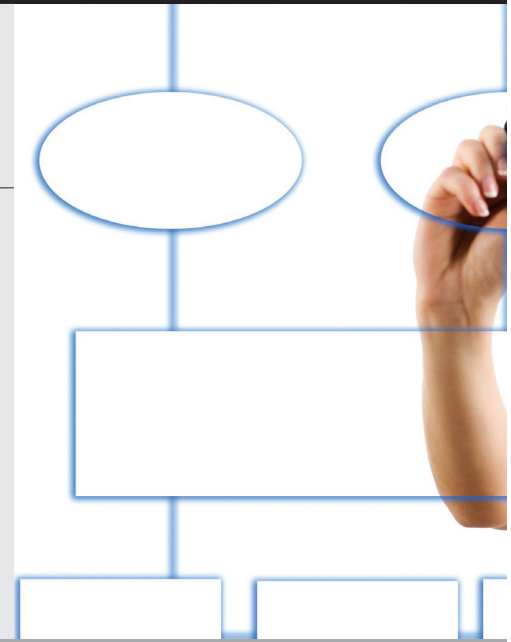


# C-SUITE CUTTING EDGE

# SUCCESSING IN REDESIGN

Globalisation and technological advances have accelerated the pace of change, including that of organisations. Ashok Som proposes a model for organisation redesign, with attention to human resources at its centre



**T**hese days, about the only thing that doesn't change is the ubiquity of change. Companies in particular, are led to revise strategies which in turn fosters organisational change. Professor Ashok Som, ESSEC Business School (Paris), studies the dos and don'ts of organisational structuring in his recent book, *Organization Redesign and Innovative HRM*.

According to Som, it is a changing environment that drives strategic change. A firm that functions in an unchanging environment does not need to engage in revision. A changing environment on the other hand, forces change upon the firm. Among key environment changes that will force strategic change, are transformations in the market structure, advances in technology, changes in government policy, and novel competitive pressures. Som summarises the linkage between environment and strategic action as follows: 1) The higher the environmental turbulence, the greater the necessity to emplace redesign mechanisms and adopt innovative human resources management (HRM) practices; 2) the higher the environmental turbulence, the greater the

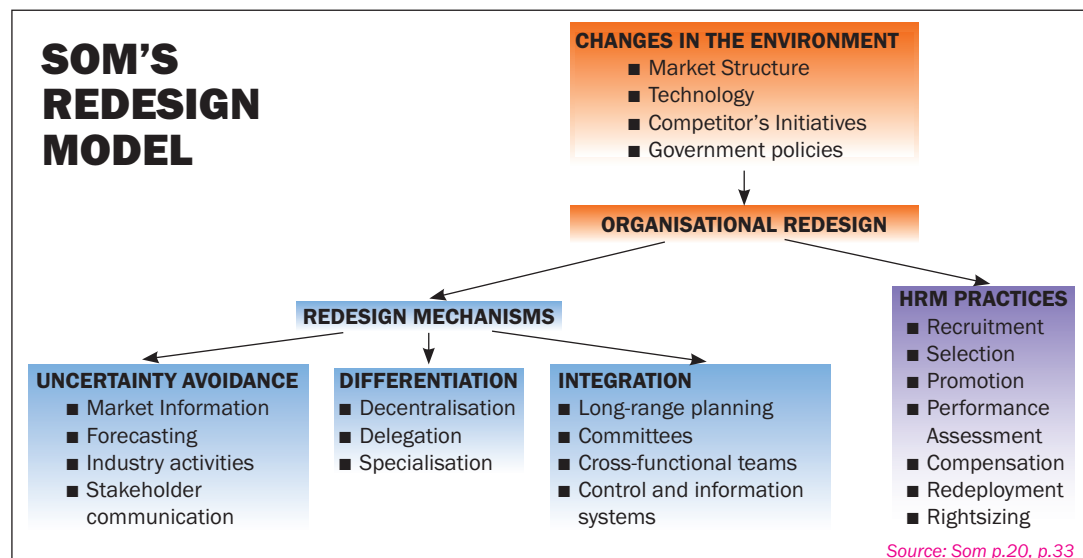
necessity to align redesign mechanisms, with innovative HRM practices to cement the changes.

Som's view is that competitive strategies, by themselves, tend to fail if they are not accompanied by appropriate redesign mechanisms and innovative HRM practices. Good strategic ideas are no doubt necessary, but they are not sufficient. He argues that executives should be focused on strategic capabilities and that strategic capabilities are not limited to strategic intuitions (however sound these may be). Strategic capabilities can be thought of as those

strategic intuitions brought to fruition by what Som calls an infrastructure of redesign mechanisms and HRM practices. Strategic intuitions, without that infrastructure, are empty. In the context of a turbulent environment, low performance is attributable, per Som, to the absence of comprehensive and aligned redesign mechanisms and HRM practices. Managers in the pursuit of high performance are invited by Som to acknowledge the importance of redesign mechanisms and innovative HRM practices.

In Som's model (see chart), there are three fundamental

redesign mechanisms. The first is uncertainty reduction, which involves reducing the information gap. To reduce uncertainty, organisations will engage in market information collection, forecasting, formal and informal information gathering from stakeholders. The second is differentiation, which can be thought of as a division of strategic labour. In differentiation, a large task is segmented and delegated to subunits. Decentralisation, hierarchy reduction, delegation and specialisation, are all aspects of differentiation. The third redesign mechanism is





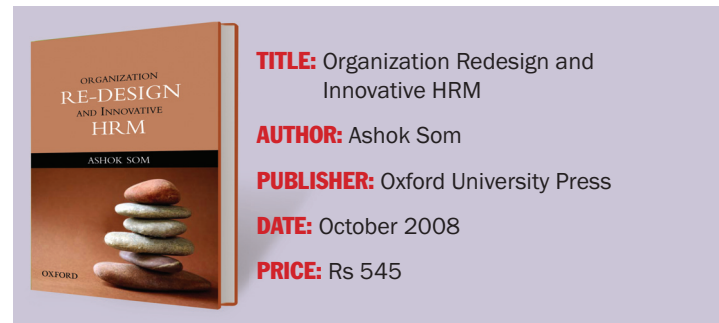
integration, which relates to the abilities of the company's parts to communicate and collaborate effectively. Whereas differentiation breaks down strategic tasks to ensure high performance, integration ensures that the different achievements work in unison. Integration mechanisms include long-range planning, formation of committees and cross-functional teams, information and control systems. The tasks of differentiation and integration are complementary and can be thought of as the strategic equivalents of analysis or specialisation (differentiation), and synthesis or harmonisation (integration).

Som's invites managers to think of the second dimension of his model, not as a cost centre, but as an investment. He places innovative HRM squarely within the strategic activity by defining it as follows: "Any introduction or change of HRM programme, policy, practice or system, designed to influence the employee, adapt the skills, behaviours and interactions of employees, and have the potential to provide both the foundation for strategy formulation, and the means of

strategy implementation that is perceived to be new, and creates current capabilities and competences."

In his analysis, HRM has 6 fundamental dimensions: recruitment, promotion, redeployment, performance appraisal, compensation and rightsizing (see chart). A successful redesign will involve innovative practices in at least one, if not all, of these dimensions; similarly, failure to innovate in at least some of these dimensions, will lead to redesign failure.

Som has four reminders for managers worldwide. They need to be aware of the correlation between innovative HRM practices and superior performance. Top management must be committed to such innovation and must communicate that commitment. A second implication is that managers should be looking at how other management teams oversee HRM innovation efforts. They might find inspiration for innovation in their own HRM practices. Thirdly, managers need to remember that strategic intent is the easy part, building the organisational capability to deliver on the intent is the more difficult part, and also the one



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where most companies fall short. Be superior in innovative HRM practices and you will likely be superior, period, Som suggests. Finally, competitive advantage through people processes is difficult to achieve and sustain, but once it is achieved, it is not easy to duplicate. Superior people performance provides an advantage that is difficult to copy.

Som reminds managers of the linkage of HRM and what are called VRIN resources. VRIN resources are those that are valuable (V), that enable firms to conceive and implement strategies that are rare (R), imperfectly imitable (I) and non-substitutable (N). Intellectual resources fall within this desirable category and innovative HRM practices serve precisely to increase the company's intellectual resources. In that sense, Som's vision is to use innovative HRM practices for building intellectual capital that is 'vrinny'.

While developed country organisations are further ahead in the creation of innovative HRM practices, the gap is closing fast. Emerging country organisations are becoming more agile. India is a good example of this. A study of 11 Indian firms he conducted in 2006, leads him to conclude that, "Indian firms are relentlessly trying to reduce employee turnover through

innovative HRM strategies." HRM is also being globalised, as it were.

Apart from presenting his theoretical model, Som presents five cases of companies, four of whom achieved (4) high performance through an organisational redesign, including innovation in the area of HRM. As befits an Indian professor working in France, the cases cover Indian and French companies.

### BPCL

Strategic changes are linked to changes in the company's environment. In the case of the petroleum product manufacturer BPCL, the change was one of government policy. In 2002, the state-owned company was to be privatised (the state was divest of 66% of the company's shares) and petroleum distribution was to be deregulated. Deregulation meant the entry of foreign players, as well as price and margin volatility. BPCL needed to redesign itself, from an SOE operating in a regulated market, to become an agile customer-oriented company in a highly competitive market.

Management decided to make customer focus the centre of its redesign. It hired a consulting firm (Arthur D. Little) to assist in the redesign process. A 30-person project group, drawn from different functions

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and regions, involved 2,500 managers in a broad envisioning exercise. To increase customer responsiveness and to empower the staff to deliver value to the customer, the organisational structure was changed, from a functional one to a divisional one with strategic business units (in BPCL's case, refinery, retail, lubricants, LPG, and aviation). The functional structure had made it difficult for senior managers to develop strategies for particular businesses. In the new organisational structure, old functional units (HR, Finance, Information Systems) became support services. Before the redesign, the organisation was totally hierarchical; it became more participative and

team-based with delegation of authority. Furthermore, the envisioning exercise performed for the redesign, was excellent training in the sort of communication that a de-layered organisation encourages.

The move away from a functional to an SBU-based structure, amounted to a new form of differentiation, one that brought the company closer to its customers. To ensure integration, the redesign created two councils, the Governance Council and the Integrative Council. The Governance Council, consisting of three sub-councils, dealt with company-wide strategic issues. The Integrative Council worked at a lower level, with the goal

of coordinating the various SBU councils and the support services.

After the redesign, the support services (in particular HR), were organised into three types of structures: embedded (within an SBU), shared (among SBUs) and corporate (over the SBUs). From the HR standpoint, the major innovation was redeployment. The consultants advised a 50% increase in the sales force and front line staff, so as to better serve the customer. But this increase had to be achieved without any new recruitment. The solution was redeployment. Existing employees were retrained and moved to the front lines of the various SBUs. In this retraining phase the consultants

proposed extensive, team-based workshops, in which more than 2,000 employees participated.

## Maruti

The change in environment for the car manufacturer Maruti was the same as for BPCL: deregulation. One further policy decision had a major effect on Maruti's business: the 1998 Supreme Court decision to require environmentally-friendly technologies. By 2002, Maruti's market share had fallen precipitously to 52%, from a whopping 84% in 1998. Redesign had become a necessity.

One of the major areas of concern, and of change, was HRM. Historically, Maruti's HRM had been a copy of its Japanese

## ASHOK SOM

How a son of Kolkata and a student of geology came to be a business professor and an Indian point man in France



**A**shok Som grew up in Kolkata, the son of an accountant who worked for the Calcutta Municipal Corporation. As a youth, he enjoyed science and dreamt of travelling. His taste, for exploring and parental encouragement to pursue a scientific career, led him to take degrees in geology from Presidency College and IIT-Kharagpur. Upon graduation he had the choice of

working for a mining company, an NGO, and a start-up educational product company. Here his family played a major role—his parents asked him to remain in Kolkata and so he went to work for the educational start-up.

The year spent with the start-up influenced Som's career in two ways. First, it increased his taste for the world of education and second, the difficulties of growing a start-up spawned an interest for the importance of people and of organisation in a company's success. When the start-up folded for lack of further funding, Som applied for a Fellow Programme at IIM-Ahmedabad in the Personnel & Industrial Relations Area. There he focused on Organisation and Strategic HRM, writing a dissertation on 'Emerging Human Resource Strategies in Response to Organizational Redesign'.

IIM-Ahmedabad had an exchange programme with ESSEC Business School (Paris, France; ranked 7th in the WSJ's 2008 International Business School rankings) and Som won a doctoral award for a six-month stay there. It was during this period that he developed contacts in French companies

such as Lafarge and Renault, which figure prominently in his book. He was first offered a one-year visiting position at ESSEC and then a permanent appointment in 2002. He was the first Indian professor at ESSEC and to this day, remains one of only a handful of Indian professors with permanent positions in French business schools.

In 2004, he set up the India Research Center at ESSEC. As director of that Center he has one of the best views on Franco-Indian relations and summarises the evolution as follows. He notes that it took French firms a while to realise that China was not the only major emergent economy, but over the last three years they have fully awakened to India's potential and now all the major French players are present in India. President Jacques Chirac's trip to India in 2006, in which Som participated, served as a symbolic milestone in this regard.

Som notes that the flow from India to France is not yet as intense. He counts about 15 Indian companies present in France, against 200 or so French companies present in India. One major stumbling block, he notes, is the language barrier. While the French will speak English outside of France, they are quite reluctant to do so at home, and this makes life more difficult for Indian firms. Another obstacle is the conflict between the more administrative, regulated French mindset, and the more entrepreneurial, risk-friendly Indian mindset. But Som sees signs of hope. On the occasion of Prime Minister Singh's recent visit to France, 40 Indian SME heads visited France. Som views, as an omen of more things to come, the recent purchase of a Lyon (France's second largest city) SME by Syntex water tanks of India. And he also insists on the useful role played by the spread of Bollywood films and Ayurvedic parlours in France. Slowly, but surely, France is opening up to India, and people like Professor Som are there to help things along. ■



partner's (Suzuki) practices. The HR department was restricted to administration and timekeeping. Individual training needs, career planning, job rotation, were all neglected. HRM was not responsible for promotions, or accountable for union negotiations. In summary, its role was limited and largely reactive.

In the new competitive environment, change was necessary. A new manager was hired for the HR function. One of the problems confronting Maruti was that despite comparatively high compensation (15 to 60% higher than other manufacturers in India), Maruti experienced excessive levels of turnover. Many MBAs and IT professionals left the organisation within a year. To solve this problem, practices were transformed in three HRM areas: training, career planning and promotion.

Prior to redesigning, the organisation had focused on technical training and benchmarking technical expertise with its Japanese partner Suzuki. The redesign involved the hiring for the first time, of a training professional, and a turnaway from an exclusive focus on technical skills, to soft skills. Identifying training needs became a priority of the HR department. In the area of career planning, as in training, the key was to make it an area of concern. Employees whose careers are actively and regularly taken into account are less likely to leave. Lastly, promotion had historically been the result of a complicated evaluation, performed by the immediate boss and unavailable before three years at the old job. The redesign made the promotion process simpler,

more objective, by widening the evaluation panel, and potentially more frequent, by removing the formal time delays.

## Renault

The French car giant Renault bears resemblances to the three preceding cases. Like Maruti, it is a car manufacturer. Like Lafarge, it functions in a hyper-competitive market, that of global car manufacturers. Like BPCL, it was a nationalised company, privatised only in 1996. And it was following that privatisation that its CEO, Louis Schweitzer, embarked on the redesign to make Renault a global top performer.

The 1996-2001 five-year strategic initiative involved two major steps. The first involved differentiation. Two new departments were created to deliver better value to the Renault customer. The service department consolidated existing service functions and incorporated new ones, such as e-business. A second department was created, with responsibility for delivery times (a reduction to two weeks within an order) and inventory levels (a reduction of 50%). In parallel to these additions, the redesign involved streamlining. Its old organisation featured three divisions (cars, commercial vehicles and sales financing)

with functional departments replicated across those divisions. The new organisation cut back on the replication of these functional departments. The second step in the strategic initiative was the 1999 Renault-Nissan alliance, in which Carlos Ghosn made his name.

HR initiatives played a major role in Renault's success during this period. As part of the organisational redesign, an executive vice president for HR now oversaw three HR providers: central corporate HR (the more strategic HR functions), the HR platform (the more routine HR functions), and the streamlined divisional HR departments. The recruitment policy was modified to grant importance to language skills and exposure to foreign cultures, key to performance in a global environment. The training programme was rationalised and focused on: job skills (35% of total training hours), retraining (29%), support for cross-functional projects (11%), management skills (9%), quality skills (9%), and foreign language training (7%).

A new performance appraisal system for managers was developed, centred on a 360° review, involving 12 to 20 people. In a move away from traditionally egalitarian French HR systems, Renault

	REDESIGN MECHANISMS			INNOVATIVE HRM PRACTICES				
	UNCERTAINTY AVOIDANCE	DIFFERENTIATION	INTEGRATION	RECRUITMENT	PROMOTION	RETRAINING REDEPLOYMENT	PERFORMANCE APPRAISAL	COMPENSATION
BPCL	✓	✓	✓			✓	✓	
Maruti	✓	✓		✓				✓
Lafarge	✓	✓	✓	✓	✓	✓	✓	✓
Renault	✓	✓	✓	✓		✓	✓	✓

Source: Som p.137

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created systems to identify and compensate high-fliers. A General Careers Committee was created and entrusted with manpower planning responsibility for three sets of managers: the so-called A positions (the 200 topmost positions), a P list of young managers with potential for A positions, and a P1 list of managers with potential to fill the ranks below the A positions. With regard to compensation, Renault instituted a performance-based component and created a stock option plan. Both these innovations went against the grain of Renault's more socialistic HR management traditions.

## Lafarge

The impetus for this French cement manufacturer's organisational redesign was the competitive environment. Lafarge was faced with a couple of competitors (Holcim and CEMEX), engaged in worldwide expansion strategies. For the French firm, the alternative was to continue with its existing organisation and limit itself to being a major European player,

or to redesign for transformation into a worldwide leader.

Its redesign, in Som's analysis, is a classic case of differentiation with integration, that it is to say the attempt to give the parts of the group autonomy, while ensuring that those parts serve the company's overall goals and culture. Lafarge's differentiation-and-integration model sets it apart from its two major rivals. Holcim, the Swiss cement firm, believed in maximising decentralisation, whereas the Mexican rival, CEMEX, believed in maximising centralisation and control through an exemplary information system network. In Lafarge's case, the differentiation was provided by the creation of business units. Each unit was responsible for its assets and returns, and came under the supervision of a regional president. This differentiation made for higher responsiveness to local customer preferences, and to differences in regulations and standards.

Differentiation also meant moving away from the French administrative mindset of

Lafarge. Somewhat like BPCL, needed to move away from a protected public sector mindset, Lafarge needed to move away from an engineering and somewhat autocratic management style. The decision process which had been slow-moving, rule-bound and top-down, needed to become more participative. Following the redesign, the process can be described as a more participative one, involving all those who could contribute to a better decision, while recognising that top management has the responsibility for the final and ultimate decision.

The integration mechanisms appear to have been easier to implement. For example, global coordination of different BUs became an annual exercise. The strategy department would collect data throughout the year on Lafarge's regional markets and competitors and prepare a strategic review for each country, with current position analyses as well as forecasts. These annual strategic reviews served as input for decisions on strategic investments, for five-year budgets, and for communication among unit managers.

On the HR side, uniform operating mechanisms were emphasised and communicated worldwide. This is crucial in a company which operates in 75 countries and employs over 70,000 people. It was a special division under the HR department that integrated acquired companies and incorporated Lafarge's policies into theirs. So the successful integration of acquired companies (the source of Lafarge's growth) is viewed as in no small part due to

efficient and highly professional HR policies. Recruitment gained a new international momentum – various nationalities were recruited and international mobility in career paths was stepped up. Redeployment was linked to career development. Expatriation was now understood to be a career-oriented move, a means to gather international experience for future career growth.

Som reminds his readers that studies of the linkage of HRM practices and corporate performance, are rare. International HRM and comparative HRM studies, such as he is engaged in, which adopt the performance perspective are even more rare. Som warns that his study is exploratory in nature, and just begins to scratch the surface. To drive home this point, he concludes his book by asserting that he has taken the less travelled path, quoting the poet Robert Frost to that purpose.

This less travelled path is no doubt a worthwhile one. But one caveat is in order: book editing is a difficult and time-consuming task. Accordingly, book publishers are reluctant or unable to engage in protracted editing processes. Unfortunately, Professor Som's book is a victim of this situation. It is not as pleasurable a read as it could be. *GO* warns that some readers will need to exercise patience for repetition, and for academic protocol, in the theoretical sections of the book. Editorial redesign, it turns out, can be as difficult as organisational redesign... ■

**NEXT ISSUE:  
GAMES FOR BUSINESS**