



SPRING 2006

“Designing the Customer-Centric Organization”

Keynote Speaker:

Jay R. Galbraith

Senior Research Scientist, USC Marshall Center for Effective Organizations Professor Emeritus,
International Institute for Management Development

By Blair Carlson

“Great leaders appreciate that organizational structure is an important source of competitive change.”

~ Jay Galbraith

Dr. Jay Galbraith, Senior Research Scientist at the USC Center for Effective Organizations and Professor Emeritus at the International Institute for Management Development (IMD), delivered the featured presentation at the March 1, 2006 Human Resources Round Table (HARRT) at UCLA. Dr. Galbraith’s address, “Designing the Customer-Centric Organization,” highlighted relevant research on organization design in general and within the context of customer-centric organizations specifically. Dr. Galbraith kicked off the conversation by posing the following two questions:

- 1) What is a customer-centric organization?
- 2) How do companies organize around the customer dimension?

The Star Model™

Before delving into the customer dimension, Dr. Galbraith gave some background on general organization design by providing a review of

his Star Model™. The model illustrates five elements that can be controlled and have an impact on people’s behavior. The five elements, along with a brief description of each, are as follows:

- ◆ **Strategy** – A company’s strategy is its recipe for success. Strategy defines the who, what, where, and how of the business.
- ◆ **Structure** – Companies should be structured or designed around the strategy. Structure reflects

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Customer Centric Organizations

status and power and coordinates products and services working together to serve customers.

- ◆ **Processes** – Through processes, decisions are made, business is expanded, and resources are allocated. Processes facilitate information sharing and collaborative decision making that would otherwise be hindered by formalized structures.
- ◆ **People** – Talent and human capital have skills sets and mind sets to be enhanced. Rotation, development and promotion help guide behavior in desired directions.
- ◆ **Rewards** – Through rewards, companies attempt to motivate behavior and align people's goals with the priorities of the organization.

Organization design is a constant process of aligning these five elements of the organization to work effectively. Though culture cannot be changed directly, changing any one of these five elements or a combination of them can influence culture, particularly over time.



The Customer Dimension

With a framework established to consider organizations, Dr. Galbraith next addressed the emergence of the customer in today's marketplace. The rise of customer power in the business environment has influenced strategy and, as a result, organizational design. Globalization has forced companies to consider customers in a lot of different places in the world. Increasingly, customers desire complete so-

lutions to their problems and prefer fewer, longer, and closer relationships with providers. In addition, customers have more knowledge through access to the internet, empowering them with information. All of these factors have shifted power to buyers.

Companies that can more effectively meet customer



needs stand to differentiate themselves. The key in delivering the company to the customer is to keep it simple, master complexity and deliver solutions to the customer. Many organizations have a customer focus but are not necessarily aligned with the customer in terms of structure, process and other elements of the Star Model™.

The organization of a company can be a key competitive weapon. According to Dr. Galbraith, "Most leaders want to keep it [the organization] simple. Keep it simple for the customer, and master the complexity internally." Customers will be pleased by the simplicity of a customer-centric interface, but such an interface forces increased complexity back on the company. Dr. Galbraith continued, "You need to have an organization that's as complex as your business."

Product-Centric vs. Customer-Centric

Though general buyer power has increased, the degree to which a company is product-centric versus customer-centric depends on the organization and its business.

Customer Centric Organizations

- ◆ In a **product-centric** company, people are known by products. Product-centric companies are present in industries including electronics (HP, Apple), entertainment (movies), and biotech (Amgen). Product-centric companies build product lines and focus on product development.
- ◆ In a **customer-centric** company, the focus is to find solutions for customers. The customer-centric company's orientation is to find as many products/services to package together for the customer. Customer-centric companies build an in depth understanding of their customers and their businesses and act as consultants. Examples of customer-centric companies include investment banks, consulting firms, and private banks.

From an organizational standpoint, the challenge is to integrate the customer facing front-end with the product producing back end.

Customer Solution Strategy – Scale and Scope

Having answered the first question of what a customer-centric organization is, Dr. Galbraith continued by addressing the second question of how companies should be organized around the customer. Dr. Galbraith suggested that the degree to how customer-centric a company needs to be depends on

“Many organizations have a customer focus but are not necessarily aligned with the customer in terms of structure and process.”

~ Jay Galbraith

the scale and scope of that company's customer solution strategy.

The more complex the solutions the company provides, the more complex the required structures.

From an organizational design standpoint, the more products need to work together the more

“From an organizational standpoint, the challenge is to integrate the customer facing front-end with the product producing back-end.”

~Jay Galbraith

business units/divisions will need to work together. The more products you have, the more interfaces you have to have with customers which need to be integrated to make them workable.

To illustrate the importance of scale and scope in the customer solution strategy, Dr. Galbraith gave the example of how Best Buy interfaces with customers as compared to Wal-Mart. Best Buy puts together TV sets with subscriptions for programs; and even sets up home offices for customers. Conversely, Wal-Mart will sell a TV by itself at a lower price. Since Best Buy is trying to sell a suite of solutions, they must provide a more customer-centric interface. As a result, Best Buy is laying out stores by customer segments. Dr. Galbraith stated, “The more complex the solution, the more complex your organization tends to be.”

Lateral Processes Enhance Coordination

When a company requires a complex organization to meet customer solutions, coordination is enhanced with effective lateral processes. While the goal is to achieve a simple front-end customer interface, often back-end complexity increases, characterized by greater management time and difficulty. Lateral processes range from less advanced methods including informal groups and e-coordination to more advanced methods including formal groups, full-time integrators, and matrixed organizations.

The purpose of such lateral processes is to increase social capital. When social capital is low,

Information Economy

organizations have silos. When social capital is high, however, integrated networks abound. Social capital can be enhanced through rotational as-



signments and increased networking. The more social capital generated, the more effective the organization. As an example, Dr. Galbraith pointed out that all-star teams rarely beat teams that have worked together.

Connecting the Front and Back

Effective organizations learn how to connect the front and back of the organization. According to Dr. Galbraith, connecting the front and back of the organization has to do with resolving the conflicts and moving forward. Human resource practitioners can assemble and disassemble teams as needed to enhance front and back alignment.

For human resource management, the key is to build social capital through the selection of people with social and networking skills, to provide rotational assignments to build networking experience and influence, and to focus on the interfaces. What's more, training and development builds networks in addition to building knowledge and skills.

Conclusion

Dr. Galbraith summarized his address by reaffirming that company strategy drives the organization in terms of the scale and scope of the solution. The type of front end organization required de-

pends on the customer. The challenge facing most companies is to integrate the front end with the back end. The key to doing so effectively from a human resource management perspective is to integrate and utilize all five elements of the Star Model™ to drive the organization.

The discussion concluded with one final comment from Ken Larson, SVP of Human Resources at Digital Insight. According to Mr. Larson, "Not a lot of HR folks that think about all five of these dimensions. They will start with structure & strategy and will realize they need to modify their processes, but won't have as much time."



Dr. Galbraith suggested that HR leaders can have foresight not only to redesign the processes, but also to question whether the strategy and organization are still appropriate. As they do so, empowered HR leaders will surely make long-lasting, powerful contributions to their organizations.

Blair Carlson is a second year MBA student at the UCLA Anderson School of Management specializing in human resources. After graduation he will work for Deloitte Consulting in their Human Capital practice.

U p c o m i n g E v e n t s

May 17 HARRT Round Table

“New ideas about how to organize work have generated new work practices that are proliferating throughout American enterprises. Indeed, the very concept of the workplace as a place, and the concept of employment as involving an employer, are becoming outdated.”

This excerpt from Katherine V.W. Stone’s, book, *From Widgets to Digits: Employment Regulation for the Changing Workplace*, provides an intriguing basis for examining the structural changes that are transforming the American economy and work institutions. At HARRT’s May 17 Round Table, Professor Kathy Stone, noted legal scholar and labor history expert at the UCLA Law School, will compare characteristics of the major industrial eras associated with the last three centuries. She articulates the complex interrelationships of a variety of social, technological and economic factors that distinguish contemporary production from artisanal and industrial production. She will highlight the issues, strategies and potential scenarios that are emerging in the transformation we are currently experiencing in the 21st century.

This understanding will allow human resource executives to respond effectively to the opportunities, risks and challenges associated with this profound transformation of the workplace.

Professor Katherine V.W. Stone is an internationally recognized authority in the fields of labor law, labor history and employment policy. She is Professor of Law, at the UCLA Law School. Professor Stone is a faculty associate of HARRT and serves on the Faculty Advisory Committee for the UCLA Institute of Industrial Relations. She was Professor of Law at Cornell Law School and the Anne Evans Estabrook Professor of Dispute Resolution at Cornell School of Industrial and Labor Relations prior to joining the faculty at UCLA. She has taught at Yale Law School, Stanford Law School, Chicago Law School and New York University Law School.

U p c o m i n g E v e n t s

2006 HARRT Retreat

This year's Retreat theme will focus on Talent Management in the 21st Century. Not as it has been conceived and implemented in the 20th century, but as it needs to be imagined and practiced in the 21st. A number of factors point to a heating up of the "War for Talent." In the "Digital Era" the basis for competition is no longer derived from economies of scale by owning capital and raw materials, but knowledge, innovation, managerial acumen and informal networks related to intellectual capital. In other words, talent is driving the economy in all sectors; its engagement and production cannot only be considered a precious resource, but a source of competitive advantage. When combined with the globalization of markets, shifting demographics and skills of a global workforce, changes to the nature of work and how it is organized, it becomes clear that new strategies will need to be conceived to effectively harness this potential.

The program that will be developed for this retreat will emphasize the assumptions that will need to be changed, the perspectives that will need to be adopted, and the issues that will need to be addressed as we explore and consider new strategies to not only compete for existing talent but to be innovative and proactive about growing and engaging talent. The challenge of the 21st century is to see beyond current practices and perspectives, to recognizing opportunities and creating strategies that foster commitment of discretionary effort in the new employment relationship.

2006 Retreat Planning Committee

Janet Clardy, Vice President, *Korn/Ferry International*

Ed Eynon, Senior Vice President, Human Resources, *The Cheesecake Factory, Inc.*

Joe Herold, Vice President, Global Human Resources, *International Rectifier*

Lynn Heymont, Vice President, West Coast Human Resources, *CBS*

Alan Kaye, Senior Vice President, Human Resources, *Mattel, Inc.*

Steve Milovich, SVP, Corporate Human Resources, *The Walt Disney Company*

Diane Shapiro, Director, Human Resources, *Boeing Integrated Defense Systems*

Archie Kleingartner, Chairman, *HARRT*

Linda Newton, Executive Director, *HARRT*

Upcoming Events

Spring Quarter HARRT Calendar

April 24-26

Milken Institute Global Conference: Expanding Opportunities In the Global Market

Beverly Hilton, Los Angeles

Complimentary for HARRT Members.

HARRT office for registration code.

For more information on the conference visit:

www.milkeninstitute.org

May 17

HARRT Round Table: “Managing Risk and Opportunities in a Changing Workplace”

Professor Katherine Stone, UCLA School of Law

3:30-7:00 PM

UCLA Faculty Center, Hacienda Room

HARRT Members will receive a complimentary copy of Katherine Stone’s new book, *From Widgets to Digits: Employment Regulation for the Changing Workplace*

May 17-19

Director Training and Certification Design

UCLA Anderson School of Management

For More Information, visit:

http://www.uclaexced.com/open_programs.cgi?code=ntp

May 31-June 2

Managerial Negotiations Programs

UCLA Anderson School of Management

For More Information, visit:

http://www.uclaexced.com/open_programs.cgi?code=neg

June 13-16

Advanced Topics in Organizational Design

USC Marshall- Center for Effective Organizations

Register by May 1, 2006 to receive HARRT member Discount

For more Information, visit:

http://www.marshall.uscl.edu/web/CEO.cfm?doc_id=7219

June 12-16

June 26-30

Lesbian, Gay, Bisexual, and Transgender Leadership Institute

African American Leadership Institute

For more information, visit:

http://www.uclaexced.com/generate.cgi?page=leadership&format=content_only

MEETING HARRT'S NEW MEMBERS



Fred Bauer
VP of Human Resources
Edmunds.com

Fred Bauer is Vice President of Human Resources for Edmunds.com, a rapidly-growing, family-owned internet company delivering automotive information to consumers. He is responsible for managing all human resources activities and is transforming HR from a transactional function to a business partner to enable scalability of all business functions.

Prior to joining Edmunds.com, Mr. Bauer was Executive Vice President of Human Resources for Visa in Northern California where he managed all human resources activities initially at Inovant (the internal technology and data processing subsidiary) and finally for all of Visa USA, Inc. He led a major transformation effort to build a high performance organization aligning compensation and rewards with high performance and managing out low performers. He introduced a High Impact/High Potential program to groom future leaders.

In his 20 years of corporate experience in human resources and law, he has been proficient in driving change in both large and small company settings in the technology and financial services industries. He is multilingual in English, German and French and has substantial international experience. He began his career practicing law with Coudert Brothers, an international law firm, which brought him to California for the first time. He then joined Raychem, as senior council in the US where he also held the position of as Director of Business Practices. He has been Vice President of Human Resources and General Counsel for Netro Corporation and has acted as Director of Human Resources for Acuson, a company which develops, manufactures and sells ultrasound equipment globally.

Fred Bauer received an A.B. degree, Magna Cum Laude, from Harvard College, a J.D. degree, Cum Laude from Harvard Law School and attended from the Human Resources Executive Program at the University of Michigan.

Bill Goodmen serves as executive vice president of human resources and administration. In this position, Goodmen directs Toy Head -Quarters' human resources and general administration functions through the Company's continued growth.

Including a long tenure at ARCO, he brings more than 20 years of experience to his role including senior management level recruiting, global growth and integration programs, as well as the creation of human resources policies and practices.

Most recently, Goodmen served as executive vice president of human resources at Liberty Livewire Corporation where he assisted in recruiting a number of key senior management positions and assisted in organizing the company's operations to best support its business strategies. Prior to that, he was a director at executive search firm Spencer Stuart, developing their Southern California Industrial Practice as well as their Human Resources Practice.



Bill Goodmen
EVP of Human Resources
THQ

Goodmen holds a bachelor's degree from Colgate University and an MS from Syracuse University.

MEETING HARRT'S NEW MEMBERS

Janet Clardy is Vice President of Human Resources for Korn/Ferry International, the premier provider of executive search, outsourced recruiting and leadership development solutions. Based in Los Angeles, with more than 70 offices in 35 countries, the firm partners with clients worldwide to deliver unparalleled senior-level search, management assessment, coaching and development, and recruitment outsourcing services through its Futurestep subsidiary. As Vice President of Human Resources, Ms. Clardy is responsible for all facets of human resources worldwide, with particular emphasis on talent management and development.



Janet Clardy
VP of Human Resources
Korn/Ferry International

Prior to Korn/Ferry, Ms. Clardy served as Vice President of Human Resources for St. Joseph Hospital of Orange. In her role as Vice President of Human Resources, she was responsible for all facets of human resources management: Employment, Employee Relations, Organizational Development, Compensation, Benefits and HRIS as well as Employee Health Services and the Volunteer program (800+ volunteers). She also provided human resources leadership for a medical group affiliated with the hospital campus and the home health network. Janet had been with St. Joseph Hospital for eleven years.

Her career includes over 17 years of Human Resources experience covering multiple industries. Prior to joining St. Joseph Hospital, Janet was Corporate Human Resources Manager for Taco Bell Corp., a subsidiary of PepsiCo. Janet also has experience in city government and retail operations. She serves on the Board of Directors for Errand Solutions, a concierge service providing a work life balance benefit for employers across the U.S.

Janet earned her MBA and undergraduate degrees at Cal State University in Fullerton, California. She resides in Orange County with her two daughters and husband, who has recently started his own business.



Steve Lautenschlager
VP of Human Resources
**Esterline's Engineered
Materials Group**

Stephen Lautenschlager is the Human Resource Vice President for Esterline's Engineered Materials Group and Leach International (www.esterline.com), which are international subsidiaries of Esterline Technologies; a specialized manufacturing company serving principally aerospace and defense markets.

Steve joined Esterline in June of 2004 after serving as HR Vice President for Channell Commercial Corporation. He has also held HR VP and Sr. HR Director Positions with Fortune 500 companies including Mattel, Johnson Controls and Moore Corporation, which is now part of RR Donnelley. His HR leadership experience includes significant international strategic management, mergers & acquisitions, joint ventures and business start-ups in North and South America, Asia/Pacific, and European countries. He has led HR Strategic Business Partner transformation and automation projects; including an HR Imbedded Intelligence Best Practice recognized by HR Executive Magazine in March of 2001, as well as a number of successful strategic restructuring projects during his 17 year Human Resource career.

Steve received an Executive Management Certificate from Northwestern University, an MS Degree in Counseling with a concentration in Human Resource Management and Industrial Relations from Oregon State University, and a BA in Psychology from Bethany College in Santa Cruz.

MEETING HARRT'S NEW MEMBERS



Grace Montgomery
VP of Human Resources
AECOM

Grace Montgomery is the Vice President of Human Resources for AECOM, a global provider of design and management service in the transportation, facilitates and environmental markets through a family of companies with over 24,000 employees in over 60 countries. At AECOM, Ms. Montgomery is responsible for developing and implementing an integrated human resources strategy to support global business activities, providing leadership in implementation of innovative and consistent policies, programs, and practices within a highly decentralized organization. This includes people management programs including OD/Training & Leadership, compensation and benefits programs, information systems design, leadership development, and recruitment and retention programs.

Additionally, she has been responsible for change management activities within multiple labor regulated environments, cultures and languages in up to 47 countries, followed by implementation of a newly centralized infrastructure of all human resources activities. She has provided direction and leadership for systems integration and implementation of people impact programs global wide and led the development of comprehensive metrics and benchmark initiative for an organization of 23,000 employees.

Among her accomplishments, she has built a number of high performance human resources organizations that excel at customer service, partnering to ensure improved work performance. She has designed and implemented various diversity programs with a focus on addressing diversified career development and training needs, led merger and acquisition integration teams, and formed and led strategic third party alliances for the company. Her responsibilities also include media relations to address potentially adverse situations as well as achieve positive company imaging and branding.

Prior to AECOM, Ms. Montgomery was Vice President of Human Resources for Nortel Network, holding executive positions in human resources management at Specialty Laboratories, Cal Federal Bank and Dames & Moore Group. Ms. Montgomery holds a Bachelor of Arts Degree in Communications from Cal State University, Los Angeles.

As Vice President of Human Resources for Kaiser Permanente Southern California, Patti Carson develops and implements strategic policies and programs that attract, retain, and support the region's nonphysician workforce of more than 50,000 employees.

Key departments directed by Carson include: Recruitment, Labor Relations, Human Resources Operations, Compensation, Learning and Development, Employee Benefits, Organizational Effectiveness, Diversity, Leadership Development, and Employee Activities.

Before joining Kaiser Permanente in 2005, Carson served as Vice President of Human Resources at the University of Washington. She began her career at United Airlines in 1988 and progressed through the organization to become Vice President of Worldwide Human Resources, and later Senior Vice President of On board Services.

She received a bachelor's degree in human resource management from the University of San Francisco and is a graduate of Stanford University Human Resources Executive Program. She also earned negotiation certification from Harvard University and is a State of California certified mediator.



Patti Carson
VP of Human Resources
Kaiser Permanente

MEETING HARRT'S NEW ALUMNI

Former corporate member of HARRT, Ken Larson, has left Digital Insight to become a management consultant and executive coach with Kenter Consulting, headquartered in Brentwood, California. Kenter Consulting is dedicated to helping executives and entrepreneurs clarify their goals and make successful business and personal transitions. Kenter offers comprehensive expertise in executive coaching, leadership and talent development, succession planning, organizational effectiveness, and career/life planning.



Ken works with senior leaders to leverage their strengths, address developmental challenges and meet business objectives. He brings to his assignments a broad set of successful domestic and international experiences as an executive, counselor, and consultant across a wide variety of industries including manufacturing, distribution, sales, banking, professional services, software, and information technology. He has coached over 25 C-level executives in personal, leadership, and organization effectiveness in the past 15 years. Much of Ken's work involved coaching leaders and teams through crisis resulting from major business upsizing, downsizing, and merger and acquisition activity.

Prior to forming Kenter Consulting, he spent 25 years as senior executive responsible for human resources in Fortune 500 companies. He developed Xerox Corporation's talent assessment, succession planning, and employee development functions. At Deloitte and Touche, he re-branded the firm's California employment image. As Senior Vice President of Human Resources for First Interstate Bank of California, he led the Bank's very successful employee engagement and retention initiatives during its merger and transition to Wells Fargo.

Ken also has direct experience with entrepreneurial, private, and mid market public companies. At Candle Corporation, a privately held software company, he was the Chief Administrative Officer where he helped transform the organization by dramatically restructuring its organization while significantly increasing employee morale. His last assignment was Senior Vice President of Human Resources for Digital Insight, a publicly traded NASDAQ company, specializing in on line banking. Ken introduced effective human resource planning to professionalize and humanize the firm's people management capacities.

Active in the business and public community, Ken was on the Board of Directors of the Monroe County YMCA, the Orange County YMCA, the Rochester Council of the Girl Scouts of America, and the Monroe County United Fund. He is currently active as a volunteer with the Brentwood Presbyterian Church. Ken earned his Bachelor of Arts in English at Georgetown University and his MBA from the Simon School of Business at the University of Rochester.

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