Getting the right size and design of HQ: bigger may be better?

High performing companies are more likely to have a strong (and slightly bigger) centre

A key task for any CEO is to get the size, quality and role of the corporate centre right. For many years the accepted wisdom was that the leaner and meaner the HQ - the more impressive. High-profile CEOs were lauded for making a public virtue of a modest centre.

More recent research suggests that it is not that simple. High-performing companies have HQs 20% bigger than average. Effectiveness counts as much as efficiency. Companies who are good at execution are much more likely to have a strong, active centre. But most companies are not good at execution, and their HQs are more focused on audit and control, creating bureaucracy that hinders decision-making and adds cost.

The evidence from research is that good, successful corporate centres:

- Are designed around a deliberate choice of role, rather than choice of size
- Have roles that support the business model, and reflect strategic strengths
- Have clearly articulated ‘contracts’ between the centre and business units
- Are actively managed with the future in mind, rather than history and habit.

Three roles an effective HQ can play: one or more of these, depending on the needs of the business

1. ***Light touch governance***: The classic holding company role ensures regulatory, tax, audit, investor and compliance standards are met. It only requires a small team (average 6 people for every 1000).
2. ***Strategic value:*** This is an activist, supporting and enabling role providing strategic value that individual units cannot achieve on their own. Companies famous for lean HQs also have very activist ones. The right profile depends on your business model. Typical examples of such strategic value include R&D, lean manufacturing expertise, M&A and corporate brand
3. ***Shared service:*** Economies of scale are harnessed to get more value out of doing certain things once. Typical functions may include IT, purchasing, pay and benefits.

Six steps to establish the best corporate centre for a business

- ***Establish the basic governance requirement***. What is left if you strip everything out of the centre except what is required to meet legal and fundamental policy requirements?
- ***Understand your business model*** and how it may need to adapt to future sources of growth. Look for common features and interdependencies between business units
- ***Clarify the sources of competitive advantage*** at the heart of the business model. Where can a corporate centre add value to these? What are the 3 to 5 key activities?
- ***Establish the value of shared services*** (if any). The benefits should be significant, measureable and delivered in a 1–2 year horizon
- ***Redefine the contract between HQ and business units*** to ensure maximum total value. Focus on keeping ways of working simple, fast and transparent
- ***Redefine how the executive team works.*** The degree of central activist behaviour, or line of business autonomy should be reflected in the executive.

This is not one simple model, but neither is there evidence that the smallest HQ is always the best. Not all businesses can be so single-minded. But if pace and growth is vital to your business there are lessons here.