

Archetype-based Evaluation of Corporate Centres

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Enterprises continuously aspire to optimize the organisation of their corporate centres in terms of cost efficiency and value proposition to the company. Academic literature provides approaches to explain role, structure and size of existing corporate centres. An approach to challenge existing corporate centre structures considering future developments and the corporate centre's value proposition to the corporation does not exist so far. In our paper this research gap is closed by the formulation and description of corporate centre reference models. We use these reference models to evaluate existing corporate centres regarding their potentials to increase the corporate centre's value proposition and to anticipate future trends. The underlying research questions are:

- *Which ways of value creation by the corporate centre need to be considered within our approach?*
- *What are characteristic corporate centre structures that can serve as reference models?*
- *What are the key elements to describe a corporate centre reference model?*
- *How can corporate centre reference models be used to challenge existing corporate centre organisations?*

To answer these research questions we combine several research methods mainly used in social science. We focus on the practical relevance of the results. Therefore, a close integration of practitioners into the research process and putting the results into practice within pilot applications is an important part of our research method. So far pilot applications have been performed for three companies and have affirmed the benefits of our approach.

JEL Codes: L21, L22, L25

1. Introduction

Business environments are changing rapidly and heterogeneity of business needs is growing. To face these challenges companies aspire to continuously optimize their processes and organisations (Pettigrew, Woodman & Cameron, 2001, p. 697). The corporate centre as an organisational unit within an enterprise is also affected by this situation. It faces an increasing pressure in terms of cost optimization and delivering value to business units (Collis & Montgomery, 1998, p. 71; Barner-Rasmussen et al. 2010, p. 92). In practice, the organisation of corporate centres is strongly influenced by business culture and long term business habits. This often leads to the problem, that possibilities to improve corporate centres' organisations are missed (Goold & Campbell, 1989, p. 6).

Many publications examine the organisation of existing corporate centres and illustrate ways to re-organize or re-design them, e.g. by establishing shared-service centres or outsourcing of business processes (Alexander & Young, 1996; Wißkirchen & Mertens, 1999; Ono, 2003). Academic literature also maintains that corporate centres can be categorized according to the understanding of their role (Goold, Pettifer & Young, 2001). However an approach to describe corporate centre reference models in order to challenge existing corporate centre structures does not exist so far. Such reference models need to

be characteristic, they have to anticipate future trends and they must illustrate how a corporate centre can create the best possible value.

Our reference models are based on an identification of characteristics on which the corporate centre organisation depends and illustrate their impact on the corporate centre organisation. For this it is necessary to formulate a set of assumptions and constraints to determine our model. Otherwise, we found the conclusions to be too general and therefore not suitable to derive realisable and value creating recommendations for companies. In this paper we propose an approach to formulate corporate centre reference models. We call those reference models corporate centre archetypes.

The approach which is covered in this paper has been developed in a research project named 'Centre of Excellence for Corporate Centre Strategy, Technology and Processes'. Apart from the authors of this paper eight executives that are concerned with the organisation of corporate centres in their daily business have been directly involved in the research project. Parts of our corporate centre reference models are based on our empirical survey results built on a sample of 44 companies (Traa, Kauffeldt & Brecht, 2010).

2. Literature Review

In the following section we provide a structured overview of the literature covering corporate centres and related topics. On this basis we show the contribution of this research paper and how it fits into the current corporate centre research landscape. We show this overview in figure 1.

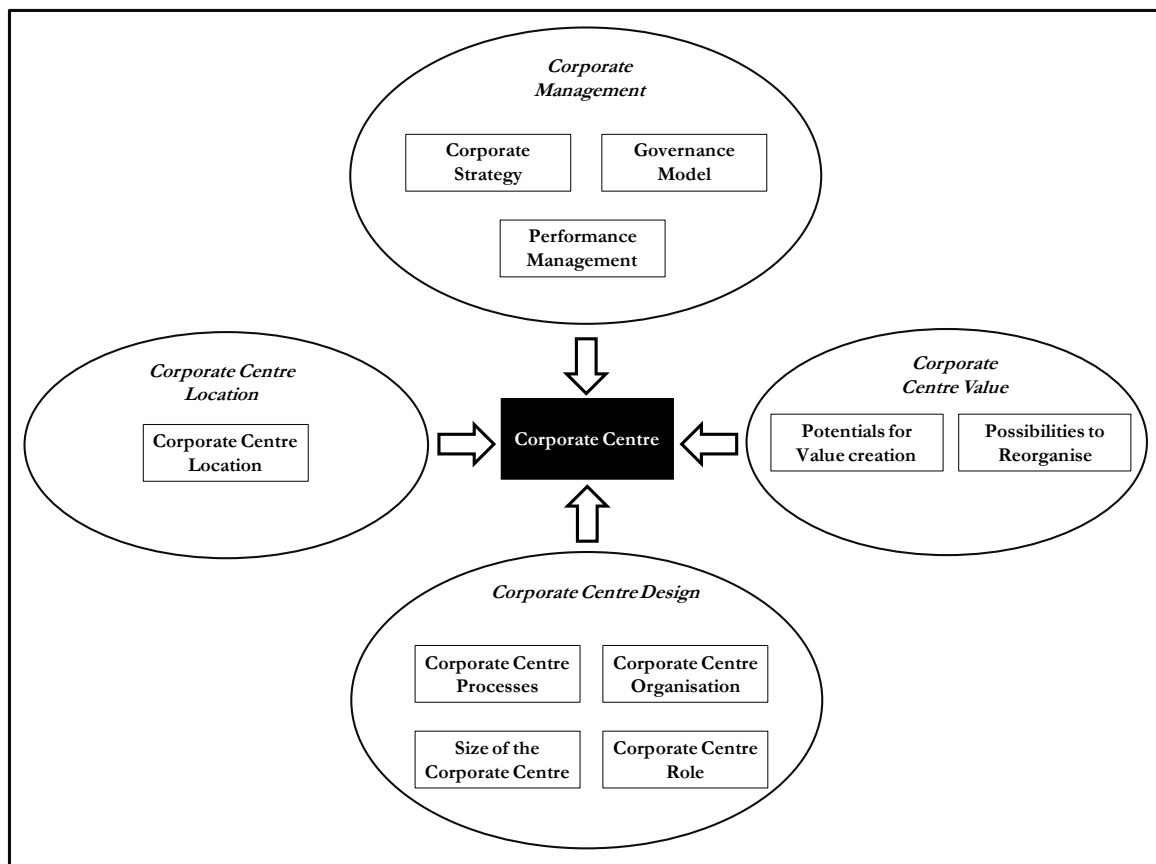


Figure 1: Literature overview

According to Chandler (1962, p.9) the corporate centre, or as he calls it the general office, is the organisational unit of a corporation where coordination, appraising, planning and resource allocation tasks are performed. Young et al. (2000, p. 9) extend this definition by a service function of the corporate centre. Considering Brecht (2002) a corporate centre also can be seen as a portfolio of business processes that deliver process outputs to specific customers within or outside the company. Determining the right design of the corporate centre (Young et al., 2000; Collis, Young & Goold, 2007), identifying the best possible way to create value by the corporate centre (Goold, Pettifer & Young, 2001), measuring and improving the corporate centre's performance (Pettifer, 1998) and defining its ideal location (Deschryvere, 2009) are recurring objectives in academic literature. The main focus of most of these publications is the analysis and explanation of existing corporate centre structures. In figure 1 we show that it is possible to cluster the existing corporate centre research results within four main fields of research.

Within our approach we add a new element to this research landscape, which we call corporate centre archetype. Goold, Pettifer & Young (2001, pp. 84-85) state that in general three roles of the corporate centre can be distinguished. In accordance to these roles the functional range of a corporate centre deduces. Within our approach we pick up this idea and formulate reference models which anticipate future developments and potentials for value generation. These reference models are called corporate centre archetypes. On the basis of the corporate centre archetypes we develop a decision model, which allows to rethink existing corporate centre structures.

3. Methodology and Model

Our approach proposes a theoretical model to describe and challenge corporate centre structures. This model has to be conducted considering future trends that will influence corporate centre organisation as well as empirically determined potentials for value creation by the corporate centre.

To achieve this goal we need a research approach that allows interaction of theory and practice. The main requirements for this research approach are

- the opportunity to consider and combine different sources of information and data,
- the possibility to apply and combine several research techniques,
- the potential to adequately involve experts' opinions for the verification of theoretical approaches and finally
- procedures to evaluate completeness, adequacy and practicability of the results on basis of pilot-applications.

To meet these requirements we apply the grounded theory research approach to develop our model (Glaser & Strauss, 1967). Following Bryant & Charmaz (2007, p.1) the basis of our research approach consists of an iterative process, in which collection and analysis of our data is performed. The integration of control and verification gates ensures quality of our results (Bryant & Charmaz, 2007, p.19). Verification in our case is conducted by experts from different companies at defined points in time. This ensures completeness, adequacy and practicability of our model (Charmaz, 2006, pp.182). The integration of

experts is performed in periodical workshops and bilateral meetings with single project partners.

In accordance to Schallmo & Schad (2010) we apply the following five phases to our iterative process: (1) initiation, (2) integration, (3) collection and analysis, (4) theory building and (5) verification. Figure 2 shows these steps in detail.

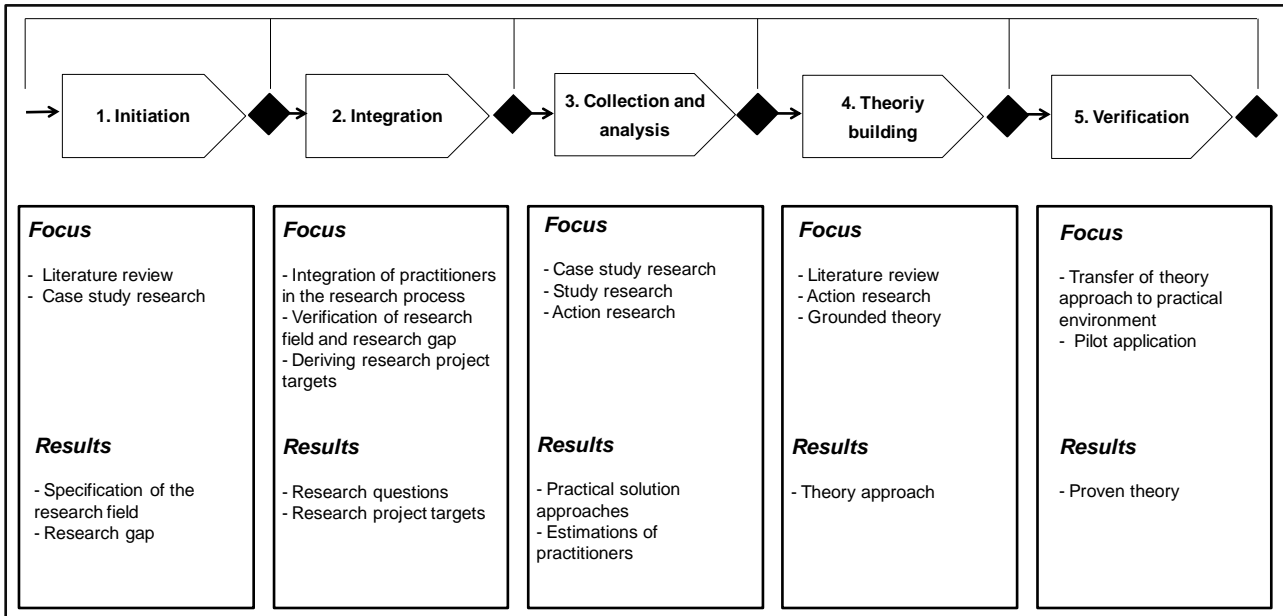


Figure 2: Research approach

The objective of the initiation phase is the specification of the research field and the research gap on the basis of a literature review and case study research. This allows consideration of theoretical background as well as practical implications. The integration phase ensures adequate involvement of practitioners in the research project. The formulation of research questions and project targets within the research project plan and project schedule are the main results of this phase. The collection and the analysis phase, as well as theory building, are performed iteratively. Depending on the respective research goals, information and data are gathered, analysed and transformed into theoretical models. Key research methods that are used to ensure an adequate integration of practical experiences within these phases are case study research and action research. Case study research describes and analyses practical cases (Stake, 1995). Action research is aimed at the transformation of a research object by practitioners within workshops (Baskerville & Wood-Harper, 1998). Literature review and grounded theory are applied to derive our theories. The verification phase evaluates the theoretical models in a practical environment. The final quality assurance of the results is verified by pilot applications for a sample of companies.

4. Findings

To derive a model that fills existing research gaps and therefore allows challenging the organisation of the corporate centre considering its value proposition to the corporation, the following research questions need to be answered:

- What are the main possibilities for value creation by the corporate centre that need to be considered within our approach?

- What are characteristic corporate centre structures that can serve as archetypes?
- What are the key elements to describe a corporate centre archetype?
- How can corporate centre archetypes be used to challenge existing corporate centre organisations?

A corporate centre archetype is a research model that is based on a set of well defined assumptions (Bouyssou, 2000, p. 2) and describes future oriented corporate centre organisations. The model is designed to anticipate future possibilities for corporate centre value creation. In this context value creation is defined as a set of potentials to reduce costs or improve effectiveness and quality in relation to the current status quo (Goold, Pettifer & Young, 2001; Sambeth, 2003, p. 136-211). In our approach three ways of value creation by the corporate centre are considered, namely horizontal synergies, vertical nurturing and outsourcing. Horizontal synergies are generated by harmonisation and centralisation of redundant functions from several business units (Sambeth, 2003, p. 140). Typical processes where horizontal synergies are realised are human resource administration or information technology application maintenance (Goold, Pettifer & Young, 2001). Vertical nurturing is the provision of services to a specific business unit by the corporate centre (Sambeth, 2003, p. 41). An example is the support of a business unit in its strategic planning process by the corporate centre (Goold, Pettifer & Young, 2001). Within outsourcing, services are purchased from an external supplier. A process where outsourcing typically is performed is information technology infrastructure (Blokdiijk, 2008, p.56). Figure 3 summarises and illustrates the three possibilities of value creation by the corporate centre.

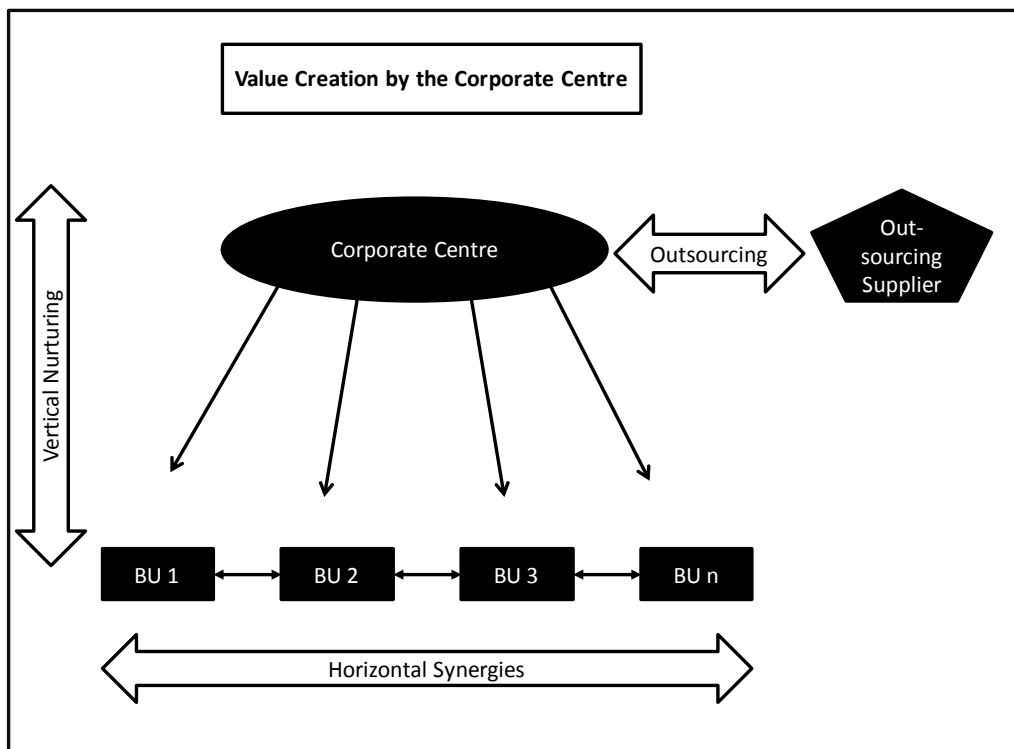


Figure 3: Value Creation by the Corporate Centre

There are various ways to create value by the corporate centre. However, our approach mainly focuses on an operative process oriented understanding of the term. In cooperation with our research partners and on the basis of relevant literature we decided to define the five corporate centre archetypes Minimum Corporate Centre, Strategic Leader, Synergy Manager, Value Service Manager and Sourcing Manager. The Minimum Corporate Centre is based on the minimum corporate parent role defined by Goold, Pettifer & Young (2001). The Strategic Leader and the Value Service Manager further separate the value-added parenting role, whereas the Synergy Manager refers to the shared services role (Goold, Pettifer & Young, 2001). Additionally, we introduce the archetype Sourcing Manager to cover corporate centres that manage outsourcing relationships. Figure 4 shows a short characterisation of our archetypes.

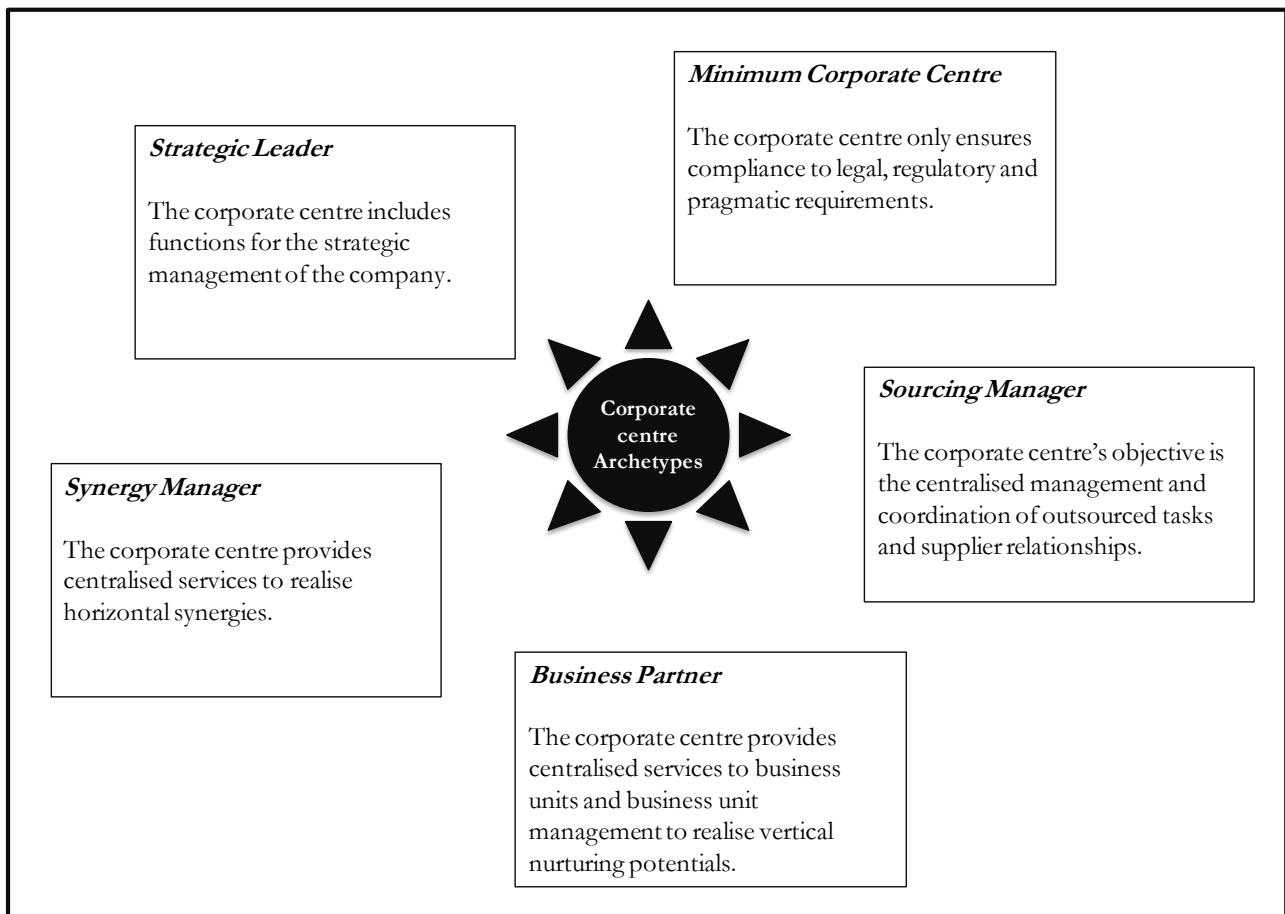


Figure 4: Five corporate centre archetypes

An archetype, as we define it, consists of five components: (1) strategic question, (2) cornerstones of the archetype, (3) corporate centre option-space, (4) corporate centre process-model and (5) corporate centre role-responsibility-model. With these five elements, we are able to completely describe requirements, assumptions and contents of a corporate centre organisation. The five elements are explained below.

A strategic question is the main characteristic of a corporate centre archetype (Lerner, 2008). The strategic question that defines the archetype Minimum Corporate Centre for example, is:

Which processes should a corporate centre typically include to meet legal, regulatory and pragmatic requirements?

The corporate centre cornerstones (Brecht, 2002, p. 93) are based on the strategic question and constitute the successive step of operationalisation. They define the framework of the archetype and are the basis for filling out the corporate centre option-space. For illustration, the cornerstones of the archetype Minimum Corporate Centre are defined as follows:

- The corporate centre only includes processes that can't be delegated to business units.
- Business units act largely autonomously.
- Requirements for processes between business units are heterogeneous and there are also specific geographical requirements.
- Business units are grouped into divisions and each division has additional headquarters.
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Based on the cornerstones, an archetype can be expressed in the corporate centre option-space. The option-space defines the framework of an archetype. It consists of a set of characteristics which are the main factors the design of the corporate centre depends on within our model.

The characteristics we identified, based on corporate centre literature and expert verification, are:

- key-activities that represent the role and the operational range of the corporate centre,
- the corporate organisation that describes the embedment of the corporate centre within the company,
- key strategy elements which influence the additional realisation of processes within the corporate centre,
- business diversity that represents the heterogeneity of requirements single processes have to comply with and therefore influence the possibility to centralise these processes and
- territorial diversity that determines local regulations which are opposed to the centralisation of business processes.

For each characteristic we define a distinct number of possible attributes. The characteristics and their corresponding attributes are illustrated within a morphologic box (Jenny, 2007, p. 177). This morphologic box we define as the corporate centre option-space. Figure 5 shows the corporate centre option space for the corporate centre archetype Minimum Corporate Centre.

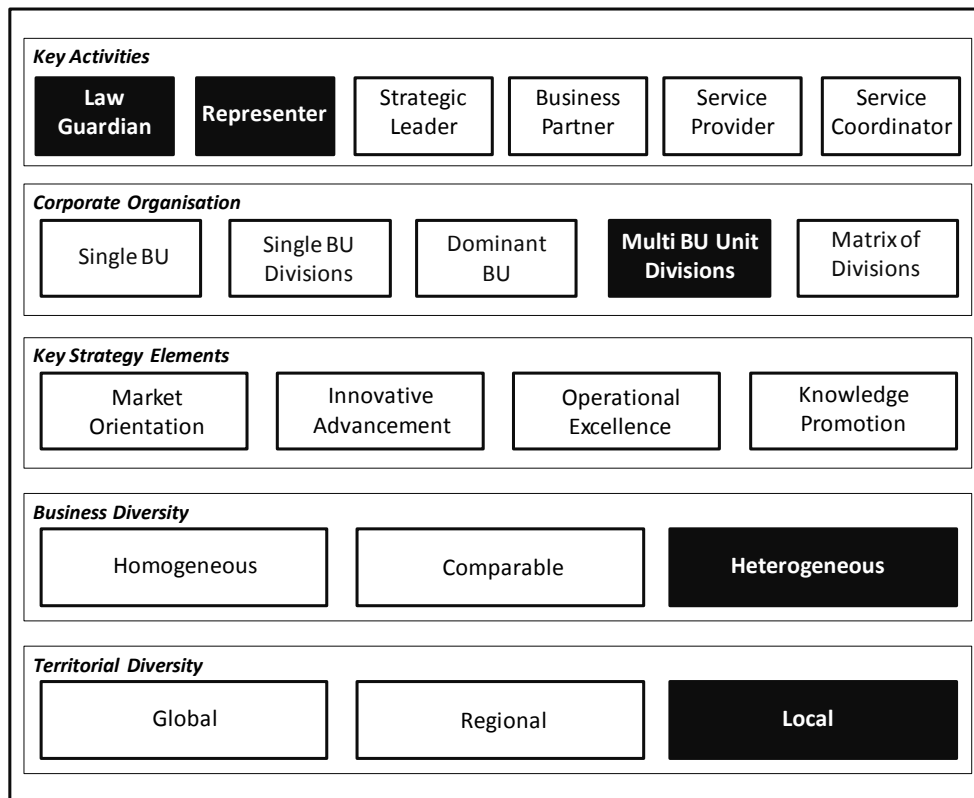


Figure 5: Corporate Centre Option-Space

On basis of the corporate centre option-space the selection of processes within the corporate centre process model is performed. This is done via a set of well defined configuration rules. We defined the configuration rules considering the following sources of information:

- academic literature,
- an empirical survey to analyse which processes companies expect to have the highest potentials for future value creation,
- the assessment of experts within action research.

Applying the configuration rules the corporate centre process model is derived from the corporate centre option-space. The process model shows the processes centralised in the corporate centre according to our model. In Figure 6 we show the corporate centre process model of the Minimum Corporate Centre.

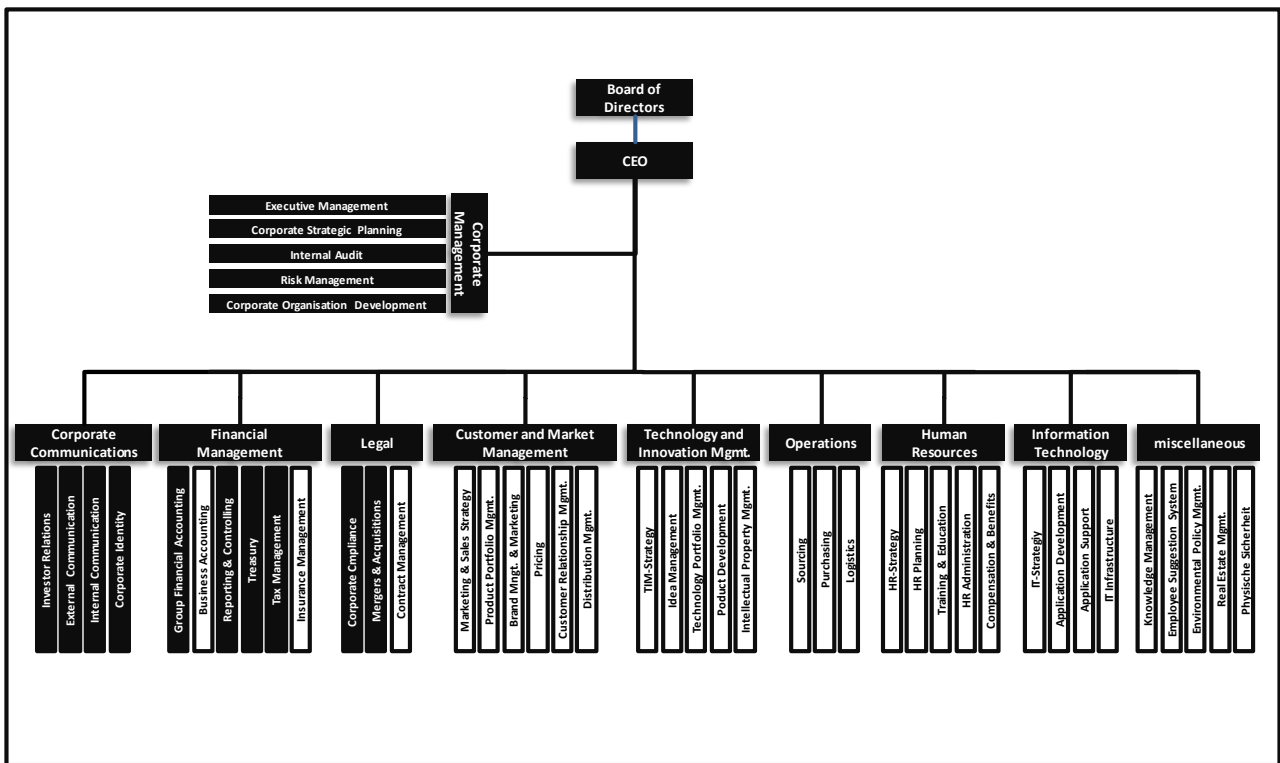


Figure 6: Corporate Centre Process Model

To further specify the responsibilities for managerial and operative parts within a process, we developed another archetype component which we call role-responsibility-model. In this model we derive an exemplary way, based on experts' opinions, corporate centre processes should be organised within a company. In figure 7 we show the role-responsibility-model for the corporate centre process risk management of the archetype Minimum Corporate Centre. The horizontal dimension determines the roles that are potentially involved in the process. In the vertical dimension their respective responsibilities within that process are disclosed.

Risk Management	Corporate Centre	Divisional Headquarters	Internal Service Provider	External Service Provider	Business Unit
Long-term Process Management					
Short-term Process Management					
Support Services					
Process Execution					

Figure 7: Exemplary Role-Responsibility-Model for the corporate centre process risk management

The corporate centre archetypes have been applied within three pilot applications so far. The companies examined were international corporations from the sectors energy, machine building and production of semi-finished goods. The results were challenged by experts of those companies and discussed with executive management. The approach was considered consistent and comprehensible and the results were used as input for internal argumentation of reorganisation projects.

5. Summary and Conclusions

In this paper we proposed a decision model we call corporate centre archetypes. Corporate centre archetypes consist of five components and have been developed to challenge existing corporate centre organisations in terms of value creation to derive potentials for reorganisation. In pilot applications the archetypes have been used to examine the corporate centres of three international corporations. The results of our applications have demonstrated consistency and feasibility and have been used for internal argumentation of projects.

The next research step will be the description of a method which defines all activities, results, techniques and roles that have to be considered to derive potentials using corporate centre archetypes. In addition to the identification of potentials, this method will include the valuation and implementation of these potentials. Archetypes, together with the corresponding method, will result in a stringent and comprehensible approach to improve a corporate centre's performance and value proposition.

End Notes

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