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**POSITIONING HUMAN RESOURCE  
AS A VALUE ADDING FUNCTION:  
THE CASE OF ROCKWELL INTERNATIONAL**

**CEO PUBLICATION  
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*September 4, 1992*

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## **Positioning Human Resource as a Value Adding Function: The Case of Rockwell International**

One of the biggest challenges facing multi-business corporations is to add value to the businesses that they own. Diversification by itself is no longer seen as a value to shareholders nor to the businesses. In this paper, a description is presented as to how a diverse corporation, Rockwell International, is trying to add value to its businesses. The corporate office and the Human Resources function are singled out for their role in leading this effort at Rockwell.

The first section of the paper describes the value adding corporation as a type of corporation that is a combination of the classical divisionalized structure and the holding company model. Next the company, Rockwell International, and its new CEO, Don Beall, are presented and discussed along with their strategy. Then the Human Resources Strategy that compliments the business strategy is identified. The final section describes the role of the human resource function itself.

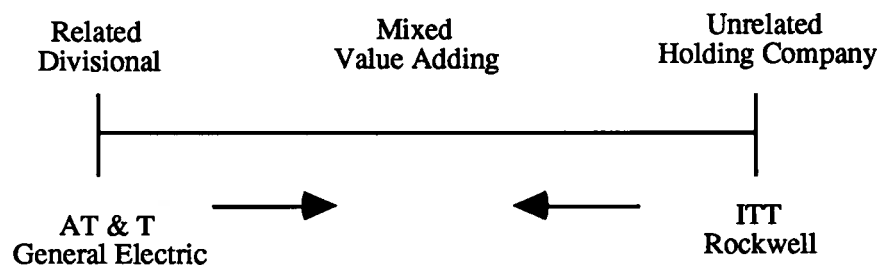
### **The Value Adding Corporation**

The study of strategy and organization of diversified companies began with Chandler's work (1962). By the 1980s a consensus had been created about which organizations fit which strategies. If a firm had a single business strategy, it was implemented through a functional organization. When a firm diversified into related businesses, usually by internal growth, it adopted the multi-divisional profit center model. If the company diversified into unrelated businesses by acquisitions, a holding company organization was used to implement the strategy. The primary difference between the divisionalized structure and a holding company was the size and role of the corporate staff. The staffs in the divisional corporate headquarters were large (thousands) and were active policy setters and reviewers of divisional plans. The staffs in the holding company by contrast were small (hundreds), mostly financial and gave service when asked by the divisions.

Other organizational policies were identified and found to be aligned with corporate strategy (Galbraith and Kazanjian, 1986). Holding companies used more variable compensation for division managers, measured their performance with objective financial outcomes and granted bonuses based on divisional performance. In the divisional model, General Managers received less variable compensation, bonuses (when given) were based on company or some combination of company and division performance and performance was measured more subjectively. Managers had company careers in the divisional model. The corporate staff had

created common policies across divisions so that interdivisional transfers were facilitated. Managers had only divisional careers in the holding company and each division's policies were industry specific. The high performance companies of both types were those that aligned all these policies with their diversification strategy (Cassano and Nathanson, 1986).

A variety of cross breeds were created in the 1980s (Galbraith, 1993). The business environment generated a number of forces which brought about changes in strategies and organizations. Many of the divisionalized companies were forced to differentiate their divisions and decentralize decisions to them. These divisionalized companies reorganized to look more like holding companies. The holding companies or conglomerates, however, moved to become more like the divisionalized companies by reducing diversity and creating a more active corporate headquarters.



**Value Added Corporation as a Cross Breed**

**Figure 1**

These changes are creating a new type of corporation which has some of the features of both types of organization. In order to permit its divisions to be more competitive and faster moving in their respective industries, AT&T has decentralized decisions and allowed different divisional policies to be enacted. ITT on the other hand sold off businesses to avoid being taken over by raiders. It is trying to show how it can add value to those businesses which remain. In either case the corporate office must show how it adds value to autonomous business units. In the next sections, Rockwell International will be described as a value adding corporation. Specific attention will be paid to the value adding position taken by the Human Resource function.

## **Rockwell International**

Rockwell is one of the best kept secrets in business management. The downsizing of the defense industry has broken the string, but through 1991, it had achieved 14 straight years of earnings growth. During that time Rockwell has been an originator and early adopter of many business practices that have become today's standards of good management. They have achieved these outcomes with a minimum of publicity and notoriety.

The company originated as an automotive components (axles) designer and manufacturer. From this beginning it has grown into a diversified manufacturer of industrial products which are sold to government and commercial end users. The company's growth and diversification have occurred primarily through acquisition. In order to reduce its dependence on the cyclical automotive industry, Rockwell merged with North American Aviation in 1967 to form North American Rockwell.

Rockwell, like many other American firms, continued acquiring companies during the 1960s and 70s. Some acquisitions led to further diversification. In 1969, they acquired Miehle-Goss-Dexter a leading manufacturer of large printing presses to begin their graphics business area. They expanded into electronics by building on North American Aviation's Autonetics Division. A series of investments over a few years led to the completion of the acquisition of Collins Radio in 1973. Collins and Autonetics became the foundation for their electronics business area.

Rockwell made numerous other acquisitions during this period. They joined TRW, Harris, Textron, and Teledyne in becoming manufacturing conglomerates. Rockwell differed from the others, however, in the degree to which they tried to add value to their acquisitions through technology. Its slogan during the 1970s was "Where science gets down to business". They used a central research laboratory among other tactics to achieve and transfer the advanced technologies.

Don Beall became the President and Chief Operating Officer of Rockwell in 1979. After immersing himself in the businesses, Don and Robert Anderson, the CEO, began to formulate a new corporate strategy. In 1981, Rockwell won the B-1 bomber contract. Beall began to formulate a plan for Rockwell after the B-1. The 1980s was also the time of realization of full scale global competition. Like many American companies, Rockwell chose to focus on a few business areas where they had genuine leadership positions. They chose to focus on the Aerospace and Defense, Automotive, Electronics, and Graphics businesses.

Rockwell divested itself of various other businesses which did not fit the new strategy. They sold business units which manufactured knitting machines, power tools, televisions and water meters. They continued to acquire businesses, but only in their four business areas. Using

the profits from the B-1 and the divestitures, Rockwell acquired Allen Bradley, a leader in factory automation.

Rockwell had largely formulated and achieved its new strategy by the late 1980s. It was focused on aerospace, graphics, automotive and electronics business areas. It would keep business units in those areas which had achieved leadership positions in their industry. Rockwell would continue to acquire other businesses but only in the chosen business areas. It would acquire leadership companies and then add value to them under the Rockwell technology umbrella.

Adding value to a business is achieved by giving it access to resources which are unavailable to it as a stand alone company. Holding companies only provide access to capital and financial advice. In addition, Rockwell provides technology, management, best practices in manufacturing and engineering and internal business opportunities. Technology and best practices are disseminated through a small corporate staff in Operations and Technology. In addition to their personal efforts, the staffs chair councils in their function which are attended by the functional managers from the divisions. These councils provide a forum for idea exchange, networking and education. In addition, internal management development programs and sessions for groups of manufacturing managers and groups of engineering managers provide forums for spreading best practice, networking and idea exchange. The corporate staffs can also provide names of candidates for cross divisional hiring. The staffs, councils, training sessions and cross divisional moves give businesses access to Rockwell proprietary technologies, competencies, ideas and practices. In addition, the businesses have access to the central R & D laboratories and their technologies.

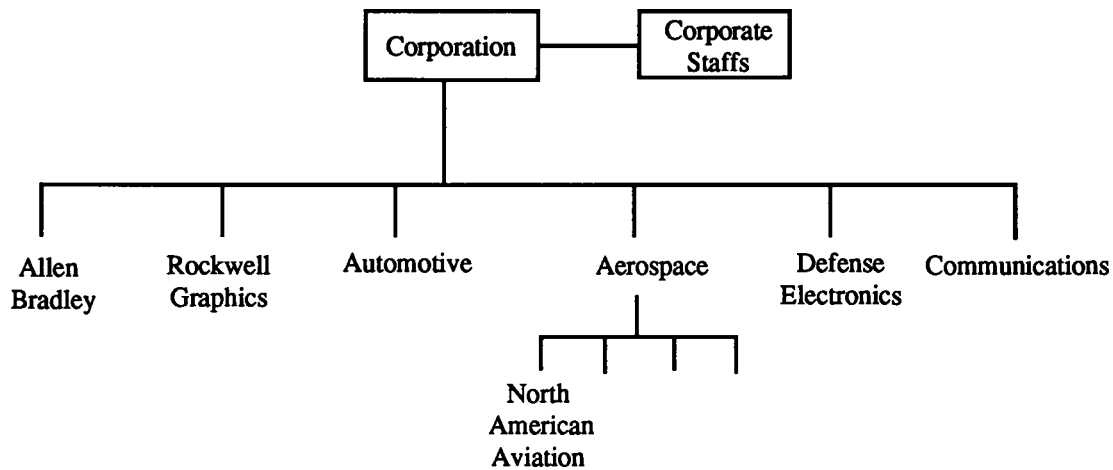
Rockwell, like other value adding corporations, centrally manages the development and assignment of the top 200 some managers. Businesses have access to a pool of management talent that would not be available to them as an independent company. The value added is proportional to the talent in the pool and to the information about the managers in the pool. Better talent and better matching with opportunities can result in value added.

Finally, Rockwell tries to encourage internal business opportunities across divisions. For example, trucking companies are interested in continuous tracking of trucks in just-in-time delivery systems. Rockwell has three divisions working on systems to allow satellite tracking. Their truck axle division, the satellite division and an electronics division all provide part of the technology for satellite tracking systems.

A better example is the Allen Bradley acquisition. Rockwell can add value to Allen Bradley by giving it access to government markets. Currently Allen Bradley (A-B) does very little government business. Rockwell can provide managers skilled in government selling and managing of contracts. Its Washington office can provide information and open doors. In

addition, other Rockwell divisions provide state of the art applications for A-B factory automation technology. Using this internal experience as an endorsement and learning experience, A-B can sell more effectively outside. Other Rockwell divisions get early access to new A-B technology thereby giving them an advantage. In addition, A-B gets access to Rockwell capital, management, technology and best practices in manufacturing and engineering.

The Rockwell organization is fairly standard for a value adding corporation. Rockwell made several changes to their organization structure during the late 1980s. A general organization chart is shown in Figure 2.



**Figure 2**

Basically the corporation consists of a CEO, several COO's responsible for all businesses, and general line managers. At one time there was a CEO and three COOs. These change as the people and businesses change.

The major changes were the elimination of levels and movement of staffs to the businesses and the corporation. At one time there was 11 levels in the corporation. Now there are six. There are no Group or Sector staffs. All staff units are at the corporate level or at the business unit. All businesses report directly to corporate management. Corporate staffs consist of the usual Finance, Communications, Government Relations, International, Legal and Human Resources. In addition, there is the Research and Engineering staffs and their Councils. Currently they have around 600 on the corporate staff. This is down by one half from the beginning of the 1980s while revenues have grown by two. Thus, Rockwell has eliminated levels and staffs, except those that add value, and reported stand alone businesses directly to the corporate office.

In summary Rockwell has selected a strategy of diversification focusing on four areas. They have about 10 businesses in these areas and are looking for more. They have grown by acquisition. They acquire leadership companies in their four areas and try to add value to them. The adding of value is the challenge for Rockwell. Many companies try to implement similar value adding practices; the trick is to do it. In addition, Rockwell has grown by acquisition. Working across businesses with different origins and cultures is more difficult than working across internally grown divisions. One of Beall's primary objectives when he became CEO was to implement management processes to accomplish value added and eliminate those that do not.

### **Beall as CEO**

In 1987, Don Beall became Chairman and Chief Executive of Rockwell. He had come up through the electronics business. He had a variety of experiences from commercial to defense and components to systems. As the President and the COO, he learned the other Rockwell business areas. He was reasonably comfortable with the strategy and structure of the company. Instead he chose to lead through values and management processes. The vehicles that he uses are the Corporate Management Process Task Force and the Credo, the Corporate Office and himself.

#### **1. Corporate Management Process Task Force and the Credo**

Beall's values and beliefs were shaped by his experiences as a general manager. He found American business to be overstaffed, bureaucratic and "at odds" with labor. So he set out his values and beliefs and discussed them with his direct reports. Then the discussion group was enlarged to the direct reports of his direct reports. Finally, the top 200 managers got involved in shaping what became the Rockwell Credo. It is shown in Exhibit 1. To the outsider it looks similar to many other value statements. In fact it is backed up with 23 pages of text detailing the points. Beall then took the Credo to every location in the company to explain it and dialogue about it. The Rensis Likert Associates from the Institute for Social Research from the University of Michigan was brought in to design an employee survey around it. In this way the company could track how well the Credo was received, understood and used in practice. During the process, he learned that the company's values are best communicated through its actions and processes. A company that requires five levels of annual plan review and seven signatures for capital expenditures cannot be anti-bureaucratic, even if it proclaims to be so.



## **Exhibit 1**

### **We Believe**

We believe maximizing the satisfaction of our customers is our most important concern as a means of warranting their continued loyalty.

We believe in providing superior value to customers through high-quality, technologically advanced, fairly priced products and customer service, designed to meet customer needs better than all alternatives.

We believe Rockwell people are our most important assets, making the critical difference in how well Rockwell performs; and, through their work and effort, separating Rockwell from all competitors.

We believe we have an obligation for the well-being of the communities in which we live and work.

We believe excellence is the standard for all we do, achieved by encouraging and nourishing:

- Respect for the individual
- Honest, open communication
- Individual development and satisfaction
- A sense of ownership and responsibility for Rockwell's success
- Participation, cooperation and teamwork
- Creativity, innovation and initiative
- Prudent risk-taking
- Recognition and rewards for achievement

We believe success is realized by:

- Achieving leadership in the markets we serve
- Focusing our resources and energy on global markets where our technology, knowledge, capabilities and understanding of customers combine to provide the opportunity for leadership
- Maintaining the highest standards of ethics and integrity in every action we take, in everything we do

We believe the ultimate measure of our success is the ability to provide a superior value to our shareholders by balancing near-term and long-term objectives to achieve both a competitive return on investment and a consistent increase in market value.

Beall then created the Corporate Management Process Task Force (MPTF) to redesign Rockwell's management processes. The task force consisted of a cross section of general managers and corporate staff. It was chaired by a Group Executive who has become one of the two COOs. They worked for two years comparing the Credo with Rockwell's current practices. If there was a mismatch, they would redesign the process to fit the Credo. The task force made many recommendations which were implemented. They created new processes for capital expenditures, the Annual Operating Plan, patents, interdivisional work orders among others. The effort was regarded to be a success. It was encouraged and has been extended to operate within the businesses.

Beall then created Management Process Task Force II. In fact he sees the task force as a continuous process. He says, "Its a great way to look at ourselves". He has charged them to be the "Change Agent" for the company. He wants them to be the vehicle to make Rockwell the best managed company. Again the task force was selected from among the most talented in the company. Like the first one, it was a cross section of general managers and corporate staff. This time the task force chose its own topics in consultation with the corporate office. They are working on globalization in the company, cross divisional cooperation, and new internally generated business. So the task force has become a permanent body with rotating membership and leadership. It reports to the top 200 managers who meet quarterly. It is a permanent change agent.

The task force has become a great vehicle for management development and continuous learning as well as a change agent. The members must train themselves and their peers in the chosen topics. They learn about the whole company and its businesses. They meet and form relationships with other talented managers. The company also gets to see its managers in action. It can see which ones learn and grow and which ones can rise above parochial interests and think in terms of the company as a whole.

## **2. The Corporate Office**

Beall believes in decentralization of decisions to the business level. The corporate office is to create and operate policies and practices that fit the needs of the businesses and not to control or hinder. Yet Rockwell is not to be a holding company. Instead he sees the corporate office and staff as adding value by being a catalyst for change. Human Resources is singled out in particular as a catalyst for change and its agenda for the 1990s derives in large measure from this charter.

The leading edge in the change process has been the management development and training effort. There are four programs that are given annually. There was one each for general managers, manufacturing managers, engineering managers, and human resource managers. All

of them are used as vehicles for change. The corporate staffs work in concert with the Organizational Excellence Staff, led by Warrington Parker, in designing and delivering the programs.

The courses are vehicles for building personal networks across the company, sharing ideas and best practice and giving the staff the opportunity to present new ideas. The latest thinking from outside and inside the company is presented. But the primary purpose is to plant the seeds for change and create a sense of urgency to make changes. Central to the change process is the Organizational Redesign Process.

It is at these courses that the Organizational Excellence Redesign Process is presented by the Organizational Excellence Staff. It is a strategy driven process for revitalizing a business. It gives the business the opportunity to fundamentally change its way of doing business towards one of delivering customer value. Starting with strategy and purpose the management team assesses a division's current strategy, performance, and need for change. Then they move to reformulation of strategy and redesign of the organization.

The primary target of the redesign process is the division manager. Typically some division managers, usually new ones, respond voluntarily to the invitation and adopt the process. Organizational Excellence Staff is made available to the division to facilitate and consult with the division managers and their management teams. Eventually the division hires its own Organizational Excellence member. To date, seventeen have been hired to assist in divisional redesign efforts.

Thus, the development sessions are designed to promote new thinking, to get exposure to the entire company, to establish personal networks and plant the seeds for change. For those managers who are interested, corporate resources are made available. Several of the change efforts have been captured in case studies. These in turn are used in subsequent executive development sessions. The managers of the change also return and participate in the class discussion. These training sessions give the corporate staff a forum within which they can become a catalyst for change.

The development agenda for the 90s is to expand to a concept of lifelong learning and to make training Rockwell's competitive advantage. The expansion begins with the up grading of the staffing activity to recruit superior people. Recruiting, however, is only part of the relationship between Rockwell and the educational system. They are using internships, fellowships, joint research, funded research, sabbaticals for professors, visits, and lectures to name some of the activities. Education and learning is supported by both money and effort. Rockwell will step up its own training and development in order to keep pace with change. It has established a Rockwell approach to lifelong learning.

So training and learning has been and will be used as a leading edge for the corporation to be a catalyst for change. In addition, training and continuous learning fits well for a technology company which competes on knowledge. An edge in skills and knowledge can be their advantage in the 1990s.

In addition to training, Human Resources has focused on labor relations as an area for improvement following Beall's objective. The purpose of the effort is to convert the relationship with the United Auto Workers and other key unions from one of adversarial demands to a partnership around business issues. The corporate units in Labor and Organizational Excellence took the initiative and worked along with the divisions involved. The idea was to conduct the negotiations in a new and non-traditional atmosphere.

The Rockwell UAW Aerospace Workers Master Contract negotiations and Rockwell UAW Automotive Master Contract negotiations were completed under the new process. The process begins with all participants getting some education. Then the negotiations are problem solving, issue focused, and win/win focused. That is, they will not leave an issue until it can be made a win/win situation. Often the process involves some work redesign. The process has involved 60 union and management participants in the Aerospace Workers negotiations and 56 in the Automotive negotiations.

The results were outstanding from both sides. More information was shared about the business concerns and strategies. The negotiating teams met offsite and the negotiations were facilitated by staff from Corporate Human Resources. The discussions were focused more on issues of competitiveness, flexibility and employee involvement. There were fewer barriers and demands. The contract included a number of partnership agreements. In this manner, Beall has been effective at using the corporate staff and Human Resources in particular along with the Management Process Task Forces as agents of change for his agenda for the 1990s.

### **3. Beall Himself**

The last vehicle for change is Don Beall himself. He is active in the strategy making process along with the other corporate officers. He calls on customers and partners and is a knowledgeable resource when corporate leverage is useful with these stakeholders.

Beall is a contrast to Jack Welch in their styles of change. Welch is more the initiator of top down change. Beall is equally forceful but prefers a catalyst role. He wants to use education, learning, and awareness to trigger the general managers' interest. Then he will provide resources, best practices, examples, and support to help change happen. He will reward and support the general managers' efforts. For those managers not changing he will have questions such as "What are you doing to revitalize?" and "Have you looked at what they're

doing over at XXXX division?" He may suggest a visit or a person to be contacted. The message for change is there.

In summary, Don Beall has chosen to lead Rockwell through the use of management processes and values. The primary vehicles for his leadership are the Credo and the Management Process Task Forces, the corporate staff and himself. Both he and the staff have chosen a catalyst role. The leading edge in the process so far has been training and management development and education and redesign of the businesses. The challenge for Beall and Rockwell is to become the best managed company. To do so, he is relying on the Human Resources function to help him.

### **Human Resource Agenda**

The Human Resources Agenda follows from Rockwell's business strategy and Beall's change agenda. Two of the top priority agenda items have already been discussed--training as catalyst for change and partnership with the unions. These will continue to be priority items. In addition, Rockwell is addressing the same set of agenda items as other large companies. These will be mentioned next before discussing Human Resources' other outstanding feature -- its business partnership role.

Rockwell, like other companies has prioritized a number of other areas for added effort during the 1990s.

1. Control of benefit costs, particularly health care.
2. Continued development and improvement of the management succession process.
3. Development of workforce 2000 initiatives around diversity and work-family issues.
4. Develop a more aggressive staffing and recruiting activity in the face of skill shortages.
5. Continue the development of more global human resource practices and policies.
6. Experiment with and develop new compensation plans for more variable compensation and better linkage to business strategy. A number of test beds are being used and observed for different pay formulas, bonus systems and gain sharing. The plan is to use test beds, showcase the success, learn from the failures and transfer best practices to other units.
7. Assist the businesses to strategically redesign themselves through those who are responsible for the business.

Each of these priorities has its responsible H.R. professionals assigned to them. Plans have been prepared and will be reviewed and updated.

The key to the Human Resources Agenda for the 90s is to continue to be a partner in the business with general management. There is a continuing effort to make H.R. professionals better business people and leaders for change. They are encouraged to think beyond the function and take responsibility for change. They claim that there are no H.R. issues, only business issues which have some H.R. components. The goal is to make H.R. part of the strategy making team. Therefore, it is essential that H.R. professionals understand the businesses.

The primary means for implementing the partner role is through the example of corporate H.R. and its leader Robert Murphy. Corporate again acts as a model and catalyst. Murphy plays a major business role in the formulation of strategy and design of the organization to implement the strategy. He works with the Chairman to develop a five year corporate plan which is reviewed and updated annually. He begins by being business oriented. He tries to understand the businesses as well as Beall. As a result, the CEO involves him early in the planning and decision process. Along with the Chief Counsel, he plans the Board meetings, sub-committees and agendas. This role requires knowledge of the whole company and its environment. He and several of his staff were the designers of the processes for implementing the Credo and the two Management Process Task Forces. He was also a member of both Task Forces.

One of the key activities undertaken by Murphy is the design of organizational units and the movement of key talent to facilitate strategic changes. Two examples will illustrate. Rockwell possessed a great portfolio of capabilities for the Strategic Defense Initiative (SDI) Contracts. However, they existed in a number of different divisions and corporate R & D. Rockwell could very well become number one in SDI but there was no incentive to share capabilities. Murphy talked to all the general managers concerned. He wanted to understand the capabilities involved and to get their ideas about pooling them. The result was an SDI Center which reported directly to Beall. All proposals came from the Center and gave a single point of contact for the customer. The result was a contract win on the ASAT Program. The program was going to issue two contracts but Rockwell's integrated capabilities led to the award of a single overall contract.

The Center works by locating some personnel in a separate building. All employees come from the divisions. At the Center, they learn the SDI business opportunity and make contacts and relationships with the customer. All work is performed in the divisions (three electronics division, Rocketdyne Division and the Science Center) and all revenue and profit goes to the divisions. One division takes the lead and program management. The general managers from the divisions and the COO form a Board of Directors for the Center. All of them have measures of the Center's success in their incentive compensation package. So far, the

Center is regarded as a success. At a time when it is difficult to get intra-company partnering, the SDI Center can serve as a model. It is a good example of drawing on total corporate resources to add value to businesses.

Another example is the conversion of the Graphics businesses from mechanical to digital and from chemical imaging to electronic imaging. The general manager of the Graphics business came to Murphy to talk about succession and to announce his own early retirement. After an internal search, the company moved a manager from the auto business to become deputy general manager for one and a half years prior to the general manager's retirement. Working through the succession process, they moved a project engineer from Space Shuttle to take the Engineering function. He in turn created some internal technology relationships with Allen Bradley for automation equipment, some special electronics from Autonetics and some research and development from the Science Center. The project led to the successful conversion to color digital printing presses used by most newspapers and a 50% market share for the business.

The example shows how a business receives value added by having access to Rockwell's managerial and technical talent pools. Then using Rockwell technologies and support from other units, the business makes a conversion to digital electronics to gain market share. The Human Resources function was the catalyst for the change. Its role was to perceive opportunities for cross business cooperation and arrange management and/or technical talent transfers to facilitate the cooperative relationships.

The establishment of a business partnership between Human Resources and management is being led by Robert Murphy himself. He is the model and catalyst for change. By creating organization designs, incentives and talent moves, the H.R. function facilitates the value adding process.

### **Summary**

This article has described Rockwell as a value adding corporation. The value adding corporation is decentralized to diverse businesses units like a holding company. However, it initiates action, exercises strategic control and adds value to the businesses like a divisionalized corporation. Rockwell provides a good example of a value adding corporation even though it has grown by acquisition. It adds value to successful businesses by giving them access to Rockwell technology, management talent, best practices, training and education and internal business opportunities. The new CEO, Don Beall, facilitates this process by establishing management processes and values. He has used the Credo and Management Process Task Force to make Rockwell one of the best managed companies. He also uses the corporate staff and

Human Resources in particular as catalysts for change rather than as controllers. The Human Resources function itself is using training as its leading edge to create changes in redesign of divisional strategies and organization. Robert Murphy, the Human Resources head is a model for the function. He has become an active participant in the strategy making, organizational design and talent placement processes. His model is central to Rockwell's Human Resource agenda for the 90s to become a value adding business partner.



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