With Asia leading the way in the recovery rally, companies here are exhorted to pursue growth strategies. In the process, are corporate centers value-generators or value-destroyers?

Houston, we have a problem

As companies struggle to rebuild revenue streams and profitability in the post-recession world, the biggest question on CEOs’ minds today is “Where is the next stage of growth going to come from?”

For many companies, the answer lies in exploring new market opportunities, new partners and new innovations. This in turn brings on new conflicts like balancing short-term profitability versus long-term business sustainability, centralization of power at headquarters versus autonomy of business units.

At the heart of these paradoxes lies the role of the corporate centre and the value they bring to the business. Whether at corporate or operational levels, many business leaders privately admit that their other big challenge is managing the internal relationship between the “spokes” and the “hub”.

Weathering volatility in today’s business world is a formidable challenge. Not only do corporate headquarters constantly have to rationalize policies and add value to the business; they also have to enforce them across increasingly complex global operations.

Frustratingly, their efforts do not always produce desired results. Despite their good intentions, corporate centers are often labeled ‘value destroyers’ – for interfering with operational planning, leveraging corporate charges with little corresponding return, and generally creating red tape that makes the companies less appealing to employees, customers and potential investors.

Can companies navigate the minefield and establish an operating model that unlocks the organizations’ hidden value?
Unleashing value

Given the multiple roles of governance, leadership and functional support that converge at the top, it is not surprising that many corporate centers are not configured to act responsively to fickle market environments. Many business heads know intuitively that better centre-unit collaboration can lead to more value creation; but hit a dead end over how to achieve this.

According to Dr Andreas Raharso, Director of Hay Group’s global R&D centre for strategy execution, the tipping point begins by questioning the conventional ways corporate centers create value.

“At the most basic level, the corporate centre can deliver value in three ways: resources, synergy and learning. By virtue of their position, corporate centers have access to strategic resources and knowledge that are not apparent or available at the strategic business unit (SBU) levels. These include brand equity, corporate governance and cheaper sources of funding,” he explained.

He added that corporate centers are responsible for enforcing control and standardization over critical functions such as finance, HR and safety, regardless of geographies and operations. This allows corporate centers to deliver valuable synergies that contribute to bottom lines, by combining, replicating and reconfiguring processes holistically (Figure 1).

Theoretically too, corporate centres’ involvement in the design and dissemination of best practices makes them instrumental to organizational learning. This happens when corporate centers are able to generate and turn ideas from various ground units into beneficial and meaningful processes for the organization as a whole. As agents of learning and knowledge management, corporate centers have important roles in fostering innovative cultures, which can translate into sustainable and long-term value for organizations.

“While managers have no issues with the corporate centre’s value proposition in theory, they stumble to make it work in reality,” said Dr Raharso.
Finding the balance

Research on organizational design has not led to “one-size-fits-all” solutions, but Dr Raharso suggests a few starting points that organizations can use to help corporate centers realize their potential in value creation:

Defining value

It is important to define value creation across different facets of organization, in order to establish a common goal.

To customers, value creation could refer to the constant innovation of products or the ability to offer cost-competitive services. To employees, value could mean better compensation, training opportunities or being involved in decision-making, so that they, in turn, are motivated to create value for the customer. Initiatives on value creation fail when the two are not connected.

At a recent CEO round-table discussion on the role of corporate centres held in Singapore, many business leaders attested to the difficulties in garnering ground support for programs being introduced to strengthen organizational synergies.

A petrochemical MNC encountered a headwind of resistance when rolling out a new Client Relationship Management (CRM) system. The CEO recalled, “It was frustrating to have SBUs constantly questioning: ‘Why are we doing this? We already know our customers and are managing their requirements every day, so why do we have to share what we know with everybody else?’ But what they do not see is the CRM system provides us with quick intelligence on the way we do business around the world – who buys from us where and for how much.”

Unspoken knowledge

Understanding value creation and its processes can serve to rally an organization’s disparate modus operandi towards a collective, single objective. As another CEO described it, the corporate center and its SBUs are “different organisms in the same ecosystem”. Interestingly, corporate centers that initiate organizational learning from the top are able to capture an abundance of tacit knowledge that resides on the ground. This empowers corporate departments to create stronger value by seeing the bigger picture, which helps them to build on operational knowledge for sharper and more strategic decisions.

However, findings from Hay Group’s research suggest that in Asia today, CEOs are so focused on managing external issues such as capitalizing market opportunities, business expansion or securing financing, that they often overlook the importance of building internal organizational strengths for future sustainability and continued success. Unfortunately too, no one at the corporate center is blessed with bandwidth to examine the details of all operations or the value of creating potential of institutional strengths and intangible capital.

Today, organizational value is just sitting out there, and unless corporate departments take the lead to codify and disseminate the unspoken knowledge, everyone loses.
Quality conversations
At a global chemical corporation, value creation processes involve strategic planning reviews headed by the CEO and made up of corporate and SBU representatives.

“Because all vested parties were consulted in defining processes, there is less chance of anyone coming back and arguing about something they had agreed to,” said the Head of Asia operations.

Although tensions are inevitable, they can be healthy if properly managed. And while CEOs say such meetings exist for sharing of ideas, they agree that open, honest communications and quality conversations can be lacking especially in Asia.

“Sometimes the conversation lapses into an argument over corporate charges and then no one is ever happy with the outcome,” noted the MD of a global telecommunications company, wryly.

For one, quality conversations create environments where corporate centers can pick up insightful ideas from the ground. And when their goals converge, it becomes easier to achieve buy-in. Quality conversations also create deeper engagement among employees from different functions, giving corporate centers a candid opportunity to explain their rationales and manage ground expectations.

Maintaining momentum
Interestingly, for a manufacturing company, having standards without standardization is the way to go. According to its CEO, “we are careful not to have too many rigid procedures than necessary, because we do not want to straightjacket people. So, what we do is to define our expectations for each operation – but how they arrive at desired results at the end of the day, it really does not matter to us.”

On the flip side, for some industries, such as professional services, standardization is vital.

Explaining his rationale, Hay Group’s Managing Director for Asia Pacific & Africa, Mr. Israel Berman said: “For us, we have to ensure a consistent standard of service across our worldwide offices. This is because, regardless of location, our clients expect the same level of quality whether in Brazil, Singapore or London. This is especially important when we are handling multi-border transactions like mergers between two global companies.”
For the chemical corporation, their re-organization was initiated by the needs of their customers. “As our customers’ business change, we change. But first, we took time to understand our customers’ objectives, review our existing service models and decide how we should regroup or reorganize to prevent lapses in consistency, quality or the way the customer expects us to now meet their requirements,” said its CEO.

And going by standards without standardization, keeping customers happy would clearly affect the way corporate centers choose to operate.

**Winning ways**

Deciding on the best configuration for a corporate center is only the tip of the iceberg.

Mr Berman pointed out that, unlike twenty years ago, businesses today cannot be run with a top-down approach. Even without outright rebellion, inertia from different factions can quickly kill new corporate initiatives. “As an example, Hay Group’s research shows that an alarming 90% of corporate mergers and acquisitions fall short of their objectives due to inability to harness *intangibles* contributed by employees,” he added.

And often, as the CEOs agreed, failures can be attributed to individual egos, that is, it is not process designs that create or destroy value, but the people who are managing those processes. Not surprisingly, when egos or personal agendas collide, value creation suffers.

“Listening to your customers is one thing, but if you do not have the right people, and if you cannot execute your technology transfers, then you are in for a really hard time,” said another CEO, recounting his experience in a developing nation as he shook his head.
How many Singaporean companies are truly global? How many Singaporeans head MNCs? Our next competitive edge lies in executing a robust organizational learning process.

Dr Andreas Raharso, Hay Group’s global R&D centre for strategy execution

The secret to value creation
How do Singaporean business leaders fare in unlocking value for their organizations?

“In result-oriented cultures like Singapore, leaders direct a disproportionate amount of effort into providing tangible resources and synergizing operations. And because the benefits are not as immediate, organizational learning and innovation are lower priority, or worse, do not even feature in their minds,” observed Dr Raharso.

According to him, companies ignore organizational learning at their own peril.

“Without learning and knowledge sharing, how can corporate centers fully leverage on existing resources to increase the performance? If ideas exist only in people’s heads, and we do not codify and share them, then the company loses precious opportunities to create value every time it loses an employee,” he remarked.

He pointed to the example of Korean automotive company Hyundai Motor who were able to leverage on their corporate centre as a centre of learning. As a result, Hyundai Motor chalked up an impressive 7% growth in a market that was down by 24% in 2009, thus beating BMW and a pre-crisis Toyota Motors.

However, Singapore companies have always done well before without concentrating on organizational learning, so why change a winning formula?

Dr Raharso elaborated, “What has worked before may not work now. What we have all learnt from the recent global downturn is that the only certainty is uncertainty. Can you imagine what your business units can achieve if there was a process that they could learn from each other?”

“Furthermore, if you look at the Singapore business landscape today, how many Singaporean companies are truly global? How many Singaporeans head MNCs? Our next competitive advantage lies in executing a robust organizational learning process.”

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Hay Group’s global R&D centre for strategy execution researches best practices in strategy execution globally. Based in Singapore, the centre provides a unique East-West perspective for business leaders all over the world. Our research helps provide insightful advice to executives looking to build effective organizations for the future.

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