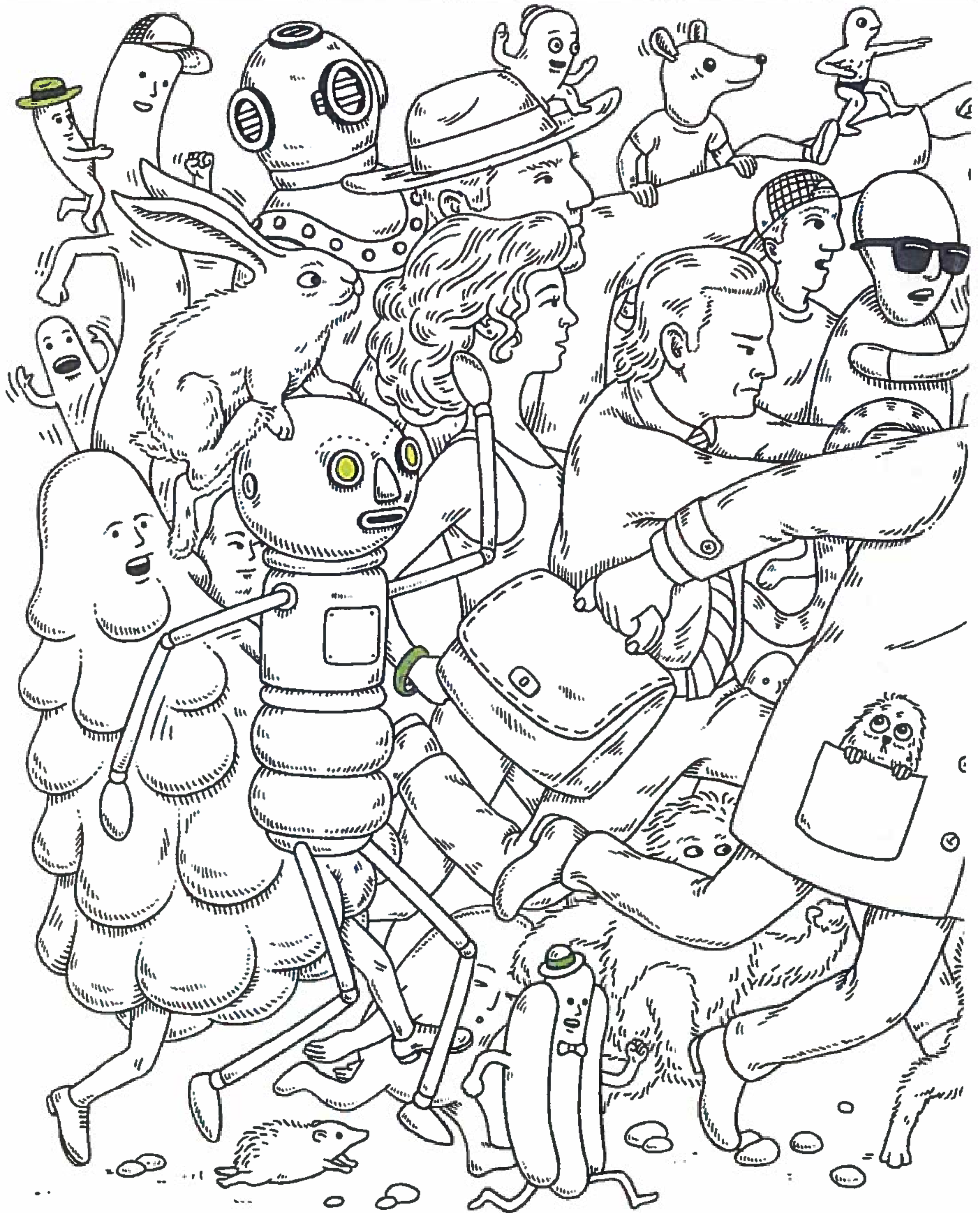

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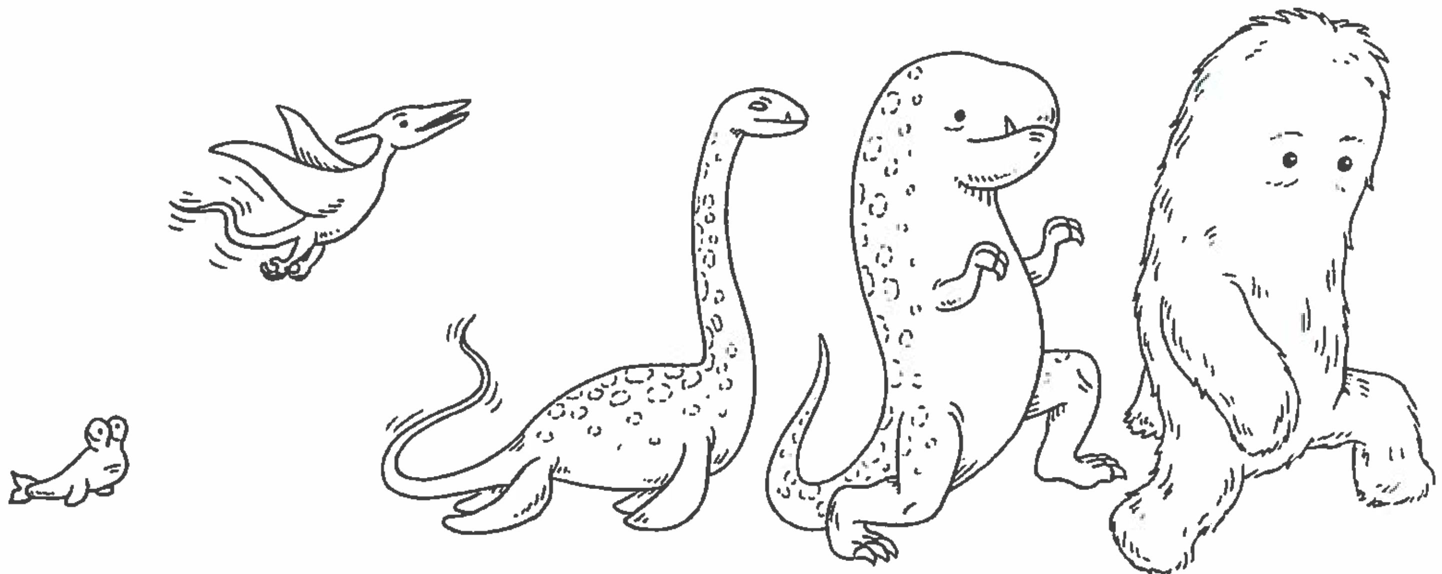
why corporate functions stumble

IT, finance, HR, and marketing can lose their way. Here's how to keep them focused.

by Sven Kunisch, Günter Müller-Stewens, and Andrew Campbell



As companies with business units or divisions have become better able to standardize and centralize their operations, traditional headquarters functions such as finance, HR, IT, marketing, and strategy have increased in size and influence.

Meanwhile, new functions, in areas such as risk management and compliance, are emerging. In a survey of 761 of the largest corporations in North America and Europe, which we conducted in collaboration with the Harvard Business School professor David Collis, almost a third of companies reported an increase in the number of corporate functions—and fewer than 10% reported a reduction—from 2007 to 2010. Leaders at three out of four companies believed that the influence of their corporate functions had grown.

At the same time, complaints about the performance of those functions have increased. Fewer than 10% of the companies reported that they were highly satisfied with the effectiveness of headquarters. Most vocal were line managers, who often accused corporate functions of interference, bureaucracy, and poor service. In a single-company survey of both corporate function and business unit managers that we conducted in 2013, we found that fewer than two in 10 of the latter felt that their corporate functions added high or very high value. "[One function] thought that the best way to do things was to command from the center," a manager told us. "This nearly killed the place."

To understand why corporate functions so often underperform and what might be done about it, we conducted about 50 structured interviews with function heads in 30 large European multibusiness organizations, mostly in the UK, Switzerland, and Germany. The sample included *Fortune* Global 500 companies such as ABB, Allianz, Credit Suisse, Daimler, JPMorgan Chase, Siemens, UBS, and Unilever. When we combined our insights from those interviews with the survey data we had collected, we found evidence that corporate functions go through a life cycle of four stages. At each stage they face different challenges and threats to performance. (See the exhibit "Corporate Functions Change as They Mature.") In the following pages we describe the challenges in each stage and offer advice on how to meet them.

Idea in Brief

THE PROBLEM
Corporate functions are growing in importance as a source of value, but many companies are dissatisfied with their performance.

WHY IT HAPPENS
These functions face varying challenges at different points in their life cycle. Early on, for example, function managers may be uncertain about their mandate. Later they may overextend and become mired in complexity or lose sight of the concerns of the business they serve.

THE SOLUTION
The authors offer advice for each life-cycle stage. Initially managers should keep the function small and prove its value to just a few parts of the company. Later they should explicitly link their activities to sources of added value and focus on relationships with the company's line managers to preserve relevance.

Stage 1: Youth and Enthusiasm

A new corporate function, such as IT or risk management, is generally created to provide guidance or economies of scale or some other benefit to the business divisions. The German engineering giant Siemens, for example, decided in 2008 to centralize supply chain management. Because only 30% of its worldwide purchasing volume—€42 billion at the time—was bundled across operations, it estimated that further consolidation could potentially save €3 billion, bringing the company closer to its major competitors' cost levels.

In their desire to realize an opportunity, however, leaders may fail to think through the problems the new function will face. The function may not have the same value for all business divisions. Often its mandate is unclear. There is also the matter of staffing. Typically, a new function draws some managers from other corporate functions and some from outside the company; but insiders may lack the skills needed for this new function, while outsiders lack knowledge of the company and acceptance within its ranks. All of them are likely to struggle at the start.

The leader of a freshly created function, like that of any other new venture, is under pressure to provide proof of concept and get the function up and running before problems around its mandate and capabilities have been resolved. A new function generally creates more work before it adds value, and it makes mistakes at the start. The combination can cause division managers to see it as more hindrance than help. As they start to mistrust it, and function managers resent the seeming resistance to change, the situation can quickly spiral downward.

How can a function respond to this challenge? Our research suggests that a conscious attempt to limit its mission, size, and degree of engagement with the company's operating units will provide a better foundation for long-term success than attempts to get going on a broad front. Let's look at what companies can do.

Restrict the mandate. Smart new function heads don't try to cover all the bases. They look for a way to deliver quick wins that require easily located skills. They choose an approach that is unlikely to meet resistance from business divisions. Consider Roger Camrass, a former consultant who was recruited to set up a sales support function for Fujitsu Europe. The company was structured as country-focused business units, and his mandate was to help them improve their skills and win more business. As Camrass considered his role, he realized that he was free to try just about anything: He could help teams recruit more-talented people. He could train staff members. He could develop strategies for sectors such as retail and energy. He could create processes for handling bids. He could open doors by contacting major companies. He could draft marketing policies.

Rather than try multiple initiatives to see what would work, he put his eggs in a single basket and focused on attracting some new clients. To do this, he set up "sharing events" with a few major companies—something he knew how to do from his time as a consultant. Half a dozen managers from the prospective client would share their concerns and challenges, and half a dozen Fujitsu managers would share Fujitsu's skills and experience. The events proved successful, and Camrass was able to bring in a small number of significant new clients, quickly establishing his function's credentials inside the organization.

Start with a few people. Often, successful new corporate functions begin with several highly skilled individuals rather than a full team. Camrass initially hired just a handful of senior ex-consultants and executives he knew from his previous jobs. He was

confident that each of them could do a superb job helping country units land new clients and that they could develop productive relationships with the business divisions. He built on this base piecemeal, recruiting sparingly—and only when he identified a clear match in terms of capabilities—as he slowly broadened his function's scope.

Some new functions hire only after they've earned their spurs. At first they ask their executive sponsors to find talented managers within the organization whose skill sets match the initial mandate and temporarily assign them to the function.

Focus on selected parts of the company. New functions in large, multibusiness corporations often try to deal with many parts of the company at once, stretching themselves too thin to understand any one part well. A focused approach makes it easier to build relationships and understand needs, especially if the function targets those divisions that are most enthusiastic about its activities. Camrass chose to work with a division that had dealt with him before he joined Fujitsu and that already understood the importance of taking a strategic approach to clients. Other divisions needed his help more, because they weren't as good at handling clients, but they didn't recognize that. So Camrass waited until he had helped win a major contract for one division before he reached out to the others.

Stage 2: Adolescence and Ambition

When managers in corporate functions start to succeed and develop good relationships with business units, they tend to believe that they should be doing more. For example, the talent management function may want to broaden its reach to include middle managers and add a career-planning capability; the strategic-planning function may consider developing a consulting service. And because the function has been successful in the first stage of existence, the CEO gives it less attention and more room to set its own agenda. Typically, the function head will take advantage of this greater autonomy by adding to the function's portfolio of activities.

The consequence of this landgrab is that the function starts to develop a mix of activities, each of which requires a different relationship with the business divisions. For example, one activity might involve setting policy or defining processes. Another might be providing a service. A third might involve a joint project to improve ways of working. These roles call for different kinds of people—a policy person is rarely a good service person, and vice versa. Moreover, as the business divisions feel the burden of extra initiatives, and their relationships with the function become more complex, goodwill may begin to evaporate.

So how do smart companies avoid too many initiatives, confusion regarding the function's role, and deteriorating relationships with business divisions? Our research suggests that the best companies keep a tight rein on the function's activities, rigorously challenging any new ones.

Explicitly link activities to sources of added value. The corporate strategy process is frequently more focused on portfolio issues (what to buy and what to sell) than on parenting issues—how to add value to the businesses. Thus smart functional leaders push for more clarity about the main ways in which headquarters is expected to add value. The group HR director at one large Danish company encouraged the top team to identify three major sources of corporate added value: driving costs down, even in good times; getting the timing right on asset decisions; and building the industry's best management cadre. He then assessed all HR initiatives to determine whether they enhanced the company's competencies in those three areas. For example, leadership development training was aligned more closely with the three, and the assessment of corporate managers was adjusted to recognize contributions to them. The director also stopped certain activities altogether, assigning some talent management and organizational development to the business divisions.

Business division leaders complain about "too many unconnected initiatives." One way to solve this is to produce a table that clearly shows how each

function contributes to each major source of added value and how each functional manager can support the other functions. At the Danish company, for instance, HR figured out that it could link with the finance function to devise performance metrics that would drive incremental cost improvements even when financial margins were high.

Review performance and challenge plans. Most performance reviews for managers at corporate headquarters are just discussions between the boss and a subordinate and do little more than assess whether the latter performed the activities agreed upon in advance. Smart function heads involve managers from the business divisions in these assessments. One Dutch transport company we looked at requires each corporate function to present its strategy to the business divisions. The function must explain why it believes its activities add value, and the divisions may push back or even reject the plan. For example, the strategy function had traditionally done economic forecasting to provide a base case for business planning. The divisions argued that this added little to their planning efforts. By the following year that activity was no longer in the plan.

Stay lean. If corporate functions aren't allowed to grow, they will most likely focus on the most valuable activities. Ulrich Wöhrl, the head of portfolio strategy in corporate technology at Siemens, told us, "Corporate technology wanted to strengthen its central position by being part of initiatives, common projects, workshops, steering committees, recommendations for important ad hoc strategic questions, processes, recruiting, and so on. But limited resources forced us to focus on core tasks that had the highest impact for the company. We focused on projects to answer key questions such as 'How competitive is the innovation power of all business units of Siemens?' and 'What are the radical and disruptive threats and opportunities for our businesses?' We supported these projects with an established expert network of all division CTOs and involved R&D heads and division CEOs only on an ad hoc basis. Our limited resources meant we could not establish and continuously maintain a process of trusted teamwork with these latter groups."

Stage 3: Maturity and Best Practice

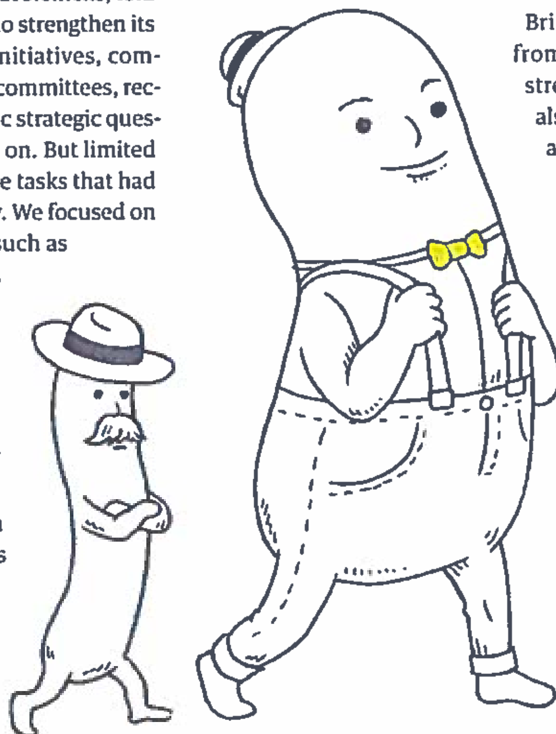
Once a corporate function is well established and its mandate is fairly stable, its bosses focus on improving performance. Because identifying objective performance measures is difficult, they typically use similar functions in reputable companies as benchmarks and start searching for best practices.

Looking at functional peers can spur new ideas, and benchmarking can increase operational efficiency. But a focus on peers may divert attention from the specific needs of the internal business divisions. The disciplines recommended in the previous section can help the heads of mature functions avoid this trap. The best take additional steps to help them focus on internal customers:

Reinforce relationships with business divisions. Managers who see themselves as functional professionals and don't feel a need to fully understand the company's divisions are guaranteed to antagonize business units. Gary Steel, then the head of HR for the ABB Group and a member of its group executive committee, told us, "When I arrived here, far too many HR people didn't know the numbers and the business. I even had HR people telling me that they joined HR to stay away from figures. That is totally unacceptable. If you don't know your impact on the bottom line of this company, you are useless."

Bringing people into a corporate function from the business divisions is one way to strengthen the relationship. The new arrivals can educate their functional colleagues and provide a bridge to the units they came from. Steel said, "We have a steady flow of business HR folks into corporate functions. Our current head of talent and learning was previously the regional HR head for North America. Several of our current [HR business partners] have spent time in corporate functional roles. The key is ensuring that individuals have experience on both sides."

Another way to build relationships is to give some division-level responsibilities to corporate function managers. One head of finance commented, "We have CFO double-heads. The CFO is the functional head, and the regional managers report to him. But he is



also a line manager in the operating business, because he is a global markets head. That connectivity, I think, helps us overcome some of the issues."

Monitor satisfaction levels. Smart companies take feedback from their business units as an integral part of their functions' strategic review processes, an approach that helps the functions stay aligned with the needs of internal customers and get more buy-in. Some companies use surveys to determine how satisfied the business divisions are with corporate functions. At Fujitsu, for example, the divisions used a one-to-10 scale each month to rate the effectiveness of every manager they dealt with on Camrass's sales support team. Thus Camrass could see who was doing a good job of keeping in tune with the business division's needs.

Separate policy from services activities. Mature corporate functions are normally involved in at least two markedly different types of activities: policy and service. Policy activities involve imposing certain standards on the business divisions and controlling the implementation of those standards, whereas service activities involve treating the business divisions as customers and often setting up service agreements to define the relationship and the performance metrics. Because these relationships are so different, smart functions choose to separate the two types of activities.

The typical solution is to collect service activities in a semi-independent unit within the function. Gary Steel explained how he split ABB's HR organization: "One half contains one HR center per region for all the HR transactional services. The other half is HR as a business partner. These guys are paid for by the businesses but they report to me as the head of corporate HR." At Credit Suisse the transactional services from HR, IT, and finance have been separated out into a shared services division.

Both solutions help simplify the relationship between functions and business divisions. Managers working on policy can focus on effectiveness, while managers working on services can focus on efficiency.

Stage 4:
Change and the Struggle for Survival

At some point demand for the corporate function's activities may change dramatically or dry up altogether. This may result from a shift in corporate strategy, a new technology, fulfillment of the original mandate, or hard financial times. In corporate HR, for instance, new IT tools enable companies to decentralize a number of transactional tasks.

Unfortunately, managers in the function typically resist change for fear of losing power, reputation, influence, or even their jobs. Moreover, they are usually attached to the methods of operation they know, and look for opportunities to redeploy their skills rather than acquire new ones. The activities they launch to replace the ones they've lost usually don't add value. For example, one corporate strategy function, faced with less demand, turned its spare resources toward mergers and acquisitions, taking up a significant amount of business division managers' time without completing any deals.

Many of the processes and behaviors needed to avoid the other traps can help managers cope with a significant shift in mandate. Close engagement with the business divisions will help them discern when they are adding less value. Attention to corporate strategy can point out a need for change. Functional reviews, performance measures, and feedback from business divisions can provide further reinforcement. But often these points of pressure are still insufficient to spur a corporate function to adapt. Additional steps may be required to overcome the "struggle for survival."

Replace the leaders. Typically, the incumbent function head is part of the problem. Installing a new leader not only helps win support for change but also signals that change is under way, which makes it easier for the new leader to radically downsize, cut back unnecessary management systems, and alter the team. The German carmaker Daimler, for instance, appointed a new head for the strategy, alliances, and business development function after the company decided to focus on its core business. The previous head of the function had been associated with growth into nonautomotive businesses. Martin Zimmermann, his successor, reduced the function's portfolio of activities, creating a much smaller unit. "As the company had focused increasingly on its automotive core business," he explained, "the organizational structures for strategy work were left untouched. We addressed this through a complete restructuring, streamlining, and integrating of all strategy resources on the corporate, divisional, and business unit levels, thereby reducing the number of staff and leadership positions by about 50% while making the strategy department much more effective and responsive."

Corporate Functions Change as They Mature

The characteristics of a function alter with age—as do the challenges it faces and the remedies required.

	1	2	3	4
LIFE-CYCLE STAGE	YOUTH AND ENTHUSIASM	ADOLESCENCE AND AMBITION	MATURITY AND BEST PRACTICE	CHANGE AND THE STRUGGLE FOR SURVIVAL
CHARACTERISTICS	NEW AND SMALL	EXPANDING	ESTABLISHED AND LARGE	ESTABLISHED AND SHRINKING
MANDATE	NEW, ABSTRACT, AND OFTEN INFORMAL	EXPANDING, MORE EXPLICIT	ESTABLISHED, FORMAL, AND EXPLICIT	DECLINING
TASKS	EXPLORING NEW CORPORATE ISSUES	EXPANDING AND DIVERSIFYING, FOCUSING ON CORE ACTIVITIES	FOCUSING ON EFFICIENCY	REDUCING SCOPE
RESOURCES	FEW PEOPLE, LIMITED RESOURCES AND EXPERTISE	MORE PEOPLE AND EXPERTS, ENHANCED RESOURCES	STABLE STAFF, STREAMLINED RESOURCES	DECLINING STAFF, SLACK RESOURCES AND EXPERTISE
LEADERSHIP	CEO AS SPONSOR	FUNCTIONAL HEAD	FUNCTIONAL TEAM	FUNCTIONAL TEAM
WHY CHALLENGES ARISE	UNFAMILIARITY OF CORPORATE TASK	MISSION CREEP	BENCHMARKING WITH PEERS	ANCHORING IN THE STATUS QUO
	LACK OF TALENT AND EXPERTISE	LACK OF TOP MANAGEMENT ATTENTION	FUNCTION'S SIZE CULTIVATES INTERNAL FOCUS	STRUCTURAL AND STRATEGIC INERTIA
COUNTER-MEASURES	SET A RESTRICTED MANDATE	LINK TO MAJOR SOURCES OF VALUE ADDED	STRENGTHEN RELATIONSHIPS WITH INTERNAL CLIENTS	REPLACE THE LEADERS
	START WITH A FEW PEOPLE	REVIEW PERFORMANCE AND CHALLENGE PLANS	MONITOR SATISFACTION LEVELS	START WITH A BLANK SHEET (ZERO-BASED REVIEW)
	FOCUS ON SELECTED PARTS OF THE COMPANY	STAY LEAN	SEPARATE POLICY FROM SERVICES ACTIVITIES	SEPARATE NEW VALUE-ADDING ACTIVITIES

"Zero-base" reviews. Downsizing is always difficult, especially if it happens in only one function. Managers need a strong process to help them resist special pleading, personal loyalties, and anchoring in the status quo. Some executives find that a zero-based review is effective in their analysis of corporate functions: In other words, the default position is to eliminate an activity unless it is championed by clients of the corporate function and the value it adds is clear. In some zero-based processes, managers are tasked with identifying proposals for reducing costs by 40%. Those proposals are then examined by the executive team, which typically approves about half of them.

Separate new value-adding activities. Declining corporate functions try to find new ways to add value. Smart companies set up any new value-adding activities as a different function and require it to submit a new business case and gain fresh corporate sponsorship; they focus the old function on downsizing. If the heritage function is given both tasks, it's tempted to focus on the new activities and neglect rightsizing the legacy activities. One alternative to creating a different function is turning the additional activities into separate departments within the existing function.

When Fujitsu changed its strategy to achieve more global integration, Roger Camrass's sales support function, based in London, had to change radically. One option was to develop sector strategies at a global level. But rather than look for a new role for the function, Camrass concluded that the job had been done and encouraged the members of his team to join central marketing (which became responsible for sector strategies) or take client-facing positions within business divisions. He and others who didn't choose such roles left the company.

CORPORATE FUNCTIONS change continually. New ones are set up, existing ones grow, and long-established ones become redundant or need to adapt to new circumstances. By remaining alert to the challenges functions face as they mature, corporate executives can anticipate problems and put in place countermeasures to help functions add rather than subtract value. ▽

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