



## Housekeeping at Corporate Headquarters

## International Trends in Optimizing the Size and Scope of Corporate Headquarters

Survey Report



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### Survey Report

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University of St.Gallen/Harvard Business School

If you have any questions or comments concerning this corporate headquarters survey, please do not hesitate to contact us.

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Just as it is at home, housekeeping at corporate headquarters (CHQ) is a rather unpleasant but indispensable duty – unpleasant because CEOs and corporate managers always have more exciting or maybe less political tasks on their lists; indispensable because ever-changing environments require corporate executives to visit regularly whether or not their CHQ adds value to the business portfolio, which is the crux of any successful corporate strategy. Thus, every corporation shall have a recurrent process in place for reviewing its CHQ – a CHQ housekeeping process which goes beyond simple cost-cutting or naïve benchmarking exercises.

When putting the corporate office to the test, a considered approach is necessary with the company's unique corporate strategy tipping the scales. Recent trends at international CHQs can aid CEOs and corporate executives in reviewing their own corporate office, providing data for comparisons and spurring new ideas.

*“In practice, however, headquarter reviews are often no more than cost-cutting exercises. Our research shows that such an approach is dangerous since simply reducing the size of the headquarters is no guarantee of improved performance. Indeed, companies with larger headquarters typically outperform those with smaller headquarters. Hence a more considered approach is needed, in which the headquarters is designed to fit with the company’s corporate strategy.*

*Reviews of headquarters should also avoid naïve benchmarking against other firms that fails to account for differences in their corporate strategies. Firms with strategies involving extensive linkages between their businesses, high levels of shared services at the center, and an active influence over business activities can have over 10 times as many headquarters staff as firms with no linkages or shared services and an arm’s-length approach to business units. It is apparent that in the design of corporate headquarters, ‘one size fits all’ is a flawed approach. Benchmarking can be valuable, but only if it is with firms that are pursuing similar corporate strategies.”<sup>1</sup>*

David J. Collis, David Young, & Michael Goold (2007)

## Preface:

# Why Housekeeping at CHQ Matters

Every corporation should have a recurrent process for reviewing the design of its CHQ in place. That design of CHQ is crucial to the success of today's large companies, and ever-changing internal and external environments require adaptability and alterations over time.

Why is the design of CHQ of the upmost importance for the success of today's large companies? Michael Porter's seminal article *From Competitive Advantage to Corporate Strategy*<sup>2</sup> highlights that modern companies not only compete at the business level in product or regional markets (business strategy)<sup>3</sup> but also at the corporate level (corporate strategy)<sup>4</sup>. The simple reason is that almost all large firms<sup>5</sup> – conglomerates, multinationals, but also seemingly more focused firms – are comprised of more than one business unit (operating in different product and/or geographic domains), and the corporate whole should add value to those individual businesses. Thus, any corporate strategy is but the justification for whether or not these multi-business firms shall exist.<sup>6</sup>

Specifically, in his article Porter postulates that “*corporate strategy concerns two essential questions: (1) what businesses the corporation should be in and (2) how the corporate office should manage the array of business units*”<sup>7</sup> –, which basically manifests CHQ as one side of the corporate strategy coin; and later he also lays out the nuts and bolts of the organizational design of CHQ for each of his four basic corporate strategy concepts: portfolio management, restructuring, transferring skills, and sharing activities.

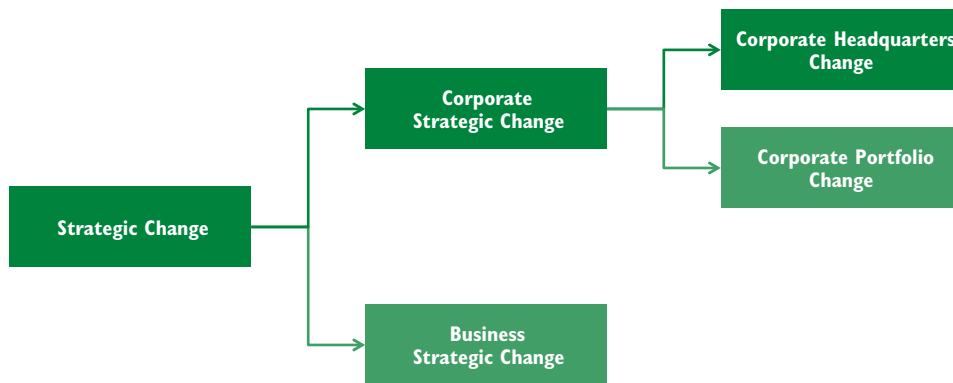
While these essential questions of corporate strategy are engraved on two sides of the same coin, there seems to be a *bright side* and a *dark side* when it comes to change. There is a bright side because both corporate executives and scholars alike have enthusiastically embraced changes in the portfolio of businesses (in Porter's terminology through portfolio management and restructuring). There is also a dark side because corporate executives have paid relatively little attention to changes in how the corporate office should manage these businesses (particularly, when in Porter's terminology, the strategy involves transferring skills or sharing activities), and scholars have had much less advice to offer in this regard.<sup>8</sup> Specifically, this is true for changes in the organizational design of CHQ.

Let's shed some light on the dark side of the coin: The question – *how the corporate office should manage the set of businesses?* – elicits no easy answers. The strategic choices concern: Whether and how the corporate level adds value to the businesses? How to avoid much of the burden of bureaucracy and interference? Which activities should be centralized

at corporate level and which pushed back to the businesses? And finally what is the right size for CHQ?

Given the importance of CHQ, all firms should engage in CHQ reviews on a regular basis. Ever-changing internal and external environments ask corporate executives to revisit on a regular basis the design of their CHQ. It is the responsibility of corporate managers to scrutinize whether the existing CHQ design nurtures added value to the corporate portfolio or whether it fosters the destruction of value. Now and again, these exercises are likely to spark some degree of change to the current CHQ design. Thus, changes at CHQ itself are just as much a part of corporate strategic change as are changes in the corporate portfolio (see Figure 1).

**Figure 1: Strategic change, corporate strategic change and changes at CHQ<sup>9</sup>**



Serious housekeeping at CHQ clearly represents more than simple cost-cutting exercises or naïve benchmarking since it must consider the company's unique corporate strategy. But above and beyond this, comparisons with recent international trends can help corporate managers review their own CHQ and spur new ideas.

St.Gallen/Boston, May 2012

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# Executive Summary

**Purpose:** This *international guide on changes at CHQ* provides data and insights on changes in CHQ design over a four-year time period (2007–2010), as well as on the status quo of recent CHQ design and effectiveness (2010).

**Surveys:** The guide is based on large-scale surveys of 761 of the largest corporations in 21 countries in North America and Europe. The overall company-level response rate accounting for 28.4% of the sample indicates a large interest in changes at CHQ.

**Key findings:** The surveys indicate an overall trend towards stronger CHQ – in contrast to the more prominent cases of CHQ cutbacks frequently published in the business press. Many companies have tightened the reins of CHQ and increased CHQ influence over divisional decisions. Specifically, seven main findings stand out:

- Probably the most striking aspect was the number of companies that reported on recent major change at their CHQ. For example, two thirds engaged in such major change during the financial crisis and recessionary period (2007–2010).
- The huge variety in the size and scope of CHQ was also astonishing. Differences between countries and industry sectors are especially notable. However, even within the same country and the same industry a huge variance exists.
- There appear to be converging trends across North America and Europe regarding the size and scope of CHQ despite the notable differences across countries.
- In line with a modest trend towards larger CHQ there is a clear trend towards more influence on divisional decisions. Evidently, firms have tightened corporate influence during the economic crisis (2007–2010). At the same time firms have increased delegation of decision-making authority to their divisions.
- There is a difference between changes in CHQ size and changes in CHQ policies. For example, despite a modest increase in CHQ size on average, the magnitude and direction of changes in CHQ structure still vary considerably – as opposed to changes in CHQ policies with a much more pronounced direction of changes towards stronger CHQ.
- There appear to be several drivers for changes at CHQ. Some of them increase pressure for changes at CHQ, while others offer windows of opportunities for ample changes at CHQ.
- CHQ performance leaves room for considerable improvements, and future CHQ reviews with a view to increasing CHQ cost effectiveness but also with a view to aligning CHQ and corporate strategy are necessary.

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# International Survey on Changes at CHQ

## Factual Data on Recent CHQ Characteristics and Trends in Changes at CHQ

There is little factual data on international trends in CHQ design, even less in changes at CHQ. Probably the most comprehensive CHQ survey was done by an international research consortium led by the Ashridge Strategic Management Centre (ASMC) in 1998/1999.<sup>10</sup> While this survey of more than 600 companies in 7 countries provides comprehensive data on CHQ size and scope, viewed from today two important shortcomings are inherent in this study. First, given the date of this survey an update appears necessary. Since 2000 a number of regulations, in particular Sarbanes Oxley Act (SOA), have tightened the reins of corporate governance which can be expected to translate into CHQ design. Table 1 provides a summary of changes in the internal and external environment which can be expected to translate into changes in the design of CHQ. Second, due to a focus on the size and scope of CHQ the aforementioned survey, as well as other CHQ studies,<sup>11</sup> hold very little information about changes at CHQ. Empirical data on the dynamics of CHQ seems valuable given the importance managers and scholars have attached to reviewing and redesigning CHQ.

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### Excursus: Some Serious Housekeeping Still Has to Be Done

The amount of ignorance that still exists concerning the second concern of corporate strategy (namely how CHQ manages the business portfolio) is striking. For example, if one takes the time to read the countless pages of corporate annual reports, one will find comprehensive information on each of the corporations' individual businesses and also on recent changes a company has made to the business portfolio through acquisitions and divestitures (the bright side of the coin). In contrast, one will rarely find very detailed information on the companies' CHQ (the other side of the corporate strategy coin). One of the few examples is the British company Smiths which has taken the unusual step of detailing the cost of its CHQ in its accounts in 2008 (35 m £ [70 m USD] in the year to August) when the new CEO put the CHQ to the test shortly after taking the helm and implemented significant change.<sup>12</sup> Another example is the Swiss bank UBS which devotes an entire section in its annual report to its corporate center.

One may think companies simply don't disclose all the particulars of their corporate strategy just as their individual businesses keep the details of their competitive strategies secret. Yet, there are good reasons to believe the opposite is true. Many corporate CEOs do not know how much their CHQ costs to run or how many staff is employed in them. For example, in a survey of large British firms conducted in 2008, only 20% of the CEOs knew the size and costs of their CHQ.<sup>13</sup> Besides, CEOs appear to pay too little attention to corporate functions.<sup>14</sup>

CEOs have the responsibility for the corporate whole, and hence have to know exactly what the basic numbers on this side of the corporate strategy coin are. Only then can they provide a serious answer to the second question concerning corporate strategy – namely, how the corporate office should manage the business portfolio and ultimately what CHQ contributes.

**Table 1: Fundamental change of environmental and organizational context for today's large companies (illustrative)**

Changes in the internal and external context of large companies <sup>15</sup>		Implications for corporate headquarters (CHQ)	
<b>(De-)Regulation</b>	<ul style="list-style-type: none"> <li>■ Sarbanes Oxley Act in 2002</li> <li>■ New rules and regulations by the major stock exchanges</li> <li>■ New rules and regulations in the EU e.g. Basel II &amp; III, Insolvency I &amp; II, IFRS, controlled foreign corporation (CFC) legislation<sup>16</sup></li> <li>■ Industry deregulations in the EU, e.g. Telecom, Energy</li> </ul>	<ul style="list-style-type: none"> <li>■ New corporate governance practices (partly driven by corruption scandals), e.g. use of compliance officers</li> <li>■ CHQ-subsiary relationships (maybe more central control)</li> <li>■ Location and mobility of CHQ</li> </ul>	<b>(De-)Regulation</b>
<b>Globalization (and internationalization)</b>	<ul style="list-style-type: none"> <li>■ Increase in globalization since 1990, e.g. KOF Index of Globalization (Roth, 2011)</li> <li>■ More complex and dynamic organizational environments                             <ul style="list-style-type: none"> <li>– More complex and diverse organizations, e.g. MNCs with local subsidiaries</li> </ul> </li> <li>■ Global capital markets:                             <ul style="list-style-type: none"> <li>– Increase in short-term focus (e.g. on financial performance) at expense of long-term investments</li> <li>– Increase in shareholder activism and shareholder pressure</li> <li>– Increase in international investors</li> </ul> </li> <li>■ Global executive labor market:                             <ul style="list-style-type: none"> <li>– Change in executive career paths</li> <li>– Change in pool of managerial resources within the firm (decrease in value of firm-specific human capital and managerial resources)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ CHQ facing challenges to manage more complexity and diversity:                             <ul style="list-style-type: none"> <li>– CHQ-subsiary relationships</li> <li>– Need for knowledge of the new and overseas markets (subsidiary operations)</li> </ul> </li> <li>■ Roles of CHQ:                             <ul style="list-style-type: none"> <li>– Potential shift in internally faced vs. externally faced roles of CHQ (towards shareholders and capital markets)</li> </ul> </li> <li>■ Resources and capabilities at CHQ, e.g.:                             <ul style="list-style-type: none"> <li>– Need for GM techniques (such as corporate strategic planning) devised to help CEOs and TMT cope with complexity and dynamism</li> <li>– Need for cross-functional collaboration capabilities</li> <li>– Use of chief strategy officers</li> </ul> </li> <li>■ Location and mobility of CHQ</li> </ul>	<b>Globalization (and internationalization)</b>
<b>Technology</b>	<ul style="list-style-type: none"> <li>■ IT revolution:                             <ul style="list-style-type: none"> <li>– Email</li> <li>– Internet</li> <li>– Digitalization</li> </ul> </li> <li>■ Evolution of supply chain<sup>17</sup> <ul style="list-style-type: none"> <li>– More diverse product portfolio</li> <li>– New markets</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Resources and capabilities at CHQ, e.g.:                             <ul style="list-style-type: none"> <li>– Need for know-how in the new and overseas markets</li> <li>– Need for know-how in modern communication</li> </ul> </li> <li>■ Roles of CHQ:                             <ul style="list-style-type: none"> <li>– Corporate standards</li> <li>– Need for business acumen<sup>18</sup></li> </ul> </li> <li>■ Location and mobility of CHQ (dispersed CHQ)</li> </ul>	<b>Technology</b>

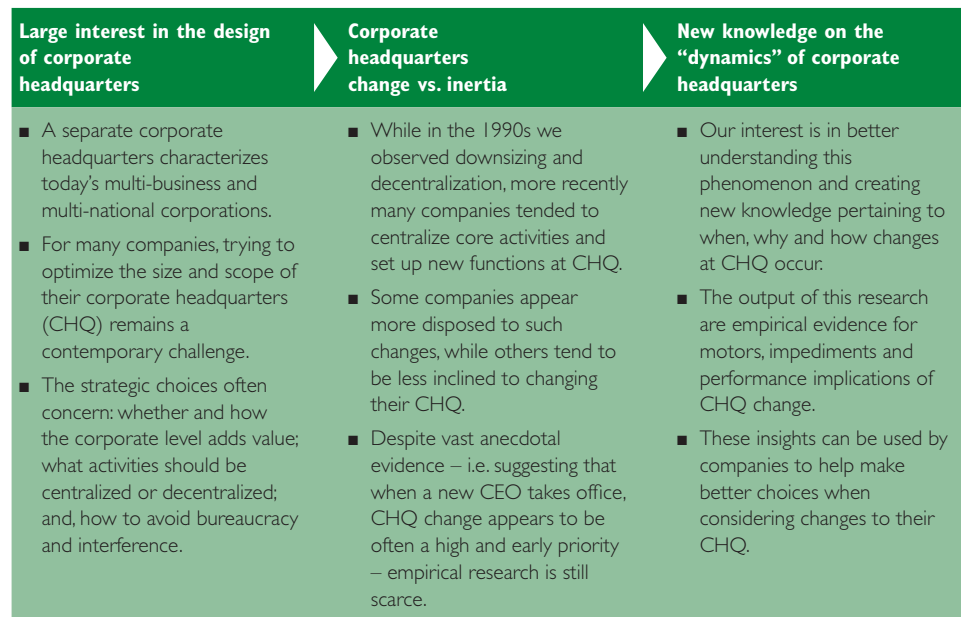
**Changes at corporate headquarters (CHQ)**

**Purpose and Contents**

We surveyed the largest corporations in North America and Europe to identify current CHQ characteristics and CHQ effectiveness, and – most importantly for this study – to discover any changes in CHQ design characteristics which may have occurred over time in order to explore such changes at CHQ:

- What is the CHQ size of today's large companies, and how effective are they?
- How have CHQ design characteristics changed over the previous years (2007–2010)?
- What are the specific motors and impediments for changes at CHQ?

**Figure 2: Research purpose**



This *international guide on changes at CHQ* is based on surveys of 761 of the largest corporations in 21 countries in North America and Europe. It provides corporate executives with valuable information about recent trends in relation to CHQ design and effectiveness, contemporary changes in CHQ design and thus comparisons that will help them review their own CHQ:

- What factors do influence CHQ design? How do the size, scope and effectiveness of CHQ differ between countries and industries?
- How inert are CHQ? What are the contemporary trends concerning changes in the size and scope of CHQ in various countries and industries?
- What are the factors driving/impeding changes at CHQ – levers for pressure/resistance of changes at CHQ or windows of opportunity for ample change?

The guide helps corporate executives to understand better the variety in size and scope of CHQ, to assess current CHQ effectiveness and most importantly to learn about contemporary trends regarding changes at CHQ. Finally, it provides some *CHQ housekeeping guidelines* which may help corporate executives review their CHQ.

## Organizing

Below the trends from the survey as well as (preliminary) research findings and conclusions are presented in several steps:

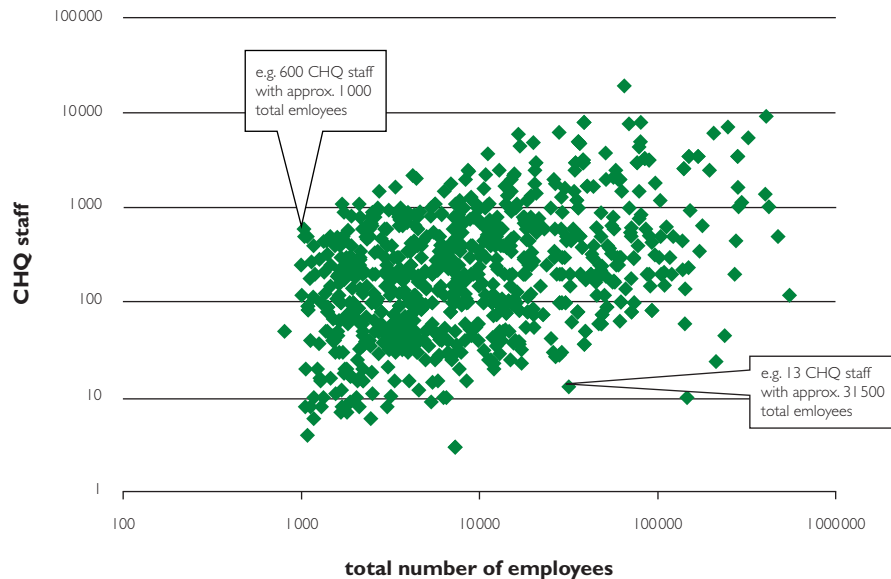
- Chapter 2: CHQ characteristics: status quo of CHQ size and effectiveness
- Chapter 3: Changes at CHQ: contemporary trends regarding changes at CHQ
- Chapter 4: Changes at CHQ: conceptual approaches to understanding changes at CHQ, and an empirical investigation of the antecedents (drivers and impediments) and consequences of changes at CHQ
- Chapter 5: Discussion and conclusion
- Appendices: Detailed analyses, methodology and CHQ survey information

# CHQ Characteristics – Status Quo

## CHQ Staffing

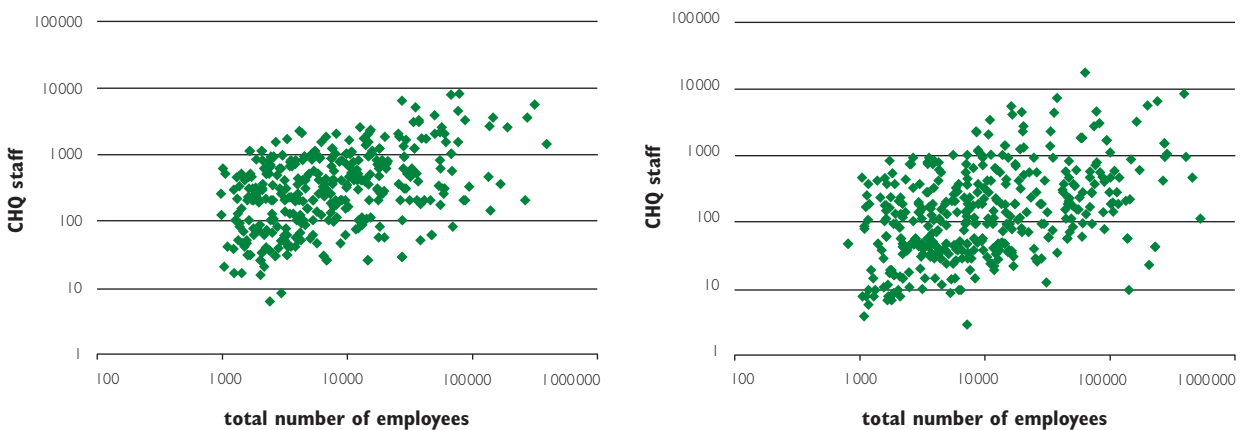
The huge variety in CHQ size is astonishing. In almost all countries, the smallest number of CHQ staff is somewhat close to 10 while the largest CHQ are comprised of several thousand staff (see Figure 3, Figure 4, and Table 11 in Appendix 3). The enormous variety becomes even more obvious when considering the ratio of corporate staff per 1000 employees. While some companies have less than 1 corporate staff per 1000 employees, others employ several hundreds.

**Figure 3: Scatter diagram of CHQ size vs. company size (all, n=733)**



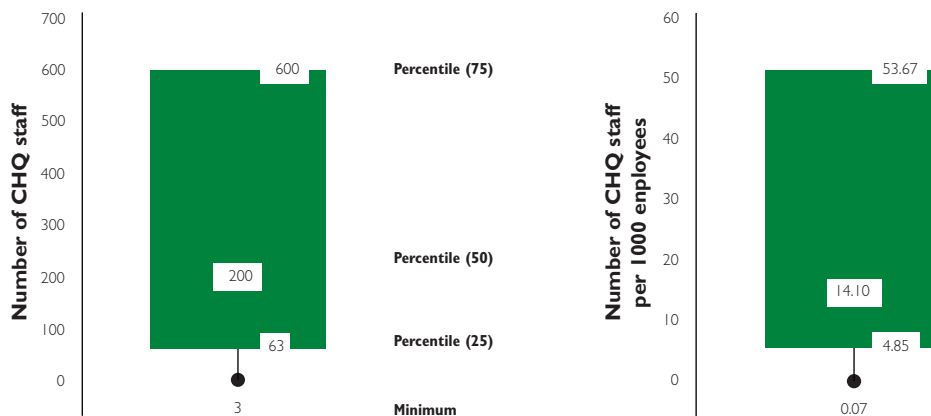
Remark: n=733; due to missing data and outliers (e.g. 7 companies with more 87% CHQ staff)

**Figure 4: Scatter diagram of CHQ size vs. company size – North America (n=346) vs. Europe (n=380)**

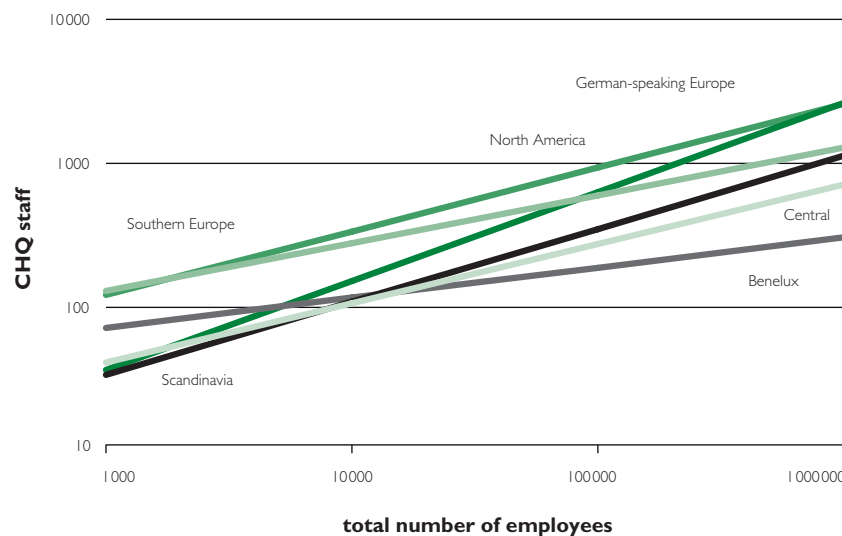


The variety in CHQ size can also be illustrated by further analyses. While 25% of the companies have more than 600 CHQ staff, 25% of the companies run their CHQ with less than 63 staff, and the minimum CHQ size amounts to 3 people only (see Figure 5, left hand side). The variety is similar for the relative size of CHQ. While 25% of the companies have more than 53.56 CHQ staff per 1000 employees, 25% of the companies run their CHQ with a ration of CHQ staff vs. total employees of less than 4.85 (see Figure 5, right hand side).

**Figure 5: CHQ staff: total staff (n=751) and staff ratio (n=429)**



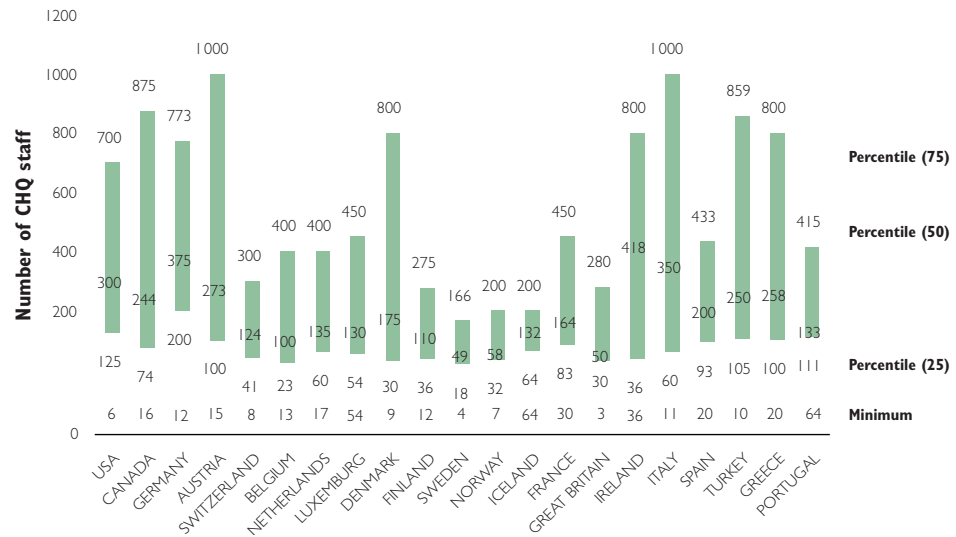
**Figure 6: CHQ size vs. company size – by regions**



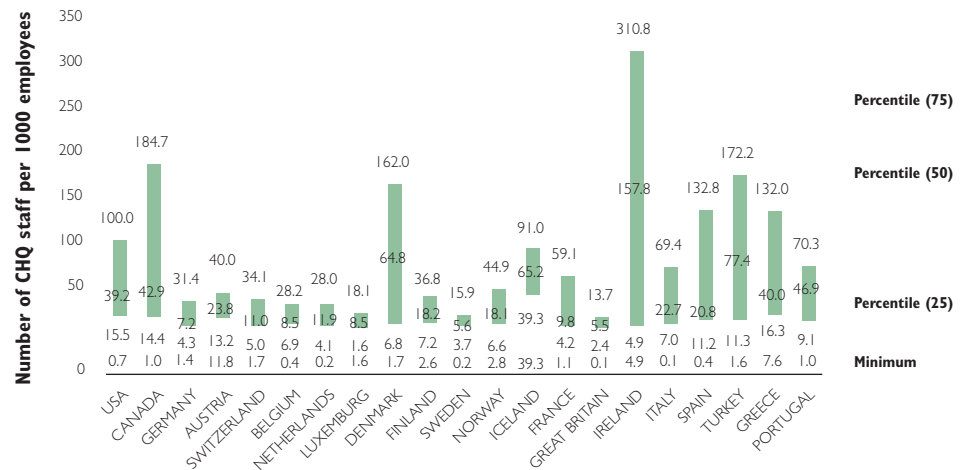
There are notable differences between regions and countries (see Figure 6, Figure 7, and Figure 8). On average, companies in some countries tend to have larger CHQ while companies in other countries tend to have smaller CHQ. In the US, for example, companies in the upper quartile have more than 700 CHQ staff, while companies in the lower quartile still run their CHQ with up to 125 staff. As another example for rather large CHQ, in Germany companies in the upper quartile have more than 773 CHQ staff, while companies in the lower quartile still run their CHQ with up to 200 staff. In contrast, companies in Scandinavian

countries seem to have smaller CHQ. In Sweden, for example, companies in the upper quartile have only 166 CHQ staff, while companies in the lower quartile run their CHQ with less than 18 staff. As another example, in Norway companies in the upper quartile have only 200 CHQ staff, while companies in the lower quartile run their CHQ with less than 32 staff. Despite this variety, an overall pattern is rather difficult to identify since other factors such as the nature of the industry also come into play.

**Figure 7: CHQ total staff – by countries**

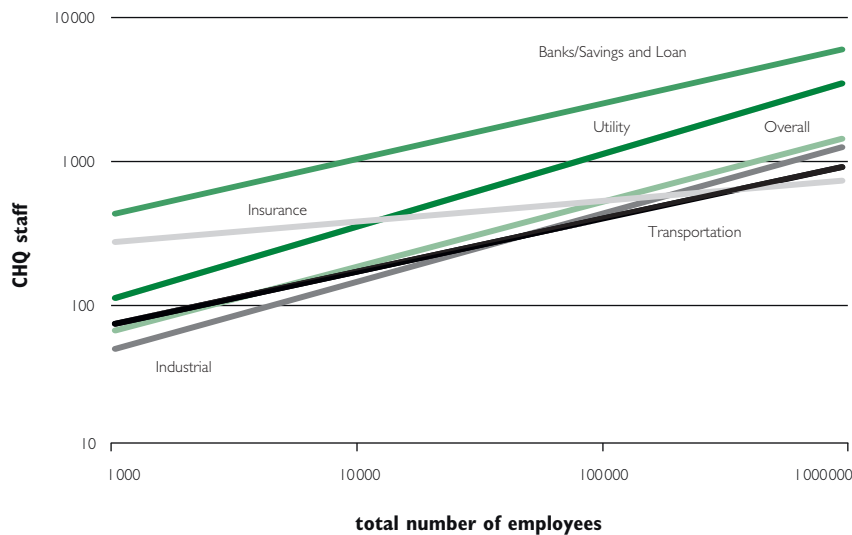


**Figure 8: CHQ staff ratio – by countries**



The differences between sectors of industry are especially notable (see Figure 9 and Table 2). Companies in the Banks/Savings and Loan industry run the largest CHQ. As an example, the CHQ size for a company in this industry with 5000 employees would host 1092 CHQ staff. Companies operating in the Utility and Insurance industries also run large CHQ. Particularly in insurance companies the size of CHQ grows relatively little as the overall company size increases.

**Figure 9: CHQ size vs. company size – by industries**



**Table 2: CHQ size in US firms – coefficients and exemplary CHQ size**

	Coefficient	Constant	R <sup>2</sup>	i.e. 5 000 employees
<b>Overall (n=316)</b>	<b>0.009</b>	<b>438.70</b>	<b>0.18</b>	<b>485.20</b>
Industries				
01 Industrial	0.010	353.04	0.26	403.04
02 Utility	0.011	425.95	0.51	478.95
03 Transportation	0.003	582.91	0.02	595.91
04 Banks/Savings and Loan	0.078	703.00	0.46	1 092.00
05 Insurance	0.008	871.83	0.01	911.33
06 Other Financial	0.014	295.89	0.02	364.89

Indeed, previous research suggests that country and industry are important factors in determining the size and structure of CHQ.<sup>19</sup> However, even in the same country and the same industry the size of CHQ can vary significantly.

**Quote**

*“Some companies, such as the leveraged buyout firm KKR, have been able to control over \$40 billion in revenues with fewer than 80 people at headquarters (Baker and Smith, 1998). Others, such as Coca-Cola, before its recent restructuring, had nearly 5 000 corporate employees for less than \$20 billion in revenues (Foust et al., 2000). Even within a single industry in one country, the variance can be enormous. In Germany in the late 1990s, the chemical and pharmaceutical manufacturer Hoechst had only 180 people in the headquarters function, while its competitor, Bayer, had close to 7 000 (Bühner, 2000b).”<sup>20</sup>*

While they are not the focus of this survey, additional factors which determine the size and structure of CHQ in large and multi-national companies also exist (see excursus next page).

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## Excursus: Factors Determining the Size and Staffing of CHQ

Previous research identified a number of factors which determine the size and structure of CHQ in large and multi-national companies:<sup>21</sup>

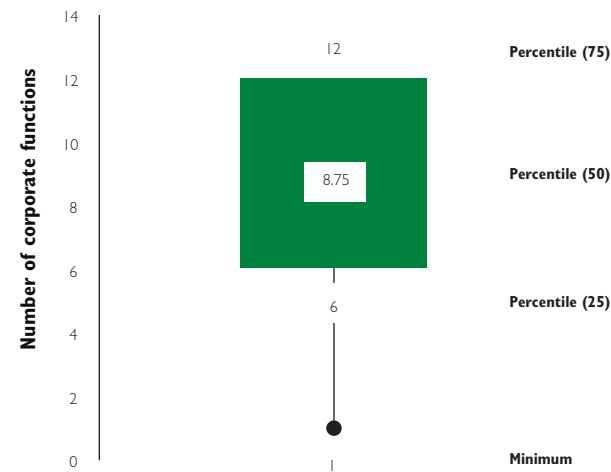
- Corporate strategy (corporate portfolio incl. industry and corporate policies) and international strategy (geographic diversification)
  - Company size
  - Country
  - Ownership and regulations
- 

## CHQ Functions

Similarly to CHQ staffing, the variety in the number of corporate functions is astonishing (see Figure 10, and Table 11 in Appendix 3). While the minimum value is around 5, the upper limit of corporate functions can amount to 50 or even 100. The median amounts to 8.75 CHQ functions (50% of the companies are below and 50% are above this value). Furthermore, 25% of the companies run 12 or more CHQ functions while another 25% of the companies run 6 or less CHQ functions.

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**Figure 10: CHQ functions (n=738)**



**Excursus: Examples of Corporate Functions**

**The functional organization of General Electric (GE)<sup>22</sup>**

General Electric (GE) is an American multinational conglomerate with approximately 300 000 employees and revenues of 147.3 billion USD in 2011. The company operates through four segments: Energy, Technology Infrastructure, Capital Finance and Consumer & Industrial. According to its 2011 organizational chart, GE operates 6 corporate functions.

**Figure 11: Functional organization of GE**

GE corporate functions ...					
■ Commercial, Public Relations	■ Business Development	■ Legal	■ Global Research	■ Finance	■ Human Resources

**The functional organization of Siemens<sup>23,24</sup>**

As another example, the German industrial corporation Siemens runs 13 corporate functions labeled corporate units (see Figure 12). Siemens is an integrated technology company operating in industry, energy, healthcare and infrastructure sectors. Siemens and its subsidiaries employ approximately 402 000 people across 190 countries with global revenues of approx 73.5 billion Euros for 2011.

**Figure 12: Functional organization of Siemens**

Siemens corporate functions ...			
■ Corporate Finance and Controlling	■ Corporate Technology	■ Corporate Information Technology	■ Corporate Data Protection
■ Corporate Development	■ Corporate Supply Chain Management	■ Management Consulting Personnel	■ Corporate Security Office
■ Corporate Human Resources	■ Corporate Communications and Government Affairs	■ Corporate top+ & Corporate Quality Management	■ Corporate Sustainability Office
■ Corporate Legal and Compliance			

**The functional organization of the ABB Group of companies<sup>25</sup>**

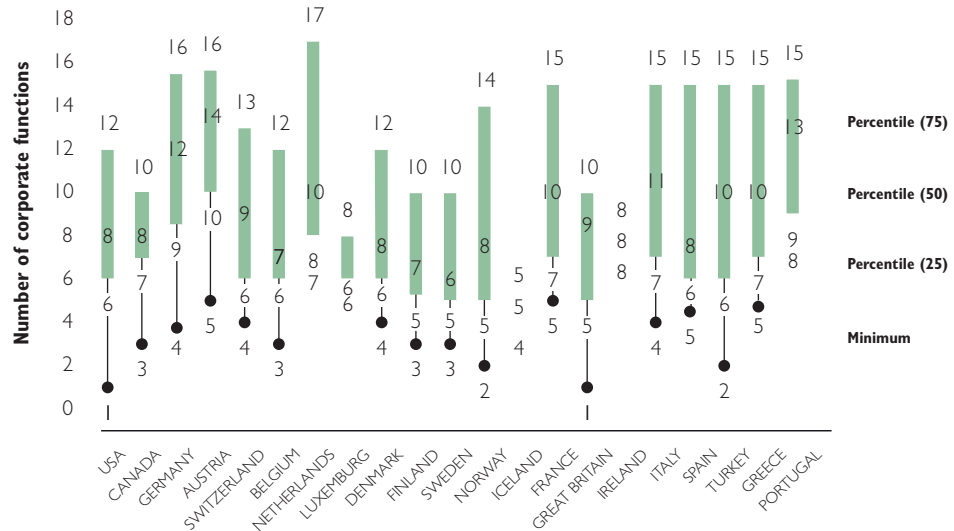
As another example, the Swiss company ABB runs 28 corporate functions to coordinate and integrate the firm (see Figure 13). ABB is a leader in power and automation technologies that enable utility and industry customers to improve performance while lowering the environmental impact. With about 130 000 people, the ABB group of companies operates in around 100 countries, and is structured in five divisions. All CHQ functions report to one member of the executive committee.

**Figure 13: Functional organization of ABB**

ABB corporate functions ...				
... reporting to CEO	... reporting to CFO	... reporting to General Counsel	... reporting to Head of Marketing and Customer Solutions	... reporting to Head of Human Resources
■ Corporate Communications	■ Assurance and Internal Control	■ Antitrust	■ Group Account Management	■ HR Talent
■ Corporate Strategy	■ Corporate Taxes	■ Contracts	■ Group Service	■ HR Remuneration
■ Group Internal Audit	■ Finance and Controlling	■ Corporate & Finance (Legal)	■ Smart Grids	■ Sustainability Affairs
■ Mergers & Acquisitions	■ Group Treasury	■ General Legal	■ Technology Ventures	■ Business Excellence
■ Quality and Supply Chain OPEX	■ Real Estate	■ Integrity		
■ Corporate Technology	■ Information Systems	■ Intellectual Property		
	■ Investor Relations	■ Mergers & Acquisitions (Legal)		

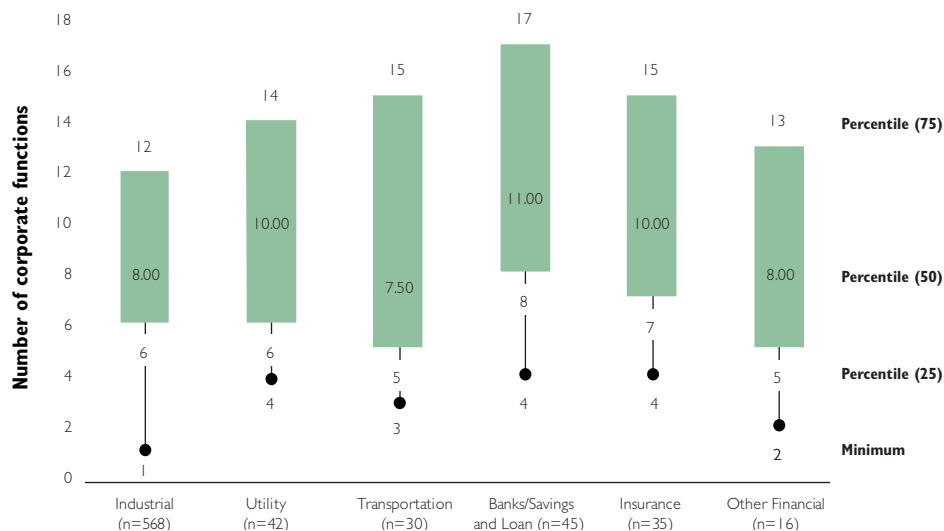
There are also some differences between countries and industrial sectors. To illustrate the differences between countries (see Figure 14), the median stretches from 8 (e.g. the USA, Canada, Denmark and Spain) to 12–14 (in Germany, Portugal and Austria). Similarly, the lower quartile ranges from 5 (e.g. Finland, Sweden and Norway) to 10 (Austria), while the upper quartile ranges from 10 (e.g. Canada, Great Britain, Finland and Sweden) to 16 (Germany and Austria) and 17 (the Netherlands).

**Figure 14: CHQ functions – by countries**



In line with the differences between industries in CHQ staffing, the number of CHQ functions also indicates industry differences (see Figure 15). Banks/Savings and Loan companies afford the most CHQ functions (median: 11; lower quartile: 8; upper quartile: 17). Industrial companies which constitute the vast majority of the sample run 8 corporate functions on average (median), 25% have 12 or more CHQ functions while 25% afford 6 or fewer corporate functions. Interestingly, the biggest difference between the upper quartile value (15 functions) and lower quartile value (5 CHQ functions) exists in the Transportation industry.

Figure 15: CHQ functions – by industries



## CHQ Effectiveness

The effectiveness of CHQ is an important performance indicator. Quantitative and qualitative data from the survey suggests that while companies are moderately satisfied with their CHQ performance, room for improvement exists.

### Quantitative

The effectiveness of CHQ can be evaluated regarding the level of satisfaction/dissatisfaction and the areas of satisfaction/dissatisfaction (see Figure 16, Figure 17, Figure 18, and Table 12 in Appendix 3).

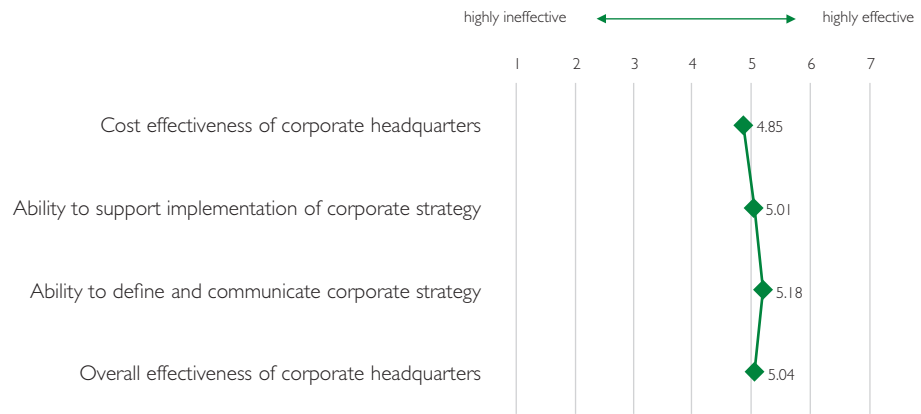
Level of satisfaction/dissatisfaction: While only a few companies are very unsatisfied with the effectiveness of their CHQ, there is still much room for improvement:

- Only a few of the companies – between 5% and less than 10% – are highly satisfied (7 on the scale) with the effectiveness of their CHQ.
- Only between 1 in 3 companies and 50% are satisfied (6 or 7 on the scale) with the effectiveness of their CHQ.
- In turn, between 50% and two thirds of the companies are not satisfied (1 to 5 on the scale) with the effectiveness of their CHQ.

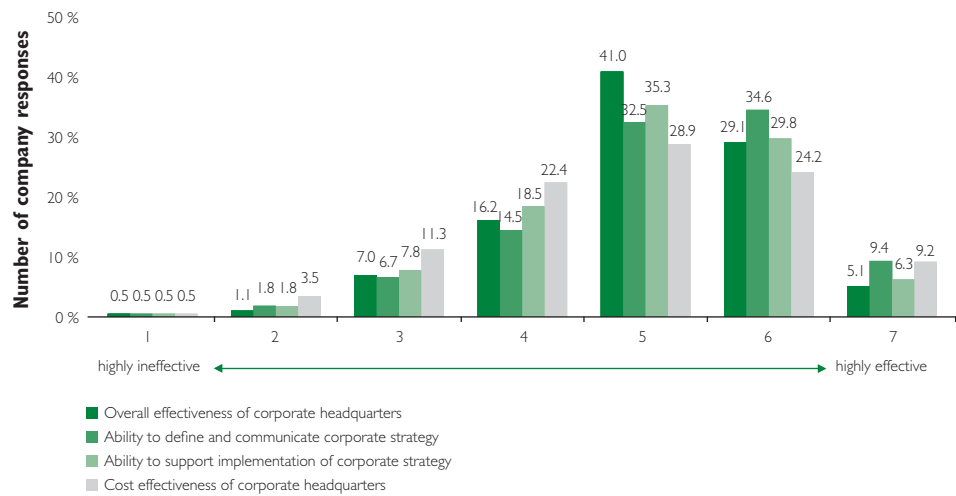
Areas of satisfaction/dissatisfaction:

- Companies are most satisfied with the CHQ ability to define and communicate corporate strategy.
- In turn, companies are least satisfied with the cost effectiveness of their CHQ.
- The differences overall are, however, rather small.

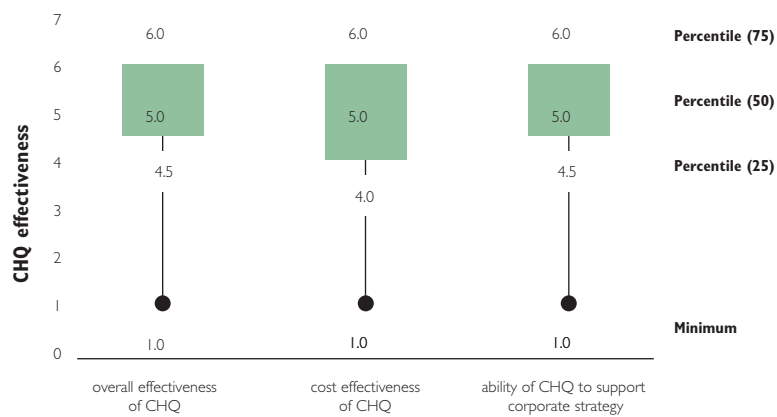
**Figure 16: Effectiveness of CHQ (abs.)**



**Figure 17: Effectiveness of CHQ**

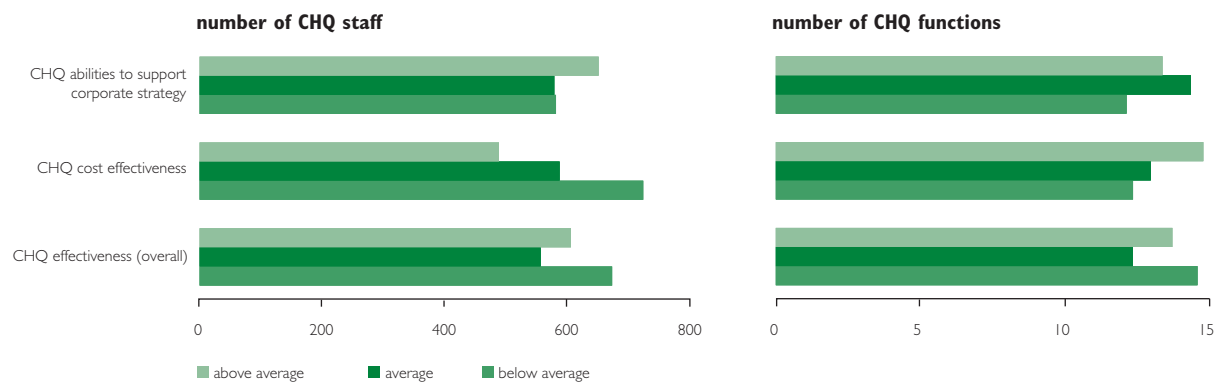


**Figure 18: Effectiveness of CHQ (abs.)**



It is also obvious that the size of CHQ *per se* does not promise superior performance (see Figure 19). This is in line with prior research and reflects the fact that larger as well as smaller CHQ can achieve superior performance depending on a number of other factors most importantly the company's corporate strategy.

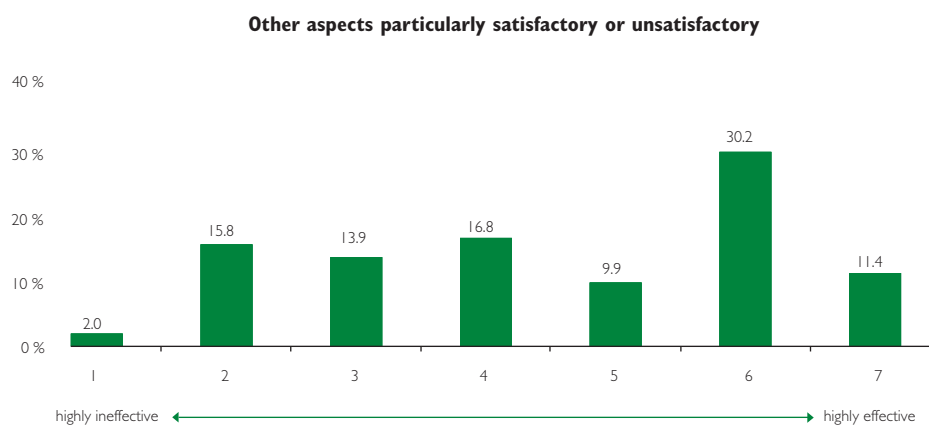
**Figure 19: Effectiveness of CHQ vs. CHQ size**



## Qualitative

In addition, companies reported several other aspects in which CHQ were particularly effective or ineffective (see Figure 20). Splitting these into rather effective and rather ineffective aspects, several areas of satisfaction and dissatisfaction can be identified along the characteristics of CHQ (see Table 3 for details).<sup>26</sup>

**Figure 20: Effectiveness of CHQ – other aspects (n=101)**



Mainly, four areas of dissatisfaction emerge from the list of other particularly satisfactory or unsatisfactory aspects at CHQ (see Table 3, left column): (1) size and staffing of CHQ, (2) corporate strategy / corporate policies, (3) corporate culture and values, (4) functional aspects and finally some other aspects. Likewise, seven main areas of satisfaction emerge from the list of other particularly satisfactory or unsatisfactory aspects at CHQ (see Table 3, right column): (1) size and staffing of CHQ, (2) corporate strategy / corporate policies, (3) standardization, (4) corporate culture and values, (5) specific expertise, (6) shared services, (7) functional aspects, and finally a few other aspects.

**Table 3: Effectiveness of CHQ – particularly (in-) effective aspects**

Rather ineffective in ...	Rather effective in ...
<p><b>Size / staffing</b></p> <ul style="list-style-type: none"> <li>■ Central staff is still absolutely too low for driving the major change agenda in this company</li> <li>■ Capacity to limit HQ costs</li> <li>■ Too big</li> <li>■ Staff levels</li> <li>■ Appropriate resources</li> <li>■ Weak corporate center makes corporate standard application across business units difficult</li> </ul>	<p><b>Size / staffing</b></p> <ul style="list-style-type: none"> <li>■ Very lean</li> <li>■ Reduction of duplicative divisional staff</li> <li>■ Token HQ, i.e. registered office but an effective corporate team that moves around the group</li> </ul>
<p><b>Corporate strategy / corporate policies</b></p> <ul style="list-style-type: none"> <li>■ Procedures</li> <li>■ Bureaucracy</li> <li>■ Ability to assess and support implementation of corporate standards and mandates</li> <li>■ Driving alignment among units</li> <li>■ Influence on divisions</li> <li>■ Roles clarification</li> <li>■ Prioritization of corporate initiatives</li> <li>■ Too many different projects at the same time slow down their accomplishment</li> <li>■ Speed of decision-making</li> <li>■ Demonstrated value; comprehension of value creation</li> <li>■ Internal partnering across departments (teamwork)</li> <li>■ Collaboration</li> <li>■ Risk to loss of identity</li> <li>■ Ability to implement decisions made across all operations needs to improve</li> <li>■ Lack of requirement of divisions to comply with corporate initiatives/directives</li> <li>■ Establishing processes across divisions</li> </ul>	<p><b>Corporate strategy / corporate policies<sup>27</sup></b></p> <ul style="list-style-type: none"> <li>■ More centralization</li> <li>■ Effective in a decentralized organization</li> <li>■ Migrated to decentralized model</li> <li>■ Two-way communication</li> <li>■ CHQ influence in the divisions</li> <li>■ Cooperation / relationship with operating company management</li> <li>■ Governance and control</li> <li>■ Streamlined</li> <li>■ Clear role delineation</li> <li>■ Policies and procedures</li> <li>■ Administrative tasks</li> <li>■ Collaborative but not directive</li> </ul> <p><b>Standardization</b></p> <ul style="list-style-type: none"> <li>■ Learning to cope with standardized way of working</li> <li>■ Definition of operating standards</li> <li>■ Ability to promote best practices exchange across the company</li> <li>■ Efficient management of processes/systems</li> <li>■ Implementation of processes and practices to allow business unit autonomy/speed</li> <li>■ More stringent review of CaPex process and strategy alignment</li> <li>■ Central measures in crisis period</li> </ul>
<p><b>Corporate culture and values</b></p> <ul style="list-style-type: none"> <li>■ Communications / open communications / internal communication issues / corporate communication internally</li> <li>■ Developing corporate culture across the group divisions</li> <li>■ Building an overall company culture</li> </ul> <p><b>Location</b></p> <ul style="list-style-type: none"> <li>■ Difficult to recruit key professionals to the city of CHQ</li> <li>■ Building is old and in need of renovation to support our transitioning corporate culture</li> </ul>	<p><b>Corporate culture and values</b></p> <ul style="list-style-type: none"> <li>■ Culture bearer</li> <li>■ Generate a positive culture in the company</li> <li>■ Identification</li> <li>■ Employee engagement</li> <li>■ Strengthening corporate culture</li> <li>■ CHQ provides excellent backdrop for culture and cross-communication</li> <li>■ Keeping the company together</li> <li>■ Promoting the values of the company</li> <li>■ Communication of mission</li> <li>■ Vision &amp; value clarity</li> </ul> <p><b>Specific expertise / management synergies</b></p> <ul style="list-style-type: none"> <li>■ Expertise in selected areas</li> <li>■ Business development</li> <li>■ Ability to integrate acquisitions</li> <li>■ Consolidating benefits</li> <li>■ Customer-facing and collaborative workspace</li> <li>■ Ability to support global nature of the business</li> <li>■ Focused on high value issues</li> <li>■ Ability to be on the leading edge of technology</li> </ul> <p><b>Shared services</b></p> <ul style="list-style-type: none"> <li>■ Formation of shared services</li> <li>■ Shared services for two brands</li> <li>■ New service functions</li> </ul>

Rather ineffective in ...	Rather effective in ...
<p><b>Functional aspects</b></p> <ul style="list-style-type: none"> <li>■ Investor interaction</li> <li>■ Power of attorney</li> <li>■ HR, people development</li> <li>■ Tax planning cost</li> <li>■ Functional integration with divisions varies</li> </ul>	<p><b>Functional aspects</b></p> <ul style="list-style-type: none"> <li>■ Motivation of people</li> <li>■ Leadership development</li> <li>■ Assists in attraction and retention of talent</li> <li>■ Career paths for specific skills i.e. supply chain, HR</li> <li>■ Marketing and merchandising direction and strategy</li> <li>■ Centralization of corporate functions to support operating departments (e.g. safety, training)</li> <li>■ Cost recurrent saving plans</li> </ul>
<p><b>Others</b></p> <ul style="list-style-type: none"> <li>■ Not as effective managing our European operating units</li> <li>■ Ease of doing business is becoming a greater focus for CHQ – serving regional customers better</li> <li>■ Lack of social media programs/connections</li> </ul>	<p><b>Others</b></p> <ul style="list-style-type: none"> <li>■ Quality of work</li> <li>■ New space for us helped with morale in very difficult times</li> </ul>

Overall, the actual need for improvement may be even larger than the reported level of CHQ effectiveness given that corporate executives served as “judges” of CHQ effectiveness in this survey. According to Porter (1987), an important premise of corporate strategy holds that “*unless a corporate strategy places primary attention on nurturing the success of each unit, the strategy will fail, no matter how elegantly constructed*”<sup>28</sup>. Thus, the ultimate test of CHQ effectiveness must be how well it supports the businesses in competing with other businesses (competitive strategy).

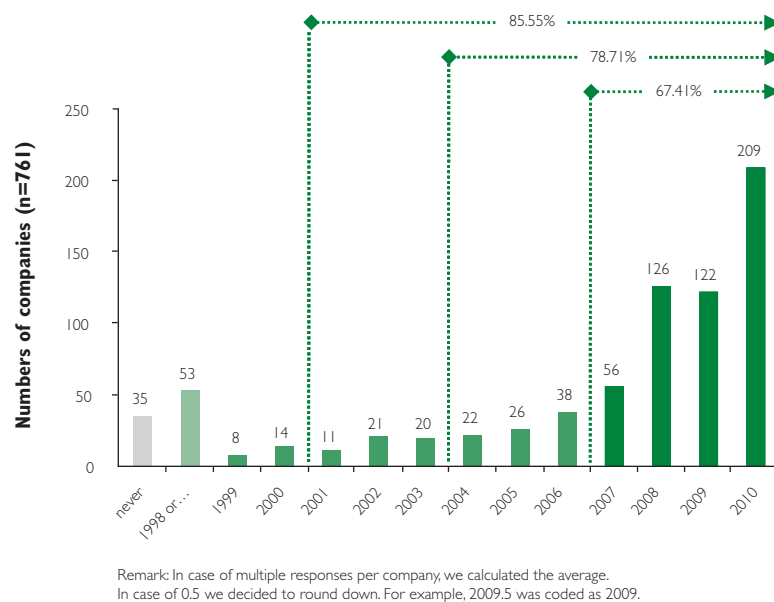
Some corporate executives may be more critical when assessing the effectiveness of their CHQ and some of them may even base their assessment of this effectiveness on internal feedback provided by business managers. In many cases, however, the chances are that business level executives and other stakeholders would judge the effectiveness of CHQ more negatively than their corporate counterparts. Thus, in many companies the actual need to improve CHQ effectiveness is pressing, and more projects designed to review CHQ can be expected.

# Changes at CHQ – Trends

## Last “Major Change” at CHQ

Overall, it appears that changes at CHQ have been a central concern for many corporations in the last decade. A lot of firms reported there had been “major change” at their CHQ – defined as “a coordinated initiative with the intent to systematically affect multiple dimensions of CHQ (i.e. location, roles, activities, size, culture)”. In contrast, only very few companies never experienced “major change” or only engaged in such initiatives longer than a decade ago or more.

Figure 21: Last “major change” at CHQ

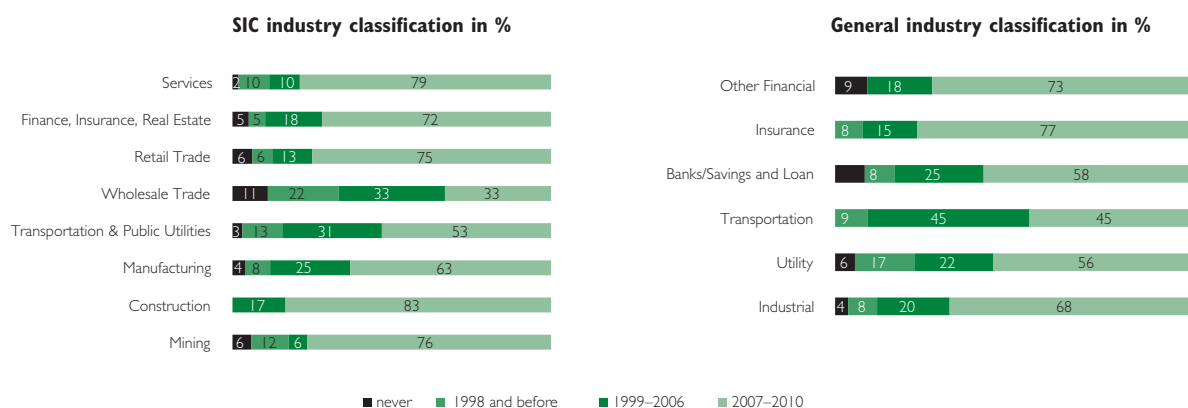


More specifically, the following is observable (see Figure 21):

- 2 out of 3 companies (67.41 %) have implemented “major change” at their CHQ in the last 4 years (2007–2010).
- 4 out of 5 companies (78.71 %) have implemented such changes in the last 7 years (2004–2010).
- 17 out of 20 companies (85.55 %) have implemented “major change” at their CHQ in the last 10 years (2001–2010).
- Approx. 1 out of 10 companies (9.86 %) implemented “major change” at their CHQ more than 10 years ago (2000–1998 and before).
- Fewer than 1 out of 20 companies (4.60 %) have never experienced “major change” at their CHQ.

- The numbers for the last “major change” at CHQ vary across industries (see Figure 22):
- Over the last 4 years (2007–2010): Insurance and Other Financial companies appeared most inclined towards “major change” at their CHQ recently: approximately 3 in 4 companies experienced this over the last 4 years. In contrast, Utility and Transportation companies appeared to be the least inclined to changing their CHQ substantially in recent times: approximately 50% of the companies experienced such change over the last 4 years.
- Over the last 10 years (2001–2010): The vast majority of companies in all industries experienced “major change” at their CHQ in this time period. Even in the Utility industry 78% of companies reported on such changes.
- More than 10 years ago or never: The numbers for the last “major change” at their CHQ more than a decade ago or never vary between 22% (Utility) and 8% (Insurance).

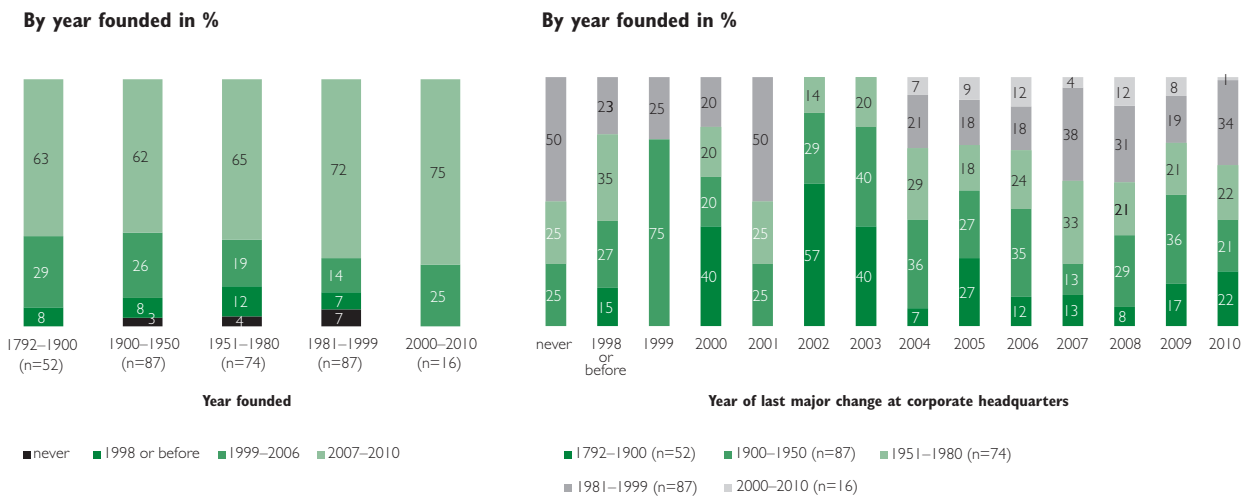
**Figure 22: Last “major change” at CHQ – by industries**



While the differences seem subtle, the numbers for the last “major change” at CHQ also vary across organizational ages (see Figure 23):

- Over the last 4 years (2007–2010): In the percentages for the last “major change” at CHQ younger firms seem to be higher than older firms.
- Over the last 10 years (2001–2010): The vast majority of companies of all organizational ages experienced “major change” at their CHQ in this time period.
- More than 10 years ago or never: Interestingly, the medium age at which companies have the highest percentages with respect to the last “major change” at CHQ is more than 10 years ago or never.

**Figure 23: Last “major change” at CHQ – by organizational age**



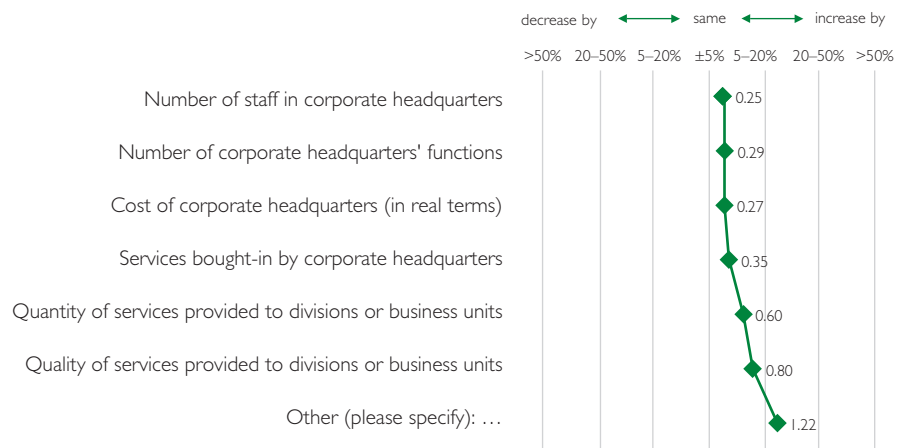
Given the occurrences of “major change” at CHQ over the past four years (2007–2010), it is worthwhile to look more closely at the changes in CHQ design.

Overall, in line with a tendency towards larger CHQ there has been a clear trend towards more central control. Evidently, firms have tightened CHQ polices and increased corporate influence during the economic crisis (2007–2010).

### Changes in CHQ Size and Scope

Overall, companies increased the size and scope of their CHQ, in particular the quantity and quality of services provided to the division increased the most (see Figure 24). Specifically, there was a tendency towards larger CHQ in terms of the number of staff and functions as well as costs. In addition, companies increased the services bought-in by CHQ, as well as the quantity and quality of services provided by CHQ to the businesses.

**Figure 24: Changes in CHQ size and scope 2007–2010 – overview**

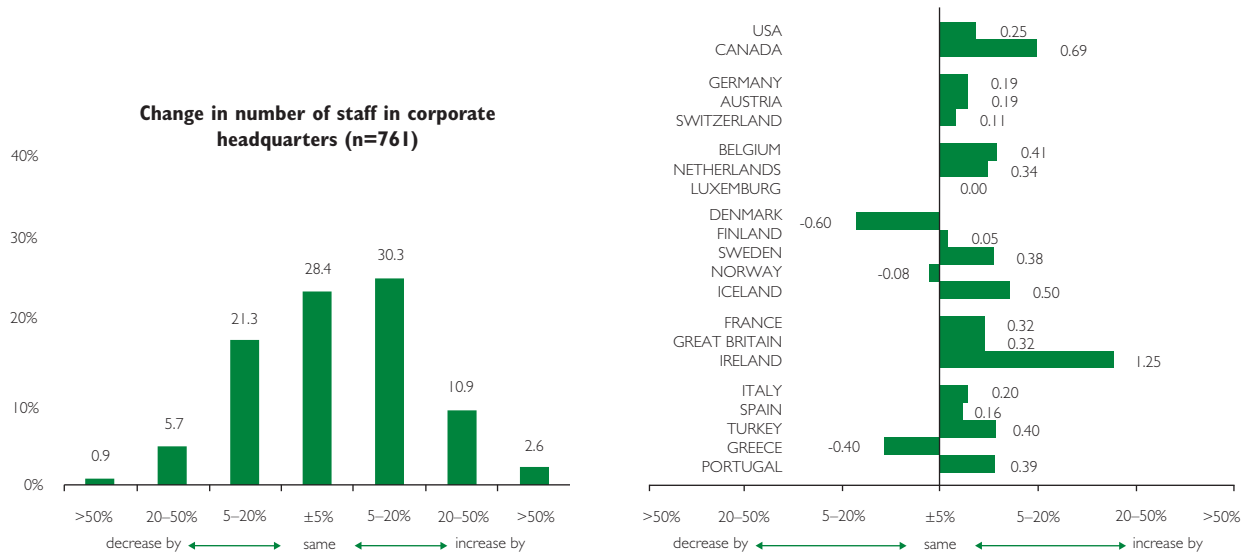


### Changes in CHQ Staffing

It appears that, on average, companies increased the size of their CHQ in terms of the number of employees (see Figure 25):

- While 43.8% of the companies increased the number of their CHQ staff, only 27.9% reduced their CHQ staff. A quarter of the companies (28.4%) did not change their CHQ staff by more than 5%.
- The trend towards more CHQ staff is similar across countries; only companies in Denmark and Greece reduced their CHQ on average.

**Figure 25: Changes in CHQ size 2007–2010 – number of staff**

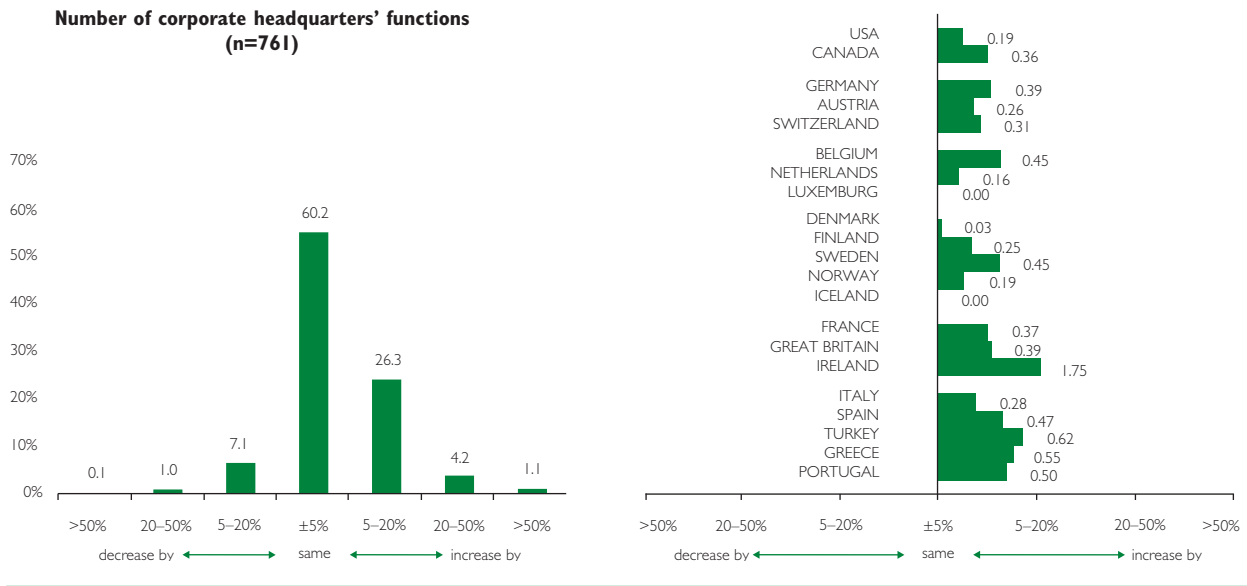


### Changes in CHQ Functions

It appears that, on average, companies increased the size of their CHQ with respect to the number of corporate functions (see Figure 26):

- Although 60.2% of the companies did not change the number of their CHQ functions, almost 1 in 3 companies (31.6%) increased the number of corporate functions. In contrast, only 8.2% decreased the number of CHQ functions.
- The trend towards more CHQ functions is very similar across countries.

**Figure 26: Changes in CHQ size 2007–2010 – number of functions**

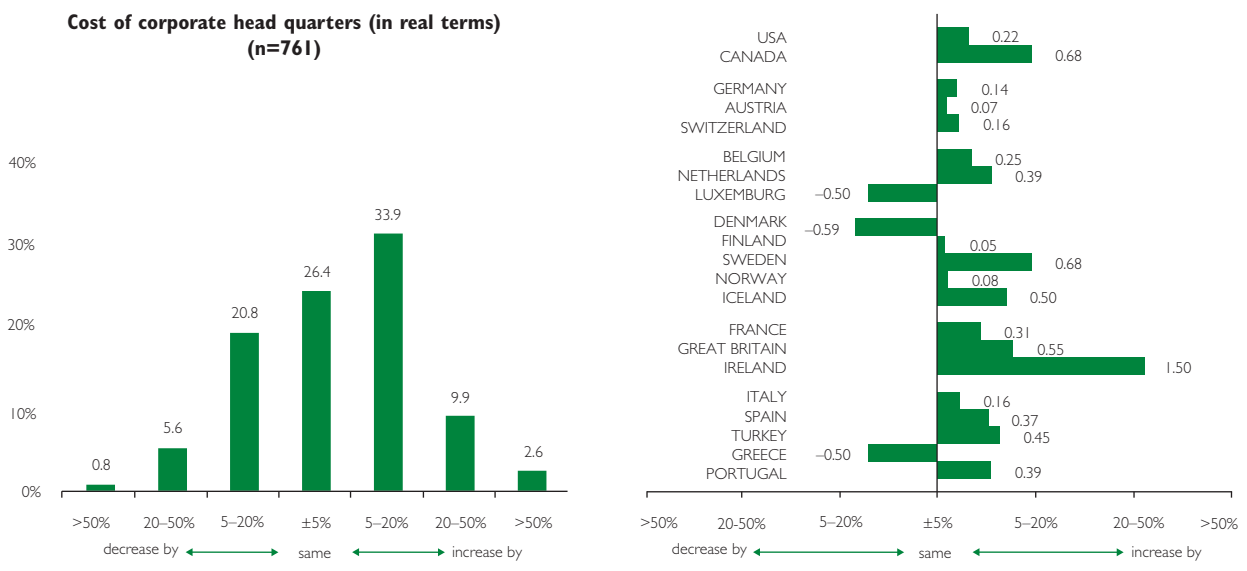


### Changes in CHQ Costs

It appears that on average companies added to the costs of their CHQ (see Figure 27):

- While 27.2% of the companies reduced the costs of running their CHQ, 47.8% increased the CHQ costs.
- The trend towards higher CHQ costs is comparable across countries; only in companies in Denmark, Luxembourg and Greece CHQ did costs decrease.

**Figure 27: Changes in CHQ size 2007–2010 – costs (in real terms)**

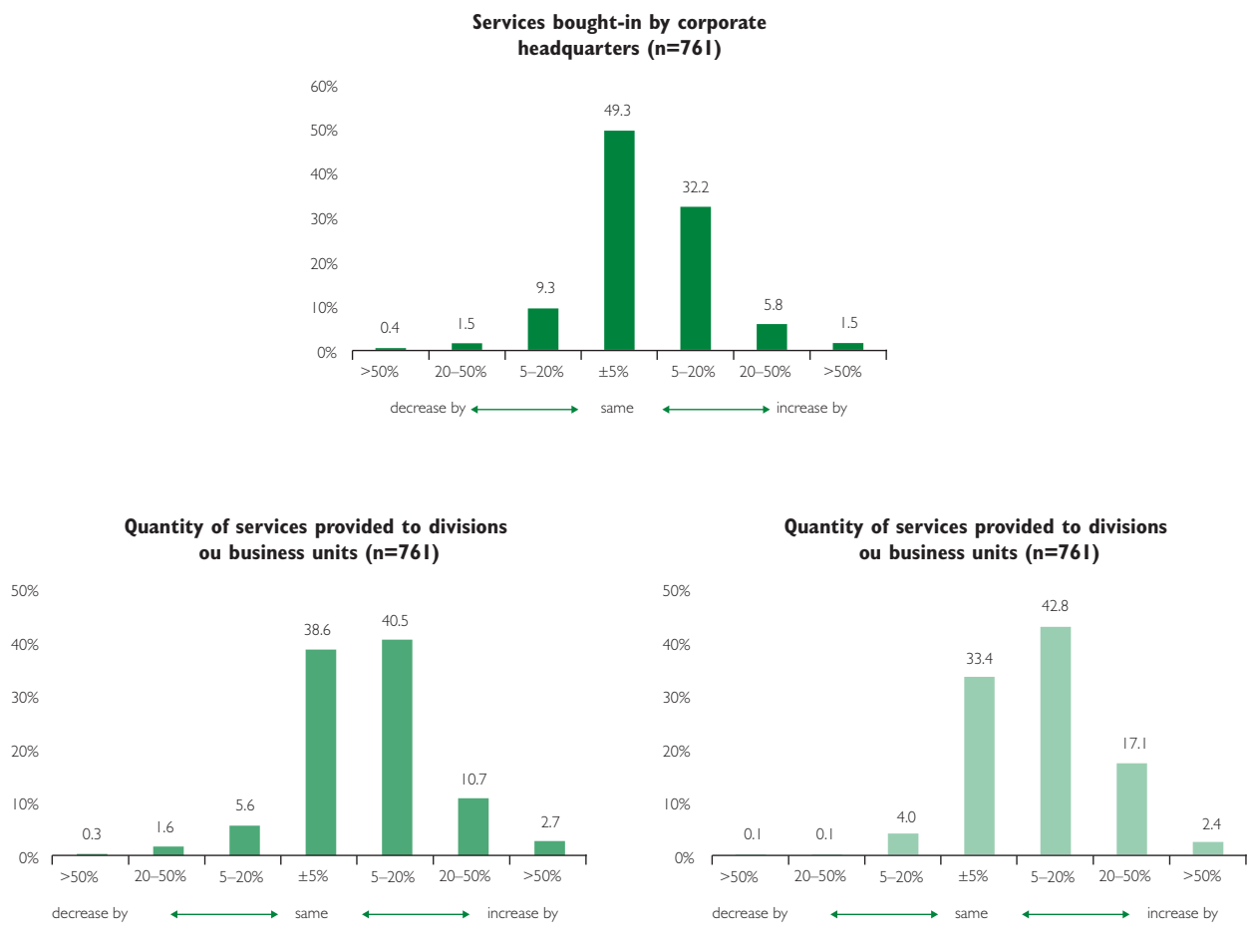


## Changes in CHQ Scope

It appears that, on average, CHQ bought in more services and increased the quantity and quality of the service provided to the businesses (see Figure 28):

- While half of the companies made no changes concerning the services bought-in by their CHQ, in 4 out of 10 companies (39.5%) CHQ increased bought-in services.
- While only 1 out of 10 companies (11.2%) decreased the quantity of services provided by their CHQ to the divisions, more than half (53.9%) increased the quantity of services provided by CHQ.
- This tendency is even more pronounced in the figures for the quality of services provided to the businesses. While in only 4.2% of the companies CHQ provided a lower quality of services to the divisions, in more than half of the companies (62.3%) CHQ provided a higher quality of services to their businesses.

**Figure 28: Changes in services bought-in by CHQ 2007–2010**



## Changes in CHQ Policies

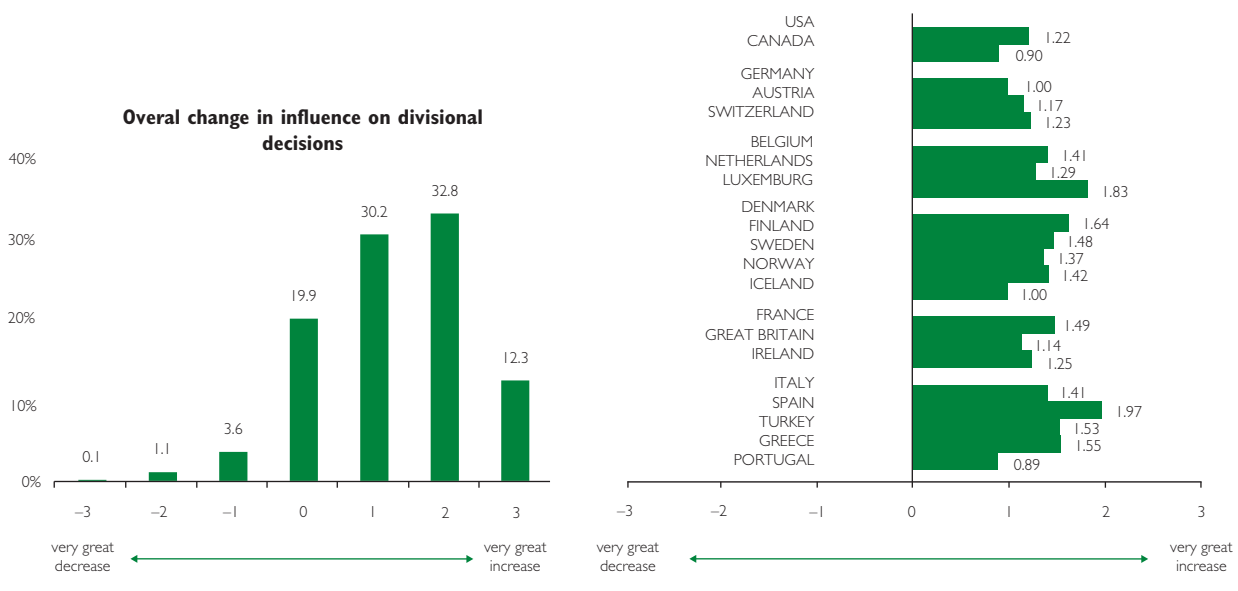
Even more pronounced than the enlargement of CHQ size and scope is the trend towards more influence of CHQ on divisional decisions and more central control. Specifically, companies increased the influence of their CHQ on divisional decisions, modestly increased their delegation of decision-making authority, and tightened formalization at CHQ.

### Changes in Influence of CHQ on Divisional Decisions

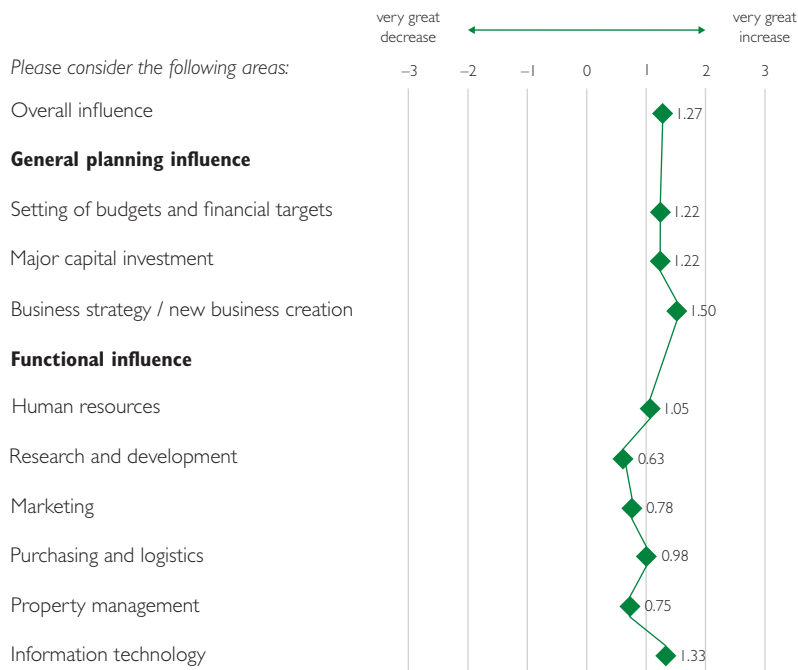
It appears that, on average, companies considerably strengthened the influence of their CHQ on divisional decisions (see Figure 30 and Figure 29):

- While only very few companies (4.8%) decreased their CHQ influence on divisional decisions, 3 out of 4 companies (75.3%) increased the influence of their CHQ, and almost half of the companies of (45.1%) reported a considerable increase (2 and 3 on the scale).
- This trend is very similar across countries.
- Specifically, companies tightened the influence of their CHQ in general planning areas such as the setting of budgets and financial targets, major capital investment and business strategy / new business creation.
- Regarding the functional influence, companies particularly strengthened the influence of their CHQ in HR, purchasing / logistics, and IT. Notably, R&D was the least prominent functional area subject to an increase of CHQ influence.

Figure 29: Changes in influence of CHQ on divisional decisions 2007–2010 – overall



**Figure 30: Changes in influence of CHQ on divisional decisions 2007–2010 – details**



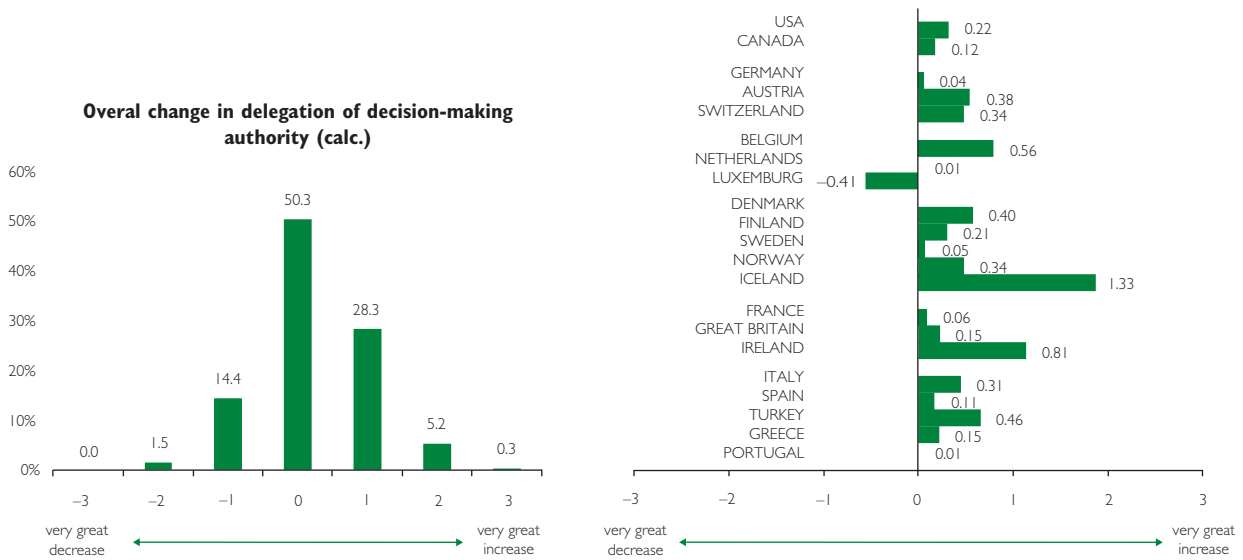
### Changes in Delegation of Decision-Making Authority

It appears that, on average, companies modestly increased their delegation of decision-making authority to the divisions; however the trends concerning changes in delegation of decision-making authority are less clear (see Figure 31 and Figure 32):

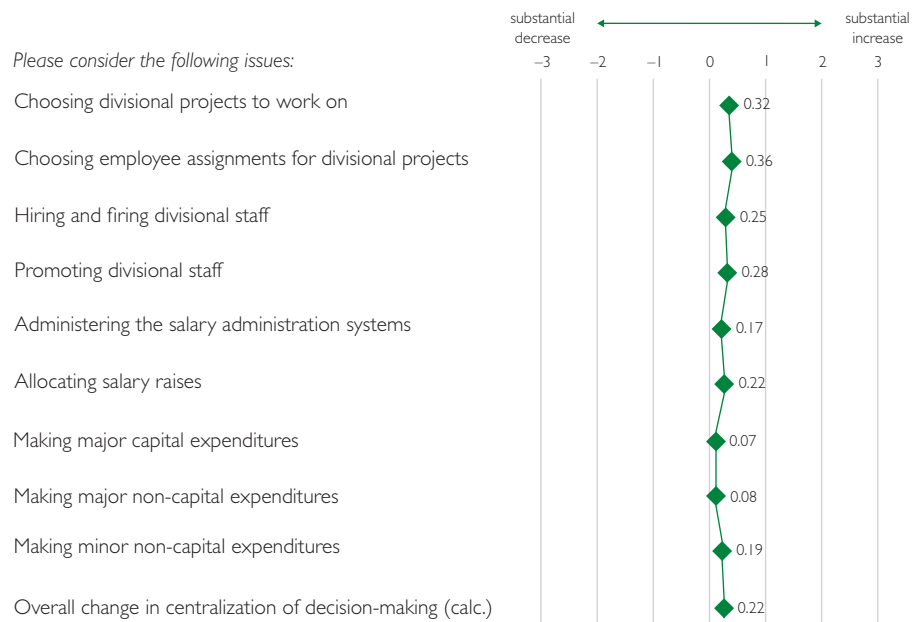
- While only a minority of companies (15.9%) decreased the delegation of decision-making authority, and half (50.3%) reported no change, approximately one third of the companies (33.8%) increased the delegation of decision-making authority. Yet, only very few of the companies (5.5%) reported a considerable increase (2 and 3 on the scale).
- This trend is similar across countries (except for Luxembourg).

These trends are in contrast to the increase in CHQ influence on divisional decisions (see previous chapter). One may speculate that companies are broadening their span at CHQ because they want to get closer to the business<sup>29</sup> (general planning influence and functional influence) but at the same time are pushing some more operational decisions (divisional specific concerns) to the operating units. This result concurs with recent research suggesting that firms are “becoming flatter”<sup>30</sup>: Apparently, CEOs connect themselves deeper down in the organization, while all the same decision-making authority and incentives are pushed further down the hierarchy. This phenomenon stands at odds with the classical notions of centralization and decentralization as it combines elements of both.

**Figure 31: Changes in delegation of decision-making authority 2007–2010 – overall**



**Figure 32: Changes in delegation of decision-making authority 2007–2010 – details**

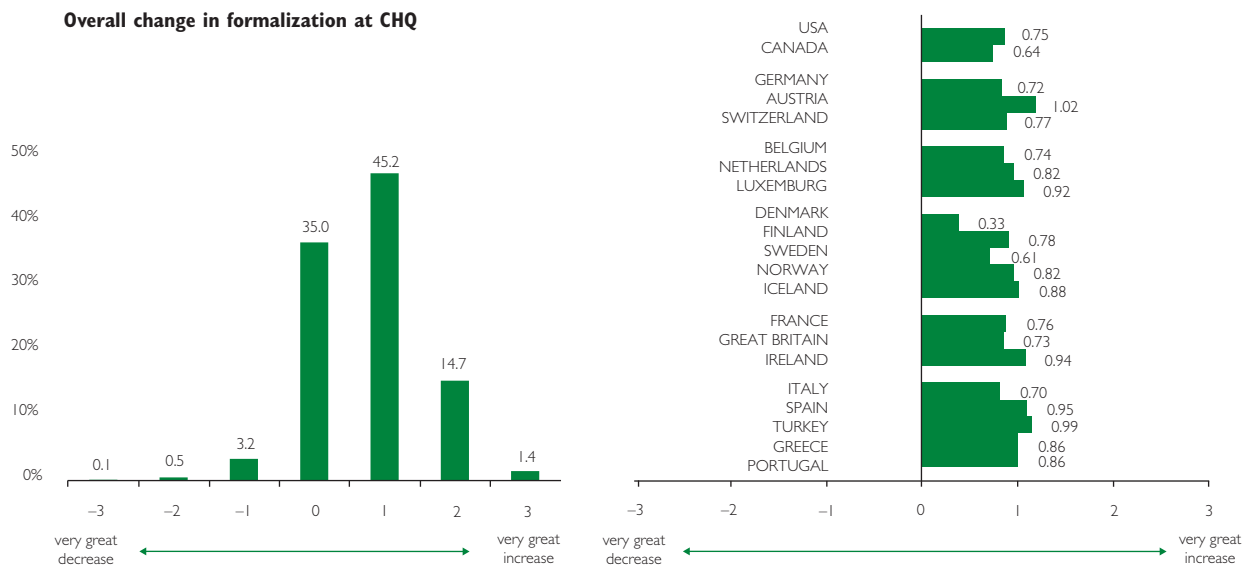


### Changes in Formalization at CHQ

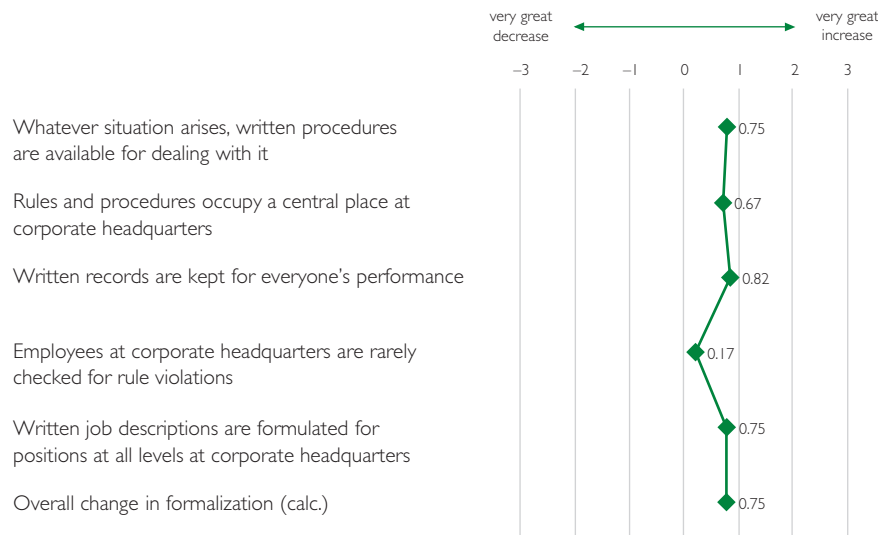
It appears that, on average, companies increased formalization at CHQ (see Figure 33 and Figure 34):

- While only very few companies (4.8%) decreased formalization at CHQ, approximately 3 out of 5 companies (61.3%) increased formalization at CHQ.
- This trend is very similar across countries.

**Figure 33: Changes in formalization at CHQ 2007–2010 – overall**



**Figure 34: Changes in formalization at CHQ 2007–2010 – details**



## Other Trends and Insights

### Other Changes at CHQ

A variety of other aspects that were subject to changes at CHQ was mentioned (see Table 4 and Figure 33). Other aspects of changes at CHQ can be grouped into seven main areas: (1) the size and staffing of CHQ, such as replacement of talent and adding of COO positions, (2) CHQ relocations, (3) corporate strategy, (4) corporate capabilities, (5) functional aspects/shared services, such as R&D, HR and SCM, (6) compliance and control, and (7) ownership (IPO). These areas are neither mutually exclusive nor comprehensively exhaustive, but simply help to organize broadly the variety of individual aspects mentioned.

**Table 4: Changes at CHQ 2007–2010 – others**

<b>Size and staffing</b>
<ul style="list-style-type: none"><li>■ COO position added</li><li>■ Executive board</li><li>■ Level of functional heads</li><li>■ Board committees</li><li>■ Significant replacement and upgrade of talent</li><li>■ Expenses frozen in 2008/09, back on track in 2010</li><li>■ Since middle of 1990s, the “group center” (we don't use HQ as denomination) has been small (to very small). We see major changes as a “failure” and favor instead continuous improvements.</li></ul>
<b>Relocations</b>
<ul style="list-style-type: none"><li>■ Relocated corporate office / physical location</li></ul>
<b>Corporate strategy</b>
<ul style="list-style-type: none"><li>■ Trend towards management holding</li><li>■ Decentralized business model</li><li>■ Moved from a divisional to more functional structure</li><li>■ Grouped operating units into platforms</li><li>■ Added European scope but subtracted Canadian operation</li><li>■ Role of CHQ / role of CHQ in decision-making</li><li>■ Much better communication</li><li>■ Speed / time to market</li><li>■ Better global standards, processes and reach</li><li>■ Increased corporate initiatives</li><li>■ Strategy &amp; implementation</li><li>■ Provided more strategic direction and focus</li><li>■ Managerial roles</li><li>■ Focus on customers</li><li>■ Building an overall company culture</li><li>■ Complexity of approvals</li><li>■ Global coordination</li></ul>

### Corporate capabilities

- Global systems hosted from CHQ
- Focus on employee engagement and service excellence
- Workplace strategy
- Ability to be at the leading edge of technology
- Quality of work at the CHQ
- More food services

### Functional aspects / shared services

- Central R&D dissolved
- Centralized treasury and HR, decentralized other areas
- Relocated R&D to CHQ this year and outsourced a significant amount of transactional and IT services
- Centralized IT and accounting shared services
- Formation of shared services
- More global shared services
- Greater supply chain focus – centrally led
- Training courses
- Support

### Compliance and control

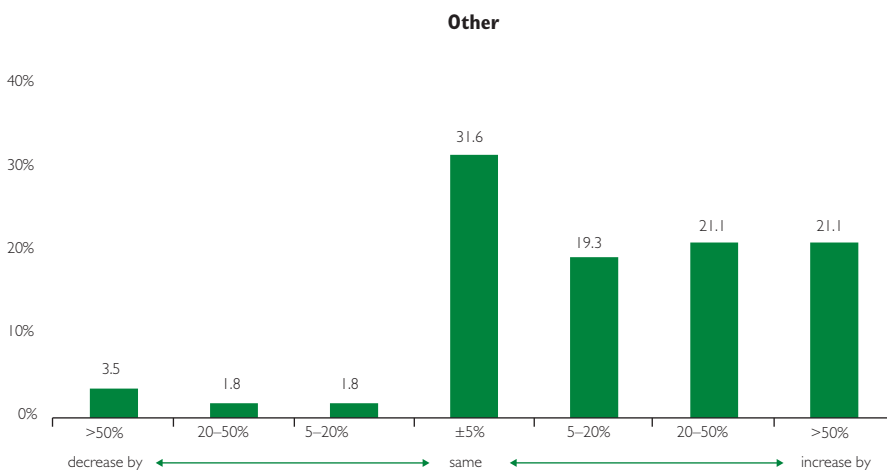
- Compliance
- Control
- Regulatory issues (solvency, accounting)
- Audit
- Legal fees and regulatory costs
- Quantity and quality of services provided to external parties (regulators, etc)

### Ownership

- IPO of the company
- Changes due to IPO

Interestingly, only 7.1% of the issues mentioned associated with a decrease. A third of the issues associated with no/small change. The majority, however, (61.5%) referred to increases. Given the nature and diversity of the topics mentioned (e.g. relocation, new position etc.), it appears difficult to interpret these numbers in a meaningful way. Yet, they underline an overall trend towards a stronger CHQ.

Figure 35: Changes at CHQ 2007–2010 – others



### Further Insights from Additional Remarks

The additional remarks allow for gaining further insights regarding CHQ and changes at CHQ beyond the initial purpose and scope of the survey (see Appendix 4 for details, and also for further comments related to the survey in general). Specifically, the comments related to CHQ and changes at CHQ can be grouped into four areas:

- Comments on changes at CHQ in general
- Comments on rationales for/against changes at CHQ
- Comments providing further details and background information (only in Appendix)
- Comments indicating other CHQ aspects of interest

A number of comments were informative about a variety of changes at CHQ (for an exemplary list, see Table 5). The most important aspects, among others, referred to (1) geographic relocations, (2) set-up of shut-down of corporate functions, (3) CEO/TMT turnover, (4) changes in CHQ size and scope, and (5) changes in CHQ roles/styles.

**Table 5: Additional remarks – Comments on changes at CHQ in general**

<b>CHQ relocations</b>
<ul style="list-style-type: none"> <li>■ Move to larger, more modern office.</li> <li>■ Major change of CHQ was a relocation and expansion.</li> <li>■ Last change was [...] and in the physical relocation of the HQ function to a different building.</li> </ul>
<b>Changes in corporate functions</b>
<ul style="list-style-type: none"> <li>■ Addition of Corporate Compliance and Corporate Purchasing departments.</li> <li>■ Reduction of corporate functions by two. Increase value added services. No budget anymore, work with forecasts on a rolling basis.</li> <li>■ Purchasing and accounting activities in the locations of the company were transferred to the HQ.</li> </ul>
<b>CEO/TMT changes</b>
<ul style="list-style-type: none"> <li>■ The majority of board members were replaced across 2008–2010 alongside a major corporate restructuring project, which culminated in the appointment of a new group CEO in 2010.</li> <li>■ Major changes will take place in June 2011 (change of CEO/CFO).</li> </ul>
<b>Changes in CHQ size and scope</b>
<ul style="list-style-type: none"> <li>■ 20% cost reduction of central corporate functions.</li> <li>■ Change in 2008 was to further decentralize functional activities and reduce HQ scope and scale. Change in 2010 was to improve management of risks and safety.</li> <li>■ Reduce number of head office employees and internal bureaucracy.</li> </ul>
<b>Changes in CHQ roles/styles</b>
<ul style="list-style-type: none"> <li>■ The corporate span-off all other businesses and focused on its core business. The role of CHQ used to be one of a holding company and today is actively managing and leading the core business.</li> <li>■ Increase of global vision and the way of performing certain support functions (HR, IT, Purchasing...). Particular focus on internationalization.</li> <li>■ Last change was the separation and clear distinction of the CHQ from COUNTRY operating business as the group expanded further into other territories. This was both in terms of job roles formally and informally providing group responsibility.</li> </ul>

In addition, a number of comments were informative on the triggers of, and impediments to, changes at CHQ (for an exemplary list, see Table 6). The most important dimensions, among others, appeared to be the

following: (1) changes in the company's business portfolio (M&A, external growth etc.), (2) organizational changes (changes in organizational structure, changes in management styles), (3) CEO changes and TMT turnover, (4) changes in corporate governance (e.g. ownership changes, IPOs), and (5) characteristics in the external environment (crisis, economic environment, industry).

**Table 6: Additional remarks – Comments on rationales for/against changes at CHQ**

Changes in the business portfolio: M&A, external growth etc.
<ul style="list-style-type: none"> <li>■ There was a significant merger in late 2006 that necessitated growth in the head office staff as well as centralization of a few functions.</li> <li>■ Note that the number of staff and costs of HQ increased significantly due to several large acquisitions during this period.</li> <li>■ We doubled the size of the company through asset acquisitions which caused us to standardize and implement a number of common systems and processes to achieve a much more efficient organization.</li> </ul>
Organizational changes: structure, management styles
<ul style="list-style-type: none"> <li>■ 2009 COMPANY set up divisions with full profit/loss responsibility. Before the organizational structure was based on a functional approach.</li> <li>■ After the carve out from COMPANY the end of 2003, all service functions were realigned and transformed into competitive internal service providers.</li> <li>■ Simplification of entire organization started by reducing number of staff functions from 13 to 7 and a significant reduction in number of director positions.</li> </ul>
CEO/TMT changes
<ul style="list-style-type: none"> <li>■ Former CEO retired on DATE, with new CEO entering office on DATE. Given different styles and backgrounds of respective CEOs, it is possible that responses to questions could vary substantially if we were to reflect on this topic in the next 2 to 3 years.</li> <li>■ Since I took the CEO position in 2010 we have begun a "centralization" process and are sorting out many of the relationships your survey poses. We are seeking the proper balance between the extremes and this will take at least another year to be effective.</li> <li>■ In 2010, following a strategic review led by the new ExecCom, COMPANY stated the strengthening of the corporate center was one of its strategic guidelines.</li> </ul>
Corporate governance changes: ownership changes, IPOs
<ul style="list-style-type: none"> <li>■ Major changes last December: The founder sold his shares to a private equity fund and a totally new top management group was put in place (from December 1st 2010 to June 1st 2011).</li> <li>■ 1999 was the year of our IPO.</li> <li>■ The major change had to do with the transformation of COMPANY from an institution providing credit exclusively to agriculture to a commercial bank and with its listing in CITY stock exchange.</li> </ul>
External environment: crisis, economic environment, industry
<ul style="list-style-type: none"> <li>■ The cut downs were part of a large profitability scheme caused by the financial crisis.</li> <li>■ General remark. Financial service industry is changing very rapidly. Looking at changes from 2007–2010 covers a rather hectic period with exceptional changes in 2008–2009 due to the crisis, so might give a good insight in comparison to 2006 (stable) environment but not fully grasp the atypical changes during the crisis in the midst of the 2007–2010 survey period.</li> <li>■ Actions taken because of industry demand for significant cost reductions and simplification of product portfolio and processes in order to improve customer focus.</li> </ul>

Finally, a number of comments revealed other aspects of interest concerning CHQ which appeared to be important concerns for companies (for an exemplary list, see Table 7). The most important, among others, include (1) CHQ reviews, (2) globalization/internationalization, (3) regional/industry differences, and (4) corporate life-cycle, and (5) stakeholder: value adding/value destruction.

**Table 7: Additional remarks – Comments indicating other CHQ aspects of interest**

**CHQ reviews/continuity**

- How often do you review the appropriate size and scope of HQ function? In our case, we do this about every 4–5 years.
- Would enjoy understanding if the role of CHQ and the decision-making model it employs as well as the governance model to ensure continuity of such is explicit and/or expressed in other companies.

**Globalization/internationalization**

- The other topic that we struggle with and would like more information on is the migration of corporate functions to low cost locations. We are a Mfg company with a growing Asian footprint.
- A bigger issue than the size and scope of CHQ for us is managing a matrix organization. We have overlaying layers of matrix for function, geography, business line and market. Managing speed of responsiveness and responsibility / accountability in a heavily matrixed organization is a bigger issue for us than what should be centralized versus decentralized. Our core business is pretty global, so central versus divisional is not all that applicable.

**Regional/industry differences**

- Would be interested in any findings on global CPG trends.
- Especially interested in levels of decentralization and areas where it works or does not work in the US regulated environment. COMPANY is so decentralized it “amounts to abdication” according to recent news stories. How can they be the paragons of good management without managing? Does this differ for US corporations operating abroad and domestic companies?

**Corporate life cycles/stages over time**

- I think it would be interesting to understand where in their maturity the companies are and get a demographic on this. A company that is large and has small growth has different challenges to change than smaller, growing companies. For the growth companies, the change is driven by size and complexity. It would be nice to see if there were any trends on this.
- It would have been interesting to include corporate evolution globally – e.g. creation of hubs, specific geographies, functional evolution.

**Stakeholder: value adding/value destruction**

- It would be interesting to know how effective respondents felt the corporate strategy was in delivering value to either the customer, or the shareholder.
- Only question I think is missing is the perception around value driven by the corporate functions. This is different from the effectiveness of the function. For example, our external auditing and SOX compliance activities are quite high and while I think the services and costs are effectively and efficiently delivered, I question the value added by compliance.

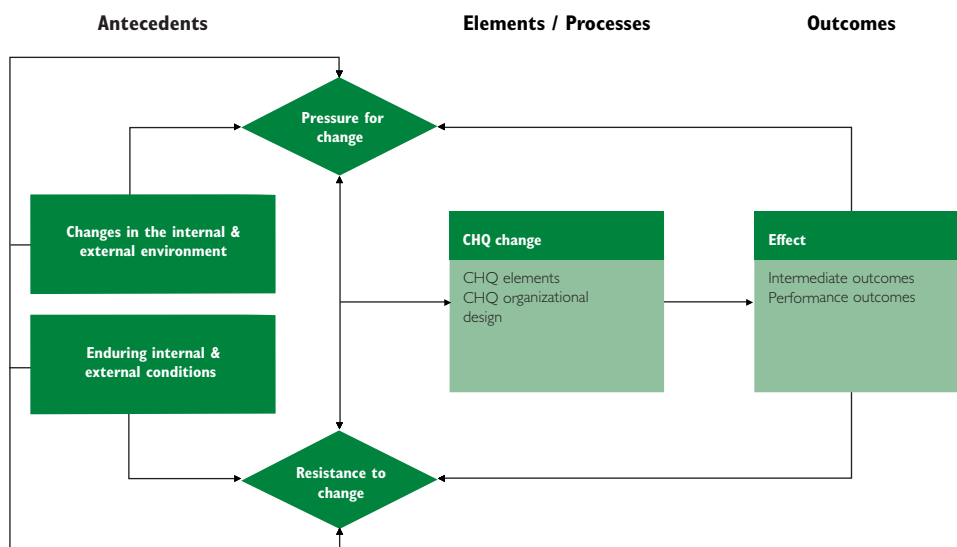
# Changes at CHQ – Conceptualization and Empirical Investigations

The previous chapters summarized the survey data on several aspects of changes at CHQ and CHQ effectiveness. In addition to the survey data, we have collected data from publically available sources on several aspects of the internal and external environment of the companies which participated in the survey. This chapter introduces some conceptual approaches guiding the empirical investigations of changes at CHQ and contains some preliminary findings from our analyses.

## Conceptual Framework

While changes at CHQ appear to be a contemporary phenomenon across North America and Europe, some companies are more disposed to changes at CHQ, while others tend to be less inclined to changing how their corporate office manages the business portfolio. Yet, what are the motors and impediments of changes at CHQ and what are the consequences?

Figure 36: Conceptual framework for changes at CHQ<sup>31</sup>



More specifically, our research efforts on changes at CHQ center on three essential questions related to changes at CHQ: (1) What are the various types of changes at CHQ? (2) What factors relate to pressure for, and resistance to, changes at CHQ? And finally (3) what are the consequences of the various types of changes at CHQ? Accordingly, the conceptual framework guiding our research efforts broadly integrates antecedents (drivers and impediments), key elements of changes at CHQ (e.g. location, design, size, policies), and the consequences of changes at CHQ (such as CHQ effectiveness and overall firm performance) (see Figure 36).

More generally, the conceptual framework intends to provide researchers with a comprehensive picture of the phenomenon of changes at CHQ and expose the areas that require analysis. For companies it is important to consider these factors. Some of them offer rare windows of opportunity for ample changes at CHQ while others actually increase the pressure for change. In addition, some appear to be more related to change in CHQ structures while others appear to be better related to changes in corporate policies.

### Antecedents (Drivers and Impediments) of Changes at CHQ<sup>32</sup>

Based on the conceptual framework in the previous chapter, we investigated several potential factors from the internal and external environment for changes at CHQ (see Table 8).<sup>33</sup>

**Table 8: Antecedents of changes at CHQ – potential factors in the internal and external environment (exemplary)**

Internal environment	External environment
<ul style="list-style-type: none"> <li>■ Changes in corporate strategy / mismatch corporate strategy and CHQ design:<sup>34</sup> <ul style="list-style-type: none"> <li>– Changes in diversification (business portfolio and geographic scope)</li> <li>– Changes in corporate policies or company structure</li> </ul> </li> <li>■ Organizational legacy: <ul style="list-style-type: none"> <li>– Organizational age</li> <li>– Organizational size</li> <li>– Prior performance</li> </ul> </li> <li>■ Changes at the top: <ul style="list-style-type: none"> <li>– CEO successions</li> <li>– TMT turnover</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Environmental shocks: <ul style="list-style-type: none"> <li>– Regulatory changes</li> <li>– Financial crises / recessions<sup>35</sup></li> </ul> </li> <li>■ Fads and fashion</li> <li>■ Institutional pressures</li> <li>■ Technological changes</li> <li>■ Globalization and internationalization</li> </ul>

### Changes in Corporate Strategy and/or Mismatch between Corporate Strategy and CHQ Design

Our analyses suggests that changes in corporate strategy and/or a mismatch between corporate strategy and CHQ design are important drivers for changes at CHQ.<sup>36</sup> The following findings stand out:

- Prior change in diversification appears to be positively related to changes at CHQ. Similarly, concurrent change in diversification appears to be positively related to changes at CHQ. In other words, as firms change their business portfolio the need to adapt CHQ to manage this changed set of businesses increases.
- Prior organizational growth appears to be positively related to changes at CHQ. Similarly, concurrent organizational growth appears to be positively related to changes at CHQ.
- A specific implication is that companies need to initiate a CHQ review shortly after significant changes in corporate strategy (either corporate portfolio or corporate policies) occur.

### **Organizational Legacy: Size, Age and Past Performance**

Our analysis suggests that various organizational characteristics be important drivers for changes at CHQ.<sup>37</sup> The following findings stand out:

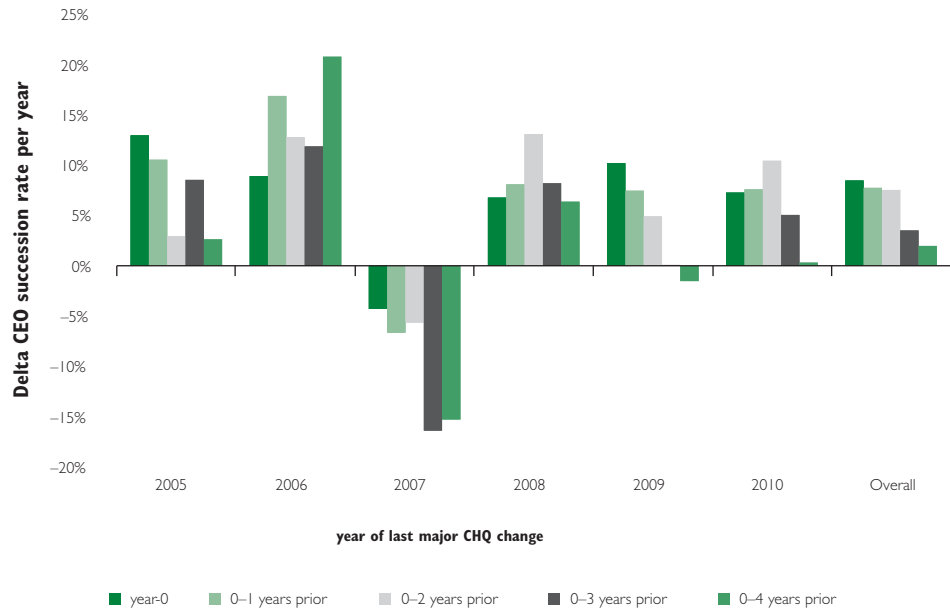
- Organizational size appears to be negatively related to changes at CHQ. In other words, as firms grow they find it more difficult to implement changes at CHQ.
- Organizational age appears to be negatively related to changes at CHQ. In other words, as firms age inertial forces may increase and may make it more difficult for companies to implement changes at CHQ.
- Prior firm performance appears to be positively related to changes at CHQ. One explanation may be that firms need some slack to engage in changes at CHQ.

### **Changes at the Top: CEO Successions**

Our analysis suggests that CEO successions can be an important driver for changes at CHQ. CEO successions are indispensable and major organizational events. While not all successions are alike, they often provide a rare opportunity for ample change. Often new CEOs also have a mandate for change. With the exception of 2007, the succession rates in the years prior to the year of the last “major change” at CHQ were higher than the average succession rates in these years (see Figure 37). This suggests that a new CEO, soon after taking office, not only puts CHQ to the test but also led to substantial changes at CHQ.

So what are the changes new CEOs actually focus on once they take the helm? Surprisingly, they seem more likely to change CHQ policies than the actual size of CHQ (see Table 9). Firms with a new CEO appointed between 2004 and 2006 implemented fewer changes to the size of CHQ such as number of staff, number of functions, and costs in the following four years (2007–2010). In contrast, those firms implemented more changes in CHQ policies such as divisional influence on CHQ, formalization at CHQ and delegation of decision-making authority than those firms which had no CEO succession prior to the window of CHQ change.<sup>38</sup>

**Figure 37: CEO succession rate of companies with change in a given year compared with average CEO succession turnover (cum.)**



This suggests that new CEOs, based on their previous experience (for example, at corporate or business level, in the same or in a different industry) and cognitive orientation, do indeed bring in new mental models and new cognitive perspectives at the top which lead to changes in CHQ policies. Yet, changes in CHQ size seem much harder for new CEOs to implement. Changes in CHQ size are more likely to be driven by other factors.

**Table 9: Changes at CHQ following CEO successions**

Change in ...	Magnitude of change (0 ... 3)	Direction of change (-3 ... +3)
<b>CHQ size</b>		
■ Number of staff	-1.62 %	-2.84 %
■ Number of functions	-17.18 %	0.58 %
■ Costs	-3.30 %	0.76 %
<b>CHQ policies</b>		
■ Overall influence on divisional decisions	9.62 %	0.45 %
■ General planning influence on divisional decisions	9.77 %	2.18 %
■ Functional influence on divisional decisions	13.35 %	1.80 %
■ Formalization at CHQ	18.12 % †	5.59 % *
■ Delegation of decision-making	23.05 % *	0.71 %

Firms with CEO succession (n=69); Firms w/o CEO succession (n=130)  
 † p < 0.1  
 \* p < 0.05

## **Fads and Fashion; Institutional Pressures**

Two other important reasons for changes at CHQ are fads and fashion and institutional pressure. Fads and fashion refer to zeitgeist. Apparently, a particular trend over recent years suggests that the number of functional managers in the C-suite has increased and large firms are actually pushing some decisions toward the top of the firm.<sup>39</sup>

Institutional pressure refers to changes in the external environment of firms that set new requirements. As an example, due to the corruption scandals in the beginning of the new century new regulations such as SOA have tightened the reins of corporate governance which can be expected to translate into CHQ design.

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### **Excursus: Ever-Swinging Pendulum – Let It Swing, but Never Too Far**

Striving for the right balance between the corporate centre and the periphery has been a fundamental management challenge for decades. In the 1970s large CHQs sprouted along with the rise of conglomerates and multi-nationals. In the 1990s the trend shifted to the minimalist CHQ favored by private-equity owners, who just wanted CHQ to ensure that operating managers hit their targets, stuck to agreed strategy and complied with laws and regulations. In the 2000s, many CHQ have gradually expanded the scope of their activities again, partly driven by new regulations (e.g. SOA). Anecdotal evidence suggested the chances were that the financial crisis and the economic downturn have caused the pendulum to swing back towards minimalism and once again led to smaller and leaner CHQ. Our surveys did not, however, provide empirical evidence for this.

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## **Consequences of Changes at CHQ**

Given the specific importance of CHQ for the overall company, there are basically two important dimensions to the consequences of changes at CHQ: On the one hand, CHQ performance as an intermediate outcome since changes at CHQ directly affect CHQ performance, and on the other hand, the overall firm performance since it is largely through CHQ that the overall company is managed.

In this report, our analyses focus on the former.<sup>40,41</sup> Data on three dimensions of CHQ-level performance was collected by means of the surveys:

- CHQ abilities to support corporate strategy (two items).
- CHQ cost effectiveness (one item).
- overall CHQ effectiveness (one item).

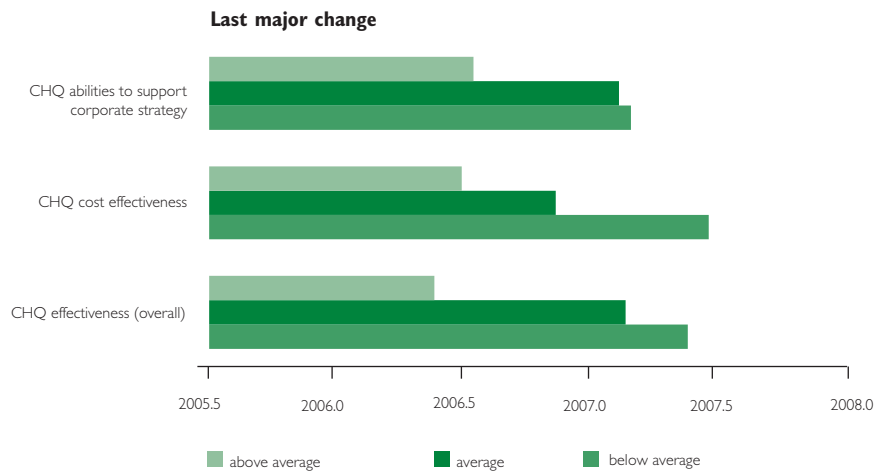
Two considerations are noteworthy. First, it is important to note that these performance measures reflect somewhat opposing objectives. In other words, if firms decide to maximize on CHQ cost effectiveness, they are likely to trade cost effectiveness with CHQ abilities. As we will describe in the following section, this opposing characteristic of different CHQ-level performance measures is also reflected in the survey data.

Secondly, two forces appear to impact the relationship between changes at CHQ and CHQ-level performance. On the one hand, changes have a disruptive feature which likely implies negative performance consequences. On the other hand, changes have an adaptive feature which likely implies positive performance consequences. As we will describe in the following section both forces seem to be in place at CHQ.

### CHQ Effectiveness and Last “Major Change” at CHQ

Interestingly, companies with above average CHQ performance in all three dimensions of CHQ-level performance reported a less recent year of last “major change” at CHQ than companies with an average or below average performance (see Figure 38). Since we lack prior CHQ-level performance data, one may only speculate on the reasons such as low past CHQ-level performance which increased a need for change.

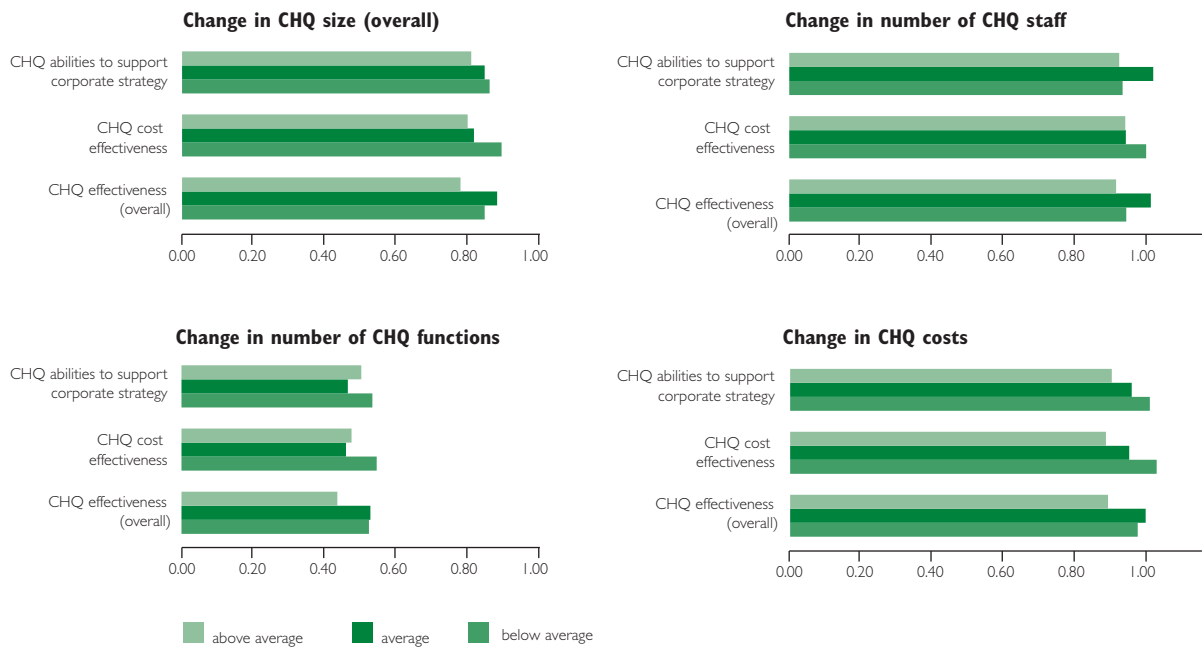
**Figure 38: CHQ effectiveness and last “major change” at CHQ (n=760)**



### CHQ Effectiveness and Changes in CHQ Size and Scope

Overall, companies with above average performance appeared to have changed the size and scope of their CHQ the least (Figure 39). Depending on the dimensions of CHQ effectiveness and the type of changes (staff, functions, costs) average or below average performers changed their CHQ most. Causal relationships cannot be implied.

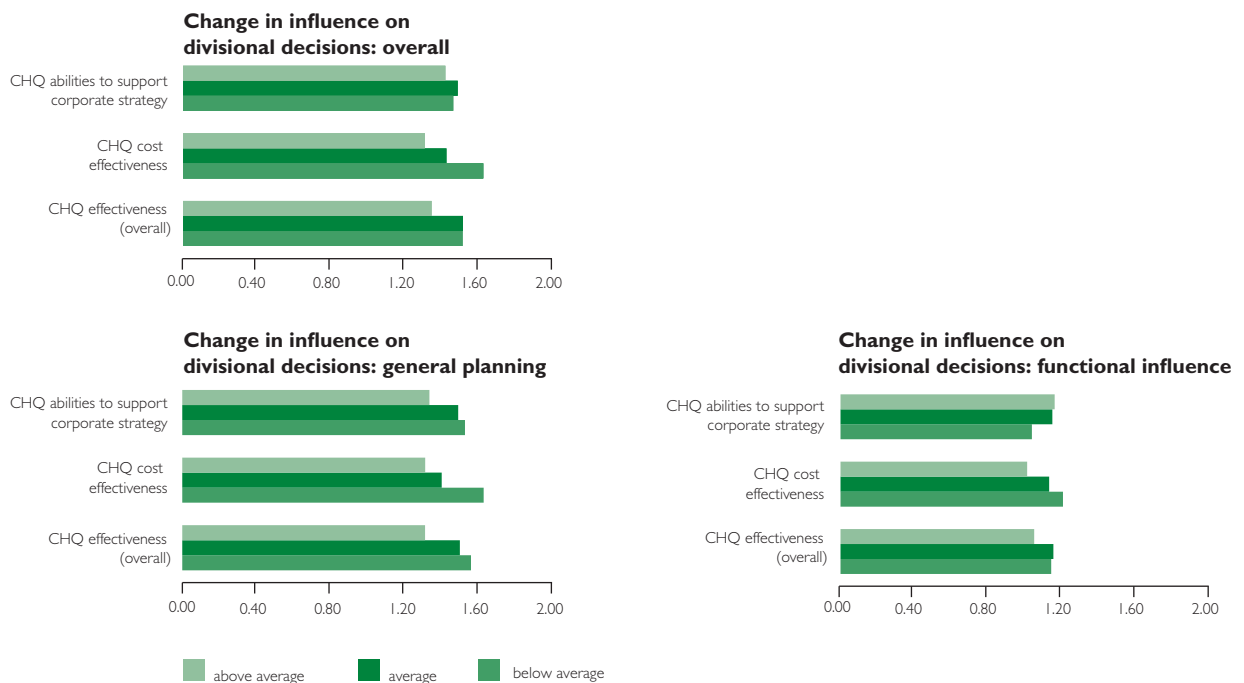
**Figure 39: CHQ effectiveness and magnitude of changes in CHQ size and scope (n=760)**



### CHQ Effectiveness and Changes in CHQ Policies

Overall, companies with above average performance appeared to have changed the influence of CHQ on divisional decisions the least (see Figure 40).

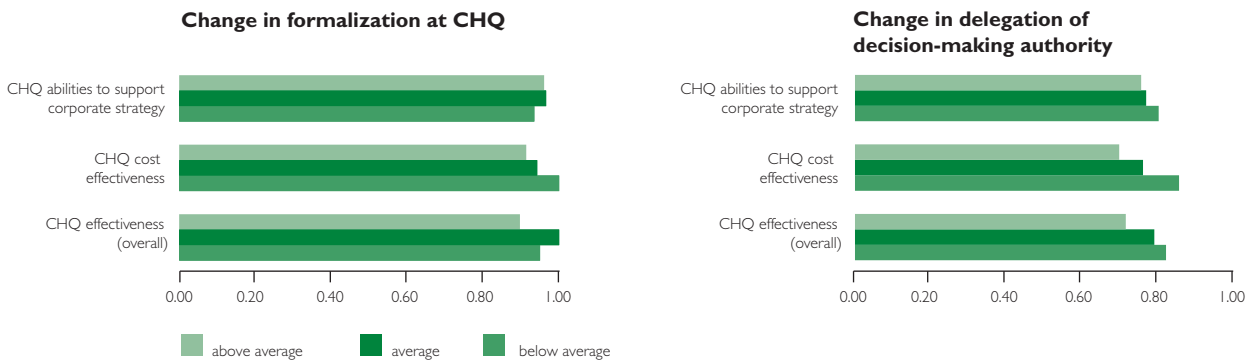
**Figure 40: CHQ effectiveness and magnitude of changes in CHQ policies – influence on divisional decisions (n=760)**



A notable exception is the functional influence on divisional decisions which appears to be related to the capabilities of CHQ to support corporate strategy.

Overall, companies with above average performance appeared to have changed their formalization at CHQ and their delegation in decision-making the least (see Figure 41). A notable exception is change in formalization which appears to be related to the capability of CHQ to support corporate strategy.

**Figure 41: CHQ effectiveness and magnitude of changes in CHQ policies – formalization and delegation of decision-making authority**



# Discussion and Implications

## Summary of CHQ Survey Trends

The large-scale surveys in North America and Europe indicate an overall trend towards larger and stronger CHQ. While this is in contrast to the more prominent cases of CHQ cut backs frequently published in the business press, it is in line with recent consultants' proprietary trend data for these regions.<sup>42</sup> It seems that many companies have especially tightened the reins of CHQ and increased corporate influence.

Seven *main trends* are noteworthy with respect to changes at CHQ:

- Probably the most striking element was the number of companies which reported major change at their CHQ. We defined a major change at CHQ as a “coordinated initiative with the intent to systematically affect multiple dimensions of CHQ (i.e. location, roles, activities, size, culture)”. For example, two thirds of those companies surveyed engaged in such major change at their CHQ in the last four years (2007–2010).
- The huge variety in the size and scope of CHQ was also astonishing. The differences between countries and industry sectors are especially notable. Even in the same countries and industries, however, a huge variance exists.
- There appear to be converging trends across North America and Europe regarding the size and scope of CHQ as well as changes in CHQ design.
- In line with a modest trend towards larger CHQ there has been a clear trend towards more influence on divisional decisions. Evidently, firms have tightened CHQ policies and increased corporate influence during the economic crisis (2007–2010).<sup>43</sup> At the same time firms have increased delegation of decision-making authority to their divisions. This result concurs with recent research suggesting that firms are “becoming flatter” and somewhat questions the classical notions of centralization and decentralization as it combines elements of both.<sup>44</sup>
- The magnitude and direction of changes at CHQ vary considerably and seem to differ depending on the dimension of changes at CHQ. Despite a modest overall increase in the size of CHQ, the magnitude and direction of such changes still vary to a large extent – as opposed to changes in CHQ policies with a much more pronounced direction of changes towards stronger CHQ.
- Several drivers for changes at CHQ exist and seem to differ depending on the dimension of those changes. Some of these drivers offer rare windows of opportunity for ample changes at CHQ while others actually increase the pressure for change.<sup>45</sup> In addition, they seem

to differ according to changes in CHQ structure vs. changes in CHQ policies. In other words, some appear to be more related to change in CHQ structures while others appear to be better related to changes in corporate policies. For companies, it is important to consider these factors.

- CHQ performance leaves room for considerable improvements – with respect to both cost-effectiveness and the contribution of CHQ to corporate strategy.

This seems rather surprising. While cost-effectiveness is important and can be measured in a straightforward way, companies are still only slightly better in this dimension of CHQ performance. Much more difficult is the value-adding dimension of CHQ. An important premise of corporate strategy, and more specifically the design of CHQ, holds that CHQ should nurture the success of the businesses.

Thus future CHQ reviews designed to increase CHQ cost-effectiveness and to align CHQ and corporate strategy are necessary.

### Some Considerations for CHQ Reviews<sup>46</sup>

Of course, every company’s corporate strategy is unique, and there is neither a single, perfect CHQ organizational design nor an everlasting solution. Thus, all firms have to strive continuously for the right balance between CHQ and the operating businesses. The following considerations may help master the balancing act and also aid in reviewing CHQ (Table 10).

**Table 10: CHQ housekeeping guidelines – some considerations**

Area of consideration	Detailed considerations
(1) Conduct CHQ reviews on a regular basis	<ul style="list-style-type: none"> <li>a) Define objective(s) of CHQ reviews</li> <li>b) Set up a process for CHQ reviews with concrete actions to be taken</li> <li>c) Produce an annual “state of CHQ” report</li> </ul>
(2) Consider prompts and opportunities for changes at CHQ	<ul style="list-style-type: none"> <li>a) Consider changes in the internal and external environment (strategic issues)</li> <li>b) Consider CHQ dynamics such as different phases of CHQ and CHQ functions</li> </ul>
(3) Apply a considered approach when changing CHQ design	<ul style="list-style-type: none"> <li>a) Distinguish between different types of CHQ activities and roles</li> <li>b) Avoid simple cost-cutting, naïve benchmarking exercises, and overshooting</li> </ul>

#### (1) Conduct CHQ reviews on a regular basis

It is the responsibility of corporate managers to scrutinize whether the existing CHQ design brings added value to the corporate portfolio or whether it fosters the destruction of value. Given the importance of CHQ, all firms shall engage in CHQ reviews on a regular basis. Ever-changing internal and external environments demand that corporate executives continually revisit the design of their CHQ. Now and again, these exercises are likely to bring about some sort of change to the current CHQ design.

### *a) Define objective of each CHQ review*

There are very different objectives for a CHQ review:

- Support of corporate strategy
- Cost-effectiveness
- Continuous improvements vs. radical change

Given the distinct nature of various objectives, the consequences of CHQ reviews may vary widely and deeply. Thus, the objective(s) should be defined beforehand and guide the CHQ review. For example, the observation that overall CHQ effectiveness and CHQ effectiveness concerning CHQ abilities related to corporate strategy, as well as CHQ cost-effectiveness, leaving room for improvements, suggests that reviews focused on both objectives are needed. Yet, a cost-effectiveness review which can be done through benchmarking is very different from a review aiming at improving CHQ abilities to support and implement corporate strategy.

### *b) Set up a process of CHQ review with concrete actions to be taken*

Given the enormous potential of CHQ to add or destroy value and the highly political nature of this entity a clearly defined process of CHQ review can help. As an example, this process may ask each corporate function to present its “business case” for review and challenge by the CEO and the heads of major businesses at least once per year:<sup>47</sup>

- Get each CHQ function to list strategy, major added value, governance and other (services, etc).
- Get each CHQ function to collect feedback data from their internal clients such as business units and their corporate colleagues.
- Get each CHQ function to list and evaluate the initiatives they were engaged in over the last 12 months as well as initiatives planned for the next 12 months.
- Get each CHQ function to derive conclusions from performance evaluations and to list the measures planned to move forward.

### *c) Produce an annual “state of CHQ” report*

Produce an annual “state of CHQ” report that defines the main sources of added value, the major functional initiatives, the total costs and assesses overall performance.<sup>48</sup> This report should also reflect the dynamics of CHQ through comparisons of the status quo with previous years. The report should also create transparency for CHQ stakeholders and describe the findings and conclusions from the annual CHQ review.

Such an annual “state of CHQ” report should integrate individual parts of CHQ (individual functions) into a comprehensive picture to counter the emergence of functional silos. Nowadays, many corporate issues require cross-functional collaboration. Different functional experts have to collaborate in order to cope with corporate issues such as the “digitalization of business models” and “demographic change”.

## (2) Consider prompts and opportunities for changes at CHQ

### *a) Consider changes in the internal and external environment*

Change is being stimulated and impeded by a range of factors:

- Significant changes in corporate strategy shall prompt a CHQ review, specifically a restructuring of the corporate portfolio requires an alignment of the CHQ design or company-wide initiatives are often steered by teams in the CHQ.
- CEO successions seem to offer rare windows of opportunity for changes at CHQ. The CEO largely runs the overall company through CHQ. For example, corporate management systems (like incentive systems or talent management) are defined at CHQ. Such systems are the means by which of the CEO executes corporate strategy.
- Changes in the external environment such as new mega trends, regulatory changes etc. may also ask for CHQ responses.

Different stimuli may have different consequences for changes at CHQ. The analyses of the survey data suggest differences between changes in CHQ structure and CHQ policies. For example, new CEOs appear more engaged in policy changes than in changes in the size of CHQ. This indicates that different dimensions of CHQ show different characteristics of change. Companies need to keep these differences in mind. Moreover, those in charge – CEOs and heads of corporate functions – need some clear design criteria to ensure that they do not swing aimlessly between centralization and decentralization.

### *b) Consider CHQ dynamics such as different phases of CHQ and CHQ functions<sup>49</sup>*

It is important to consider the dynamic nature of the leadership task at corporate level. For example, our research on corporate functions suggests that corporate functions need different types of leadership at different stages in their evolution. We have identified four stages in a corporate function – launch, growth, maturity, and decline –, each of which requires distinct management approaches to keep functions on track. In other words, at different times a corporate function faces different challenges each of which requires specific management approaches.

It is also important to consider the dynamics of corporate-level competition. The parenting advantage may fade away at some point in time and other corporations may catch up.

### (3) Apply in a considered approach when changing CHQ design

#### a) *Distinguish between different types of CHQ activities and roles*<sup>50</sup>

- Distinguish between governance and value-adding activities: While governance activities are easier to separate out and to benchmark, value-adding activities are typically company-specific and need different management approaches.
- Get clear about the main sources of added value (for example, at least 10% bottom line impact for each source).<sup>51</sup> In general, these are activities that create value greater than the value that could be created if resources had been used otherwise. Make sure that the CHQ has the resources and power needed to address the main sources of added value.
- Include further activities (shared services and minor sources of added value) only if they have a low risk of negative side effects.
- Separate service activities from policy activities for the business partners of a corporate function to ensure that service activities are run by service-oriented managers with operating skills and a focus on efficient delivery whereas policy activities may be better run by managers with a sufficient understanding of the businesses and a partnership self-understanding.

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#### **Excursus: Directionary vs. Non-Discretionary Activities**<sup>52</sup>

In general, CHQ host non-discretionary and discretionary activities. More specifically, CHQ can host four types of activities:

- (1) *Non-discretionary activities*: Obligatory or public company functions which are required of any corporate entity, such as external tax and financial reporting.
- (2) *Control activities*: A control system monitors and evaluates the performance of its constituent units in order to minimize the agency costs of delegating substantial decision-making authority.
- (3) *Value-adding activities*: These are value-creating or coordinative functions governing the development, allocation, and deployment of valuable corporate resources within the hierarchy.
- (4) *Shared services activities*: These are services where it is not necessary to perform at the CHQ. They could be as efficiently performed at a business unit, or even outsourced to a third party.

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b) *Avoid simple cost-cutting, naïve benchmarking exercises, and overshooting*  
Specifically, in the design of CHQ, “one size fits all” is a flawed approach.<sup>53</sup> Given the huge variety in the size and scope of CHQ, companies must design thoughtfully rather than benchmark.

---

**Quote**

*“In practice, however, headquarter reviews are often no more than cost-cutting exercises. Our research shows that such an approach is dangerous since simply reducing the size of the headquarters is no guarantee of improved performance. Indeed, companies with larger headquarters typically outperform those with smaller headquarters. Hence a more considered approach is needed, in which the headquarters is designed to fit with the company’s corporate strategy.*

*Reviews of headquarters should also avoid naïve benchmarking against other firms that fails to account for differences in their corporate strategies. Firms with strategies involving extensive linkages between their businesses, high levels of shared services at the center, and an active influence over business activities can have over 10 times as many headquarters staff as firms with no linkages or shared services and an arm’s-length approach to business units. It is apparent that in the design of corporate headquarters, ‘one size fits all’ is a flawed approach. Benchmarking can be valuable, but only if it is with firms that are pursuing similar corporate strategies.”<sup>54</sup>*

---

No matter whether one is trimming down or scaling up CHQ either way too much is dangerous. Large and hyperactive CHQ can become a serious burden and destroy rather than add value. In contrast if companies cut too deeply, they may not have the capabilities and resources to support deploying their corporate strategy. CHQ austerity may prevent them from identifying strategic opportunities that could transform their fortunes. This seems especially true in turbulent environments.<sup>55</sup> Once again, a considered approach is necessary.

**Conclusion**

Ensuring that CHQ has the right number and quality of staff in it is neither an easy nor a one-time challenge. Instead, recurrent and serious housekeeping is needed.

# Endnotes

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- 41 We split the sample into three groups: (1) above average (mean plus 0.5 standard deviations), (2) average and, (3) below average (mean minus 0.5 standard deviations).
- 42 E.g. Zimmermann et al. 2010.
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- 45 Based on the US data and preliminary analyses.
- 46 These ideas integrate existing literature, consulting experiences and comments provided by the survey participants. Special thanks goes to Andrew Campbell who provided many valuable comments and suggestions for this section. For more general information on corporate transformation see Collis & Montgomery 2005: pp. 234–266 (Chapter 9: Corporate Transformation: The Dynamics of Corporate Strategy).
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## Appendix I: Lists and Tables

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## List of Abbreviations

ASMC	Ashridge Strategic Management
BoD	Board of Directors
BU	Business Unit
CapEx	Capital Expenditure
CBS	Core Business Services
CC	Corporate Center
CCO	Chief Corporate Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHQ	Corporate Headquarters
CPG	Consumer Packaged Goods
COO	Chief Operating Officer
ExecCom	Executive Committee
ERP	Enterprise Resource Planning
FATCA	Foreign Account Tax Compliance Act
FTE	Full-Time Equivalent / Full-Time Employee
HR	Human Relations
i.e.	id est (Latin: that is)
IpO	Initial Public Offering
IT	Information Technology
N/A	Not Applicable
NPL	Non-Performing Loans
OpCo	Operating Company
P&L	Profit & Loss
R&D	Research & Development
RoA	Return on Assets
SCM	Supply Chain Management
SIC	Standard Industrial Classification
SOA	Sarbanes Oxley Act (also SOX)
SOX	Sarbanes Oxley Act (also SOA)
TMT	Top Management Team
UK	United Kingdom
US	United States
UaSA	United States of America
USD	US Dollar

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## Appendix 2: Definitions

Key to the underlying surveys across North America and Europe were the following three common definitions:

**Corporate headquarters (CHQ)** are defined as “*all executive directors and staff functions with responsibility for, or providing services to, the whole (or most) of the company*”.<sup>1</sup> More pragmatically, this definition clarifies the following:

- Includes: full-time executive directors (CEO and TMT members) and their support staff; staff of centralized functions.
- Excludes: staff employed at divisional headquarters.
- Synonyms: corporate center, corporate parent, corporate office, corporate head office, central office, central administrative office.

**Corporate headquarters (CHQ) change** is defined as “*changes in the size and/or scope of CHQ over time*”. Examples include the following:

- Reducing or increasing the number of CHQ staff or costs.
- Changing the role(s) of CHQ.
- Centralizing or decentralizing functions such as SCM, IT, R&D and Procurement.

**Corporate function (or CHQ function)** is defined as “(1) *an organizational entity (a department) (2) which provides (centralized) services to the whole or most of the company, and (3) the head typically a member of the top management team (TMT, management board) or directly reporting to one of them*”. Specifically, this definition aids the clarification of the following concerns:

- The definition’s first part speaks to the level of abstraction and helps to distinguish corporate functions from corporate activities. The second part distinguishes from other activities which may be located at CHQ but are rather operational activities.
- By this definition, most of the issues related to the term should be resolved – not theoretically but at least in a pragmatic manner. For example, whether Treasury is part of the Finance function or not depends on whether the head of Treasury is a direct report to the CFO (as a member of the TMT)<sup>2</sup> or not. A second example is Financial Analysis and Planning. While often a corporate activity, in some companies it is part of the Finance function rather than a separate corporate function. A third example refers to operational groups that are sometimes located at CHQ: These should not be considered. Although they may be physically located at CHQ, they are not centralized services for the whole or most of the company (unless they are shared services).
- Synonyms: corporate staff functions, staff functions, corporate units, group functions, support functions.

<sup>1</sup> Collis et al. 2007: p. 385.

<sup>2</sup> For a comprehensive review on Functional Top Management Team members cf. Menz, M. 2012. Functional Top Management Team Members: A Review, Synthesis, and Research Agenda. *Journal of Management*, 38(1):p p. 45–80.

## Appendix 3: Detailed Analyses

**Table 11: Number of responses and key CHQ characteristics per country and region**

	USA	CANADA	North America	GERMANY	AUSTRIA	SWITZERLAND	GAS	BELGIUM	NETHERLANDS	LUXEMBURG	Benelux
<b>survey</b>											
number of companies in the sample*	1 368	122	<b>1 490</b>	135	27	93	<b>255</b>	25	58	9	<b>92</b>
number of responses (incl. multiple resp.)	352	52	<b>404</b>	41	10	49	<b>100</b>	13	20	4	<b>37</b>
number of company responses	316	44	<b>360</b>	36	7	44	<b>87</b>	11	19	3	<b>33</b>
response rate in %	23.1	36.1	<b>24.2</b>	26.7	25.9	47.3	<b>34.1</b>	44.0	32.8	33.3	<b>35.9</b>
<b>industries (in %)</b>											
01 Industrial	78.2	65.9	<b>76.7</b>	77.8	57.1	72.7	<b>73.6</b>	72.7	78.9	66.7	<b>75.8</b>
02 Utility	6.6	6.8	<b>6.7</b>	8.3	0.0	4.5	<b>5.7</b>	0.0	5.3	33.3	<b>6.1</b>
03 Transportation	3.8	11.4	<b>4.7</b>	2.8	14.3	0.0	<b>2.3</b>	0.0	10.5	0.0	<b>6.1</b>
04 Banks/Savings and Loan	3.8	9.1	<b>4.4</b>	2.8	14.3	11.4	<b>8.0</b>	9.1	0.0	0.0	<b>3.0</b>
05 Insurance	4.1	4.5	<b>4.2</b>	8.3	14.3	11.4	<b>10.3</b>	9.1	5.3	0.0	<b>6.1</b>
06 Other Financial	3.5	2.3	<b>3.3</b>	0.0	0.0	0.0	<b>0.0</b>	9.1	0.0	0.0	<b>3.0</b>
<b>company characteristics: key figures (2010)</b>											
median employees (000)	6.4	4.7	–	47.8	11.8	6.9	–	8.9	9.9	7.2	–
median sales (000.000.000)	2.1	2.6	–	20.0	2.3	2.9	–	3.7	4.0	4.0	–
median assets (000.000.000)	3.1	3.6	–	22.4	2.2	4.7	–	4.8	3.9	7.0	–
median total capital (000.000.000)	1.8	2.1	–	11.4	1.0	2.4	–	3.2	2.4	5.0	–
median market cap (000.000.000)	2.6	2.4	–	9.2	2.2	2.2	–	3.5	3.4	10.0	–
<b>number of CHQ staff</b>											
Minimum	6	16	–	12	15	8	–	13	17	54	–
Maximum	8000	7718	–	9267	2000	19406	–	805	1100	450	–
Percentiles (p25)	125	74	–	200	100	41	–	23	60	54	–
Percentiles (p50)	300	244	–	375	273	124	–	100	135	130	–
Percentiles (p75)	700	875	–	773	1000	300	–	400	400	450	–
<b>number of CHQ staff per 1 000 employees</b>											
Minimum	0.7	1.0	–	1.4	11.8	1.7	–	0.4	0.2	1.6	–
Maximum	954.2	1008.8	–	122.8	53.7	920.0	–	230.1	278.8	18.1	–
Percentiles (p25)	15.5	14.4	–	4.3	13.2	5.0	–	6.9	4.1	1.6	–
Percentiles (p50)	39.2	42.9	–	7.2	23.8	11.0	–	8.5	11.9	8.5	–
Percentiles (p75)	100.0	184.7	–	31.4	40.0	34.1	–	28.2	28.0	18.1	–
<b>number of CHQ functions</b>											
Minimum	1	3	–	4	5	4	–	3	7	6	–
Maximum	165	25	–	58	24	60	–	53	100	8	–
Percentiles (p25)	6	7	–	9	10	6	–	6	8	6	–
Percentiles (p50)	8	8	–	12	14	9	–	7	10	6	–
Percentiles (p75)	12	10	–	16	16	13	–	12	17	8	–

\* target size: employees > 1000; sales, assets and market cap > 250 Mio USD; refers to the number of companies identified; the actual number of companies approached is a little smaller since for a few companies contact details could not be identified. So the response rate based on the companies contacted is actually slightly higher than indicated here.

DENMARK	FINLAND	SWEDEN	NORWAY	ICELAND	Scandinavia	FRANCE	GREAT BRITAIN	IRELAND	Central (others)	ITALY	SPAIN	TURKEY	GREECE	PORTUGAL	Southern Europe	Europe (total)	total
41	41	82	48	3	215	151	208	16	375	83	68	67	21	16	255	1 192	2 682
20	21	43	27	2	113	27	66	3	96	37	23	36	11	10	117	463	867
16	20	38	26	2	102	24	55	2	81	30	19	30	10	9	98	401	761
39.0	48.8	46.3	54.2	66.7	47.4	15.9	26.4	12.5	21.6	36.1	27.9	44.8	47.6	56.3	38.4	33.6	28.4
68.8	85.0	86.8	73.1	50.0	79.4	83.3	81.8	100.0	82.7	70.0	89.5	73.3	50.0	66.7	72.4	76.8	76.7
0.0	5.0	2.6	0.0	0.0	2.0	0.0	5.5	0.0	3.7	13.3	5.3	3.3	0.0	22.2	8.2	5.0	5.8
12.5	5.0	2.6	11.5	50.0	7.8	4.2	1.8	0.0	2.5	0.0	0.0	3.3	0.0	0.0	1.0	3.7	4.2
6.3	5.0	7.9	7.7	0.0	6.9	4.2	3.6	0.0	3.7	6.7	5.3	20.0	40.0	11.1	14.3	8.0	6.3
12.5	0.0	0.0	7.7	0.0	3.9	4.2	5.5	0.0	4.9	10.0	0.0	0.0	0.0	0.0	3.1	5.5	4.9
0.0	0.0	0.0	0.0	0.0	0.0	4.2	1.8	0.0	2.5	0.0	0.0	0.0	10.0	0.0	1.0	1.0	2.1
2.7	5.4	7.0	3.5	1.9	-	16.5	12.4	5.0	-	10.9	4.6	6.2	4.6	8.6	-	-	-
0.9	2.3	2.9	1.3	0.5	-	3.4	3.3	4.8	-	6.4	1.7	2.2	1.7	3.0	-	-	-
1.1	2.7	4.1	2.5	0.7	-	5.7	4.1	2.2	-	10.1	3.7	2.6	6.9	7.1	-	-	-
0.7	1.8	2.2	1.5	0.5	-	3.8	2.0	1.3	-	4.4	2.4	1.3	1.5	4.7	-	-	-
0.6	2.5	2.2	1.4	0.5	-	3.2	3.4	2.0	-	3.3	1.8	1.5	1.1	2.0	-	-	-
9	12	4	7	64	-	30	3	36	-	11	20	10	20	64	-	-	3
1 100	1 110	3 000	600	200	-	6 157	6 000	800	-	8 000	2 248	4 900	4 800	1 000	-	-	19 406
30	36	18	32	64	-	83	30	36	-	60	93	105	100	111	-	-	63
175	110	49	58	132	-	164	50	418	-	350	200	250	258	133	-	-	200
800	275	166	200	200	-	450	280	800	-	1 000	433	859	800	415	-	-	600
1.7	2.6	0.2	2.8	39.3	-	1.1	0.1	4.9	-	0.1	0.4	1.6	7.6	1.0	-	-	0.07
521.7	168.6	145.4	483.1	91.0	-	145.7	374.8	310.8	-	870.0	310.6	1 100.7	318.7	131.1	-	-	1 100.70
6.8	7.2	3.7	6.6	39.3	-	4.2	2.4	4.9	-	7.0	11.2	11.3	16.3	9.1	-	-	4.85
64.8	18.2	5.6	18.1	65.2	-	9.8	5.5	157.8	-	22.7	20.8	77.4	40.0	46.9	-	-	14.10
162.0	36.8	15.9	44.9	91.0	-	59.1	13.7	310.8	-	69.4	132.8	172.2	132.0	70.3	-	-	53.67
4	3	3	2	4	-	5	1	8	-	4	5	2	5	8	-	-	1
238	16	70	150	5	-	500	650	8	-	25	72	60	120	17	-	-	650
6	5	5	5	4	-	7	5	8	-	7	6	6	7	9	-	-	6
8	7	6	8	5	-	10	9	8	-	11	8	10	10	13	-	-	8.75
12	10	10	14	5	-	15	10	8	-	15	15	15	15	15	-	-	12

**Table 12: CHQ effectiveness per country and region**

	USA	CANADA	North America	GERMANY	AUSTRIA	SWITZERLAND	GAS	BELGIUM	NETHERLANDS	LUXEMBURG	Benelux
<b>Effectiveness</b>											
<b>overall effectiveness of CHQ</b>											
Minimum	1.00	3.00	-	3.00	3.00	3.00	-	3.00	3.00	5.00	-
Maximum	7.00	7.00	-	6.00	6.00	7.00	-	6.00	6.00	6.00	-
Percentiles (p25)	4.75	4.75	-	4.00	5.00	5.00	-	4.00	4.00	5.00	-
Percentiles (p50)	5.00	5.00	-	5.00	5.00	5.00	-	5.00	4.00	5.00	-
Percentiles (p75)	6.00	6.00	-	5.75	5.33	5.33	-	6.00	5.00	6.00	-
<b>cost effectiveness of CHQ</b>											
Minimum	1.00	3.00	-	3.00	3.00	2.00	-	2.00	2.00	4.00	-
Maximum	7.00	7.00	-	7.00	6.00	7.00	-	7.00	7.00	7.00	-
Percentiles (p25)	4.00	4.25	-	4.00	4.00	4.00	-	3.00	4.00	4.00	-
Percentiles (p50)	5.00	5.00	-	4.75	5.00	5.00	-	4.50	5.00	6.00	-
Percentiles (p75)	6.00	6.00	-	5.75	6.00	6.00	-	6.00	6.00	7.00	-
<b>ability of CHQ to support corporate strategy</b>											
Minimum	1.00	3.00	-	3.00	3.00	2.50	-	3.00	2.50	4.50	-
Maximum	7.00	7.00	-	6.50	6.25	7.00	-	6.00	6.00	5.50	-
Percentiles (p25)	5.00	4.25	-	4.50	4.50	4.00	-	4.00	4.00	4.50	-
Percentiles (p50)	5.50	5.13	-	5.00	5.00	5.00	-	5.00	5.00	5.00	-
Percentiles (p75)	6.00	5.63	-	5.50	5.50	6.00	-	5.50	5.50	5.50	-

Percentile (p25) = lower percentile: 25% of the responding companies lie in this area  
 Percentile (p50) = median: 50% of the responding companies are on either side of this value  
 Percentile (p75) = upper percentile: 25% of the responding companies lie in this area

DENMARK	FINLAND	SWEDEN	NORWAY	ICELAND	Scandinavia	FRANCE	GREAT BRITAIN	IRELAND	Central (others)	ITALY	SPAIN	TURKEY	GREECE	PORTUGAL	Southern Europe	Europe (total)	total
3.00	2.00	3.00	2.00	5.00	-	2.00	1.00	4.00	-	2.00	2.00	2.00	3.00	4.00	-	-	1.0
7.00	6.00	7.00	7.00	6.00	-	6.00	7.00	5.50	-	6.00	7.00	7.00	6.00	6.00	-	-	7.0
4.00	4.00	5.00	5.00	5.00	-	4.00	5.00	4.00	-	4.67	4.50	5.00	4.00	5.00	-	-	4.5
5.00	4.75	5.00	5.00	5.50	-	5.00	5.00	4.75	-	5.00	5.00	5.00	5.00	5.00	-	-	5.0
6.00	5.00	6.00	5.50	6.00	-	5.00	6.00	5.50	-	5.00	5.00	6.00	5.00	6.00	-	-	6.0
3.00	2.00	2.50	1.00	5.00	-	2.00	1.00	4.00	-	2.00	3.00	4.00	3.00	4.00	-	-	1.0
7.00	7.00	7.00	7.00	6.00	-	7.00	7.00	6.00	-	7.00	7.00	7.00	6.00	6.00	-	-	7.0
4.00	3.50	4.00	4.00	5.00	-	3.00	4.00	4.00	-	4.00	4.00	5.00	3.00	4.00	-	-	4.0
4.75	5.00	5.00	5.00	5.50	-	5.00	5.00	5.00	-	5.00	5.00	5.00	4.00	5.00	-	-	5.0
5.33	6.00	6.00	6.00	6.00	-	6.00	6.00	6.00	-	6.00	6.00	6.00	5.00	5.00	-	-	6.0
3.00	2.00	2.50	3.50	5.00	-	3.00	1.00	3.50	-	2.50	3.00	3.00	3.50	3.75	-	-	1.0
6.50	6.00	6.25	7.00	6.00	-	6.00	7.00	5.00	-	6.00	7.00	7.00	6.50	6.50	-	-	7.0
4.50	4.00	4.00	4.50	5.00	-	4.00	4.50	3.50	-	4.50	4.50	5.00	4.00	5.00	-	-	4.5
5.00	5.00	5.00	4.75	5.50	-	5.00	5.50	4.25	-	5.00	5.00	5.50	4.50	5.00	-	-	5.0
5.75	5.00	6.00	5.50	6.00	-	5.50	6.00	5.00	-	5.50	6.00	6.00	5.75	5.50	-	-	6.0

## Appendix 4: Additional Remarks

Many participants used the additional remarks section to provide further information (see Table 13-Table 18). The additional remarks referred to a variety of aspects such as additional information on the last major change at CHQ (What were the major changes and why were they implemented?), and changes at CHQ in general, as well as aspects that (1) participants perceived to be missing, (2) one should also know related to the topic and/or (3) any general comments on the questionnaire. Overall, the comments can be clustered into two main areas:

- A. Content-related comments: CHQ and changes at CHQ
  - 1. Comments on changes at CHQ in general
  - 2. Comments on rationales for/against changes at CHQ
  - 3. Comments providing further details for answers/background information
  - 4. Comments indicating other CHQ aspects of interest
  
- B. Method-related comments: survey and conduct of the survey
  - 1. Comments related to the questionnaire (survey questions)
  - 2. Comments related to the survey in general

Please note: In order to comply with the confidentiality statement in the survey, data from the additional remarks fig has been disguised so that neither the names nor the identity of a company or an individual can be directly identified. Specifically, terms in capital letters are placeholders for more specific data.

### A. Content-Related Comments: CHQ and Changes at CHQ

#### *1. Comments on Changes at CHQ in General*

The first set of comments is informative on the changes at CHQ (for a complete list, see Table 13). In fact, a variety of aspects was mentioned. Among others, the most important ones include (1) geographic relocations, (2) set-up of shutdown of corporate functions, (3) CEO/TMT turnover, (4) changes in CHQ size and scope, and (5) changes in CHQ roles/styles.

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**Table 13: Additional remarks – Contents: comments on changes at CHQ in general**

- The major change has been transforming the company's culture based on production and technology investments and cement plants acquisitions to a culture based on cost-effectiveness, cash flow, debt and profit management.
  - Major changes to the CHQ refer to the centralization of capital and non-capital expenditures decisions, centralization of transaction banking (from network branches to HQ), setting up new centralized functions (marketing, risk) and centralizing further workout and NPL functions.
  - Increase of global vision and the way of performing certain support functions (HR, IT, Purchasing...). Particular focus on internationalization.
  - Communications, Regulatory and Strategy were brought under Chief Corporate Officer responsibility with a view to streamlining corporate functions.
  - The major changes concerned organization, IT systems, personnel management systems, marketing and strategy.
  - The last major change reflected in Q1 relates to the announcement (but not implementation) by PERSON to make the corporate center more of a "holding company", and transfer a significant number of heads from the CHQ to a newly created Core Business Services organization (including IT / HR/ Finance / Real Estate / Procurement etc). CBS was launched in COMPANY in Q1 2011.
  - Purchasing and Accounting activities in the locations of the company was transferred to the HQ.
  - Group's corporate centre and group core business' (retail) corporate centre were merged into one corporate centre.
  - COMPANY was moved from its original small town location to CITY in the 1950s.
  - In 2007, relocation of the HQ from CITY1 (COUNTRY) to CITY2 (COUNTRY) because both remaining business segments have their HQ in CITY2.
  - Major changes will take place in June 2011 (change of CEO/CFO).
  - Change in HR focus from US to the global operations, significant development on succession planning and employee development planning.
  - May 2011 (2 weeks ago ... cost reduction). This is a central view of the centre... might be bias...
  - Reduce number of head office employees and internal bureaucracy.
  - Organizational and operational model change with two new corporate level functions in HQ.
  - Addition of Corporate Compliance and Corporate Purchasing departments.
  - Reduction of corporate functions by two. Increase value added services. No budget anymore, work with forecasts on a rolling basis.
  - In 2009, we made significant cost reduction in the non-revenue producing functions within HQ, and at the same time continued to invest in Key Account Development and Marketing functions to aid business development. This trend continued in 2010 and 2011.
  - Establishment of independent corporate office, as opposed to reliance on business unit to provide corporate services.
  - Movement in location in 2004 and downsizing in 2008.
  - Last change was the separation and clear distinction of the CHQ from COUNTRY operating business as the group expanded further into other territories. This was both in terms of job roles formally and informally providing group responsibility and in the physical relocation of the HQ function to a different building.
  - 20% cost reduction of central corporate functions.
  - Move to larger, more modern office.
  - Major change of CHQ was a relocation and expansion.
  - We did not have a corporate center before.
  - Added a ship refit department in corporate.
  - The majority of board members were replaced across 2008–2010 alongside a major corporate restructuring project, which culminated in the appointment of a new group CEO in 2010.
  - The corporate spun off all other businesses and focused on its core business. The role of CHQ used to be one of a holding company and today is actively managing and leading the core business.
  - Change in 2008 was to further decentralize functional activities and reduce HQ scope and scale. Change in 2010 was to improve management of risks and safety.
  - Major change was not a staff change but change in the top structure, bringing operations "closer to the executive board".
-

## 2. Comments on Rationales for/against Changes at CHQ

One step further, a number of comments gave some insight on the triggers of, and impediments to, changes at CHQ (for a complete list, see Table 14). The most important dimensions, among others, appeared to be the following: (1) changes in the business portfolio (M&A, growth etc.), (2) organizational changes (structure, management styles), (3) CEO changes and TMT turnover, (4) corporate governance (e.g. ownership changes, IPOs), and (5) characteristics in the external environment (crisis, economic environment, industry).

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**Table 14: Additional remarks – Contents: rationales for/against changes at CHQ**

- In 2009, we reorganized to have sales, marketing, distribution closer to the markets, so out of corporate and into two regional offices.
- COMPANY has been a high growth business since 2006 driven by both organic and inorganic means. Since 2007, the company has completed two significant acquisitions that introduced cultural and procedural differences. The need to develop a more comprehensive CHQ was identified and initiated in August 2009. The idea was not only to develop and drive scales of economy, but also to manage cultural and process variability to establish one business. Our commitment and ability to implement the CHQ has wavered.
- It is important to note that COMPANY did not have any subsidiary companies of substance until 2009, thereby resulting in significant change to the way the divisions were handled over a 2-year period.
- Former CEO retired on DATE, with new CEO entering office on DATE. Given different styles and backgrounds of respective CEOs, it is possible that responses to questions could vary substantially if we were to reflect back on this topic in the next 2 to 3 years.
- The increased centralization in our company has reduced costs, reduced duplicative headcount and increased and bettered the consistency of decision-making.
- Since I took the CEO position in 2010 we have begun a "centralization" process and are sorting out many of the relationships your survey poses. We are seeking the proper balance between the extremes and this will take at least another year to be effective.
- COMPANY went through an Initial Public Offering in COMPANY. Previously, the company was a division of COMPANY. This change resulted in COMPANY needing to establish its own stand-alone capabilities.
- Shift to provide corporate functions from HQ to low cost, shared service centers operating in low-cost regions of the world.
- [...] In our case, all of the increase was associated with becoming a public company and satisfying reporting/disclosure/legal requirements, etc. Our philosophy is to have a lean corporate staff to coordinate and facilitate corporate wide efficiencies (e.g. people planning and development, treasury/capital structure, sharing technology/new business opportunities) while allowing each business unit to be fully functional and autonomous in order to maximize speed to capture business opportunities.
- COMPANY has entered in a program called PROGRAM NAME in 2005 essentially moving CHQ from a financial holding to an operating center. IT, Procurement and HR ended up being centralized. In recent years we have sold half our international business (BUSINESSES being sold) and half of our American business (BUSINESSES being sold). The remaining businesses (BUSINESSES) are now going to split into two separate companies. The corporate centre as we currently know it (mixture of shared service centre and "real" corporate centre) will disappear as a result of the split. Both pure play companies we are creating will have their own (very much slimmed down and de-layered) corporate centre.
- In 2010 we acquired COMPANY thereby doubling the size of our company yet the role and basic structure of the worldwide CHQ did not change other than the increased size and scope of the roles occupied by the senior staff. The operating rhythms, top level org. structure and the nature of interface with the business units changed very little, one main reason for the high degree of success thus far with the integration.
- Cost-effectiveness of CHQ: strong given huge overhead reduction facilitated by the merger.
- Risk management and regulatory reporting have increased CHQ expense in the financial services industry.
- Most of our increase in corporate costs has been related to increased financial controls and more cumbersome accounting regulations.
- We doubled the size of the company through asset acquisitions which caused us to standardize and implement a number of common systems and processes to achieve a much more efficient organization.
- In the last 4 years, we have centralized more of the strategic decision-making and resource decisions. I believe the economic environment partially contributed to that direction.
- The ability to communicate more efficiently/faster has been an important enabler of the recent changes in our company. No question touched that point.
- As a trend we have delegated CHQ issues to that divisional level, where we have the biggest know-how in the corporation.

- Major changes last December: The founder sold his shares to a private equity fund and a totally new top management group put in place (from December 1<sup>st</sup> 2010 to June 1<sup>st</sup> 2011).
- Major change in strategy as well. Increase our revenue from today's approx CURRENCY 1,5 billion to CURRENCY 5–6 billion in 2013/14. This includes organic growth, M&A activities and restructuring of existing portfolio.
- End of 2004 there was an unfriendly take-over bid which could be defended. As a result, the BoD as well as the whole executive board was changed. Since then, a new management team with a totally new culture is in place. In addition, the location was changed from LOCATION to LOCATION.
- Last major change was the creation of a corporate IT department as a spin-off from the COUNTRY operation (which is by far the biggest BU). Apart from this, the increasing workload for the head office was driven by regulators, e.g. FATCA is triggering quite a project. So, if you're asking about effectiveness: requirements are often managed effectively but the requirement itself is not adding any value. A big part is project work for a business unit.
- We went from a divisional to a functional organization. Motivation for the change: The tendency was to have more and more P&L's so eventually every one of our >10000 employees would have his own P&L and nobody cared for the company as a whole, today we have P&L responsibility only at the board level. Financial analysts were very skeptical and in the meantime the share price has quadrupled.
- COMPANY is REGION's largest independent refining company, one that has grown through the acquisition of refinery assets from the oil industry "majors". In late 2009 a new CEO and corporate structure was introduced to help consolidate operations and improve commercial focus on our key markets. An Executive Committee was formed for decision-making and key functions were confirmed/defined. Refineries and marketing groups are our "business units". They are linked in an integrated system of process manufacturing of crude oil and petroleum products distribution.
- There was a significant merger in late 2006 that necessitated growth in the head office staff as well as centralization of a few functions.
- Split up of former COMPANY group when the major part (=banking activity) was cut out in the midst of the financial crisis.
- A complete review of governance and the introduction of a new group operating model replacing a decentralized approach. The decentralized approach had proved ineffective in managing risk during the financial crisis.
- 2008 was a "bust year" for COMPANY with major redundancies (first in history at CHQ). By close of 2010 dramatically different story – back on a major growth trajectory. Overall there is a move toward centralization in HR in development of shared services for HR, Finance, so the CHQ is a greater concentration of global policy advisors, strategists across the various functions. The lack of cost effectiveness for COMPANY CHQ = Location we are based in central CITY trades off on cost of location, salaries with the strong ability to attract employees, proximity to investor base convenience of time zone to manage the global spread of our operations. Research is very timely for us as we are considering another major shift for 2014 with the potential to have CHQ of ~250 people and the balance of any CITY-based staff in a regional office.
- Merger with commercial subsidiary.
- Implementation of a global ERP system has led to the development of a global IT group. This has been in process for about 2 years.
- In 2007, we embarked on a new strategy which articulated a goal to double production with the decade. This created the need for a significantly stronger, global, centrally led set of functions to replace the highly administrative and very small previous corporate centre. We have since hired in almost all new functional leaders and have been steadily building capability while we create systems and processes to enable work to be done more efficiently. We also put in place capital approvals and other core processes which are perceived to limit freedom but ultimately, when completely embedded and understood, will lead to more freedom as financial authorities are increased.
- Fair to say we've been going through a major transformation and our CHQ now has a very different flavor than it did previously. Our philosophy though is to distribute control to the regions, using a set of standards and guidelines (emanating from head office) that ensure actions are aligned.
- COMPANY increased a lot of its foreign activities in the last five years, the last big acquisition was COMPANY group in 2007, COMPANY operates now in 24 countries with half of its business abroad COUNTRY.
- Merger of COMPANY and COMPANY as well as centralization of Asset Management.
- Number of CHQ' functions can be in- or decreased depending on the definition of "function".
- Our transformation in 2009 was aimed at making our business units more accountable for their business performance by preventing group functions from wasting everyone's time by involving themselves in tactical and operational issues. We have now focused the group's activities around what is as a minimum required for running the company (annual reports etc.) + portfolio strategy, capital allocation, performance management, executive HR/development and 2–3 high value synergies (procurement, funding).
- In 2010, following a strategic review led by the new ExecCom, COMPANY stated the strengthening of the corporate center one of its strategic guidelines.
- Some detail: New corporate functions (Business Development; Purchasing; Logistics); inject new talent; new and detailed corporate processes (still to be deployed).

- While the trend is towards more harmonized processes and centralization, the reason for the downsizing in 2009 was purely for cost reduction. Assuming a continued growth in the coming years, the number of corporate employees and functions will increase, also compared with 2007.
- While considering our answers, I would like only to highlight the fact that COMPANY has performed a major merger in 2008 (the former COMPANY, COMPANY and COMPANY became COMPANY). Thus the 2007–2010 years have been an “extraordinary” period.
- Creation of additional HQ function to enhance field quality.
- Last major change was combination of a post merger integration with crisis management.
- Last major change was as a result of the merger of the regional airlines in COUNTRY to form one airline and the selection of HQ as well as determination of HQ functions.
- As a COMPANY with primary focus on REGION we manage the company as one unit although each field office has responsibility to set and manage an operating budget. Capital is controlled by head office. In the period 2006 through 2008 we doubled the size of the company and staff through M&A activity going from 1 000 to 2 000 total employees. Since 2008 we have moved into a new CHQ and implemented change in our executive team.
- The reason for change was twofold: In order to better serve the customers a roadmap was laid out to integrate businesses and to have common support functions. The common support functions guiding principle was/is “one function one solution”. Other ingredients are process streamlining, increased efficiency and integration.
- High degree of alignment needed in operations; centralization of critical decisions; cutting out of redundant activities and costs.
- The 20–50% expansion of CHQ needs to be placed in the context of a 40% PER YEAR revenue growth in the same period.
- The major change implemented in 2005 was a change of company strategy where HQ's role was dramatically enhanced in terms of: setting the company's global strategy (also for each function) and supervising its execution.
- The cut downs were part of large profitability scheme caused by the financial crisis.
- In 2010, we split the former COMPANY into COMPANY (mother company) and a new COMPANY (shipping & Logistics). In our HQ in COUNTRY we have 14 different companies grouped under three main areas.
- COMPANY operates a highly decentralized model. This has many advantages in terms of delegated responsibility. It has many disadvantages in terms of duplication of tasks. The topic is constantly under debate. It is also partly a function of the business having made over 100 acquisitions in the last 20 years.
- COMPANY group functions due to new business in Denmark, Sweden and Baltic. Until 2010, group functions only for the COUNTRY business.
- After the carve out from COMPANY the end of 2003, all service functions were realigned and transformed into competitive internal service providers.
- COMPANY was founded in January 2005 as a spin-off chemical company from COMPANY. Since that time, certain portfolio changes have taken place (divestments, acquisitions) plus operating structural improvements such as restructuring projects have taken place. Since 2010, COMPANY is oriented on profitable growth, organically through investments and by acquisitions.
- Cost reduction, downsizing to adapt to economic crisis.
- We centralized IT (225 staff) and Finance functions for COUNTRY (225 staff) in the HQ function. Before that, HQ was relatively small at some 50 staff. IT was centralized because of scope of future changes in the organization while Finance was centralized to gain better control and gain productivity.
- Activities at CHQ have become much more formalistic, process-oriented since the introduction of Sarbanes-Oxley in 2005/2006. It has created stronger processes, but as well a certain amount of bureaucracy which now needs to be rationalized. We have engaged in the last four years in two consecutive cost-cutting programs which have taken more than 20% of costs out of the corporate center. There is potential for more, especially in the decentralization of corporate centers and creation of functional hubs in cheaper locations.
- Important to note is that COMPANY is still a very decentralized company – this is part of our culture. The corporate center gives guidelines and directives, but does not act as a holding company.
- Changes in the regulatory and accounting environment in the global financial services industry in the last couple of years have prompted growth in the size of the corporate office as well as the creation of more specialized technical roles.
- Downsizing due to economic downturn.
- The major change had to do with the transformation of COMPANY from an institution providing credit exclusively to agriculture to a commercial bank and with its listing in CITY stock exchange.
- The major change happened in the governance organic. The executive committee (with three board members) was replaced by a CEO that, with some senior managers, constitutes an executive managing team. The board has also appointed some special committees (with board members) that give opinions in specific matters (finance, top level HR and corporate responsibility), along with an audit committee.
- Simplification of entire organization started by reducing number of staff functions from 13 to 7 and a significant reduction in number of director positions.

- Actions taken because of industry demand for significant cost reductions and simplification of product portfolio and processes in order to improve customer focus.
- General remark. Financial service industry is changing very rapidly. Looking at changes from 2007–2010 covers a rather hectic period with exceptional changes in 2008–2009 due to the crisis, so might give a good insight in comparison with 2006 (stable) environment but not fully grasp the atypical changes during the crisis in the midst of the 2007–2010 survey period.
- Major change in CHQ was the formation of divisions, with the COUNTRY based divisional management being formed from a combination of head office people, OpCo people and new external hires. Up to that point we had 25 separate OpCos reporting to the corporate office.
- The last major change at CHQ was the consequence of the merger between two BU of the group: COMPANY1 in CITY1 and COMPANY2 in CITY2. From two HQ to one HQ in CITY1. This supposed the merger of all support functions of the group and the merger of all BUSINESS divisions into common business lines. One of the main frustrating points is the relevance of the IT. Without properly profiled and updated IT systems and processes, one cannot make savings on HQ costs!
- 1999 was the year of our IPO.
- 2009 COMPANY set up divisions with full profit/loss responsibility. Before the organizational structure was based on a functional approach.
- Note that the number of staff and costs of HQ increased significantly due to several large acquisitions during this period.
- COMPANY is a market leader in REGION. In 2008, we started building an international organization to support further growth in Europe. The first step was to enter COUNTRY which happened during the fall of 2008. Additional markets are planned for the future with the aim of becoming a leading European Retailer. The effectiveness of the new organization will increase as we enter more markets. Initially, the organization is new and only serving one additional country organization but as we move along and continue to grow outside of REGION, the effectiveness of new corporate functions should increase.

### 3. Comments with further Details about Answers and Background Information

A number of comments further elaborated details about specific answers (for a complete list, see Table 15). These comments aided a better understanding of certain responses.

**Table 15: Additional remarks – Contents: further details about answers provided**

- We have approximately 220 CHQ employees (including IT of about 100 employees) and an additional 100 in our strategic solutions/shared services groups. I believe you would count shared services as CHQ, so that would be a combined count of 320 employees.
- Highly centralized; All of the functions on the list you sent are at our HQ, other than Payroll.
- There has been a consistent migration by executive staff from our suburb HQ to what is unofficially becoming our HQ in the city.
- Relocated the CHQ in 2010. Streamlined functions and reporting structure.
- Besides the 18 business units, we have 23 field offices. These also serve Claims and Marketing functions.
- We consciously have a small corporate staff with a view to pushing resources to the operating level.
- COMPANY operates with 5 core business segments.
- CHQ personnel is estimated to be: 1205. Functions include Legal, Governmental Relations, Corporate Secretary, Litigation, Finance, Accounting and Control, Treasury, Tax, Investor Relations, Communications, Corporate Security, Real Estate, IT, Human Resources, Corporate Travel and Executive.
- We run a lean corporate structure, with centralized Treasury, Purchasing, Finance, Audit, Logistics, HR teams supporting our divisions. There is a high level of involvement in key divisional operations with necessary decentralization of day-to-day divisional operations.
- We have 8 different departments at our HQ in LOCATION, including the ones you mentioned below. Others consist of HR, Real Estate, Retail operations, Wholesale operations.
- COMPANY is a highly decentralized company with 825 autonomous business units.
- Although our CHQ is located in LOCATION, CHQ staff employees utilize virtual office technologies that enable them to work while being located in various locations as a way to minimize costs for our company. Approximately 35 to 40% reside in LOCATION.
- Corporate staff headcount of 1800 includes all staff reporting into all corporate functions with total population of 43000.
- Corporate functions: I'm going to go with 14 (Corporate Development, Trading, Marketing, Facilities Management, Retail, Tax, Communications, HR, Treasury, Accounting, Executive, Legal, IT, Engineering).
- Please note 4 of our 5 divisions' management and operations are physically at HQ.

- If you are only interested in the core HQ functions, such as group audit, group HR, group Communication, and their C-level bosses, in CHQ, then we are talking about 400 FTE max.
- There are 2 business divisions, with 8+13 business units.
- The corporate divisions' services are also included in HQ.
- Position Level 1 – according to the German Law.
- COMPANY has 4 effective divisions (3 reported externally) with 24 operating businesses in 5 countries. There are a total of 4300 employees.
- COMPANY is the parent company of the COMPANY. Each subsidiary within the COMPANY operates autonomously within their respective service territory with its own executive and board of directors. Either the President or CFO of COMPANY serves on the board of a COMPANY subsidiary.
- Answers for the COMPANY group (COMPANY – formerly COMPANY).
- Our registered office in CITY is the physical corporate office I describe.
- Although I only entered the company as an official employee in 2010, I have interacted with COMPANY for the better part of 10 years in a consulting capacity for the C-Suite.
- Corporate downsizing.
- Our board of COMPANY has 10 divisions, which are all cost centred. Global Lines (e.g. Investment, Corporate Business) are usually organized in separate legal entities (e.g. COMPANY for Investment, COMPANY for Global Corporate Business) and not part of the CHQ.
- For the questions on background, it is difficult to provide exact numbers.
- Number of divisions – each country/Market has profit/loss responsibility and reports into the HQ.
- Number of functions – it depends on how you define a function – e.g.: you can split Marketing into several sub-Marketing categories. At the highest level there are between 10 and 30.
- Number of employees at HQ – number of employees at main building is around 1800. If you count the employees working in HQ functions but in several different buildings, it is around 3600.
- For your information: COMPANY Holding resembles an investment trust company in nature.
- It's been considered as CHQ: HR function, legal assistance, OS & Transmission regulation, financial and economical management and administration and Corporate Social Responsibility and Corporate Governance.
- There are two main business units or divisions in COMPANY: electric system operation and electric power transmission, each of which have centralized and decentralized functions.
- Overall headcount in COMPANY in 2010 is 1618 employees, where 701 have decentralized functions and 664 centralized – excluding 253 in CHQ also centralized.
- Ratio of corporate staff to total number of employees.
- The 9 functions included in the headcount are finance, legal, HR, Information Systems, corp. marketing, corp. sourcing, quality assurance, Business Development and Communication. The headcount does not include Central R&D (200 people). The European Division, which has no central function except marketing, is entirely dependent on HQ in all the other functions.
- We are in the process of constructing a new CHQ and this will be completed at the end of 2011.
- We split our business lines into regions and the lines of business, but ultimately we have to report on a legal entity basis. You can find our reporting profile in our annual report which I'm sure you can find on the web.
- The 19406 represents all staff in centralized functions and are all full-time equivalents, and includes functions such as Finance, Risk, IT, Legal, HR, Premises, Internal Audit, Procurement.
- The last major change at CHQ was in 2011.
- COMPANY is a company whose operations are almost solely based in COUNTRY and COUNTRY. Its CHQ in CITY is the main place of business for the whole COMPANY outside of call centre and supply chain functions. COMPANY doesn't really have a corporate level, whilst its operations in COUNTRY and COUNTRY are diverse it is really run as a single P&L.
- I just want to indicate that I have included global operations, as this is a shared service, in the HQ function. This has of course a strong impact on the headcount figures. If not, it would be limited to 400 people.
- We are currently at the eve of a new strategy with some impact on our CHQ function.
- We have read this question as to how many units with P&L are reporting to, or are part of the corporate center. For us this is Treasury, which is part of the corporate center and a profit generating unit. We have several other business divisions, but they don't report to the corporate center. The other business divisions are DIVISION1, DIVISION2, DIVISION3 and DIVISION4 = 4. We have 5 divisions in COMPANY, 4 profit generating and one corporate center. Therefore our answer is 4, as your question relates to business units with profit/loss.
- When you asked for CHQ effectiveness – assuming this is corporate functions' effectiveness and overall executive company leadership / staff at employee HQ – the majority of staff are business, not staff functions. The degree of the delegation of decision-making has not changed for many of the areas you asked because the businesses are fully responsible for those decisions and have been. Corporate staff includes contractors and employees – estimated contractors at 150.
- The most recent major change at CHQ took place in 2011.
- I answered the question for corporate functions not just the physical HQ location as a number of functions are operating globally (IT, Supply Chain, Legal, etc), while employees are geographically dispersed.

#### 4. Comments Indicating other CHQ Aspects of Interest

A number of comments shed light on other interesting aspects related to CHQ and changes at CHQ (for a complete list, see Table 16).

**Table 16: Additional remarks – Contents: other CHQ aspects of interest**

- How often do you review the appropriate size and scope of HQ function? In our case, we do this about every 4–5 years.
- It would be interesting to know how effective respondents felt the corporate strategy was in delivering value either to the customer or the shareholder:
- It would have been interesting to include corporate evolution globally – e.g. creation of hubs, specific geographies, functional evolution.
- Would enjoy understanding if the role of CHQ and the decision-making model it employs as well as the governance model to ensure continuity of such is explicit and/or expressed in other companies.
- Would be interested in any findings on global CPG trends.
- More questions about workplace strategy and how that initiative supports the company strategy. This is an area where the functional group can add tremendous value to the organization.
- Especially interested in levels of decentralization and areas where it works or does not work in the US regulated environment. COMPANY is so decentralized it “amounts to abdication” according to recent news stories. How can they be the paragons of good management without managing? Does this differ for US corporations operating abroad and domestic companies?
- I think it would be interesting to understand where in their maturity the companies are and get a demographic on this. A company that is large and has small growth has different challenges to change than smaller, growing companies. For the growth companies, the change is driven by size and complexity. It would be nice to see if there were any trends on this.
- I would think you would want to know the number of field and/or divisional employees supported by the CHQ to understand whether there are efficiencies in centralization. For example, we employ over 20000 field associates.
- Only question I think is missing is the perception around value driven by the corporate functions. This is different from the effectiveness of the function. For example, our external auditing and SOX compliance activities are quite high and while I think the services and costs are effectively and efficiently delivered, I question the value added from compliance.
- The ability to communicate more efficiently/faster has been an important enabler of the recent changes in our company. No question touched that point.
- A bigger issue than the size and scope of CHQ for us is managing a matrix organization. We have overlaying layers of matrix for function, geography, business line and market. Managing speed of responsiveness and responsibility / accountability in a heavily matrixed organization is a bigger issue for us than what should be centralized versus decentralized. Our core business is pretty global, so central versus divisional is not all that applicable.
- Is HQ cost efficiency a result of increased shared services, increased outsourcing, organic cost reductions?
- Assumption that the CHQ functions = the separate departments i.e. Accounting, HR, IT... Also note the groups of business units consist of five property divisions and one development/construction division.
- I think there is an interesting distinction (I cannot recall whether it is analyzed by the questions in your survey) between HQ viewed as a geographic concept and HQ viewed as an organizational concept. You could have a highly centralized management structure (in which decision-making authority is not distributed into the organization, but held by the highest-level managers) and still have a geographically distributed HQ (in which the highest-level managers are distributed among several locations). Anyway just a comment.
- Overall, we have over 700 corporate employees located at our worldwide HQ, regional HQs and various offices. We have approx. 200 employees at our worldwide HQ in LOCATION. Much of our corporate growth occurred at regional HQs and non-corporate offices (very geographically dispersed corporate footprint). I think this will be missed in our survey results.
- The other topic that we struggle with, and would like more information on, is the migration of corporate functions to low cost locations. We are a INDUSTRY company with a growing Asian footprint.
- Centralization and commonization of processes are two different approaches to gaining the scale advantages of being a multi-division organization. I prefer commonization.
- It would have been of interest to go more into the overall setting of the HQ and the type (e.g. strategic management holding vs. finance holding).
- It would be interesting to correlate changes with changes in business size and general market/industry conditions.
- 1. I would have thought it worth asking about role clarity between the centre and the businesses.  
2. No mention of communication – do the communication systems work?  
3. How intact is the corporate “purpose” as you go down the organization?  
4. No mention of transfer of key ideas/cross pollination.

5. Worth measuring a) number of "layers" in a corporate centre....and then how many layers in the businesses and b) cost of centre (direct labor cost) – and therefore what is this cost as a % of revenues.

6. Functions: worth asking what are the "types" of functions at the centre – are they specialist functions (e.g. tax) or "shared service" functions (e.g. purchasing)?

- We have always avoided a head office. This we believe empowers the operations and exploration projects. Our most senior executives, of which I am one, travel around and spend time on the operations and projects assisting line management. We are a INDUSTRY company with some 5 000 employees and 4 operational SITES and two under development at 2010. Our market capitalization has increased from CURRENCY 9 million in 1995 to CURRENCY 8 billion in 2010. We have a charismatic leader (CEO) and are strategically orientated. Unlike most INDUSTRY companies our dominant coalition is TOPIC1 and not TOPIC2. We are among the most successful INDUSTRY companies in the world. We have a corporate structure consisting of as follows: CEO, CFO, general managers: Human Capital; Evaluation & Environment; Capital Projects and Technical; Investor Relations; HR; Commercial and Management Accounting; Legal and Secretarial; REGION1; REGION2; SITE1; SITE2; SITE3; Corporate Finance. Only the CFO, Divisional Treasurer and Financial Analyst sit in a corporate office (geographical location). The rest are based in different countries and move around offices as required by operational needs. The idea is to apply our intellectual capital to meet an evolving situation and not to have people based in a head office.
  - Interested in how "top heavy" we are in comparison with others.
- 

## B. Method-Related Comments: Survey and Conduct of Survey

Further comments referred to the survey in general and specific aspects of the survey.

### *1. Comments Related to the Questionnaire (Survey Questions)*

Comments related to the survey questions, (for a complete list, see Table 17). These comments, among others, illuminated (1) difficulties with the terminology, (2) the understanding of questions, and (3) pointed to additional data.

As for the terminology, we acknowledge that although explicit definitions of the most important terms and examples were stated, some ambiguity still remained. For example, delineating CHQ from operating activities remains tricky.

As for the clarity of questions, we acknowledge that despite extensive pre-tests, the change dimension especially added to the complexity of the questions. In particular, the question on the centralization of decision-making (question 5) appeared ambiguous which necessitates some caution with regard to the results respectively. Overall, these comments aided in interpreting the results appropriately.

As for additional data, this survey intentionally focused on collecting data on changes at CHQ which is typically difficult to collect from secondary sources. For the study of motors of, and impediments to, changes at CHQ, however, we also collected additional data (such as sales, revenues, employees, CEO changes etc.) from secondary sources. While at first glance, a focused survey may appear to narrow, an approach which relies upon multiple sources of data has several advantages from a practical as well as an academic viewpoint.

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**Table 17: Additional remarks – Method: survey questions**

- I realize the survey was measuring change, but a lot of the questions had to be answered “no change”, when in fact we did not do well at the task 4 years ago and we still don't or vice versa. So, change in itself is not a major determinant to CHQ performance.
- Survey was odd that it was asking for a measurement of change in centralized corporate influence without establishing how centralized or non-centralized the firm is or was in 2007.
- A lot of the questions are not clear regarding co-location of HQ to operations. I answered for HQ only. Also in a pharmaceutical and device company such as ours, I do not see R&D as a HQ but operating function.
- I did not understand the wording on Q4: item 4 – wording polarity.
- Q4.4 Confusing wording in relation to scale.
- Difficult to answer Question 4, part 4. “... rarely checked for rule violations” make it a negatively worded item. So not clear if “substantial decrease” means that rule violations are “more frequently checked ... and vice versa, if “substantial increase” means that rule violators are even more rarely checked. So we just chose 0 on the scale.
- Question 5: does an “increase” mean more delegation or more corporate control? It is not clear to me...I wonder if it is clear to others.
- Please note that the number of “corporate headquarter functions” is subjective based on how narrow or broad one defines the term. Thus we used a range for this answer.
- Was hard for me to quantify some of the questions after being at COMPANY for just a few months.
- The arrows above the scales are confusing. They do not seem to correlate with the scale.
- Not sure whether you did qualitative first, or a pre-test of the quant, but many of the questions don't make that much sense given the answer scales.
- Divisions is a little misleading.
- Q7.2: I read the question to mean how many HQ do we have? We have 9 major functions at HQ.
- When looking at the size of the CHQ do you distinguish between shared service functions and traditional head office (more strategic) roles?
- I would suggest that the absence of some kind of normalization to reflect overall business growth risks skewing the survey results
- I think it would be helpful to have asked the cost of CHQ as a percentage of sales in 2007 vs. 2010.
- The rationale for the change in HQ was not required. [...]
- I had to read some questions 3 or 4 times to make sure they were clear. I am afraid some people might misinterpret them which could flaw your results.
- It's not clear, whether a service which is provided for a unit and charged (such as e.g. data center services) is considered to be part of CHQ (because it's done there) or just an outsourcing of the business units.
- Struggled a bit with the numerical size of the “headquarters”. We had a pure functional organization until the end of 2010 which centralizes by definition a high amount of people and functions and has therefore a relatively large HQ. Made a pragmatic call but if you think this could disturb analysis let me know – happy to discuss.

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## 2. Comments Related to the Survey in General

Finally, several comments addressed the survey in a general manner (for a complete list, see Table 18). Probably most importantly, comments pointed to the confidentiality of the responses provided. As this report demonstrates, of course, data will only be reported on an aggregated level and/or in a disguised manner.


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**Table 18: Additional remarks – Method: survey in general**

- Regarding my interpretation of the survey in understanding the shifts in corporate function in a decentralized environment, I would say it is very thorough.
  - Please keep our involvement in this survey confidential.
  - I understand that my replies and all information regarding the company will be confidential and not shared on a name basis with any party. Otherwise, I would ask that you not use my questionnaire.
  - Please note that we do not wish that our specific answers are made public. As we understand it, our data will be used in your report without disclosing the specific details about COMPANY.
  - If there were more information on the study I would be better able to answer.
  - Very well done.
-

## Appendix 5: Questionnaire

Figure 42: CHQ survey – PDF form

  
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Institute of Management  
University of St. Gallen

### Optimizing the Size and Scope of Corporate Headquarters

#### Top Executive Survey

*by Prof. David Collis, Ph.D., Prof. Dr. Guenter Mueller-Stewens, Sven Kunisch (Ph.D. candidate)*

**Welcome!**

We have selected your company for participation in this **Corporate Headquarters Survey**. The survey is an important part of our continuing research at the **Harvard Business School (USA)** and the **University of St. Gallen (Switzerland)** on **the nature of corporate headquarters**. We kindly invite you to fill in the questionnaire or designate it to the most appropriate senior person in your team. It will only take **approx. 10 minutes** to complete the two-page questionnaire. You will obtain a **free report with our findings and an individual company profile**.

**What do we explore?**

For many companies, **trying to optimize the size and scope of their corporate headquarters (CHQ)** remains a contemporary challenge. The strategic choices often concern: whether and how the corporate level adds value; what activities should be centralized or de-centralized; and, how to avoid bureaucracy and interference. While in the 1990s we primarily observed **downsizing and de-centralization**, in recent years many companies tended to engage in **centralizing core activities and setting up new functions at CHQ**. Yet, some companies appear more disposed to such changes, while others tend to be less inclined to changing their CHQ.

Our interest is in better understanding this phenomenon. **Your response will be extremely valuable** for creating new knowledge pertaining to **when, why and how changes at CHQ occur**. The output of this research will be empirical evidence for specific motors, impediments and performance implications of CHQ change. These insights can be used by companies to help make better choices when considering changes to their CHQ.

**How can you participate?**

There are two options to complete the survey (if the either link does not work automatically, please copy and paste it to your browser):

- (1) **Online survey:** [www.chq-survey.net/online.htm](http://www.chq-survey.net/online.htm)
- (2) **PDF form:** [www.chq-survey.net/Form.pdf](http://www.chq-survey.net/Form.pdf)

*In case you use the PDF form, you may (2a) directly submit it as an email attachment or (2b) print it and return it by fax or mail to the contact details given below.*

Once we have analyzed the data, we will send you a **free report with our findings** and/or an **individual profile with your CHQ characteristics** in comparison to all other participating companies. All responses will be kept strictly confidential, and will only be used on an aggregated level. **Published reports will preserve the confidentiality of the information you provide.**

**Thank you very much for taking the time and trouble to contribute to this valuable research!**

Contact details:  
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Figure 42: CHQ survey – PDF form (cont.)

Top Executive Survey: Optimizing the Size and Scope of Corporate Headquarters Questionnaire page 1 of 2

**For this survey please consider the following definitions:**

<b>Corporate headquarters (CHQ)</b>	all executive directors and staff functions with responsibility for, or providing services to the whole (or most) of the company.	<ul style="list-style-type: none"> <li>• includes: full-time executive directors and their support staff; staff of centralized functions</li> <li>• excludes: staff employed at divisional headquarters</li> <li>• synonyms: corporate center and corporate head office</li> </ul>
<b>Corporate headquarters change</b>	changes in the size and/or scope of corporate headquarters over time.	<ul style="list-style-type: none"> <li>• reducing or increasing the number of CHQ staff or costs</li> <li>• changing the role(s) of CHQ</li> <li>• centralizing or de-centralizing functions such as Supply Chain Management or Procurement</li> </ul>

**Question 1: Last major change**

When did the last major change at corporate headquarters take place (year)?  
 Please think of 'major change' as a coordinated initiative with the intent to systematically affect multiple dimensions of corporate headquarters (i.e. location, roles, activities, size, culture). \_\_\_\_\_

Regardless of the last major change, we are interested in what happened over the past 4 years (2007-2010).

**Question 2: Overall change**

Over the past 4 years (2007-2010), how has corporate headquarters changed?

	decrease by		same		increase by		
	> 50%	20-50%	5-20%	± 5%	5-20%	20-50%	
1 Number of staff in corporate headquarters.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Number of corporate headquarters' functions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Cost of corporate headquarters (in real terms).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Services bought-in by corporate headquarters.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Quantity of services provided to divisions or business units.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 Quality of services provided to divisions or business units.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 Other (please specify): .....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Question 3: Change in influence on divisional decisions**

Over the past 4 years (2007-2010), how has corporate headquarters' influence on major decisions affecting divisions changed? Please consider the following areas:

	very great decrease		same		very great increase		n/a	
	-3	-2	-1	0	+1	+2		+3
1 Setting of budgets and financial targets.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Major capital investment.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Business strategy / new business creation.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Human resources.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Research and development.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 Marketing.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 Purchasing and logistics.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8 Property management.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9 Information technology.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10 Overall influence of corporate headquarters on divisional decisions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Question 4: Change in formalization**

Over the past 4 years (2007-2010), how has the extent to which the following is true for corporate headquarters changed?

	substantial decrease		same		substantial increase		n/a	
	-3	-2	-1	0	+1	+2		+3
1 Whatever situation arises, written procedures are available for dealing with it.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Rules and procedures occupy a central place at corporate headquarters.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Written records are kept for everyone's performance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Employees at corporate headquarters are rarely checked for rule violations.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Written job descriptions are formulated for positions at all levels at corporate headquarters.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Figure 42: CHQ survey – PDF form (cont.)**

Questionnaire page 2 of 2

Top Executive Survey: Optimizing the Size and Scope of Corporate Headquarters

**Question 5: Change in centralization of decision-making**  
 Over the past 4 years (2007-2010), how has the extent to which your company delegates decision-making authority to the divisions changed? Please consider the following issues:

	substantial decrease		← same →				substantial increase		n/a
	-3	-2	-1	0	+1	+2	+3		
1 Choosing divisional projects to work on.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Choosing employee assignments for divisional projects.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Hiring and firing divisional staff.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Promoting divisional staff.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Administering the salary administration systems.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 Allocating salary raises.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 Making major capital expenditures.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8 Making major non-capital expenditures.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9 Making minor non-capital expenditures.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Question 6: Effectiveness**  
 How would you rate the effectiveness of your corporate headquarters in the following areas?

	highly ineffective		← →					highly effective
	1	2	3	4	5	6	7	
1 Overall effectiveness of corporate headquarters.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Ability to define and communicate corporate strategy.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Ability to support implementation of corporate strategy.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Cost effectiveness of corporate headquarters.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Other aspects particularly satisfactory or unsatisfactory (please specify): .....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Question 7: Background information**

Company name: \_\_\_\_\_

Number of divisions (i.e. business units or groups of business units) with profit/loss responsibility reporting directly to corporate headquarters (end of 2010): \_\_\_\_\_

Number of employees at corporate headquarters (end of 2010): \_\_\_\_\_      Number of corporate headquarters' functions (end of 2010): \_\_\_\_\_

Your position: \_\_\_\_\_      Year of taking on this position: \_\_\_\_\_

Your position's hierarchical level (CEO = 1, direct report to CEO = 2, etc.): \_\_\_\_\_      Year of entering the company: \_\_\_\_\_

Functional background (e.g., Finance, HR, Marketing): \_\_\_\_\_      Educational background (e.g., Business, Engineering): \_\_\_\_\_

**If you are interested in a report with the findings and/or an individual profile, please provide the following:**

Please indicate your particular interest:     Overall report     Company profile

Email: \_\_\_\_\_

**Any additional remarks?**  
 Please use this text field to provide additional information on the last major change at corporate headquarters (as indicated by your answer to Question 1). What were the major changes and why were they implemented?  
 You may also add anything (1) you thought was missing, (2) you think we should also know related to the topic and/or (3) any general comments on the questionnaire.

**Thank you very much for completing this questionnaire!**

## Appendix 6: Survey Methodology

### Timeline

The research on changes at CHQ is comprised of a number of steps (for a timeline see Figure 43). Most importantly, in Spring/Summer 2011 we conducted the surveys to collect data on changes at CHQ. A couple of articles have been published (McKinsey Quarterly, MIT Sloan Management Review).

Figure 43: Survey and research timeline

Task	...	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	...
<b>Reviewing the literature</b>														
<b>Developing the theory</b>														
<b>Setting up the survey</b>														
<ul style="list-style-type: none"> <li>■ definition of sample/identification of contacts</li> <li>■ design/implementation of the questionnaire (incl. measures)</li> <li>■ tests (pre-test, technical test) &amp; modifications</li> </ul>														
<b>Conducting the survey</b>														
<ul style="list-style-type: none"> <li>■ phase 1: 10% of the sample</li> <li>■ phase 2: USA sample</li> <li>■ phase 3: Europe &amp; Canada</li> </ul>														
<b>Collecting additional data</b>														
<ul style="list-style-type: none"> <li>■ CEO succession events</li> <li>■ Changes in business portfolio</li> </ul>														
<b>Cleaning and preparing data</b>														
<ul style="list-style-type: none"> <li>■ following-up missing/false data</li> <li>■ company data and succession data</li> </ul>														
<b>Analyzing data</b>														
<ul style="list-style-type: none"> <li>■ survey data (descriptive stats)</li> <li>■ hypotheses testing study 1</li> <li>■ hypotheses testing study 2</li> </ul>														
<b>Writing up results and findings</b>														
<ul style="list-style-type: none"> <li>■ report</li> <li>■ paper study 1</li> <li>■ paper study 2</li> </ul>														

### Sample Selection

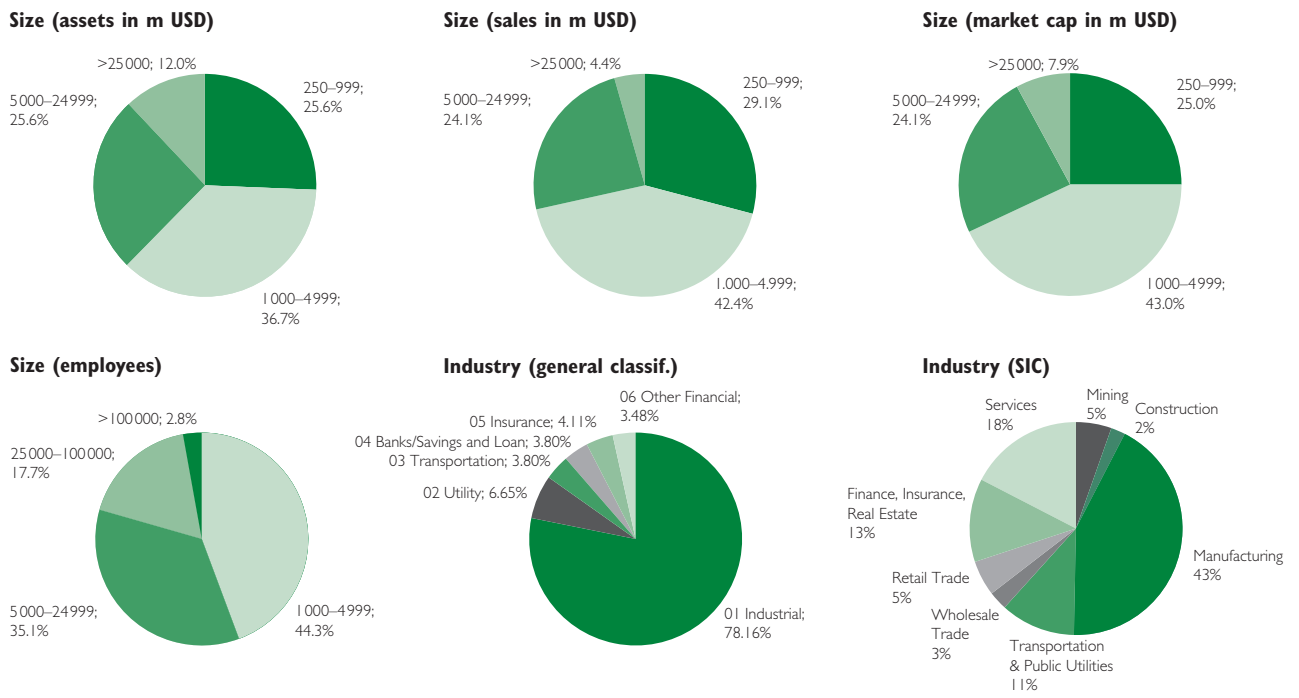
For the purpose of our study we surveyed a sample of the largest publicly listed corporations in North America (US, Canada) and Western Europe (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey and the United Kingdom) based on four size criteria: (1) total number of employees greater than 1000, (2) sales, (3) total assets and (4) market capitalization greater than 250 million USD. In addition, the company had to be active in more than one four-digit SIC code. Overall, we identified 2682 corporations (1490 in North America and 1192 in Western Europe) which met all criteria in 2009 as the most recent year for which data was completely available when we designed the study.

**Table 19: Sample – number of companies per cou**

Region	Country		Number of Companies					
	Full name	Code	total	Employees > 1 000	Sales > 250 Mio USD	Assets > 250 Mio USD	Market Cap > 250 Mio USD	all four size criteria*
North America	Canada	CAN	1 155	159	223	297	323	122
	United States	USA	4 597	1 635	1 824	2 408	2 008	1 368
	<b>SUM</b>		<b>5 752</b>	<b>1 794</b>	<b>2 047</b>	<b>2 705</b>	<b>2 331</b>	<b>1 490</b>
Western Europe	Andorra	AND	0	0	0	0	0	0
	Austria	AUT	80	41	43	46	38	27
	Belgium	BEL	125	38	42	57	43	25
	Cyprus	CYP	85	5	5	9	0	0
	Denmark	DNK	135	43	89	116	83	41
	Finland	FIN	103	52	48	50	53	41
	France	FRA	617	229	211	245	194	151
	Germany	DEU	749	214	201	206	172	135
	Greece	GRC	253	60	61	87	35	21
	Iceland	ISL	4	3	3	3	3	3
	Ireland	IRL	46	22	22	23	19	16
	Italy	ITA	241	119	122	159	101	83
	Liechtenstein	LIE	0	0	0	0	0	0
	Luxembourg	LUX	36	18	15	23	20	9
	Malta	MLT	8	0	0	1	0	0
	Monaco	MCO	0	0	0	0	0	0
	Netherlands	NLD	137	75	72	81	74	58
	Norway	NOR	156	52	123	137	115	48
	Portugal	PRT	54	30	29	32	21	16
	San Marino	SMR	0	0	0	0	0	0
	Spain	ESP	138	83	86	97	80	68
	Sweden	SWE	300	90	182	184	176	82
	Switzerland	CHE	229	109	132	154	145	93
	Turkey	TUR	196	81	101	117	111	67
United Kingdom	GBR	1 202	339	298	346	310	208	
Vatican City	VAT	0	0	0	0	0	0	
<b>SUM</b>		<b>4 894</b>	<b>1 703</b>	<b>1 885</b>	<b>2 173</b>	<b>1 793</b>	<b>1 192</b>	
<b>SUM</b>		<b>10 646</b>	<b>3 497</b>	<b>3 932</b>	<b>4 878</b>	<b>4 124</b>	<b>2 682</b>	

\* We used four size criteria: employees, sales, assets, market cap.

**Figure 44: Sample characteristics**



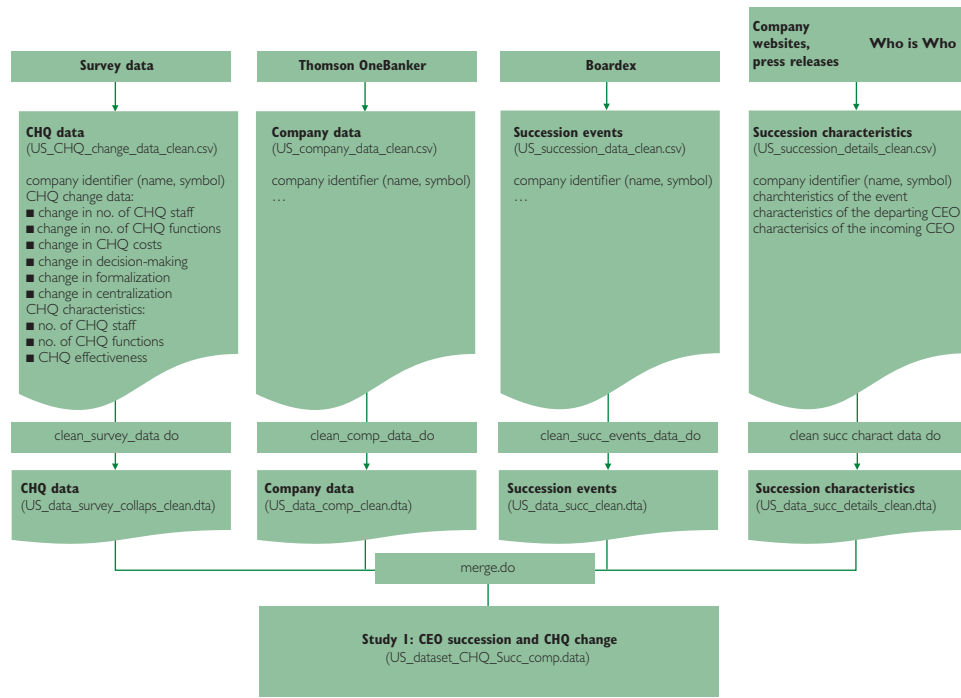
Participating US companies (n=316) by characteristics (2010)

## Data Collection

We collected data from two sources: First, we conducted surveys among the aforementioned corporations. Since only very few companies publicly disclose information on their CHQ, we followed the example of previous CHQ studies and used the survey method for data collection.

Secondly, we used secondary data sources. We obtained data on business activities and financial data from Thomson ONE Banker. For the US sample, we also collected publically available data on CEO succession events: We primarily used BoardEx – a comprehensive database which contains all publicly disclosed information on company boards and directors. To triangulate data we also analyzed annual reports, press releases and other data sources used in previous CEO succession studies such as the various catalogues of Who's Who in ... which were accessed through the LexisNexis database.

**Figure 45: Data sources (illustrative)**



Overall, data collection and preparation was comprised of six steps (see Figure 45):

- Step 1: Define sample based on Thomson OneBanker
- Step 2: Conduct survey to collect data on changes at CHQ
- Step 3: Collect data on participating companies (US sample only):  
organizational characteristics, CEO succession events
- Step 4: Merge data sets: survey data, company data, succession data
- Step 5: Calculate variables
- Step 6: Analyze data: t-tests, regression analyses

### Measurement

To capture changes at CHQ, we focused on changes in *CHQ structure* (size as number of staff, number of functions and costs) and *corporate policies* (divisional influence, formalization and delegation of decision-making authority) (see Table 20). This is a practicable approach which allows for objective and consistent measurements throughout the sample. Both dimensions of CHQ have been used in previous studies. To measure change, we rely on simple difference method.

**Table 20: Codebook survey measures**

Variable	Alpha	Item(s)	Scale
Change in CHQ size (employees) <i>7-point Likert scale</i>	N/A	Over the past 4 years (2007–2010), how has corporate headquarters changed? <ul style="list-style-type: none"> <li>■ Number of staff in corporate headquarters.</li> </ul>	decrease by >50%, same (±5%), increase by >50%
Change in CHQ functions <i>7-point Likert scale</i>	N/A	Over the past 4 years (2007–2010), how has corporate headquarters changed? <ul style="list-style-type: none"> <li>■ Number of corporate headquarters' functions.</li> </ul>	see above
Change in CHQ costs <i>7-point Likert scale</i>	N/A	Over the past 4 years (2007–2010), how has corporate headquarters changed? <ul style="list-style-type: none"> <li>■ Cost of corporate headquarters (in real terms).</li> </ul>	see above
Change in divisional influence of CHQ: general planning influence <i>7-point Likert scale</i>	0.82	Over the past 4 years (2007–2010), how has corporate headquarters' influence on major decisions affecting divisions changed? Please consider the following areas: <ul style="list-style-type: none"> <li>■ Setting of budgets and financial targets.</li> <li>■ Major capital investment.</li> <li>■ Business strategy / new business creation.</li> </ul>	–3 = "very great decrease" 0 = "same" +3 = "very great increase"
Change in divisional influence of CHQ: functional influence <i>7-point Likert scale</i>	0.82	Over the past 4 years (2007–2010), how has corporate headquarters' influence on major decisions affecting divisions changed? Please consider the following areas: <ul style="list-style-type: none"> <li>■ Human resources.</li> <li>■ Research and development.</li> <li>■ Marketing.</li> <li>■ Purchasing and logistics.</li> <li>■ Property management.</li> <li>■ Information technology.</li> </ul>	see above
Change in formalization at CHQ <i>7-point Likert scale</i>	0.77	Over the past 4 years (2007–2010), how has the extent to which the following is true for corporate headquarters changed? <ul style="list-style-type: none"> <li>■ Whatever situation arises, written procedures are available for dealing with it.</li> <li>■ Rules and procedures occupy a central place at corporate headquarters.</li> <li>■ Written records are kept for everyone's performance.</li> <li>■ Employees at corporate headquarters are rarely checked for rule violations.*</li> <li>■ Written job descriptions are formulated for positions at all levels at corporate headquarters.</li> </ul>	–3 = "substantial decrease" 0 = "same" +3 = "substantial increase"
Change in delegation of decision-making authority <i>7-point Likert scale</i>	0.88	Over the past 4 years (2007–2010), how has the extent to which your company delegates decision-making authority to the divisions changed? Please consider the following issues: <ul style="list-style-type: none"> <li>■ Choosing divisional projects to work on.</li> <li>■ Choosing employee assignments for divisional projects.</li> <li>■ Hiring and firing divisional staff.</li> <li>■ Promoting divisional staff.</li> <li>■ Administering the salary administration systems.</li> <li>■ Allocating salary raises.</li> <li>■ Making major capital expenditures.</li> <li>■ Making major non-capital expenditures.</li> <li>■ Making minor non-capital expenditures.</li> </ul>	see above

Information on additional measures used for the analyses such as strategic change, CEO succession, firm characteristics etc. can be available upon request.

### Analyses

We used the software package Stata/IC 11.2 for Windows (32-bit) for data cleaning and analyses. Statistical analyses included correlations, t-tests (group comparisons) and multiple regression analyses.

## Selected Publications

### **Are CEOs Getting the Best from Corporate Functions?**

Campbell, A., Kunisch, S., & Müller-Stewens, G. 2012.  
MIT Sloan Management Review, 53(3): 12–14

### **Should You Have a Global Strategy?**

Carr, C., & Collis, D. J. 2012.  
MIT Sloan Management Review, 53(1): 21–24

### **To Centralize or Not to Centralize?**

Campbell, A., Kunisch, S., & Müller-Stewens, G. 2011.  
McKinsey Quarterly, 2011(June): 1–6

### **Corporate Headquarters: An International Analysis of Their Roles and Staffing**

Young, D., Goold, M., Blanc, G., Bühner, R., Collis, D. J., Eppink, J., Tadao, K., & Seminario, G. J. 2000.  
London: Financial Times Prentice Hall

### **Corporate Strategy: A Resource-Based Approach (2<sup>nd</sup> ed.)**

Collis, D. J., & Montgomery, C. A. 2005.  
Boston, MA: Irwin/McGraw-Hill

### **From Grey to Silver – Managing the Demographic Change Successfully**

Kunisch, S., Böhm, S. A., & Boppel, M. 2011.  
Berlin, Heidelberg: Springer

### **The Role of Chief Strategy Officers 2011**

Menz, M., Müller-Stewens, G., Reineke, B., Henkel, C. B. 2012.  
St.Gallen/Munich: University of St.Gallen/  
Roland Berger Strategy Consultants

## Responsible Corporate Competitiveness (RoCC)

Responsible Corporate Competitiveness (RoCC) is a profile area at the University of St.Gallen founded in 2008. About 30 professors and researchers from different disciplines and institutes analyze the challenges of responsible leadership and organizational strategy. "Responsible" means that we intend to address the full range of corporate actions, including those that affect economic, social, and environmental outcomes. We strive to become one of the leading centers in Europe for corporate management.

## University of St.Gallen (HSG)

The University of St.Gallen (HSG) was founded as a business academy in 1898 – in the heyday of the St.Gallen embroidery industry and is nowadays a School of Management, Economics, Law, Social Sciences and International Affairs. The first lectures were held in 1899. The practice-oriented approach and integrative view have characterized the education we offer since those early days. Today, we are one of Europe's leading business schools and are EQUIS and AACSB accredited. We have more than 150 international partner universities. Our students have the option to gain a double degree in cooperation with other universities or to spend an exchange term abroad. Our 30 institutes and research centres are our hallmark: the mostly autonomously organised institutes finance themselves to a large degree but are closely linked to the university. The institutes are active in research, consulting and further education.

Responsible Corporate Competitiveness



University of St.Gallen

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