From Centres of Expertise to Centres of Excellence

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What is in a Name?

Managers often quickly adopt a phrase or form of language to capture the remit they wish an organizational unit to undertake. The problem arises when one manager means one thing by that word, whilst another means something else.

When we look at the transformational “leg” of the original Ulrich 3-Box model, then a range of terminology seems to have been adopted over time – such as Centres of Competence, Centres of Expertise, or Centres of Excellence. Common to all these forms is the fact that they are concerned with “capability management”.

In this paper I argue that the problem is that HR seems to have adopted the concept of Competency Centre or Centre of Expertise that historically was developed and used by IT specialists and that is embedded in Professional Service Model thinking - but that this specification is not the way that strategists would use the label of Centre of Excellence – or would expect HR to use it. For Ulrich, professional service firms have bodies of knowledge, and they need to turn that knowledge into outcomes that impact the productivity of their client. Centres of Expertise are then in effect equal to knowledge centres (also called Centres of Competence in some other literatures). They represent teams of expertise that can be set in the flow that takes place between knowledge to productivity. The related activity of embedded HR (HR Business Partners) is to then transfer that knowledge to the client.

The range of Centres is supposed to clarify what these organizational capabilities are and to help the HR function craft its necessary investments and policies so that it can maintain a specialist and critical core of knowledge and influence strategy. Yet almost every HR function that you look at has the same old “Centres of Excellence”? Talent management, Rewards and compensation, Organization development, and so forth. If everyone has this expertise, how does it provide competitive advantage?

It is common to find Centres that are not delivering on their promise. It is rare to find the HR Centre of Excellence built around fundamental strategic capabilities such as innovation, customer centricity or consumer insight, or productivity.

Drawing upon discussion from IT and business process specialists is informative and shows us why we might have ended up with faltering demand. From this perspective, a Centre of Competence may be considered to be:

“...a highly effective way to implement and sustain specialist capabilities where a consistent, expert and cost effective service is required across organizational boundaries and where a comprehensive view is required to ensure synergies are identified and exploited”.

Under this definition, Centres are seen through the lens of a Professional Service Model – and this is the lens that Ulrich has adopted.
Let me be clear, this lens of course has some advantages. Continuing to use IT consulting sources as a guide, Professional Service Models are seen at heart to be concerned with time and cost savings, achieved through rationalization and re-use of processes and services. They introduce greater predictability into service delivery through more consistent process and management controls, and through operational efficiency and excellence that is in turn achieved through the use of best practice tools across the organization.

All laudable aims – but a Centre of Expertise or Excellence is defined in the context of how it is different to a Service Centre and how it supports Business Partners, but NOT in terms of how it truly contributes to strategy.

Professional Service Model thinking suits an IT environment - where there are high levels of technical knowledge and where services have to be designed for customers who have varying levels of internal capability. And of course HR shares some of these problems (although unlike IT, everyone thinks they are a people expert).

In such an environment the challenge for a service provider is to optimise costs, evaluate risks, and ensure predictable delivery. In the world of IT it is assumed that standard methods and approaches produce faster learning curves, that consistent processes reduce the risk of rework, and that the role of a Centre is to ensure that processes and methods are implemented to an appropriate quality standard.

The key characteristics are a focus on a particular domain of expertise, provided shared and consistent services, introducing end-to-end lifecycle responsibility and operational support, market awareness of best practice, communication of that knowledge, and delivers this knowledge through strong governance of processes, and defined expertise around a set of expert skills.

But using this sort of definition, it is not surprising that the solution nearly every HR organization seems to have taken is to hive off the existing “peak” of its core functions and processes - high-level expertise - and simply re-labelled this expertise as a “Centre”, simultaneously claiming that this somehow therefore has a transformational and strategic mandate.

In this paper I remind us about the difference between such a definition of a Centre of Expertise or Excellence - and how to think about Centres of Excellence (COE) when they are seen through the eyes of the strategy literature. I argue that the strategists’ view of a COE is a much better template for HR to use than is the current Professional Service Model template.

I end by providing a practical checklist against 4Ps – Proposition, Purpose, Performance, and Prosper (and Survive) – that should be used as a quick health check to think about a more strategically valuable and viable COE.
What Was Originally Said About Capability Management

We seem to have lost our way and forgotten what the real messages were in the original discussions about capability management. For strategists, there are some important distinctions that need to be made between what they would see as Centres of Competence or Centres of Expertise, as opposed to what they believe truly constitutes a Centre of Excellence (COE). The latter, in addition to containing some high-level functional expertise, has to have a very clear strategic impact. Hiving off expertise under a Professional Service Model does not necessarily ensure this. A COE, according to the strategists, is defined somewhat differently to the way Professional Service Models think about it. It is supposed to be.

"an organizational unit that embodies a set of capabilities that has been explicitly recognised by the firm as an important source of value creation, with the intention that these capabilities be leveraged by/or disseminated to other parts of the firm"ii

"...small groups of individuals recognised for their leading-edge strategically valuable knowledge, and mandated to leverage and/or make that knowledge available throughout the ...firm"iii

Looking at the above definitions, COEs should only be established inside organizations:

• As a part of deliberate organization design, where managers decide to grant autonomy to units that have been given a specific strategic mandate by.

• Where they have already been seen as high value units that have a strategic role due to the possession of products, services or functions they offer – and capabilities that cross organizational boundaries and markets.

The organizational capabilities they leverage do not equate simply to expert functional knowledge.

The term “organizational capabilities” was first adopted by Dave Ulrich for application to the HR field way back in 1987iv. By 1990 Ulrich and Lakev had moved on to bring together perspectives from the fields of management of change, organizational design and leadership to argue that organizational capability was about “competing from the inside out”. An organizational capability existed where it could be shown where a firm’s internal processes, systems and management practices could be seen to demonstrate an ability, and to direct both the skills and efforts of employees towards the meeting of customer needs and the achievement of the organization’s goals.

But what seems to be missed here is that the idea of organizational capabilities also has roots in the resource-based view of the firm. This argued that competitive
advantage is derived from both internal knowledge resources and the strategic resources or capabilities of the firm.

Strategists are still highly influenced by this theory. It argues that certain collections and combinations of resources (knowledge, skills and attitudes, or core competences) can provide a competitive advantage to the organization as a whole.

We should therefore think of a COE as bringing together an important collection of such resources and core competences.

However, this is only true if the knowledge, skills, and capabilities possessed by these resources can be leveraged appropriately. Strategists argue that it is “bundles of resources” – generally considered to be complex, intangible and dynamic – rather than any particular set of product-market or functional expertise - that provides an organization with the capability to compete.

Do COEs really add value?
Decoding the Business Model

In our work in the Centre for Performance-led HR we have been arguing for several years that HR strategies need to be embedded in the performance outcomes that the business models are intended to reproduce.

According to strategic management theory, COEs should only be allowed to exist where it is accepted by all in the organization in the context of the business model - and this means not just as seen by the function to which they belong (in our case HR).

If there is line of sight to the business case that the organization must leverage or disseminate the capabilities that the unit embodies to other parts of the firm if the organization is to deliver its competitive advantage strategy, then there is a case for a COE.

To conclude, for a unit to be truly deemed a COE, there must be an accepted intention to derive value from the unit’s capabilities for the broader organization, and an explicit recognition and declaration that, through its role, the unit can truly add value.

Therefore, ask yourself the following questions – and ask these questions of your structure - in the context of your organization’s current or desired business model. Does the Centre pass the 4P’s Test?:

• Proposition
• Purpose
• Performance
• Prosper (and Survive)
Proposition: What Is It?

- What is the argument to build the capability in a COE yourself, rather than just have a good ‘scanning unit’ that can pick up and transmit intelligence back to the HR Director?
- What capability building investments (finance, resource release, skills, knowledge, expertise) from the HQ, or elsewhere, are required to build it and then run it?
- What is the required decision-making autonomy of the unit? How will it be given the ability to identify and pursue market opportunities without permission? How will it attract and hire new managers?
- What is its connectivity to other sources of competence – how can it continue to create new knowledge and not just exploit it?

Purpose: How does the Centre of Excellence really add value?

- Is it a focal point for a superior set of capabilities that creates value - either through its tangible resources (policies, practices or processes) - and/or through its intangible resources (such as knowledge, experience, reputation, proprietary services, operating procedures, and know-how about key performance outcomes such as innovation, efficiency, customer centricity)?
- Is it a focal point for dispersed capabilities that can be used to leverage pockets of expertise inside the organization effectively as a source of competitive advantage only through co-ordinated management i.e. it is a focal point for knowledge development, that serves other people or units with related skills or disciplines?
- Is it a conduit for the dissemination of knowledge within the organization?
- Is it a problem-solving unit that provides advice and can be seen to foster new competences within the organization?

Performance: Have we really got the qualities necessary to qualify the unit as a Centre of Excellence?

- Has it really only been established on the basis of there being substantial strategic importance or payoff (rather than as a mechanism to make some functions feel they are important)?
- How is it focused on the resources and performance outcomes that are the most valuable to the business model?
- Is it only specialised in its own knowledge-base (i.e. does it simply equate to existing functions inside an organization)? If so, it is just a focal point for functional expertise? Functions are about operational know-how, not strategic mandate.
• Does it have the capability to create and maintain one, or several, critical fields of knowledge - knowledge that has a long-term impact on the development of activity in the other functions and units of the organization?

Prosper and Survive: What are the factors necessary to ensure its continued endurance?

In order to survive and endure – and the evidence is that not only in the HR function do COEs often have a tough time of it - any COE must be able to get involved in progressive levels of knowledge transfer. So, again:

• Has it taken on a strategic role in the organization that reaches beyond operational undertakings?

• Is it tightly integrated with its surrounding technical or professional communities (internal and externally networked)?

• Does it have both high competence and high use of its competence throughout surrounding units?

• Has it got a definite life cycle? When would you dismantle it or let its purpose expire to prevent it from becoming an overhead?

Only once you are sure that the 4P questions have been answered should you also move on to the more bottom line and pragmatic questions:

Can it reduce cost?
Can it increase revenue?
Can it reduce risk?
Can it reduce capital?
Does the customer expect it?
Do the competition offer it?
Will the customer pay more for it?
Will the customer miss it not being there?
Bibliography


