Corporate Headquarters Study 2018

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

Munich, July 2018

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

Digital technologies
Gap between claim and reality

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

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**
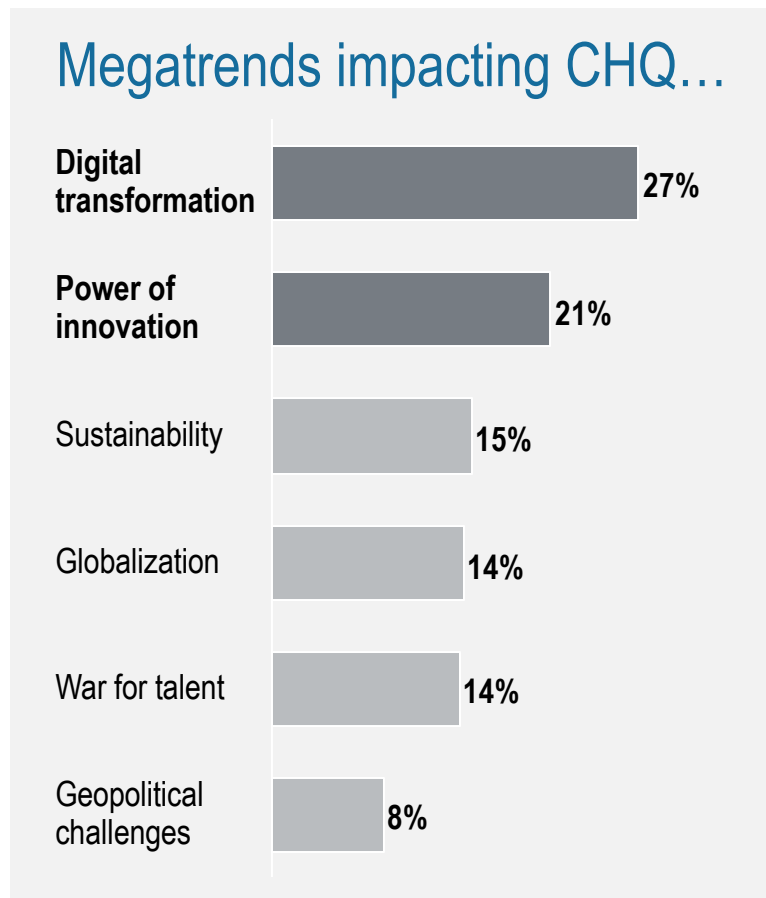
CHQ Trends
Decentralization tendency continues

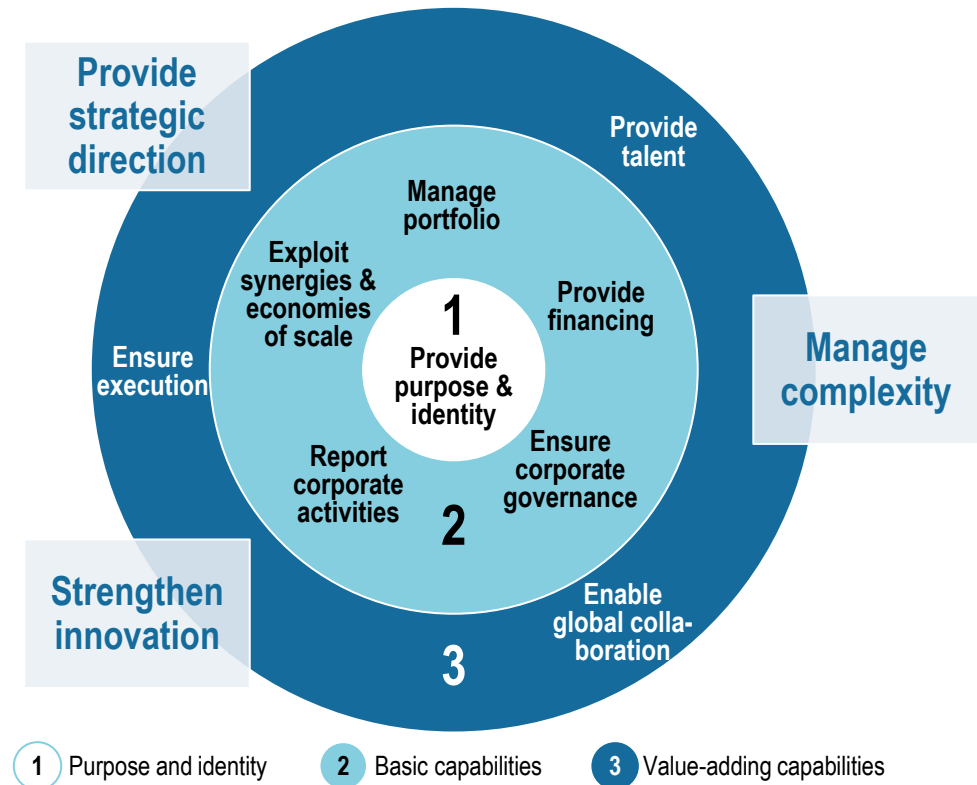Trend toward **shared service centers** and **spreading CHQ functions across several organizational units continues**

> 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

Provide strategic direction, Manage complexity and Strengthen innovation are the CHQ capabilities impacted most by top megatrends

Capabilities of corporate headquarters

Megatrends impacting CHQ…

Megatrend	Value
Digital transformation	27%
Power of innovation	21%
Sustainability	15%
Globalization	14%
War for talent	14%
Geopolitical challenges	8%

…and most impacted CHQ capabilities

Provide strategic direction

Provide talent

Manage portfolio

Exploit synergies & economies of scale

1 Provide purpose & identity

Provide financing

Ensure execution

Manage complexity

Report corporate activities

Ensure corporate governance

2

Strengthen innovation

Enable global colla-boration

3

1 Purpose and identity   2 Basic capabilities   3 Value-adding capabilities

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 concepts[1] 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

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
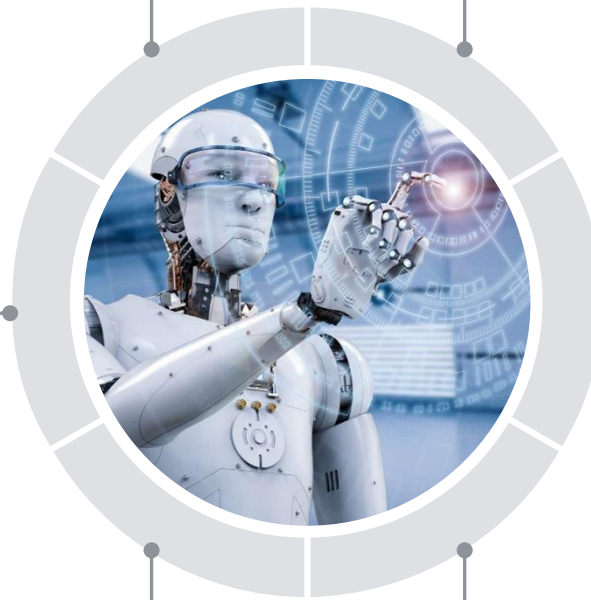
Power of innovation

Disruptive as well as sustaining innovations **change the way people are living their lives** and drive economic prosperity
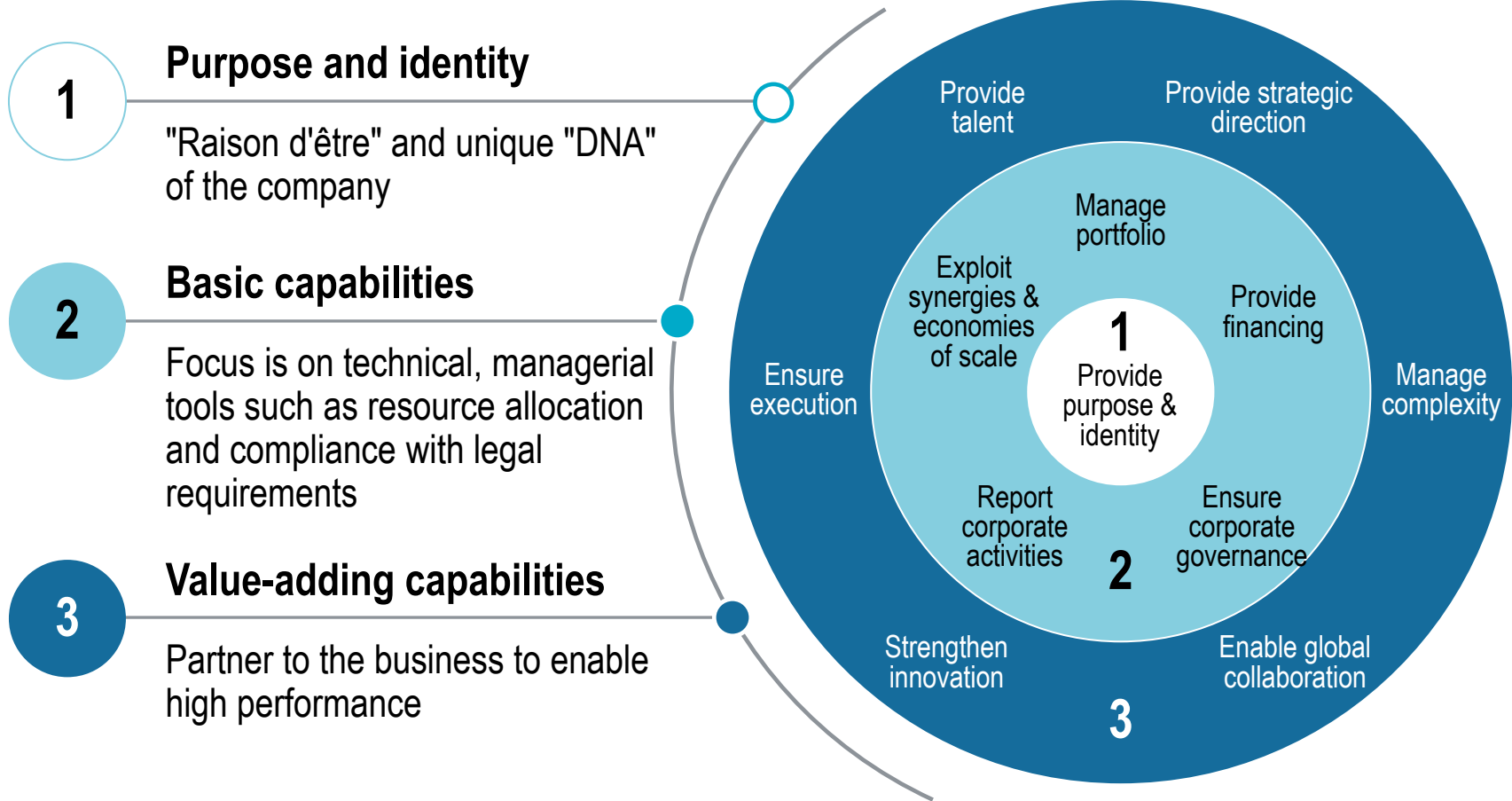
Digital transformation

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**

…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

Provide talent

Provide strategic direction

Ensure execution

Exploit synergies & economies of scale

Manage portfolio

Provide financing

1 Provide purpose & identity

Manage complexity

Report corporate activities

Ensure corporate governance

2

Strengthen innovation

Enable global collaboration

3

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

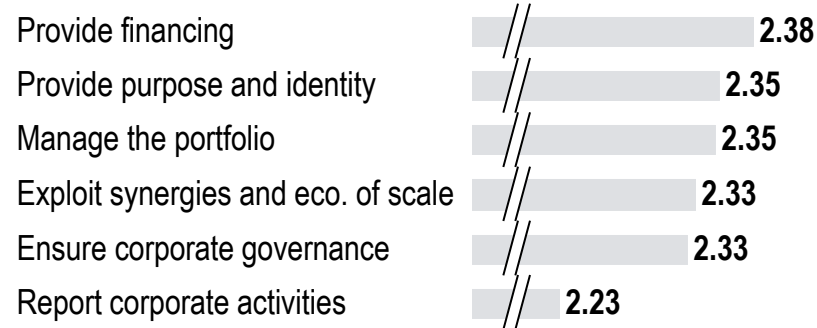Trends with the biggest impact [% of total responses]

Geopolitical challenges — 8%

War for talent — 14%

Digital transformation — 27%

Globali-zation — 14%

Power of innovation — 21%

Sustainability — 15%
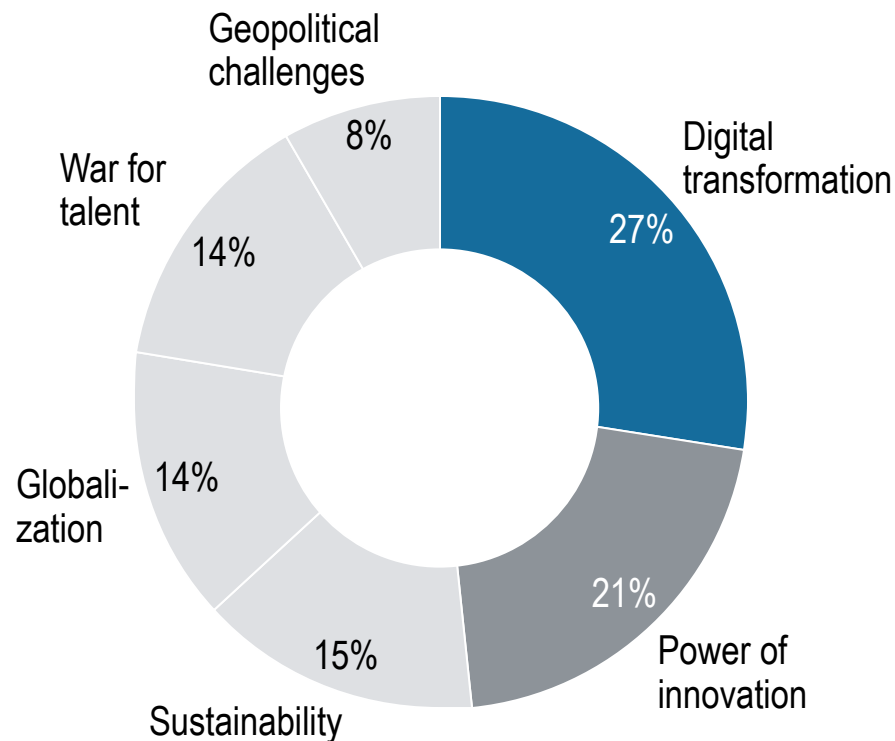
> **Digital transformation** and the **power of innovation** are perceived to mostly impact CHQ

> 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
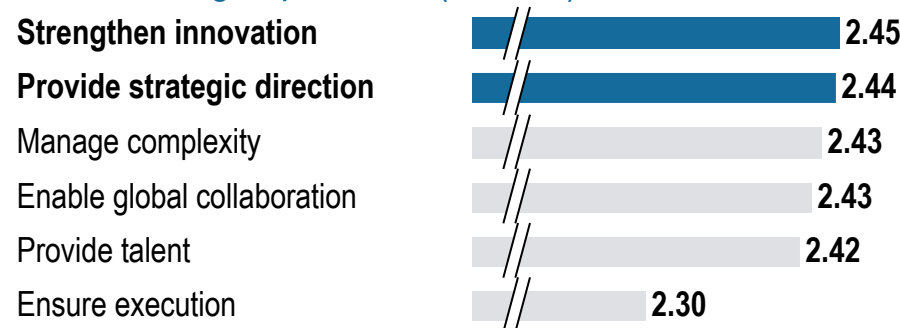
Those megatrends mostly influence value-adding capabilities of head-quarters, notably Strengthen innovation and Manage complexity

CHQ capabilities most influenced by megatrends [Index[1]]

Basic capabilities (Ø 2.33)

Capability	Index
Provide financing	2.38
Provide purpose and identity	2.35
Manage the portfolio	2.35
Exploit synergies and eco. of scale	2.33
Ensure corporate governance	2.33
Report corporate activities	2.23

Value-adding capabilities (Ø 2.41)

Capability	Index
Strengthen innovation	2.45
Provide strategic direction	2.44
Manage complexity	2.43
Enable global collaboration	2.43
Provide talent	2.42
Ensure execution	2.30

> **Value-adding capabilities generally see higher impact** from the rising trends of digitalization and power of innovation
> **Basic capabilities** are somewhat **less influenced** by trends toward digital, innovation, etc.
> The **call for action in CHQ is getting stronger** as value-adding capabilities are core competencies in companies' efforts to master future challenges
> **In-depth analyses** show that
>   – **Digitalization is the main driver to tackle increasing complexity**
>   – **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
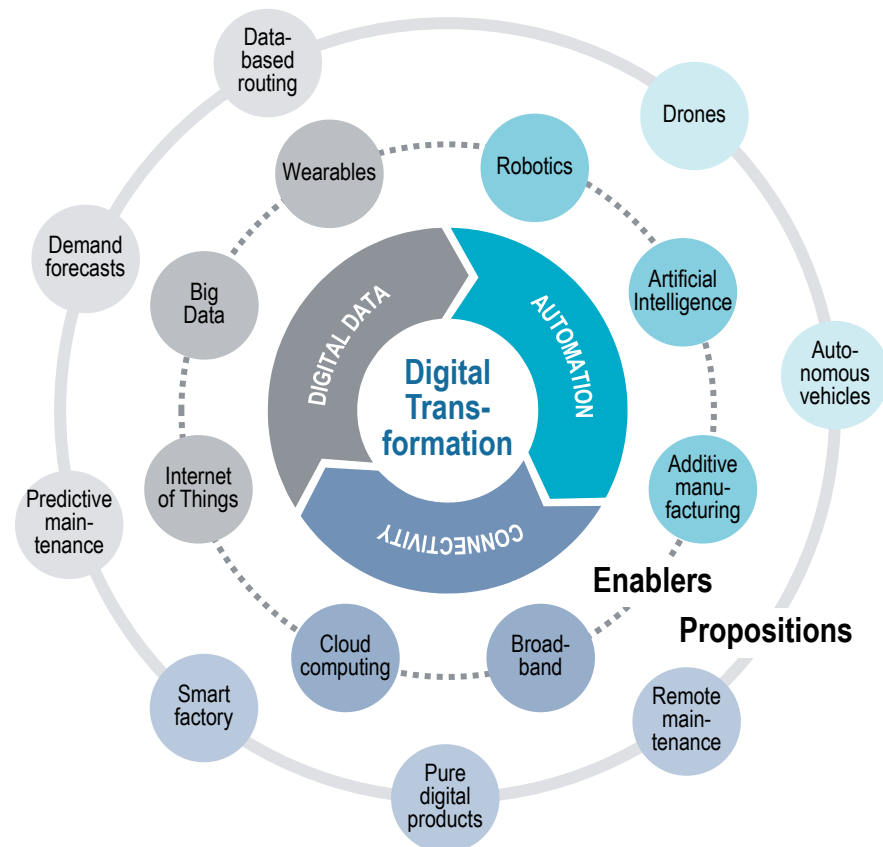
1) Index: 1 Decreasing significance, 2 No change, 3 Increasing significance

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

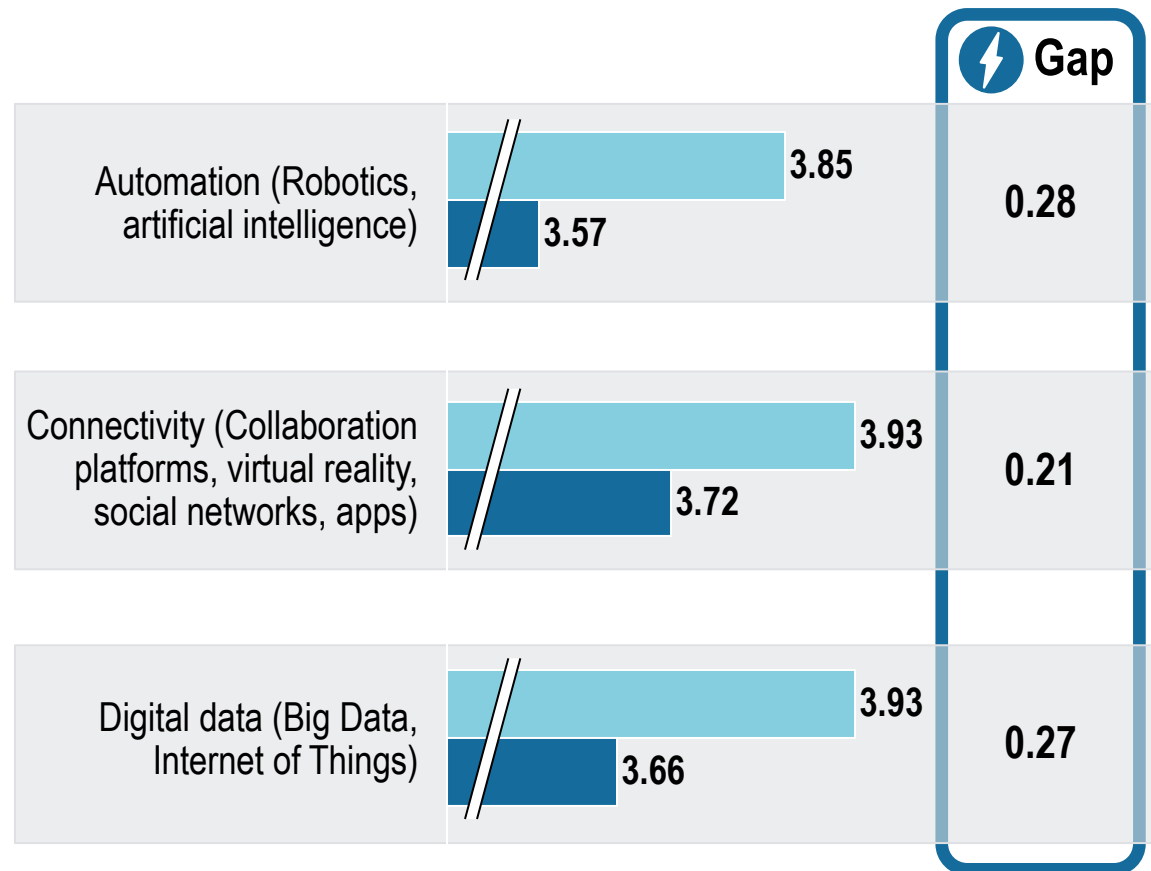Digital transformation takes effect via three levers

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

We see a performance gap for digital technologies between actual application and potential impact on a CHQ level

Digital technologies' influence on CHQ capabilities [Index[1]]

⚡ **Gap**

Automation (Robotics, artificial intelligence)	Impact: 3.85 / Application: 3.57	**0.28**
Connectivity (Collaboration platforms, virtual reality, social networks, apps)	Impact: 3.93 / Application: 3.72	**0.21**
Digital data (Big Data, Internet of Things)	Impact: 3.93 / Application: 3.66	**0.27**

█ Impact █ Application

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**

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]]

	Automation	Connectivity	Digital data
4th best amongst peers	2.8	2.8	3.0
3rd best amongst peers	3.4	3.3	3.4
2nd best amongst peers	3.8	3.9	3.9
Best amongst peers	3.9	3.9	4.0
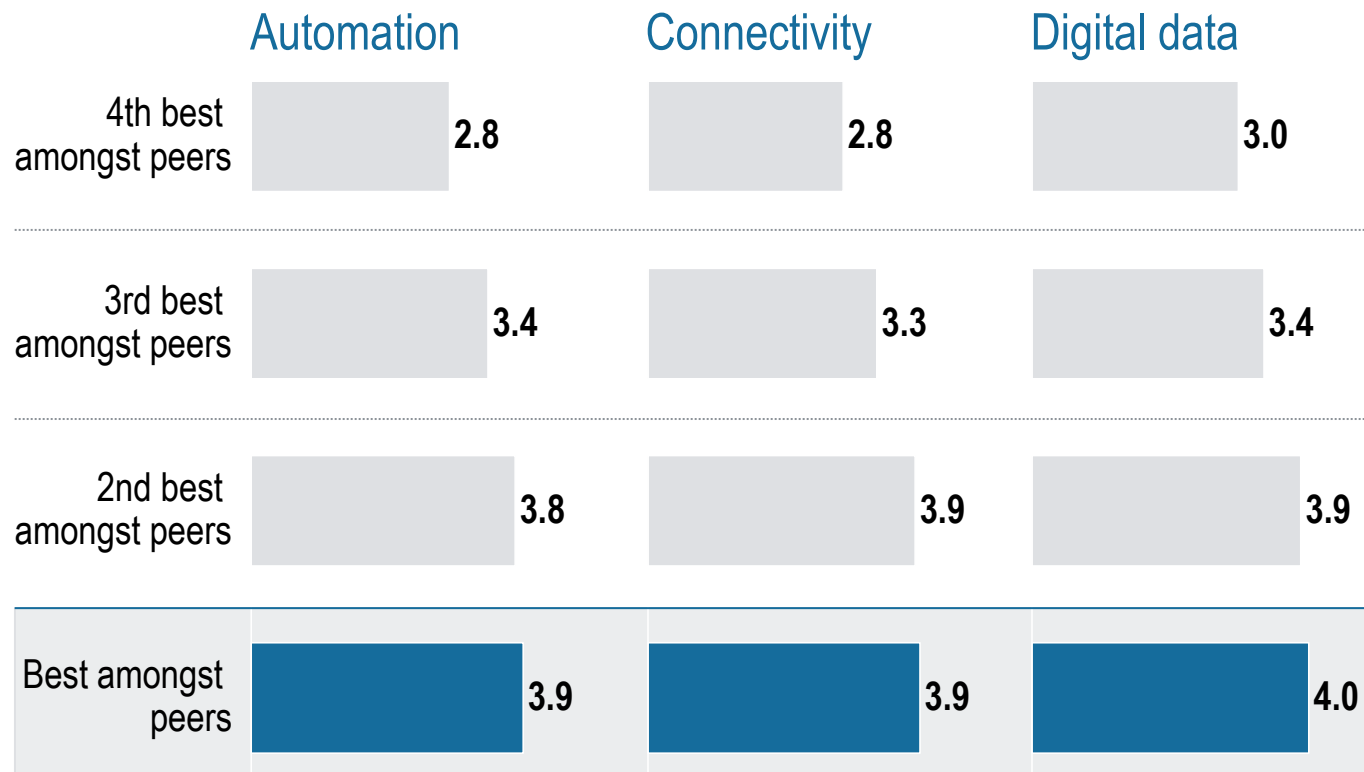
> Companies were asked to assess their performance compared to their peers

> 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**

1) Applications: 1 no use at all, 5 extensive use

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
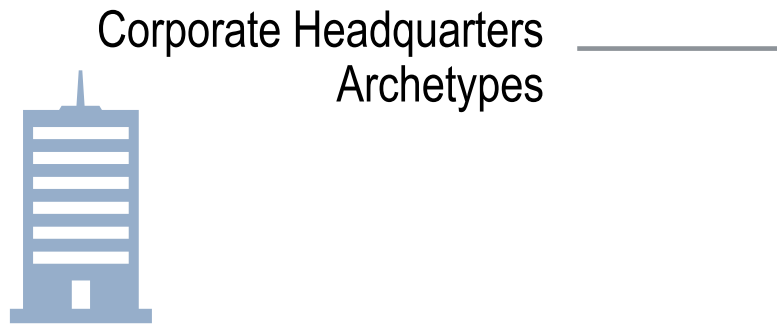
Corporate Headquarters Archetypes ➔ **Understand structures and processes through capability mapping**

> 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**

Map capabilities on structures and function

4. Which functions in your Corporate Headquarters are involved in performing the capability to …

	Strategy & M&A	Communication	Legal Affairs/ Compliance	PMO/Strategic Projects/Orga	Finance & Treasury	Reporting/ Controlling	Human Resources	IT	Marketing & Sales	R&D	Production & Technology	Supply Chain Mgt. /Procurement	Quality Management
… provide purpose and identity	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
… manage the portfolio	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
… provide financing	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
… ensure corporate governance	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
… report corporate activities	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
… exploit synergies and economies of scale	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
… provide strategic direction	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
… manage complexity	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
… enable global collaboration	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
… strengthen innovation	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
… ensure execution	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
… provide talent	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

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]

Function	%
Strategy and M&A	**11.5%**
IT	**10.6%**
Finance & Treasury	9.0%
Human Resources	8.3%
PMO/Strategic Projects/Orga	7.9%
Communication	7.6%
Reporting/Controlling	7.6%
Marketing & Sales	7.1%
Technology	7.1%
Legal Affairs/ Compliance	7.0%
R&D	6.2%
Supply Chain Mgt. /Procurement	4.9%
Quality Management	4.9%
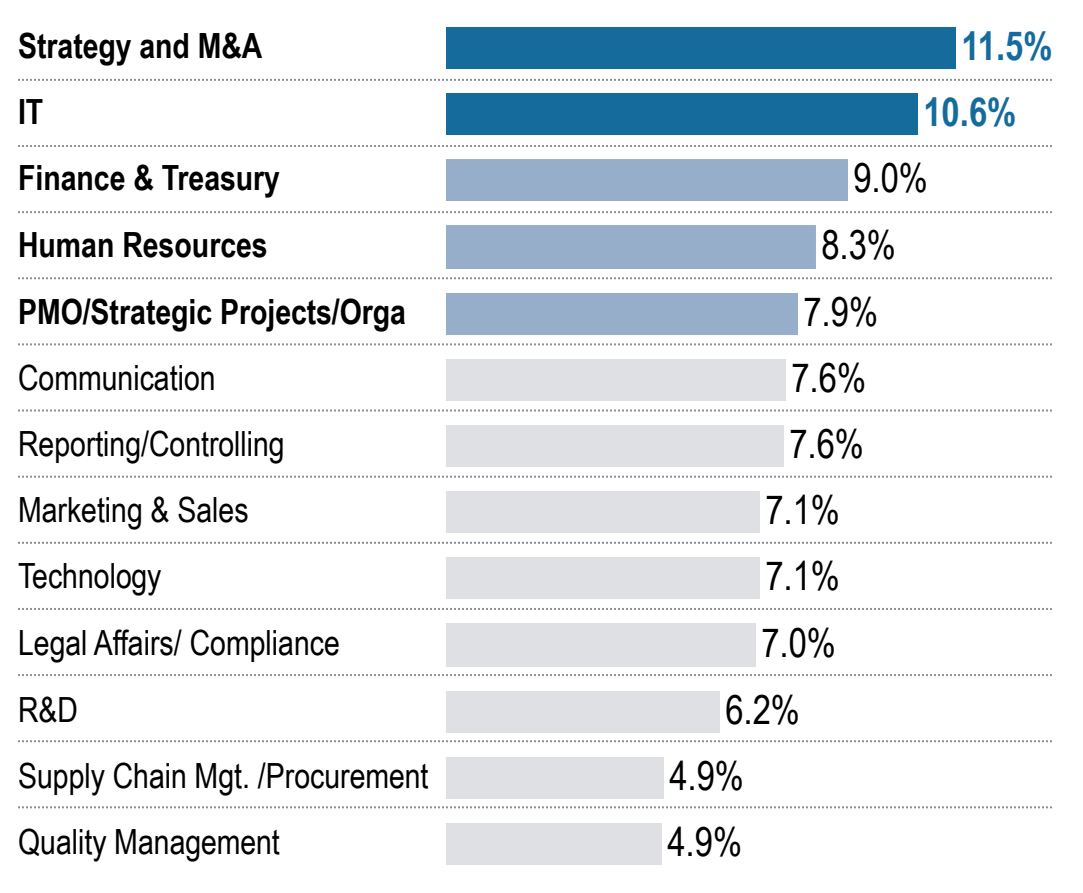
> In order to fulfill most capabilities, **CHQ engage various functions,** notably **Strategy and M&A, IT, Finance & Treasury, PMO/Special Projects/Org Development as well as HR**

> **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**

Companies that successfully execute CHQ capabilities are ranked among the top of their peers and deliver better performance

Capability mapping of own CHQ [Index[1)]]

> 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

Legend:
— Best-performing group   — 2nd best performing group   — 3rd best performing group   — Low-performing group

1) Performance: 1 very poor, 4 excellent

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)

40%
41%
19%
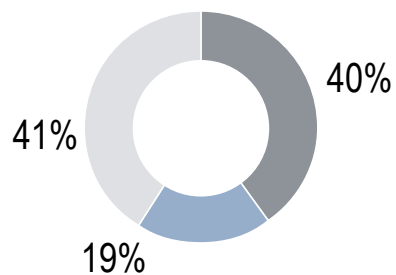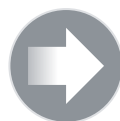
Overall, trend toward spreading CHQ functions geographically has come to a halt

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

33%
50%
17%
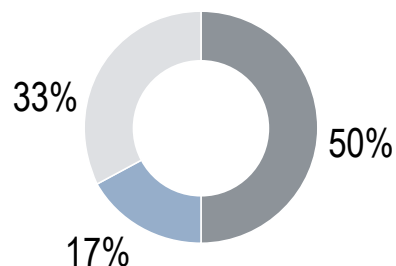
However, trend toward decentralization and therefore tendency to distribute CHQ functions across organizational business units or segments continues

Use of shared service centers?

26%
61%
13%
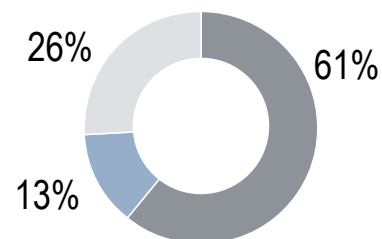
At the same time, trend toward increasing use of shared service centers continues, which is also in line with the findings of our 2012 study on CHQ

■ Yes, increasing trend   ■ Yes, decreasing trend   ▢ No

…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)

33%   56%

11%
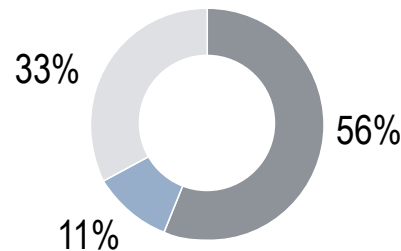
Increasingly automated service platforms amplify this outsourcing trend, which is also consistent with the megatrend of digitalization

Use of business process outsourcing?

31%   50%

19%
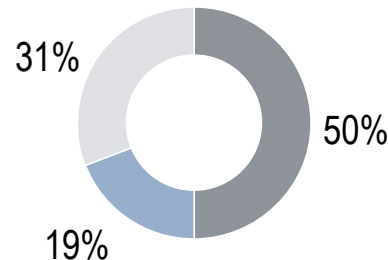
Rising trend toward business process outsourcing based on need to cut costs and increase efficiency

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

45%   41%

14%
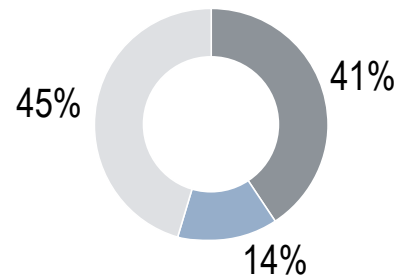
Though no significant revolution in organizational models was noticed, two out of five respondents see a tendency toward application of tribal organization, holacracy, ambidextrous organization, etc.

■ Yes, increasing trend   ■ Yes, decreasing trend   □ No

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)

63% | 41% | 27% | 21%

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

72% | 54% | 36% | 11%

Use of shared service centers?

76% | 66% | 45% | 47%
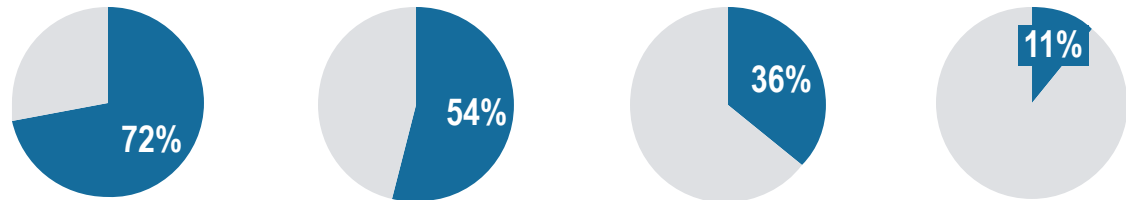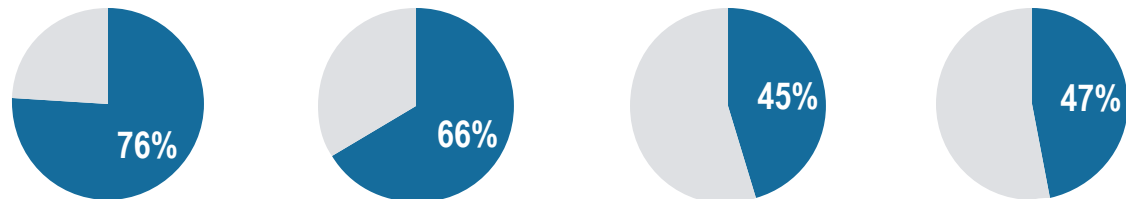
| Best-performing group | 2nd best performing group | 3rd best performing group | Low-performing group |

■ Yes, increasing trend

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)

80%   57%   42%   37%

Use of business process outsourcing?

72%   53%   38%   37%

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

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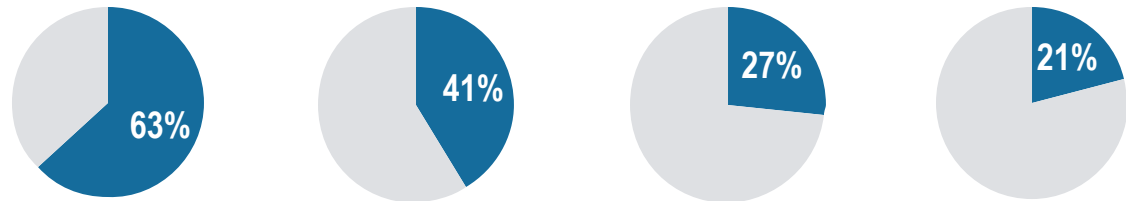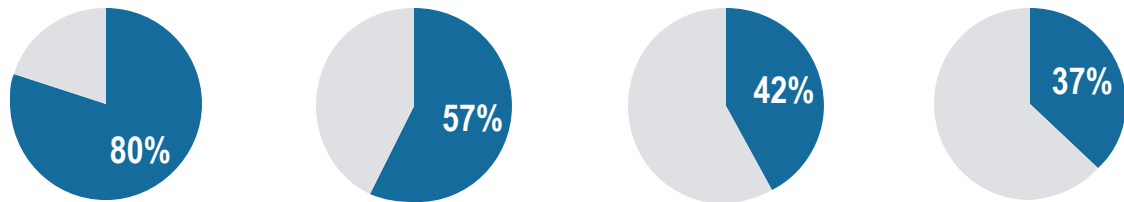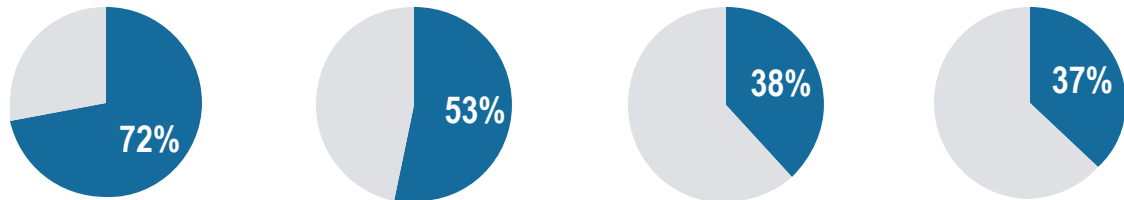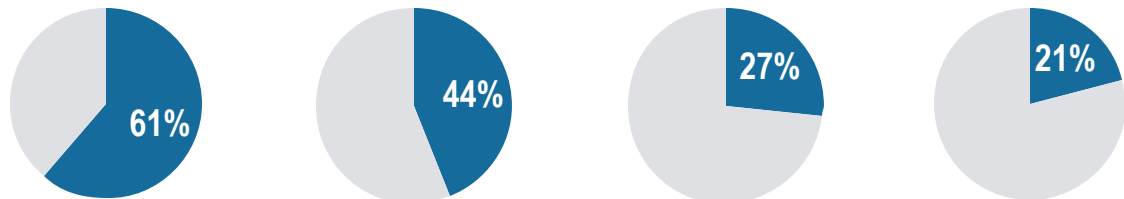
Best-performing group   2nd best performing group   3rd best performing group   Low-performing group

■ Yes, increasing trend

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]

23%

Are you satisfied with the performance of your CHQ?

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

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

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

32% 37%

31%
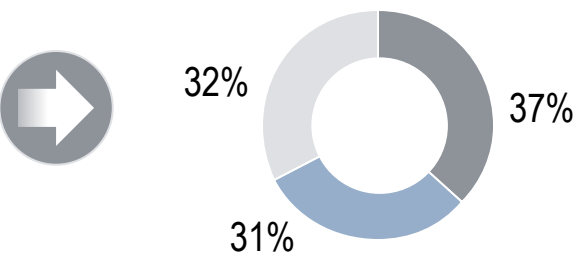
Respondents are undecided as to whether their headquarters will grow in the future or not

Forward-looking shared service centers size estimates

36% 49%

15%
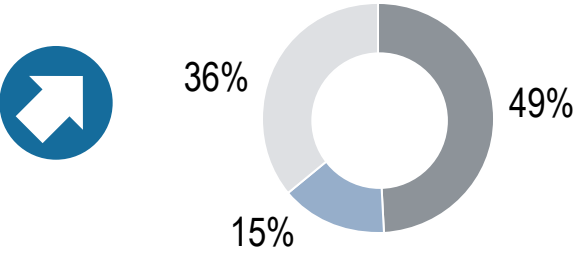
By contrast, headcount in service centers is expected to increase

■ Increase ■ Decrease ■ Remain unchanged

C. Our approach to CHQ design

Our proven methodology for designing a future corporate headquarters model integrates top-down and bottom-up element

Roland Berger "Design-to-Value" methodology

Claim for Leadership of CHQ ⟲ **Level of integration** of segments & assets

Good practice examples (cross-industry benchmarks)

▼

Top-down →

Roles & Responsibilities of Corporate Functions & Services

CHQ defines governance/mandate, expected minimum services and steering model per function (PUSH-principle)

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

Bottom-up ↓

Allocation 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/econ. 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)

"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 Creation

Evaluation

- ✓ Cost Transparency
- ✓ Future CHQ model
- ✓ Resource allocation (as-is & to-be)

Prioritization

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

Our Organisation Practice constantly shares their best-practice approaches through publications – New concepts are developed
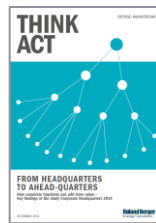
Selected publications
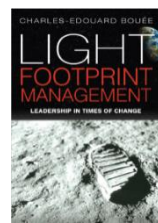
Organization & Leadership

2018
Company
Organization

2015
Corporate
Transformation

2014
Corporate
HQ findings

2013
Light Footpring
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

2017
Corporate
Strategy

Chief Strategy
Officer
(bi-annual survey)

Digital Transformation

2018
AI/Digital
Transformation

2018
The AI-powered
company

2018
Robotics
process
automation

2016
Radikal digital

2015
(Digital) transfor-
mation studies