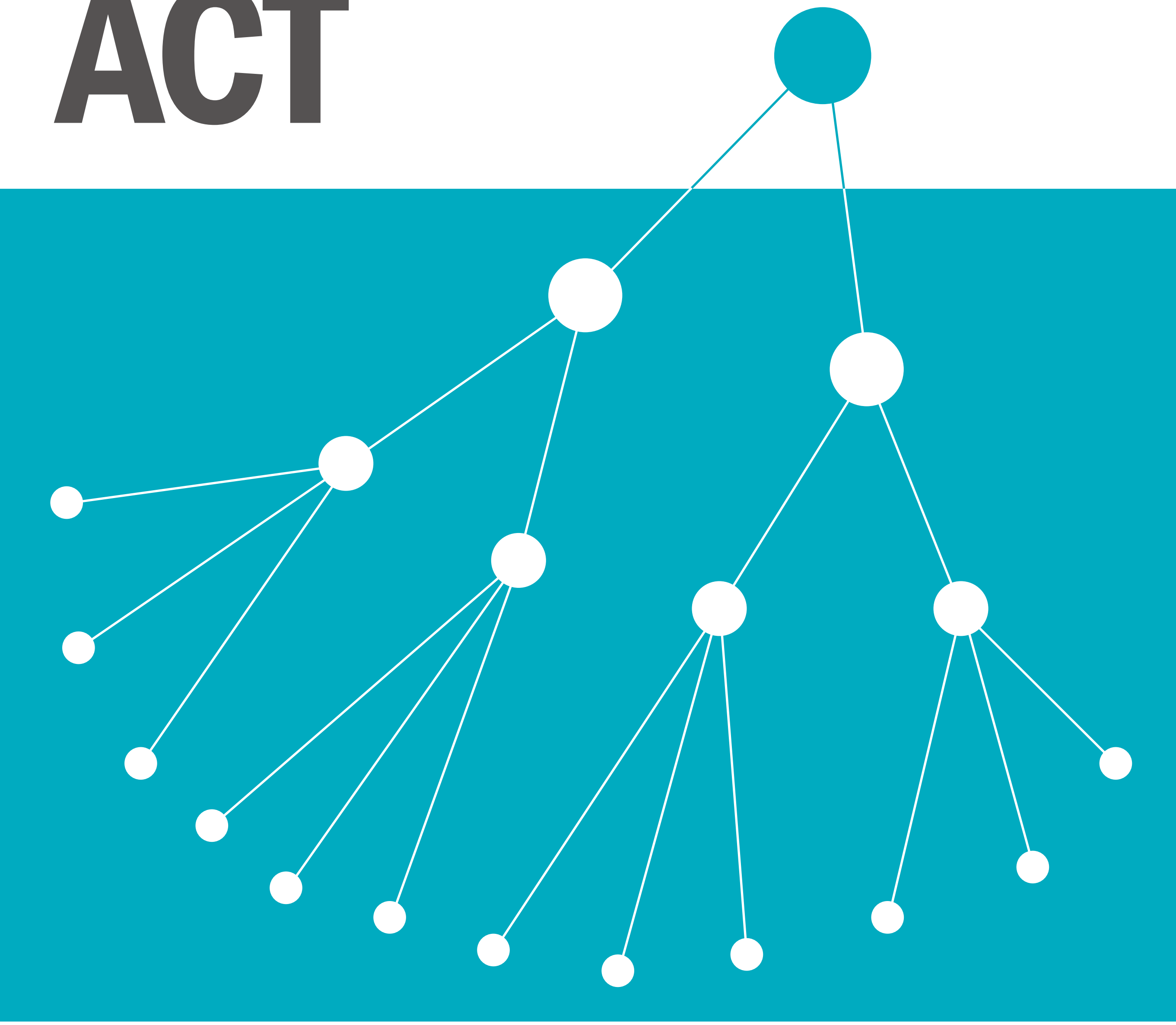
THINK ACT

BEYOND MAINSTREAM



FROM HEADQUARTERS TO AHEAD-QUARTERS

How corporate functions can add more value – Key findings of the study Corporate Headquarters 2014

Roland Berger
Strategy Consultants

DECEMBER 2014

THE BIG 3

1 6

value adding capabilities are what make the difference between good corporate headquarters (CHQ) and very good ones. Constant overperformance in corporate functions can genuinely add value for the company.
p. 3

2 0.67

is the average deviation (on a four-point scale) between the perceived importance of value adding capabilities and performance in actually delivering them. Untapped potential clearly lies dormant in many corporate headquarters.
p. 6

3 3.4%

of employees work at corporate headquarters on average across all companies (median for corporate centers, excluding shared services). This figure is a good two percentage points lower than just two years ago.
p. 15

CHQ Action Map p. 22

Boosting performance. Six value adding capabilities are key to overcome the parenting advantage paradox experienced by today's corporate headquarters.

There's a lot of prejudice against corporate headquarters (CHQ). A very popular quote is attributed to US industrialist Norman R. Augustine, former CEO of Lockheed Martin, who wryly noted that "Two-thirds of the Earth's surface is covered with water; the other third is covered with auditors from headquarters". That's just one adverse sentiment out of many – there seems to be no end to the arsenal of poisoned arrows and snide remarks that repeatedly target corporate centers: Headquarters are good at thinking about problems, but not at solving them; they look into holes instead of filling them in; and they all too readily waste the money earned by other people's hard work. Allegedly, CHQ are, by definition, bloated corps of bland officials who see their principal task as deliberating on topics that are completely irrelevant to customers and have no bearing whatsoever on the market. And should "Bullshit Castle" ever unexpectedly come up with some bright idea, none of the countless chiefs ever shoulders responsibility for putting it into operation. So far, so bad.

The element of truth in these preconceived ideas is rooted in the fact that, in the past, many companies have failed to closely examine the "parenting advantage" – the real value – that CHQ add or do not add. Yet the corporate community has long since begun to rethink this hands-off policy. As we stressed in our 2012 publication entitled "Re-considering corporate headquarters", CHQ are increasingly being called on to maximize the value they add while minimizing the resources they deploy. This is forcing them to radically cut their costs by increasing efficiency, exploiting economies of scale and engaging in labor arbitrage. At the same time, they are also having to develop new capabilities, gain a better understanding of operational business units and establish themselves more firmly as the latter's business partners.

These considerations were the point of departure for this year's follow-up, entitled "From headquarters to ahead-quarters. How corporate functions can add more value". To prepare this study, we talked to international manufacturing, service and trade companies that vary in size and operate different management concepts B. Six fundamental capabilities and six value [1] adding capabilities have been adopted from our previous survey and explored in greater detail in light of interviews with experts, a review of relevant literature and our own project experience A.

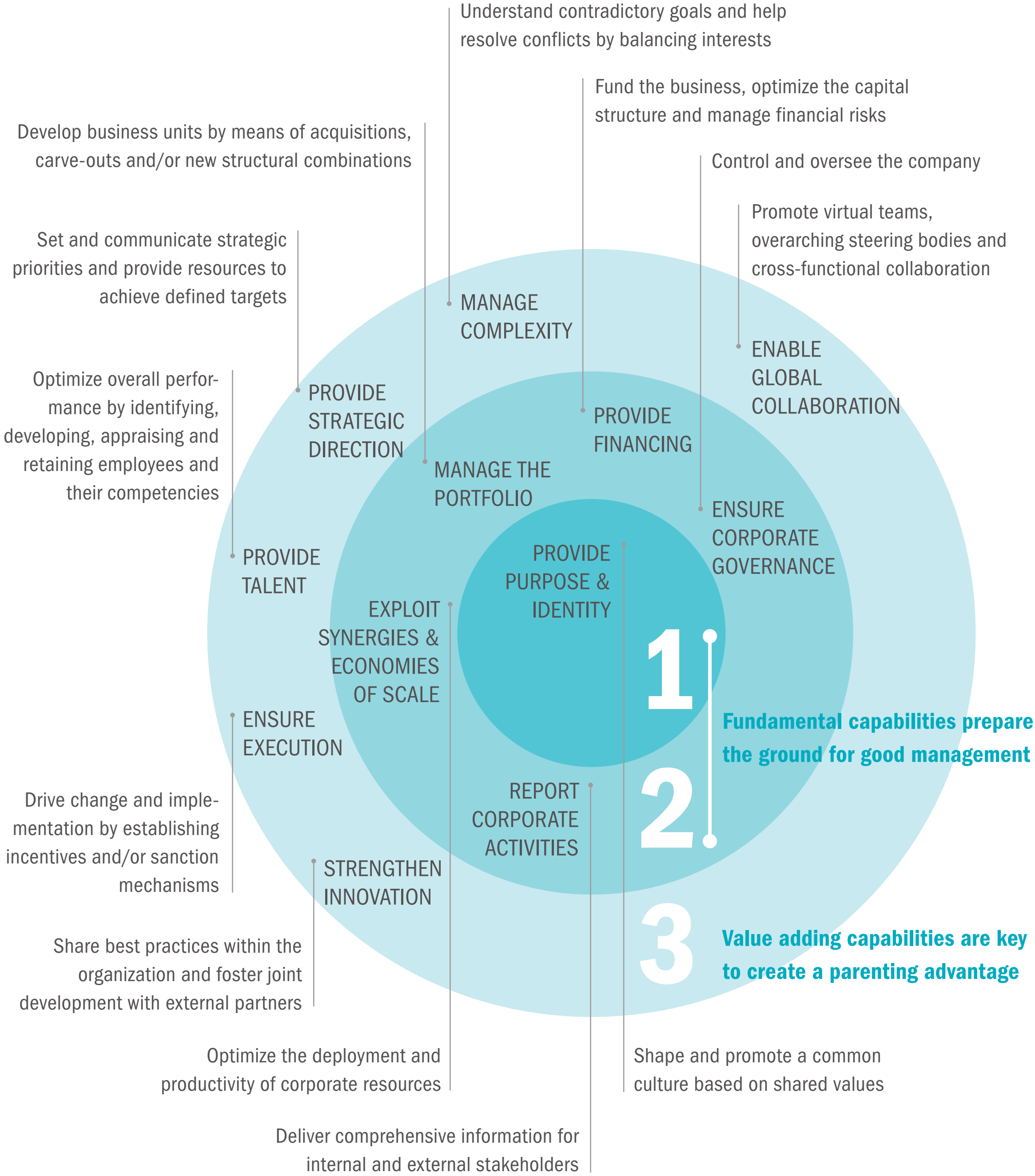
For the purposes of the current study, specific actions were defined for each of the six value adding capabilities. A long list of about 15 items per area identified the key levers that a company can activate in order to realize these capabilities. Interviews with board members from DAX 30 companies validated and sharpened the focus of these actions, resulting in a short list of ten items per capability. Study participants were then asked to evaluate the actions. Lastly, we took the five most frequently cited ones and translated them into concrete recommendations F.

The outcome is empirically substantiated guidance on what companies can do in practice to develop and

A

MASTERS OF VALUE

A THREE-TIERED MODEL OF FUNDAMENTAL AND VALUE ADDING CAPABILITIES



Source: Roland Berger study Corporate Headquarters 2014

improve their corporate headquarters. Special analyses based on performance, size and industry cluster (manufacturing versus non-manufacturing) round off this unique study, which examines the role of CHQ in international companies from a broad range of angles.

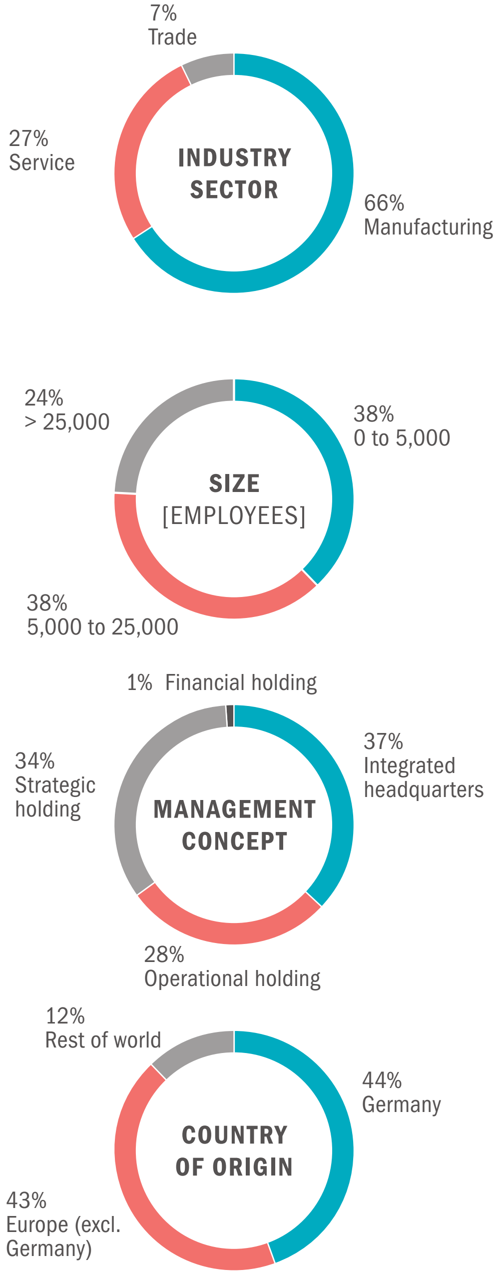
The most surprising finding of our study is that, for the first time in ten years, the trend toward across-the-board centralization has finally been reversed. Customer-facing functions in particular are reverting to a more distributed set-up, while the trend toward shared services remains strong and outsourcing, too, is gaining fresh momentum. This leads us to the following conclusions: Economies of scale, process quality and labor arbitrage are evidently the most important considerations for services – such as IT, HR and finance – that are provided by corporate centers or shared services. By contrast, market expertise is the crucial factor in customer-facing functions, where less importance is attached to the cost and efficiency benefits of centralized units – although consistent governance and clearly defined spheres of responsibility remain vital. To put all that in a nutshell: The development of capabilities must be controlled from headquarters, but responsibility for putting those capabilities into operation can be entrusted to decentralized units.

Drawing on the results of the quantitative part of our survey of staffing levels at CHQ, and based on our experience of CHQ projects at more than 400 companies, we set a benchmark for each individual management concept – a yardstick against which corporate headquarters in every shape and form can and should measure themselves. On a highly practical CHQ Action Map (see section entitled "Go your own way"), this benchmark allows management to define the levers that offer the greatest potential to add value. Firms can thus close the "execution gap" (between the perceived importance of capabilities and the degree to which those capabilities are actually realized) that is visible in almost every company. This action-oriented focus makes our seventh CHQ study a proven and significant tool to optimize corporate headquarters everywhere – regardless of industry sector, size, management concept or country of origin.

B

MORE THAN 130 COMPANIES TOOK PART IN OUR 7TH SURVEY OF INTERNATIONAL CORPORATE HEADQUARTERS

Sample analysis 2014:
participants by key attribute [in %]



Source: Roland Berger study Corporate Headquarters 2014

Close the execution gap. At almost all companies, there is a significant gap between the perceived importance of capabilities and the actual performance.

One of the core findings of our study is that, for nearly all of the twelve defined capabilities, corporate headquarters fall well short of what companies claim to want to achieve C. On average, there is a gap of more than 0.5 points between perceived importance and actual performance for each of the six fundamental capabilities. For the value adding capabilities, the average [2] gap is even wider, at 0.67 points. Only in the provision of financing (funding, capital structure, risk management, etc.) do CHQ perform to a level that matches the importance companies attach to this topic. The biggest deficits – reflected in deviations of at least 0.7 points – concern the management of synergies and the ability to manage complexity. However, there is also obvious room for improvement regarding the potential to generate innovation and in supplying the company with the right human resources, especially at management level.

These findings apply for all companies, irrespective of financial performance, size and/or industry cluster. Companies that rate their own financial performance as above-average attach great importance to actively striving for enterprise-wide synergies – and to the ability to genuinely implement the decisions they make. These companies achieve above-average performance scores for the majority of capabilities, but – surprisingly – not for innovation and talent management D. Size-based comparison shows that companies with a large workforce possess superior strategic and execution capabilities. Medium-sized firms are especially good at managing complexity, enabling internal collaboration and both sourcing and developing suitable talent. Smaller companies, however, struggle most with talent management K.

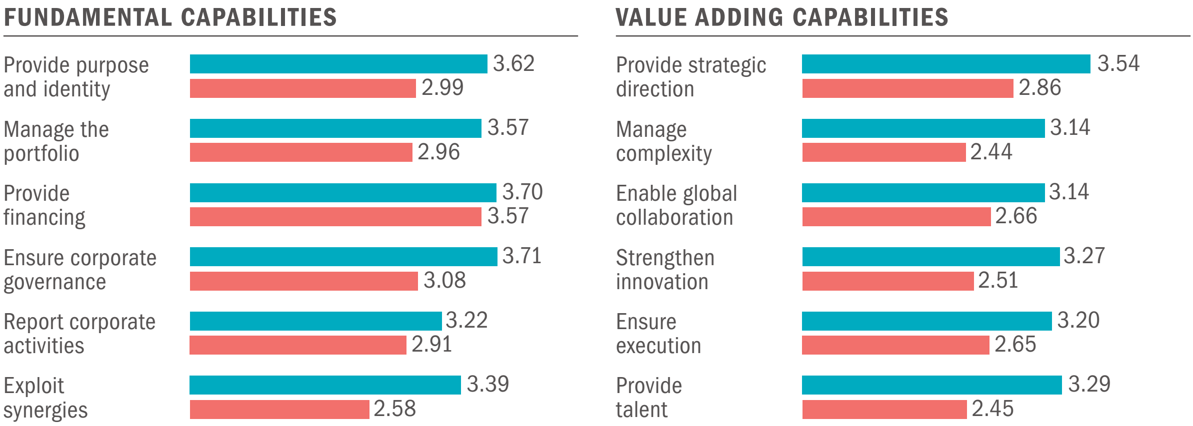
Lastly, comparison of firms in different industries reveals little difference in the priorities set by manufacturing and non-manufacturing players – with two exceptions: Managing complexity is of supreme importance to trading companies and service providers, while manufacturing firms see the need to strengthen innovation as far more important than the sample universe as a whole. In terms of performance, too, the results differ significantly on just two counts: The CHQ of manufacturing companies do a far better job of providing purpose and identity and of strengthening innovation.

Even allowing for biases due to the popular sport of CHQ bashing that we outlined at the start, an execution gap still remains at virtually all companies and in practically every dimension of value creation. There are many and varied explanations for this phenomenon. Companies' self-assessment may reflect growing uncertainty about the economy, which could in turn make firms more acutely aware of problems, more critical in their view of activities and more sensitive regarding the future demands placed on corporate headquarters. On the other hand, perhaps companies today simply expect more of their CHQ in terms of performance and value added. Neither consideration would indicate a crisis, but rather suggest that mission-critical activities are now being watched more closely. For headquarters that rise to these challenges and activate the right levers, that should be good news.

C

FOR NEARLY ALL CAPABILITIES, THERE IS A SIGNIFICANT GAP BETWEEN PERCEIVED IMPORTANCE AND ACTUAL PERFORMANCE – FOR THE ONES THAT ADD CONSIDERABLE VALUE, THE GULF IS EVEN WIDER

Perceived importance vs. actual performance



AVERAGE DIFFERENCE OF IMPORTANCE AND PERFORMANCE: **0.52**

AVERAGE DIFFERENCE OF IMPORTANCE AND PERFORMANCE: **0.67**

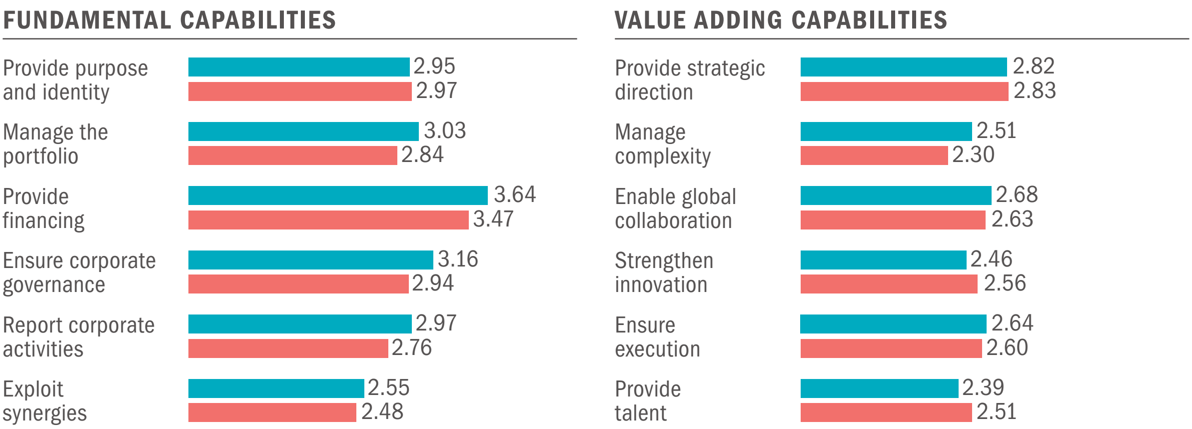
Importance   Performance

Mean values; 1 = not important/very poor quality; 4 = very important/excellent quality

D

OVERPERFORMING COMPANIES DO VERY WELL AT NEARLY ALL CAPABILITIES. SURPRISINGLY, HOWEVER, THEY ARE NOT GOOD AT STRENGTHENING INNOVATION AND PROVIDING TALENT

Performance on fundamental and value adding capabilities: overperformers vs. others



Overperformers   Others

Mean values: 1 = not important/very poor quality; 4 = very important/excellent quality

Source: Roland Berger study Corporate Headquarters 2014

Identify relevant levers. The importance of some value adding capabilities has not yet been fully recognized – which suggests that huge potential remains to be tapped.

What does appear to be critical from a corporate perspective is that the execution gap is particularly wide for value adding capabilities. If a figure of 2.5 on a scale of 1 (very poor) to 4 (excellent) is deemed to denote satisfactory performance, then exploiting synergies is the only fundamental capability very close to underdelivery. At least in absolute terms, all the other capabilities get the green light. Not so the value adding capabilities, however, where no fewer than three areas of activity – managing complexity, strengthening innovation and providing talent – just barely meet (or even fall short of) expectations E.

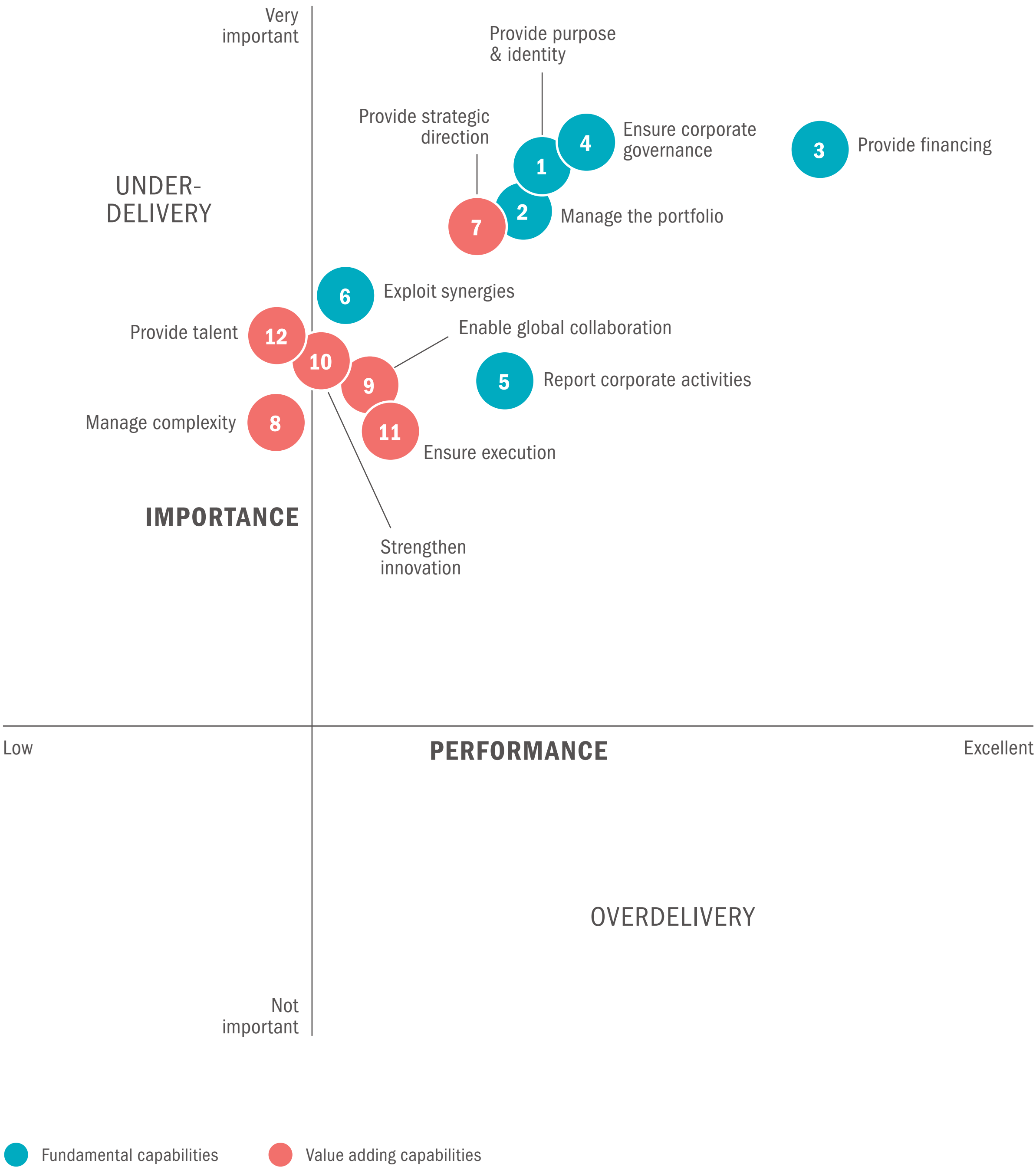
Although these three value adding capabilities achieve average importance scores at best, that does not mean they are regarded as meaningless. In light of (rounded) scores of at least 3.2 for every important action defined for each of these capabilities, it is reasonable to conclude that considerable potential currently remains untapped. These capabilities clearly constitute "hidden champions" whose importance continues to be underestimated, despite the existence of a multiplicity of levers for improvement. Possible quick wins in the context of a performance enhancement program could, for example, include improving transparency – an area in which successful companies usually perform well above average. Another option could be to define an innovation strategy, which is something that overperformers rate as very important. By no means least, all actions relating to talent management should be addressed. On this score, an exceptionally high aspiration level is a clear sign of successful companies.

To sum up: Companies identify a set of 30 actions as very important to the value added by corporate headquarters F. Yet those same companies give their headquarters a positive score of more than 3.0 points for only one of these actions: the introduction of global communication channels. In all other areas, more or less substantial potential for improvement remains and should be exploited.

E

CORPORATE HEADQUARTERS STILL SEEM TO FOCUS ON THEIR FUNDAMENTAL CAPABILITIES – THREE VALUE ADDING CAPABILITIES ARE CLOSE TO UNDERDELIVERY

Perceived importance vs. actual performance



Source: Roland Berger study Corporate Headquarters 2014

F

HOW TO BOOST HEADQUARTERS' PERFORMANCE

THE MOST IMPORTANT ACTIONS UNDERPINNING EACH VALUE ADDING CAPABILITY

PROVIDE STRATEGIC DIRECTION

1. Align strategy of BUs, regions & functions with corporate strategy
2. Monitor BUs, regions & functions regarding strategic goals
3. Communicate corporate strategy to employees
4. Define mission providing direction & purpose
5. Steer clear strategic planning process

MANAGE COMPLEXITY

1. Define clear roles & responsibilities for decision making
2. Reduce complexity that does not add value
3. Ensure a sufficient level of IT harmonization
4. Coordinate activities across the company
5. Create transparency about existing skills

ENSURE GLOBAL COLLABORATION

1. Increase employees' intercultural skills
2. Nurture an open company culture that promotes collaboration with external partners
3. Provide communities of practice
4. Establish communication channels across the globe
5. Create transparency about capacities and competencies across the organization

STRENGTHEN INNOVATION

1. Refocus the organization on customer needs and potential megatrends
2. Ensure climate where pursuit of novel ideas is preferred over avoidance of mistakes
3. Define innovation strategy
4. Encourage employees to "work outside of their box"
5. Allocate resources to prioritized fields of innovation

PROVIDE TALENT

1. Systematically develop leadership skills throughout the company
2. Ensure high employer attractiveness by actively shaping the value proposition
3. Establish a global succession management process for key positions
4. Set up a transparent internal talent identification process
5. Establish fair, performance-based pay

ENSURE EXECUTION

1. Empower managers to take ownership
2. Drive management communication through the organization
3. Actively monitor implementation progress
4. Ensure availability of change management expertise
5. Allocate sufficient resources for the implementation of group initiatives

Source: Roland Berger study Corporate Headquarters 2014

Manage the basics. Firms that outperform on fundamental capabilities usually also exhibit sound financial performance – underscoring the importance of good management.

You have to get the basics right. Though often overlooked, the validity of this simple rule is attested by the findings of our study. Pointing out that fundamental capabilities really are regarded as extremely important – with four out of six achieving stunning scores of 3.6 points or higher E – may seem like stating the obvious. What is less self-explanatory, however, is the fact that overperformers do indeed significantly outperform average companies on all fundamental capabilities, with the exception of providing purpose D. It seems, then, that corporate headquarters that perform well on management basics lay a firm foundation for superior financial success. This once again underscores the importance of sound professional management – a point we have already discussed and provided empirical evidence for in a book entitled "On Good Management".

It is nevertheless astonishing that there is still room for further improvement even in the area of performance on fundamental capabilities. True, the difference between perceived importance and actual performance is 0.15 points narrower for fundamental capabilities than it is for value adding capabilities. Even so, a gap of more than 0.5 points on average is still alarmingly wide. Actions to exploit synergies miss companies' expected target by a good 0.8 points – the second-worst relative performance figure of all. Even in absolute terms, only three (underestimated) areas of activity – managing complexity, strengthening innovation and providing talent – underperform this one C.

Our conclusion is unambiguous: As necessary as it is to reinforce the value adding capabilities of corporate headquarters, this should never be done at the expense of the basics. Any firm that neglects its fundamental capabilities will ultimately suffer the ill effects of suboptimal financial performance.

Get ready for the future. Managing complexity, innovation and talent are the three areas with the biggest deficits – and the three pivotal challenges for the future.

We have already noted that the importance of some value adding capabilities is still grossly underestimated. This is especially true of the capabilities to manage complexity, strengthen innovation and provide talent. All value adding activities are (still) regarded as being of lesser importance than fundamental capabilities. The only exception is providing direction, whose importance is seen to be comparably great C.

Closer inspection of our findings shows that overperformers have at least recognized the importance of value adding capabilities, to which they attach considerably greater significance than the mean of all companies G. Overperformers' assessment of corporate headquarters' capability to ensure execution is exceptionally well above average – nearly a quarter of a point – which underscores the importance of a well-implemented strategy. In practice, however, overperformers significantly outperform the others only in their capability to manage complexity. Interestingly, they actually underperform the average in activities to strengthen innovation and provide talent.

What is the explanation for this surprising finding? One possible interpretation could be that successful companies are more keenly aware of their weaknesses – and that they are tackling the right issues even if this has not yet resulted in better performance in the areas concerned. If this view is correct, it is only a matter of time before successful attempts to strengthen these companies' focus on value adding capabilities actually deliver superior performance. To put that more bluntly: Awareness shapes activity. If you know what needs to be done and do it, you will sooner or later reap the rewards.

Neglecting the ability to manage complexity, strengthen innovation and provide talent is dangerous for a number of reasons. One is that, in so doing, companies put at risk the core capabilities they will need to master the challenges of the future. In a world increasingly characterized by uncertainty and rapid change, it is vital to master complexity, be able to innovate, and have people on board whose thinking transcends the boundaries of individual disciplines and functions. Only then will firms be able to keep pace with the constantly changing environmental conditions.

Detailed analysis shows that companies are at least setting the right priorities in their attempts to master complexity. The five actions acknowledged as the most important are also those in which performance ratings are highest, albeit on a consistently low level of under 2.75 points. One item nevertheless leads the field by some distance: Firms are manifestly working hard to weather the demands placed on them by clearly splitting roles and responsibilities between CHQ itself and decentralized units.

The ability to generate innovation is a different story. For this capability, the highest-performing action – promoting external partnerships – does not even rank

G

While fundamental capabilities are similarly assessed by all companies...

FUNDAMENTAL CAPABILITIES

Importance of capabilities: overperformers vs. others

Mean values; 1 = not important/very poor quality; 4 = very important/excellent quality

...overperformers place much greater emphasis on value adding capabilities

VALUE ADDING CAPABILITIES

Importance of capabilities, overperformers vs. others

Mean values; 1 = not important/very poor quality; 4 = very important/excellent quality

Source: Roland Berger study Corporate Headquarters 2014

among the five most important ones. Conversely, three exceptionally important activities – a fault-tolerant climate that encourages creativity, a clearly defined innovation strategy and "working outside the box" – do not figure at all among the top-performing actions. Clearly, most companies are still some way away from a genuine culture of innovation that is nurtured by CHQ. There appears to be a lack of both suitable organizational frameworks and the necessary soft skills.

Companies see shortcomings of a similar magnitude in their headquarters' ability to manage talent. On this score, the average deviation between perceived importance and actual performance is once again substantial. Even for the most important single action, the development of leadership skills, corporate headquarters' performance commands only a very modest 2.65-point score. All in all, four out of ten actions fall below the 2.5-point threshold that is seen as just about acceptable. Not even those companies that rate themselves as particularly successful manage to beat the average. Large firms at least manage above-average scores when it comes to setting up transparent internal identification processes – an action that is unfortunately neglected by small and medium-sized companies.

For the three other value adding capabilities, it is fair to say that the gap between vision and reality is less glaring. When it comes to providing strategic direction, all actions show reasonably acceptable performance. While mean performance figures for ensuring global collaboration are comparatively high, the spread is wider and perceived importance is slightly lower overall. Another key area – ensuring execution – paints a similarly unclear picture. In this case, corporate headquarters achieve decidedly decent performance ratings for the most important set of actions. Yet for the empowerment of management, the most important item of all, the gulf between perceived importance and actual performance is a gaping 0.8 points. The only positive finding here is that overperformers outperform the average for this action by far.

To summarize these findings, we note that companies almost across the board tend to take a critical view of the value added by their headquarters. That does not necessarily mean that the performance of these CHQ is substandard. However, it does at the very least mean that businesses either place very great demands on their CHQ, or that they have identified new needs which are not satisfactorily met by existing configurations. The deficits are especially large precisely in those areas that are of singular importance to the development of competitive advantages in the future.

This is the alarming aspect of the findings. The positive aspect is that firms are aware of the levers that can help them exploit the potential of their corporate headquarters to add value. Moreover, these known levers are comparatively easy to activate. The most important requirements are for CHQ to improve the way they manage complexity, to step up innovation skills, to do a better job of identifying and developing talent and – by no means least – to create the conditions, grant the freedoms and provide the stimulus needed to actually activate these levers in practice! Ultimately, corporate headquarters will only fully discharge their mandate if they succeed in launching campaigns and mobilizing the entire organization – i.e. if they translate new requirements into new actions, make the necessary tools and basic services available throughout the enterprise, and also drive organizational change at the level of the business units.

Centralize for value. The trend toward the centralization of all corporate functions has been reversed. Especially in customer-facing areas, a distributed structure can be advantageous – and can fuel dual organizational principles.

The most surprising finding of this year's study is that, at least in certain clearly delimited areas, companies are stepping up their moves toward decentralization. Right at the outset, we described this turnaround in the following words: "The development of capabilities must be controlled from headquarters, but responsibility for putting those capabilities into operation can be entrusted to decentralized units." Specifically, our analysis H shows that 28% of companies currently perceive a trend toward greater decentralization – an astonishing increase of fully 20 percentage points since the last study in 2012! At the same time, CHQ have shrunk relative to overall company size. The median figure for the employee ratio at corporate centers (excluding shared services) is down from 5.6% in 2012 3 to just 3.4% today – another change on an unprecedented scale.

This should not be understood to mean that the importance of CHQ is waning. On the contrary, 41% of the respondent companies still believe that the trend toward centralization will continue. Furthermore, the central management of shared services, outsourced services and knowledge management is growing in importance – a development reflected, for example, in the increasing significance of data-driven management. The following observations confirm this correlation:

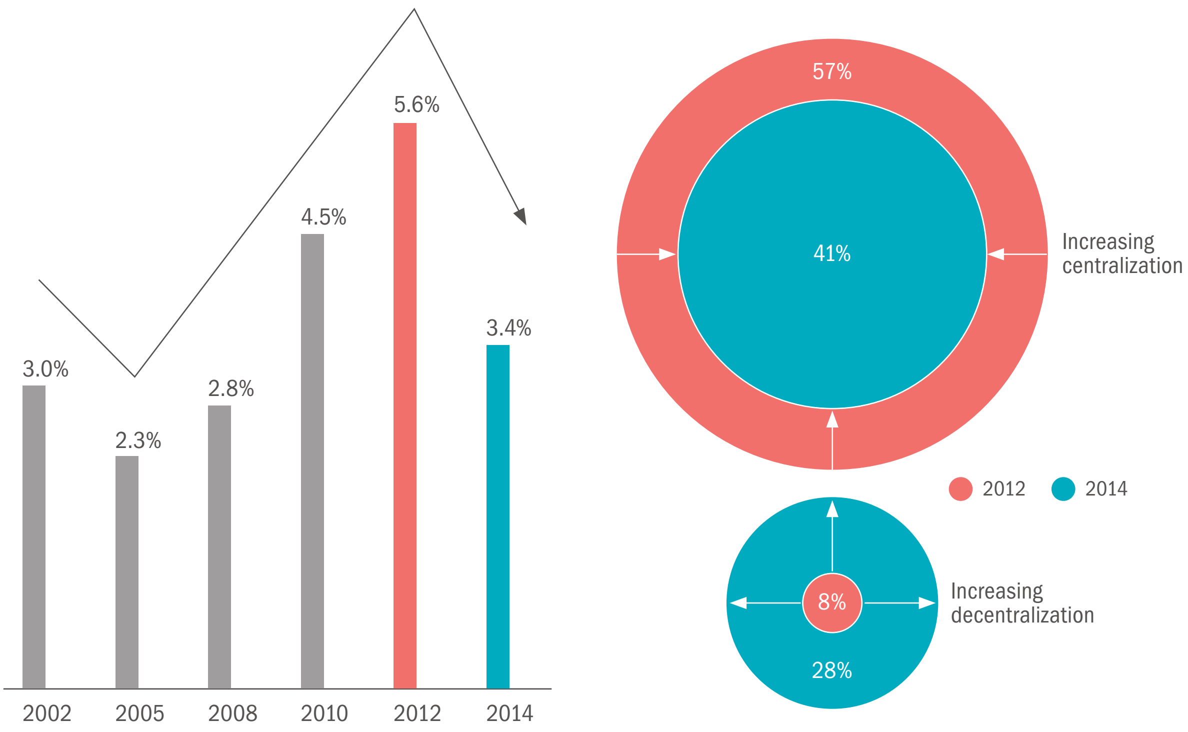
> Three out of four companies already use shared services in order to realize economies of scale. Two thirds believe that this share will continue to increase, primarily affecting the corporate functions IT, HR and finance.
> Every second company has already outsourced corporate functions, against only one in three companies in 2012. Every second company also expects this trend to continue. IT services are outsourced particularly frequently, alongside legal and general services.
> Knowledge- and data-driven corporate functions such as financial controlling and IT have seen the sharpest increases in headcounts. However, the centralization of knowledge and technology is not necessarily linked to the allocation of more staff at CHQ: Digitization is causing hub-and-spoke models to gain ground.

To summarize, we note that firms are being more selective about what they centralize. Resources are bundled only if doing so obviously adds value. Corporate centers and shared services are the right levers with which to realize economies of scale, improve process quality and establish enterprise-wide standards. Outsourcing solutions play a part in generating cost benefits and exploiting opportunities for labor arbitrage. No one questions these findings, which will continue to shape the development of corporate headquarters.

H

HAS THE TIPPING POINT BEEN REACHED FOR CENTRALIZATION? FOR THE FIRST TIME SINCE 2005, CORPORATE HEADQUARTERS ARE SHRINKING IN RELATIVE SIZE

Employee ratio[1)] [in %] and assessment of the (de)centralization trend[2)] [in % of responses]



1) Median no. of FTEs at CHQ as a share of total FTEs (corporate centers only, excluding shared services)
2) "What basic trend do you see regarding centralization/decentralization?"

Source: Roland Berger study Corporate Headquarters 2014

Alongside central functions that deliver clear efficiency gains, however, more flexible CHQ structures are emerging whose resources are spread across multiple locations. Where companies adopt dual or "hybrid" organizational principles, processes are managed from the center, but individual services and functions are organized on a distributed basis. To improve contact with customers and stay closer to markets, knowledge is gathered and structured at the place where it accrues. Resources for corporate functions are set up wherever it makes the most sense to do so – and that does not necessarily have to be at headquarters. Digital infrastructures forge the links to lean CHQ organizations. Bearing in mind the ubiquitous spread of social media and other knowledge management and collaboration solutions, this trend toward the custom-tailoring of corporate headquarters looks set to continue. The rule of thumb is: "Centralize for consistency, decentralize to customize." Where bundling resources does not add value (or creates more problems than it solves), it should not be done.

Go your own way. There is no blueprint for "the perfect CHQ". Each specific design hinges materially on structural attributes and the value that corporate headquarters are expected to add.

Though every business naturally strives for perfection, there is no such thing as a master plan for the ideal corporate headquarters. Instead, there are a number of design options that may or may not be suitable depending on the management concept, the size of the company and the industry to which it belongs.

Based on our analysis of more than 40 participants in the quantitative aspect of our study this year alone, and drawing on our experience of more than 400 relevant client projects, Roland Berger has assembled a database that provides unique insights into the design of CHQ at all kinds of companies.

Management concept. The spectrum of modern-day CHQ ranges from pure financial holding companies with little integration through strategic and operational holding structures to fully integrated headquarters that are responsible for their own profits M.

Company size. The CHQ of companies in three distinct size categories were subjected to in-depth analysis.

Industry. Data for companies from the manufacturing and non-manufacturing industry clusters were incorporated in the database.

These distinctions are important, because different principles apply for each cluster I – L. For example, the size of corporate headquarters depends heavily on the company's specific management concept, to which a positive correlation exists: The more pronounced the leadership role assigned to CHQ, the larger the headquarters will be. It follows that the headquarters of an average financial or strategic holding company will be much smaller than an integrated CHQ. Economies of scale naturally cause the relative size of headquarters at larger companies to decrease. These firms can also better exploit the benefits of shared services (as can holding structures).

Lastly, trading companies and service providers tend to have headquarters that are larger in relative terms than those of manufacturing companies. Even in the quartile containing the leanest companies, it is not unusual to encounter variations of a factor of five across different industries. Functions such as communications, organizational development, controlling, HR, IT, R&D and logistics tend to be much more populous at service providers.

Yet some variations cannot be explained by different market conditions or special industry requirements. In such cases, benchmarks are a good way to learn from the best: Irrespective of the management concept, company size or industry served, a couple of significant parameters can be measured against specific benchmarks for every CHQ.

Based on a carefully selected and largely homogeneous panel, useful performance comparisons can be conducted down to the level of the individual function. Comparison with the leading group (the first quartile) and the panel median reveals the potential for optimi-

A DIVERSE UNIVERSE

HOW CORPORATE HEADQUARTERS DIFFER BY MANAGEMENT CONCEPT, COMPANY SIZE AND FUNCTIONAL CLUSTERS

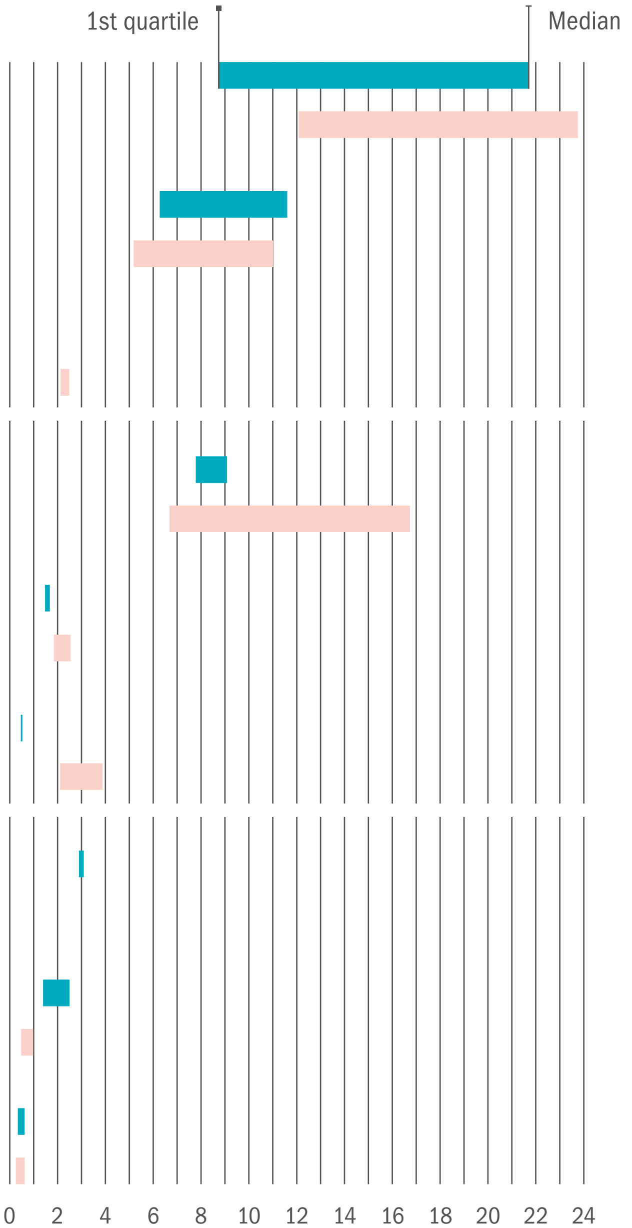
I

MANAGEMENT CONCEPT AND COMPANY SIZE HAVE A POWERFUL INFLUENCE ON THE STAFFING OF CORPORATE HEADQUARTERS

Relative size of corporate centers [in %]

2014 2012

No. of FTEs in CHQ as a percentage of total FTEs (excluding shared services)



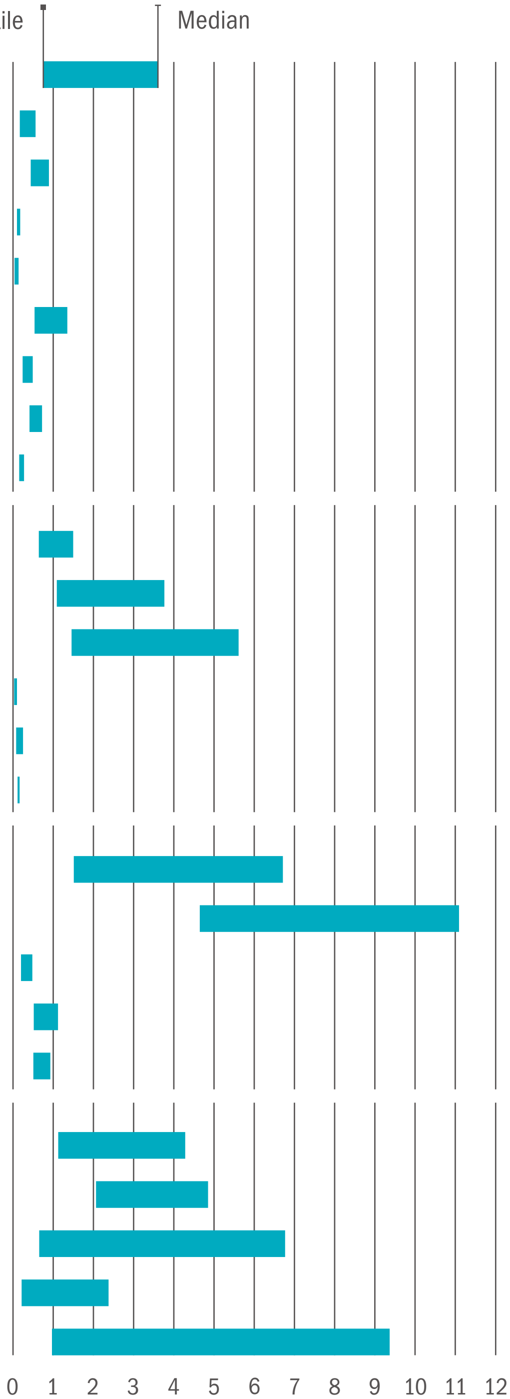
Management concept	No. of FTEs	Year	1st quartile	Median
Integrated headquarters	0 - 5,000	2014	8.8	21.7
		2012	12.1	23.7
	5,000 - 25,000	2014	6.3	11.6
		2012	5.2	11.0
	> 25,000	2014	X	X
		2012	2.1	2.4
Operational holding	0 - 5,000	2014	7.8	9.1
		2012	6.7	16.7
	5,000 - 25,000	2014	1.5	1.7
		2012	1.8	2.5
	> 25,000	2014	0.6	0.6
		2012	2.1	3.9
Strategic holding	0 - 5,000	2014	2.9	3.1
		2012	X	X
	5,000 - 25,000	2014	1.4	2.5
		2012	0.5	1.0
	> 25,000	2014	0.4	0.6
		2012	0.3	0.6

Source: Roland Berger study Corporate Headquarters 2014

J

OUR CHQ BENCHMARK REVEALS A HUGE DEGREE OF HETEROGENEITY ACROSS MOST FUNCTIONAL CLUSTERS

Relative size of function [in %, corporate centers including shared services]

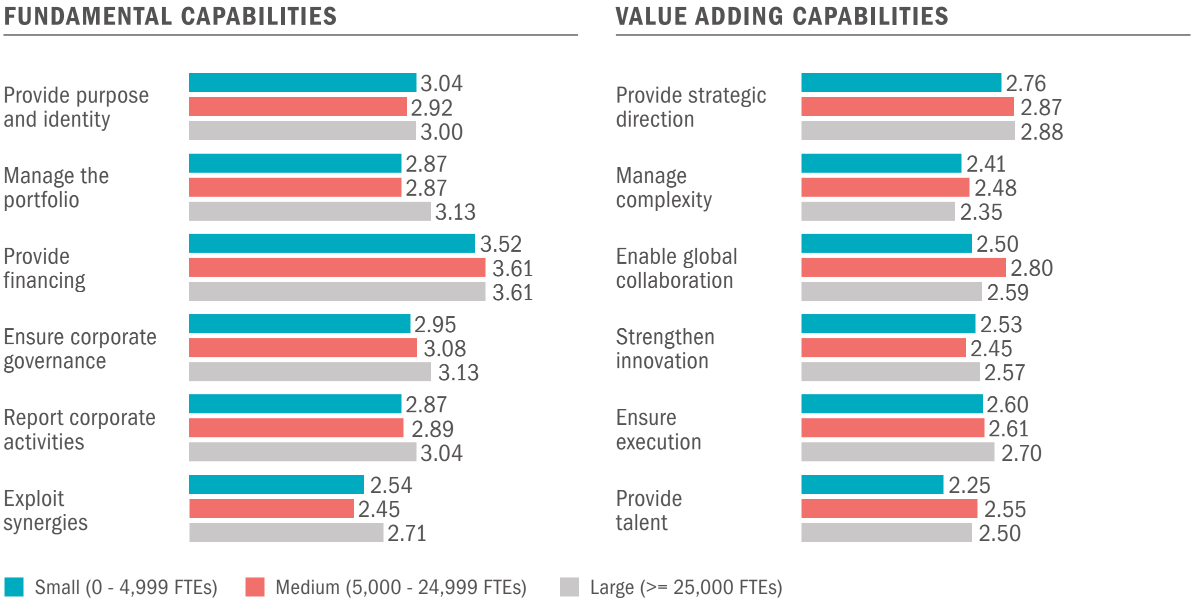


Cluster	Function	1st quartile	Median
Strategic/ corporate functions	Company management	0.81	3.65
	Strategic planning/ corporate development	0.27	0.66
	Communications	0.45	0.90
	Investor relations	0.12	0.20
	Mergers & acquisitions	0.06	0.16
	Law	0.56	1.37
	Patents & licenses	0.23	0.48
	Auditing	0.34	0.65
	Organizational development	0.16	0.28
Finance functions	Finance	0.60	1.45
	Controlling	1.11	3.77
	Accounting	1.47	5.60
	Insurance	0.09	0.16
	Taxes	0.14	0.31
	International trade & customs management	0.15	0.20
HR and support functions	Human resources	1.50	6.67
	IT	4.65	11.06
	Occupational safety & environmental protection	0.21	0.49
	Real estate/facility management	0.52	1.12
	General services	0.51	0.93
Operational functions	Research & development	1.19	4.33
	Purchasing & procurement	2.09	4.86
	Logistics	0.72	6.80
	Quality management	0.22	2.37
	Marketing & sales	1.01	9.36

K

LARGE COMPANIES ARE BEST AT PORTFOLIO AND SYNERGY MANAGEMENT, WHILE MEDIUM-SIZED COMPANIES OVERPERFORM ON GLOBAL COLLABORATION

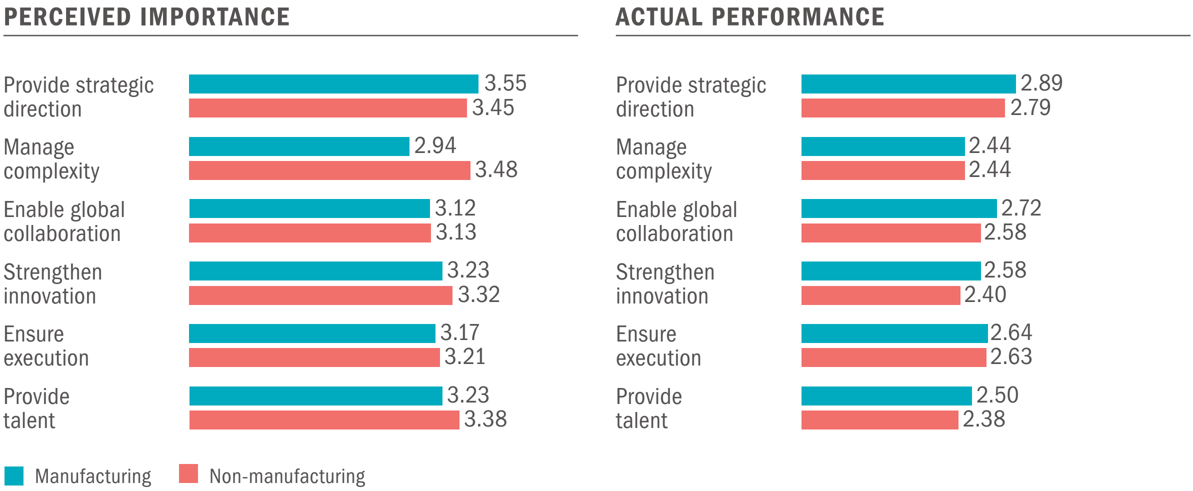
Performance in different capabilities, by company size



L

NON-MANUFACTURING COMPANIES PAY MUCH MORE ATTENTION TO COMPLEXITY MANAGEMENT, WHILE INDUSTRY PLAYERS ARE BETTER AT STRENGTHENING INNOVATION IN PARTICULAR

Importance of and performance in value adding capabilities, by industry cluster



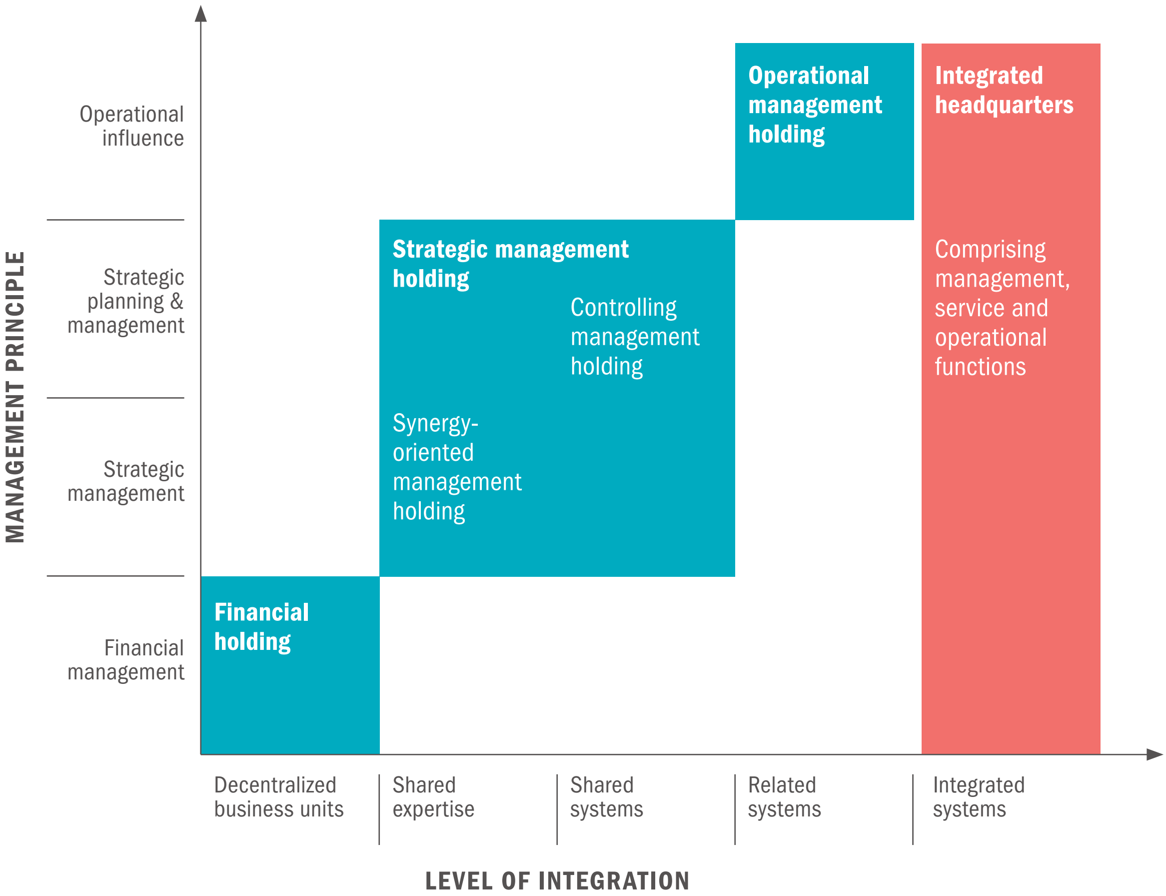
Mean values; 1 = not important/very poor quality; 4 = very important/excellent quality

Source: Roland Berger study Corporate Headquarters 2014

M

DEPENDING ON THE MANAGEMENT PRINCIPLE AND THE LEVEL OF INTEGRATION, THERE ARE FOUR MAIN TYPES OF CORPORATE HEADQUARTERS

CHQ concepts



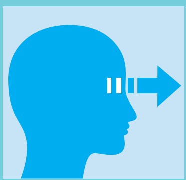
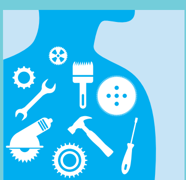
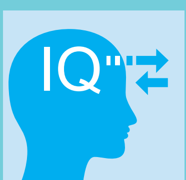
Source: Roland Berger study Corporate Headquarters 2014

zation that remains in each area. Once the intended focal functions have been identified and named, detailed analysis can begin.

The findings of the benchmarking exercise can then be translated into a CHQ Action Map N – a detailed, tailor-made roadmap that shows each company how it can benefit from best practices, develop new value adding capabilities and improve existing ones. If there is one thing we have learned from no fewer than seven CHQ studies to date, it is that untapped potential lies dormant in practically all corporate headquarters.

CALL FOR ACTION

MATRIX OF CAPABILITIES AND ACTION ITEMS

VALUE ADDING CAPABILITIES		ROLE	STRUCTURE & PROCESSES
	**PROVIDE STRATEGIC DIRECTION**	Set role(s) of CHQ to match corporate strategy (business requirements)	Define management concept and corresponding CHQ functions; define/prioritize business, management and support processes in line with operating model
	**MANAGE COMPLEXITY**	Articulate mutual expectations (CHQ vs. business units)	Follow stringent/consistent organizational design principles/ criteria (first level segmentation); establish holistic end-to-end process view
	**STRENGTHEN INNOVATION**	Act as partner to the business to orchestrate innovation process	Define opportunity seeking process and moderate it; set up centers/communities of practice to integrate experts
	**ENABLE GLOBAL COLLABORATION**	Establish connections within and beyond the organization	Promote virtual teams/ communities of practice/ steering bodies
	**ENSURE EXECUTION**	Act as engagement manager to obtain commitment and ensure it is met	Balance decision authority (centralized vs. decentralized); apply strict sanction mechanisms (corporate governance, compliance)
	**PROVIDE TALENT**	Act as main driver toward a holistic talent management framework	Define processes from talent identification to succession planning

The CHQ Action Map shows companies what they can do in practice to build value adding capabilities.

SIZE	**SYSTEMS & TOOLS**	**PEOPLE**
Allocate/balance resources to strategic priorities (capacity/cost)	Define KPIs, ambition levels and specific targets	Build competency and career framework that reflects/supports strategic priorities and apply in HR processes and instruments
Balance spans and layers	Eliminate conflicting incentives (aligned to KPIs) – simplify	Create transparency on existing capabilities in the organization and support/contribute to global succession management
Systematically allocate resources to prioritized fields of innovation	Establish knowledge sharing platforms/systems	Foster centralized-decentralized and cross-functional job rotation/staffing
Free up resources for sharing and working in global networks	Provide modern (technological) infrastructure	Identify talent and establish global talent pools; professionalize expatriate management within HR function
Allocate dedicated resources to implementation management	Install (centralized) program/project management tools and monitor achievements	Empower managers to become true leaders and to take ownership; train project management skills
Invest time, funds and capacities in employer attractiveness for sufficient talent pipeline	Establish effective systems to support talent management activities	Develop leadership skills and foster people-oriented culture

Think (and act) ahead. The old way doesn't work anymore: Modern-day corporate headquarters must rise to new challenges – and be judged by their performance.

Our experience shows that, all too often, CHQ reviews still tend to be little more than cost-cutting exercises. Yet it should be patently obvious that any attempt at right-sizing which ignores a company's unique strategy and its internal and external complexity is inherently worthless.

No less a figure than Michael Porter, one of the world's leading authorities on strategy, stresses that companies compete with each other not only at the level of the business unit, but also on a corporate level. Who has the best corporate strategy? Who hooks up their business units in a way that achieves inner relatedness? Who succeeds in generating a parenting advantage – or at least in avoiding a conglomerate discount?

All these demands on corporate headquarters will intensify still further in the future. In a world of growing complexity, it is more important than ever for the headquarters to be neither a monolithic juggernaut nor a lumbering leviathan, but a creature that rapidly responds to and stays abreast of change. More than that, it must promote agility and adaptability throughout the whole company, throughout every business unit. It has to map out a clear strategy that enables comprehensive corporate transformation.

In today's environment, we must shake off the certainties of the past. It is true that successful companies have larger headquarters on average. Yet it would be a grave error to therefore assume that bigger CHQ mean a better chance of economic success. On the contrary, the days of solving problems by throwing ever more capital and resources at them are long gone. A new day of asset-light enterprises has dawned; and with it has come the need to allocate resources more flexibly, as well as to create preferably modular units whose fixed costs are lower. But should these units have a centralized or a decentralized organization? Should they insource or outsource the services they provide? Should headquarters focus on controlling or on coordinating? O. While all these fundamental decisions naturally remain important, each question must be answered in light of the company's individual situation and its current market context.

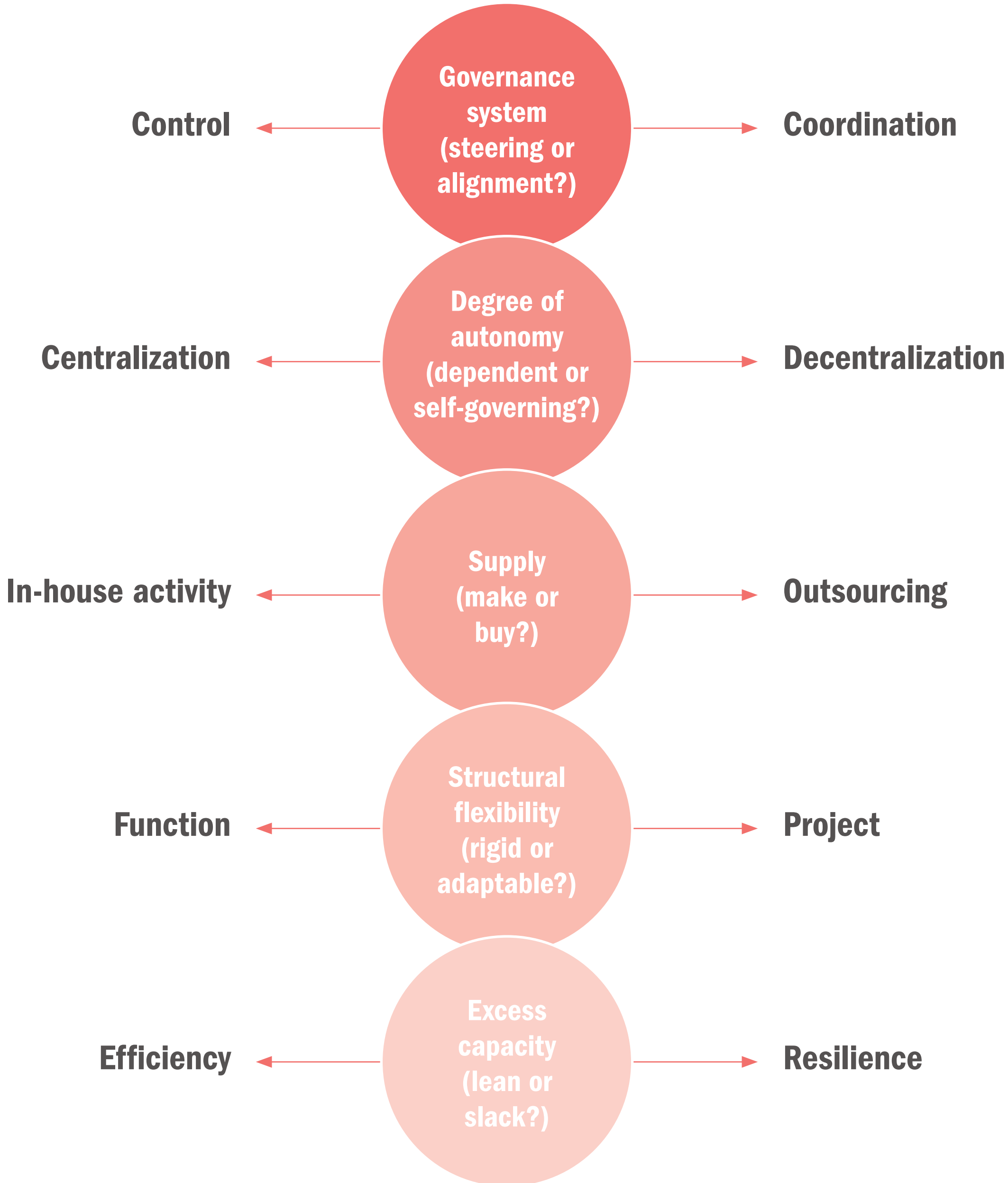
This is where benchmarking that tars all companies with the same brush and rests on quantifiable parameters alone reaches the end of its usefulness. A paraphrased version of Ross Ashby's Law of Requisite Variety states that a system which controls another system can absorb more disruptions in the control process, the greater its own variety of options for action is.

In a complex world, however, this means that corporate headquarters need less streamlining and more customizing. Why? Because if the number of possible system states increases, less highly efficient processes and structures (which tend to be rigid) are needed and should be replaced by organizational models that are as resilient, elastic, versatile (and hence, in many cases, hybrid) as possible. If this does not happen, O

TO BE OR NOT TO BE?

FUNDAMENTAL DECISIONS TO BE TAKEN IN TODAY'S CHQ DESIGN

CRITERIA FOR DIFFERENTIATION



Source: Roland Berger study Corporate Headquarters 2014

companies run a considerable risk of becoming "efficiently ineffective".

Wanting to measure oneself against the best is always a good thing. In a complex world, though, the benchmarks defined for CHQ should be improved and refined systematically. What if quantitative benchmarking that covers the fundamental capabilities in particular could be complemented by qualitative parameters to measure headquarters' contribution to the development of value adding capabilities? Clearer distinctions could then be drawn to take account of both corporate headquarters' degree of "customization" and the new role they play in a changing environment. For this reason, future benchmarks that facilitate genuinely useful comparisons of performance between corporate headquarters and functions should rest on two pillars and embrace both quantitative and qualitative parameters.

This need for further elaboration and greater customization will shape discussions over the coming years. Our study series is an excellent way to trace past approaches to developing and improving corporate headquarters: Back in 1999, we started out by investigating the size and efficiency of CHQ. As of 2008, we then increasingly focused on the role of corporate headquarters. Two years ago and this year, the focus has been on identifying the specific capabilities that make CHQ successful.

It is now time to take the next step forward and ask: How can these capabilities be mapped onto new structures and processes? What new forms will collaboration between corporate headquarters and business units assume, as well as collaboration between the center and the periphery and, by no means least, between what is insourced (corporate centers/shared services) and what is outsourced (the extended enterprise)? How much stability is needed? How much flexibility is possible? And what do headquarters look like when they break free of the confines of headcounts, euros and assets and start thinking like entrepreneurs? Headquarters that don't just cost money, but that also add value? That don't just administer the status quo, but that create something new? Which of the specified dilemmas are unavoidable? Which can be brought into equilibrium – or even resolved? This study stakes out some of the initial factors that will determine the nature and appearance of corporate headquarters in the future.

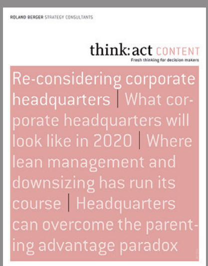
We are excited about the challenge of working through these questions. And we would invite you to join us in seeking to answer them. We are convinced that this is a worthwhile quest, because corporate headquarters can do more than "merely" add value: They can also generate crucial strategic advantages. ◆

ABOUT US

Roland Berger Strategy Consultants

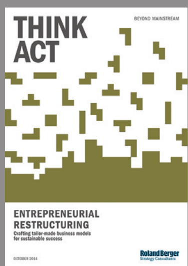
Roland Berger Strategy Consultants, founded in 1967, is the only leading global consultancy with German heritage and of European origin. With 2,400 employees working from 36 countries, we have successful operations in all major international markets. Our 50 offices are located in the key global business hubs. The consultancy is an independent partnership owned exclusively by 220 Partners. **WWW.ROLANDBERGER.COM**

Further reading



RE-CONSIDERING CORPORATE HEADQUARTERS

Besides traditional tasks such as finance, accounting and controlling, corporate headquarters must also focus more heavily on value adding capabilities. If CHQ can provide these services successfully, they can avoid conglomerate discounts and contribute real value to the organization. These were the key findings of our previous CHQ study, conducted in 2012 and summarized in this booklet.



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For two thirds of firms, constant change is the "new normal" as they endeavor to do good business. But how can corporate transformation be more successful? Our Chief Strategy Officer Survey, conducted together with the University of St. Gallen for the fourth time in 2014, reveals that transformation programs have a better chance of succeeding if implementation is led by the CSO.

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