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HR at the Intersection of Strategy and Execution

A case study of best practices from the successful turn-around of the world's most global hotel company – InterContinental Hotels Group, PLC

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Corporate restructuring and transformation is often messy and seldom delivers desired results in a timely fashion. A successful restructuring is judged by the realization of targeted cost reductions, operational efficiency gains and organizationally accepted changes in work, business practices and culture. Shareholder value is increased by keeping commitments and executing on strategic intent.

InterContinental Hotels Group, facing significant financial and operational pressures in late 2002, initiated bold action around its strategy, structure and culture. It placed on the HR organization the key role of defining an approach to an 'organizational effectiveness review' and subsequent restructuring and change management leadership. By embracing a Strategic HR model, they ensured balance during a disruptive event. Additionally, HR demanded an action learning approach to change; gaining the participation and commitment of the organization's key employees and leaders.

These factors combined to deliver a dramatic transformation.

HR Role in Leading Change

Successful organizations leverage the strategic role of Human Resources to drive strategy execution and creating organizations that can adapt more quickly to change. At InterContinental Hotels Group (IHG), HR provided its strategic partner value by insisting on the alignment of people, processes and systems as a foundation for strategy formation and providing an action learning oriented change management framework.

HR Strategic Roles Model

Corporate HR recognized that to be viewed as adding real strategic value, the HR function needed to become strategic partners, administrative experts, employee champions and change agents simultaneously. To pull this off, HR adopted the four dimension HR Strategic Roles Model. One dimension represents the focus of the work, being short-term/day-to-day on the lower dimension and long-term/strategic on the upper end. The activities dimension represents process related activities to the far left and people related to the right. To be a true Strategic Business Partner, HR needs to work appropriately in all four quadrants. The model further facilitates a discussion about transfer of HR work to other stakeholders: shared services, managers, specialists, generalists, etc.

Figure 1: Strategic Roles Model



Four-step Approach to Creating a New Culture

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Step 1: Building the Case for Change

On October 1, 2002 IHG's parent company proposed separation of the group's hotels and soft drinks businesses from the retail business, and the return of £700 million of capital to shareholders. The hotels group had more than 3,400 hotels (including InterContinental, Crowne Plaza, Holiday Inn, Holiday Inn Express and Staybridge Suites) and 530,000 guest rooms across nearly 100 countries.

Like many other companies, IHG was struggling to:

1. Establish alignment up, down and across the organization.
2. Sell process management to executives.
3. Define and manage a program for change.

To complicate matters, the company was being openly challenged by analysts and shareholders as to whether the company's leadership 'had what it takes' to run and grow a profitable hospitality company. The company faced several unique challenges:

- Integrate several brands across three geographically dispersed regions.
- Finish work left undone from several recent acquisitions.
- Fend off a hostile takeover attempt.
- Overcome a significant level of skepticism in stockholder, analyst and employee circles.
- Restructure a bloated and ineffective central overhead organization.
- Complete the de-merger in less than six months in the midst of the outbreak of the war in Iraq and the SARs outbreak in Asia where many of the company's marquee hotels were located.

IHG chose to utilize both internal and external resources to conduct an "organization effectiveness review." Under the direction of Human Resources, they assembled a select group of diverse high potentials called the Design Team to create an achievable path to a new future. They also selected a team of consultants to help facilitate the change. Key to success was achieving significant cost savings and at the same time building distinctive capabilities.

The consultant team was selected over larger consulting firms because of their Change Management experience and Action Learning approach. Knowledge transfer was critical. IHG accomplished this throughout a 90 day assessment and design phase facilitated by hands-on workshops, followed by a 6 month detail design project with just-in time training for 80 additional leaders.

After an intense review of the state of the company, the design team came to the stark conclusion that things were bad and they were not getting better fast enough:

- Brands were clearly under-performing
- \$545m of gross P&L unallocated cost (outside the hotel) was clearly too high
- Returns were way below the weighted average cost of capital (WACC) and a number of assets that are not performing
- Employees knew that the company had too little focus, too much bureaucracy, insufficient global integration, was slow to make decisions, had too many projects and not enough team-work
- The word was out among investors and investment analysts that if we don't act to address these issues, others might

Clearly the platform was burning. HR and the executive team needed to act fast.

Role:	Best Practices
Strategic partner	<ul style="list-style-type: none"> ■ Selected outside help based on action learning philosophy; HR part of the design team and change management team ■ Set up a cost team, design team and change management team as well as a project office.
Admin expert	<ul style="list-style-type: none"> ■ Address compensation systems and span of control in the initial case for change phase.
Employee champion	<ul style="list-style-type: none"> ■ Identified High Potentials and key employees to work on restructuring and lead the decision making process.
Change agent	<ul style="list-style-type: none"> ■ HR worked side-by-side to identify HR and business issues early in the process. Change management team as integrated with the project office.

Step 2: Changing the Way IHG Works

To target opportunities in the business value chain, IHG Design team documented and assessed over 350 business capabilities and processes. After just six weeks of intensive 'organization design' workshops, the Design Team recommended a set of sweeping changes:

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1. A new corporate strategy called "One Team" -- refocusing the organization to be an integrated company with multiple divisions/brands.
2. A clear, single business strategy -- in terms of a single business focus and customer value proposition.
3. Overhauling the business value chain; identifying competitive business capabilities needed to win; the business capabilities being neglected; support processes that limit strategic success; and projects that may or may not contribute to strategy execution.
4. An organization structure that delivers advantage capabilities around brand, relationships with franchisees and owners, hotel guest experience and asset management, while refocusing business necessity work for low cost including the reorganization of IT into a Central Shared Services concept.

Because the success of the new organization would depend on an efficient central shared services capability for high volume financial, HR and customer transactions, Service Level Agreements and Service Standards were drafted to ensure alignment up, down, and across the organization. For example, Service Standards were published for routine financial transaction processing and Service Level Agreements were negotiated for filing tax packages across multiple tax jurisdictions. In both cases performance against these commitments were factored in to managers' individual and organizational incentive plans.

In addition, the company established business rules and governance policies to ensure that the changes stick and the methods used to redesign the organization were continually used to guide growth. The company specifically created Global Governance Boards for IT, Central Shared Services and Global Brand Services. The Governance Model, based on Sarbanes-Oxley and The Higgs Report, was created as a set of pragmatic guidelines for how decisions should be made about a few critical areas including:

- Investment in properties, talent development, business capabilities, information technology and key leadership positions.
- Standards for firm brand, leadership brand and hotel brand hallmarks.
- Performance measures for customer satisfaction, service quality and financial performance.
- Interoperation of business regions and supporting functional department.
- Utilization of shared services across regions and functions.

Governance was not seen and would not be accepted as a separate controlling entity; rather it was embedded within the organization design and implemented as an enabler of the business.

HR played a vital role in strategy clarification and quickly communicated developments and implications throughout the organization. This same information was used to tailor training, quality improvement and leadership development efforts as well as direct the nature of recruiting and what gets recognized and rewarded.

Role:	Best Practices
Strategic partner	<ul style="list-style-type: none"> ■ Insisted on sticking to the process. For example, the choice of "One Team" as a corporate strategy guided investments, defined the number of unique businesses, defined the number of unique processes, and helped to define the enabling system requirement and the role of shared services. ■ By establishing dominant business focus and the dominant customer value proposition criteria for making tradeoffs was explicit and diffused office politicking. ■ Adopted a clear framework for allocating the right level of time and resources towards building appropriate capabilities. This provided the guidance for reductions in force. ■ Performance Management systems cascaded goals and priorities to all levels ■ Design of Incentive plans aligned to new strategy (senior accountability for global results)
Admin expert	<ul style="list-style-type: none"> ■ Move high volume HR transactions to new central shared services ■ Development of Technology based, efficient HR systems ■ Strong adherence to process standards and link to incentive compensation.
Employee champion	<ul style="list-style-type: none"> ■ Helped top 100 leaders embrace the approach and were very clear on IHG's mission, vision and strategy. To spread the enthusiasm the company developed Root Learning Maps that provided compelling and challenging dialogue opportunities about the changes and accelerated learning and communication to all employees.
Change agent	<ul style="list-style-type: none"> ■ Help embed change in the structure and policies; identified High Potentials and addressed key staffing issues at the executive level within 3 weeks of the top level design.

Step 3: Help the Organization through the Change

Given the sweeping process and structural changes required to turn the business around, IHG took stock of its change readiness.

The following issues were raised by the Design Team

- Leaders are not true change agents
- Poor project alignment
- Internal communications labeled "puff pieces"
- Poor track record of with external communications
- Change obstacles are not removed
- Ignore the people side of change

The communication plan for the change involved three phases. First, the Design Team described the "burning platform" that convinced the masses that radical change was required. A thorough review of company cost data and brand performance provided ignition. Second, the organization review would focus on process and business capabilities needed to win and then design an organization structure around them. Finally, time and resources were made available to help leaders and employees deal with individual and collective transition issues.

HR responded with the following best practices:

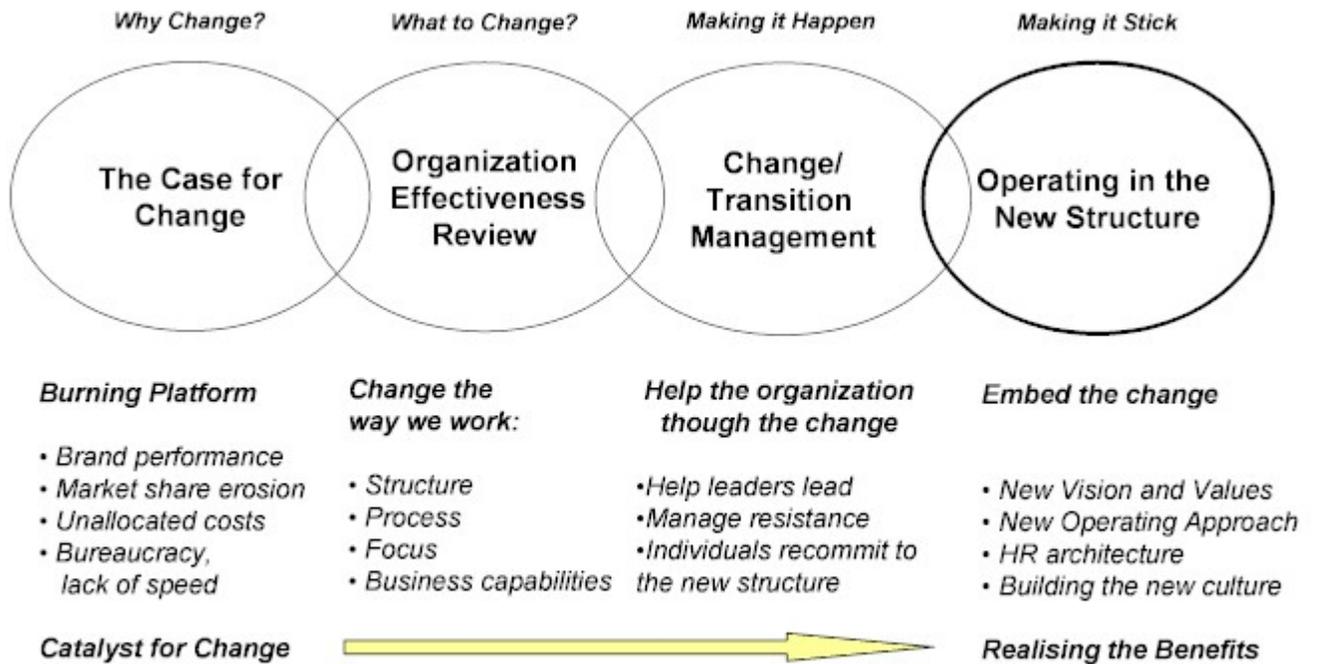
Role:	Best Practices
Strategic partner	<ul style="list-style-type: none"> ■ Rewards systems were adjusted
Admin expert	<ul style="list-style-type: none"> ■ Entire project portfolio reviewed in light of new strategies; many cancelled; others re-defined to produce short-term deliverables. Cost reduction projects reviewed and tracked centrally.
Employee champion	<ul style="list-style-type: none"> ■ Internal communications treated employees as stakeholders and didn't dodge sticky issues
Change agent	<ul style="list-style-type: none"> ■ The use of work-outs for solving problems; many of which had global impact. Teams from Americas, Europe-Middle East-Africa and AsiaPac, would run work-outs on site or on global conference calls. ■ Addressed reductions in force fairly and treated people with respect; implemented three-phase change management program for survivors including transition toolkits and workshops. ■ Help shaped messages about brand and consistency of leadership. Facilitated and gained exec alignment. HR insisted board governance/HEC seek as one team. ... Executives briefed analysts, hotels owners, the Franchisee associations and shareholders with conviction about the new structure and processes.

Step 4: Embed the Change in the Business Architecture.

HR continues to play a critical role in making the changes stick and adapting to new opportunities. Key elements of the new HR Architecture helped embed the change as illustrated in Figure 2:

- New leadership competency model aligned to organization and business capabilities; emphasis on collaboration, problem solving, cost efficiencies in business necessity work, networking and global deployment.
- New role for Corporate HR to ensure that the benefits of the integrated company hit the bottom line (e.g., movement of talent across boundaries, use of common systems to ensure consistency and low costs through shared services) while allowing divisions latitude at lower levels tailored to local country customs.
- New Talent management System: identifying and developing future leaders, successfully integrating outside talent, and keeping talent management at the strategic level.

Figure 2: Making Change Stick



Role:	Best Practices
Strategic partner	<ul style="list-style-type: none"> Develop change model and expertise in the business; align HR process to drive visibility and accountability for new strategy and organizational direction – incentive compensation, performance management, leadership development, continuous improvement, and succession planning.
Admin expert	<ul style="list-style-type: none"> HR infrastructure and transition of transactional HR to Central Shared Services center. Process improvement methods and work teams were formed to streamline identified HR work flows. Efficient coordination of the change management rollout.
Employee champion	<ul style="list-style-type: none"> Informing the organization via communications tools, manager information packets, etc. root learning maps trained mgrs to deliver chg workshops
Change agent	<ul style="list-style-type: none"> Organizational change model, employee workshops, leadership conferences, leadership development, talent reviews/succession planning sessions, leadership brand and competency model definition.

Summary

The HR Strategic Model guided HR in the support of the de-merger, the restructuring of the corporation and the world-wide redesign of the Human Resource organization.

As a result, IHG has emerged a stronger company:

- Resized the company with 37% central overheads reduction of over \$140 million.
- Significant improvement in work environment and employee confidence in leaders (as measured by employee opinion and engagement surveys).
- Improved Asset Management and company value through sale and conversion of non strategic assets into its core strengths of management and franchise operations.
- Acquisition and development of new brands, Candlewood Suites and Hotel Indigo respectively.
- Share price increase of 75%.
- Embedded a culture of continuous improvement, waste reduction, knowledge transfer, best practice development and a global One Team orientation.

James W. Larson is the EVP of Global Human Resources at InterContinental Hotels Group. A member of the executive team, he spearheaded the implementation phase of the restructuring.

John S. Nelson is President of BT&L Partners and a former Partner at HR Dimensions, LLC. The lead designer and facilitator of the change management model/implementation and architect behind the methodology utilized to restructure Global HR.

NOTE: John Nelson is now President of BT&L Partners. He can be reached at john.nelson@btspartner.com 608-338-8448

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