Global Headquarters on the Move: From Administrators to Facilitators

Herbert Wanner, Xavier LeClef and Hiroshi Shimizu

The national behemoth of a corporation is dead. Long live the transnational corporation with headquarters that basically pull the strings of multiple operations in various countries. In the last couple of years many companies have found that moving parts or even the entire headquarters to a better location and disrupting its classical functions is a feasible option. Arthur D. Little carried out a headquarters benchmarking study dealing with the roles that global headquarters need to fulfil. Building on the findings, Wanner, Shimizu, and LeClef outline the different scenarios and principles involved in moving headquarters. One of their key findings? That headquarters relocation and downsizing has to go hand-in-hand with a role change.

A new phenomenon has emerged among transnational companies in the last few years. An increasing number is choosing, when conducting restructurings, to relocate their central leadership functions, often to completely different countries.

A recent study by Unctad showed that no fewer than 829 corporations relocated their headquarters between January 2002 and March 2003. The study only listed relocations of functions from the previous headquarters to newly set up, so-called "greenfield establishments", and didn't count the relocation of specific governance or leadership functions (e.g. for business units, individual product groups or financial systems). It was therefore only the tip of the iceberg, and indicates that the way headquarters are seen and valued within companies is coming under increasing scrutiny. In most cases the relocation leads to the creation of regional headquarters or business coordination centres that improve a company's strategic positioning in the international marketing and production system.

Du Pont de Nemours was an early mover, opening an office in Geneva, Switzerland, in 1959 which was expanded step by step into the headquarters for Europe, the Middle East and Africa. The main reasons for choosing this location were its central geographical position, good transport links, closeness to the centres of excellence for technology and research and the position of Geneva as a banking center. The level of stability and good support by the management and the highly qualified workforce were also important location criteria. The set of criteria was rounded off by a high standard of living, good education and further training systems and diverse leisure possibilities. [1]

[1] Wanner, Herbert & Quirina, Mireille J. „DuPont, Philip Morris, Hewlett-Packard & Co - Wohin mit der Konzernzentrale?, in: "Strategische Investments in Unternehmen", Stefan Odenthal & Gerald Wissel (Eds.), Gabler Verlag, 2004, S. 85.

Another of the early birds to establish multi-point headquarters was Dow Chemical. Starting with a small office in Zürich, the company has been present in Switzerland since 1957. Since then the company has transferred two global business units from the United States to Switzerland in a move to become more global. Dow Chemical wanted to avoid the domination of the management styles prevalent in the US, which was its country of origin. Instead the board strove for a truly transnational company that in their eyes could only be created by deconstructing parts of the existing one.

Du Pont and Dow Chemical are not singular cases. As globalisation became a fact of life, many transnational companies started to take a second look at their headquarters, which in most cases were located where the company was founded. With globalisation picking up speed, two key questions came up: are our headquarters in the right place to survive globally, and do we need one or more headquarters to be best prepared for the globalisation process? Dow Chemical understood early on that concentrating its management team in a single location could limit the diversity of its organisation.

Economic conditions over the last decade have also forced companies to reduce costs and improve operating margins. In this process the position of headquarters has been challenged in terms of its role and size. With a big headcount in relation to the total number of employees, headquarters have come under particular cost pressure.

Focus: how to operate a multi-point corporation

Brambles is a leading global support services group, operating in almost 50 countries across six continents and employing approximately 30,000 people. The group's major businesses are CHEP, Cleanaway, Recall and Brambles Industrial Services. Brambles' global headquarters are in Sydney, Australia, and the group maintains corporate offices in Sydney, London and Atlanta. Headquarters of the major businesses are in Orlando, USA (CHEP Americas), Weybridge, England (CHEP Europe), Atlanta, USA (Recall) and Brussels, Belgium (Brambles Industrial Services).

SCA produces and sells absorbent hygiene products, packaging solutions and publication papers with about 46,000 employees in more than 40 countries. While corporate headquarters are in Stockholm, Sweden, the headquarters of the different businesses are spread worldwide. For example, the Consumer Tissue and Personal Care business groups are headquartered in Munich, Germany; the Packaging business group in Brussels, Belgium; and the Forest Products business group in Sundsvall, Sweden.

Turning Monoliths into Multi-Point Structures

In their everlasting search for competitive advantages, transnational companies are increasingly willing to reconfigure grown structures by setting up regional headquarters, relocating specific headquarters functions and/or relocating their global headquarters to another country or even continent.

Arthur D. Little's "Global Headquarters Benchmarking Study" took a closer look at this phenomenon. The aim was to find out about CEOs' rationale for disrupting old monolithic headquarters structures and relocating. Of particular interest were questions about the driving forces and triggers for the setting-up and implementation of multi-point headquarters. The study also scrutinised the decision-making processes and the criteria used to clarify the questions of concepts and locations for headquarters. (For details see insert "Arthur D. Little's Global Headquarters Benchmarking Study" [2].)

What first had only looked like random phenomena turned out to be a growing trend. In their everlasting search for competitive advantages, transnational companies are increasingly willing to reconfigure grown structures by setting up regional headquarters, relocating specific headquarters functions and/or relocating their global headquarters to another country or even continent. In other words, having outsourced parts of production, R&D and the like, the days of grace for administrative functions were over. The paradigm shift doesn't stop short of headquarters functions; anything is under discussion. The new holy grail of management is that any function has to add to the bottom line. The reasons behind individual relocations were manifold, with the most important being corporate tax advantages. This was followed by the supply of qualified managers and quality of life, factors which reflect the difference between outsourcing headquarters and outsourcing of production functions. Whereas the main concerns when outsourcing production are labor cost and quality, companies relocating white-collar jobs take more factors into account in their search for suitable environments.

In Europe the country proving to be the preferred destination for headquarters is Switzerland. The reasons are manifold and simple: Switzerland has low taxes, excellent managers, and is an attractive place to live for white-col-

[2] Arthur D. Little (Switzerland) Ltd., Herbert Wanner, "Benchmarking of Global and Regional Headquarters: Insights into Headquarters Design and Location Selection", May 2002, update October 2003, Zürich.

lar workers. The country is US corporations' preferred choice for regional headquarters locations in Europe.

It is difficult to optimise headquarters as a whole, but much easier to optimise singular functions.

Not only does Switzerland have a good reputation around the globe as a location for headquarters' governance and leadership functions, but the results of the study proved it. Almost 200 large foreign companies have moved either their global or some parts of their headquarters to Switzerland. The list of companies coming from the US reads like an excerpt from the Fortune 500: Philip Morris, Du Pont de Nemours, eBay, Caterpillar, General Motors, Procter & Gamble, Dow Chemical, Oracle Corporation and Cisco to name just a few. But Switzerland is also attracting companies from European countries like Germany with Kühne & Nagel, Liebherr International, Metro Holding, Eurotax, Dynamit/Nobel and SAP having moved there.

Switzerland is a good example of the increasing tendency to transfer central managerial functions geographically during restructuring projects. In most cases observed, marketing, finance, and HR had been relocated to Switzerland either singularly or altogether. Caterpillar (USA), Argonaut (USA) and Eastman Chemicals (USA) have moved their marketing to Switzerland, whereas eBay (USA), Alcoa (USA), Elopak (Norway), Omnexus (USA) and Baxter (USA) have moved their financial function (in part including billing and treasury) there. Gucci (Italy) has transferred its global logistics functions to Switzerland.

This development is an interesting parallel to another finding of the study, namely that it is difficult to optimise headquarters as a whole and

Focus: Shanghai

One of the emerging locations for headquarters of transnational companies is the Chinese city of Shanghai. For one of our clients in the process industry we calculated the business case for a relocation of his Asian headquarters from Hong Kong to Shanghai. The analysis included the cost of setting up a new representative office. In the quantitative assessment we identified pre-tax savings of USD 0.5 bn per year (90 percent through salaries, 6 percent through rental, 4 percent through professional fees and other costs). We came up with estimated after-tax savings of USD 0.25 bn per year, with the major drivers being the reduction in salaries and people. Our qualitative assessment also showed that the relocation to Shanghai would help the client to implement his market strategy for China. This underlines the fact that Shanghai has become a preferred location for regional headquarters of many transnational companies in terms of market proximity, growth ambitions and government benefits.

Going places: Arthur D. Little's global headquarters benchmarking study

Transnational corporations' global headquarters are on the move - globally. Between 2002 and 2003 more than 800 global headquarters were relocated. Arthur D. Little took a closer look at the reasoning behind these relocations. Its headquarters benchmarking study examined transnational companies that had relocated their headquarters to Switzerland, and asked four central questions:

- What kind of restructuring is happening at headquarters?
- Is there a prominent concept in headquarter redesign?
- Is there a place more attractive than others for headquarters?
- How can countries and regions successfully compete in attracting transnational companies on a global scale?

The 50 benchmarked companies were analysed either via interviews or, when sufficient secondary information was available, desk research. The study led to three central findings:

- Compared to other European countries, Switzerland is the most attractive place for global headquarters of European companies. For US and Asian companies Switzerland is also a very attractive location for regional headquarters (typically Europe, Middle East & Africa, and even Asia).

- Headquarters are getting smaller and are increasingly focusing on creating value for business units.

- Shared services emerge as the winning concept in headquarters redesign.

For further information on the study please contact Arthur D. Little's Zürich Office: www.adlittle.ch/insights/studies or wanner.herbert@adlittle.com

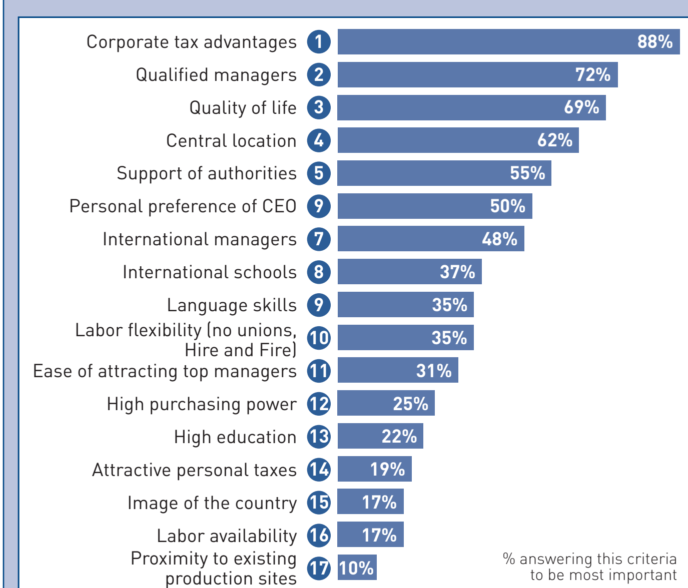
often much easier to optimise singular functions. Therefore choosing the right location and relocating the relevant function to that place can dramatically improve it. Even though Switzerland is the preferred location in terms of taxation, other regions have other qualities making them attractive. CEOs must therefore define exactly what qualities they are looking for and find the right place with those qualities. In the case of Switzerland the trend to not relocate complete headquarters but to make optimum use of the preferred qualities could result in a

Source: Arthur D Little analysis

"functional specialisation" of the country as a location for the functions of finance, marketing, R&D, human resources and logistics. Many companies certainly "outsource" their financial functions (including treasury) to Switzerland. This is closely linked with Switzerland's fiscal policy and role as a banking centre. The further development of Switzerland as a centre for banking will probably heavily influence the number of transfers in the future.

Due to certain factors defining the country, Switzerland plays in its own league. But what can we say about other possible locations for headquarters? The three main regions for headquarters are in the big markets of Europe, North America or East Asia. Compared to Europe, which has a bigger number of promising locations in terms of objectives sought after, Asia only has a limited number of locations suitable for headquarters. In the Americas the lack of infrastructure in many countries leads to only the US and Canada qualifying as suitable bases for corporate headquarters. Besides these factors, in terms of general economic developments and status there are a number of ways in which countries can influence their appeal as potential sites for global headquarters. The study shows

Exhibit 1 **What Companies Look for in Locations**



Source: Arthur D. Little analysis

that several criteria were decisive for the choice of location: fiscal framework conditions (company taxation), availability and qualification of top managers, quality of life and quality of support to companies from local governments.

Other factors include an excellent information technology and telecommunications infrastructure and a mature service sector (including legal advice, accountancy services and public relations). All in all it is not only purely financial criteria that are important in the choice of location for headquarters.

Improving the identified dimensions presents a challenge to the government and the authorities of the country. For each of these dimensions political initiatives need to be launched to improve the profile of the location.

Fiscal framework conditions (company taxation), availability and qualification of top managers, quality of life and quality of support to companies from local governments are decisive for the choice of headquarters location.

The Alpine Appeal - How Switzerland does it

Switzerland received the best results in the study. There are four main factors behind the country's success.

- Very attractive tax rulings which allow companies to optimise tax on a local or even global scale;
- A large number of experienced managers with a strong global mindset;
- An outstanding quality of life - Zurich, Geneva and Berne are among the top 10 cities worldwide in terms of quality of life;
- Efficient support by authorities for companies transferring headquarters.

The last point proves that companies increasingly expect support from local governments in dealing with issues concerning relocation. The study also scrutinised these expectations and found that the most important areas were:

- Providing work permits for foreign employees;
- Negotiating corporate taxes;
- Securing office space;
- Supporting employees in their search for housing.

Switzerland is the preferred location in Europe but still has room for improvement - and the country addresses these issues.

But even in Switzerland, where there are many positive location factors, some deficits could be identified. Respondents saw room for improvement in these areas:

- Providing work permits for spouses;
- International flight connections;
- Capacity of international schools;
- Administrative burden and duties for import/export;
- Different legislation between Switzerland and the EU;
- Costs of administrative labor;
- Work permits for managers (after headquarters transfer).

These areas provide a challenge to government and authorities to improve conditions if they want to sustain their success. To extend on just one example: the availability of international schools (Exhibit 1, criterion No. 8) has been identified by the major cities in Switzerland to be mission-critical in attracting headquarters of transnational companies. With the combined support of public and private investments, a number of international schools have been built for the family members of managers and staff of transnational companies.

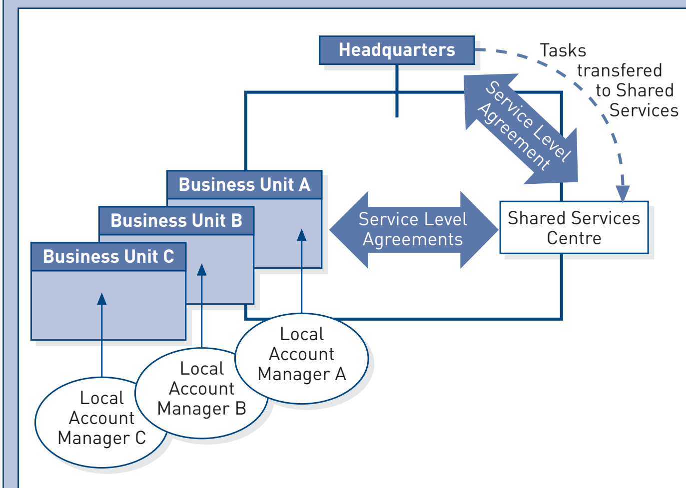
Shared Service Centres - Spreading the Burden

Another finding of the study is that shared services have been a fact of life for a couple of years and have now reached a new level in their development.

The study shows that there are various approaches in realigning headquarters in terms of size and cost:

- Trimming the number of employees in the headquarters;
- Delegating responsibilities to business units or divisions;
- Outsourcing one or more functions of the headquarters;
- Reducing the management levels between the CEO and the business units;
- Creating shared services units.

Exhibit 2 **Setting up a Shared Services Centre**



Source: Arthur D. Little analysis

Many companies suffer from selectivity in explaining bad results. They refuse to admit failures in alignment, they neglect or bias their consumer satisfaction results, and they turn to external causes to explain their problems.

In the last couple of years an increasing number of transnational companies have set up shared services centres. In most cases we came upon in the course of the study we learned that one of the side effects of shared services centres was a headcount reduction in the headquarters. The logic behind this, we found, is that functions such as accounting, human resources services, procurement and business support, which were previously headquarters functions, were transferred to a newly established shared services centre outside the headquarters. In most cases all operational and service functions of the headquarters were transferred to the shared services centres, resulting in a significant headcount reduction. Basically the main idea behind setting up shared services centres is to apply the principles of lean management to headquarters. Practically it means to source the operational tasks out to shared services centres as much as possible.

The downsizing of headquarters functions usually starts with the function heads coming under pressure to reduce costs in their domains. The first question arising here is whether to do this simultaneously or in a particular sequence. In many cases the process starts with the functions that have the biggest headcount, with the function heads playing an important role in setting up the shared services units. There is no single sourcing strategy that guarantees success. Each project must be clearly scrutinised to decide whether to insource or outsource these shared service units. In many instances companies decide their sourcing strategy by differentiating between core and non-core processes for business objectives. In general, policy-making type of activities in the core business differentiating the company and driving its value will be kept in-house while non-core business types of operational tasks can be transferred to shared service centers or might be even outsourced to produce economies of scale.

1. Insourcing shared services

Shared services has become one of the main ways to optimise costs.

Organisations that insource their shared services are usually more flexible in terms of where to locate the shared services centre. They usually establish a centre either locally, regionally or globally depending on the prerequisites concerning service and cost. Philips, for example, organised its financial shared service business by combining local shared services centres with three regional centres managing both regional and global processes. The regional centres deliver services to the whole organisation from greenfield locations established in low-cost countries (Poland, India and Thailand). But cost reduction is not the only objective as Philips was also able to improve its productivity. The electronics giant aims to improve its productivity by 30 percent across processes, geographies and organisations.

The time has come for executive management and functional leaders in particular to explore new strategic pathways leading to further savings and enhanced service delivery. Now that the first wave of shared services has ebbed away it has become increasingly difficult to further improve operating margins with them. Another look at the matter is needed. One of the solutions could be playing the geographical advantage. Traditionally, shared services centres were located at existing headquarters. Now, however, greenfield or lower-cost locations are gaining ground, and one day they might even become an integral part of organisations' multi-point headquarters strategies. Looking at the role and types of services provided by shared services centres, there are - among others - a num-

Brussels sprouts – a city transforming itself

Over the last decade, Brussels has become the home of political institutions of the EU and other international organisations: The European Parliament, The European Commission, The Council of Ministers of the EU, NATO, etc. Besides these institutions, numerous companies have chosen Brussels as their European headquarters (such as Toyota, Tenneco, Coca-Cola, UPS, DHL, Guidant, Dow Corning, Levi Strauss, Westvaco) or as the global heaquarters of a division (such as SCA Packaging, Exxon Chemical, GSK Biologicals, Volvo Construction Equipment, Brambles Industrial Services, Total Chemicals, Sappi Fine Paper).

Governmental aids, quality of the infrastructure and quality of the workforce are among the most important factors that have contributed to Brussels' growing attraction for the business community.

- Federal, regional and municipal authorities have developed different types of incentives and financial aids that companies can take advantage of tax incentives, premiums, interest subsidies, reductions in social security charges, etc.

- With its central location, Brussels is a gateway to the European market. The quality of its transport network (road, rail and air travel) provides easy accessibility to major European capitals. This has positioned Brussels as Europe's best base for logistics and distribution activities.

- High education and productivity levels as well as the language skills of Belgium's workforce are some of the major elements that influence companies in search of flexible staff.

Among the different sectors of activities present in Brussels, two have expanded rapidly in recent years, namely the ICT sector and the pharmaceutical & medical sector.

- With approximately 700 companies active in the ICT sector, Brussels has developed a real ICT cluster. Companies like Lucent Technologies, and Sony IT have established their European headquarters in Brussels essentially for the high standard of staff.

- The pharmaceutical and medical sector has been an important vehicle of growth in the Brussels region. The number of public research centres, university hospitals and other international companies such as Pfizer, Solvay, UCB, GSK Biologicals, Guidant and St Jude Medical are some of the reasons that have attracted companies active in this sector.

ber of requests for regionalised service standards and services customised to country-specific requirements. Accounting services and human resources services (e.g. payroll) are examples of services that are highly dependant on country-specific laws and regulations. The best organisational framework to provide these types of regionalised services is not one centralised single shared services centre but several regional shared services centres allocated in proximity to the company's major locations. Usually companies allocate a member of the executive board to a major location to take responsibility for all major business activities at this particular location including the shared services centre.

2. Outsourcing shared services

A recent development is the joint ownership of the shared service centres with third party providers.

Parallel to these trends concerning insourcing strategies, the outsourcing market has gained momentum in the last two years. In Europe, for example, the number of companies outsourcing some of their headquarters functions to business process outsourcing (BPO) providers has dramatically increased. Procter & Gamble was among the leaders shaping the outsourcing market with one of the first BPO strategies ever pursued. The company is now running an outsourcing model with four global contracts for IT infrastructure, facility management, HR/employee services and transactional accounts payable. Corporate functions have been considerably reshaped in the course of this process as most people involved were transferred to the BPO providers. After a transition phase the new jobs are very attractive for employees as the company they now work for has exactly their profession as a core business.

A new development in the evolution of shared services centres is joint ownership with a third-party provider. NOL (Neptune Orient Lines), one of the world's biggest container shipping and logistics companies based in Singapore improved its competitive position by partnering with a renowned outsourced service provider and setting up a shared services centre in Shanghai. The service centre takes care of accounts payable, accounts receivable and accounts reconciliation processes. The service center also provides service for operations in the Americas, Europe and Asia. Through 24 hours a day and 7 days a

Case Study: 3Com morphs into a multi-point headquarters operation

3Com, the world's second-largest maker of enterprise networking equipment, has embraced an aggressive outsourcing and shared services strategy. Three years ago 3Com sent out manufacturing. Today, the company's laundry list of outsourced functions includes IT services and engineering, accounting, distribution and even R&D. This strategy has forced 3Com to adopt the multi-point headquarters model of operations.

In an attempt to reduce the high cost per revenue dollar for accounting operations, 3Com established four shared service centres in the US, Europe, Latin America and Asia Pacific. In 2003 it moved its shared accounting and IT support services to its Asia Pacific headquarter in Singapore (where it maintains a staff of 150, 38 of whom work in accounting) to create a fully consolidated centre to support services worldwide.

In November 2003, 3Com embarked on a landmark engineering and manufacturing joint venture with China's Huawei Technologies to develop switches and routers in Hangzhou that will be sold worldwide. In early 2004 the company announced the opening of a design centre for low-end switching components in Taiwan with 80 employees. In May 2004 this year, 3Com opened a R&D centre in Hyderabad, India, hiring some 100 engineers. All this has led to a multi-point R&D operation with the chief of engineering continuing to be located in corporate headquarters in Marlborough, Massachusetts. This has led to a reduction in R&D costs from 18 percent to 9 percent, while increasing the number of engineers put to use from 1,200 to 1,600. This is the equivalent of 24 percent R&D spent.

Pursuing a philosophy that hardly anything in the modern organisation is too core or too confidential to be outsourced has led 3Com to spread out its manufacturing, engineering and even corporate support functions such as accounting, public relations and supply chain management. All these activities downsised the once resplendent headquarters flush with technical people. It is now a lean and highly leveraged operation with the main function of managing outsourced operations.

week operations NOL ensured that services would be available during business hours across all global time zones. This process of partnering to set up global shared services centres will continue as companies increasingly seek to optimise and leverage their support activities on a consolidated basis - irrespective of their sourcing strategies. The reasoning behind this is simple: companies need and want to provide a stronger value-added service to the businesses. In that perspective, trends towards a delocalisation of support activities to greenfield and low-cost countries will play an increasingly important role accelerated by the concept of multi-point headquarters.

CEOs must clearly define their targets before relocating and reorganising their headquarters.

Insights for the Executive: The Roles Come First

The trend to relocate and reorganise the headquarters of transnational companies will continue because the pressure to cut costs will not stop. In this process CEOs need to play a more proactive role - they need to develop a vision of where their company needs to be, strategically plus structurally plus locally. CEOs have primarily three levers to redesign the corporate headquarters:

1. Headquarters can be relocated;
2. Headquarters can be downsised;
3. Headquarters' roles can be changed.

A relocation (lever 1) is primarily tax-driven. Downsizing (lever 2) aims for reduced costs - in most cases this means to reduce the headcount in the headquarters, e.g. by setting up and transferring people and operational tasks to shared services centres. A role change (lever 3) means to adapt the roles of the headquarters functions, resulting in a new type and quality of headquarters.

After analyzing a large number of headquarters redesign cases the main message we have found for CEOs is that these three levers of change are not independent. They stand in a close relationship to each other and have to be linked into one context and one vision. The smart formula for a well balanced headquarters move is linking the three levers of relocation, downsizing and new roles. Neglecting the triad will lead to an unbalanced move destroying a positive value proposition and increasing risks in terms of governance and leadership. Current practice shows that cost reduction is usually the first step taken, the building of value generators usually the second. Making the jump towards an innovative headquarters redesign approach requires a different pattern starting with redefining the headquarters' roles (lever 3). The second step of size should be defined according to the new roles and finally the best locations can be identified.

The redesign of headquarters should be systematically treated within the framework of a revised corporate strategy. In fact, it is a question of high relevance for those defining the strategy, primarily the executive board and the board of directors (supervisory board). With the ever-stronger demands for headquarters to create value, the connection between corporate strategy and headquarters role becomes even more important.

Exhibit 4 **Types of Headquarters**

Type	Role	Layout	Sizing	Location
Monolithic	Centralised command & control	Function oriented	Fair sized, oversized	One
Multi-point	Multi-central business support & control, decentralised business ownership & control	Business and service oriented	Lean	Several

Source: Arthur D. Little analysis

However, moving from a monolithic type of headquarters to multi-point headquarters will change all stakeholders' agendas. Besides the purely technical side such plans also touch upon the emotional side. And boards, supervisory boards, and shareholders in charge are not free of emotions themselves - at least when it comes to a physical relocation into another country.

Leaders have to bear in mind that building up change readiness needs the support of various stakeholders. Adding substance to the story is key. Ideally, the well balanced move is based upon the value contribution principle: leaders want headquarters to add to the bottom line, facilitating the various business units by giving optimal support to their business needs.

Herbert Wanner
... is an Associate Director in Arthur D. Little's Zürich office. In 2002 he launched the first Headquarters Benchmarking study which was well recognised on an international level. The study has been periodically updated since. Besides reorganisations of headquarters his fields of interest include information management-related subjects. He studied Natural Sciences and Economics at the University of Zürich and holds a doctoral degree of the philosophical faculty II (Natural Sciences).

Xavier LeClef
... is a Consultant in the Financial Institutions Practice at Arthur D. Little's Benelux office. He has been involved in a number of organisational projects, including the evaluation of Shared Service Centres for international groups. He studied Economics at the University of Brussels and holds an MBA.

Hiroshi Shimizu
...is Director in Arthur D. Little's Tokyo office. He is leader of the Strategy & Organisation and Process Industry Practice in Japan. He has deep experience in corporate strategy, business strategy, technology strategy and operation improvement. He studied synthesis chemistry at Kyoto University, Japan.