Brief

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Nobody loves the HR team (or finance, or legal, or comms). What's wrong with group HQ functions and what should CEOs do to fix them?

Only 10% of companies say they are very happy with the performance of their HQ teams. Surveys show that HR, IT, Finance, Legal, Communications are not exactly every leader's favourite part of the business. This is not because most functional leaders don't care or are not working hard to do their best.

What is going on? Are HQ functions doing everything they can to help the business and what is the best way to help them do so? Above all, what role should business and it leadership play to ensure real improvement. There is remarkably little research or advice - we summarise some of the best of the published material.

Traditional functions have got bigger, new ones are appearing, their influence grows

As companies with business units or divisions have become better able to standardize and centralise 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, continue to emerge. In a Harvard survey of 761 of the largest corporations in North America and Europe, a third of companies reported an increase in the number of corporate functions—and fewer than 10% reported a reduction. 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 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. A single-company survey of both corporate function and business unit managers, found that fewer than two-in-ten of the business units felt that their corporate functions added high or very high value.

CEOs want strong strategic functions but are wary of their value

When you talk to leaders across the business, or sit in on a business unit executive meeting, one of the most common complaints is about the corporate functions – especially that they are complex, demanding, interfering and make the work of divisions harder not easier. While all leaders know they need a strong strategic approach to people management, or communications or technology – it can feel like a grudge-purchase.

And CEOs are right to be wary. Various pieces of research suggest that without the right guidance, HQ functions can become self-serving – mainly by being over-focused on matching best practice, or generic services, rather than focusing on supporting the current emerging needs across their business. Of course, many functions perform very well – but it does not happen as often as CEOs and others would like.

Each function acts as if it is the only one - the business must cope with them all

The strategies, priorities and plans of each function may often be well-intentioned and intended to focus on the business – but are usually developed in isolation from the other group functions. So, when experienced by the leaders of a business unit or division, or geography, it usually feels like a combined experience of initiative overload, contradictory requirements and complexity. And this is often while they are being pressurised to simplify and cut costs by the centre. It does not often feel as if the centre is run the way that it requires of everyone else. No-one appears to have the group role of pulling this all together in most organisations.

CEOs can act to ensure improvement

It seems that CEOs also need to step up the mark. One survey of 50 function heads suggest that they receive too little guidance from CEOs on how to help support the strategy and performance of the business. Instead they are asked to develop their own functional strategies. The result is seen as mixed. There appears little investment in ensuring strong productive alignment between overall business priorities and the function strategies – except via the intervention of the CEOs, who appear to spend little time on this. When surveys ask CEOs why they don't intervene, the main reason is that they trust the professional expertise of the functional leader ("That's why I hired them"), and they do not feel knowledgeable enough to "get in the way".

However, just as CEOs are usually - and properly - happy to help set strategic direction for a business unit or division, they are perfectly capable of doing the same for a group function.

Three steps to improve the value and performance of group functions

Firstly: ensure clarity over the overall role of the HQ (and 'group' functions) in the business. There are broadly three types of HQ role, but most businesses are not clear and articulate about what theirs is, and so end up with an accidental mix or muddle between these. What is right for a business will change according to strategic need and the external environment it finds itself working in. The key point is to ensure clarity across all leaders about which of these are the primary role for HQ and group functions and the extent to which the others play a role:

A. ***Light touch governance role:*** This is the classic holding company role, to ensure core regulatory, tax, audit, compliance and investor standards are met – but leave everything else to business divisions. This only requires a small number of people at the centre (although this is growing in many industries as regulatory requirements increase). It also requires a strong and effective regime of metrics.

B. ***Strategic value role:*** This is an activist, supporting and enabling role providing strategic value across the group that individual units cannot achieve on their own. Even companies like GE, PepsiCo, Tesco and WPP – which are famous for lean corporate costs - none the less have activist centres designed to add strategic value. They are focusing on a handful of things such as lean manufacturing, customer insight, transfer of technologies or senior talent management. Other companies like Unilever or Sodexo, have strong strategic views about a wider range of areas which they wish to protect and build – including ones designed to ensure they are actively good corporate citizens. 'Strategic value' in these areas is not mainly about control or enforcement it is about adding real benefit, in support of particular areas vital to the business model or strategy of the company.

C. ***Shared service role:*** This is where economies of scale are harnessed to get more value- for-money out of doing certain things once or by one team rather than in fragmented ways across the business. The classic examples are procurement and IT, and some aspects of finance and HR.

Clearly, every group function should understand the overall agreed HQ role, and where they fit in it and contribute. The business units or divisions also need to understand the role of HQ and what the business as a whole expects their group functions to do on behalf of everyone – and the extent of their freedom (or not) to 'dabble' in those functional areas.

(For more on the roles of headquarters see our Stonecourt Brief: *Getting the right size and design of HQ: bigger may be better?*)

Secondly: CEOs need to be more pro-active in discussing and confirming requirements for each of the central functions. In particular they should work with each functional leader, and the executive team as a whole to:

1. ***Agree how the overall strategic added value of the HQ applies to each function:*** Each function can then define its priorities and plans relative to these. The CEO also must take a holistic overview of all the plans of the functions to ensure they add up to the best overall areas of focus for the whole organisation.
2. ***Fully review the strategies of corporate functions annually***: they deserve as much time and attention as a BU. Finding time is tough, but these reviews can be spread

through the year. This discussion must be about more than meeting budget and other KPIs, it should include discussion of the strategic challenges, about being nimble and flexible to a changing context, about joined-up working with the other functions and about feedback from the business on performance of the function.

3. ***Keep a corporate initiatives matrix***: the bane of every team and employee in a big business is the apparent continual flow of disconnected initiatives from central functions. Each may be valid, but collectively they can destroy value. The executive team should keep a matrix of which initiatives effect which business units – and make sure it is discussed by the executive team once or twice a year to keep the number manageable. The best businesses will not add one until one is removed or completed, and openly discuss the desirable overall load and appropriate phasing.

   One way to test a corporate initiative is to ensure it passes at least two of these three criteria:

   a) It adds significant *strategic* value by being done in *one* way across the group
   b) The subtracted value of implementation (there always is some) is not significant
   c) There are not *too* many barriers to implementation – some is OK, many is not. This means rolling it out is easy for the organisation.

4. ***Break out shared services***: If these are managed in the same unit as core added-value services, it dilutes the focus and often ends up with a 'worst of both worlds'. As has now been discussed widely about the role HR and IT functions, in many cases, the role of running transactional shared services on a daily basis often squeezes out any strategic HR or Technology role. It is also true that the profile of a leader of an excellent shared service will be quite different from the strategic advisor that should lead the function.

Third, recognise the journey group HQ functions go through and so the CEO manages them differently at different stages:

a) ***Youth and enthusiasm stage*** (when a function is new, or has a new leader): the CEO sets a restricted mandate, and it starts with a few people, and focuses on selected parts of company where the greatest difference can be made, or on one or two vital priorities only.
b) ***Adolescence and ambition stage*** (when there is rapid growth in the function of people and activities): The CEO ensures everything links to major sources of added value. Performance is reviewed regularly. It stays lean. Development and innovation is by encouraging pilots and the testing of alternative ideas to engage the business in the success of the function.

c) ***Maturity and excellence stage***: Success comes through strengthening relationships with internal ‘clients’, monitoring satisfaction levels, separating policy from service activities. Also, preventing the function from simply using ‘benchmark’ or ‘best practice’ performance measures – this generally diverts energy and attention from the specific needs of the business divisions.

d) ***Change and the struggle for survival stage*** (when functions have got too fixed in their ways of working, big, too expensive, and have stopped being a useful influence across the business): Time for the CEO to replace the leaders, start with a blank sheet (zero-based review), separate the new value-adding activities from routine service delivery to ensure a fresh new focus. Renewal is a good thing.

Every context in every company will be different. A major change in the business – such as a big merger, or an industry recession – will of course change the evolution of these stages.

The main point is to ensure that:

- The CEO actively sets direction and reviews value
- The group functions are each self-aware of where they are, and are encouraged to continue evolving
- The business understands the intended role, and value.

Sources

Sources used for this article include: Campbell, Szulanski: Knowing when corporate headquarters adds rather than subtracts value (McKinsey); Collis, Lagace: *Does your corporate HQ fit with corporate strategy?* (Harvard Business Review); Collis, Shaffer: *Group Functions at the Maersk Group* (Harvard Business School Case study); Couto, Neilsen: *Headquarters: Irrelevant or irreplaceable?* (Booz); Goold, Campbell, Alexander: Corporate *Strategy and Parenting Theory* (Ashridge); Goold, Young: *When lean isn't mean* (Ashridge, Harvard Business Review); Holley: *What CEOs want from HR* (Henley); Kocourek, Hyde: *The Model 2 Organisation: Making your company safe for zealots* (Booz); Kunisch, Müller-Stewens, Campbell: *Why Corporate Functions Stumble* (Harvard Business Review); Leinwand, Mainardi: *Rethinking the Function of Business Functions* (Harvard Business Review); Neilson, Deffarges, Kocourek, Treat: *Putting headquarters in its place* (Booz); Rheault, Trussler : *The Activist Centre* (Boston Consulting Group); Stalk: *Rotate the core* (Boston Consulting Group, Harvard Business Review).

