CORPORATE HEADQUARTERS

Study 2012

Developing value adding capabilities to overcome the parenting advantage paradox
Report of the Corporate Headquarters Study 2012

Please cite the report as follows:
Zimmermann, T; Huhle, F. 2013: Corporate Headquarters Study – Developing value adding capabilities to overcome the parenting advantage paradox

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Modern corporate headquarters need to focus on value adding capabilities to overcome the parenting advantage paradox

Corporate headquarters need to show all stakeholders that they create value by "parenting" the businesses that they own and thus justify their existence.

Headquarters must permanently minimize costs but add more value at the same time, leaving the center with what we call the parenting advantage paradox.

Increasing complexity in the business environment adds new challenges for the center and requires additional approaches to value creation.

Our study reveals a new view on headquarters: Five capabilities that truly add value beyond the traditional cost and efficiency focus.

An action plan with approaches and good practices shows how modern corporate headquarters build value adding capabilities and solve the parenting advantage paradox.

Source: Roland Berger
The cost of corporate headquarters is a significant burden. The **average cost of headquarters ranges between 2% and almost 7% of sales** depending on management concept and industry cluster.

50% of companies exploit economies of scale using shared services, with IT being the most frequent shared service center function. Most shared service centers are still located in Europe (80%). Offshoring to Asia/Pacific expected to speed up – from 4% today to 10% in 2020.

**Outsourcing remains on 2010 levels** at approx. 30% – The IT function is most frequently outsourced by the study participants.

**HQ locations are not following the shift in sales markets and production footprint towards Asia** – 80% even expect to step up their headquarters’ capacity in Western Europe.

Consequently, 60% of the participants think they need to further internationalize their headquarters. For most companies this means involving HQ in international projects and transferring international employees to HQ. Only 14% are planning to internationalize by relocating functions abroad.

Source: Roland Berger
The need to have more international HQs shows that virtual collaboration is becoming more important – The role of HQ is changing and its value creation is considered in a new light

Almost all study participants will have more virtual collaboration. The objective is to enhance collaboration across departments and to ensure proximity to the business.

Study participants are well aware of the challenges presented by more collaboration. The key problems mentioned are poor communication and failure to align strategies and goals.

Today, HQ's primary role is that of Manager (40%) and Law Guardian (25%) – 55% of study participants expect their HQ to play a stronger Business Partner role in the future. This overall shift sheds new light on the way HQ creates value.
Our study reflects the study design of previous years and further investigates organizational trends and capabilities of modern corporate headquarters.

Corporate headquarters study, 1999-2012

1999
Management concept and size of corp. HQs

2002
Management concept, size of corp. HQs and trend toward centralization

2005
+ Germany as an attractive location for HQs
Management concept, size of corp. HQs and trend toward centralization

2008
+ Changing view of HQ’s role
Management concept, size of corp. HQs and trend toward centralization

2010
+ Comparison of European countries as locations for HQ
Management concept, size of corp. HQ and trend toward centralization

2012
Management concept, size of corporate headquarters and trend toward centralization
+ Development of centralized control and decentralized management
+ Shift in the center of gravity
+ New organizational structures: Project and process orientation

Source: Roland Berger
In our study on corporate headquarters, we highlight the concept of value adding capabilities and ways of developing them.

**Study overview: corporate headquarters**

**Questionnaire** focused on role and value contribution of corporate HQ

- Basic information, incl. location of production, sales & support functions today and 2020 (center of gravity)

**Quantitative part:**
- FTE in CHQ and SSC per function
- Degree of centralization per function
- Degree of outsourcing per function
- Costs of CHQ (and SSC) functions

**Qualitative part:**
- Role of CHQ (e.g. major roles today and 2020, approaches to add value)
- Internationalization of CHQ (e.g. perceived necessity for internationalization)
- Project and process orientation (e.g. methods to lead decentralized units; major challenges in leading them)

**Results** include specific approaches and good practice examples for modern headquarters

**CONCEPT OF VALUE ADDING CAPABILITIES**

**ACTION MAP**

**GOOD PRACTICE EXAMPLES**

Source: Roland Berger
86 companies of various size, industry and management concepts took part in the study.

Study participants (n=86) by key attribute [%]

**SIZE [employees]**
- 25,000 to 50,000: 11%
- 5,000 to 25,000: 35%
- 0 to 5,000: 41%
- >50,000: 13%

**INDUSTRY SECTOR**
- Trade: 65%
- Services: 28%
- Producing and manufacturing: 8%

**MANAGEMENT CONCEPT**
- Operational holding: 36%
- Strategic holding: 27%
- Integrated headquarters: 30%

**SIZE [sales in EUR m]**
- >5,000: 27%
- 2,500 to 5,000: 60%
- 0 to 2,500: 13%

**NUMBER OF OPERATIONAL UNITS**
- 1 to 3: 34%
- 4 to 6: 36%
- >6: 30%

**COUNTRY OF ORIGIN**
- Rest of world: 23%
- Europe (excl. Germany): 41%
- Germany: 37%

Source: Roland Berger study "Corporate Headquarters"
A. The parenting advantage paradox – Achieving more with less
Corporate headquarters are facing a paradox: They are expected to achieve more with less

Parenting advantage paradox

1. Cost cutting
2. Increasing value adding requirements

When companies look at their corporate headquarters, they rarely consider it more than simply a cost burden.

Cost of corporate headquarters

PRESS RELEASES, 2010-12

- Chile’s Codelco cuts more than 100 HQ staff
- J.C. Penney Co Inc cuts 1000 jobs at Headquarters
- Merck Pharma closes Swiss HQ, cuts 580 jobs
- Telekom is planning to cut 1,300 further jobs at its Bonn headquarters by 2015
- Around 700 jobs at Canadian retailer Loblaw could be cut as it plans to make its HQ “leaner” and “more efficient”

HQ COSTS, % OF SALES, 2005-12

By management concept

- 1.6%
- 1.5%
- 2.0%
- 3.2%
- 6.6%

By industry sector

- 1.0%
- 0.3%
- 0.2%
- 2.1%
- 4.6%
- 9.7%

Integr. HQs
Oper. holding
Strat. holding
Ser. Services
Produc. Trade & manuf.

Source: Roland Berger Press Research, Roland Berger Benchmarking Database

> Costs differ significantly by management concept and industry – a systematic benchmarking allows the cost base to be challenged.

> Very few companies publish HQ costs as % of sales in their annual reports (e.g. Adidas 7.3%, Telekom 3.1%).

> Cost transparency is the basis for cost saving efforts and helps raise cost awareness.

> In addition to the tangible cost of the HQ itself, it can create a lot of additional admin for its businesses. In the worst case, it even causes real harm by setting the wrong strategic course, etc.
Companies are trying to cut overhead, and specifically HQ costs, in a number of ways.

Typical levers and approaches to reducing overhead cost:

- **Efficiency increase**
- **Economies of scale and synergies**
- **Labor arbitrage**

Cumulative savings potential [%]:

- Up to 20%
- Plus up to 15%
- Plus up to 20%
- Up to 20%

Source: Roland Berger
Possible process optimization approaches range from radical redesign to statistical quality management.

Process optimization – Common approaches

**RADICAL PROCESS REDESIGN**
- Business Process Reengineering
- Radical and rapid improvements through automation (electronic workflows)
  ➔ Fundamental redesign of business processes

**CONTINUOUS IMPROVEMENT**
- Lean approach
- Kaizen
- TQM
  ➔ Gradual improvement of existing processes

**SIX SIGMA**
- Statistical quality management
  ➔ Statistical optimization method

Process optimization helps to identify weak points and improvement potential in a company’s workflows.

Objectives of process optimization approaches:
- Higher speed
- Less waste
- Fewer resources
- Increased competitiveness
  - etc.

Source: RB on Processes
The goal is to find the right balance between customer benefits and costs.

Cost-benefit ratio

Customer benefits (requirements)

Overfulfilled

Fulfilled

TARGET STATE

Fulfill customer requirements at reasonable cost

Not fulfilled

Cost (Time & effort)

TREND

- Higher quality helps better meet customer requirements (seamless delivery)
- Reducing lead times is the most common goal of process optimization
- Cutting waste and duplication of work has a positive effect on total costs

Source: RB on Processes
50% of companies exploit economies of scale using shared services – Most frequently for IT function

**TREND IN SHARED SERVICE CENTERS (SSC)**

- **CENTRALIZATION/BUNDLING**
  - Share of companies with shared service units

**TOP10 SHARED SERVICE FUNCTIONS**

- IT: 37%
- Accounting: 32%
- Human resources: 28%
- Purchasing and procurement: 26%
- General services: 19%
- Controlling: 18%
- Marketing and sales: 17%
- Quality management: 14%
- Finance: 13%
- Occupational safety and environment protection: 13%

Source: Roland Berger study "Corporate Headquarters" 2005/2008/2010

- Bundling support functions in shared services has become a standard way of cutting overhead cost
- Shared service usage differs by function – IT, Accounting and Human resources represent the highest proportion of functions that are transferred to SSCs (albeit usually only to some extent)
- In addition to exploiting economies of scale and synergies, SSCs are expected to deliver higher service process quality and standards
Global business services develop the shared service center idea into end-to-end processes

The shared service center typically takes responsibility only for separate tasks or parts of processes that are high-volume and transaction-driven.

Global business services take responsibility for entire processes (end-to-end service delivery).

In this context, a SSC takes ownership only for selected process elements. GBS take full process ownership. In the process, they can optimize entire workflows and eliminate complete process parts.
Most shared service centers are still located in Europe – Offshoring to Asia/Pacific expected to speed up

Shared service centers by location

**AS OF TODAY**

- Western Europe: 57%
- Eastern Europe: 20%
- Asia/Pacific: 4%
- South America: 2%
- No answer: 16%

**FUTURE EXPECTATIONS**

- Western Europe: 47%
- Asia/Pacific: 22%
- Eastern Europe: 10%
- South America: 4%
- No answer: 16%

Source: Roland Berger
Offshoring is expected to continue at the current speed at least until 2016, but is expected to slow down then.

Offshoring 2001-2016f

**FIG. Productivity, growth and offshorable business-service jobs [m], 2001-16**

- Jobs baseline: 2001 (year-end)
- Offshored: 0.2 m
- HQ in North America/Europe: 8.2 m
- Lost to productivity improvements: 1.6 m
- Offshored: 2.3 m
- HQ in North America/Europe: 4.5 m
- NON-OFFSHORABLE REMAINING: 3.5
- OFFSHORABLE REMAINING: 3.4
- 2012: 6.8
- 2014: 6.8
- 2016: 6.8

> Hackett Group study based on data for 4,700 companies with annual revenue of more than USD 1 bn headquartered in the U.S. and Europe

> 750,000 jobs in IT, finance, and other business services will be moved to India and other low-cost geographies by 2016

> However, levels of additional offshoring in these areas are expected to decline as only a limited number of offshorable jobs will be left

> Non-offshorable jobs are those where offshoring provides low profitability gains and closeness to management is important, e.g. controlling, policy/strategy definition

1) Projected for 2012-16

Source: Hackett Group
Labor arbitrage through outsourcing remains on 2010 levels – IT function most frequently outsourced

Prioritization/rationalization

TREND IN OUTSOURCING

TOP10 OUTSOURCED FUNCTIONS

- IT: 18%
- Legal: 14%
- Communications: 14%
- Taxes: 10%
- Insurance: 10%
- Human resources: 9%
- Auditing: 8%
- Patents and licenses: 8%
- General services: 8%
- Mergers & acquisitions: 8%

> The share of companies that have outsourced corporate functions has declined in the past five years

> Today, 1/3 of the survey participants use outsourcing as a lever for reducing labor costs

> IT, Legal and Communications represent the highest proportion of functions (partly or entirely) performed by external vendors

Source: Roland Berger study "Corporate Headquarters" 2005/2008/2010
Increasingly complex business environments require higher value creation plus the skills and resources to achieve it

**SHIFTING CENTERS OF GRAVITY:**
20% expect the highest share of total sales and production to be generated outside Europe and North America – 80% expect HQ not to follow the shift but step up their capacity in Western Europe

**VIRTUAL COLLABORATION:**
53% expect a (very) strong increase in virtual and location independent working in the future

**DECENTRALIZED FUNCTIONS:**
69% see difficult or incomplete communication as major challenge in managing decentralized support functions – 51% lack strategic alignment

**INTERNATIONALIZATION:**
59% think their CHQ should become more international internally (more cross-border projects, more international employees at HQ)

**ROLE SHIFT:**
55% see a stronger business partner role for their headquarters in the future

**VARIETY OF TASKS:**
77% see that tasks of corporate headquarters are becoming more numerous/diverse

Source: Roland Berger
Centers of gravity are shifting in terms of sales markets and production footprint – Headquarters capacities are not following the shift.

> Today, study participants generate more than 80% of their sales within Europe – for 2020, participants expect a significant shift of sales to Asia/Pacific, Africa and South America.

> A similar shift is expected for the production footprint.

> However, the center of gravity in terms of headquarters capacities is not following the shift – HQ FTE in Europe are even expected to grow.

> HQ must therefore increasingly deal with globalized sales and production footprints.

Source: Roland Berger
Corporate headquarters need to become more international in order to respond to shifting centers of gravity

**Need for internationalization**

"Do you see a need to internationalize your corporate headquarters?"

- Yes: 59%
- No: 41%

**"How do you foster internationalization?"**

1. Through more international projects in the corporate headquarters: 43%
2. Through more international employees in the corporate headquarters: 41%
3. By relocating functions abroad: 14%

**The number of nationalities represented in the management board and supervisory board will...**

- Grow strongly: 2%
- Grow: 29%
- Stay the same: 55%
- No answer: 14%

1) Multiple answers

Source: Roland Berger
In this context collaboration is critical – Virtual and location-independent working are significantly gaining in importance.

Virtual collaboration

"Will virtual/location-independent working gain in importance?"

- Yes: 90%
- No: 6%
- No answer: 4%

For what reasons?¹)

- Increased cooperation with external partners: 20%
- Boosting employer attractiveness: 27%
- Increasing proximity to operational business/internationalizing business activities: 63%
- Increased cross-departmental work/project work: 80%

¹) Multiple answers

Source: Roland Berger
Functional leadership dominates management of decentralized units – Communication and strategic alignment are the main challenges

Managing decentralized functions

"How do corporate headquarters generally carry out decentralized support functions in the regions/business units?"

1) Multiple answers

- "Dotted line" reporting (with influence e.g. on objectives, assessment etc.): 43%
- Through formal bodies/guidelines: 24%
- There are only centralized support functions ("dotted line" and "solid line" reporting): 16%
- Through informal, topic-based communication (communities of practice): 6%
- No Answer: 10%

"What challenges do you see in terms of managing decentralized support functions?"1)

- Difficult and incomplete communication: 69%
- Lack of alignment of strategies and goals: 51%
- Lack of control options/insufficient reporting: 45%
- Wrong incentives/too little willingness to cooperate: 43%
- Language/cultural differences: 31%
- No consistent use of sanctioning mechanisms: 18%
- Lack of legal access: 16%

Source: Roland Berger

> Decentralized functions are most frequently connected to the organization via dotted lines

> As a result of shifting centers of gravity, communication and strategic alignment are the main challenges in managing decentralized functions

> Participants said that "Enforcing consistent standards" was another challenge
The manager role is the dominant role of corporate headquarters – Business partner role expected to become much more important

Role of corporate headquarters

AS OF TODAY

FUTURE EXPECTATIONS

"Role is shrinking"  "Role is growing"

MANAGER
- Management/monitoring
- Strategy/resources

38% 14% 26%

LAW GUARDIAN
- Policy making
- Legal framework

25% 14% 5%

BUSINESS PARTNER
- Advice/coordination
- Know-how/innovation

22% 2% 55%

SERVICE PROVIDER
- Services/SLAs
- Efficiency/cost focus

15% 19% 40%

Source: Roland Berger,
The role of corporate headquarters is defined by type of coordination and scope of authority.
## 2 VALUE ADDING REQUIREMENTS – ROLE SHIFT

Each role can be distinguished by its responsibility and rights & duties

<table>
<thead>
<tr>
<th>Role definition</th>
<th>RESPONSIBILITY</th>
<th>MAXIMUM INTERVENTION (RIGHTS &amp; DUTIES)</th>
<th>EXAMPLES</th>
</tr>
</thead>
</table>
| LAW GUARDIAN    | Policy setting and legal framework | Authority on legal issues or indirect reports; guideline competency | > Auditing  
> Balance sheets  
> Taxes |
| MANAGER         | Steering and management by organizing the tasks of the units, issuing standards and allocating resources | Has direct or indirect reports; guideline competency | > Corporate planning  
> Controlling |
| BUSINESS PARTNER| Coordinating function of an advisory and value-creating nature by means of offering know-how, methods, skills and decision papers | Cooperation rights/duties | > Centralized purchasing coordination  
> Key account HR |
| SERVICE PROVIDER| Offering services in standardized formats (often: duty to provide services); focus on costs/efficiency | Information rights/duties | > Payroll  
> IT support |

Source: Roland Berger Corporate Headquarters study 2010
Complexity and tasks of corporate headquarters

**COMPLEXITY ON THE RISE**

- Shifting centers of gravity
- Internationalization
- Virtual collaboration
- Managing decentralized functions
- Shift in the role of corporate headquarters

"The various tasks of corporate headquarters are becoming more numerous/diverse"

<table>
<thead>
<tr>
<th>Agreement Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I fully agree</td>
<td>18%</td>
</tr>
<tr>
<td>I agree somewhat</td>
<td>59%</td>
</tr>
<tr>
<td>I disagree somewhat</td>
<td>12%</td>
</tr>
<tr>
<td>I disagree</td>
<td>4%</td>
</tr>
<tr>
<td>No answer</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: Roland Berger

> Headquarters will respond to increasing complexity with a more diverse task portfolio according to more than 2/3 of the study participants.

> The expected higher variety and number of tasks performed by the HQ also reflects the assumed change in the HQ role toward a strong business partner role.
To cope with the challenges at hand, corporate headquarters are expected to grow and further centralize tasks and responsibilities.

**Trend in centralization/decentralization**

**Relative size of corporate headquarters [employee ratio\(^1\) in %]**

- 0.9% in 1999
- 3.0% in 2002
- 2.3% in 2005
- 2.8% in 2008
- 4.5% in 2010
- 5.6% in 2012

**Trend in centralization**

*What basic trend do you see regarding centralization/decentralization?*

- **Increasing centralization**, i.e. the scope of tasks and responsibilities of corporate headquarters will increase: 57%
- **No major change**: 27%
- **Increasing decentralization**, i.e. the scope of tasks and responsibilities of corporate headquarters will decrease: 8%
- **No answer**: 8%

**Source:** Corporate Headquarters Study 1999-2012

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\(^1\) Avg. no. of FTEs in the corporate headquarters as a share of total FTEs in company; all companies; corporate center only, i.e. excl. shared services

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Overall, the trend toward centralization of headquarters functions seems to continue.

Employees working at corporate headquarters functions now represent an average of more than 5% of the entire workforce.

Including capacity allocated to shared services units, centralized support functions account for more than 7% of total employees.

Almost 2/3 of the study participants expect that the scope of tasks and responsibilities of their HQ will further grow.
Adding value beyond cost reduction is becoming more important – e.g. by providing expertise and best practices

Latest studies and publications on new concepts for corporate headquarters

- **Uni St. Gallen/ Harvard: Housekeeping at CHQ**
  
  "It is the responsibility of corporate managers to scrutinize whether the existing CHQ design creates value for the corporate portfolio or if it destroys value."

- **MIT Sloan: Are CEOs getting the best from corporate functions?**
  
  "In our survey, fewer than one in 10 function heads felt they had received sufficient guidance on how their function should contribute to the company’s overall strategy."

- **Collis et. al: Size and composition of CHQ in multinationals**
  
  "Multinational companies headquarters are more involved in “obligatory” and value creating and control functions than in operational activities."

Key themes of Roland Berger studies

- (Conflicting) roles of CHQ require clear organizational setup; Five design approaches help HQ respond to increasing complexity

Source: Roland Berger; University of St.Gallen/Harvard Business School; MIT Sloan; Factiva; Ashridge Strategic Management Centre
B. Our solution – Developing value adding capabilities to create parenting advantage
A new view on corporate headquarters: Value adding capabilities go beyond traditional roles and capabilities

Capabilities of corporate headquarters

1. PURPOSE & IDENTITY
   “Raison d'être” and unique “DNA” of the company

2. FUNDAMENTAL CAPABILITIES
   Focus is on resource allocation and compliance with legal requirements

3. VALUE ADDING CAPABILITIES
   Partner to the business to enable high performance

Source: Roland Berger; see also "Corporate Headquarters 2010"
B.1 Purpose & Identity
Corporate headquarters help shape corporate identity by promoting a common culture and shared values

Value created by corporate headquarters

"Corporate headquarters must create value. How does your corporate headquarters do this?"¹)

<table>
<thead>
<tr>
<th></th>
<th>I fully agree</th>
<th>I agree somewhat</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>… promotes a common company culture and company values (fostering identity)</td>
<td>59%</td>
<td>29%</td>
<td>88%</td>
</tr>
<tr>
<td>… provides expertise/best practices or coordinates the pooling of expertise/best practices</td>
<td>51%</td>
<td>37%</td>
<td>88%</td>
</tr>
<tr>
<td>… forms powerful units and initiates or manages projects (e.g. corporate office, compliance, etc.)</td>
<td>31%</td>
<td>57%</td>
<td>88%</td>
</tr>
<tr>
<td>… offers internal services</td>
<td>22%</td>
<td>55%</td>
<td>77%</td>
</tr>
<tr>
<td>… manages and coordinates internal and external service providers</td>
<td>18%</td>
<td>49%</td>
<td>67%</td>
</tr>
<tr>
<td>… fosters networked operations and provides infrastructure (promoting virtual teams, etc.)</td>
<td>14%</td>
<td>49%</td>
<td>63%</td>
</tr>
</tbody>
</table>

¹) Multiple answers

Source: Roland Berger; see also "Corporate Headquarters 2010"
The corporate culture takes all of a company's norms and values into account and develops over the course of a company's history.

Dimensions of the corporate culture:

- **ARTIFACTS & BEHAVIOR**
  - Visible symbols and behavior (e.g. clothing, rituals etc.)

- **RULES**
  - Rules and behavioral standards (e.g. leadership style and guidelines)

- **VALUES DISPLAYED**
  - Official principles and company values (e.g. "excellence", "entrepreneurship", "partnership")

- **BASIC ASSUMPTIONS**
  - Values that are not conscious and are taken for granted – Core values

Source: Schein, Edgar Henry (2004); Roland Berger
Employee performance is strongly driven by individual attitudes and behavior – Headquarters functions have an impact on the main factors.

Employee performance and corporate culture [% of observable performance improvement]

**INDIRECT PERFORMANCE ENABLERS**
- Attitudes
- Behavior

**DIRECT PERFORMANCE ENABLERS**
- Information
- Qualification
- Infrastructure

**IMPLICATIONS FOR HEADQUARTERS ROLE**
- Indirect enablers decide whether high performance is achieved or not
- HQ need to take a strong role in defining HOW structures, processes and resources are defined and allocated (role of the Business Partner)
- Direct enablers are a prerequisite for employees to do their job
- HQ need to ensure that right structures, processes and resources are in place (role of a Manager, Law Guardian and Service Provider)

Source: Roland Berger; CLC(2011): Driving a High Performance Culture
B.2 Fundamental capabilities
Fundamental capabilities are consistent across all companies – HQ composition can differ significantly by function

Fundamental capabilities and frequent functions

**FUNDAMENTAL CAPABILITIES**

- **Manage portfolio**: Diversification, divestments and optimization of existing portfolio
- **Provide financing**: Financing at best possible terms and risk management as key tasks
- **Corporate governance**: Best practice shapes company’s structures, systems and people
- **Report corporate activities**: Main task to fulfill external requirements and to deliver meaningful management accounting
- **Exploit synergies**: Focus changed from transactions to end-to-end processes

**COMPOSITION OF HQs**
Top 10 functions by frequency

<table>
<thead>
<tr>
<th>Function</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company management</td>
<td>100%</td>
</tr>
<tr>
<td>Human resources</td>
<td>95%</td>
</tr>
<tr>
<td>Controlling</td>
<td>90%</td>
</tr>
<tr>
<td>Legal</td>
<td>86%</td>
</tr>
<tr>
<td>Communications</td>
<td>81%</td>
</tr>
<tr>
<td>Accounting</td>
<td>81%</td>
</tr>
<tr>
<td>Finance</td>
<td>81%</td>
</tr>
<tr>
<td>IT</td>
<td>78%</td>
</tr>
<tr>
<td>Auditing</td>
<td>76%</td>
</tr>
<tr>
<td>Purchasing and procurement</td>
<td>72%</td>
</tr>
</tbody>
</table>

Source: Roland Berger
Diversification, divestment and optimization of the existing portfolio are the key tasks of portfolio management

Tasks & challenges

What are your primary pain points and issues when managing your business portfolio?

Too many projects for our resources

Decisions that go back and forth and get made late or ineffectively

Not being able to drive innovation fast enough (missing time-to-market)

No consistent and transparent way to measure the value of projects

Politics dominating the decision process

Cutting costs without cutting the future

Inability to address risk and uncertainty in a disciplined manner

We are not currently experiencing any pain points or issues

Other

Source: Roland Berger; Planview Inc.
Financing at best possible terms and risk management as the key tasks of providing finance

Tasks & challenges

<table>
<thead>
<tr>
<th>CHALLENGES</th>
<th>Western Europe</th>
<th>Eastern Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>High financing costs</td>
<td>68</td>
<td>83</td>
</tr>
<tr>
<td>Low rating</td>
<td>61</td>
<td>58</td>
</tr>
<tr>
<td>Higher risk aversion of financing partners</td>
<td>55</td>
<td>58</td>
</tr>
<tr>
<td>Low collaterals</td>
<td>51</td>
<td>58</td>
</tr>
<tr>
<td>Low flexibility of usage in terms of volumes and time horizon</td>
<td>48</td>
<td>50</td>
</tr>
<tr>
<td>Higher covenants</td>
<td>45</td>
<td>55</td>
</tr>
<tr>
<td>High information requirements</td>
<td>30</td>
<td>42</td>
</tr>
</tbody>
</table>

Obstacles to financing [% of responses]

Source: Roland Berger "Challenges for companies in growth financing" study, 2012
CORPORATE GOVERNANCE

Best practice corporate governance shapes corporate structures, systems and people behavior

Best practice and current fields of action

"What actions to enhance corporate governance, if any, are undertaken in your country or jurisdiction?"

Mandate that Chief Executive Officers and Chief Financial Officers/Finance Directors act as formal signatories to …

Adopt and implement (in letter and spirit) principles of good corporate governance

Establish fundamental ethical principles applicable to boards of directors, including principles of integrity, objectivity

Stipulate that the role of an effective director, and particularly a non-executive director, requires dedication, …

Support an increased role for audit and compensation committees (including a monitoring role), and ensure that …

Establish competency requirements for those preparing financial statements

Require that systems of remuneration provide performance incentives

Source: Morten Bennedsen (INSEAD); International Federation of Accountants; Roland Berger "Corporate Governance"
The main task of reporting is to provide different internal and external audiences with appropriate, consistent and actionable information.
Over the last 30 years, the focus of synergies has changed from transactions to end-to-end processes.

Development of Shared Service Center (SSC) concepts, 1980-2010+

**STAGE 1.** Dispersed SSC (1980-2000)
- Mainly national SSCs cross BU (size: from 10 to 50 FTEs)
- Main focus on Finance and HR transactional activities by sub-process
- SSC under leadership of process managers
- Implementation: both successes & failures are found depending on implementation quality

**STAGE 2.** Structured SSC (1990-2010+)
- Structured SSC by sub-function, under leadership of Function head, fostering process standardization, greater level of outsourcing potential
- Single location by region, multiple countries & BU responsibility (size from about 100 to 300 FTEs)
- Significant savings (-15 to -40%), but more change management required

**STAGE 3.**
Global business service (2000-2010+)
- SSC governance grouped within a Global Business Service (GBS) reporting to Group
- Autonomous group acting as a supplier to internal and ultimately external clients
- Multifunctional scope (size from 500 to more than 1,000 FTEs)
- Organized in a network of interconnected regional and global SSCs
- Responsibility for improving performance and competencies (people, process, automation tools) of end-to-end processes
- Responsible for the outsourcing strategy

Source: Roland Berger "Shared Services"
B.3 Value adding capabilities
We have identified five value adding capabilities that characterize outstanding headquarters.

### Outstanding value adding capabilities

<table>
<thead>
<tr>
<th>CAPABILITIES</th>
<th>BEST PRACTICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROVIDE STRATEGIC DIRECTION</td>
<td></td>
</tr>
<tr>
<td>1. Set and communicate strategic priorities</td>
<td><a href="#">BASF</a>, <a href="#">HUAWEI</a>, <a href="#">DSM</a></td>
</tr>
<tr>
<td>2. Provide resources to achieve clearly defined goals</td>
<td></td>
</tr>
<tr>
<td>MANAGE COMPLEXITY</td>
<td></td>
</tr>
<tr>
<td>1. Balance centralized and decentralized interests (steering approach, degree of freedom, etc.)</td>
<td><a href="#">Kyocera</a>, <a href="#">ich liebe es</a>, <a href="#">Santander</a></td>
</tr>
<tr>
<td>2. Understand contradicting goals and help to solve resulting conflict</td>
<td></td>
</tr>
<tr>
<td>STRENGTHEN INNOVATION</td>
<td></td>
</tr>
<tr>
<td>1. Provide expert knowledge (e.g. on trends, tools, etc.)</td>
<td><a href="#">P&amp;G</a>, <a href="#">Apple</a>, <a href="#">DuPont</a></td>
</tr>
<tr>
<td>2. Share best practices</td>
<td></td>
</tr>
<tr>
<td>3. Foster joint development of new (client) solutions</td>
<td></td>
</tr>
<tr>
<td>WORK IN GLOBAL NETWORKS</td>
<td></td>
</tr>
<tr>
<td>1. Support collaboration across functions and organizational units (e.g. infrastructure)</td>
<td><a href="#">Cisco</a>, <a href="#">DOW CORNING</a>, <a href="#">SAP</a></td>
</tr>
<tr>
<td>2. Promote virtual teams/communities of practice/steering bodies</td>
<td></td>
</tr>
<tr>
<td>ENSURE EXECUTION</td>
<td></td>
</tr>
<tr>
<td>1. Drive change and foster implementation of global initiatives</td>
<td><a href="#">MERCK</a>, <a href="#">Volkswagen</a>, <a href="#">Bayern</a></td>
</tr>
<tr>
<td>2. Establish incentive/sanctioning mechanisms</td>
<td></td>
</tr>
<tr>
<td>3. Provide program management approach and tools</td>
<td></td>
</tr>
</tbody>
</table>

1) Based on Roland Berger expert survey  
2) Detailed as best practice example in chapter C.

Source: Roland Berger
3 VALUE ADDING CAPABILITIES – PROVIDE STRATEGIC DIRECTION

Depending on the management style, the process of providing strategic direction involves BUs and support units.

Strategy development process

Group Level
1. Review vision/mission
   - Review of the vision/mission defined the previous year – Change if necessary

Business Unit Level
2. Review vision/mission BU
   - Where necessary’s change of business unit vision/mission based on Group vision/mission
3. Analyze current business per unit
   - Analysis of current business with 5 year outlook
4. Analyze status quo per support function
   - Analysis status quo with 5 year outlook
   - Collection of improvement ideas
5. Adapt support strategies
   - Adaptation and completion of support strategies based on changes in business unit strategies
6. Develop strategic forecast
   - Development of 5-year forecast
   - Development of improvement ideas
7. Integrate into strategy planning tool
   - View of effects of financial KPIs
8. Summarize group strategy
   - Decision on strategic initiatives to be implemented
   - Sign-off on final group strategy
9. Summarize BU strategies
   - Documentation of business unit strategies
   - Development of implementation plans
10. Communicate group and BU strategies
    - Internal and external communication to relevant stakeholders
11. Define implementation plans
    - Levers
    - Targets
    - Resources
    - Milestones

Source: Roland Berger
Companies need to determine the optimum level of complexity and ensure effective complexity management

Opportunities and threats of complexity

**OPPORTUNITIES**

**Products**
- Broad product offering capturing new market niches often provides competitive advantage
- Completely new markets are created around convenience/one-stop shopping

**Organization**
- High degree of freedom of decentralized organizational units allows to serve markets locally

**THREATS**

**Products**
- A broad range of products often results in an increase in "complexity-sensitive" cost across the value chain and hurts operational performance ("vicious circle")

**Organization**
- High degree of freedom of decentralized organizational units will slow down reaction time on market turbulences

High complexity can help to develop competitive advantages … … but often harms company profitability

Source: Roland Berger Managing Corporate Complexity
VALUE ADDING CAPABILITIES – STRENGTHEN INNOVATION

To boost innovation, companies should consider four dimensions: strategy, organization, process and support

KEY QUESTIONS

> What are the corporate vision and strategy?

> How to optimize the innovation process?

> How to organize innovation teams and interfaces?

> How to measure innovation performance/KPI?

> How to monitor innovation projects in line with their maturity level?

INNOVATION PYRAMID

- **CORPORATE GUIDELINES** regarding innovation: leadership involvement, priority
- **OVERALL EXPENDITURE** allocated to innovation and budget management system
- **VISION & ROAD MAP** regarding product & process technologies (trends, mid-term/long-term ruptures, gaps)
- **ACQUISITION STRATEGY** for technologies: targets, partnerships, ...

- **ORGANIZATION AND GOVERNANCE** of innovation (CIO, Innovation committees, involvement of experts in milestones, ...) 
- **MANAGEMENT OF THE EXPERT NETWORK** 
- **INNOVATION "PLATEAU"** with co-location of cross-functional teams to foster creativity through multi-disciplinary interactions

- **INNOVATION PIPELINE MANAGEMENT**: selection of ideas, filtering, gateways, reviews and prioritization
- **IDEA GENERATION PROCESS**: foster joint development of new (client) solutions
- **INNOVATION CREATIONS**: co-design of innovations, trials & errors
- **INNOVATION INTRODUCTION**: innov. introductions in pre-development

- **PROVISION OF EXPERT KNOWLEDGE**: Effective Knowledge management
- **SHARE BEST PRACTICES**: Search for and publish best practices
- **KPIs** to measure innovation effectiveness & impact
- **FINANCING** strategies to optimize funding

Source: Roland Berger
Headquarters must develop a suitable framework for global collaboration with internal and external partners.

**Global Networks**

- Universities
- Management consultancies
- Suppliers
- Competitors
- Institutes
- Public institutions

**EXTERNAL PARTNERS**

**INTERNAL ORGANIZATION** (example)

- Corporate headquarters
  - HR
  - Legal
  - Cont.
  - Finance
  - IT
  - ... (Plant 1, American region, European region, Asian region, Sales, Marketing, ...)

**Service center**

- IT
- HR
- ...

**IMPLICATIONS FOR CORPORATE HEADQUARTERS**

- Support collaboration cross-functionally and across organizational units
- Provide the framework for global collaboration
  - Virtual teams
  - Communities of practice
  - Centers of Competence/Excellence
  - Steering bodies
  - Communication system
- Act as orchestrator or moderator in global networks

Source: Roland Berger
Execution must focus on defining "who" does "what" and "when", monitoring progress and managing implementation actively.

Challenges, tools & methods and results

**CHALLENGES**

- Defining the organization/responsibilities: PMO, steering committee, projects
- Allocating resources (e.g. qualified personnel)
- Structuring project contents and monitoring all projects, action packages, actions and tasks
- Identifying interfaces with other organizational units
- Defining consistent rules of the game
- Defining incentives and sanctions
- Monitoring implementation progress
- Managing change

**TOOLS & METHODS**

**ACTION MANAGEMENT**

**NETWORK PLANNING**

**PRIORITIZATION MATRIX**

**RESULTS**

- Transparency on project status and results through all phases of project
- Efficient collaboration between project participants and project stakeholders
- Prevention of project delays
- Involvement of whole organization

Source: Roland Berger
C. Your action plan – Building value adding capabilities along five dimensions
Five dimensions determine the design of corporate headquarters – These can be applied to boost HQ's value creation

Dimensions for designing corporate headquarters

<table>
<thead>
<tr>
<th>ROLE</th>
<th>STRUCTURE &amp; PROCESSES</th>
<th>SIZE</th>
<th>SYSTEMS &amp; TOOLS</th>
<th>PEOPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; Vision/Mission</td>
<td>&gt; Holding types vs. integrated headquarters</td>
<td>&gt; Headcount/FTE</td>
<td>&gt; Management information/Control system</td>
<td>&gt; Skills and competencies</td>
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<td>&gt; Leadership approach</td>
<td>&gt; Corporate governance</td>
<td>&gt; Costs of headquarters/HQ functions</td>
<td>&gt; KPIs/Incentive schemes</td>
<td>&gt; Mindset</td>
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<tr>
<td>&gt; Four roles of headquarters (Law guardian, Manager, Business Partner, Service Provider)</td>
<td>&gt; Basic structural organization: HQ units, service center, business units, regions, …</td>
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<td>&gt; IT infrastructure</td>
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</tr>
<tr>
<td></td>
<td>&gt; Function organization: Centralization vs. decentralization</td>
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<td>&gt; Knowledge Management</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; Processes: Business, management, support</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; Location and infrastructure</td>
<td></td>
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</tr>
</tbody>
</table>

Source: Roland Berger
Corporate headquarters is the face of the company and the expression of its fundamental management style.

**Management style of corporate headquarters**

**"CENTRALIZED"**
- Complete autocracy of corporate headquarters
- Maximum self-determination, delegation of decision-making authority

**"DECENTRALIZED"**
- Degree of involvement
- Share of resources
- Decision-making authority

The management style determines the basic management concept:
- Integrated headquarters
- Operational holding organization
- Strategic and financial holding organization

Derives the roles of the centralized functions, e.g. as:
- Law guardian (governance/legal matters)
- Manager (management/control, strategy/resources)
- Business partner (advice, expertise/innovation)
- Service provider (services, focus on efficiency)

Determines the allocation of decision-making authority:
- Vertical: Headquarters – Division
- Horizontal: Division – Division

Source: Richardson, H.A. et al: Does Decentralization make a difference for the Organization?; Journal of Management, 2002; Roland Berger
Structure and processes shape the organization –
Processes describe workflows within a company

Organization, structure and processes

STRUCTURE

- Structural organization of the company “per se”

> Combination of basic organizational elements (functions, positions) to form a hierarchical structure
> Relationship between the elements:
  - Subordination/superiority
  - Delegation of tasks, decision-making authority and responsibility

ORGANIZATION

> Distinct link between structures and processes in reality:
  - Structures and processes can not be seen independently from each other
  - Process = Workflow, interfaces and capacities across different organizational units
  - Function = Responsible for assigned tasks, capacities and cost

PROCESSES

- Definition of the sequence of tasks and workflows
- Relationship between the elements:
  - Consecutive process steps
  - Interfaces between processes and process steps
Company size and management concept drive the relative size of corporate headquarters — actual study results in line with 2010 figures.

The relative size of corporate headquarters is driven by the overall size of the company and by the management concept.

Typically, smaller companies are managed by integrated headquarters, larger ones by strategic holdings.

The relative size of the headquarters is in line with the results from our 2010 study — major deviation can be observed for operational holdings.

Source: Roland Berger
Systems & tools connect the structures of corporate headquarters, support decision making and enable efficient execution.

### Overview

#### TASKS

- Reduce data flows to what is really essential
- Make information available fast
- Define consistent standards across the organization

- Set measurable goals in line with overall strategy
- Set incentives for fulfilling goals
- Implement steering approach

- Define framework for information generation, storage and exchange

- Capture, distribute and effectively use knowledge
- Implement reward system
- Foster cross-functional knowledge sharing

#### SAMPLE SYSTEMS

- Enterprise resource planning
- Supply chain management
- Customer relationship management

- KPI trees
- Compensation scheme
- Balanced scorecard

- Hardware
- Software
- Networks

- Social media
- Document management system
- Communities of practice

Source: Davenport "Definition of Knowledge Management"
A comprehensive view on the people dimension of CHQ covers the entire HR value chain from planning to exit management.

**RB Talent Management approach**

1. **Leadership**
2. **Recruiting**
3. **Staffing**
4. **Performance Management**
5. **Development**
6. **Compensation & Benefits**
7. **Exit Mgmt.**
8. **HR Planning**

**KEY SUCCESS FACTORS**

I. Start with an **integrative HR planning process** together with line functions/units.
II. Sustain strong and congruent employer brand and recruit the right people.
III. Guarantee an optimal **person-job fit by deploying** employees accordingly.
IV. Manage performance by installing specific assessment methods per target group.
V. Set up appropriate **development processes** for management and staff.
VI. Integrate compensation and reward schemes with target setting/MbO processes.
VII. Install a professional **exit process** to safeguard the employer brand.
VIII. Maintain and improve company culture by fostering leadership values and styles.
The "CHQ Action Map" provides specific suggestions/starting points for building value adding capabilities

<table>
<thead>
<tr>
<th>VALUE ADDING CAPABILITIES</th>
<th>ROLE</th>
<th>STRUCTURE &amp; PROCESSES</th>
<th>SIZE</th>
<th>SYSTEMS &amp; TOOLS</th>
<th>PEOPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROVIDE STRATEGIC DIRECTION</td>
<td>Set role(s) of CHQ to match company strategy (business requirements)</td>
<td>Define management concept and corresponding CHQ functions; define/prioritize business, management and support processes in line with operating model</td>
<td>Allocate/Balance resources to strategic priorities (capacity/cost)</td>
<td>Define KPIs and ambition level and specific targets</td>
<td>Build competency framework and career framework that reflects/support strategic priorities and apply in HR processes and instruments</td>
</tr>
<tr>
<td>MANAGE COMPLEXITY</td>
<td>Articulate mutual expectations (CHQ vs. Business)</td>
<td>Follow stringent/consistent organizational design principles/criteria (first level segmentation); establish holistic end-to-end process view</td>
<td>Balance spans &amp; layers</td>
<td>Eliminate conflicting incentives (incentives aligned to KPIs) – simplify</td>
<td>Create transparency on existing capabilities in the organization and support/contribute to global succession management</td>
</tr>
<tr>
<td>STRENGTHEN INNOVATION</td>
<td>Act as partner to the business to orchestrate innovation process</td>
<td>Define &quot;opportunity seeking&quot; process and moderate it; set up centers/communities of practice to integrate experts</td>
<td>Systematically allocate resources to prioritized fields of innovation</td>
<td>Establish knowledge sharing platforms/systems</td>
<td>Foster centralized-decentralized and cross-functional job rotation/staffing</td>
</tr>
<tr>
<td>WORK IN GLOBAL NETWORKS</td>
<td>Establish connections within and beyond the organization</td>
<td>Promote virtual teams/communities of practice/steering bodies</td>
<td>Free up resources for sharing and working in networks</td>
<td>Provide modern (technological) infrastructure</td>
<td>Identify talent and establish global talent pools; professionalize expatriate management within HR function</td>
</tr>
<tr>
<td>ENSURE EXECUTION</td>
<td>Act as engagement manager to obtain commitments and ensure they are met</td>
<td>Balance decision authority (centralized vs. decentralized); apply sanctioning mechanisms in a stringent way (corporate governance, compliance)</td>
<td>Allocate dedicated resources to implementation management</td>
<td>Install (centralized) program/project management tools (monitor achievements)</td>
<td>Empower managers to become &quot;true leaders&quot; and to take ownership; train project management skills</td>
</tr>
</tbody>
</table>

Source: Roland Berger HR Management
We have proven tools to enhance the value adding capabilities of corporate headquarters.

Overview of tools to support building value adding capabilities

**OVERALL**
- Organization audit
- Corporate Center Health Check

<table>
<thead>
<tr>
<th>ROLE</th>
<th>STRUCTURE &amp; PROCESSES</th>
<th>SIZE</th>
<th>SYSTEMS &amp; TOOLS</th>
<th>PEOPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; Framework for CHQ roles</td>
<td>&gt; proDacapo (ABC)</td>
<td>&gt; BigBen/orga benchmarks</td>
<td>&gt; RBpoint</td>
<td>&gt; HR Excellence</td>
</tr>
<tr>
<td>&gt; Templates for role descriptions</td>
<td>&gt; RB Profiler for functions</td>
<td>&gt; SG&amp;A database</td>
<td>&gt; proDacapo (BSC)</td>
<td>&gt; Change management toolbox</td>
</tr>
<tr>
<td></td>
<td>&gt; Innovation management approach</td>
<td>&gt; Sizing tool</td>
<td></td>
<td>&gt; HR health check/Talent management audit</td>
</tr>
<tr>
<td></td>
<td>&gt; Process optimization toolbox</td>
<td>&gt; Spans &amp; layers benchmarking/test</td>
<td></td>
<td>&gt; Transfer matrix</td>
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<td></td>
<td></td>
<td>&gt; Business planning/cases</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>&gt; Functional task analysis</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
We have the right set of methodologies to support analyses and safeguard sustainable implementation (1/3)

Source: Roland Berger
We have the right set of methodologies to support analyses and safeguard sustainable implementation (2/3)

### SIZE

9. BigBen/orga benchmarks

11. Sizing tool

13. Business planning/cases

### SYSTEMS

15. RBpoint – Implementation management

16. proDacapo (BSC)

#### Role Properties

**2014 Sales target sizing**

<table>
<thead>
<tr>
<th>Tier Reports</th>
<th>Layer Band Level</th>
<th>Sales Group</th>
<th>1</th>
<th>Sales Group 2</th>
<th>Sales Group 3</th>
<th>Sales Group 4</th>
<th>Europe</th>
<th>Total</th>
<th>Quantity</th>
<th>Total cost per role, USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Field Sales</td>
<td></td>
<td>Group Sales Director</td>
<td>2</td>
<td>VP Sales Europe</td>
<td>5</td>
<td>V European</td>
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<td>0</td>
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<td>4</td>
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<tr>
<td>Sales Specialist</td>
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<td>Sales Specialist Director</td>
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<td>VP Sales Europe</td>
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<td>V European</td>
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<td>0</td>
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<td>Sales Manager</td>
<td></td>
<td>Sales Manager</td>
<td>3</td>
<td>Group Sales Director</td>
<td>6</td>
<td>IV In-country</td>
<td>6</td>
<td>4</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Sales Representative</td>
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<td>Sales Representative</td>
<td>4</td>
<td>Sales Manager</td>
<td>7</td>
<td>III In-country</td>
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<td>6</td>
<td>64</td>
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<tr>
<td>Sales Specialist</td>
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<td>Sales Specialist</td>
<td>4</td>
<td>Sales Specialist Director</td>
<td>7</td>
<td>III In-country</td>
<td>8</td>
<td>5</td>
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<tr>
<td>Total</td>
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<td>242</td>
<td>23,066,836.6</td>
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</tr>
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</table>

**Direct Sales**

<table>
<thead>
<tr>
<th>Direct Sales Director</th>
<th>Direct Sales Manager</th>
<th>Direct Sales Representative</th>
<th>Resellers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Sales Director</td>
<td>Direct Sales Director</td>
<td>Direct Sales Manager</td>
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<td>Direct Sales Manager</td>
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<td>Resellers</td>
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<tr>
<td>Total</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

**Export Group**

<table>
<thead>
<tr>
<th>Export manager</th>
<th>Select Tier</th>
<th>Select Position</th>
<th>Select Layer</th>
<th>Select Band</th>
<th>Select Level</th>
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<tbody>
<tr>
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</table>

**Industry Team**

<table>
<thead>
<tr>
<th>Industry Segment Director</th>
<th>Industry Segment Director</th>
<th>Industry Segment Director</th>
<th>Business Developer</th>
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<td>Business Developer</td>
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<tr>
<td>Industrial</td>
<td>Industry Segment Director</td>
<td>Industry Segment Director</td>
<td>Business Developer</td>
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<tr>
<td>Academic</td>
<td>Industry Segment Director</td>
<td>Industry Segment Director</td>
<td>Business Developer</td>
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</tr>
<tr>
<td>Business Developer</td>
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<td>Industry Segment Director</td>
<td>Business Developer</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
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</table>

Source: Roland Berger
We have the right set of methodologies to support analyses and safeguard sustainable implementation (3/3)

For further information on Roland Berger tools & methodologies don't hesitate to contact the authors of the study.
D.

Best practice examples –
Understanding how other companies do it
The case studies illustrate how companies use value adding capabilities across all HQ dimensions to gain competitive advantage.

### Case examples

<table>
<thead>
<tr>
<th>VALUE ADDING CAPABILITIES</th>
<th>ROLE</th>
<th>STRUCTURE &amp; PROCESSES</th>
<th>SIZE</th>
<th>SYSTEMS &amp; TOOLS</th>
<th>PEOPLE</th>
<th>COMPANY</th>
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<tbody>
<tr>
<td>PROVIDE STRATEGIC DIRECTION</td>
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<td>MANAGE COMPLEXITY</td>
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<td>P&amp;G</td>
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<td>MERCK</td>
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</tbody>
</table>

= Dimension and capability covered in case study

Source: Roland Berger
BASF clearly provides strategic direction by defining a common understanding of "what" they do, "why" and "how" they do it.

**BACKGROUND**

- BASF wants to strengthen its position as the world's leading chemical company
- Provide a common understanding of "what" they do, "why" and "how" they do it

**APPROACH: "WE CREATE CHEMISTRY" strategy**

- Provide a consistent strategic direction, defining the BASF roadmap
  - From purpose, values and strategic principles
  - Strategic levers
  - To performance targets for 2020

**RESULTS**

- Foster common company purpose, values and principles
- Consistent understanding of strategy to make sure employees show consistent behavior
- Targets, strategy and levers of decentralized units clearly linked to overall company strategy

**APPROACH FOR**

- Large multinational companies

**PROFILE**

- Industries: Chemicals & Oil
- Employees 2011: 111,141
- Revenue 2011: EUR 73.5 bn

**DIMENSIONS COVERED**

- Structure & processes
- Systems & tools
- People

Source: BASF
The "Why" dimension highlights the purpose of BASF as a company and relevant areas of innovation.

**Purpose**

**Provision of company vision**

"We create chemistry for a sustainable future"

- Combine business success, social responsibility and environmental protection
- Enable customers to meet the current and future needs of society through science & innovation

**Key areas**

<table>
<thead>
<tr>
<th>Resources, environment and climate</th>
<th>Dramatically rising energy demand</th>
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<tbody>
<tr>
<td></td>
<td>Access to clean water and other non-renewable resources</td>
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</table>

<table>
<thead>
<tr>
<th>Food and nutrition</th>
<th>Growing world population obviously needs correspondingly more food</th>
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<tbody>
<tr>
<td></td>
<td>Need to enhance nutrition quality</td>
</tr>
</tbody>
</table>

| Quality of life | People want to improve their individual quality of life |

**BASF's purpose**

...is the foundation for the global strategy

...determines guiding principles for the design of the organization

**Key areas**

...identify external trends relevant for BASF’s strategy

Source: BASF
The "What" dimension lays out BASF's response to major trends by defining four strategic principles

Four strategic principles

- **We add value as one company**
  Connect strengths as one company to better use the full range of the competencies that make us unique in our industry

- **We innovate to make our customers more successful**
  Explore and open up new growth markets by integrating more closely our R&D expertise, operational excellence, market knowledge and customer relationships

- **We drive sustainable solutions**
  Enhance our long-term success and that of our customers by offering sustainable products and solutions

- **We form the best team**
  > Excellent people
  > Excellent place to work
  > Excellent leaders

Source: BASF
The "How" dimension defines how BASF lives out its values

Values

Creative
> We have the courage to pursue bold ideas
> We inspire each other and build value-adding partnerships
> We constantly improve our products, services and solutions

Open
> We value diversity – in people, opinions and experience
> We foster dialog based on honesty, respect and mutual trust
> We explore our talents and capabilities

Responsible
> We act responsibly as an integral part of society
> We strictly adhere to our compliance standards
> We never compromise on safety

Entrepreneurial
> We all contribute to our company’s success, as individuals and as a team
> We turn market needs into customer solutions
> We take ownership and embrace personal accountability

Source: BASF
The sales and profitability targets set the ambition level for strategic levers

Strategic levers and targets

**STRATEGIC LEVERS**

- **Portfolio development** chemicals to chemistry
- **Strengthening R&D** platform in Asia/Pacific to accelerate growth
- **Acquisitions** matching strategic and financial criteria
- Cross-divisional customer industry **market approach**
- **Increased investments** in emerging markets
- **Operational excellence programs**

**TARGETS 2020**

- Sales of approx. EUR 115 bn
- Double EBITDA to EUR 23 bn

Source: BASF
Kyocera tackles complexity by dividing the organization into small independent units called "amoebas".

**BACKGROUND**
- Business philosophy and unique leadership system developed by Kyocera founder Kazuo Inamori
- Intention: Handle complexity and make it easier for ordinary employees without operations or finance backgrounds to see how they can contribute to the success of the business

**APPROACH: AMOeba MANAGEMENT**
- Divide organization into small organizational units, called amoebas, with 10 to 50 employees
- Attribute revenues and cost of sales to each amoeba
- Encourage each amoeba to operate independently and to develop own ways of working with other amoebas to achieve profitable growth

**RESULTS**
- Profitable growth promoted and overall complexity reduced by giving managers and employees more responsibility and accountability for the performance of their own profit centers
- Changing people's mindsets: involving all employees in decision-making processes. Making their contribution to the success of the business transparent

**PROFILE**
- Industry: Electronics
- Employees: 71,489
- Revenue 2011/12: USD 14.5 bn

**DIMENSIONS COVERED**
- Structure & processes
- Systems & tools
- People

Source: MIT Sloan Management Review Fall 2012
Amoeba management establishes a market-oriented accounting system, fosters responsibility and involves all employees

Amoeba management objectives

**Realize management by all**
- Employees work together to help manage the development of the company
- Employees work with a sense of purpose and accomplishment

**Foster personnel with a sense of management**
- Divide the organization into small units as necessary and rebuild as a unified body of separate enterprises
- Entrust the management of these units to amoeba leaders to foster personnel with a sense of management

**Establish a market-oriented divisional accounting system**
- Fundamental principle for managing a company to maximize revenues and minimize expenses
- For ease of implementation, the organization is divided into many small accounting units that can promptly respond to market changes

Source: Kyocera
MANAGE COMPLEXITY – EXAMPLE KYOCERA

Divided into about 3,000 amoebas, Kyocera’s organization is an example of extreme decentralization

Amoeba management (1/2)

STRUCTURE & PROCESSES

- Kyocera has 3,000 amoebas, i.e. small customer-focused business units with between 5 and 50 employees
- Amoebas are expected to operate independently and to achieve profitable growth by collaborating with other amoebas – Market prices form the basis for communication and negotiations among them
- Four types of functionally differentiated amoebas: Manufacturing, sales, research and development, and general administration
- Each functional amoeba comprises subfunctional amoebas, e.g. in the manufacturing amoeba, there may be amoebas that specialize in welding, molding, cutting, etc.

Source: Dialectic Dynamics of Management Accounting and Management Philosophy, Sawabe et. al.; Roland Berger
MANAGE COMPLEXITY – EXAMPLE KYOCERA

Managing decentralized units requires tailored performance measures and common values

Amoeba management (2/2)

SYSTEMS & TOOLS

Hourly Efficiency = \frac{Amoeba's value added}{Labor hours worked}

PEOPLE

The twelve Kyocera management principles
1. Clearly state the purpose and mission of your business
2. Set specific goals
3. Keep a passionate desire in your heart.
4. Strive harder than anyone else.
5. Maximize revenues and minimize expense
6. Pricing is management
7. Success is determined by willpower
8. Possess a fighting spirit
9. Face every challenge with courage
10. Always be creative in your work
11. Be kind and sincere
12. Always be cheerful and positive

Source: Dialectic Dynamics of Management Accounting and Management Philosophy, Sawabe et. al.; Roland Berger

> Each amoeba has clearly defined revenues and cost of sales (profit-and-loss centers)
> "Hourly efficiency" is the main KPI and allows management to make profitability comparisons across amoebas and time
> Handbooks with management principles and extensive trainings manifest common values and skill sets among the amoebas
> HR competency model with strong focus on collaborative skills
> Amoeba leaders develop their own plans and have them approved by its members and senior supervisors
Procter & Gamble fosters innovation by opening the process to external partners

BACKGROUND
> Around 2000, the company faced a dilemma – Although more and more money was spent on innovations, the number of successful products remained on a low level (approx. 15%)
> P&G focused innovation on internal resources, while outside the company approx. 2 million experts researched P&G-relevant topics – P&G decided to make use of that knowledge

APPROACH: Connect + Develop open innovation program
> Define company-wide innovation process
> Source innovation from a larger network of external partners
> Build up an innovation Internet platform, innovation scout team and innovation partnering process to encourage external collaboration

RESULTS
> More than half of new product initiatives are based on collaboration with external partners within the “Connect + Develop” program
> Developing faster and at lower cost

APPROACH FOR
> Companies with innovation focus

PROFILE
> Industry: Consumer goods
> Employees 2012: 126,000
> Revenue 2012: USD 83.7 bn

DIMENSIONS COVERED
> Role
> Structure & processes
> Systems & tools
> People

Source: HBR; P&G; Handelsblatt
An open model with internal and external parties enables more dynamic innovation

Innovation process

FROM CLOSED INNOVATION MODEL...

RESEARCH

DEVELOPMENT

...TO OPEN INNOVATION MODEL

RESEARCH

Idea/technology out-licensed

COMMERCIALIZATION

Line extension via partners

DEVELOPMENT

Product in-licensed

Technology/ ideas in-licensed

Joint ventures

Academic collaboration

Market

Inputs

Market

Inputs

Source: H. Chesborough (2003); RB What is Open Innovation

P&G Approach

> Source innovation from a larger network of businesses and individuals
> Partner with small companies, multinationals, individual inventors and, in some cases, even competitors
> Develop an innovation portal with some 5,000 submissions annually, listing current innovation needs
> Search the Internet, trade fairs and other countries for new innovations with a team of 15 innovation scouts
> Partnering process
  – Electronic submission via portal
  – Review board of experts within the company to evaluate strategic business fit
  – Due diligence
Open innovation can vary in the number and the nature of partners:
- From opening business units and services inside a firm...
- ... to a specified external actor...
- ... to multiple defined external actors...
- ... to non defined external actors

New types of actors have appeared: knowledge brokers, such as Innocentive, who aim to create a relationship among parties and offer a framework (tools, platforms, methodology, etc.)

The "Connect + Develop" program allows P&G to interact with a broad range of external parties

Source: RB What is Open Innovation
In order to work, open innovation requires a dedicated organization, tools, skills and governance – and the investment to build it up

Characteristics of successful open innovation

**ROLE**

- Need of **executive sponsor** to support the development
- **New role of headquarters** – must be able to manage the process of seeking for innovation
  - Detect appropriate partners and recruit multi-skills profiles
  - Identify knowledge and innovations that matter
  - Manage a portfolio of ideas (more than feed the portfolio) and centralize a vision
  - Make decisions in developing and exploiting innovation activities

**STRUCTURE & PROCESSES**

- Integrating knowledge requires to clearly define the firm’s innovation process and to identify which steps are to be open
- Consistent processes must be applied by management team to make sure innovation is properly tracked
- Open innovation must include relevant KPIs to monitor the level of inputs and outputs, quality of process, i.e. the general performance of the organization

**OPEN INNOVATION**

- Open innovation initiatives need **appropriate tools** to favor collaboration:
  - Simple and flexible tools (platforms, social media, etc.) to stimulate, communicate and collect ideas
  - Actors and services to create and monitor the relationship (brokers, service providers, etc)
- The **governance and the role of each actor** in the process has to be stated clearly

**SYSTEMS & TOOLS**

- The **new paradigm of sharing** has to be embraced by employees (against the "not invented here syndrome")
- **Change management** has to be put in place, through strong sponsorship, communication campaign, new job description and personal objectives, training programs
- **Culture and motivation systems** must be redesigned so that actors, internal and external, are expected and rewarded by the fee exchange of ideas across entities, divisions and geographies
Open innovation leverages external resources – Significant investments necessary, and no substitute for inhouse innovation

WHAT OPEN INNOVATION IMPROVES...

**ENHANCED INNOVATION CAPACITIES:**
> A direct and probably most intuitive effect is the increase of innovation projects and the improvement of their success rate, thanks to an increased number of ideas and overall stimulation of partners
> Companies with robust OI capabilities appear to be 7 times more effective in terms of generating return on R&D projects

**SHORTER TIME–TO-MARKET:**
> More interactions with the stakeholders (suppliers, clients…) allow to get a final product on a shorter time

**IMPROVED IP PROTECTION:**
> A collaborative context requires a clarification of the rules from the beginning, thus minimizing the risks of thefts

**LEVERAGED R&D INVESTMENT :**
> Costs and risks sharing are a direct consequence of OI, but also new sources of revenues through the sale of knowledge which would have lead to nothing to external actors

...AND WHAT IT DOES NOT

**NO FREE LUNCH :**
> Significant investments in terms of tools has to be made in order to successfully implement OI, thus mitigating potential savings at least at first
> Besides, new skills are required for the firm to manage the new framework of the Open Innovation way

**NO SUBSTITUTE FOR INHOUSE INNOVATION:**
> Opening the frontiers does not mean refraining from maintaining internal skills – a firm should rely on external innovation to complete its strengths, not to replace them

After the dot.com boom, Cisco enforced global collaboration through a major reorganization

BACKGROUND
- After the dot.com boom in 2001 Cisco's CEO John Chambers began to question the "cowboy" mentality of its company
- His major intention was to break with the historic silo structure and thinking and follow a more collaborative approach

APPROACH: ENFORCING COLLABORATION
- Enforce global collaboration through major reorganization by aligning
  - Management role from "Command-and-control" to collaborative management style
  - Structure from business unit "silos" to cross-functional bodies linking the organization
  - Incentive systems from rewarding individual to rewarding group performance
  - Work processes from "face-to-face" interactions to high usage of new communication technologies
  - Competence model to support collaborative behavior

RESULTS
- Cisco can pursue many new opportunities through higher degree of global collaboration
- Cisco is more flexible in decentralized decision making

PROFILE
- Industry: Networking equipment
- Employees 2012: 66,639
- Revenue 2012: EUR 46.1 bn

DIMENSIONS COVERED
- Role
- Structure & processes
- Systems & tools
- People

Source: HBR
Moving toward a collaborative approach means changing major elements of the old Cisco world.

Reorganization

FROM AN INDIVIDUAL...

- "Command-and-control" management style
- Business unit "silos"
- Incentive system rewarding individual performance only
- Low usage of virtual communication technologies
- Hierarchical leadership skills

...TO A COLLABORATIVE APPROACH

- Collaborative management style
  - involving others in decision making
  - listening to ideas,
  - finding common ground
- Functional organization with two layers of cross-functional groups on top, each fostering collaboration and pursuing cross-functional opportunities
- Definition of consistent collaboration processes
- Incentive scheme also measuring group performance
- High usage of high-definition video conferencing system – 4,000 times a week
- Other enterprise 2.0 technologies
- Redefinition of skill sets towards collaborative leadership style

Source: HBR
**DEVELOPMENT SINCE 2001**

- Divisional organization was broken up in 2001 and organized mainly in cross-functional councils (up to 12) and boards reporting to this councils (over 40).

- This new model strongly enabled cross-functional collaboration, but with the time was criticized as being “bureaucratic” and “inefficient”.

- In 2011 Cisco announced a reorganization reducing the number of councils to three: Enterprise, service provider and emerging countries.

- To reduce the number of touch points and interlocks boards were again absorbed into their respective functions.

---

**Organizational model**

**DIVISIONAL MODEL UNTIL 2001**

- On the first level Cisco is split in a customer-centric way with three lines of business: Service providers, enterprises and small-and-medium-sized companies.

- Presidents of the three lines of business directly report to the CEO.

**MATRIX MODEL AFTER TRANSFORMATION**

- **Matrix structure** with functional split:
  - Worldwide Field Operations organized into three geographic regions.
  - Services organized around key customer segments.
  - Engineering organized functionally across five company priority areas.

- **Three Councils** serve to strengthen the connection between strategy and execution across functional groups.

Source: Cisco homepage, press releases
WORK IN GLOBAL NETWORKS – EXAMPLE CISCO

The Architecture Center of Excellence epitomizes Cisco's approach to interconnecting functions and regions

### Center of Excellence

<table>
<thead>
<tr>
<th>GOAL</th>
<th>CHALLENGES</th>
<th>APPROACH</th>
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</table>
| > Create a bridge between siloed architecture experts and customer-facing staff in diverse groups and regions across Cisco | > Architects work in functional or regional silos | > Systems  
- A single workspace (community) focused on sharing information (including documents, files, and videos) about architecture  
- Intelligent content stream  
- Customizable home page/dashboard  
- Ability to post original ideas or ask questions |
| > Provide sales engineers, account representatives, and other customer-facing groups with the information they need to position Cisco solutions and services | > Multiple content repositories and systems | > Processes  
- Making contribution to the global community an integral part of being an architect at Cisco  
- Providing incentives for participation through rewards and recognition for sharing and collaboration |
| > Share knowledge, communicate and collaborate more effectively | > Information overload, making it difficult to know what information is important or relevant | > Culture  
- Willingness of subject matter experts to share knowledge  
- Recognition for sharing knowledge in the virtual community  
- Acceptance of ideas from non-traditional sources |
| | > Over-exposure, exacerbating time constraints. Being identified as an expert and contacted frequently makes it difficult for the best architects to get their work done efficiently | |
Cisco shows how new technologies can be effectively used to collaborate with its sales partners and customers.

**BACKGROUND**
- Portfolio of products and services is growing and changing significantly
- Specialized knowledge is increasingly demanded, but experts are not always available
- Customers are increasingly global

**RESULTS**
- Improved availability and productivity of the most sought-after experts (e.g. system engineers)
- Increase in partner-facing time
- Decrease in travel expenses
- Increase in sales

**COLLABORATION OPPORTUNITIES**
- **Cisco to Partners**
  - "Always-on" tradeshow to keep partners informed about products and services
  - Reachability of system engineers
- **Partner to Partners**
  - Identify other partners to extend business (e.g. geographically or in expertise)
- **Partner to Customer**
  - Integrating customers into collaboration as a sales tool

**SALES CHANNEL**
- Internet Web 2.0 Technologies and Enterprise Communication and Collaboration Technologies

1) See next page

Source: The Cisco Business Transformation Series: Collaboration
A broad range of internet and communication technologies enable collaboration in global networks – Key driver of Cisco's business model

<table>
<thead>
<tr>
<th>Internet and communication technologies</th>
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<tbody>
<tr>
<td><strong>COMMUNICATE</strong></td>
<td><strong>CONNECT</strong></td>
<td><strong>COLLABORATE</strong></td>
<td><strong>LEARN</strong></td>
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<td>&gt; WebEx</td>
<td>&gt; Ciscopedia</td>
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<td>&gt; Social Bookmarking</td>
<td>&gt; Discussion Forums</td>
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<td>&gt; WebEx and WebEx Connect</td>
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In 2005 Merck installed a strategy management infrastructure to implement its "Plan to win" strategy.

**BACKGROUND**
- In 2005 new CEO recently appointed
- New strategy "Plan to Win" defined impacting multiple divisions and support function across the entire value chain
- Major change across the company required

**APPROACH: STRATEGY REALIZATION OFFICE**
- Set up infrastructure for overall coordination and management
- Set up reporting process for initiatives across all functions and geographies
- Manage initiatives actively and mitigate risks

**PROFILE**
- Pharmaceuticals
- Employees 2011: 86,000
- Revenue 2011: USD 48 bn

**DIMENSIONS COVERED**
- Role
- Structure & processes
- Systems & tools
- People

**RESULTS**
- Secured implementation process across all regions and organizational units
- Active initiative portfolio management

**APPROACH FOR**
- Companies with major strategy to be implemented
ENSURE EXECUTION – EXAMPLE MERCK

The Strategy Management Infrastructure Office transforms the strategy into objectives, actions and initiatives

Role

Strategy formulation

Strategy Development Group
- Approx. 10 individuals
- Formulates strategy
- Ensures alignment across enterprise, division, and franchise strategies

Strategy Realization Office
- Approx. 5 individuals
- Translates strategy into initiatives
- Coordinates execution of the initiative portfolio

Initiative Teams
- Many individuals
- Develop and implement solutions
- Staffed with leaders from line organizations and "change agents"
  - Merck Sigma
  - Organizational Development
  - Centralized Engineering

Source: Merck "Building from the top"
The Strategy Realization Office is an internal service provider in the implementation process – Focus on coordination and support

Structure

Company

Strategy Realization Office

Division

Manufacturing Program Office

R&D Program Office

Commercial Program Office

Support Function Program Offices

Region

Region Program Offices

Local

Site Program Offices

Country Program Offices

Initiative 1

Initiative 2

Initiative 3

Initiative 4

... 

Initiative n

MAIN ROLES STRATEGY REALIZATION OFFICE

 Intent Architect
> Ensures clarity and integrity of strategic intent.
> Develops and monitors outcome measures derived from the strategic intent.

 Delivery Manager
> Develops, maintains, and manages an integrated transformation plan
> Designs and ensures smooth functioning of governance processes

 Change Manager
> Understands the “people” impacts of the transformation
> Assesses the readiness and capacity of impacted organizations to productively absorb specific changes
> Develops and implements plans to prepare impacted groups

Source: Merck “Building from the top”
Setting up process monitoring allows companies to actively manage strategy implementation.

**Process**

<table>
<thead>
<tr>
<th>Initiative Status as of xx/yy/zz</th>
<th>Realization Indicators</th>
<th>Installation Indicators</th>
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<tbody>
<tr>
<td>Clarity</td>
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<td>Alignment</td>
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<td>Solution</td>
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<td>Partnerships</td>
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**RISK**
- Bi-weekly or monthly cycle
- Requires a shift toward a “red is good” mindset
- Complemented by bi-monthly scorecard reviews

**MITIGATION**
- Description of the risk
- Mitigating actions
Defining program structures and processes, measuring progress and involving the whole organization is key to success

### Success factors

<table>
<thead>
<tr>
<th>STRUCTURE &amp; PROCESSES</th>
<th>SIZE</th>
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<tbody>
<tr>
<td>&gt; Define governance model and organization of the program</td>
<td>&gt; Allocate dedicated resources to implementation management</td>
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<tr>
<td>&gt; Stretch program across entire organization, i.e. every business and every employee is required to cooperate</td>
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</tr>
<tr>
<td>&gt; Involve internal as well as external units as suppliers and distributors</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PROGRAM MANAGEMENT</th>
<th>PEOPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; Define tough measurable targets with direct career implications, positive and negative implication</td>
<td></td>
</tr>
<tr>
<td>&gt; Define and initiate reporting/controlling process</td>
<td></td>
</tr>
<tr>
<td>&gt; Install project management tool to establish transparency over program process and possible threats</td>
<td></td>
</tr>
<tr>
<td>&gt; Establish change management/communication strategy</td>
<td></td>
</tr>
<tr>
<td>&gt; Train employees to build up desired skill sets</td>
<td></td>
</tr>
<tr>
<td>&gt; Enforce consequences for individuals not supporting the overall program</td>
<td></td>
</tr>
</tbody>
</table>

Source: Roland Berger
D.

Invitation –
Start your own
action plan now!

Roland Berger
Strategy Consultants
Our exclusive offer to you: Meet us at a workshop to discuss your individual benchmarking results

Exclusive corporate headquarters workshop

WORKSHOP AGENDA

A. Goals of the workshop
B. Current challenges
C. Benchmarking results
D. First levers for optimization
E. Next steps

OFFER

DURATION
> 2-3 hours (depending on scope)

PARTICIPANTS
> CEO/CFO
> Selected corporate HQ representatives
> etc.

Source: Roland Berger
Comparing apples with apples – Our overhead benchmarking approach is based on five key success factors

Overhead benchmarking approach

1. **Quality of data**
   Base analysis of consistent and accurate database

2. **Clear scoping**
   Define homogenous benchmarking units

3. **Focus**
   Concentrate on few significant parameters (2-3 max.)

4. **Meaningful panel**
   Select benchmarking partners carefully (industry, across industries)

5. **Step further**
   Use benchmark as starting point to ask the right questions

Source: Roland Berger
Taking into account time series analysis, external benchmarking and expert opinions, we identify top-down cost reduction potential

Benchmarking techniques

TIME SERIES ANALYSIS

> Consideration of time dependent development of relevant cost types
> Identification of best practice over time for appropriate operating figures
> Evaluation of performance and potential on the basis of best practice examples

EXTERNAL BENCHMARKING

> Identification of suitable benchmarks from our extensive database varying in
  - Industry
  - Company size
  - Management concept
  - Business model
  - etc.
> Evaluation of focus functions with in-depth analysis on a subfunctional level

EXPERT OPINION

> Top-down analysis of selected cost types by external and internal experts

First top-down estimate of cost reduction potential

Source: Roland Berger
For each specific benchmark analysis, we refer to our database of more than 350 companies across all industries based on projects and studies.

Data origin and customization

- More than 350 companies
- Customization by cluster
  - Size (headcount)
  - Industry
  - Management concept
- Benchmarking of individual functions
  - Distribution by corporate center and shared services
  - Consideration of the degree of centralization
  - Consideration of the degree of outsourcing
  - Addition of a “detailed view” at the level of subfunctions

Source: Roland Berger
Benchmarking against a carefully selected panel and further discussion help estimate top-down potential

**Sample company benchmark**

<table>
<thead>
<tr>
<th>Median</th>
<th>1st quartile</th>
<th>Company X</th>
</tr>
</thead>
</table>

**Function**
- Company Management
- Strategic Plan./Corp. Dev.
- Communications
- Investor Relations
- Mergers & Acquisitions
- Legal
- Auditing
- Organiz. Dev./Consulting
- Finance
- Controlling
- Accounting
- Insurance
- Taxes
- Human Resources
- Occup. Safety/Env. Prot.

**Category**
- **Strategic/corporate functions**
- **Finance functions**
- **HR & supp.**

1) FTE adjusted to total employees “Company X”

**METHOD**

- Function specific benchmarking based on full time equivalents (FTE)
- Fine-tuning of the panel selection as essential key for appropriate benchmarking values

**RESULT**

- Rough estimate of top-down potential
- Focus functions define starting point for further analysis
Visit us online at www.corporateheadquarters.de

> Regular new studies, presentations, etc. on all aspects of organization, management and benchmarking
> Presentation of general study findings
> Easy to navigate through quick links
> Portal for subsequent editions of the study
To identify the latest trends, Roland Berger continuously conducts high-quality research and publishes studies in relevant areas.

Recent studies and publications:

- **Market expansion services**: 2011
- **Asia-Pacific HQ Study**: 2011
- **Shared services and competence centers for insurers**: 2012
- **The Role of Chief Strategy Officers**: 2011
- **Operations Efficiency Radar**: 2012
- **Economic scenario**: 2013
- **Restructuring study international**: 2012
- **Shared Service Centers cut costs**: 2012

Source: Roland Berger
We constantly benchmark corporate headquarters FTEs – Company size and underlying management concept are the main drivers.

Cluster: ≤ 25,000 total FTEs; ≤ 2,000 FTEs in corporate headquarters

<table>
<thead>
<tr>
<th>Cluster</th>
<th>FTEs in corporate centers</th>
<th>Total FTEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTEGRATED HEADQUARTERS</td>
<td>5.8% (5.7%)</td>
<td>1,400</td>
</tr>
<tr>
<td>OPERATIONAL HOLDING ORGANIZATION</td>
<td>1.9% (6.4%)</td>
<td>1,200</td>
</tr>
<tr>
<td>STRATEGIC HOLDING ORGANIZATION</td>
<td>0.5% (0.4%)</td>
<td>1,000</td>
</tr>
</tbody>
</table>

The total size of the company and its management concept determine the relative size of corporate headquarters. The findings are based on Roland Berger's Corporate Headquarters 2010 study.
The management concept is defined by the management principle and the degree of business unit integration.
Definition of holding organization and integrated headquarters

**Holding organization (outline)**

- **Holding organization**
  - Subsidiary
  - Subsidiary
  - Subsidiary
  - Subsidiary

**Characteristics**

- **There are two levels** in a holding organization: corporate headquarters and several legally and organizationally independent subsidiaries.
- The **operational business** (production, operations, etc.) takes place in the subsidiaries.
- **P&L responsibility** normally lies with the subsidiaries.
- It is important to **differentiate** between holding organization and "holding" as a legal term (a holding organization can also exist within a single legal entity).

**Integrated headquarters (outline)**

- **Integrated headquarters**
  - Services
    - Business unit
    - Business unit
    - Business unit

**Characteristics**

- In the case of integrated headquarters, **management, service and operational tasks are integrated** in the corporate headquarters.
- The management exercises a **strong influence** on the **operational business** of its business units (high degree of centralization).
- **P&L responsibility** normally lies with the corporate headquarters.
- The integrated headquarters makes its own **contribution to the company's profit** by offering services to the external market.

Source: Roland Berger
Management concept, company size and industry segment determine the relative size of the corporate headquarters

<table>
<thead>
<tr>
<th>INTEGRATED HEADQUARTERS</th>
<th>OPERATIONAL HOLDING ORG.</th>
<th>STRATEGIC HOLDING ORG.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average size of company</strong>&lt;sup&gt;1&lt;/sup&gt; [number of employees]</td>
<td>14,432 (13,604)</td>
<td>11,992 (19,197)</td>
</tr>
<tr>
<td><strong>Median relative size of corporate headquarters [%]</strong></td>
<td>CC&lt;sup&gt;1&lt;/sup&gt;</td>
<td>14.5% (15.2%)</td>
</tr>
<tr>
<td></td>
<td>CC+SSU&lt;sup&gt;2&lt;/sup&gt;</td>
<td>20.3% (17.1%)</td>
</tr>
<tr>
<td><strong>Average number of operational units [%]</strong></td>
<td>1-3: 32%</td>
<td>1-3: 21%</td>
</tr>
<tr>
<td></td>
<td>4-7: 39%</td>
<td>4-7: 42%</td>
</tr>
<tr>
<td></td>
<td>&gt;7: 29%</td>
<td>&gt;7: 37%</td>
</tr>
</tbody>
</table>

Basic criteria for further calculations

(...)= Findings from study "Corporate Headquarters 2010"
1) Corporate center only, i.e. without shared services 2) Corporate center and share services

Source: Roland Berger

> Relative size of corporate center and shared services mainly influenced by management concept

> Strategic holding with smallest operational influence and thus small relative size of corporate headquarters

> Integrated headquarters with integrated business units and systems and large headquarters
Benchmark overview by size and management concept – Comparison of corporate centers in 2012 and 2010

Relative size of corporate headquarters (corporate center only)\(^1\) [%]

<table>
<thead>
<tr>
<th>Size (Total employees)</th>
<th>0-5,000</th>
<th>5,000-25,000</th>
<th>25,000-50,000</th>
<th>&gt;50,000</th>
<th>Total (^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Integrated headquarters</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st quartile</td>
<td>12.1 (6.9)</td>
<td>5.2 (4.8)</td>
<td>1.9 Insufficient data</td>
<td>4.1 Insufficient data</td>
<td>5.8 (5.7)</td>
</tr>
<tr>
<td>Median</td>
<td>23.7 (20.9)</td>
<td>11.0 (10.2)</td>
<td>2.1</td>
<td>5.1</td>
<td>14.5 (15.2)</td>
</tr>
<tr>
<td><strong>Operational holding</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st quartile</td>
<td>6.7 (9.3)</td>
<td>1.8 (7.9)</td>
<td>4.1 (4.9)</td>
<td></td>
<td>1.9 (6.4)</td>
</tr>
<tr>
<td>Median</td>
<td>16.7 (12.2)</td>
<td>2.5 (9.4)</td>
<td>4.3 (5.1)</td>
<td></td>
<td>4.7 (9.3)</td>
</tr>
<tr>
<td><strong>Strategic holding</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st quartile</td>
<td>Insufficient data</td>
<td>0.5 (0.5)</td>
<td>0.5 (0.5)</td>
<td>0.2 (0.3)</td>
<td>0.5 (0.5)</td>
</tr>
<tr>
<td>Median</td>
<td>Insufficient data</td>
<td>1.0 (0.8)</td>
<td>0.7 (0.7)</td>
<td>0.5 (0.5)</td>
<td>0.7 (0.6)</td>
</tr>
<tr>
<td><strong>Total (by size cluster)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st quartile</td>
<td>7.5 (5.8)</td>
<td>1.0 (0.8)</td>
<td>0.9 (0.7)</td>
<td>0.3 (0.4)</td>
<td>1.6 (0.7)</td>
</tr>
<tr>
<td>Median</td>
<td>22.8 (12.5)</td>
<td>2.5 (4.4)</td>
<td>2.1 (1.4)</td>
<td>0.6 (0.6)</td>
<td>5.6 (4.5)</td>
</tr>
</tbody>
</table>

\(^1\) Excluding shared services \quad \(^2\) Total (by management concept)

(... = Findings from study "Corporate Headquarters 2010"

Source: Roland Berger

> Median and 1st quartile define range of lean headquarters
> Due to economies of scale the relative size of headquarters diminishes with increasing company size
> Exception integrated headquarters with >50,000 FTE – This can be explained with the industry influence (mainly financial services) in this segment
Benchmarking overview by size and management concept – Comparison of corporate center and shared services

Relative size of corporate headquarters (corporate center with/without shared service units) [%]

<table>
<thead>
<tr>
<th>Size (Total employees)</th>
<th>0-5,000</th>
<th>5,000-25,000</th>
<th>25,000-50,000</th>
<th>&gt;50,000</th>
<th>Total 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated headquarters</td>
<td>1st quartile Median</td>
<td>15.3 (12.1)</td>
<td>9.8 (5.2)</td>
<td>2.5 (1.9)</td>
<td>4.1 (4.1)</td>
</tr>
<tr>
<td></td>
<td>Median</td>
<td>26.4 (23.7)</td>
<td>37.1 (11.0)</td>
<td>3.5 (2.1)</td>
<td>5.1 (5.1)</td>
</tr>
<tr>
<td>Operational holding</td>
<td>1st quartile Median</td>
<td>7.8 (6.7)</td>
<td>4.0 (1.8)</td>
<td>5.1 (4.1)</td>
<td>Insufficient data</td>
</tr>
<tr>
<td></td>
<td>Median</td>
<td>18.6 (16.7)</td>
<td>5.3 (2.5)</td>
<td>5.4 (4.3)</td>
<td>Insufficient data</td>
</tr>
<tr>
<td>Strategic holding</td>
<td>1st quartile Median</td>
<td>Insufficient data</td>
<td>Insufficient data</td>
<td>1.5 (0.5)</td>
<td>0.7 (0.5)</td>
</tr>
<tr>
<td></td>
<td>Median</td>
<td>1.7 (1.0)</td>
<td>1.1 (0.7)</td>
<td>3.4 (0.5)</td>
<td>1.7 (0.7)</td>
</tr>
<tr>
<td>Total (by size cluster)</td>
<td>1st quartile Median</td>
<td>10.2 (7.5)</td>
<td>1.9 (1.0)</td>
<td>1.6 (0.9)</td>
<td>0.3 (0.3)</td>
</tr>
<tr>
<td></td>
<td>Median</td>
<td>27.3 (22.8)</td>
<td>5.3 (2.5)</td>
<td>3.5 (2.1)</td>
<td>3.1 (0.6)</td>
</tr>
</tbody>
</table>

*Insufficient data* = Corporate center **including** shared service units

*Insufficient data* = Corporate center **excluding** shared service units

1) Total (by management concept)

Source: Roland Berger

> The use of shared services can be observed across all size and management concept clusters

> In smaller sized companies the relative influence is the highest
Benchmark overview for all study participants –
Degree of homogeneity varies by functional cluster

Relative size of function [%] – Corporate center and shared services

Figures for all participating companies

<table>
<thead>
<tr>
<th>Category</th>
<th>Strategic/corporate functions</th>
<th>Finance functions</th>
<th>HR and support functions</th>
<th>Operational functions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1st quartile</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company management</td>
<td>0.75</td>
<td>0.47</td>
<td>2.66</td>
<td>0.99</td>
</tr>
<tr>
<td>Strategic planning/corporate development</td>
<td>0.29</td>
<td>0.96</td>
<td>3.97</td>
<td>1.40</td>
</tr>
<tr>
<td>Communications</td>
<td>0.45</td>
<td>2.16</td>
<td>0.26</td>
<td>0.72</td>
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<tr>
<td>Investor relations</td>
<td>0.11</td>
<td>0.09</td>
<td>0.61</td>
<td>0.23</td>
</tr>
<tr>
<td>Mergers &amp; acquisitions</td>
<td>0.14</td>
<td>0.19</td>
<td>0.54</td>
<td>2.26</td>
</tr>
<tr>
<td>Law</td>
<td>0.48</td>
<td>0.48</td>
<td>5.93</td>
<td></td>
</tr>
<tr>
<td>Patents and licenses</td>
<td>0.37</td>
<td>0.19</td>
<td>9.63</td>
<td></td>
</tr>
<tr>
<td>Auditing</td>
<td>0.31</td>
<td>0.09</td>
<td>0.78</td>
<td></td>
</tr>
<tr>
<td>Organizational development and corporate systems</td>
<td>0.17</td>
<td>0.48</td>
<td>2.21</td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>0.23</td>
<td>0.19</td>
<td>3.15</td>
<td></td>
</tr>
<tr>
<td>Marketing and sales</td>
<td>0.46</td>
<td>0.46</td>
<td>5.49</td>
<td></td>
</tr>
</tbody>
</table>

Source: Roland Berger
Benchmarking overview by company size

### Relative size of function [%] – Corporate center and shared services

<table>
<thead>
<tr>
<th>Clusters [employees]</th>
<th>Corporate functions</th>
<th>Company management</th>
<th>Strategic planning/corporate development</th>
<th>Communications</th>
<th>Investor relations</th>
<th>Mergers &amp; acquisitions</th>
<th>Legal</th>
<th>Patents and licenses</th>
<th>Auditing</th>
<th>Organizational development and</th>
<th>Finance</th>
<th>Controlling</th>
<th>Accounting</th>
<th>Insurance</th>
<th>Taxes</th>
<th>International trade and customs management</th>
<th>Human resources</th>
<th>IT</th>
<th>Occupational safety and environmental protection</th>
<th>Real estate/facility management</th>
<th>General services</th>
<th>Research and development</th>
<th>Purchasing and procurement</th>
<th>Logistics</th>
<th>Quality management</th>
<th>Marketing and sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 5,000</td>
<td>1st quartile</td>
<td>3.36</td>
<td>1.80</td>
<td>0.88</td>
<td>0.54</td>
<td>0.44</td>
<td>1.01</td>
<td>0.98</td>
<td>0.83</td>
<td>1.53</td>
<td>2.29</td>
<td>4.42</td>
<td>7.87</td>
<td>0.62</td>
<td>0.89</td>
<td>0.50</td>
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<td>5.89</td>
<td>9.33</td>
<td>1.11</td>
<td>2.20</td>
<td>4.57</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Median</td>
<td>7.70</td>
<td>5.92</td>
<td>2.84</td>
<td>0.77</td>
<td>0.73</td>
<td>3.24</td>
<td>1.72</td>
<td>2.21</td>
<td>4.01</td>
<td>4.24</td>
<td>7.52</td>
<td>13.02</td>
<td>2.70</td>
<td>1.48</td>
<td>0.56</td>
<td></td>
<td></td>
<td>10.64</td>
<td>12.902.58</td>
<td>4.03</td>
<td>9.73</td>
<td>30.07</td>
<td>8.33</td>
<td>26.44</td>
<td>13.96</td>
</tr>
<tr>
<td>5,000-25,000</td>
<td>1st quartile</td>
<td>0.83</td>
<td>0.34</td>
<td>0.54</td>
<td>0.14</td>
<td>0.21</td>
<td>0.63</td>
<td>0.36</td>
<td>0.31</td>
<td>0.29</td>
<td>0.57</td>
<td>0.76</td>
<td>1.99</td>
<td>0.10</td>
<td>0.14</td>
<td>0.08</td>
<td></td>
<td></td>
<td>1.56</td>
<td>1.72</td>
<td>0.18</td>
<td>0.45</td>
<td>0.39</td>
<td></td>
<td>1.07</td>
<td>0.79</td>
</tr>
<tr>
<td></td>
<td>Median</td>
<td>1.46</td>
<td>0.57</td>
<td>0.73</td>
<td>0.34</td>
<td>0.35</td>
<td>0.96</td>
<td>0.52</td>
<td>0.58</td>
<td>0.93</td>
<td>1.06</td>
<td>2.11</td>
<td>4.63</td>
<td>0.18</td>
<td>0.52</td>
<td>0.14</td>
<td></td>
<td></td>
<td>4.53</td>
<td>7.06</td>
<td>0.44</td>
<td>1.63</td>
<td>0.82</td>
<td></td>
<td>2.34</td>
<td>1.91</td>
</tr>
<tr>
<td>25,000-50,000</td>
<td>1st quartile</td>
<td>0.50</td>
<td>0.24</td>
<td>0.33</td>
<td>0.09</td>
<td>0.03</td>
<td>0.35</td>
<td>1.01</td>
<td>0.30</td>
<td>0.11</td>
<td>0.24</td>
<td>0.61</td>
<td>1.17</td>
<td>0.04</td>
<td>0.27</td>
<td>0.05</td>
<td></td>
<td></td>
<td>1.70</td>
<td>1.05</td>
<td>0.29</td>
<td>0.44</td>
<td>0.45</td>
<td></td>
<td>0.32</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>Median</td>
<td>0.70</td>
<td>0.42</td>
<td>0.40</td>
<td>0.12</td>
<td>0.13</td>
<td>0.43</td>
<td>1.55</td>
<td>0.42</td>
<td>0.20</td>
<td>0.28</td>
<td>1.18</td>
<td>2.10</td>
<td>0.05</td>
<td>0.28</td>
<td>0.12</td>
<td></td>
<td></td>
<td>3.60</td>
<td>4.05</td>
<td>0.50</td>
<td>0.68</td>
<td>0.65</td>
<td></td>
<td>0.79</td>
<td>1.38</td>
</tr>
<tr>
<td>&gt; 50,000</td>
<td>1st quartile</td>
<td>0.21</td>
<td>0.19</td>
<td>0.20</td>
<td>0.04</td>
<td>0.15</td>
<td>0.13</td>
<td>0.06</td>
<td>0.17</td>
<td>0.03</td>
<td>0.25</td>
<td>0.19</td>
<td>0.20</td>
<td>0.22</td>
<td>0.18</td>
<td>0.29</td>
<td></td>
<td></td>
<td>0.26</td>
<td>0.23</td>
<td>0.03</td>
<td>0.53</td>
<td>0.36</td>
<td></td>
<td>0.66</td>
<td>0.14</td>
</tr>
<tr>
<td></td>
<td>Median</td>
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<td>1.16</td>
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</table>

1) Small population

Source: Roland Berger
### Benchmarking overview by industry sector

**Relative size of function [%] – Corporate center and shared services**

<table>
<thead>
<tr>
<th>Clusters [employees]</th>
<th>Corporate functions</th>
<th>Strategic/Corporate functions</th>
<th>Finance functions</th>
<th>HR and support functions</th>
<th>Operational functions</th>
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<tr>
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</tr>
<tr>
<td><strong>Trade</strong></td>
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<tr>
<td>1st quartile</td>
<td>0.34 0.17 0.23 0.09</td>
<td>0.10 0.34 0.56 0.17</td>
<td>0.18 0.27 1.33</td>
<td>0.25 0.18 0.56</td>
<td>0.74 1.98 0.25</td>
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<td>0.11 0.39 0.56 0.21</td>
<td>0.22 0.70 5.03</td>
<td>0.26 0.21 0.56</td>
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<td>0.43 1.01 2.31 0.72 0.32</td>
<td>1.13 2.57 4.26</td>
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<td>4.84 4.22 0.49</td>
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<tr>
<td>Median</td>
<td>3.75 1.59 1.02 0.50</td>
<td>0.90 2.03 2.31 1.54 1.16</td>
<td>2.88 4.42 10.22</td>
<td>0.74 0.84</td>
<td>6.89 18.200.85</td>
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<tr>
<td><strong>Producing and Manuf.</strong></td>
<td>0.79 0.36 0.46 0.06</td>
<td>0.14 0.46 0.36 0.30 0.11</td>
<td>0.57 0.94 1.64</td>
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<td>0.20 0.83 0.56 0.57 0.42</td>
<td>1.12 2.40 4.97</td>
<td>0.13 0.45 0.19</td>
<td>5.93 9.63 0.69</td>
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</tbody>
</table>

**Source:** Roland Berger
**Benchmarking overview by management concept**

<table>
<thead>
<tr>
<th>Clusters [employees]</th>
<th>Corporate functions</th>
<th>Company management</th>
<th>Strategic planning/ corporate development</th>
<th>Communications</th>
<th>Investor relations</th>
<th>Mergers &amp; acquisitions</th>
<th>Legal</th>
<th>Patents and licenses</th>
<th>Auditing</th>
<th>Organizational development and</th>
<th>Finance</th>
<th>Controlling</th>
<th>Accounting</th>
<th>Insurance</th>
<th>Taxes</th>
<th>International trade and customs management</th>
<th>Human resources</th>
<th>IT</th>
<th>Occupational safety and environmental protection</th>
<th>Real estate/facility management</th>
<th>General services</th>
<th>Research and development</th>
<th>Purchasing and procurement</th>
<th>Logistics</th>
<th>Quality management</th>
<th>Marketing and sales</th>
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<tbody>
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<td>0.31</td>
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<td>1.74</td>
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<tr>
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<td>7.07</td>
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<td>0.33</td>
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**Category**

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<th>Category</th>
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</tr>
</thead>
</table>

Source: Roland Berger

2013_CorporateHeadquartersStudy.pptx
Sources and related studies

### OFFSHORING FORECAST STUDY, 2012
*Hackett Group*
Panel: 4,700 companies from U.S. and Europe, revenue > USD 1 bn
Key Message: Offshoring of 750,000 more jobs in finance, IT, other key business services areas by 2016

### PRODUCT PORTFOLIO MANAGEMENT, 2012
*Planview Inc.*
Panel: 922 worldwide
Key Message: Organizations refine their product development process and seek supportive tools

### CHALLENGES FOR COMPANIES IN GROWTH FINANCING, 2012
*Roland Berger*
Panel: 2,500 companies worldwide
Key Message: Financing usually done the traditional way due to volatile financial markets and the ongoing euro crisis

### GLOBAL LEADERSHIP SURVEY, 2010
*International Federation of Accountants*
Panel: 123 respondents from 73 countries
Key Message: Credibility of the profession, standard-setting, and adoption and implementation are key focus areas for accountants

### SMP QUICK POLL: 2012 ROUND-UP
*International Federation of Accountants*
Panel: 3,700 small- and medium-sized practices (SMPs)
Key Message: Economy and regulations as major sources of uncertainty
It's character that creates impact