Reinventing the global corporate center

Headquarters still have a key role to play but must focus more tightly on the right activities

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A recent McKinsey Quarterly survey[1] of thousands of international executives gave what amounted to a vote of no confidence in the corporate center of many of today's global organizations. Only half of the executives surveyed said they thought their company's corporate center added value. And only 42 percent thought the corporate center was appropriately sized and staffed to perform its mandate; many local managers, in particular, perceived central functions as grossly overstaffed.

The corporate centers of today's global companies often "grew up" simply by expanding the functions needed for operations in a single country to an international scope. But in a world where the economic center of gravity is shifting and the pace of change is ever faster, this kind of corporate center is now getting in the way.

We have identified three main issues facing corporate centers. First, many of the center's tasks and duties replicate what the business units do; only 45 percent of respondents to our survey said their organizations clearly differentiated responsibilities between the two levels. Second, many executives were not convinced that centralized activities really created value because economies of scale tend to be erased by additional interface costs and reduced flexibility. Finally, executives do not think the center is adept at encouraging communication and collaboration among different parts of the organization. The center's inability to make connections among businesses that are often managed in silos means that decision making stays slow, the organization's global scope is not fully exploited, and people do not consistently have access to the right knowledge and skills.

Our work suggests that leaders seeking to reinvent their corporate center should take three steps: redefine the mandates of headquarters, centers of excellence, and shared services; reassess where headquarters ought to be; and radically redefine the staffing of headquarters, shrinking the numbers and improving the skills.

Step 1: Redefine the mandates of headquarters, centers of excellence, and shared services

Corporate centers often become unwieldy because they combine three very different types of activities: headquarters functions, centers of excellence, and shared services. Each creates value differently and should be managed differently.

Headquarters is responsible for upholding the organization's values, developing a corporate strategy, managing the portfolio of businesses in line with those values and the corporate strategy, and managing the performance and health of the company via continuous dialogue with business units on one side and the board on the other.

Centers of excellence hold expertise centrally for the use of all of the businesses; they also form links and encourage collaboration across business units in areas where the company must be distinctive such as product innovation, operational efficiency, or brand management.

Shared services groups supply world-class low-cost "backbone" processes and functions like HR and finance—and increasingly supply chain, legal, communications, marketing, and sales management services—to internal customers.

Over the past decade, leading global companies have started to experiment with separating centers of excellence and shared services from headquarters. However, few senior executives can answer questions such as: Do the business units recognize the value of the centers of excellence? Are the shared services centers

1 McKinsey Quarterly Global Survey, September 2011; garnered responses from more than 4,000 executives representing the full range of regions, industries, company sizes, tenures, and functional specialties.

really demonstrating better value for money than external suppliers? Are their relationships with the business units transparent client-supplier relationships? Without rigorous answers to these kinds of questions, activities located in centers of excellence or shared services may be little more than traditional, mandatory central functions in a new guise.

In core headquarters functions, despite the impression of control given by new information technologies, many global companies have difficulty grasping the diversity of their markets, leading to ineffective communication and inflexibility. A company based in the US, for example, accepted 2 percent growth targets from some of its local managers in India, given that the US market was only growing by 1 percent annually, only to find out later that it was losing share in the rapidly growing Indian market. Similarly a large industrial group suffered because it implemented "one size fits all" processes for planning discussions despite having acquired companies with very different geographic portfolios.

Another issue global headquarters must address is the duplication of tasks performed at global, regional, and country levels, often the result of uncoordinated development of functions in each layer of the organization as the company expanded. Neither bold centralization nor decentralization will address the problem. Fully centralizing HR or finance will not give local operations needed flexibility or be acceptable to region heads. Full decentralization will make the company too unwieldy for the CEO to steer. A better approach is to identify key business decisions, define clear accountability for each, and adjust the organization accordingly. For example, a large global insurer combined the transformation of its global headquarters with a mirroring redesign of its regional headquarters, ensuring clear interfaces and escalation rules in each function (for more thinking on regional structures, see "Structuring your organization to meet global aspirations" on page 29).

Step 2: Rethink where headquarters is

Having clarified the mandates of the corporate center's activities, the second step is to consider the location of these activities.

Two of the activities—shared services and centers of excellence—are relatively simple to relocate wherever they are most effective, taking into account availability of local talent, the relevance of these activities for corporate center local businesses and unit costs. Headquarters functions are tougher: they often remain where they have always been for reasons of history, convenience, or legal constraints. But senior executives should be aware that, whether by choice or default, the location of headquarters sends a signal about company priorities internally and externally. As companies' growth markets move, typically to emerging economies, headquarters could too. Such a shift would bring global leaders closer to future customers and to future managerial talent (see also "How Western multinationals can organize to win in emerging markets" on page 13 for more on why signaling a long-term commitment is important to success).

One option that more and more companies are considering is creating a "virtual headquarters," in which vision setting and coordination activities take place in different locations. This approach allows a company to get the benefits of stronger connections with high-priority markets without the downside of officially closing headquarters in its home country. A lot of companies are still experimenting. Several have chosen a two-location format, usually with one site in a mature market and the other in an emerging geography: the US and Dubai or the US and India, for example. One company has created three management hubs—one in France, one in Hong Kong, and one in the US—with five of the company's most senior people located in each.

Technology helps, but these arrangements increase pressure on senior managers. One senior executive at a multihubbed company's center in China says he regularly works a "second shift" on conference calls when he should be asleep. As interactions among members of a global, multihubbed top team are often more frequent than traditional interactions between central and local teams, many companies will need to learn to manage this tension better (see an interview with Michael Cannon-Brookes on page 35 to learn how IBM is managing it).

Senior executives also must make sure that these fragments of headquarters do not exacerbate the problem of unclear decision making authorities or lines of accountability in the regions where they are located.

Step 3: Redefine headquarters staffing

Many managers see a correlation between the size of headquarters and its impact on the company. Most do not realize just how small yet powerful a headquarters can be if it combines people with the right knowledge and skills; anchors its actions in a clear set of values, guidelines, and principles that all company employees follow; and communicates adequately to the rest of the company. For instance, a large financial services company turned around its central risk unit, not by increasing its headcount but by adding experienced, recognized managers from the field and by clarifying its groupwide risk policies.

Diversity of experience is as important as intrinsic skills for headquarters roles. When building up headquarters' functions, managers should try to reflect the degree of internationalization of the company, staffing employees from diverse backgrounds and offering them an adequate environment to grow. For companies not originally based in the US or the UK, the transition to English as the internal lingua franca is often a turning point in the creation of such a globalized environment.

To cross-pollinate ideas and knowledge, headquarters must attract talent but not retain it; instead, headquarters should be the "beating heart" of the organization, constantly pumping talent to and from the business units. With adequate HR mechanisms in place, it is possible to imagine a headquarters with only the CEO and his or her direct reports as permanent staff with all other executives having fixed-term appointments and then rotating back to a business unit or function.

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Corporate centers, though often derided by the very executives they are meant to serve, play a key role in global organizations. In a more volatile, increasingly dispersed, and faster-changing world, headquarters must be the source of values and strategy and an embodiment of the company brand, while global centers of excellence and shared services can help capture economies of skills and scale across geographies. But this requires focusing on activities that truly add value to the work done in business units, frequently reassessing the business case for centralizing activities in centers of excellence and shared services, and using location choices and staffing models to increase connectedness with the rest of the organization.

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