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Are CEOs Getting the Best From Corporate Functions?

A brief discussion about how corporate functions like IT and HR often lack strategic direction and what can be done about it, by Andrew Campbell, Sven Kunisch and Günter Müller-Stewens

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[STRATEGY]

Are CEOs Getting the Best From Corporate Functions?

At too many large companies, corporate functions like HR and IT don't get enough strategic direction from the CEO. Four basic steps can help.

BY ANDREW CAMPBELL, SVEN KUNISCH AND GÜNTER MÜLLER-STEWENS

Few CEOs give enough direction to the heads of their corporate-level functions. That's the conclusion of a survey we conducted of more than 50 function heads at some of Europe's leading companies. We are referring here to larger companies in which corporate-level functions such as finance, human resources, information technology, strategy, purchasing and legal provide policies, controls and services to decentralized operating divisions. Fortunately, some CEOs have found ways to address the problem.

In our survey, fewer than one in 10 function heads felt they had received sufficient guidance on how their function should contribute to the company's overall strategy. Instead, they were expected to develop their own ideas and functional strategies.

In addition, although many heads of corporate functions had key performance indicators, these rarely assessed the overall contribution of their function. Rather, the KPIs measured performance on specifics, such as corporate HR's rollout of an executive development program. They did not address the function's overall performance by, for example, asking the operating division managers whether the function is adding value.

The result of this undermanagement is mixed performance. While some corporate functions fulfill their roles highly effectively and win praise from the heads of operating units, most do not. In fact, one of the most common complaints from operating managers is that corporate functions are bureaucratic and interfering, making the operating divisions' work harder rather than easier.

Without sufficient guidance, corporate functions can become — often unintentionally — self-serving. Instead of developing policies and processes to give divisions the practical support they want and need, corporate functions measure themselves against industrywide best practices or implement initiatives that increase their influence or simplify their own work. The result is often a lack of cooperation from operating managers.

One newly appointed IT head told us that the team he inherited had lost touch with the company's operating businesses. "IT was pursuing an agenda that made sense to IT, but it made no business sense," he said. The function's main initiative was a centralized enterprise resource planning system that was too inflexible to serve the company's smaller units and likely to cost twice the original estimate. IT "had stopped listening and lacked an understanding of the operating challenges."

At another company, the head of HR said that prior to his arrival, HR had been "focused on transactional issues" and was "not helping the businesses succeed." HR had developed an elaborate performance evaluation system that was time-consuming for operating managers but did not have their support or deliver observable benefits.

On the surface, it seems surprising that CEOs would provide so little guidance to the functions, given that these functions are part of their headquarters teams. One explanation is that CEOs are too busy working with the business units. Another is that CEOs don't feel they have the technical knowledge or managerial tools they need to guide the functions and instead defer to the function heads.

The solution is for CEOs to make four basic — but vital — changes to their normal management processes:

1. Define three to seven major sources of corporate-level added value. The corporate strategy process often focuses on which businesses will be bought or sold,

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which will get priority for investment and what performance targets to set for the next period. It usually does not address the issue of most interest to corporate functions: How can the corporate level add value?

The CEO should expand the strategy process to include a definition of the main sources of added value at the corporate level. Each corporate function can then define its role in relation to each of those sources. The roles of different functions can be coordinated and the contribution of each assessed against these broader objectives.

A Danish company recently defined three main sources of added value at the corporate level: helping businesses make better capital investment decisions, ensuring that businesses drive down costs even in good years and building a pool of executive talent superior to its competitors'. All corporate functions were then asked to assess their activities against these objectives. Significant changes resulted.

2. Review the strategies of corporate functions annually. The strategies of the corporate functions deserve as much of the CEO's time and attention as business unit strategies do, since a corporate function can have as much impact as a business unit on overall corporate performance.

Most companies occasionally conduct a major review of the size and value of the corporate headquarters. However these large-scale projects can engender a defensive response that gets in the way of the objective, and any staff reductions that result often disappear again in the following years. Annual reviews allow the CEO and the heads of divisions to nudge corporate functions regularly toward better performance.

Finding time for these reviews can be difficult when the planning timetable is already filled with reviews of operating divisions. One company solved the problem by spreading the reviews of corporate functions throughout the year, holding one every two months.

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3. Develop a corporate initiatives matrix. The CEO should ask that corporate functions' major initiatives be entered into a table of corporate initiatives. The table should record which function is leading the initiative, which other functions are involved and which operating units are affected.

This helps different functions take an integrated approach and helps anticipate potential problems. For example, the CEO can see whether an initiative is likely to place unreasonable demands on an individual business unit, given the unit's commercial pressures. The head of IT can assess whether IT resources are sufficient to support all initiatives.

Unilever uses a table of corporate initiatives to check whether sufficient resources are in place to implement each project. When there are conflicts or insufficient resources, initiatives are delayed or re-sequenced.

4. Break out shared services. The CEO can request that shared services be managed differently from other corporate activities. For service activities such as IT support, for example, the focus should be on service rather than control. Thus it can be helpful to have these activities report to a shared-services division where they can get the service-oriented management they need, rather than to a corporate function concerned mainly with policies and controls.

The result is often an order of magnitude change in performance: better service at lower cost in the shared-services division, as well as clearer policies and controls that focus on adding value within the remaining corporate functions. In the early 1990s, Shell was one of the first companies to create a separate services division, transforming its sprawling corporate functions into a headquarters team of 100 and a professional services division of some thousands. More recently, the Dutch specialty chemicals company DSM completed a major project to separate all of its corporate services into a shared-services division.

These four changes can help CEOs give the heads of corporate functions the guidance they need to contribute effectively to corporate success. They will also give operating managers confidence that functions are working together for the corporate good rather than in their own self-interest. Together, the four changes help align corporate functions with corporate strategy and increase the value they add.

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