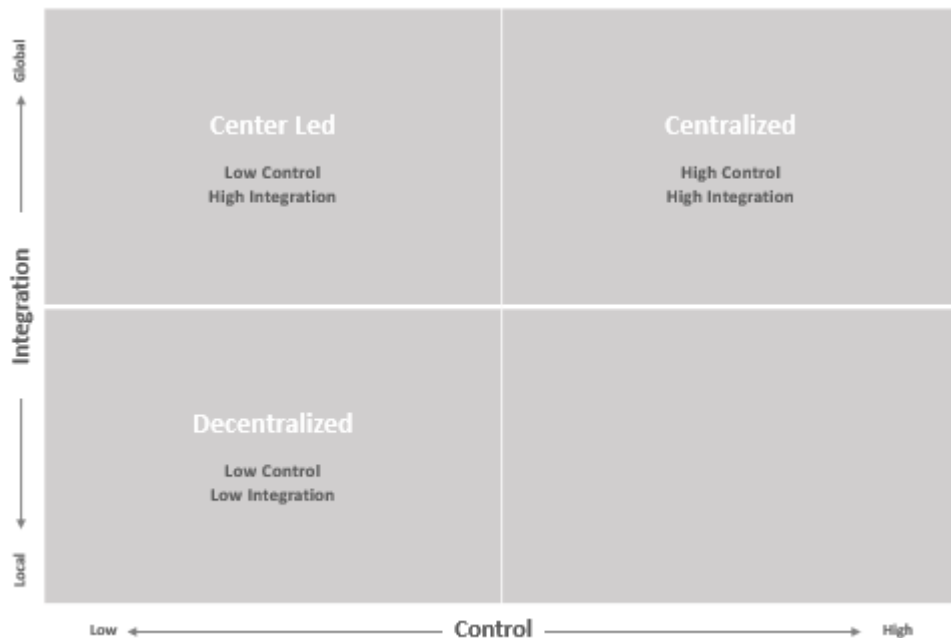
### Center-Led

The way out of this conundrum is to let go of centralization and decentralization and think of the design of functions end-to-end, from the corporate center to the point of contact with the customer. This is the best way to get the right mix of enterprise agility, business agility, and resource leverage to drive a company's unique competitive strategy. We call this "center-led."

As shown in Figure 4, center-led give us an option for high degrees of integration, without high degrees of central control. The framework helps us answer the question: *What level of standardization and integration of functional work is required across the business units and geographies by the operating model?*

**Figure 4: The Center Led Option**

Consider an industrial business that has a loosely related portfolio of businesses in the cement, mining, metals, chemicals, and textiles industries. It is selling off the chemicals and textiles units to create a more



Adapted from *Leading Organization Design*, Greg Kesler and Amy Kates

closely related portfolio around commodities. If we look at the HR function, we might now see a program to harmonize the performance management system across the three remaining business units so that management and leadership talent can be more easily moved across cement, mining, and

metals. This functional work and design reflects the change in strategy and a belief that leadership talent can be leveraged.

However, this company operates globally and the talent market for specialized engineers is highly competitive. Therefore, the company may choose to manage recruiting at a business unit and regional level in order to move quickly in the hunt for scarce skills. The same logic process is applied to each sub-function in the HR organization.

With this logic, centralized and decentralized are no longer relevant definitions. Rather, fit for purpose, differentiated design decisions based on a rigorous realignment of the work, guided by a consistent framework and discipline yield design decisions that reflect the change in business strategy.

Center-led functions drive high levels of integration, while not taking control away from the business units. Effective functional leaders understand that beyond the fiduciary oversight role, one of their most important roles is to drive integration while maintaining business unit agility. They see the functions they lead as the “glue” between the business units and the geographies, providing the pathways for talent, innovations, best practices, and knowledge to flow across a global network.

*Basing functional design on the operating model and defined levels of desired integration creates a global corporate function design that reflects the diversity of the business portfolio and the strategic need for integration.*

### **3. End-to-end function design**

Let's look more closely at the function design framework that we use for aligning functional work to the business as show in Figure 5. The framework defines three categories of work that sit in the corporate center and a fourth that is embedded in the business units (Kesler, Kates 2011.)

- **Oversight and strategy:** This work is primarily about compliance and adherence to a very few core policies owned by the function. This activity oversees mandatory standards to be maintained across the enterprise. This work really can be considered centralized. *Think risk management and brand standards.*
- **Expertise:** This work is thought leadership in selected areas of functional expertise relevant to the business. Players in this space are often focused on building capabilities out in the businesses and connected networks across organization boundaries. *Think leveraging best know-how.*

- **Selected shared services:** Today's business services organizations deliver specific support, guided by service contracts and enabled by sophisticated automation and teams of specialists. This is the mechanism for delivering cost efficient, reliable solutions, often spanning across business units and geographies. *Think scale and leverage.*
- **Embedded:** It is here that the "business partners" draw from the center-led resources defined above to create and deliver solutions to their client business units. These players are the most responsive to varied business needs, but they do so without inventing new tools, processes, or practices. *Think adapt, adopt, and deliver.*

The framework provides a consistent way to define the end-to-end work of the function, but the framework must be applied in the context of the strategy and operating model. The company strategy and capabilities inform where the function requires thought leadership and deep technical expertise. The enterprise operating model defines desired levels of integration and helps to identify where functional oversight and common processes are appropriate, and which shared services make the most sense.

*The function design framework provides a common logic that all corporate functions can use to sort, group, and manage work in a way that creates the right balance between oversight and commonality with local speed and autonomy.*

**Figure 5: Function Design Framework**



Work led from the corporate center, can be based locally			Work managed in the operating unit
<b>Role (s)</b>	<b>Functional Oversight and Strategy</b>	<b>Thought Leadership</b>	<b>Business specific Functional Support</b>
	Centers of Expertise		Embedded Business Partner
<b>Key Accountabilities</b>	<ul style="list-style-type: none"> <li>Functional strategy</li> <li>Policies, standards, and guidelines</li> <li>Processes, metrics, systems</li> <li>Fiduciary controls</li> <li>Compliance</li> </ul>	<ul style="list-style-type: none"> <li>Deep technical expertise</li> <li>Best practices</li> <li>Capability development</li> <li>Consultants to operating/business units</li> </ul>	<ul style="list-style-type: none"> <li>Connect to business strategy</li> <li>Analytics and decision support</li> <li>Functional support leveraging resources led from the center</li> </ul>
<b>Rationale</b>	<ul style="list-style-type: none"> <li>Focused protecting company interests</li> </ul>	<ul style="list-style-type: none"> <li>Expertise that is difficult, costly, or time consuming to replicate</li> </ul>	<ul style="list-style-type: none"> <li>Act as member of the business team, but helps drive common agenda for function when appropriate</li> </ul>
<b>Value Proposition</b>	<b>Risk Management and Brand Standards</b>	<b>Decision Support and Capability Building</b>	<b>Responsiveness and Differentiation Where it Matters</b>
<b>Rule</b>	Mandatory	Most compelling idea wins	Close to the business, but don't invent new tools
	Professional and Back Office Shared Services		
	Contact Centers and Delivery Teams		

Adapted from *Leading Organization Design*, Greg Kesler and Amy Kates

#### 4. Star Model activation

All of this strategy and structure work is only intention, of course, until the design is brought to life through full activation of the other points on the Star Model.

In terms of *management process*, perhaps the most important is priority setting. If a function is good, it should generate more demand from the business than it has capacity to deliver. Therefore, the function's leaders need to work together to continually set expectations with the business, align the work agenda, allocate resources across the work portfolio, and make smart adjustments when new, unplanned needs arise. Key to doing this well is a clear and aligned point of view of the criteria for priorities, when to buy and when to build solutions, and what vendors and partners to use and under what circumstances. Yet, many functional leaders are more focused on leading the work of their vertical teams than this important horizontal work. We see one of the most important enablers of delivering a portfolio of sophisticated functional work across business units and geographies is the ability of the functions leaders to set aside the right amount of time to engage in setting direction and planning work.

Closely related then is a system of *aligned metrics* that make time spent aligning work, collaborating on solutions, and sharing information a rational and rewarded activity, especially for the leadership team of the function. The measures of success should be aligned with the strategy. Collaboration is a nice value

to have, but expensive when time spent trying to find common ground doesn't yield better decisions or slows the overall enterprise down. Crafting metrics and reward systems is a high impact design activator.

Finally, the functional *leadership profile* needs to fit the system you are trying to build. An effective enterprise level functional leader can create the right degree of integration across layers and units regardless of reporting relationships. We have seen such leaders foster the development of high trust global networks, fully aligned agendas across functional sub-disciplines and with the business, and a strong community of professionals that feel equally committed to their functional standards as their business unit objectives. In these organizations, people don't worry about hard line and dotted line reporting relationships. They know the expectations around the right conversations to hold and have the tools to make smart trade-offs.

Conversely, we've also seen leaders that can't imagine how they can get anything done unless everyone reports into them directly. Yet, when they rely only on this positional power, they often struggle to create the alignment and followership required to get complex work done. Matching organization and leadership talent is just as important in corporate center design as in business unit design.

### **Conclusions**

Through our work with smart leadership teams that have applied sound organization design frameworks to the questions of how to design the corporate center we have taken away a number of insights:

- Start with strategy. Don't try to design functions in the abstract or benchmark mindlessly. What is right for one organization may not be right for yours. Know where the company is going and translate that into the unique functional capabilities required to get it there.
- Determine the operating model and align function work to be the right strength of glue across business units and geographies.
- Design functional oversight, thought leadership, shared services, and embedded activities "fit-for-purpose" within each function to reflect the strategy and operating model.
- Use all of the Star Model elements to create a system that makes it easy for managers and employees to work across organizational boundaries and deliver the desired culture and performance.

