

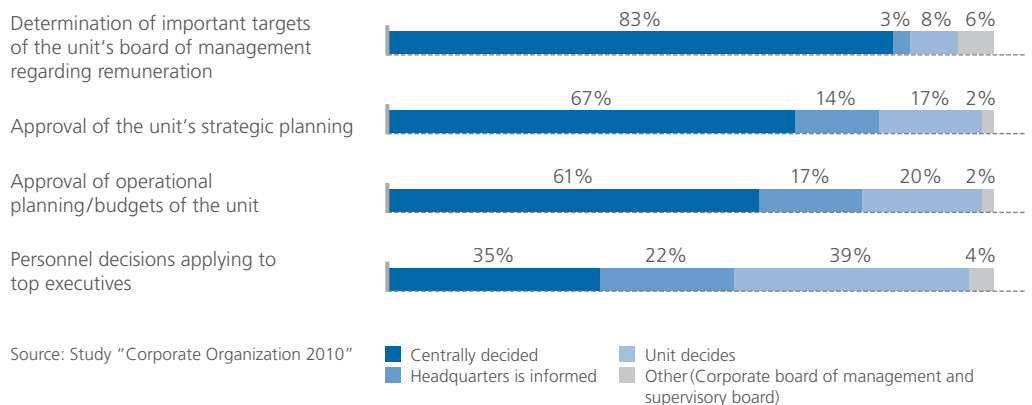
## Power to the Headquarters?

Over the last three years, 90 percent of German corporations have increasingly centralized their decision-making structures and processes, as headquarters play bigger roles. This is one major finding of the new study “Corporate Organization 2010,” conducted by Oliver Wyman and Prof. Axel v. Werder of the University of Applied Sciences in Berlin. The recession is providing fresh fuel to this trend toward centralization while creating opportunities to systematically introduce sweeping changes.

In 2008, ThyssenKrupp was a decentrally managed corporation in which five business units had broad authority to conduct their activities. In 2009, the downturn in critical sales markets and extensive delays in major projects triggered a reorganization of the management structure that strengthened the company’s headquarters. Many other companies could pursue similar reorganizations in the months ahead.

Changes to management structure should ensure transparency, accelerate decision-making processes, and increase cost efficiency. Past reorganizations frequently were not carried out quickly and extensively enough, with the result that in many companies, senior management cannot forcefully tackle the challenges created by the global recession. In some instances, misunderstood concepts about decentralization stripped headquarters of

### Division of responsibility between business units and central corporate management (Unit-specific decisions requiring approval)



*“Managing the recession requires short-term steps to cut costs and a sound concept for sustainable improvements in the management organization.”*

power and removed it far from line business operations. In recent years, however, we have observed a trend toward greater centralization, a trend that is now accelerating.

#### **Clear trend toward centralization**

For our study “Corporate Organization 2010,” we asked managers of German corporations about trends in the management organization. The most important finding: 90 percent of corporations have increasingly centralized decision-making over the past three years, and they expect this trend to continue over the next few years.

Some seventy-five percent of managers cited additional company growth and the increased complexity of their business design as reasons for this development. Other challenges cited are internationalization, globalization, and increasing compliance requirements; regarding the latter, managers can be held accountable for mistakes much more easily than in the past.

#### **Levers to promote centralization**

The companies surveyed use a number of different levers to strengthen centralization. For instance, overlaps of personnel responsibility often developed between corporate management and business units. This ensures a direct role in decisions and increases the transparency of divisional decisions. The share of companies in which members of the board of management are also members of the boards of management or supervisory boards of subordinate companies is correspondingly high at 86 percent. In 29 percent of the surveyed companies, the double role of chairman of the board of management at the company and at a subsidiary creates the opportunity to have particularly broad influence as well as to exert direct control. In addition to overlapping personnel responsibility, reservations of consent at the headquarters can promote centralization during critical business unit decisions.

In 83 percent of the surveyed companies, the board of management determines those targets of the business unit boards that apply to remuneration. With a functional remuneration system, the headquarters can have broad influence over actions and decisions. In almost two-thirds of the companies, the board of management approved the strategic planning of the business unit. At 61 percent of the companies, it also shaped operational planning or determined the budget. Only secondary personnel decisions were primarily made by the business units.

Besides overlapping personnel responsibility and the direct centralization of decisions, companies also frequently use such tools as the introduction of shared services and the centralization of functions, particularly in the areas of finance and internal auditing.

#### **Finding a way out of the crisis**

When the economy finally rebounds, it is possible that the recovery will proceed differently than those in the past. We could see structural changes in many industries as well as significant consolidation.

To be sure, elements of decentralized decision-making structures will still be necessary. Companies need a management model that provides flexibility and entrepreneurial freedom for operational units, while facilitating stringent processes, standardized systems, and uniform, risk-focused control systems. A certain level of integration is a prerequisite to growth.

#### **Three principles for reorganization**

Changes in the organization of management should follow three principles. For the parent company, the leadership claim and the breadth of management decisions must be defined and communicated clearly. Processes and systems should be standardized and company-wide shared service centers established up. Finally, the market responsibility of the operational units must be assured. These three principles cover a broad spectrum of individual initiatives that must adapt to a company's particular situation. Fortunately, the current economic crisis creates the right climate to push through extensive changes that in the past would have been smothered by internal opposition.

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### **Challenges for the management organization**

- 1 Identify and clearly communicate the weaknesses of the management organization and their causes.
  - 2 Recognize possible opposition in a timely manner and address it in the change process.
  - 3 Develop a holistic concept that incorporates the cost-cutting lever as part of the process.
  - 4 Announce the holistic concept at an early stage and implement it quickly.
  - 5 Carry out necessary personnel changes, particularly in management, at the start of the change process.
  - 6 Clearly define change goals and the metrics of goal achievement.
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