

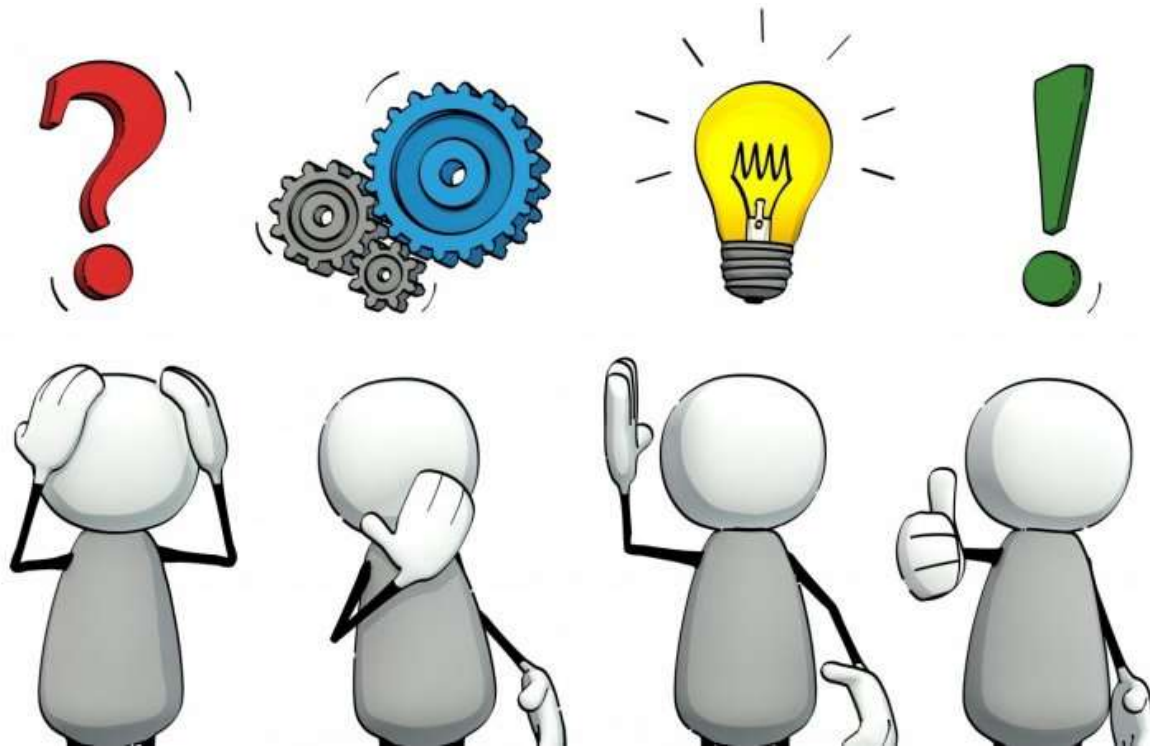
THE ONE THING YOU NEED TO KNOW ABOUT MANAGING FUNCTIONS

Khaled Mahmud
Associate Professor
IBA DU

Innovation!



Where to Start?



Strategy... Really?

- Brands love us!
- They know they need us.
- Creating a strategy would be a waste of time.
- We're overwhelmed as it is. In fact, we have more work than we can handle.



There It is!

- Stephen's team had more work than it could possibly do. He was trying his best to serve the company and was struggling to keep up.
- His team tried to do everything for everyone.
- Stephen was in fact making a choice. He was choosing not to choose. And as a result, his team was failing to achieve much at all.



Strategy is needed!

- Most companies accept the notion that corporations and business units need strategies.
- For corporate functions—shared service organizations such as IT, HR, R&D, finance, and so on—the need for strategy is less widely understood.
- In many firms, functions just exist, serving the company in whatever manner and at whatever scale the business units demand.



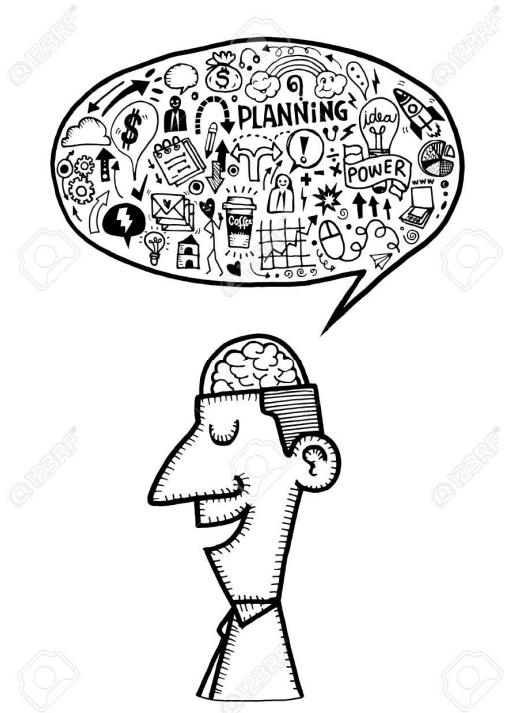
What More?

- If functions do not adopt a strategy consciously, they will almost inevitably **end up becoming a drag on corporate performance rather than a driver of it.**



You have it already!

- There's a secret about strategy that no one tells.
- Every organization has one, whether or not it is written down.
- It can be deduced from the actions the organization takes.
- The goal may be implicit. It may have evolved over time.



Functions making strategies!

- When Finance decrees that all investments must have a cash payout within seven years, it is making a strategy choice.
- When IT decides to outsource application development, it is making a strategy choice.
- When HR chooses to standardize hiring practices around the world, it is making a strategy choice.



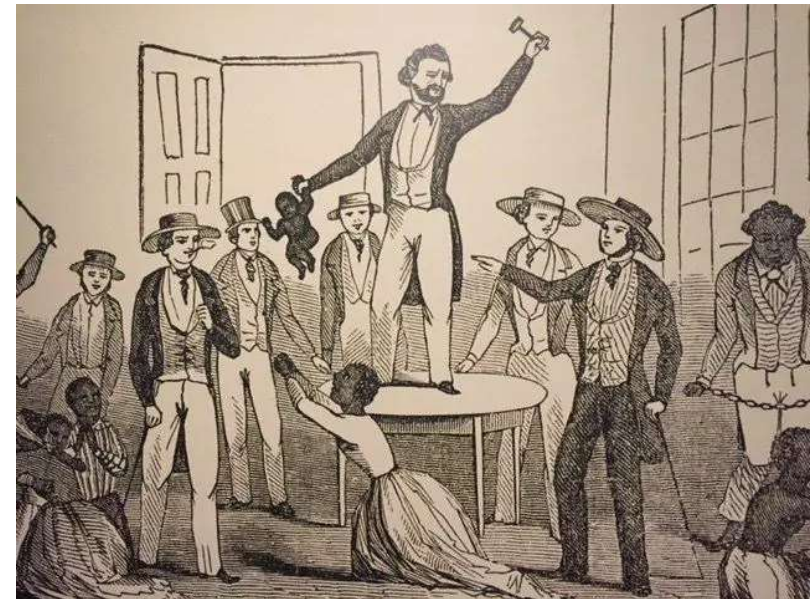
Damaging Strategies - *servile strategy*

- Do everything the business units want.
- A company exists to create products and services for customers, so the business units, which do the creating and serving, rightly drive corporate strategy.
- Business units do strategy; functions support them. Functions serve at the pleasure of the business units.



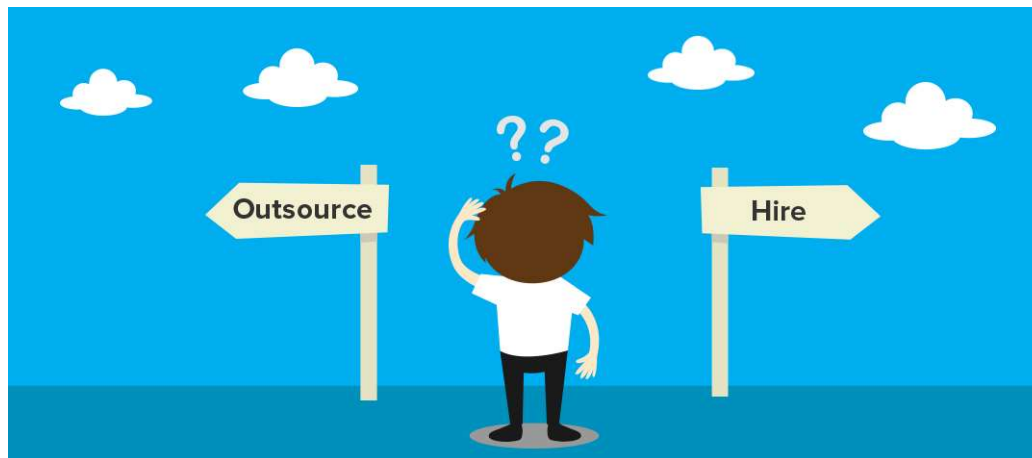
Damaging Strategies - *servile strategy*

- Functions that unconsciously adopt the servile strategy try to be all things to all people.
- They become undifferentiated and reactive, losing their ability to influence the company and access resources.
- They struggle to recruit and retain talent, because no one wants to work for an ineffectual part of the firm.



Damaging Strategies - *servile strategy*

- A servile corporate function lives under the constant threat of being made redundant.
- It spreads its resources too widely and thus doesn't serve any business unit particularly well.
- It might end up in elimination by outsourcing!



Damaging Strategies - *imperial strategy*

- leaders put the function's work front and center.
- The IT team creates a center of excellence in machine learning and data analytics—because that's where the action is in IT these days.
- The risk and compliance team builds a huge apparatus around risk assessment and then looks for ways to insert itself into corporate decision making wherever it can.



Damaging Strategies - *imperial strategy*

- The finance team builds sophisticated reporting systems that generate mountains of financial data that may or may not be material to the business units' work.
- All imperial function leaders we've met claim that their initiatives are great for the company and its businesses, but they can seldom back up this assertion with any evidence.
- IT benchmarks Google, finance Goldman Sachs, procurement Walmart, and logistics FedEx.



Damaging Strategies - *imperial strategy*

- The result, unsurprisingly, is a function that serves itself rather than its customers, much as a monopoly business would.
- Business units are often prohibited or strongly discouraged by senior management from outsourcing!



Functions are critical!

- Corporate functions can and often do contribute greatly to a company's competitive advantage.
- Procter & Gamble's **customer insights and analytics function**, for instance, is critical to helping P&G better understand its customers—a key source of its competitive advantage and a driver of its strategic choices.
- Paper and packaging manufacturer **WestRock's logistics** function plays a central role in driving the innovations in flexible, customized delivery.



Effective Functional Strategy!

- Two questions a functional leader should explore.
- First, What is the implicit current strategy of the function, as reflected in the choices that it makes every day?
- Second, What are the strategic priorities of the rest of the corporation, and is the function critical to them?



Effective Functional Strategy!

- In trying to serve all parts of the firm the function may be underserving those that are key to its success. Or perhaps the function isn't helping the firm develop the right organizational capabilities to deliver on the corporate strategy.



Effective Functional Strategy!

- Important though the exercise is as a first step, do not dwell too much on these questions.
- A reasonable expectation is that a group of smart people, using their existing knowledge, should be able to answer the two questions to a good-enough level after a few hours of discussion.



Where will we play?

- Leaders must identify their **primary customers** inside the firm.
- The **core offering** of the function to these customers.
- What part of that offering will be **outsourced** and what part delivered by the function itself?

Where will we play?

- Let's say that an HR function has identified its **main problem** as a lack of design creativity across the firm.
- It might determine that its **primary customers** are business-unit CEOs.
- Its **core value offering** is recruiting and developing young designers.
- It might choose to **outsource learning and development**.

How will we win?

- For corporate or business-unit strategists, determining how to win is relatively straightforward: Find your competition's strategy.
- General Electric needs to figure out how to provide better value to its business customers than Siemens does;
- Coca-Cola needs to provide better value to soda drinkers than Pepsi does.
- In each of these cases, the competitor is easy to identify, and its value proposition.

How will we win?

- With functions, the how-to-win question is more challenging. It's not always easy to figure out the relative value to a firm of any given function.
- Although Verizon can probably do a good job of estimating the value provided by its network function versus T-Mobile's network function, it would most likely have a harder time differentiating between the relative values of the two firms' HR or finance functions.
- What's more, one company's functions aren't really competing directly with other companies' functions in the same industry.

How will we win?

- That's because the competing firms may have very different strategies.
- The HR function at the HR-driven company would not want to benchmark HR at the finance-driven company.
- Functions should compare themselves with functions in other companies only if the companies' strategies are similar.



How will we win?

- The functional team should emerge from its inquiries with a number of possible strategies that answer the questions of where to play and how to win differently from the way the existing strategy does.
- At this point, the team has to make a choice.



Talent Strategy at Four Seasons



Talent Strategy at Four Seasons

- For decades now, the heart of Four Seasons' corporate strategy has been its ability **to define luxury as service**.
- Founder Isadore Sharp, in his 2009 book, points to the company's **employees as the driving force** of this strategy.
- Our long-term staffs were focused on more than their jobs; they were concerned about guest comfort and their ability to enhance it. And our ability to attract, develop, motivate, and retain such people made our culture a rare advantage.

Talent Strategy at Four Seasons

- Indeed, Four Seasons' talent function plays a crucial role in producing its competitive advantage. If we look back at what Sharp and the talent team did through our lens of functional strategy, we can see how they **defined their problem** and **the choices they made** to solve.



Defining the problem

- Labor costs in the hotel business, as in most service-based industries, represent a large share of operating expenditures (currently about 50%).
- According to the Bureau of Labor Statistics, the 2018 annualized employee turnover rate in the industry was 73.8%.
- Since turnover of frontline employees is so high, most major chains focus their hiring efforts on getting good general managers and then building mechanisms to quickly hire lots of new entry-level employees each year.
- They rarely invest much in frontline retention because it is seen as a lost cause;

Defining the problem

- When Sharp entered the hospitality business, he saw all these norms in operation. But he slowly began to push back on them.
- At the time, hotel chains defined luxury largely in terms of space: grand architecture and décor, complemented by highly standardized, obsequious service. Sharp believed that luxury was not just about space but also about how people were treated.
- And frontline staff would be the key to delivering a new form of service that was **warm, welcoming, and capable of filling in for the nurturing support system that guests had left at home and the office.**

Determining where to play and how to win

- The Four Seasons talent team identified the **frontline staff as its internal customer** and focused on hiring, retaining, and motivating those employees in ways that set it apart from competitors.
- Sharp committed the necessary resources to put candidates through five interviews—the last with the hotel general manager—before they could be hired. This process produced a more thoroughly vetted cadre of hotel staff, **hired for attitude rather than experience.**

Determining where to play and how to win

- The talent team also invested in extending staff tenure.
- If the average tenure at Four Seasons approached 20 years, the talent team could invest 10 times the resources per person in hiring, training, and rewards than could competitors.
- Its **training systems became legendary.**
- Four Seasons thrived under Sharp, becoming the largest and most profitable luxury hotel chain in the world. And its talent strategy was a crucial element of this success.

Building Strategies for Supporting Functions

- it is still very important to understand the choices of the function and the role it plays in helping the company win overall.
- In the simplest terms, supporting functions need to operate in efficient and cost-effective ways that enable the firm to invest in its sources of competitive advantage.
- The functions also has choices regarding whom to serve and with what offering.

Building Strategies for Supporting Functions

- it can choose to serve frontline employees or the business-unit leaders; the CEO or the board of directors.
- It may see all those groups as potential customers, but it must determine which is the core consumer with whom it seeks to win.
- Work around them.

CONCLUSION

- Functions do not have to be servants to corporate overlords, nor should they be petty tyrants building their own empires.
- Like their business-unit counterparts, functions can use strategy to guide and align their actions, to more effectively allocate resources, and to dramatically enhance the competitive value they provide.
- Just like the rest of the company, they make choices every day, and by developing a coherent strategy to guide them, they can become vital engines of the business.



Thank You