Corporate Headquarters Study 2018

#CHQbyDesign
– The headquarters is dead; long live the headquarters!

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Report of the Corporate Headquarters Study 2018

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A. Management summary and study design
Corporate HQ between claim and reality – Capabilities impacted most by top megatrends are rated poorly in actual performance

Management summary (1/2)

Megatrends
No surprise !?

Digital transformation and power of innovation have the biggest impact on the design of corporate headquarters (CHQ)

> Despite current events, geopolitical challenges are of least relevance for CHQ
> Megatrends' impact on CHQ is independent of management concepts and company size

Three CHQ capabilities (Strengthen innovation, Manage complexity, and Provide strategic direction) will be influenced most by those megatrends

> Respondents rate their CHQ poorly in executing value-adding capabilities in innovation and complexity management
> By contrast, fundamental CHQ capabilities such as Ensure corporate governance and Report corporate activities are considered to be among the current top strengths

The levels of actual application of digital technologies and their potential impact on a CHQ differ largely

> Companies that perform better within their peer group also have a higher level of digital technology application
> The digital transformation enabled by new technologies changes how CHQ perform fundamental and value-adding capabilities

Source: Roland Berger, CHQ Study 2018
Strategy and IT play a large role in delivering CHQ capabilities – Trends towards use of SSC continues

Management summary (2/2)

**CHQ Functions**
*Strategy is back*

- Strategy and M&A function and IT play a large role in delivering CHQ capabilities
  - Further, Finance, HR, and PMO/Strategic Projects/Orga play a significant role in defining CHQ capabilities
  - A performance check shows that companies successful at executing CHQ capabilities are also ranked among the top of their peer group

**CHQ Trends**
*Decentralization tendency continues*

- Trend toward shared service centers and spreading CHQ functions across several organizational units continues
  - Trend is supported by technological advancements in RPA, automated service platforms, and business process outsourcing
  - Satisfaction level of study participants with their headquarters' performance is high – Reflections on the future concept of CHQ differ though
  - Whereas the size of SSC is expected to increase, there is no clear picture on the expected development of CHQ sizes in general

Source: Roland Berger, CHQ Study 2018
Provide strategic direction, Manage complexity and Strengthen innovation are the CHQ capabilities impacted most by top megatrends.

**Capabilities of corporate headquarters**

**Megatrends impacting CHQ…**

<table>
<thead>
<tr>
<th>Megatrend</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital transformation</td>
<td>27%</td>
</tr>
<tr>
<td>Power of innovation</td>
<td>21%</td>
</tr>
<tr>
<td>Sustainability</td>
<td>15%</td>
</tr>
<tr>
<td>Globalization</td>
<td>14%</td>
</tr>
<tr>
<td>War for talent</td>
<td>14%</td>
</tr>
<tr>
<td>Geopolitical challenges</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: Roland Berger, CHQ Study 2018
The 8th Corporate Headquarters Study has the largest sample ever covering 30 industries and 11 countries

Background of Corporate Headquarters Study 2018

Conducted for the 8th time since 1999

Periodical survey on role, structure, and size of CHQ

Major hypotheses:
> Influence of megatrends on selected CHQ capabilities
> Increasing relevance of technology for performance of CHQ

Based on large sample of replies from industry leaders with 326 evaluated responses from 30 industries and 11 countries

Covering all four main CHQ management concepts¹ and including an almost equal distribution of small, medium and large corporations

¹) Integrated Parent Company 55%, Operational Management Holding 26%, Strategic Management Holding 16%, and Financial Holding 3%
B. The new role of the CHQ and its value-add
Study overview: Corporate Headquarters 2018

Part 1  Impact of global megatrends on CHQ capabilities
> Assessment of importance of different megatrends for CHQ capabilities and detailed analysis of impact of the most important trends for CHQ

Part 2  Technology as an enabler for CHQ performance
> Assessment of the expected impact of digital transformation on CHQ and analysis of the application of digital technologies in CHQ performance

Part 3  Capability mapping
> Comprehensive capability mapping to understand the contribution of corporate functions to CHQ capabilities

Part 4  Trend assessment
> Trends in centralization or decentralization of CHQ functions
> Trends in the use of shared service centers and outsourcing as well as convergence to automation

Source: Roland Berger, CHQ Study 2018
B.1 The new role of the CHQ and its value-add
In this study, we contrasted six megatrends…

Megatrends with impact on CHQ

**Globalization**
Increasing globalization challenges countries, societies and economies notably emerging markets and thereby has a significant impact on CHQ.

**War for talent**
Talent gap due to increasing demand for skilled employees and increasingly better educated people.

**Geopolitical changes**
Unexpected political developments such as Brexit, trade wars, or armed conflicts.

**Power of innovation**
Disruptive as well as sustaining innovations change the way people are living their lives and drive economic prosperity.

**Digital transformation**
Digital transformation is permeating all areas of the economy through automation, connectivity, and digital data.

**Sustainability**
Customer demands and pressure from other stakeholder groups drive companies to act as good corporate citizens.

Source: Roland Berger, CHQ Study 2018
...with the comprehensive Roland Berger capability framework for CHQ that was validated in previous studies

Capabilities of corporate headquarters

1. **Purpose and identity**
   
   "Raison d'être" and unique "DNA" of the company

2. **Basic capabilities**
   
   Focus is on technical, managerial tools such as resource allocation and compliance with legal requirements

3. **Value-adding capabilities**
   
   Partner to the business to enable high performance

Source: Roland Berger
We found that digital transformation and power of innovation, in contrast to geopolitical challenges, have the biggest impact on CHQ.

Trends with the biggest impact [% of total responses]

- **Digital transformation** and the **power of innovation** are perceived to mostly impact CHQ.
- Despite dominating the global press landscape, **geopolitical challenges** such as Brexit, trade wars, or armed conflicts surprisingly do not impact CHQ as might have been expected.
- **Sustainability, globalization and war for talent** have a similar impact on CHQ performance.
- Across Europe, **larger economies** have similar views on the importance of those trends on CHQ. By contrast, smaller economies rank the **war for talent** higher, which is likely driven by scarcity of talent.
- Also, **low-performing companies** in general face a **war for talent**.
- Unsurprisingly in view of Brexit, especially **UK corporates emphasize geopolitical challenges**, e.g. CHQ relocation to continental Europe.

Source: Roland Berger, CHQ Study 2018
Those megatrends mostly influence value-adding capabilities of headquarters, notably Strengthen innovation and Manage complexity

CHQ capabilities most influenced by megatrends [Index\(^1\)]

<table>
<thead>
<tr>
<th>Basic capabilities (Ø 2.33)</th>
<th>Value-adding capabilities generally see higher impact from the rising trends of digitalization and power of innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide financing</td>
<td>Basic capabilities are somewhat less influenced by trends toward digital, innovation, etc.</td>
</tr>
<tr>
<td>Provide purpose and identity</td>
<td>The call for action in CHQ is getting stronger as value-adding capabilities are core competencies in companies' efforts to master future challenges</td>
</tr>
<tr>
<td>Manage the portfolio</td>
<td>In-depth analyses show that</td>
</tr>
<tr>
<td>Exploit synergies and eco. of scale</td>
<td>– Digitalization is the main driver to tackle increasing complexity</td>
</tr>
<tr>
<td>Ensure corporate governance</td>
<td>– Providing talent is heavily relevant as a means to keep the level of innovation high and goes in line with the shortage of technologically savvy staff</td>
</tr>
<tr>
<td>Report corporate activities</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Value-adding capabilities (Ø 2.41)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthen innovation</td>
<td>Basic capabilities are somewhat less influenced by trends toward digital, innovation, etc.</td>
</tr>
<tr>
<td>Provide strategic direction</td>
<td>The call for action in CHQ is getting stronger as value-adding capabilities are core competencies in companies' efforts to master future challenges</td>
</tr>
<tr>
<td>Manage complexity</td>
<td>In-depth analyses show that</td>
</tr>
<tr>
<td>Enable global collaboration</td>
<td>– Digitalization is the main driver to tackle increasing complexity</td>
</tr>
<tr>
<td>Provide talent</td>
<td>– Providing talent is heavily relevant as a means to keep the level of innovation high and goes in line with the shortage of technologically savvy staff</td>
</tr>
<tr>
<td>Ensure execution</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) Index: 1 Decreasing significance, 2 No change, 3 Increasing significance

Source: Roland Berger, CHQ Study 2018
B.2 Technology as an enabler
The digital transformation enabled by new technologies changes how CHQ perform fundamental and value-adding capabilities

Digital transformation takes effect via three levers:

- **Automation**: Combining traditional technologies with artificial intelligence is increasingly giving rise to systems that work autonomously.
- **Connectivity**: Interconnecting the entire value chain and products via networks to synchronize supply chains and shorten both production lead times and innovation cycles.
- **Digital data**: Capturing, processing, and analyzing huge amounts of data allows better predictions and decisions to be made.

**Digital transformation brings fundamental change to businesses and their corporate headquarters**

> **Three levers** are considered most relevant for headquarters’ digital transformation:

- **Automation**: Combining traditional technologies with artificial intelligence is increasingly giving rise to systems that work autonomously.
- **Connectivity**: Interconnecting the entire value chain and products via networks to synchronize supply chains and shorten both production lead times and innovation cycles.
- **Digital data**: Capturing, processing, and analyzing huge amounts of data allows better predictions and decisions to be made.

Source: Roland Berger
We see a performance gap for digital technologies between actual application and potential impact on a CHQ level.

Digital technologies' influence on CHQ capabilities [Index¹]

<table>
<thead>
<tr>
<th>Category</th>
<th>Impact</th>
<th>Application</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automation (Robotics, artificial intelligence)</td>
<td>3.85</td>
<td>3.57</td>
<td>0.28</td>
</tr>
<tr>
<td>Connectivity (Collaboration platforms, virtual reality, social networks, apps)</td>
<td>3.93</td>
<td>3.72</td>
<td>0.21</td>
</tr>
<tr>
<td>Digital data (Big Data, Internet of Things)</td>
<td>3.93</td>
<td>3.66</td>
<td>0.27</td>
</tr>
</tbody>
</table>

¹) Impact: 1 very low, 5 very high  
Applications: 1 no use at all, 5 extensive use

- In the long run, digital technologies are expected to massively impact CHQ.
- Highest impact on transformation expected from connectivity as well as digital data.
- The level current digital technology application is still below the expected impact level, showing that companies are not yet technically where they ought to be.
- Mostly applied are collaboration platforms, virtual reality, social networks, etc.
- In-depth analyses show that:
  - A positive correlation exists between well-performing companies (in a benchmark comparison) and their use of digital technology.
  - Interestingly, capabilities with the biggest perceived changes due to megatrends are also the capabilities where application and expected impact diverge most.

Source: Roland Berger, CHQ Study 2018
As expected, companies that perform better within their peer group also have a higher level of digital technology application.

Digital technologies' influence on CHQ capabilities – Application [Index\(^1\)]

<table>
<thead>
<tr>
<th></th>
<th>Automation</th>
<th>Connectivity</th>
<th>Digital data</th>
</tr>
</thead>
<tbody>
<tr>
<td>4th best amongst peers</td>
<td>2.8</td>
<td>2.8</td>
<td>3.0</td>
</tr>
<tr>
<td>3rd best amongst peers</td>
<td>3.4</td>
<td>3.3</td>
<td>3.4</td>
</tr>
<tr>
<td>2nd best amongst peers</td>
<td>3.8</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Best amongst peers</td>
<td>3.9</td>
<td>3.9</td>
<td>4.0</td>
</tr>
</tbody>
</table>

\(^1\) Applications: 1 no use at all, 5 extensive use

> Companies were asked to assess their performance compared to their peers

> The results show a direct, positively reinforcing link between how well companies perform within their peer group and their level of current digital technology application.

Source: Roland Berger, CHQ Study 2018
B.3 Mapping of capabilities
Capability mapping was conducted to obtain a better understanding of how corporate functions contribute to CHQ capabilities

Value of corporate function vs. value-adding capability

> CHQ are traditionally focused on the question of what value each corporate function can create

> Our previous studies show that the new guiding architectural question is rather what value CHQ want to create

> Therefore, we wanted to explore which corporate are involved in performing CHQ capabilities

Source: Roland Berger, CHQ Study 2018
We found that the functions Strategy and IT gained significance due to ongoing digital transformation of business models affecting CHQ

CHQ functions' involvement in capability execution [% of total responses]

<table>
<thead>
<tr>
<th>Function</th>
<th>[% of total responses]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy and M&amp;A</td>
<td>11.5%</td>
</tr>
<tr>
<td>IT</td>
<td>10.6%</td>
</tr>
<tr>
<td>Finance &amp; Treasury</td>
<td>9.0%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>8.3%</td>
</tr>
<tr>
<td>PMO/Strategic Projects/Org</td>
<td>7.9%</td>
</tr>
<tr>
<td>Communication</td>
<td>7.6%</td>
</tr>
<tr>
<td>Reporting/Controlling</td>
<td>7.6%</td>
</tr>
<tr>
<td>Marketing &amp; Sales</td>
<td>7.1%</td>
</tr>
<tr>
<td>Technology</td>
<td>7.1%</td>
</tr>
<tr>
<td>Legal Affairs/ Compliance</td>
<td>7.0%</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>6.2%</td>
</tr>
<tr>
<td>Supply Chain Mgt. /Procurement</td>
<td>4.9%</td>
</tr>
<tr>
<td>Quality Management</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

- In order to fulfill most capabilities, CHQ engage various functions, notably Strategy and M&A, IT, Finance & Treasury, PMO/Special Projects/Org Development as well as HR
- IT grows in its relevance as an enabler and strategic tool - High expectation for IT solutions to decrease complexity and strengthen innovation
- Finance & Treasury are decisive functions for basic capabilities like portfolio management and corporate activities as well as financing
- PMO and organization development increase in significance to provide strategic direction and manage complexity

Source: Roland Berger, CHQ Study 2018
Companies that successfully execute CHQ capabilities are ranked among the top of their peers and deliver better performance

Without any exceptions, companies that are good at applying CHQ capabilities are also leading their peer group

In-depth analyses show that
- CHQ have difficulties providing talent to their organization, which strengthens the role of HR
- Underperforming companies have issues with strengthening innovation, exploiting synergies and providing talent
- Mastering value-adding capabilities in CHQ are key competencies for companies' success, a fact which we also noticed in our 2014 study

Capability mapping of own CHQ [Index¹]
B.4 Assessing trends
The trend towards shared service centers and spreading CHQ functions across several organizational units continues…

Trend assessment within own CHQ [% of total responses] (1/2)

Distribution of headquarters' functions across the globe? (e.g. into regions)

- 41% Yes, increasing trend
- 19% Yes, decreasing trend
- 40% No

Overall, trend toward spreading CHQ functions geographically has come to a halt

Distribution of headquarters' functions across several organizational units? (e.g. into business units or business segments)

- 33% Yes, increasing trend
- 17% Yes, decreasing trend
- 50% No

However, trend toward decentralization and therefore tendency to distribute CHQ functions across organizational business units or segments continues

Use of shared service centers?

- 26% Yes, increasing trend
- 13% Yes, decreasing trend
- 61% No

At the same time, trend toward increasing use of shared service centers continues, which is also in line with the findings of our 2012 study on CHQ

Source: Roland Berger, CHQ Study 2018
...supported by technological advancements in RPA, automated service platforms and business process outsourcing

Trend assessment within own CHQ [% of total responses] (2/2)

Shared service centers increasingly converging with automated service platforms? (e.g. infrastructure such as web services, RPA)

- Increasingly automated service platforms amplify this outsourcing trend, which is also consistent with the megatrend of digitalization
  - Yes, increasing trend: 56%
  - Yes, decreasing trend: 33%
  - No: 11%

Use of business process outsourcing?

- Rising trend toward business process outsourcing based on need to cut costs and increase efficiency
  - Yes: 50%
  - No: 45%
  - No: 19%

Revolution in the organizational model applied? (e.g. application of tribal organization, holocracy, ambidextrous organization)

- Though no significant revolution in organizational models was noticed, two out of five respondents see a tendency toward application of tribal organization, holacracy, ambidextrous organization, etc.
  - Yes, increasing trend: 45%
  - Yes, no significant change: 41%
  - No: 14%

Source: Roland Berger, CHQ Study 2018
Overperforming companies highly perceive trends of decentralization, shared service centers and business outsourcing

Trend assessment within own CHQ – Performance group [% of total responses] (1/2)

Distribution of headquarters' functions across the globe? (e.g. into regions)
- Best-performing group: 63%
- 2nd best performing group: 41%
- 3rd best performing group: 27%
- Low-performing group: 21%

Distribution of headquarters' functions across several organizational units? (e.g. into business units or business segments)
- Best-performing group: 72%
- 2nd best performing group: 54%
- 3rd best performing group: 36%
- Low-performing group: 11%

Use of shared service centers?
- Best-performing group: 76%
- 2nd best performing group: 66%
- 3rd best performing group: 45%
- Low-performing group: 47%

Source: Roland Berger, CHQ Study 2018
Execution of decentralization and shared service trends is an enabler for high performance and competitive advantage

Trend assessment within own CHQ – Performance group [% of total responses] (2/2)

Shared service centers increasingly converging with automated service platforms?
(e.g. infrastructure such as web services, RPA)

- Best-performing group: 80%
- 2nd best performing group: 57%
- 3rd best performing group: 42%
- Low-performing group: 37%

Use of business process outsourcing?

- Best-performing group: 72%
- 2nd best performing group: 53%
- 3rd best performing group: 38%
- Low-performing group: 37%

Revolution in the organizational model applied?
(e.g. application of tribal organization, holocracy, ambidextrous organization)

- Best-performing group: 61%
- 2nd best performing group: 44%
- 3rd best performing group: 27%
- Low-performing group: 21%

Source: Roland Berger, CHQ Study 2018
Quarter of study participants show low satisfaction with their CHQ' performance – Reflections on the future concept of CHQ differ

Evaluation of own CHQ satisfaction and future developments [% of total responses]

Low satisfaction level by a quarter of respondents with their headquarters' performance and execution of capabilities

Are you satisfied with the performance of your CHQ?

- Yes 56%
- No 44%

Will CHQ functions be performed by virtual services in a few years?

- Yes 56%
- No 44%

More divided feedback on the question of whether the concept of CHQ is outdated, with a slight positive tendency to indicate that headquarters might be subject to stronger transformation into virtual services within a few years

Source: Roland Berger, CHQ Study 2018
Whereas the size of SSC is expected to increase, there is no clear picture on the expected development of CHQ sizes in general.

Sizing of own CHQ and shared service centers [% of total responses]

**Forward-looking CHQ size estimates**
- Increase: 32%
- Decrease: 31%
- Remain unchanged: 37%

Respondents are undecided as to whether their headquarters will grow in the future or not.

**Forward-looking shared service centers size estimates**
- Increase: 49%
- Decrease: 15%
- Remain unchanged: 36%

By contrast, headcount in service centers is expected to increase.

Source: Roland Berger, CHQ Study 2018
C. Our approach to CHQ design
Our proven methodology for designing a future corporate headquarters model integrates top-down and bottom-up elements.

Roland Berger "Design-to-Value" methodology

**Allocations of services and resources**
- Bottom-up validated by business representatives aligned with functional owners from CHQ

**Expected value-add from Corporate Functions & Services**
- **Basic capabilities**
  - Exploit synergies/economies of scale
  - Report corporate activities
  - Ensure corporate governance
  - Provide financing
  - Manage portfolio
- **Value-adding capabilities**
  - Foster agility & manage complexity
  - Strengthen innovation
  - Enable global collaboration
  - Support transformation & ensure execution
  - Attract & retain talent
  - Provide strategic direction

**Provide purpose and identity**
Shape and promote a common Culture ("DNA") based on shared values

**Service portfolio and requirements from the business**
Transparency on service offerings and need for service support from segments/assets (internal clients)

**Roles & Responsibilities of Corporate Functions & Services**
CHQ defines governance/mandate, expected minimum services and steering model per function (PUSH-principle)

- **Governance & Steering**
  - Policy making/guidelines
  - Legal framework and compliance
  - Group standards
- **Consulting & Coaching**
  - Advice/coordination
  - Know-how/best practice
  - Strategy & resources
- **Service & Administration**
  - Transactional services
  - High degree of standardization
  - Automation
  - Make or buy
  - Efficiency/cost focus

**Future model of CHQ**
Top-down definition of future allocation of corporate services, roles & responsibilities and degree of freedom for segments/assets

**Claim for Leadership of CHQ**

**Level of integration of segments & assets**

**Good practice examples** (cross-industry benchmarks)

Source: Roland Berger
"Design to value" means integrating strategic, conceptual and analytical elements in one approach to shape the future CHQ

Parameters to develop the future CHQ "Design-to-Value"

- Leadership role of CHQ vis-à-vis the segments and assets
  - Strategic priorities and guidelines, incl. capital markets perspective
  - Operational vs. strategic vs. financial management
  - Groupwide, mandatory solutions vs. entrepreneurial freedom of BUs, regions, and plants

- Total cost of ownership and resource allocation
  - Cost of CHQ functions and transparency on service recipients
  - KPI-analysis/ selective benchmarking
  - Make-or buy assessments

- Benchmarking and external good practice examples
  - FTE benchmarks based on analyses from Roland Berger database "BigBen" – provides data for approx. 400 corporate headquarters
  - Case studies and focused open exchange

- Value-add of CHQ and required capabilities to demonstrate it
  - Provide purpose and identity
  - Basic capabilities (synergies, resource allocation)
  - Value-adding capabilities (agility, innovation)

- Specific roles and services per function (functional role)
  - Governance/ "Law Guardian"
  - Manager
  - Business Partner
  - Service Provider

- Levers to increase efficiency and performance
  - Reduction of services/service level
  - Elimination of redundancies
  - Process standardization
  - Automation, Robotics, AI
  - Near-/Offshoring

Source: Roland Berger
Our Organisation Practice constantly shares their best-practice approaches through publications – New concepts are developed

Selected publications

**Organization & Leadership**

- 2018 Company Organization
- 2015 Corporate Transformation
- 2014 Corporate HQ findings
- 2013 Light Footprint Management (book from C.-E. Bouee)
- 1999-2018 Bi-annual Corporate Headquarters study
- 2018 HR Strategy
- 2013 On Good Management (book from B. Schwenker)

**Strategy**

- 2018 Corporate Strategy
- 2017 Corporate Strategy
- 2015 Chief Strategy Officer (bi-annual survey)
- 2018 AI/Digital Transformation
- 2018 The AI-powered company
- 2018 Robotics process automation

**Digital Transformation**

- 2018 Radikal digital
- 2015 (Digital) transformation studies

Source: Roland Berger