A Dynamic Perspective on the Strategic Apex: Antecedents, Processes and Outcomes of Changes at Corporate Headquarters

D I S S E R T A T I O N
of the University of St. Gallen,
School of Management,
Economics, Law, Social Sciences
and International Affairs
to obtain the title of
Doctor of Philosophy in Management

submitted by

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Dissertation no. 4095

Difo-Druck GmbH, Bamberg, 2013

The University of St. Gallen, School of Management, Economics, Law, Social Sciences and International Affairs hereby consents to the printing of the present dissertation, without hereby expressing any opinion on the views herein expressed.

St. Gallen, October 29, 2012

The President:

Prof. Dr. Thomas Bieger

"[...] change is constant, endemic and necessary."

Drew Gilpin Faust[•]

[•] President of Harvard University, 2011.

Source: www.nbr.com/transcripts/women-in-leadership-drew-gilpin-faust-20111226. Accessed on January 15, 2012.

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Acknowledgements

In hindsight, my Ph.D. studies were a *journey*—both very challenging and rewarding. Although the going was at times both rough and smooth, I never felt "lost." This was due to a number of people who accompanied me on this expedition, and provided me with support and directions.

First of all, I thank those who made the journey possible: I am truly indebted to Günter Müller-Stewens, who set me on this journey when he hired me several years ago. I am also very grateful to Sebastian Raisch, who agreed to be the second supervisor of my Ph.D. studies. Both of them provided me with extremely valuable support whenever I needed it, but allowed me enough freedom to leave my own footprints.

Second, I am grateful that this journey made it possible for me to meet extraordinary scholars whom I not only admire for their professional achievements, but also for their support and advice. I owe thanks to David J. Collis; by inviting me to be a visiting researcher at Harvard Business School, David basically paved the way for the empirical part of my research. I also thank Andrew Campbell, who has become a great coauthor and source of intellectual stimulus. Both David and Andrew have stimulated my thinking immensely with their tremendous knowledge of corporate strategy. Furthermore, I am grateful to Steven W. Floyd, who influenced my scholarly pathway through his distinguished example. In addition, I thank Albert A. Cannella Jr., who has not only become a coauthor with whom collaborating is a great pleasure, but also an academic mentor.

Third, I express my gratitude to the three ladies who smoothed my path far more than they probably know: Michaela Solterbeck and Susanne Hoare for their continuous support with the many administrative issues that scholars usually do not like. Along the same lines, I thank Ilse Evertse for her patience with my lack of English skills. The poor language and errors that are probably still in the document are mine, because I did not listen to her advice.

Fourth, I thank my colleagues and friends at the University of St. Gallen: my fellow Ph.D. companions Nicole Rosenkranz, Markus Schimmer, and Christian Welling (†), who started this journey with me. I am grateful to "The Kreutzer's" for enjoy-

able detours to the playground and the zoo, Markus Menz for countless advice (and bottles of wine), and Torsten Schmid who helped me get going. In addition, many people have made this journey not only much easier, but more enjoyable, most importantly: Michael Boppel, Nicola Gesing, Frank Haupenthal, Johannes Luger, Johanna Müller, Emmanuelle Reuter, Janice Spiess, Florian Überbacher, and Carola Wolf.

Fifth, I extend my gratitude to my long-term friends at home and abroad, many of whom I have known since my undergraduate studies or high school: "The Crew" (namely, Marlen Fischer, Golo Henseke, Andrea Schliewert, Ulrike Schuldt, and Melissa Schwarz), Christian Bredemeier, Johannes Jethon, Stefan Skorsetz, and my distinguished US mate Cody Pope. Although I met many of them far too seldom during this journey, I could always count on their support.

Very special thanks go to my family: I am first and foremost extremely grateful to my parents and grandparents for their constant trust and support during this journey and all my previous expeditions. My siblings are included in these thanks. In addition, I thank my uncle, aunt, and cousins in Tettnang for providing me with a second home at Lake Constance.

On a final note, I have probably omitted many important companions. Similar to many of my aberrations on this journey, I can only promise that this was not deliberately done.

St. Gallen, November 2012 Sven Kunisch

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List of Abbreviations

AMJ	Academy of Management Journal	
AMR	Academy of Management Review	
ANOVA	Analysis of Variance	
AOM	Academy of Management	
ASMC	Ashridge Strategic Management Center	
ASQ	Administrative Science Quarterly	
BoD	Board of Directors	
BP	Business Policy	
BRIC	Brazil, Russia, India, China	
BU	Business Unit	
CAO	Central Administrative Office	
CapEx	Capital Expenditure	
CBS	Core Business Services	
CC	Corporate Center	
CCO	Chief Corporate Officer	
CEO	Chief Executive Officer	
cf.	confer	Latin: compare, consult
CFC	Controlled Foreign Corporation	
CFO	Chief Financial Officer	
CHQ	Corporate Headquarters	
CMR	California Management Review	
COO	Chief Operating Officer	
CPG	Consumer Packaged Goods	
Cranet	Cranfield Network on European Human Resource Management	
CSC	Corporate Strategic Change	
CSCR	Related Corporate Strategic Change	
CSCT	Total Corporate Strategic Change	
CSCU	Unrelated Corporate Strategic Change	
CSO	Chief Strategy Officer	

D&B	Dun & Bradstreet (database)	
DCV	Dynamic Capabilities View	
DR	Related Diversification	
DT	Total Diversification	
DU	Unrelated Diversification	
DV	Dependent Variable	
e.g.	exempli gratia	Latin: for example, example given
E.MBA	Executive MBA	
EBO	Emerging Business Opportunity	
EMJ	European Management Journal	
ERP	Enterprise Resource Planning	
et al.	et alii	Latin: and others
etc.	et cetera	Latin: and other things, and so forth
ETP	Entrepreneurship: Theory & Practice	
ExecCom	Executive Committee	
FATCA	Foreign Account Tax Compliance Act	
FRS	Financial Reporting System	
FTC	Federal Trade Commission	
FTE	Full-Time Equivalent / Full-Time Employee	
FTSE	Financial Times Stock Exchange	
GM	General Management	
HCNs	Host Country Nationals	
HLM	Hierarchical Linear Modeling	
HQ	Headquarters	
HR	Human Resources / Human Relations	
HRIS	HR Information System	
HRM	Human Resource Management	
ICC	Industrial & Corporate Change	

i.e.	id est	Latin: that is
ILM	Internal Labor Market	
incl.	including	
IPO	Initial Public Offering	
IT	Information Technology	
IV	Independent Variable	
JMS	Journal of Management Studies	
JoF	Journal of Finance	
JoM	Journal of Management	
LRP	Long Range Planning	
M&A	Mergers & Acquisitions	
MBA	Master of Business Administration	
MBC	Marginal Bureaucratic Cost	
MBC	Multi-Business Corporation (also MBF)	
MBF	Multi-Business Firm (also MBC)	
MEB	Marginal Economic Benefit	
Mfg	Manufacturing	
MNC	Multi-National Company (also MNE)	
MNE	Multi-National Enterprise (also MNC)	
MSA	Metropolitan Statistical Area	
n/a	not applicable	
no.	Number	
NPD	New Product Development	
NPL	Non-Performing Loans	
OB	Organizational Behavior	
OLS	Ordinary Least Squares (Regression)	
OpCo	Operating Company	
OS	Organization Science	
P&E	Plant and Equipment	
P&L	Profit & Loss	
PCNs	Parent Country Nationals	

Ph.D.	Philosophiae Doctor	Latin: Doctor of Philosophy
R&D	Research and Development	
RBV	Resource-Based View	
RoA	Return on Assets	
SARFIT	Structural Adjustment to Regain Fit	
SBU	Strategic Business Unit	
SCM	Supply Chain Management	
SE	Societas Europaea	Latin: European Company
SEM	Structural Equation Modeling	
SGA	Selling, General, and Administrative	
SIC	Standard Industrial Classification	
SLFs	Strategic Leadership Forums	
SMJ	Strategic Management Journal	
SMS	Strategic Management Society	
SOA	Sarbanes Oxley Act (also SOX)	
SOX	Sarbanes Oxley Act (also SOA)	
TCE	Transaction Cost Economics	
TCNs	Third Country Nationals	
TMT	Top Management Team	
UE	Upper Echelons	
UK	United Kingdom	
US	United States	
USA	United States of America	
USD	US Dollar	
vs.	versus	Latin: against

Abstract

A distinct organizational entity, which Mintzberg (1979) depicted as the *strategic apex* and which is now most often referred to as the *corporate headquarters* (CHQ), epitomizes the modern corporation. Since Chandler's (1962) seminal work *Strategy and Structure*, the CHQ has attracted considerable scholarly attention and managerial interest alike. How the CHQ should manage large firms' portfolio of businesses constitutes one of the key concerns of corporate strategy. Hence, previous studies have explored the raison d'être, roles, and distinctive characteristics of this entity.

An essential tenet of extant CHQ research holds that this entity serves as an intermediary fulfilling internal and external roles. Both the internal and external environments evolve continually. Ever-changing business demands, as well as complex and turbulent environments eventually raise questions about change at the CHQ. Yet, most research directly examining the CHQ is static, thus leaving us with little knowledge about change at the CHQ. This is astonishing given the vast amount of research on change in other corporate strategy dimensions (e.g. diversification). The lack of knowledge is also contrary to the privileged status attributed to this entity, recurring calls for CHQ redesigns, and, especially, for downsizing of CHQ staff.

This Ph.D. thesis thus investigates changes at the CHQ. It comprises four core chapters, each of which is a self-contained study: The first study reviews existing knowledge pertaining to CHQ change. Two studies analyze specific phenomena based on distinct theoretical lenses. While one study investigates CEO successions as an antecedent to CHQ change from an upper echelons perspective, the other researches the antecedents and the outcomes of CHQ change, using the organizational contingency theory. The fourth study examines the dynamics of corporate functions. Although they address distinct aspects of CHQ change, these chapters are closely related.

This Ph.D. thesis makes several contributions to theory and practice. Mainly, the thesis takes a dynamic perspective on the CHQ, thereby adding to the corporate strategy literature. Moreover, the findings inform practicing managers, board of directors, and those involved in advising large firms such as strategy consultants.

Keywords: Corporate strategy, corporate headquarters, strategic change

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Zusammenfassung

Die moderne Unternehmung ist vor allem durch eine bestimmte Organisationseinheit, von Mintzberg (1979) als *Strategic Apex* bezeichnet, und heute meistens *Konzernzentrale* genannt, gekennzeichnet. Seit Chandler's (1962) grundlegender Arbeit *Strategy and Structure* hat diese Organisationseinheit großes Forschungsinteresse sowie große Aufmerksamkeit in der Praxis auf sich gezogen. Wie die Konzernzentrale die einzelnen Geschäftseinheiten steuert, ist in der Tat eine der zentralen Fragen in der Corporate Strategy-Forschung. Demzufolge wurden bereits die Raison d'Être, die Rollen und die bestimmenden Charakteristika dieser Organisationseinheit untersucht.

Eine Hauptaussage bestehender Forschung zu Konzernzentralen ist, dass diese Einheit als Intermediär fungiert und daher interne und externe Rollen innehat. Sowohl die interne als auch die externe Unternehmensumwelt verändern sich laufend. Sich ständig verändernde Geschäftsanforderungen sowie komplexe und turbulente Umwelten werfen daher auch Fragen zu den Veränderungen in Konzernzentralen auf. Die bestehende Forschung zu Konzernzentralen ist jedoch größtenteils statisch, weshalb nur wenig zu Veränderungen in Konzernzentralen bekannt ist. Das erscheint vor dem Hintergrund von umfangreicher Forschung zu Veränderungen in anderen Corporate Strategy-Bereichen (z.B. Diversifizierungsgrad) erstaunlich. Der Mangel an bestehendem Wissen steht zudem im Widerspruch zum exponierten Status dieser Organisationseinheit sowie zu immer wiederkehrenden Appellen an Unternehmen, ihre Konzernzentralen zu verändern oder gar zu verkleinern.

Die vorliegende Dissertation untersucht Wandel in Konzernzentralen. Sie besteht aus vier Kernteilen, die jeweils in sich geschlossene Studien darstellen: Im ersten Kernteil werden die Begrifflichkeiten geklärt und die bestehende Forschung zu Veränderungen in Konzernzentralen systematisch zusammengefasst. In zwei weiteren Teilen werden spezifische Phänomene unter Zuhilfenahme von bestimmten Theoriebrillen empirisch untersucht. Zunächst werden CEO-Wechsel als Auslöser von strukturellen Veränderungen in Konzernzentralen aus der Upper Echelons-Sicht untersucht. Dann werden Auslöser und Konsequenzen von strukturellen Veränderungen in Konzernzentralen aus Sicht der Kontingenztheorie untersucht. Im vierten Teil werden die Dynamiken von Zentralfunktionen (Stabsfunktionen) beleuchtet. Obwohl in den einzelnen

Teilen unterschiedliche Aspekte untersucht werden, hängen diese jedoch miteinander zusammen und ergänzen sich.

Die vorliegende Dissertation leistet verschiedene Beiträge zur bestehenden Forschung und zur Praxis. Der wesentliche Beitrag zur Corporate Strategy-Forschung ist in der dynamischen Perspektive auf Konzernzentralen zu sehen. Die Erkenntnisse der vorliegenden Dissertation sind zudem für Manager, Aufsichtsräte und diejenigen, die diversifizierte Unternehmen beraten (z.B. Strategieberater), hilfreich.

Stichwörter: Unternehmensstrategie, Konzernzentrale, Strategischer Wandel

1 Introduction

Over the last decades, corporate strategy has emerged as an important strand of strategic management research. Increasing evidence that *corporate strategy matters* (Bowman & Helfat, 2001)[1], has legitimized further research in this area. Porter (1987: 43) defines corporate strategy as a two-facet concept that concerns (a) which businesses the corporation should engage in and (b) how the corporate headquarters (CHQ) should manage the collection of businesses.

Scholars have researched both aspects. Addressing the first part of this definition, scholars have invested considerable efforts in exploring the relationship between diversification and performance (e.g. Bettis, 1981; Choe & Yin, 2009; Markides & Williamson, 1994; Palich, Cardinal, & Miller, 2000; Pehrsson, 2006; Rumelt, 1982; Stimpert & Duhaime, 1997; Tanriverdi & Venkatraman, 2005; Villalonga, 2004).[2] With regard to the second part of this definition, scholars have explored various aspects of the CHQ, including its raison d'être, roles and functions, styles, activities, and design characteristics such as its size (e.g. Chandler, 1991; Collis, Young, & Goold, 2007, 2012; Foss, 1997; Goold & Campbell, 1987; Goold, Campbell, & Alexander, 1994; Markides, 2002, 2006; Menz & Collis, 2009; van Oijen & Douma, 2000). Collectively, these studies cover both parts of Porter's definition of corporate strategy (see Table 1-1).

From a different viewpoint, strategic management and, particularly, corporate strategy are fundamentally concerned with changes in the environment and organizational adaptation (e.g. Ginsberg, 1988). The strategy concept, which is defined as "the dynamics of the firm's relation with its environment …" (Ronda-Pupo & Guerras-Martin, 2012: 182), thus reflects the importance of strategic change. Moreover, empir-

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[1] See Appendix 1 for an overview of findings on corporate-level effects.

[2] Several review studies summarize the wealth of research covering a broad range of aspects such as corporate portfolio management (Nippa, Pidun, & Rubner, 2011), M&A (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009), the M&A impact on financial performance (Tuch & O'Sullivan, 2007), the learning perspective in M&A (Barkema & Schijven, 2008), a meta-analysis of post M&A performance (Homberg, Rost, & Osterloh, 2009; King, Dalton, Daily, & Covin, 2004), and corporate refocusing and divestitures (Berger & Ofek, 1999; Bowman & Singh, 1993; Brauer, 2006; Johnson, 1996).

ical evidence suggests that unstable corporate effects account for a considerable portion of the variance in firm performance. McNamara et al. (2003) find a continuous and significant increase in unstable corporate effects over 20 years, which explains up to 16.8% of performance differences. This also raises questions related to corporate-level change.

Table 1-1: Two Corporate Strategy Concerns

Two corporate-level strategy concerns*	**Portfolio of domains**		**the CHQ and how the CHQ manages the portfolio of domains**	
Dimensions	product domains (product-market diversification)	geographic domains (geographic diversification)	the CHQ	how the CHQ manages the business portfolio
Measures used	e.g. entropy measure of diversification	e.g. degree of internationalization	e.g. the CHQ size	e.g. centralization of decision-making
Exemplary studies	(Palepu, 1985)	(Sullivan, 1994) (Sambharya, 1996) (Sanders & Carpenter, 1998) (Westphal & Fredrickson, 2001)	(Collis et al., 2007, 2012)	(Hage & Aiken, 1967) (Cardinal, 2001)

* Based on Porter (1987) and extended.
The grey area indicates the focus of this dissertation.

Previous studies explored corporate-level change indeed. For instance, scholars explored strategic change and corporate restructuring phenomena (e.g. Boeker, 1997; Fondas & Wiersema, 1997; Hoskisson & Johnson, 1992; Westphal & Fredrickson, 2001; Wiersema, 1992; Wiersema & Bantel, 1992). These studies on corporate-level change focused on the influences and outcomes of change in the business portfolio and, thus, address the first part of Porter's conceptualization of corporate strategy.

Yet, research related to the second part of Porter's corporate strategy definition has remained mostly static concerning its treatment of time and its focus on the CHQ states. With the exception of a few studies (e.g. Baaij, Van Den Bosch, & Volberda, 2004; Birkinshaw, Braunerhjelm, Holm, & Terjesen, 2006; Ferlie & Pettigrew, 1996; Pettigrew, 1987a) the phenomenon of CHQ change has been widely disregarded. This absence of studies is in sharp contrast to the amount of research on change referring to the first part of Porter's definition of corporate strategy.

1.1 Motivation

In large and diversified firms, the CHQ has been a central concern for strategy research ever since Chandler's (1962) seminal work on *Strategy and Structure*. According to Rumelt, Schendel, and Teece, one of the four fundamental inquiries into the strategy field concerns the CHQ: "What is the function of or value added by the headquarters unit in a diversified firm?" (1994: 44). CHQ concerns are crucial in strategy research because the CHQ is central in many current theories of the firm (Kleinbaum & Stuart, 2011), and key to the performance of the multi-business firm as a whole (Campbell, Goold, & Alexander, 1995a; Chandler, 1991; Porter, 1987). Thus far, scholars have explored a variety of CHQ issues such as the roles and functions of the CHQ (Chandler, 1962, 1991, 1992; Markides, 2002, 2006), the styles (Goold & Campbell, 1987), its rationales (Foss, 1997; Williamson, 1975), its location (Birkinshaw et al., 2006), its relationships with subsidiaries (Bouquet & Birkinshaw, 2008; Nohria & Ghoshal, 1994; Roth & Nigh, 1992), and the variety in the organizational design of the CHQ (Collis et al., 2007, 2012; Porter, 1987; Young et al., 2000).

However, extant research on the CHQ is largely static, and especially the more academic journals contain little that applies directly to CHQ change[3] (Ferlie & Pettigrew, 1996: 496). Changes in the geographic location of the CHQ (CHQ relocations), which have recently received increased scholarly attention, are a notable exception (Baaij et al., 2004; Birkinshaw et al., 2006; Laamanen, Simula, & Torstila, 2012). For example, the findings in Birkinshaw et al.'s (2006) study of CHQ relocations stress the importance of the external role of the CHQ. While this research has shown the potential of more dynamic research on the CHQ to inform static and dynamic CHQ phenomena, the call for theoretically informed studies on the dynamics of the CHQ and for testing in the field (Ferlie & Pettigrew, 1996) has remained largely unanswered.

The lack of research on the dynamics of the CHQ is in sharp contrast to the importance scholars and managers attribute to change at the CHQ. The most explicit academic effort to broach change at the CHQ was probably undertaken by Ferlie and

[3] The terms 'corporate headquarters transformation,' 'corporate headquarters change,' and 'corporate headquarters restructuring' have been used as synonyms. In this dissertation, I use the term 'corporate headquarters change.'

Pettigrew (1996). A major priority of their work was to gather and evaluate previous work related to CHQ change and to draw up a research agenda. In their conceptual study, the authors warn that general knowledge may be only limitedly applicable to organizational change due to distinct CHQ characteristics—e.g. the CHQ often has a strong symbolic value and is highly political by nature—that could translate into change. In addition, as there is prima evidence of CHQ change (e.g. Arnold & Leimon, 2008a, b; Economist, 2008; Kunisch, Müller-Stewens, & Collis, 2012c), the lack of research on this phenomenon contradicts the importance practitioners attach to it. As a consequence, we only have limited knowledge to offer practitioners in this regard.

Methodological/empirical issues and missing or fuzzy definitions are some of the prominent reasons for research's inability to provide practitioners with well-tested theories (e.g. Ginsberg, 1988).[4] As far as methodological/empirical issues are concerned, access to data has been a critical issue for studies on CHQ change: "Negotiating access to organizations engaged in such high-level restructuring can be tricky indeed, as managerial and consultant careers and reputations may be on the line" (Ferlie & Pettigrew, 1996: 496). However, this obstacle has alleviated over time: Some companies have recently even started providing CHQ data in their annual reports (e.g. Swisscom, Deutsche Lufthansa). In addition, articles published in the interim provide further support for dealing with empirical issues (e.g. Bergh & Fairbank, 2002). As far as missing or fuzzy definitions are concerned, it is up to research to address this issue by, for instance, developing a framework which will allow for assessing and modeling CHQ change and will provide a basis for further research. To sum up, while some 'justifications' for the lack of research are no longer feasible; others simply set research tasks rather than obstacles.

This Ph.D. thesis aims at addressing the aforementioned shortcomings in the CHQ literature. This introductory chapter, which is intended to outline the research project's overall motivation, is structured as follows: In the next section, I provide definitions of the most important and frequently used terms in this dissertation. Thereafter, I sketch the overall research gaps and derive guiding research questions for my

[4] I here follow Ginsberg (1988), who made a similar argument for research on changes in strategy.

research endeavor. Subsequently, I outline the purpose of the research project and summarize the logic and organizing of the dissertation.

1.2 Background and Definitions

In keeping with the dictum *start with good definitions*, I present domain-specific terminology in this section. The given definitions cover (a) terms more broadly related to this research endeavor, such as corporate strategy, corporate headquarters, and corporate headquarters change, as well as (b) terms more specifically related to individual studies, such as the upper echelons theory, the parenting theory, and the organizational contingency theory. Additional and more focused definitions are given in each of the individual parts.

According to Porter, *corporate strategy* is "the overall plan of a diversified company [… and] concerns two different questions: what businesses the corporation should be in and how the corporate office should manage the array of business units. Corporate strategy is what makes the corporate whole add up to more than the sum of its business unit parts" (1987: 43). While almost all corporate strategy definitions refer explicitly to the business portfolio, not all of them mention the importance of the CHQ in managing the set of businesses explicitly (for an overview, see Appendix 2). I build upon Porter's definition since it broaches this organizational entity explicitly. In this vein, research on CHQ change can be classified corporate strategy research.

The *corporate headquarters* (CHQ)[5] can be defined as "staff functions and executive management with responsibility for, or providing services to, the whole of (or most of) the company, excluding staff employed in divisional headquarters" (Collis et al., 2007: 385). While different terms and definitions have been used in the literature, I center on this recent definition for two main reasons: First, from a theoretical standpoint delineating CHQ activities from those carried out by business units may be tenuous (Markides, 2002); however, this definition proved convenient and practicable (Collis et al., 2007). Essentially, it includes all staff who reports to the CHQ. Second,

[5] In this dissertation, several terms used in the existing literature are considered synonymous: corporate headquarters, corporate center, corporate office, corporate head office, HQ unit, general office, and corporate parent. Please refer to Appendix 3 for an overview of definitions.

although not all definitions embrace the top management team (TMT), which includes the CEO, as part of the CHQ, this definition includes the organization's upper echelon explicitly. This is appropriate for this dissertation's purposes.

The extant body of literature lacks a distinct conceptualization of *CHQ change*. By definition, 'change' involves becoming different in some particular (Ginsberg, 1988). To specify 'some particular,' I build on two dimensions. The first dimension refers to the CHQ and builds on existing insights into the nature of the CHQ, such as its roles, styles, and designs (cf. Menz & Collis, 2009). The second dimension concerns change characteristics such as magnitude and frequency (Ginsberg, 1988). Integrating both dimensions allows for conceptualizing CHQ change. While the empirical parts focus on changes in the CHQ' formal design, I broadly define CHQ change as:

an alteration in the state or quality of the CHQ over time.

The *upper echelons theory*[6] conceptualizes the organization as a reflection of its top managers (Hambrick & Mason, 1984). Its major principles posit that "(1) executives act on the basis of their personalized interpretations of the strategic situations they face, and (2) these personalized constructs are a function of the executives' experiences, values, and personalities" (Hambrick, 2007: 334). The theory builds on the foundation of bounded rationality (Cyert & March, 1963; March & Simon, 1958). Picturing the CHQ as a residence of which the CEO serves as a landlord, this theoretical lens seems particularly appealing for the study of CHQ phenomena.

The *organizational contingency theory* emerged, among others, from Chandler's (1962) observation that an organization's structure is contingent upon its strategy, and the study of the configurations of organizations (e.g. Miles & Snow, 1978; Mintzberg, 1979). The essential tenets of organizational contingency theory hold that *it depends* and that there is *no one best way*. The theory asserts that an organization needs to be aligned with its internal and external environments (e.g. Miller, 1992) and that fit leads to superior performance (Donaldson, 1987, 2001; Galbraith, 1973; Lorsch & Allen III, 1973). The theory can be broadly applied.

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[6] I acknowledge that some scholars consider upper echelons a perspective rather than a theory.

The *parenting theory* (Goold, Campbell, & Alexander, 1998) was mainly developed by the Ashridge Strategic Management Center (ASMC) and comprises several frameworks related to corporate strategy and corporate parents. It claims that the "best parent companies create more value than any of their rivals would if they owned the same businesses. Those companies have what we call *parenting advantage*" (Campbell et al., 1995a: 121). The assertion that corporate parents must create corporate value has two implications for CHQ change: First, corporate parents have to be constantly adapted to deliver on value-creating opportunities. Second, if corporate parents are unable to identify value-creating opportunities, or their existence is called in question, they should also be changed. In both cases, the corporate parent is subject to change.

1.3 Research Gaps

Extant research on the CHQ holds that this entity facilitates internal and external roles (Birkinshaw et al., 2006; Chandler, 1991; Collis et al., 2007). Both the internal and external environments evolve continually. Ever-changing business demands, as well as increasingly complex and turbulent environments[7], eventually raise questions about the dynamics of the CHQ. As yet, most research on the CHQ is static and thus the "more academic management journals contain little which bears directly on the phenomenon of HQ restructuring" (Ferlie & Pettigrew, 1996: 496). Consequently, we have little knowledge of the specific phenomenon of CHQ change.

This shortcoming appears rather surprising for the following main reasons: First, CHQ change is a significant and contemporary phenomenon. The uncovering of the CHQ change phenomenon goes back to Ferlie and Pettigrew (1996: 495): "[e]vidence of a wave of change occurring at [C]HQ level in the late 1980s and early 1990s […] a significant phenomenon may be emerging." Since then, academic studies on the CHQ have recurrently referred to dynamic phenomena. In a survey published in

[7] Some scholars argue that, increasingly complex and turbulent environments are more perceptions than real change: "Mintzberg (1991, 1994) reminds us that perceptions of increasing environmental instability often derive more from cognitive biases—hindsight and/or egotistical in nature—than from any real change in the environment" (McNamara et al., 2003: 273). While McNamara et al. (2003) actually find empirical evidence for this argument, their findings also show a continuous increase in unstable corporate effects over 20 years (from 0% in 78-81 to 16.8% in 94-97).

2000, many large corporations disclosed plans for substantive CHQ changes within a five-year time frame (Young et al., 2000). Foss, for instance, claims that "[…] restructuring of CHQ has become an important managerial concern" (1997: 314). More recently, also Collis et al. point to the phenomenon and argue that a "frequency of corporate projects to review the design of headquarters, therefore, is to be expected" (2007: 402).

Additionally, anecdotal support for this argument stems from the business press and recent studies by strategy consultancies. The Economist (2008), for instance, argues that companies employ too many CHQ staff and thus further downsizing should be expected. Furthermore, Roland Berger Strategy Consultants have recently reported on specific trends related to CHQ change (Zimmermann, Hauptmann, & Huhle, 2008). Specifically, they identify a trend toward centralization in recent years. In this vein, also a study by The Boston Consulting Group discovers that "many companies today are seeking a more activist" role for the CHQ (Roghé, Book, Webers, & Strack, 2008). Overall, these examples indicate that the lack of research is in sharp contrast with the phenomenon's prevalence and the calls for redesigning or downsizing the CHQ.

Second, a privileged status and unique features, such as a signal to the internal and external stakeholders, are commonly attributed to the CHQ, which could affect its dynamics. For example, Thurm notes that the physical CHQ building actually "reflects your company's mission and produces a truly energizing work environment" (2005: 120). In addition, the privileged status is believed to regularly shield this entity "from the rigors of the market" (Campbell, Goold, & Alexander, 1995b: 82). This assertion implies a specific CHQ inertia. In this regard, Campbell et al. claim more explicitly that: "parents constantly modify and fine-tune their parenting, but fundamental changes in parenting seldom occur, usually only when the chief executive and senior management team are replaced" (1995a: 132). This line of arguments indicates that a lack of research is contrary to existing conjectures concerning the specifics of this entity's 'change behaviors.'

1.4 Purpose and Scope

The purpose of this research endeavor is to examine the phenomenon of CHQ change. Specifically, this dissertation aims at addressing the following overall ques-

tions: How can we characterize CHQ change? What types of CHQ change exist? When does CHQ change occur? What are the drivers and impediments of CHQ change? What are outcomes of CHQ change?

Table 1-2: Dissertation Scope: A Dynamic Perspective on a Corporate Strategy Concern

Two concerns of corporate strategy*		**The CHQ and how the CHQ manages the overall firm**			**The Corporate portfolio**
		Three CHQ elements**			
Part	**Type**	Corporate executives and staff	Central staff functions	Physical (geographic) location	
1	Conceptual / review				
2	Empirical (deductive theory-testing)				
3	Empirical (deductive theory-testing)				
4	Empirical (inductive, managerial)				

* based on Porter (1987).
** based on the various CHQ definitions (for further details, see chapter 2).
The grey areas indicate the topics covered by the respective parts of the dissertation.

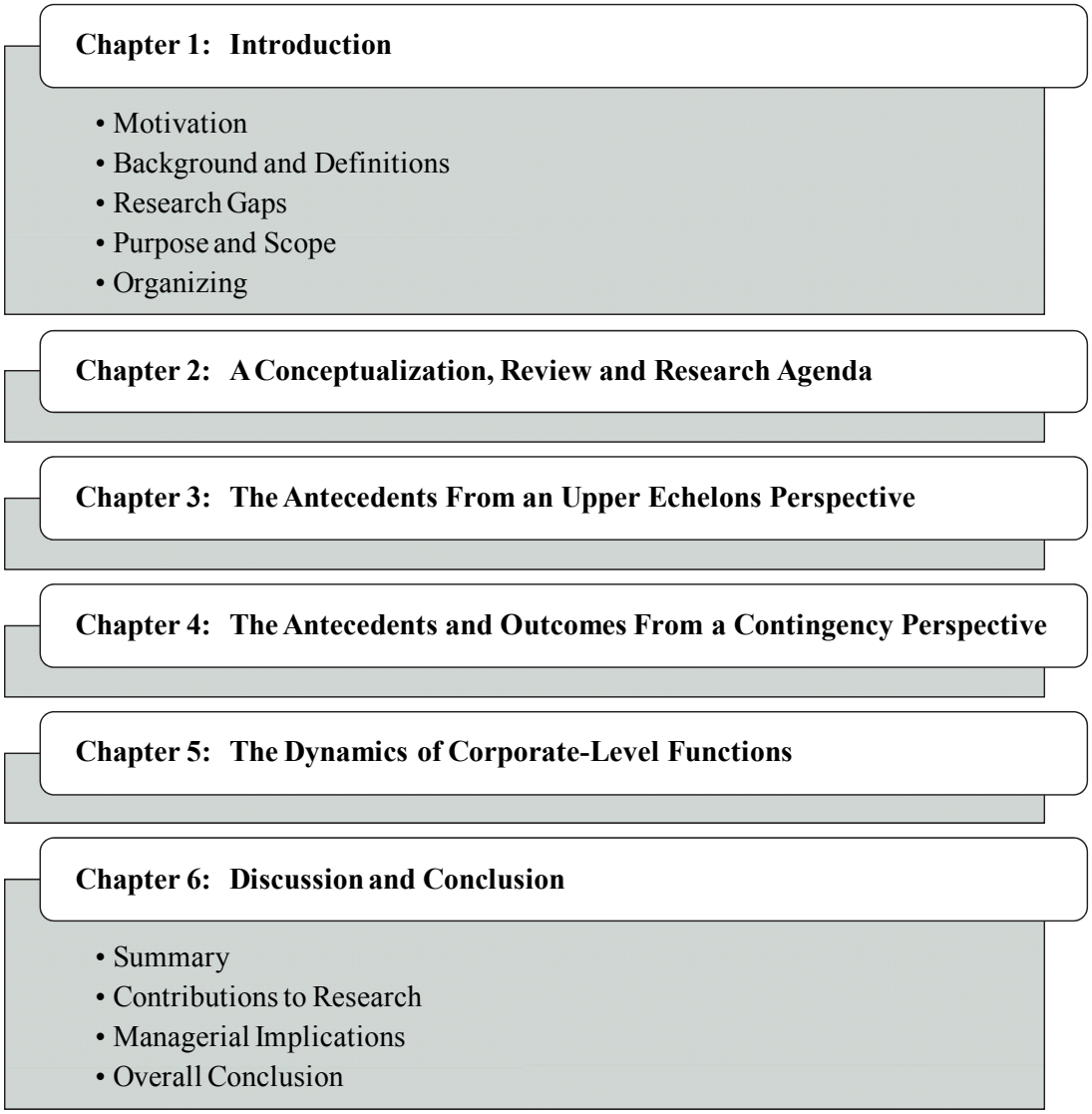
This dissertation comprises four self-contained studies, each of which takes a distinct approach to examine certain aspects of CHQ change (see Table 1-2):[8] The first study reviews the extant knowledge on this topic. This study can be characterized as a *conceptual review study*. In the second and third studies, I empirically investigate CHQ change by applying a *quantitative, deductive theory-testing* approach and a distinct theoretical lens. While I examine the antecedents of CHQ change from an upper echelons perspective in the second study, in the third study, I rely on organizational contingency theory to explore the antecedents and outcomes of CHQ change. The fourth study uses a *qualitative research* design to examine corporate-level functions. Each of the studies addresses a distinct aspect of the phenomenon of CHQ change.

[8] I acknowledge that this approach entails some redundancies. Since the individual parts serve as autonomous studies, and thus need to be self-contained, some text passages may be redundant.

1.5 Organizing

The focus on four individual research studies is reflected in the structure of this Ph.D. thesis. As illustrated in Figure 1-1, four chapters are dedicated for the individual studies. These core chapters are complemented by this introductory and an overall discussion section, both of which primarily aim at providing the 'big picture' with information on the overall project. Finally, an appendix section provides further information such as lists of definitions, summaries of prior research, codebooks, and survey details.

Figure 1-1: Overview of Dissertation



2 A Dynamic Perspective on Corporate Headquarters: A Conceptualization, Review, and Research Agenda[9]

Abstract

The corporate headquarters (CHQ) of multi-business and multi-national corporations has attracted considerable interest from management scholars and practicing managers alike. In ever-changing internal and external environments, understanding the dynamics of the CHQ has become a crucial concern. Existing research on the dynamics of the CHQ has largely evolved on three separate tracks in the relevant intellectual domains of strategy, organization, and international research. Despite a common focus on the CHQ and the potential for cross-fertilization, a coherent picture that integrates the existing knowledge is lacking, but sorely needed. In this study, I thus advance a typology for changes at the CHQ which allows for integrating the three research areas, review the existing knowledge and offer novel directions for future research. Overall, this study provides a conceptual stimulus that is needed to combine the existing knowledge of the dynamics of the CHQ and, more importantly, to guide future research.

Key Words

Corporate headquarters, corporate headquarters change, corporate strategy, multi-business corporation, multi-national corporation, multi-unit company

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[9] Acknowledgements: I am grateful to Michael Boppel, Andrew Campbell, David J. Collis, Steven W. Floyd, Tomi Laamanen, Markus Menz, Sebastian Raisch, Metin Sengul, and Carola Wolf for a number of very helpful comments on earlier versions of this study.

2.1 Introduction

With the rise of the modern corporation (Melman, 1951; Sloan, 1964), the corporate headquarters (CHQ) has become a crucial concern in management research (Chandler, 1962). Although there is no uniformly accepted definition, the CHQ is typically defined as incorporating three constituting elements: (1) the corporate executives and staff, (2) the central staff functions fulfilling several roles for the entire or most of the company, and (3) a physical location, which is also where the overall firm is legally registered. Scholarly research on CHQ phenomena, such as its roles and functions, its rationales, its location, its relationships with subsidiaries, and its organizational design has contributed to a variety of management domains, including strategy, organization, international, and agglomeration research. A considerable body of knowledge on the CHQ has accumulated to date (for conceptual and review studies, see Chandler, 1991, 1992; Foss, 1997; Markides, 2002, 2006; McCann & Folta, 2008; Menz & Collis, 2009). Although rich, this body of knowledge is mostly static in its treatment of CHQ phenomena (Ferlie & Pettigrew, 1996).

Recently, management scholars have begun to shift their attention to CHQ change—which I define as an *alteration in the state or quality of the CHQ over time.* Ferlie and Pettigrew (1996) were probably the first to turn the spotlight on CHQ change[10]. Motivated by "[e]vidence of a wave of change occurring at [C]HQ level in the late 1980s and early 1990s" (1996: 495), their study was largely focused on evaluating studies on the downsizing of the CHQ staff. Over the last decade, the scope of investigations has broadened, with scholars investigating dynamic CHQ phenomena as diverse as the changes in the roles of the CHQ (e.g. Grant, 2003), the dynamics of CHQ-subsidiary relationships (e.g. Ambos, Asakawa, & Ambos, 2011; Ambos, Andersson, & Birkinshaw, 2010; Joseph & Ocasio, 2012), and CHQ relocations (e.g. Baaij et al., 2004; Birkinshaw et al., 2006; Laamanen et al., 2012). These studies have certainly added to the existing knowledge of the CHQ.

Research on changes at the CHQ can advance knowledge about static and dynamic CHQ phenomena. It has significant potential to add to our understanding of the

[10] Several terms, such as 'corporate headquarters transformation,' 'corporate restructuring,' 'corporate center change', have been used. As will be elaborated later, I use 'changes at CHQ' as an umbrella term.

functioning of the CHQ, which is central in many current theories of the firm (Kleinbaum & Stuart, 2011). Recent studies demonstrate the potential of a dynamic perspective to help explain CHQ phenomena in general. An example is the key finding in Birkinshaw et al.'s (2006) study of the determinants of CHQ relocations (dynamic), which stresses the external role of the CHQ (static)—a CHQ role which has hitherto received little attention.[11] Another example is current research on the dynamics of CHQ-subsidiary relationships, which shows "that a dynamic perspective indeed produces counterintuitive results" (Ambos et al., 2011: 302). Generally, the "use of the temporal lens […] provides a new way to understand phenomena where the primary focus is on non-temporal issues" (Ancona, Goodman, Lawrence, & Tushman, 2001: 660). Hence, studying the conditions and forces that enable and hinder changes at the CHQ is an appealing approach to advance our understanding of CHQ phenomena in general.

Moreover, research on the dynamics of the CHQ has a unique potential to inform our understanding of strategic and organizational change in a broader sense. Owing to the distinct nature of the CHQ—for example, it hosts the organization's upper echelons, it serves as the intermediate entity between the internal and external environments, and it carries a strong symbolic status—, its dynamics taps into many areas of strategic and organizational change. For example, the contemporary phenomenon of CHQ relocation taps into strategic and organizational change, since changes in the CHQ location affect various other concerns, such as the CHQ' proximity to its internal and external stakeholders (e.g. Laamanen et al., 2012; Landier, Nair, & Wulf, 2009) and its access to human capital. In general, changes at the CHQ often reflect strategic choices related to how it manages the business portfolio which is an important aspect of a firm's corporate strategy (Porter, 1987). Moreover, changes at the CHQ often embody organizational change at large (e.g. Ferlie & Pettigrew, 1996) and have a strong symbolic value for the internal and external stakeholders (e.g. Laamanen et al., 2012). The CHQ can thus serve as a sample entity that offers a compelling context with which to study strategic and organizational change.

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[11] Chandler (1991), for example, only acknowledged this CHQ role in a footnote.

Despite these appealing research potentials and the increasing scholarly attention paid to the dynamics of the CHQ, the existing knowledge has remained fragmented, and empirical evidence—especially in some areas—has remained comparably scarce. I believe that now is the *time* to take stock of existing knowledge and stimulate further research.

This belief is largely based on two specific motivations: First, despite its importance for theory and practice, a coherent picture of the extant knowledge on the dynamics of the CHQ is still lacking. Research has evolved on parallel, but related, research tracks, which harbor a potential for cross-fertilization, and need to be combined to provide a coherent picture. Once this knowledge is integrated, fruitful cross-fertilization occurs, which feeds back into several management domains that CHQ change spans. For example, research on CHQ relocation "interfaces with many other fields of study, such as MNC strategy and international human resource management" (Barner-Rasmussen, Piekkari, & Björkman, 2007: 271). Despite the diversity of the relevant intellectual domains, such as strategy, international management, organization studies, and functional areas, these studies share a common focus on the dynamics of the CHQ, and integrating extant knowledge is thus crucial to stimulate future research.

Second, the fundamental changes in the internal and external environments of large companies, which occurred over the last couple of decades, affected the dynamics of the CHQ and offer new opportunities for research. While Ferlie and Pettigrew's (1996) study was mainly motivated by a significant corporate restructuring phase in the 1980s and beginning of the 1990s, well publicized cases and trend data demonstrate that changes at the CHQ have become frequent and multifaceted phenomena that span a variety of CHQ dimensions, such as its activities, its location, its relationships with subsidiaries, and its organizational design (e.g. Economist, 2008; Kramer, 1999; Kunisch et al., 2012c; Young et al., 2000). For example, in a recent international survey of the largest companies in North America and Europe, approx. 66% reported the implementation of a 'major change' at the CHQ within a four-year time frame (Kunisch et al., 2012c). New regulations and a significant phase of globalization have, among others, triggered new phenomena and opened up novel research opportunities (see Appendix 4). Methodological and empirical issues, such as access to data and measurement issues, both of which hinder progress in a field (e.g. Ginsberg, 1988), have become less of an obstacle. Among others, new corporate governance practices

offer excellent opportunities for empirical research in particular. It is thus important to stimulate and direct future research now.

Given these motivations, the purpose of this 'conceptual review' study is two-fold: First, I aim at providing a conceptual stimulus. I develop a typology for the dynamics of the CHQ that integrates key aspects of the CHQ and change. This typology helps resolve ambiguities in the definitions which inhibit research progress (e.g. Ginsberg, 1988, on research in strategic change). Second, I evaluate existing knowledge, and offer future research directions. On the basis of a systematic survey of existing works, I offer an organizing framework that has emerged from the literature and helps reveal novel directions for future research.

2.2 Background and Conceptualization

2.2.1 Terms, Origins and Development of Research on Corporate Headquarters

To provide the basis to systematically conceptualize changes at the CHQ and review research on the dynamics of the CHQ, it is important to briefly trace the origins of CHQ research and accumulate the variety of CHQ terms.

Although the roots of the CHQ date back to the beginning of the 20th century (Melman, 1951; Sloan, 1964), academic research examining the emergence of the CHQ and its merits started later (Chandler, 1962; Fligstein, 1985). Early thoughts on the emergence of the CHQ date back to at least Knight (1921). He adopted the term *cephalization*[12] to describe a process which yielded organizational forms consisting of a set of individual businesses and a distinct CHQ (Foss, 1997: 326). Further, he argued that the "centralization of this deciding and controlling function […] is inevitable, as for the same reasons as in the case of biological evolution" (1921: 268). The cephalization process yielded specialized roles for executives at the business and at the CHQ level (Vancil & Lorange, 1975). The separation of the more strategic issues related to the overall company management from the operations of the individual businesses to a separate CHQ earmarks the 'M-form' organization, which is probably the most note-

[12] The term describes an evolutionary trend which refers to the emergence of head regions with sensory organs and which occurs in organic life (source: Encyclopædia Britannica 2010).

worthy organizational innovation of the 20th century (Chandler, 1991, 1992; Williamson, 1985).[13] The evolution of the CHQ is thus closely linked to the evolution of today's large companies.

There are various terms for the CHQ[14] (for a list of terms and definitions, see Appendix 3): Chandler originally identified a 'general office' at the top of large companies, where "general executives and staff specialists coordinate, appraise, and plan goals and policies and allocate resources for a number of quasi-autonomous, fairly self-contained divisions" (1962: 9). Mintzberg referred to the 'strategic apex' (1979). Other scholars employed terms such as 'central administrative office' (Aarland, Davis, Henderson, & Ono, 2007; Davis & Henderson, 2008; Montague, 1986), 'corporate center' (Baaij et al., 2004; Hansen & Peytz, 1991), 'corporate parent (parent organization)' (Campbell et al., 1995a, b), broadly, 'corporation' (Yavitz & Newman, 1982), and simply 'headquarters' (Henderson & Ono, 2008; Strauss-Kahn & Vives, 2009). More recently, many scholars have used the term 'corporate headquarters' (Birkinshaw et al., 2006; Collis et al., 2007, 2012; Foss, 1997; Garvin & Levesque, 2008; Young et al., 2000), which distinguishes the headquarters of the overall firm from those of the divisions.

By and large, the various CHQ terms embrace three constituting elements of the CHQ concept: (1) the corporate executives and staff, (2) the central staff functions that fulfill various roles for the entire company, or most of it, and (3) the physical location, which is also where the overall firm is legally registered. The diversity of terms can be explained by the variety of research domains, each of which has a different focus on specific CHQ phenomena. Accordingly, some of the terms reflect a strategic and an organizational focus, while others reflect the legal emphasis of the underlying research efforts. In addition, the diversity of terms also reflects the historical development of management research in this area.

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[13] For example, according to Williamson (1985, p. 279) "the most significant organizational innovation of the twentieth century was the development in the 1920s of the multidivisional structure." (Hoskisson, Hill, & Kim, 1993: 269).

[14] In this study, various terms used in the existing literature are considered synonymous: 'corporate headquarters,' 'corporate center,' 'corporate office,' 'corporate head office,' 'HQ unit,' 'general office.'
Menz and Collis (2009: 7 f.) also present a list with various terms used for the corporate center in the literature.

Moreover, the cephalization process described above underlines the need for the CHQ to constantly adapt to ever-changing internal and external environments. Interestingly, empirical evidence on the corporate effect suggests that unstable corporate effects account for a considerable proportion of the variance in firm performance. McNamara et al. (2003), for example, find a continuous and significant increase in unstable corporate effects within a 20-year period, which explains up to 16.8% of performance differences. Among others, these reasons merit sound scholarly investigation of CHQ change.

Yet, the management literature still lacks a common understanding of what CHQ change means. To mitigate the ambiguities and controversies of the terminology, I now develop a typology of changes at the CHQ.

2.2.2 Meaning of CHQ Change: What is It?

The extant body of literature does not provide a distinct definition of *CHQ change*. This is no surprise, since the literature lacks consensus definitions for the term's two constituting parts: the CHQ and change. As noted earlier, various terms have been used for the CHQ, and there are different definitions for them. Change is also a rather abstract concept which has been used in management research for many years but is also very controversial (e.g. Ginsberg, 1988). According to the Oxford English Dictionary[15], change can be defined as an "alteration in the state or quality of anything." With 'anything' referring to the CHQ, I define CHQ change as:

an alteration in the state or quality of the CHQ over time.

Although this definition is rather generic, it appears to be inclusive, which is important for developing a typology of changes at the CHQ. An alteration in the state of the CHQ captures a shift in particular CHQ conditions between two specific points in time (e.g. changes in the number of staff), and can be understood as discrete change. An alteration in the quality of the CHQ refers to a change in a distinctive attribute that the CHQ possesses (e.g. changes in the CHQ capabilities), and can be understood as continuous change.

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[15] The Oxford English Dictionary. In Simpson, and Weiner (Eds.), The Oxford English Dictionary, Vol. XVIII. Oxford: Oxford University Press.

Admittedly, this definition does not completely resolve the questions *what are CHQ?* and *what is change?*

The first question concerning the meaning of CHQ relates primarily to the *content* of changes at the CHQ. Based on the general CHQ literature, the CHQ can be conceptualized in several ways, among others as a physical/legal entity. If so, scholars focus on the geographic location or jurisdiction of the firm's registration, and emphasize the CHQ tasks and roles less. In the strategy literature, however, the CHQ concept is usually based on less austere assumptions concerning the legal nature of the CHQ. Chandler (1962, 1991) originally defines the CHQ as a distinct organizational entity and underlines the separation of the strategic tasks from the operating businesses. Recently, Ambos and Mahnke (2010a) suggested that conceptualizing the CHQ as a distinct organizational entity may need to be modified. Some conceptualizations do indeed relax Chandler's (1962, 1991) assumption of a distinct organizational entity. Foss, for example, refers to the CHQ as "a corporate hierarchy of line managers and staff outside these businesses" (1997: 313). Campbell, Goold, and Alexander describe the corporate parent as "all managers and staff not assigned to a business unit, including not only the corporate headquarters but also division, group, region and other intermediate levels of management" (1995b: 80). Although Markides (2002) raises concerns that theoretically delineating CHQ activities from business unit activities may be tenuous, most of these studies conceptualize the corporate level (namely, the CHQ) and the business/subsidiary level as two distinct organizational levels.

Despite the differences in the conceptualizations of the CHQ and well-taken theoretical concerns, the CHQ concept has been widely used in management research and is also well-established in managerial practice. For example, in strategy research, a distinction is frequently made between the CHQ and the business level (e.g. Birkinshaw et al., 2006). Similarly, a considerable number of studies in the field of international management investigates the relationship between the CHQ and its subsidiaries, thereby differentiating these two levels (e.g. Bouquet & Birkinshaw, 2008; Bouquet, Morrison, & Birkinshaw, 2009; Ciabuschi, Dellestrand, & Martín, 2011a; Ciabuschi, Forsgren, & Martín, 2011b). Furthermore, it is often straightforward to identify the CHQ in practice. Collis et al., for example, argue that "empirically it is easy to define which employees report to 'the corporate office'—the pragmatic definition being the organizational entity that pays the salary" (2007: 385).

The second question concerning the meaning of change is equally challenging (for details, see Ginsberg, 1988). Given that the focus of this study centers on the CHQ, and given the wealth of conceptual work on strategic change (e.g. Ginsberg, 1988; Mintzberg & Westley, 1992; Rajagopalan & Spreitzer, 1997), I will emphasize the CHQ dimension more.

2.2.3 Classifying Changes at the CHQ

Since the definitions of the CHQ (e.g. Markides, 2002) and those of change generally evoke controversies (e.g. Ginsberg, 1988) which are hard or even impossible to resolve, it is probably more helpful to broadly refer to 'changes at the CHQ'[16] rather than precisely to 'CHQ change' and to provide a typology which allows for integrating the various understandings.[17] In turn, this integration allows for the assessment of consistencies within and across research on different types of changes at the CHQ.

Two elementary dimensions serve to classify the different conceptualizations of changes at the CHQ: (1) the CHQ dimension, and (2) the change dimension.

The CHQ Dimension

The CHQ dimension captures the different approaches with which to conceptualize the CHQ (see above). The existing literature allows conceptualizing the CHQ as (a) a strategic concept referring to the 'corporate level' which runs the overall firm, (b) an organizational concept pertaining to a distinct organizational unit at the top of the corporate hierarchy, and (c) a physical concept referring to the physical object with a geographic location (often linked to the location of a legally registered entity). Table 2-1 summarizes these three approaches to the CHQ.

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[16] I use 'changes at the CHQ' and the 'dynamics of the CHQ' synonymously.

[17] Here, I follow Ginsberg's (1988) arguments and build on his conceptualizations of strategic change. Furthermore, I draw on Mintzberg and Westley's (1992) work on cycles of organization change, as well as on Rajagopalan and Spreitzer's (1997) conceptual work towards a theory of strategic change.

Table 2-1: CHQ Concepts

	The CHQ as …		
	Strategic concept	**Organizational concept**	**Physical concept**
Characteristics	• strategic entity • both, a unit- and a company-level concept • internal and external focus	• organizational entity • unit-level concept • internal focus (internal alignment)	• physical / legal entity • both, a unit- and a company-level concept • external focus
Main concerns	• how the CHQ manages the overall company: o roles o functions o styles	• organizational design of the CHQ: o culture o structure o systems o people	• physical location and agglomeration of the CHQ: o legal registration of the firm o location o physical buildings

Accordingly, changes at the CHQ can be conceptualized in three ways along the CHQ dimension. First, they can be conceptualized as a (corporate-level) strategic change. The CHQ is strategically important because the way in which the CHQ manages the overall firm is an important aspect of a firm's corporate strategy and international strategy. The corporate strategy[18] (e.g. Porter, 1987) and MNC strategy concepts (e.g. Bartlett & Ghoshal, 1989) typically *incorporate* two dimensions: (a) the company's set of product and regional domains, and (b) a corporate layer—namely the CHQ—to manage the set of individual domains. Accordingly, strategic change at the corporate level occurs along these two dimensions. For example, in Ginsberg's definition of corporate-level strategic change as a "realignment of a firm's selection of product/market domains and allocations among them (Ansoff, 1965)" (1988: 560), the first part does consider changes in the business portfolio, while the second part refers to changes at the CHQ and how the CHQ manages the firm's set of individual domains.

[18] A multi-unit (multi-business and multi-national) corporation has two levels of strategy: First, the business-unit-level strategy is concerned with how to compete in each business; second, the corporate-level strategy concerns what businesses the corporation should be in and how the CHQ should manage the business portfolio (Porter, 1987: 43).

Second, changes at the CHQ can be conceptualized as organizational design change.[19] These changes refer to the organizational design of the CHQ. An organizational design can be defined as "the sum total of the ways in which it divides its labor into distinct tasks and then achieves coordination among them" (Mintzberg, 1979: 2). Organization theorists typically distinguish (1) the design level and (2) the components (e.g. Nadler, Gerstein, & Shaw, 1992). On the design level, organization theorists usually distinguish between the unit and the organization levels (Nadler et al., 1992). Changes at the CHQ clearly refer to the unit level. Although both levels are interrelated, "effective design at the unit level of the organization is crucial to success" (Nadler et al., 1992: 35). In particular, this applies to the CHQ of large firms (Campbell et al., 1995b; Porter, 1987). With respect to the organizational components, organization theorists normally conceptualize multiple organizational design dimensions, such as the work, people, formal organization, and informal organization (Nadler et al., 1992: 50). Accordingly, changes at the CHQ can take place along various dimensions, from the broadest to the narrowest (Mintzberg & Westley, 1992). Changes in the organizational design of the CHQ thus need to be conceptualized as changes along multiple dimensions.

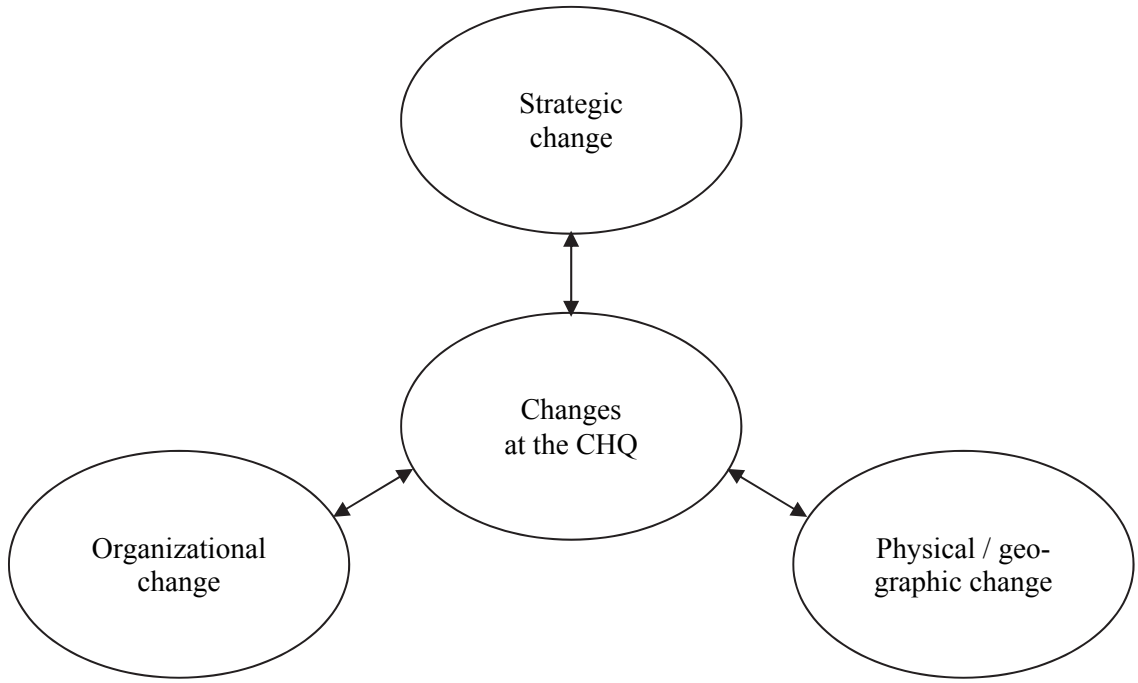
Third, changes at the CHQ can be conceptualized as physical change. These changes refer to the CHQ as a physical concept, which includes the actual buildings and its geographic location. Specifically, the geographic location of the CHQ matters for many reasons, such as the firm's capital structure (Gao, Ng, & Wang, 2011), taxes, information (Lovely, Rosenthal, & Sharma, 2005), and access to a range of resources such as human capital (for a comprehensive review on agglomeration research, see McCann & Folta, 2008).

These three approaches to conceptualize changes at the CHQ are, of course, interrelated (see Figure 2-1). While those who define the CHQ as a distinct organizational entity often closely study the CHQ as an important corporate strategy concern (Chandler, 1962, 1991; Collis et al., 2007; Porter, 1987), Mintzberg and Westley (1992: 40), for example, consider organizational design change and strategic change as organizational change. They further suggest that organization and strategic change

[19] I acknowledge the ambiguity of the term 'organizational change,' which is frequently used broadly for (all) changes at the organization level (for example, see Mintzberg and Westley, 2002).

probably have to occur together. Physical change is also closely related to changes in strategy and organizational design: For example, changes in the geographic location of the CHQ represent a change in its proximity to the firm's decentralized units and the external markets (e.g. Laamanen et al., 2012; Landier et al., 2009). Some firms decide to separate administrative functions and productions sites geographically, while others co-locate them on purpose (e.g. Henderson & Ono, 2008), which is important from an information and decision-making perspective. Moreover, the geographic location of the CHQ still has significant signal value, and is publicly regarded as the 'nationality' of the company (e.g. Laamanen et al., 2012). Hence, changing the location of the CHQ has consequences from a signaling viewpoint, and represents a strategic decision. As another example, changes in the architecture of the CHQ can be seen as the physical embodiments of organizational change (van Marrewijk, 2009).

Figure 2-1: Research on Changes at the CHQ



To conclude, I believe these three approaches to conceptualize changes at the CHQ along the CHQ dimension help classify existing studies. Moreover, the distinction between the CHQ as a strategic, organizational, and physical (geographic) concept can help elucidate emerging management practices such as the 'virtual CHQ' or 'token CHQ' (e.g. Baaij, Mom, Van Den Bosch, & Volberda, 2012; Birkinshaw et al., 2006; Desai, 2009; Dvorak, 2007). The following excerpt serves as an illustrative example:

> *"We have always avoided a head office. This we believe empowers the operations and exploration projects. Our most senior executives […] travel around and spend time on the operations and projects assisting line management. […] Only the CFO, Divisional Treasurer and Financial Analyst sit in a corporate office (geographical location). The rest are based in different countries and move around offices as required by operational needs. The idea is to apply our intellectual capital to meet an evolving situation and not to have people based in a head office."* (Kunisch et al., 2012c: 72).

Furthermore, anecdotal evidence suggests that distinguishing between the three CHQ concepts is also meaningful in managerial practice. For example, corporate managers do indeed differentiate between the geographic concept and the organizational concept:

> *"I think there is an interesting distinction […] between HQ viewed as a geographic concept and HQ viewed as an organizational concept. You could have a highly centralized management structure (in which decision-making authority is not distributed into the organization, but held by the highest-level managers) and still have a geographically distributed HQ (in which the highest-level managers are distributed among several locations)."* (Kunisch et al., 2012c: 71).

The Change Dimension

The second elementary dimension with which to classify changes at the CHQ captures the differences in conceptualizing change (e.g. George & Jones, 2000; Mintzberg & Westley, 1992). Following Ginsberg (1988: 561), I use the distinction between (1) alterations in the magnitude, and (2) shifts in the pattern. With respect to the former, changes at the CHQ encompass changes in the size of the CHQ such as smaller or larger CHQ (e.g. Collis et al., 2007, 2012). With respect to the latter, changes at the CHQ include changes in the corporate management styles and the role of the CHQ (e.g. Goold & Campbell, 1987; Grant, 2003).

A Typology

Together, these two dimensions lead to a typology of changes at the CHQ. Table 2-2 illustrates this typology, which comprises six types of changes at the CHQ. This typology facilitates the cataloguing and evaluating of existing knowledge in each of these dimensions.

Table 2-2: Typology of Changes at the CHQ

	Changes at the CHQ as …		
Change in …	**Strategic change**	**Organizational design change**	**Physical change (e.g. relocation)**
Degree / magnitude	… intensity of corporate-level specialism	… number of CHQ staff, number of CHQ functions, CHQ costs … intensity of formalization, centralization … intensity of the CHQ-subsidiary relationship	… number of CHQ locations
State / pattern	… corporate management styles … corporate growth strategy (e.g. switch from growing via M&A to organic growth)	… configuration of the CHQ-subsidiary relationship … configuration of the TMT	… location of the CHQ … the CHQ mobility

2.3 Method: Structured Approach

Before I review the main findings of previous research, and synthesize the extant knowledge, I will outline the method to identify relevant works. To systematically review the current body of knowledge on changes at the CHQ, I engaged in a structured approach as suggested in studies on the conduct of systematic literature reviews (e.g. Cropanzano, 2009; Short, 2009; Tranfield, Denyer, & Smart, 2003; Webster & Watson, 2002). Given the broad scope of CHQ phenomena in general and, since especially the dynamic perspective on CHQ phenomena is still emerging, I aimed at reviewing relevant works published in a variety of journals in several areas of management, as well as in influential books.[20] In the following, I summarize the main considerations concerning an appropriate timeline, scope, and approach for this review.

I focused on relevant works published over a 25-year period for three main reasons. First, this starting point coincides with two influential publications related to

[20] An alternative approach, which seems less appropriate here, is to limit the review to the leading management journals.

changes at the CHQ: Porter's (1987) study on corporate strategy and Ginsberg's (1988) study on measuring and modeling strategic change. These publications provided scholars with conceptual stimuli to study changes at the CHQ. In the interim, several conceptual and methodological studies have provided scholars with further advice on studying strategic change in general and, more specifically, strategic change at the corporate level (see Appendix 5). Second, the starting point also roughly coincides with the beginning of an unprecedented era of globalization. Globalization started to increase significantly from 1990 onwards (Roth, 2011), and many companies have in the meantime not only diversified their products, but also their geographic markets. This significant environmental change is believed to translate into changes at the CHQ. Third, the timeline of approx. 25 years ensures a sufficient number of studies for this review, and covers a considerable body of work on the dynamics of the CHQ.

Two aspects are noteworthy in respect of the scope of this review: First, based on the typology of changes at the CHQ, this review focuses on the firm level and the organizational (unit) level rather than on the individual or the team levels. Consequently, I did not include research on corporate executive turnover. Although corporate executives are an important element in most CHQ definitions, the intention here is to take a CHQ perspective rather than an upper echelons perspective. Furthermore, executive succession research has developed into an independent and a mature research stream with the respective studies making important contributions to theory development (Giambatista, Rowe, & Riaz, 2005; Kesner & Sebora, 1994; Kunisch, Menz, & Cannella Jr., 2012a). Nonetheless, I included research on executive succession when this involved other aspects of changes at the CHQ.

Second, given the dynamic perspective of this review, a study had to deal with 'some sort of dynamism' at the CHQ in order to be considered. I defined the dynamism criteria broadly to avoid the review being unnecessarily restricted. This means that I considered works dealing with various kinds of change: radical and incremental, continuous and discrete, planned and unplanned, etc. (e.g. George & Jones, 2000; Mintzberg & Westley, 1992). However, due to the focus on the dynamics of the CHQ, I did not consider works that solely explored the dynamics of divisional/subsidiary HQ. Although the linkages between the CHQ and its divisional/subsidiary HQ are rather important in large firms, the nature of the CHQ differs greatly from that of its divisional/subsidiary HQ (e.g. Birkinshaw et al., 2006).

Following Webster and Watson (2002), the structured approach comprised three steps: First, I identified relevant publications in academic and practice-oriented journals and selected conference proceedings. I searched the EBSCOHost Business Source Premier database for titles, keywords, and abstracts.[21] I used several synonyms for 'CHQ' and 'change,' individually and combined, for a keyword search. Examples include 'CHQ change,' 'CHQ restructuring,' 'CHQ relocation,' 'CHQ transformation.' In addition, when available, I scanned the table of contents of the journals to identify studies which may have been missed in the keyword screen. Second, I went backward and examined the citations used in the articles identified in the previous step. Third, I went forward and reviewed those studies which cited the most important publications identified in the aforementioned steps.

I manually screened the studies identified by the previous steps and excluded those that were purely static. This procedure led to a set of approx. 40 articles.

2.4 Review and Critique of Existing Research

Overall, the existing body of knowledge on CHQ change can be grouped into three areas: CHQ strategic change, CHQ organizational design change, and CHQ geographic change. However, owing to their common focus on changes at the CHQ, these three areas are interrelated and have the potential for cross-fertilization. Hence, an important contribution of this study is that it spans these research strands and integrates the knowledge. I thus first summarize and evaluate prior research, and then synthesize the existing knowledge.

2.4.1 CHQ Strategic Change

Studies in this area explore strategic change at the CHQ level. They are broadly concerned with changes in the way the CHQ manages the overall firm. Specifically,

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[21] The "Business Source Premier is the industry's most used business research database, providing full text for more than 2,300 journals, including full text for more than 1,100 peer-reviewed titles. This database provides full text back to 1886, and searchable cited references back to 1998. Business Source Premier is superior to the competition in full text coverage in all disciplines of business, including marketing, management, MIS, POM, accounting, finance and economics. This database is updated daily on EBSCOhost". Source: web.ebscohost.com. Accessed on January 10, 2012.

scholars have examined changes in the CHQ functions and roles, as well as changes in corporate growth strategies. Previous studies have dealt with the factors driving and impeding such changes and the consequences of these. Table 2-3 summarizes the relevant studies.

Table 2-3: Previous Empirical Studies on CHQ Strategic Change

Study (year)*	Research focus**	CHQ elements	Theory	Method	Change measure	Key findings related to changes at CHQ
(Goold & Campbell, 1987)	Management styles (I-B)	Management styles	Parenting theory; contingency theory	Empirical study (qualitative): 16 large companies	Qualitative	The study suggests that companies only rarely and with considerable difficulty change their management styles: (1) strategic planning, (2) financial control, and (3) strategic control.
(Chandler, 1991)	Functions of CHQ (II)	CHQ functions (roles); management styles	Contingency theory	Conceptual study	Qualitative; evolution	The study suggests that, over time, different characteristics of the industries (external environment) in which the firms operate shaped the development and implementation of the two basic CHQ roles (entrepreneurial and administrative).
(Goold, Campbell, & Luchs, 1993a, b)	Management styles (I-A; I-B)	Management styles	Parenting theory; contingency theory	Empirical study (qualitative): 16 major UK firms	Qualitative	The two related articles suggest that companies very rarely introduce major change in their management styles—(1) strategic planning, (2) financial control, and (3) strategic control)—, with the exception of times of crisis (poor performance) or a change in the TMT.
(Campbell et al., 1995a)	Roles (parenting characteristics) (I-A; I-B; II)	Parenting advantage; changing parenting characteristics	Parenting theory; organizational adaptation view; contingency theory	Empirical study (qualitative): case study	Qualitative	The article suggests that good parents constantly modify and fine-tune their parenting, but that fundamental changes usually only occur when the CEO and the TMT are replaced since parenting characteristics are built on deeply held values and beliefs, making change hard to implement.

Study (year)*	Research focus**	CHQ elements	Theory	Method	Change measure	Key findings related to changes at CHQ
(Cibin & Grant, 1996)	Characteristics, antecedents and outcomes of corporate restructuring (I-A; II)	Decentralization, control, corporate culture	Organizational change	Empirical study (qualitative): in-depth case studies of 8 large oil companies	Qualitative	The article argues that restructuring involves transition from one strategy-structure configuration, the 'administrative planning model,' to another, the 'market responsiveness model.'
(Goold, Pettifer, & Young, 2001)	Redesigning CHQ (I-A; II)	Roles	Parenting theory; contingency theory	Empirical study (quantitative, descriptive): 600 companies; illustrative case study	n/a	The article suggests that CEO change prompts reassessment of CHQ roles and composition and argues that the essential starting point in any CHQ redesign is to recognize that CHQ staff plays three very different roles: (1) minimum corporate parent, (2) value adding parenting and (3) shared services.
(Grant, 2003)	Strategic planning systems in turbulent environments (I-A; II)	Strategic planning systems (processes, staff, departments)	No explicit theory: process theory	Empirical study (qualitative): in-depth case studies of 8 large oil companies	Qualitative; evolution	The study finds that fundamental changes in the nature and role of strategic planning systems have occurred since the end of the 1970s. Three key roles have emerged: strategic planning as (1) a context for strategic decision making, (2) as a mechanism for coordination, (3) as a mechanism for control.
(Harreld, O'Reilly III, & Tushman, 2007)	Dynamic capabilities and corporate strategy (II-III)	Functional department (strategy); staff	Dynamic capabilities	n/a: descriptive (case description)	Qualitative	The study reports that bringing in BU-experienced managers transformed the strategy department from an academic planning culture to one that is much more action-oriented.
(Durmuşoğlu, McNally, Calantone, & Harmancioglu, 2008)	Corporate strategy change and SBU strategy implementation (II-III)	Corporate strategy and corporate control	No explicit theory: control theory	Empirical study (qualitative): case studies at 3 SBUs of 1 MNC	Qualitative	Changes in the product innovation strategy at the CHQ resonate differently at strategic business units: In particular four factors influence the strategy implementation: (1) past performance and strategic typology, (2) capacity constraints, (3) senior management involvement, (4) corporate performance metrics.

Study (year)*	Research focus**	CHQ elements	Theory	Method	Change measure	Key findings related to changes at CHQ
(Aspara, Lamberg, Laukia, & Tikkanen, 2011)	Corporate-level strategic change (II)	Corporate business model; CHQ-subsidiary relationships	No explicit theory: managerial cognition, organizational change	Empirical study (qualitative): historical case study of Nokia, 1987-1995	True change, evolution	The study shows that business units can feed strategic alternatives and capabilities to the corporate-level transformation process based on the exchange of executives and cognitive mindsets between business and CHQ levels.

* The characters in parentheses in the second column refer to Figure 2-2.
** In chronological order.

Factors Driving and Impeding CHQ Strategic Change

A common theme in prior research is that the way the CHQ manages the overall firm changes rarely. Goold and Luchs (1992), for example, investigate different management styles and reveal that companies rarely change. Along the same lines, Campbell et al. (1995a) claim that while good parents constantly modify and fine-tune their parenting, fundamental changes in parenting occur very seldom, usually only when the CEO and the top management team (TMT) are replaced. They argue that parenting characteristics are built on deeply held values and beliefs, making change hard to implement, and that companies would rather change the business portfolio to establish an internal fit.

Conditions in the internal and external environment can foster and hamper changes at the CHQ. Three aspects in the internal environment stand out. First, and perhaps the most important, are changes in the corporate governance. Especially *CEO and TMT changes* are associated with strategic changes at the CHQ. A common theme is that fundamental changes at the CHQ only occur when top executives (the CEO and the TMT) are replaced. Pettigrew (1987a, b), for example, finds that revolutionary periods of change are associated with changes in the leadership and power in the firm. By investigating different management styles, Goold and Luchs (1992) observe that change occurs only as a result of a crisis or in conjunction with a new CEO or TMT turnover. Furthermore, Goold et al. (2001) assert that CEO changes leads to a reassessment of the roles and the composition of the CHQ. The implicit assumption is that CEO and TMT changes serve as adaptation mechanisms which facilitate changes in

cognitive orientations and mental models (e.g. Wiersema & Bantel, 1992, 1993), as well as in the power structures at the top (e.g. Shen & Cannella Jr., 2002a).

A second set of factors related to changes in the CHQ functions and roles are *changes in the corporate portfolio*[22]. Cibin and Grant (1996), for example, study corporate restructuring in eight international oil majors during 1980-1992 and link changes in the corporate strategy (narrowing of scope) to various changes at the CHQ, including decentralization, less formality, less specialization; a quest for non-hierarchical systems of coordination and control; and a redefinition of the TMT roles and CHQ staff. In addition, they link changes in the business strategies (pursuit of cost efficiency, emphasis on dynamic efficiency, pursuit of entrepreneurial rents) to strategic change at the CHQ. Campbell et al. (1995a) suggest that companies would rather change the business portfolio than their corporate management styles to establish an internal fit. Existing work is focused on changes in the product/market domain. Much less is known about the CHQ-level consequences of changes in the geographic scope.

A third set of internal factors refers to the firm's legacy. Prior firm performance is specifically suggested as relating to strategic change at the CHQ. As noted earlier, Goold et al. (1993a, b) suggest that companies very rarely change their management styles, except as a result of a crisis (poor performance) or changes in the TMT. Moreover, substantial changes only occur when firms are in severe economic difficulties (Pettigrew, 1987a, b). Interestingly, compared to firm performance, little is known about the influence of CHQ performance.

In addition, conditions in the external environment are also associated with strategic change at the CHQ. An important theme is the evolutionary development of the CHQ functions and roles. Over time, the 'general office' (Chandler, 1962) or the 'strategic apex' (Mintzberg, 1979) developed into the CHQ of today's large corporations. Thereby, the CHQ "has undergone several major role changes over the past 50 years, from imperialist to financial planner to lean activist. Now it must change again, in response to the imperatives of globalization" (Roghé, Deutschländer, Michael, & Kempf, 2011). More specifically, Grant (2003) finds that three key strategic planning

[22] Often labeled as 'changes in corporate strategy.' Other synonyms include 'corporate strategic change' and 'corporate refocusing.'

roles have emerged: (1) strategic planning as a context for strategic decision making, (2) strategic planning as a mechanism for coordination, (3) strategic planning as a mechanism for control. He notes:

> *"As decision making had become increasingly decentralized, there was a growing need for a structured process of dialog, adjustment, and agreement to coordinate these dispersed decisions. This increased emphasis on coordination was evident from a number of the changes […], notably the transition by the corporate center from detailed control towards more general direction and guidance, and the increased emphasis placed upon business–corporate dialog and consensus building. The priority accorded to this coordinating role of strategic planning varied between the companies. In general, the more decentralized was strategic decision making, the greater the emphasis on strategic planning as a coordinating device."* (2003: 511).

Specifically, several factors in the external environment are associated with strategic change at the CHQ, including financial markets and economic recessions. For example, Durmuşoğlu et al. study a conglomerate that changed its strategy from anorganic growth (via M&A) and to organic growth through new product development (NPD): This "change in the parent company's strategy" was driven by a change in financial markets and analysts' expectations (2008: 387). Pettigrew (1987a, b) finds that each of the periods of high-level change activity is associated with economic recessions, with their effects on industry, markets, and prices, and in turn on the firms' relative performance. Cibin and Grant (1996) find that increased competition and increased instability are linked to changes at the CHQ. In a later study, Grant summarizes the external forces for changes in the strategic planning systems as follows:

> *"The transformation of energy majors' market environment from stability and continuity to uncertainty and turbulence also created a far more hostile environment. The catastrophic fall in the price of oil in 1986 and increased competition at all stages of the companies' value chains put profits under considerable pressure. Simultaneously, a surge in acquisitions and leveraged buyouts created a more active market for corporate control that pressured top management to improve returns to shareholders. This transformation had far-reaching implications for the companies' strategies, structures, and management processes (Cibin and Grant, 1996)—including their strategic planning systems"* (2003: 506).

Consequences of CHQ Strategic Change

Overall, only a few studies investigate the outcomes of changes at the CHQ empirically. For example, Durmuşoğlu et al. (2008) study whether a change in the product innovation strategy at the CHQ resonates the same way at different SBUs. They reveal differences in how "SBUs reshape their structure and resource allocation,

changing various dimensions of their innovation strategy while also fitting the competitive structure in their individual, non-high-tech, traditional manufacturing industries as they respond to the corporate mandate" and find that "[…] even with the immense power corporate has over these SBUs, some still dance to their own tune" (2008: 387).

I believe that two related reasons can largely explain the scarcity of empirical research on the consequences of changes at the CHQ: Existing studies mainly rely on qualitative or even anecdotal evidence and therefore take the consequences of changes at the CHQ for granted. Assuming that changes at the CHQ are a means to (re)establish fit, the underlying argument often relies on the contingency logic and its premise that internal and external fit lead to superior performance (Donaldson, 1987, 2001). For example, Campbell et al. (1995a) postulate that a fit between parenting styles and the business portfolio can create value, whereas a misfit can destroy value.

Critique

Collectively, these studies make important contributions to the CHQ and strategic change literature. Research on strategic change often fails to distinguish explicitly between the corporate and the business levels. In addition, the majority of the studies on corporate-level strategic change focus on changes in the business portfolio as an aspect of corporate strategy. This research stream contradicts these shortcomings and underlines strategic change at the CHQ as a second and equally important dimension of corporate-level strategic change. It thus adds to the reification of the corporate-level strategic change concept.

Despite these contributions, this research has three important limitations: First, the primary focus in these studies is often not on change, and knowledge specifically related to strategic changes at the CHQ has thus remained narrow. Second, the studies often have a managerial focus. Consequently, academic journals have published little that applies directly to CHQ strategic change. Third, large-scale quantitative research is comparably scarce, as the discussed research relies mainly on qualitative or even anecdotal evidence. We thus lack empirical evidence from large-scale samples.

2.4.2 CHQ Organizational Design Change

These studies explore changes in the organizational design of the CHQ. This strand of research is clearly related to the previous one, as the CHQ functions and roles translate into the CHQ organizational design (e.g. Collis et al., 2007). In this regard, Mintzberg points in general to the "important message that formal structure often reflects official recognition of naturally occurring behavior patterns" (1979: 11). In a similar vein, the structures of the CHQ reflect its roles and activities. For example, in his study on the development of strategic planning, Grant (2003: 501) relies on the organizational structures of corporate planning departments to identify changes in corporate planning activities over time. Studies in this area investigate changes in the formal and informal design of the CHQ, including changes in its formalization and centralization, as well as changes in the relationship between the CHQ and its subsidiaries. Table 2-4 provides a summary of the relevant studies.

Table 2-4: Previous Empirical Studies on CHQ Organizational Design Change

Study (year)*	Research focus*	CHQ elements	Theory	Method	Change measure	Key findings related to changes at CHQ
(Pettigrew, 1987a, b)	Context and action in the transformation of the firm (II)	Formal and informal design: centralization, bureaucracy and control	n/a: descriptive	Empirical study (qualitative): longitudinal case study of 1 firm (ICI)	Qualitative	The study proposes that change leadership can only be measured over time and must consider multiple perspectives, taking into account continuity and change, individual as well as group actions, and patterns and idiosyncrasies.
(Tomasko, 1987)	Sustainable CHQ downsizing (II; II-III)	CHQ staff and CHQ functions	No explicit theory; managerial	Anecdotal; case examples	n/a	The article identifies several objectives of decentralizing CHQ functions and argues that the HR function is important in sustaining a lean CHQ, which can be much harder than getting a lean CHQ.

Study (year)*	Research focus*	CHQ elements	Theory	Method	Change measure	Key findings related to changes at CHQ
(Hendry, 1990)	Shift in corporate HR role in decentralized environments (I-A; II)	CHQ function/ processes (HR); decentralization	No explicit theory; internal labor market	Empirical study (qualitative): 10 large organizations	Trend, evolution	The study argues that the 1980s decentralization influenced corporate internal labor markets in decentralized environments, and prompted rethinking the role, status, and activities of the HR function (decentralization as an antecedent/mediator). Owing to the loss and gain of certain central tasks through decentralization, there is a significant shift in the corporate HR role
(Alexander, 1991)	CHQ control and decision-making (I-A; I-II (C))	Centralization of decision-making	No explicit theory; contingency theory, transaction cost theory, bounded rationality	Empirical study (qualitative): panel data from 97 multi-hospital systems	Change score based on simple difference method	The study finds that organizations generally practice selective decentralization under conditions of increasing uncertainty, but organizational age, dispersion, and initial control arrangements significantly moderate the direction and magnitude of such changes.
(Aksoy & Marshall, 1992)	Corporate restructuring and CHQ staff and functions (I-A)	CHQ staff and functions	Economics	Empirical study (quantitative): CHQ survey of 20 large firms in Great Britain	True change	The study suggests that due to corporate restructuring, the number of CHQ staff in large firms has declined substantially, CHQ functions have been delegated to operating companies, and contracting out has increased. Regarding the geographical consequences, these changes have modified rather than transformed spatial development patterns.
(Tomasko, 1992)	Corporate restructuring (II)	CHQ staff	No explicit theory; managerial	Anecdotal; support by examples	n/a	The article proposes that following up improvements in the basic processes used to manage are as essential as changes in the organizational structure.
(Amburgey & Dacin, 1994)	Dynamics of strategic and structural change (I-II; II-III)	Level of decentralization	Contingency theory	Empirical study (quantitative): 262 large firms; observed over 28 years	Event history	The study finds a reciprocal relationship between strategy and structure, but that there is a hierarchical relationship between them in terms of the magnitude and timing of the strategy/structure change—strategy is a more important determinant of structure than structure is of strategy.

Study (year)*	Research focus*	CHQ elements	Theory	Method	Change measure	Key findings related to changes at CHQ
(Young, 1998)	Bench-marking CHQ staff (I-B; II)	Size (number of CHQ staff)	Parenting theory; contin-gency theory	Conceptual study	n/a	The article proposes that since the CHQ can be very difficult to change—change will inevi-tably be seen as a threat to established empires, and CEOs are often understandably reluctant to upset the teams that they rely upon to run their companies—benchmarks provide a less emotional way of challenging the status quo.
(Goold & Campbell, 2002)	Organiza-tional (re-) design of parents (II)	Organiza-tional design	Parenting theory; contin-gency theory	Not explic-itly speci-fied; case studies	n/a	The article proposes that companies should use a practi-cal framework for organiza-tional redesign and try minor design changes (modify with-out changing the units, rede-fine skill requirements and incentives, shape the informal context) before making major design changes (make substan-tial changes in the unit, change the structure).
(Kontes, 2004)	Reorgan-izing CHQ (I-A; II)	Activities and organiza-tional structure, model	n/a: descrip-tive Parenting theory, upper echelons theory	n/a: de-scriptive	n/a	The article postulates a need for changes at the CHQ since companies have changed much over the last 30 years; the CHQ is a legacy of traditional struc-ture presenting significant problems. There are two chal-lenging tasks for CHQ rede-sign: (1) creating a new CHQ model, and (2) replacing the old CHQ model.
(Collis et al., 2007)	CHQ size, structure, and perfor-mance (II)	Various (static); CHQ staff (change)	Infor-mation pro-cessing, agency theory, transac-tion costs, contin-gency, resource-based view	Empirical study (quantita-tive): 600 corpora-tions in 7 countries	True change (mostly static)	The study reports on interna-tional trends in changes at the CHQ: Over the previous five years 42% of the CHQ had fewer staff, 32% the same, and 26% more. Individual country trends were similar to the overall sample, with the excep-tion of the US and Chile with approx. 50% reporting CHQ staff increases.

Study (year)*	Research focus*	CHQ elements	Theory	Method	Change measure	Key findings related to changes at CHQ
(Borini, Fleury, & Fleury, 2009)	Dynamics of CHQ-subsidiary relation-ships (I-II)	CHQ-subsidiary relation-ship; CHQ compe-tences	Theory of interna-tional business (MNC)	Empirical study (quantita-tive): 30 Brazilian MNEs and 66 interna-tional subsidiar-ies, survey	Qualita-tive	The study finds that the com-petitive context and external network (in which the subsidi-ary is embedded) are the most important for competence development, transfer to, and recognition by the CHQ; subsidiary initiative is only important for recognition by the CHQ.
(Ambos et al., 2010)	Dynamics of CHQ-subsidiary relation-ships (I-A)	CHQ-subsidiary relation-ship (CHQ attention, CHQ monitor-ing)	Resource depend-ence theory, self-determi-nation theory	Empirical study (quantita-tive): 257 subsidiaries in 3 coun-tries, survey	time lags	The study finds that subsidiar-ies are unable to increase their influence through initiatives unless the CHQ is interested. While subsidiary initiatives do have a direct effect on subsidi-ary autonomy, they also induce CHQ monitoring, which in turn decreases the subsidiary's autonomy.
(Collings, McDonnell, Gunnigle, & Lavelle, 2010)	Anteced-ents of staffing flows to CHQ (I-A)	CHQ staff (staffing policies)	Resource-based view, neo-institu-tional theory	Empirical study (quantita-tive): 213 MNEs in Ireland, survey	n/a (static)	The study suggests that staff-ing flows from subsidiaries to the CHQ and other subsidiaries are quite common. MNEs are particularly likely to exploit the resource of subsidiary managers through inpatriate assignments if the subsidiary is large and well integrated into other subsidiaries.

* The characters in parentheses in the second column refer to Figure 2-2.
** In chronological order.

Factors Driving and Impeding CHQ Organizational Design Change

A common theme is the ever-swinging pendulum between decentralization and centralization. Based on these two extremes of organizational change, Ferlie and Pettigrew (1996) identify generic trends which still appear to be prevalent today. The first trend is *downsizing* (Ferlie & Pettigrew, 1996: 497). Many large firms reorganized in response to the volatility in the product markets and in a search for new competitive advantage, particularly during the 1980s (Aksoy & Marshall, 1992). Many of these firms such as BP, Unilever, ICI, and NatWest restructured their CHQ, often with significant staff reductions (Young, 1993b). A second trend is *decentralizing, but retaining core central control* (Ferlie & Pettigrew, 1996: 498). This trend refers to greater

responsibility and authority for business units, while the core functions remain centralized. Proponents usually put forward value adding and synergy arguments in favor of centralized functions,. This trend is supported by insights from studies on individual CHQ-level functions, for example, human resources (Hendry, 1990) and strategic planning (Grant, 2003).

Both these trends are reflected in changes in the formal design of the CHQ, such as either fewer or more CHQ staff, and in changes in the number of corporate functions. A few surveys provide trend data on changes in the formal CHQ design. Although their main focus was not on change, Young et al. (2000) also report on changes in the formal CHQ organizational design, such as changes in the number of CHQ staff and corporate functions, and changes in CHQ costs. Recently, Kunisch et al. (2012c) report on trends in changes in the CHQ' organizational design, which are based on a large-scale survey of more than 750 firms in North America (the US and Canada) and Europe: It appears that many companies have tightened the reins of their CHQ and increased their influence on divisional decisions.

Several internal and external factors are associated with changes in the CHQ organizational design. The driving forces of CHQ downsizing stem from cost and efficiency pressure arguments, but also from corporate styles (Young & Goold, 1993) and the potential effects of new information technology such as email (e.g. Rajan & Wulf, 2006). Alexander analyzes panel data from 97 multihospital systems to study adaptive change in control practices between the CHQ and the operating divisions and finds that "organizations generally practice selective decentralization under conditions of increasing uncertainty but organizational age, dispersion, and initial control arrangements significantly moderate the direction and magnitude of such changes." (1991: 162).

Consequences of CHQ Organizational Design Change

Only a few studies explore the consequences of changes in the CHQ organizational design. For example, Amburgey and Dacin (1994) study intermediate outcomes at the firm level and find a reciprocal relationship between strategy and administrative structure which is based on Rumelt's (1974) categories. However, in terms of the magnitude and timing of changes in the strategy/structure, they find a hierarchical relationship between these two with strategy a more important determinant of structure

than structure is of strategy. Harreld et al. find that bringing in managers with business-level experience can transform the culture in the corporate strategy department: "Their presence has transformed the department's formerly academic planning culture to one that is much more action-oriented" (2007: 34).

In addition, a few studies postulate a range of objectives for changes at the CHQ, which in turn reflect potential consequences. Tomasko (1987: 36), for example, identifies a range of objectives of turning CHQ functions into businesses that offer their services not only to internal businesses but also to customers outside the firm: (1) decreasing the overhead costs; (2) ensuring profits; (3) providing a broader staff service than the individual companies can afford; (4) ensuring the CHQ staff is more customer-orientated; and (5) retaining high performers by adding new challenges to their jobs. As we still lack empirical evidence, future studies can consider these objectives as the potential consequences of changes at the CHQ.

Critique

Collectively, these studies make important contributions to the CHQ and organizational change literature. First, they provide the first insights into the antecedents and consequences of changes in the CHQ' organizational design. Second, they provide insights into the dynamic relationships between strategy and structure at the CHQ level, thus adding another level to the classic strategy/structure debate (Chandler, 1962).

Despite these contributions, two limitations stand out: First, the primary focus in these studies is often not on CHQ as an organizational entity, and we thus lack specific knowledge pertaining to changes in the CHQ organizational design. Second, research on the consequences of CHQ organizational design change is comparatively scarce, and there is a specific lack of empirical evidence on the performance consequences.

2.4.3 CHQ Physical/Geographic Change

Studies in this area deal with physical changes at the CHQ. While most studies explored CHQ relocation, one study explored changes in the corporate architecture as physical embodiments of organizational change (van Marrewijk, 2009). The author

studies a firm's privatization process and finds that three different CHQ had been designed during this process, each of which embodies the change ambitions in the different phases. Although most of the research deals with changes in the geographic location, the typology of changes at the CHQ allows for integrating other types, such as changes in the physical CHQ buildings. I believe that there is an enormous potential in studying other changes in other CHQ artifacts. Table 2-5 summarizes the relevant studies.

Table 2-5: Previous Empirical Research on CHQ Physical/Geographic Change

Study (year)*	Research focus**	CHQ elements	Theory	Method	Change measure	Key findings related to changes at CHQ
(Holloway & Wheeler, 1991)	CHQ relocation and changes in the metropolitan dominance (I-A)	Geographic location of the CHQ	Dispersion theory	Empirical study (quantitative): 300 large firm from 1980-1987	True change (event)	The study finds that changes in metropolitan corporate dominance are strongly related to spatial shifts in the CHQ location, especially shifts due to M&A activity, and less strongly related to structural factors reflecting the degree of transition to the emerging service-based economy.
(Ghosh, Rodriguez, & Sirmans, 1995)	Stock market reactions to CHQ relocations (II-III)	Geographic location of the CHQ	No explicit theory: finance	Empirical study (quantitative): event study; 160 CHQ relocations between 1966-1992	True change	The study finds that the stock market reaction to CHQ relocation decisions (i.e. the investors' perceptions of the relative advantages and costs of spatial agglomeration) are (1) significantly positive when decisions are attributed to cost savings, and (2) significantly negative when decisions are prompted by managerial self-interest.
(Feldman & Bolino, 1998)	Willingness of employees to move during CHQ relocations (II)	Geographic location of the CHQ; (mobility of) CHQ employees	No explicit theory	Empirical study (quantitative): survey of 380 employees of a government defense agency	True change	The study identifies several factors associated with employee willingness to move during corporate relocation; the most significant factors are (1) attachment to the present community, (2) attachment to the current organization, and (3) the availability of job market alternatives.

Study (year)*	Research focus**	CHQ elements	Theory	Method	Change measure	Key findings related to changes at CHQ
(Klier & Testa, 2002)	CHQ location trends (I-A)	Geo-graphic location of the CHQ	n/a: descrip-tive, competi-tive advantage	Empirical study (quantita-tive): large, publicly traded US companies	True change	By comparing 1990 CHQ location data with 2000 data, the study identifies several trends for preferred CHQ locations and the determinants of CHQ growth in metropoli-tan statistical areas (MSA): population and change in population, industries and regions.
(Baaij et al., 2004)	Reloca-tion of the CHQ (I-A)	Geo-graphic location of the CHQ	Theory on interna-tional business (MNC); parenting theory	Conceptual study (including empirical trend data)	True change	The study predicts an increas-ing CHQ mobility of EU-based corporations due to removal of legal barriers and proposes a conceptual framework com-prising four categories of determinants of CHQ reloca-tions: (1) company specifics, (2) industry specifics, (3) metropolitan specifics, and (4) nation and region specifics.
(Brouwer, Mariotti, & van Ommeren, 2004)	Reloca-tion of firms (I-A)	Geo-graphic location of the CHQ	Location theories: neoclassi-cal, be-havioral, institu-tional theory	Empirical study (quantita-tive): 5,568 firms, 21 countries from 1997-1999; survey	True change	The study identifies internal factors (change in the work-force) as well as external factors (growth through M&A) influencing CHQ relocations, and finds that firms serving larger markets relocate more often.
(Gregory, Lombard, & Seifert, 2005)	Reloca-tion of firms (I-A)	Geo-graphic location of the CHQ	n/a	Empirical study (quantita-tive): 167 CHQ relocations over six years	True change	The article finds little evidence of improved operating perfor-mance after HQ relocation and that the distance relocated has no significant impact.
(Birkinsha w et al., 2006)	Reloca-tion of CHQ (I-A)	Geo-graphic location of the CHQ	Interna-tional business theory; institu-tional theory; corporate strategy and govern-ance	Empirical study (quantita-tive): survey; Swedish MNCs; 35 CHQ and 125 BU HQ	True change	Testing four antecedents of CHQ relocations—(1) the interdependence between the BU HQ and the CHQ, (2) concentration of share owner-ship, (3) influence of interna-tional shareholders, (4) influ-ence of international customers and competition—the study underlines the importance of the external role of the CHQ (regarding shareholders and capital markets).

Study (year)*	Research focus**	CHQ elements	Theory	Method	Change measure	Key findings related to changes at CHQ
(Pirinsky & Qinghai, 2006)	CHQ relocation and changes in the local co-movement (II-III; II-III(C))	Geo-graphic location of the CHQ	No explic-it theory: finance	Empirical study (qualita-tive): 118 firms; 1992-1997	True change	The study finds that the stock returns of firms with their CHQ in the same geographic location co-move, and that the co-movement of the stocks of the old (new) location decreas-es (increases) when firms relocate their CHQ. There is a stronger relationship in small-er, less profitable firms, in firms with more individual investors, and in regions with less financially sophisticated residents.
(Barner-Rasmussen et al., 2007)	Reloca-tion of the CHQ (I-A; II)	Geo-graphic location of the CHQ	Theory of interna-tional business (MNC)	Empirical study (qualita-tive): multiple case study of Finnish MNCs	True change	The study identifies six key drivers (internal and external), each involving pragmatic and symbolic dimensions of CHQ relocations, and suggests several relocation types—such as direct, hidden, full, partial, and virtual.
(Cox & Schultz, 2007)	Stock market effect of CHQ reloca-tions (II-III; II-III (C))	Geo-graphic location of the CHQ	No explic-it theory: market-based view	Empirical study (quantita-tive): CHQ relocations of US firms from 1994-2005; event study	True change	The study finds an overall positive relationship between CHQ relocations and stock market prices, but stock returns are most positive if managerial interest is the reason for the CHQ relocation; still positive if costs/consolidation is the reason, and to some extent even when no reason is give; they are negative if space is the reason.
(Davis & Henderson, 2008)	Spatial agglomer-ation of the CHQ (II-III)	Geo-graphic location of the CHQ	Economic theories; economic geography	Empirical study (quantita-tive): US CHQ locations from 1977-1997 in 5-year inter-vals	True change	The study argues that a separa-tion of the central administra-tive units (CHQ) and produc-tion benefits the CHQ in two main ways: (1) the availability of different local service input suppliers and (2) the scale of other CHQ activity nearby.

Study (year)*	Research focus**	CHQ elements	Theory	Method	Change measure	Key findings related to changes at CHQ
(Henderson & Ono, 2008)	Relocation of the CHQ (I-II)	Geographic location of the CHQ	Economic theories; economic geography	Empirical study (quantitative): 488 US manufacturing firms between 1992 and 1997	True change (event)	The study argues that firms consider the trade-off between the advantages (the ability to outsource service functions in the local metro market and to gather information about market conditions for their products) and disadvantages (increased communication/coordination costs) of physically separating their CHQ from production facilities when choosing CHQ location.
(Strauss-Kahn & Vives, 2009)	CHQ relocation decisions (I-A)	Geographic location of the CHQ	No explicit theory: new economic geography model	Empirical study (quantitative): 26,195 CHQ in 276 US metropolitan areas in 1996 and 2001	True change	The study finds that firm and location specifics determine CHQ relocation decisions: Larger and younger CHQ tend to relocate more often, as well as larger and foreign firms, and firms created by M&As. Firms relocate their CHQ to areas with good airport facilities, low taxes, low wages, high levels of business services, same industry specialization, and with other CHQ in the same sector.
(van Marrewijk, 2009)	The CHQ as a physical embodiment of organizational change (II)	CHQ physical features, CHQ design (artifacts)	No explicit theory	Empirical study (qualitative): longitudinal case study	True change	The study proposes that the CHQ building is a physical embodiment of the organizational change history. The firm's location in government buildings (spatial position) is a reflection of the privatization process.
(Voget, 2011)	Cross-border mobility of the CHQ: taxes and CHQ relocation decisions (I-A)	Geographic location (country) of the CHQ	No explicit theory: Economics	Empirical study (quantitative): 140 MNCs, 1997-2007	True change	The additional tax due in the home country upon repatriation of foreign profits has a positive effect on the probability of CHQ relocation. The presence of controlled foreign corporation (CFC) legislation also has a positive effect on the number of relocations.

Study (year)*	Research focus**	CHQ elements	Theory	Method	Change measure	Key findings related to changes at CHQ
(Baaij et al., 2012)	Relocation of the CHQ (II)	Geographic location (country) of the CHQ	No explicit theory: Economics	Empirical study: 58 Dutch multinationals	True change	The article identifies trends in the international relocation of elements of the CHQ. It attributes these trends to the increasing internationalization of markets and industries. The article identifies the strategic benefits and costs of relocations and suggests three options for relocations.
(Laamanen et al., 2012)	Relocation of the CHQ (I-A)	Geographic location of the CHQ	No explicit theory: Theory in international business (MNC)	Empirical study (quantitative): 52 cross-border CHQ relocations in Europe from 1996–2006	True change	The study identifies three sets of determinants of CHQ relocation decisions: (1) push factors (high taxes and a high employment rate) increase the likelihood of CHQ relocation, (2) pull factors (central location and low taxes) increase the attractiveness of the CHQ location, while (3) catalyzing factors (export-oriented companies and regional HQ) increase the tendency to relocate.

* The characters in parentheses in the second column refer to Figure 2-2.
** In chronological order.

The Phenomenon of CHQ Relocations

The phenomenon of CHQ relocations is striking—in terms of both the *occurrence* and the *scale* of change. With regard to the occurrence, a few studies reveal between 5% and 6% CHQ relocations per year (Strauss-Kahn & Vives, 2009; Voget, 2011). Feldman and Bolino (1998) report that US firms spend over 20 billion USD on corporate relocations and uproot over 250,000 employees each year. With regard to the scale of change, CHQ relocations can be considered major organizational events equal to CEO successions or new product launches. Card et al. use an example to illustrate the scale of CHQ relocations: "Boeing was granted 50 million USD (about 100,000 USD per job) in tax abatements to relocate its CHQ from Seattle to Chicago. The move involved around 500 top managers but no major production facilities" (2010: 222). Given the occurrence and scale of changes in CHQ locations, management scholars have become more interested in better understanding CHQ mobility. Birkinshaw et al. note that "the phenomenon of HQ relocation is on the rise, and as such it merits careful academic consideration" (2006: 682).

Factors Driving and Impeding CHQ Relocations

An important theme is that conditions in the external environment, such as regulations and the capital market, influence CHQ relocations. For example, conceptual and empirical studies suggest that taxes and company laws are important drivers of decisions to relocate the CHQ (e.g. Baaij et al., 2004; Laamanen et al., 2012). As another example, Birkinshaw et al. find that companies relocate their CHQ overseas mainly as "a response to the perceived demands and opportunities offered by overseas shareholders and capital markets" (2006: 697). This key finding "underlines the importance of the externally facing role" of the CHQ, "as the interface between the activities of the MNC's business units and the capital markets" (Birkinshaw et al., 2006: 697). Brouwer et al. (2004) find that the market size is related to the frequency of CHQ relocations: Firms that serve larger markets relocate their CHQ more often.

In addition, there are factors in the internal environment that influence CHQ relocations. For example, Brouwer et al. (2004) identify two internal factors—change in the workforce, and external growth through M&As—that induce CHQ relocations. Baaij et al. (2004) propose a conceptual framework with four categories of determinants of CHQ location decisions which includes factors in the internal and external environments: company-specific, industry-specific, metropolis-specific, and nation- and region-specific determinants.

Indeed, most CHQ relocation studies focus on a mix of antecedents of such decisions: For example, Barner-Rasmussen et al. (2007) engage in a multiple case study and conceptualize CHQ relocations as an outcome of six key drivers (internal and external)—(1) the control and integration of subsidiaries, (2) inducing HR-related change, (3) responding to owners and other stakeholders, (4) a physical presence in a relevant area, (5) the costs and spatial structure of the management, and (6) quality-of-life—each of which has a pragmatic and a symbolic dimension. Laamanen et al. (2012) identify three categories of determinants of CHQ relocation decisions: push factors (high taxes and a high employment rate) increase the likelihood of CHQ relocations, pull factors (central location and low taxes) increase the attractiveness of the CHQ locations, while catalyzing factors (export-oriented companies and regional HQ) increase the tendency to relocate. Cox and Schultz (2007) distinguish four rationales for CHQ relocation decisions: cost/consolidation, space, managerial interests, none

given. Pirinsky and Qinghai use a couple of company examples to illustrate the reasons for firms relocating their CHQ:

> *"The most commonly cited reasons for headquarters relocations by these firms are: to be close to customers; to reduce costs; to move to a more important production base area; and, to capture synergies with other local firms. For example, Southwestern Bell's chairman Edward E. Whitacre Jr. comments on the headquarters relocation of his company: '[It] will put us closer to more of our major growth markets and customers.' Similarly, General Dynamics' chairman William Anders argues '[T]he company can operate more effectively, more efficiently and be more responsive by having our headquarters and our leadership closer to our principal customers.'"* (2006: 2000).

Consequences of CHQ Relocations

Existing studies also explore the intermediate and performance outcomes of CHQ relocations. CHQ relocations are related to various intermediate outcomes. For example, Davis and Henderson (2008) study the determinants of CHQ agglomerations and suggest that the CHQ benefits in two important ways from its spatial separation from its production sites: from the range of expert service offerings for various needs which improves the CHQ productivity, and from its close proximity to other CHQ. Feldman and Bolino (1998) caution that the loss of key employees can become a key issue. They explore employees' willingness to move during CHQ relocations and identify three important influencing factors: (1) attachment to the present community, (2) attachment to the current organization, and (3) the availability of job market alternatives. Baaij et al. (2012) list various benefits and costs associated with three relocation drivers and three relocations barriers.

CHQ relocations are related to various performance outcomes such as operating performance (Gregory et al., 2005) and tax savings (e.g. Laamanen et al., 2012). To shed light on the performance outcomes, most studies, however, explore the stock price effects of CHQ relocations to understand investors' perceptions of such decisions. For example, Ghosh et al. (1995) categorize the motives for CHQ relocations into six groups (cost, agency, business growth, business decline, sale, no reason) and find that the stock market reactions are significantly positive if CHQ relocation decisions are motivated by cost savings, whereas they are significantly negative if managerial self-interest prompts the relocation decisions. In a similar study, Cox and Schultz (2007) find an overall positive relationship between CHQ relocations and stock market prices. More specifically, however, the stock market reaction is most positive if mana-

gerial interest is the reason for the relocation; is still positive if cost/consolidation is the reason and, to some extent, even if no reason is given; but negative if space is the reason for the relocation. Pirinsky and Qinghai (2006) find that the stock returns of firms with their CHQ in the same geographic location co-move, and that the co-movement of the stocks of the old (new) location decreases (increases) when firms relocate their CHQ. This relationship is stronger in smaller, less profitable firms, in firms with more individual investors, and in regions with less financially sophisticated residents.

Critique

Collectively, studies on CHQ relocations contribute to our knowledge pertaining to CHQ in three areas. First, these studies advance a better understanding of the contemporary phenomenon of CHQ relocations, which is on the rise and can have significant symbolic and organizational implications, thus meriting careful scholarly investigation. Second, owing to the availability of secondary large-scale data, these studies provide empirical evidence of the performance consequences of a specific aspect of changes at the CHQ. Third, these studies help us better understand the nature of high-level organizational decisions.

Despite these valuable insights, three shortcomings can be noted. First, existing research on CHQ relocations has largely focused on the CHQ as a whole (as a legal entity) and used data on the legal domicile to explore a certain research question. Second, many studies focus on the short-term consequences at the firm level (e.g. shareholder reaction and financial firm performance), but have little about the intermediate or the long-time consequences of CHQ relocations. Similarly, due to the quantitative focus there is a lack of in-depth insights on how such decisions are made. Third, studies on CHQ relocations often apply cross-sectional designs, which, among others, prohibit establishing causal relationships (e.g. Birkinshaw et al., 2006).

2.4.4 Overall Assessment and Synthesis

Summary of Critique

The survey of the literature reveals two overarching challenges facing existing research on changes at the CHQ which need to be considered in future research. First, while existing research provides important insights into the nature of CHQ change,

some of the findings raise theoretical concerns. An important reason for this is that research on the CHQ in general is often criticized for its a-theoretical nature (Foss, 1997; Markides, 2002). Indeed, a considerable number of studies in this review, especially those on strategic and organizational design changes at the CHQ, are more practice-orinted in nature. Nonetheless, this approach allows for linking the insights from top academic and practitioner-oriented publications. While research on the CHQ has particularly suffered from the schism between theoretical and managerial-oriented work, linking the insights from these two camps has the potential to provide significant contributions (e.g. Battilana, Gilmartin, Sengul, Pache, & Alexander, 2010: 434). Appendix 6 lists the various research streams and theories that were used in existing research and could be used in future research.

Second, there are good reasons to believe that especially methodological and empirical issues, such as access to data, or measurement issues, have largely prevented more research. Gaining access to CHQ data has been one of the critical issues, especially for studies on strategic and organizational change: Ferlie and Pettigrew have already noted that "[n]egotiating access to organizations engaged in such high-level restructuring can be tricky indeed, as managerial and consultant careers and reputations may be on the line" (1996: 496). Data on the CHQ is often not available from public sources because companies rarely disclose information on their CHQ. This is in sharp contrast to data on executive changes and changes in the corporate portfolio—both of which are important concerns at the corporate level and extensively studied by scholars exploiting publicly available data.

Nonetheless, promising methodological and empirical opportunities, which offer prospects for research on changes at the CHQ, have specifically emerged over the last decade. An increasing number of companies have started disclosing more information on their CHQ in their annual reports[23], and in strategy presentations (e.g. Thomson Reuters StreetEvents), both of which offer new opportunities. Some studies have already demonstrated the potential of alternative methods of collecting data (e.g. the content analysis of annual reports). For example, Klarner and Raisch (2012) rely on data from company reports to study corporate strategic change. These opportunities

[23] e.g. UBS, Swisscom, and Deutsche Lufthansa.

are complemented by various methodological (Bergh & Fairbank, 2002) and conceptual contributions with respect to the study of dynamic phenomena (see Appendix 7).

Synthesis: Three Essential Questions for the Study of Changes at the CHQ

Although each of the research strands reviewed above has contributed to our understanding of the dynamics of the CHQ, the collective impact of this literature has been limited by independent developments in separate research areas, each of which has a rather narrow scope of research methods and theories (see overall critique). Nevertheless, the literature review also suggests an overarching framework with which to integrate the extant knowledge in the three research areas into a more coherent perspective on changes at the CHQ that could stimulate future research. The framework emerged from the review of the literature; it thus integrates existing knowledge developed in the three research tracks and reveals the main questions on which scholars typically focus when exploring changes at the CHQ.[24] Figure 2-2 shows the framework (for a more detailed version, see Appendix 8).

(1) What Factors Influence Pressure for and Resistance to Changes at the CHQ (I-A; I-B; I-II)[25]

As summarized above, the existing studies identify several factors that influence the pressure for and the resistance to changes at the CHQ. These factors arise from both changing and enduring conditions in the internal and external environment. These two dimensions have intuitive appeal, as that the CHQ roles are usually both internal and external (Birkinshaw et al., 2006; Chandler, 1991). Based on the level of analysis, the internal factors can be differentiated into (a) CHQ-level factors, (b) business/subsidiary-level factors, and (c) firm-level factors. The factors in the external environment can be categorized into factors in the (a) regulatory environment, (b) market environment, and (c) technological environment. Since the internal and external environments are interrelated, it is no surprise that studies often consider various internal and external factors as the antecedents of changes at the CHQ.

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[24] Ginsberg (1988), as well as Rajagopalan and Spreitzer (1997) identify similar questions for research on strategic change.

[25] The characters in parentheses refer to Figure 2-2.

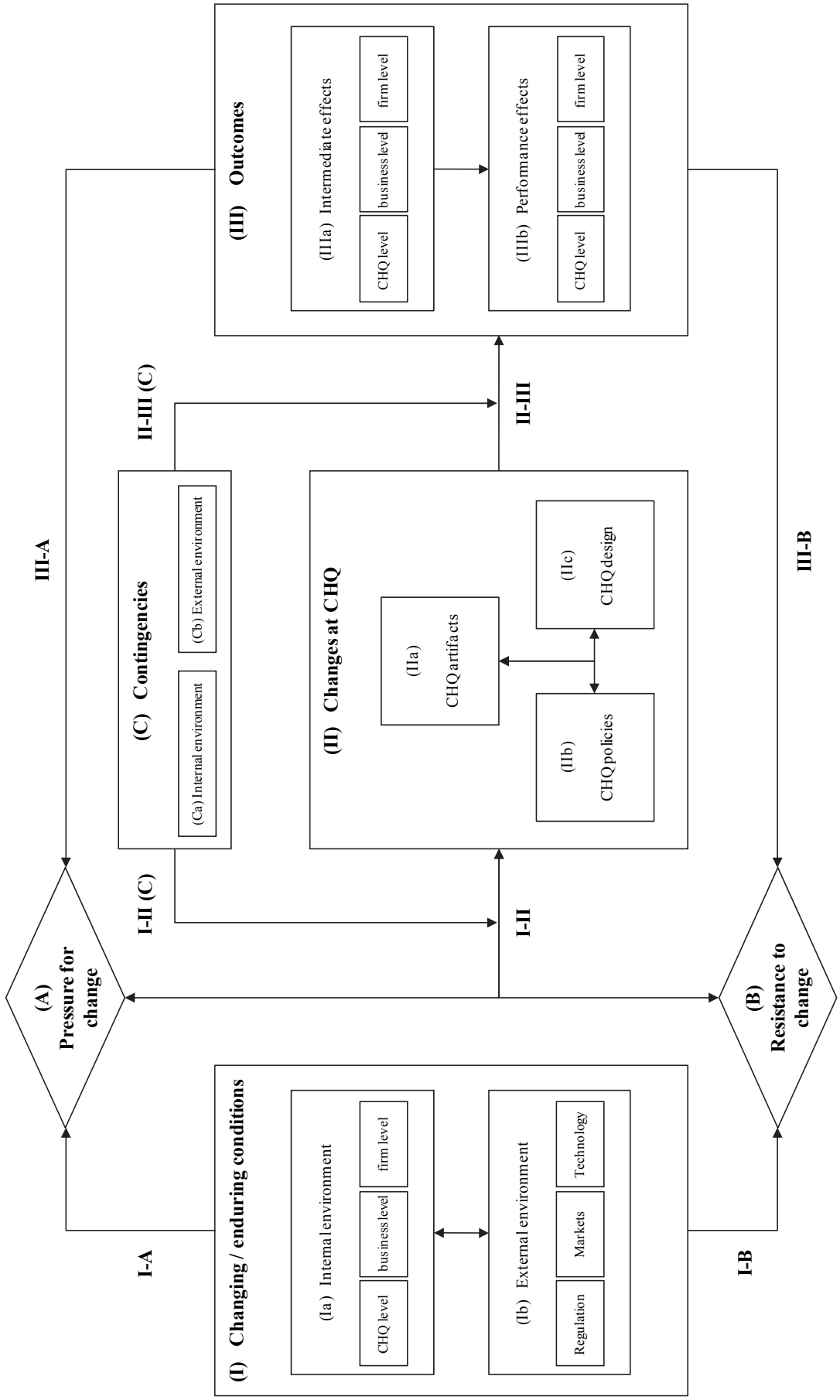
(2) What Are the Types and Processes of Changes at the CHQ? (II; IIa; IIb; IIc)

Based on the three CHQ concepts (see Table 2-1), changes at the CHQ can occur on three dimensions: First, changes in the CHQ strategies (IIa). These studies center on changes in the CHQ roles and styles, and in the corporate growth strategies. Second, changes in the CHQ structures/design (IIb). Studies in this area, center on changes in the size and configuration of the CHQ, changes in the formalization and centralization, and the dynamic relationships between the CHQ and its subsidiaries. Third, changes in the CHQ (physical) artifacts, such as the legal domicile and the physical building(s) (IIc). The geographic location and the legal residence of the CHQ can be conceptualized as artifacts.

(3) What Are the Consequences of Changes at the CHQ? (II-III)

Finally, research on the consequences of changes at the CHQ can be broadly split into studies on intermediate and performance outcomes. Based on the level of analysis, both types of outcomes can be further differentiated into those on the CHQ level, those on the business/subsidiary level and those on the firm level. Yet, there is a specific lack of empirical studies on performance outcomes at the CHQ and business levels.

Figure 2-2: Organizing Framework for Research on Changes at the CHQ



2.5 Directions for Future Research

Based on the synthesis of the existing research, I now discuss the directions future research could take. I organized the future research opportunities into six areas and discuss them accordingly (see Table 2-6). It is important to note that these areas are not mutually exclusive but rather interrelated. Collectively, however, research on these areas will help shed further light on the three essential questions pertaining to changes at the CHQ (see previous section).

Table 2-6: Opportunities for Future Research on Changes at the CHQ

Research opportunities	Exemplary research questions
A Dynamic Perspective on Emerging CHQ Phenomena	
Static phenomena	▪ When and why do firms decide to establish 'second homes,' 'virtual (token) CHQ,' etc. (various CHQ relocation trends)? ▪ To what extent and how do these decisions benefit firm performance? ▪ How does the contemporary CHQ add value (new value adding role)?
Dynamic phenomena	▪ What does the dynamic nature of CHQ agglomeration externalities (benefits) comprise? ▪ How does CHQ resource allocation change over time? ▪ When and why do corporations decide to relocate rather than redevelop their CHQ?
Pressure for vs. Resistance to Changes at the CHQ	
Antecedents to changes at the CHQ	▪ Which factors in the internal and external environment increase pressure for or resistance to CHQ change? ▪ How inert is the CHQ? Are some CHQ characteristics more inert than others (e.g. artifacts such as location, physical attributes vs. management styles)? ▪ When and why do firms foster corporate strategic stability at the CHQ?
Changes at the CHQ as an intermediate outcome	▪ What is the relationship between strategic change and changes at the CHQ? ▪ When and why do firms change the size of their CHQ? ▪ When and why do firms establish new corporate functions or shut down existing corporate functions?
Adaptive vs. Disruptive Changes at the CHQ	
CHQ-specific consequences	▪ What are the intermediate consequences of changes at the CHQ? ▪ To what extent do changes at the CHQ affect CHQ-subsidiary relationships, the corporate culture, corporate capabilities, and CHQ staff turnover? ▪ To what extent do changes at the CHQ relate to value-adding, value-destruction, etc.?
Stability vs. change	▪ What are the merits of corporate strategic stability at the CHQ? ▪ To what extent does stability at the CHQ relate to operating performance, taxation, etc.?

Research opportunities	Exemplary research questions
Managerial Choice vs. Determinism in Changes at the CHQ	
Internal: change agents	▪ Who are the change agents and how do they lead CHQ change? ▪ What is the relationship between the upper echelons and CHQ change? ▪ What types of CEO succession increase pressure for / resistance to CHQ change?
External: institutional forces	▪ To what extent do different institutional settings affect CHQ change? ▪ To what extent do institutional forces affect the design of the CHQ and changes over time? ▪ To what extent do bandwagon effects ('fashions') of CHQ design and change occur?
Circumstances of Changes at the CHQ	
Content: contingencies and setting	▪ What are the contingencies in the internal and external environment? ▪ How does the external environment (especially globalization and the rise of the BRIC countries like China) impact CHQ relocation decisions?
Process: modeling of change	▪ What is the life cycle of corporate functions and parts of the CHQ in general? ▪ Does adverse change at the CHQ occur? ▪ How do firms implement the reversal of change at the CHQ?
Multiple Dimensions and Multiple Levels of Changes at the CHQ	
The CHQ as a multi- dimensional construct	▪ How do CHQ artifact changes serve as a catalyst for other changes at the CHQ? ▪ How does the CHQ-subsidiary relationship change over time? ▪ How does the 'attention' that the CHQ pays to divisions/subsidiaries change over time?
The CHQ as a multi-level construct:	▪ When and why do firms relocate parts of their CHQ rather than the entire CHQ? ▪ What is the life cycle of corporate functions and parts of the CHQ in general?

I start with the most specific directions and move towards the most general research directions. In each of the areas, I combine phenomenological, methodological, and theoretical aspects into explicit research opportunities.

2.5.1 A Dynamic Perspective on Emerging CHQ Phenomena

I suggest that scholars utilize a dynamic perspective to study a broad variety of static and dynamic CHQ phenomena. More knowledge is required on new and emerging CHQ phenomena. For example, some companies report that they have dual or even multiple CHQ, while others claim that they do not have a CHQ per se, opting instead for a virtual CHQ and the rotation of TMT meetings around a number of major sites

(e.g. Baaij et al., 2012; Birkinshaw et al., 2006; Dvorak, 2007). Desai (2009), for example, argues that today's firms can indeed have multiple CHQ, for example, a legal home, a financial home, and a home for managerial talent, all of which can be relocated independently from one another. Furthermore, Birkinshaw (2010), describing how a Dutch software company recently moved its global CEO and parts of its CHQ to China, points to the trend to called 'second homes' (or dual homes) and a dispersed CHQ (and decision-making). In addition to second homes, Baaij et al. (2012) suggest the relocation of a TMT member's office and extensive travel/communication usage, instead of the physical relocation, as other options.

These trends raise interesting research questions such as: How does globalization and the rise of the BRIC countries (especially China) impact CHQ relocation decisions? There is little knowledge of such practices, and I thus repeat Birkinshaw et al.'s call for more scholarly investigation: "While there are good reasons to be skeptical about such models, this is certainly an area where practice is continually changing, and therefore where additional research is needed" (2006: 698).

Moreover, even if static CHQ phenomena are well-understood, often, little is known about changes over time. For example, while the determinants of resource allocation are well studied (e.g. Dellestrand & Kappen, 2011; Stein, 1997), little is known about how this changes over time. Another example is that while existing agglomeration research largely agrees that CHQ location matters, little is known about its dynamic nature: "Whereas a good deal of static evidence exists regarding the presence of agglomeration externalities, we know much less about the dynamic nature of these benefits" (McCann & Folta, 2008: 559). Drawing on Ancona et al.'s (2001: 660) argument that the temporal lens is useful for studying phenomena with a non-temporal focus, a dynamic perspective can help explain static, as well as dynamic CHQ phenomena.

Finally, I urge scholars to pay more attention to the match between the dynamic perspective, the theories used, and the research methodology. Studies have frequently relied on a static picture to draw inferences regarding changes at the CHQ. For example, Borini et al. (2009) argue that research methodologies, such as case studies, although less comprehensive than a survey, have the advantage of a longitudinal perspective on the process of development, transfer, and recognition of competences.

2.5.2 Pressure for vs. Resistance to Changes at the CHQ

More theoretical and empirical research is needed on the factors that increase both the pressure for and resistance to changes at the CHQ. Such research could help firms diagnose the need for change at the CHQ. For examples, the privileged status is believed to regularly shields this entity "from the rigors of the market" (Campbell et al., 1995b: 82). This assertion implies a specific CHQ inertia. Campbell et al. claim more explicitly that: "parents constantly modify and fine-tune their parenting, but fundamental changes in parenting seldom occur, usually only when the chief executive and senior management team are replaced" (1995a: 132). This, for example, raises important concerns regarding whether the CHQ is malleable or indeed inert. More research is needed on the specifics of this entity's 'change behaviors.'

I suggest two basic approaches: On the one hand, scholars should explore the various antecedents to changes at the CHQ. As outlined in the previous section, a number of factors in the internal and external environments need to be (further) explored. On the other hand, scholars can use changes at the CHQ as alternative corporate-level outcomes. While this suggestion broadly applies to research on corporate-level outcomes, I believe promising research opportunities stem from linking research on changes at the CHQ to related but parallel, and thus far disconnected, research streams.

Two specific research streams have intuitive appeal: First, I urge scholars to link changes at the CHQ to research on corporate portfolio change, and thus link the dynamics of Porter's (1987) two corporate strategy concerns: the portfolio of business domains and the management of the portfolio of domains. While scholars have extensively explored the relationship between strategy (corporate diversification) and the overall organization (M-form structure, etc.) (e.g. Hoskisson, Hill, & Kim, 1993a; Hoskisson & Hitt, 1990), the linkages between changes in the corporate portfolio and changes at the CHQ seem less well understood (e.g. Ferlie & Pettigrew, 1996). For example, a few empirical studies (Amburgey & Dacin, 1994; Galan & Sanchez-Bueno, 2009) have shown the potential that dynamic models have to shed new light on the contingency relationships between corporate strategy and structure. In this regard, future studies have the potential to add to the classic strategy-structure relationship (Chandler, 1962). Moreover, scholars should not restrict corporate portfolio change to

changes in the product/market domain, but should also consider changes in the alliances portfolio and changes in the geographic scope (MNC strategy).

Second, I suggest that scholars should link research on changes at the CHQ to research on corporate governance. While anecdotal evidence suggests that ownership changes influence changes at the CHQ (Kunisch et al., 2012c), more knowledge is required in this area. For example, van Marrewijk (2009) finds that the firm's proximity to government buildings (spatial position) reflects the firm's privatization process. Another example is that whereas the CHQ of privatized firms are expected to be more efficient and government-owned firms are more likely to tolerate slack at the CHQ, partly because employment might be a specific objective (Aharoni, 1986), slack is often an important prerequisite for change, which might make change slower and more difficult for privatized firms (e.g. Villalonga, 2000). Hence, studying changes at the CHQ as an outcome of ownership changes (for a recent review, see Connelly, Hoskisson, Tihanyi, & Certo, 2010) promises to yield new insights into the dynamics at the CHQ.

2.5.3 Adaptive vs. Disruptive Changes at the CHQ

An important concern that requires further investigation is the extent to which changes at the CHQ are adaptive or disruptive Overall, we seem to have little conclusive knowledge about the consequences of changes at the CHQ. For example, while CHQ downsizing is a prominent theme in the business press, we need to know more about the consequences of such endeavors. In this regard, it appears that especially studies exploring the CHQ have the potential to solve the more general puzzle regarding whether and when organizational change is adaptive or disruptive (e.g. Boeker, 1997). As illustrated in the organizing framework, both intermediate and performance outcomes should be studied at different levels.

Specifically, it seems important to study CHQ-specific outcomes. For example, what are the implications of relocating the CHQ for the corporate culture, the corporate staff (Feldman & Bolino, 1998), and for CHQ functions and roles (value-adding, value-destruction)? What are the business-level implications (e.g. relationships with subsidiaries, business strategies)? Scholars could consider various objectives for changes at the CHQ, and explore them as potential outcomes. For example, Tomasko

(1987) lists a number of such objectives related to the staff of smaller CHQ, such as lowering the overhead costs, which will clearly have performance consequences at the CHQ level. In this regard, scholars could also investigate conflicting goals such as lowering the overhead costs vs. developing corporate capabilities. For example, anecdotal evidence suggests that if companies slim down their CHQ size too much, they could lack important corporate capabilities. In addition, scholars could also explore long-term consequences, such as long-term survival (e.g. Burgelman & Grove, 2007).

Furthermore, the paradox of stability vs. change at the CHQ offers excellent opportunities for future research. While it is widely acknowledged that both have advantages and disadvantages (e.g. Klarner & Raisch, 2012), there is little knowledge specific to the CHQ. One could speculate that stability at the CHQ ensures solidity in the corporate culture, etc., which in turn allows other parts of the organizations to change. Indeed, a few studies on specific CHQ concerns suggest that change at the CHQ could have rather disruptive consequences. For example, Wiersema (2002) cautions that the organizational disruption created by CEO firings can leave companies with deep and lasting scars. Raynor and Bower (2001) argue that especially under conditions of uncertainty, the CHQ must play an active role in defining the scope of division-level strategy. Baaij et al. (2004) explore whether the CHQ locations are 'sticky.' Campbell et al. (1995a) suggest that styles are rather inert. Scholars could thus investigate when and why the CHQ is resistant to required change, and whether and when resistance to change is a benefit.

It appears that empirical work is specifically needed. Deductive theory testing studies are needed to test the knowledge derived from qualitative studies with large-scale quantitative data.

2.5.4 Managerial Choice vs. Determinism in Changes at the CHQ

An important concern that offers excellent opportunities is the extent to which changes at the CHQ are a choice or deterministic. Two polar viewpoints suggest that corporate managers have either very little impact—e.g. institutional theory (DiMaggio & Powell, 1983) and organizational ecology (Hannan & Freeman, 1989)—, or are conduits of change in organizations—e.g. upper echelons perspective (Hambrick & Mason, 1984) and organizational contingency theory (Donaldson, 1987, 1995, 2001).

Specifically, it appears important to have a better understanding of the change agents. The study by Burgelman and Grove (2007) is an example of executive experiences and the management of corporate dynamics. The upper echelons perspective (for recent review, see Hambrick, 2007) can be of specific use in this endeavor. If the CHQ is conceptualized as a reflection of the corporate managers, this calls for investigating CHQ-level outcomes. Building on the upper echelons perspective, corporate executives operating at the CHQ constitute one of two distinct pools of large organizations' top managers (the division heads are the other one). Corporate executives are expected to have a large impact on their entire organization. As Chandler notes:

> *"[...] the decisions made by the senior executives at their headquarters have been absolutely critical to the performance of such multinational and multiproduct companies. For those corporate executives not only monitor the current performance of their several businesses but also determine and implement investment in facilities and personnel required for future production and distribution in the different product and geographical markets they serve"* (1991: 31).

This impact is mainly through changes at the CHQ. The CHQ and how it manages the overall firm are central concerns of firms' top managements. A better understanding of whether and how they engage in changes at the CHQ can corroborate existing knowledge on organizations' upper echelons and provide new insights by opening the 'black box' of how corporate managers actually exercise influence in large firms.

In this regard, studying CHQ change as an intermediate outcome of CEO successions seems specifically appealing. Recent empirical evidence suggests that the 'CEO effect' is especially salient in explaining corporate-level performance (Mackey, 2008). Previous research on the intermediate consequences of CEO successions focused on either the TMT level or on the organizational level (Giambatista et al., 2005; Kesner & Sebora, 1994; Kunisch et al., 2012a). Yet, the impact of a new CEO on CHQ-level outcomes has not been examined. This is astonishing given that studies on the organizations' upper echelons underline the need to study outcomes specific to the respective top executive (e.g. Menz, 2012). In respect of the CEO, changes at the CHQ are specific outcomes.

This means that the CEO is expected to be a driving force for a variety of changes at the CHQ—especially when succession events occur—because changes at

the CHQ are expected to be largely driven top-down (Goold & Luchs, 1992). With regard to the organizational design, "structural changes are presumed to be a function of shifts in beliefs of those doing the restructuring" (Lewin & Stephens, 1994: 190). CEO successions represent major organizational events altering the value, belief, and cognitive bases and, thereby, also shift the power structures at the top (Giambatista et al., 2005; Kesner & Sebora, 1994). For example, although they do not have enough data for empirical investigations, Laamanen et al. (2012) speculate that CEO changes are an important factor for CHQ relocations.

In addition to investigating the CEO, scholars can investigate many other agents of change at the CHQ level, such as the heads of corporate functions. Anecdotal evidence suggests that many corporations have installed new corporate functions (e.g. Kunisch et al., 2012c) and that the corporate hierarchy of large firms has flattened (Guadalupe, Li, & Wulf, 2012a; Neilson & Wulf, 2012; Rajan & Wulf, 2006). Specific examples include the rise of the (corporate) finance function and the CFO (Zorn, 2004), as well as the spread of other functional TMT members such as the CSO (Menz, 2012). These executives are expected to be agents for changes at the CHQ but merit closer investigation. For example, Battilana et al. (2010) identify various leadership competences required for organizational change. In another study, Battilana and Casciaro (2012) link the change agent's network to more or less divergent changes in the institutional status quo.

2.5.5 Circumstances of Changes at the CHQ

It is important to have a better understanding of the circumstances of changes at the CHQ, specifically the context and the processes. First, I recommend that scholars extend the existing knowledge on changes at the CHQ by exploring the contingencies and exploiting other settings (countries, other organizational forms). As research in a specific domain advances, important contributions can be made to the existing the knowledge by exploring the contingencies. Thus far, Alexander is one of the few researchers exploring the contingencies and suggesting that "organizational age, dispersion, and initial control arrangements significantly moderate the direction and magnitude of such changes" (1991: 162).

Overall, there is a broad range of characteristics in the internal (e.g. size, age, performance) and external environments (e.g. industry, country, dynamism, munificence) that should be explored. For example, Hungenberg (1993) considers environmental conditions when discussing how the CHQ can add value. In their study on CHQ size and structure, Collis et al. note:

> *"There is also a widely held belief that there are systematic differences between countries on this dimension (Economist, 2000). U.S. companies, after two decades pursuing shareholder value creation under the threat of capital market discipline, are believed to have restructured both portfolios and headquarters in order to become 'lean and mean.' European firms, in contrast, are seen as bureaucratic and, insulated from the threat of a change in corporate control, able to afford the 'slack' of a large headquarters (Skapinker, 2000). The headquarters of Japanese firms, particularly since the bursting of the 'bubble economy' in the early 1990s, are viewed as ripe for restructuring, burdened by a legacy of consensus decision-making and protected by the keiretsu structure from capital market sanctions (Helou, 1991)"* (2007: 384).

Specifically, scholars could study other organizational forms with related characteristics to corroborate the existing knowledge and develop new insights. Alexander (1991), for example, studied hospital systems to explore change in corporate control practices. Various organizations (e.g. universities, governmental bodies, and the military) show characteristics similar to those of multi-unit companies, and thus have the potential to inform our knowledge on strategic and organizational change.

Second, more knowledge is required about the processes of changes at the CHQ. For example, scholars could investigate the evolution of the CHQ and parts of the CHQ over time. Tomasko (1984) already suggested early on that CHQ functions have a life cycle; specifically, he proposed that 'appropriately staffed' CHQ functions comprise four stages: embryonic, growing, mature, and aging. In their study on the 'the seasons of a CEO's tenure,' Hambrick and Fukutomi (1991) explored the dynamics of a specific element of the CHQ. With respect to other specific CHQ elements, we need to know more about the hurdles associated with launching and institutionalizing a corporate function within large companies. As an example, in managerial-oriented studies, scholars have recently taken the first steps in conceptualizing the maturity stages of CHQ functions (Kunisch, Müller-Stewens, & Campbell, 2012b).

Two appealing approaches to better understand the circumstances of change at the CHQ are to investigate adverse change and how firms resolve seemingly conflicting demands at the CHQ level. With respect to the former, there is an emerging litera-

ture on adverse change which suggests that reversing strategic changes may not be easy (e.g. Mantere, Schildt, & Sillince, 2012). Studying change reversal has the potential to provide new insights into CHQ change, but also into adverse change in general. With respect to the latter, future research could investigate how firms achieve balanced structures at the corporate level (e.g. Raisch, 2008). Exploring these issues has the potential to provide fresh insights into CHQ change, as well as into the ambidexterity literature (for a review, see Raisch & Birkinshaw, 2008).

To explore these and other research questions, I urge scholars to use more qualitative research designs such as longitudinal case studies (e.g. Calori, Baden-Fuller, & Hunt, 2000) and mixed method designs. For example, Jansen (2004) employs both qualitative and longitudinal quantitative methods to study an organization that attempted to change its culture over a 10-month period.

2.5.6 Multiple Dimensions and Multiple Levels of Changes at the CHQ

Finally, I believe that future research should explore changes at the CHQ across multiple dimensions and multiple levels. The typology of changes at the CHQ indicates that the CHQ, and thus changes at the CHQ, can affect multiple dimensions and multiple levels.

While the individual dimensions of changes at the CHQ are distinct, and the further examination of changes in each of them has its own appeal, I believe that studying the linkages between changes in these interrelated dimensions is crucial. Cibin and Grant, for example, point out that the quest for efficiency in a turbulent environment reveals a "strategic dilemma—reconciling economies of scale and scope with the benefits of flexibility—; and a structural dilemma—reconciling decentralization with coordination" (1996: 283). Yet, only one study in this review deals with the linkages between different dimensions of changes at the CHQ. In their study on CHQ relocations, Feldman and Bolino (1998) explore employee willingness to move during CHQ relocation. I believe that there are many other opportunities to study the linkages. How do changes at the CHQ serve as a catalyst for change? When and why do corporations decide to move rather than redevelop their CHQ? In their case study on Unilever's CHQ redesign, Kohn et al. note:

> *"Was this really the only way to transform a bureaucratic corporate office into a lean corporate strategic 'core' of key decision makers? Or would these grand design visions simply further reinforce the sense of arrogance and remoteness of the corporate center—the very issue that this redevelopment was supposed to fix?"* (2010: 1).

In addition, future research should consider the CHQ as a multi-level concept and therefore explore changes at the CHQ across multiple levels. From an intra-CHQ perspective, scholars could shift their focus from the entire CHQ level to other levels of the CHQ, such as individual CHQ functions. For example, scholars should also investigate when and why firms relocate parts of their CHQ as opposed to the entire CHQ, as suggested in previous studies (Birkinshaw et al., 2006; Brouwer et al., 2004).

This raises important questions regarding whether change in one level triggers and/or requires changes in other dimensions:

> *"A different question is, given change outcomes at one level (e.g. group or department), when will change occur at the organizational level? This is an important theoretical and practical problem. In the literature on organizational change, there is some evidence that positive changes at one level do not necessarily have positive benefits at other levels (Goodman, 2000)"* (Ancona et al., 2001: 654).

For example, if a company decides to shift its CHQ from one location to another, this can have severe strategic and organizational implications which should be considered. The following statement pertaining to IBM's dynamic capabilities exemplifies the interrelationships:

> *"Palmisano's 'On Demand Business' campaign is taking the next step by transforming IBM from a set of conventional silos (e.g. hardware, software, and services) to an integrated structure oriented around providing solutions for customer needs. To make this new approach work, the entire role of the corporate strategy group at IBM needed to change. If all the group did was to manage an annual strategy process, they would be largely irrelevant to line managers—just another staff function wasting valuable resources. To be successful, the strategy group needed to help business leaders gain strategic insight and to help act on these insights. General managers needed to be involved in the entire process."* (Harreld et al., 2007: 33).

From an intra-firm perspective, scholars could investigate changes at the CHQ and the relationships with various firm levels. For example, how do changes at CHQ level embody overall organizational change? In their case study of Microsoft's cross-company transformation, Suder and Payte describe a "corporate organizational transformation that was initially designed and implemented at headquarters" (2006: 555). Sara Lee, which shifted its CHQ to the Spiegel Building in April 2005, is another

example: This change was part of a major corporate restructuring initiated by the CEO Brenda Barnes (Singh Rathore & Das, 2006: 11).

A major concern in this regard centers on the dynamics of the relationships between the CHQ and its subsidiaries. Aspara et al. (2011), for example, provide the first insights into how different business units feed strategic alternatives and capabilities to the corporate-level transformation process. More knowledge is, however, required of dynamic intra-firm relationships. Specific questions include, for example, how does the CHQ involvement in its subsidiaries' concerns (e.g. Ciabuschi et al., 2011a; Ciabuschi et al., 2011b) change over time? How does CHQ attention—defined as the "extent to which a parent company recognizes and gives credit to a subsidiary for its contribution to the MNE as a whole" (Bouquet & Birkinshaw, 2008: 579)—change over time? Empirical research is specifically needed on the changes in the CHQ-subsidiary relationship.

2.6 Discussion and Conclusion

With the rise of large multi-product and multi-national companies, *changes at the CHQ* have become an important scholarly and managerial concern. Confronted with ever-changing environments, management scholars and corporate managers alike have become more interested in understanding the conditions and forces that facilitate successful changes at the CHQ in today's large and public firms. Nevertheless, partly due to ambiguous definitions and methodological issues, the existing knowledge has remained fragmented, and empirical evidence is comparably scarce, especially in certain areas.

I reviewed the existing knowledge on CHQ change and developed a framework for modeling and assessing changes at the CHQ; this framework also provides a basis for directing future research. The framework emerged from the literature and reflects the focus on three essential questions: (1) which factors relate to pressure for and resistance to change at the CHQ? (2) what are the various types of changes that occur at the CHQ?, and, finally, (3) what are the consequences of the various types of changes at the CHQ? Furthermore, the framework allows for integrating research from three separate tracks—strategic change, organizational design change, and physical/ geo-

graphic change—, provides researchers with a comprehensive overview, and uncovers novel research opportunities.

More research on CHQ change is desperately needed. I believe this review paves the way for further research in this area.

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3 Who Cares About Corporate Strategy? Corporate- vs. Business-Level CEO Origin and Changes at Corporate Headquarters[26]

Abstract

This study integrates the CEO succession literature and research on the modern corporation to develop a model in which the origin of the new chief executive officer (CEO) predicts changes in the size and scope of the corporate headquarters (CHQ). By classifying the newly appointed CEO's origin as either the corporate or the business level, I argue that the new CEO's origin predicts the magnitude and directionality of changes in the CHQ size and scope. Using a unique data set for a sample of the largest diversified firms in the US, I find mixed support for the hypotheses. The empirical findings show that the new CEO's origin is related to the magnitude of the changes in the CHQ size and to the directionality of the changes in the CHQ scope. These findings hold important implications for the CEO succession, as well as for the corporate strategy literature, and inform those involved in selecting and appointing new CEOs, such as executive search firms and board of directors.

Keywords

CEO succession, CEO origin, upper echelons, cognitive orientation, corporate headquarters, corporate headquarters change, corporate strategy, organizational design, strategic change

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[26] A companion study was presented at the 2009 AOM annual conference. I thank three anonymous reviewers and the participants for their helpful comments.

Acknowledgements: I am grateful to Michael Boppel, Albert Cannella Jr., Andrew Campbell, David J. Collis, Steven W. Floyd, Robert Hoskisson, Torsten Schmid, Nicolaj Siggelkow, and Zeki Simsek, all of whom provided valuable feedback on earlier versions of this study and/or contributed in discussions at very different stages in this research endeavor. Furthermore, I thank Andrew Corbett and Johanna Müller, who served as second coders of the CEO succession characteristics. Finally, I thank three anonymous reviewers and the participants of the 2009 AOM annual conference for their helpful comments on a related study. I acknowledge the support of the Swiss National Science Foundation, which funded parts of this research project.

3.1 Introduction

"Decentralization in the multidivisional structure has resulted in the creation of two general managerial levels. The top level involves a general corporate office where top-level officers focus on [the] overall strategic direction and resource allocation. The second level involves the top managers in separate business units (divisions) where the focus is on operational issues." (Hoskisson & Hitt, 1988: 605).

An essential concern in existing executive succession literature centers on the new CEO's origin (Finkelstein, Hambrick, & Cannella Jr., 2009; Giambatista et al., 2005; Kesner & Sebora, 1994). By and large, this stream of research was built on the observation that companies had increasingly recruited new CEOs from outside the firm (e.g. Vancil, 1987). The research mostly agrees that inside CEO successions typically occur if the company has performed well and continuity needs to be emphasized, whereas outside CEO successions usually take place if the company has performed poorly and change needs to be fostered (e.g. Boeker, 1997; Boeker & Goodstein, 1993; Helmich & Brown, 1972; Zajac, 1990). While these studies provide valuable insights into the nature of executive successions—particularly in large and public firms—, they have almost exclusively focused on one dimension of the new CEO's origin and have largely omitted the organizational features of the study context.

The single most important organizational feature of today's large and public firms[27] is probably the distinction between two organizational levels: the corporate level and the business level (Chandler, 1962, 1991; Porter, 1987). In the modern corporation, this distinction has long been recognized as "necessary for [executives at both levels] to perform their own tasks effectively" (Lorsch & Allen III, 1973: 111). With respect to CEO successions, these organizational levels nurture two distinct pools of potentially suitable CEO candidates, namely corporate-level and business-level executives. Yet, very little is known about the consequences of choosing new CEOs from either of these pools because prior studies have not considered this dimension of the new CEO's origin.

From a practical as well as theoretical standpoint, this is a crucial gap in extant literature. From a practical viewpoint, new CEOs of large companies are usually recruited from the pools of executives of large companies—either from inside or outside

[27] Multi-business and multi-national companies.

the firm (e.g. Helmich & Brown, 1972), as well as from either inside or outside the industry (e.g. Davidson III, Nemec, Worrell, & Lin, 2002; Zhang & Rajagopalan, 2003). Moreover, corporate examples and well publicized cases illustrate that some corporations hire their new CEOs from the pool of corporate-level executives (like IBM did when Virginia Rometty became the new CEO in 2011), while others recruit from the pool of business-level executives (like Nokia did when it appointed Stephen A Elop its CEO in 2010) (for more examples, see Appendix 9).[28] Nevertheless, extant empirical research offers little insights into the consequences of corporate vs. business-level CEO origin.

From a theoretical standpoint, new CEOs recruited from the corporate level should differ significantly from business-level CEO successors. By and large, top executives at either level develop their skills through prior work experience since effective management entails learning-by-doing (Mintzberg, 1973). Given the fundamental differences between the tasks at the corporate and the business levels (e.g. Birkinshaw et al., 2006; Hoskisson & Hitt, 1988), CEO successors from either level embody distinct experiences and managerial skills (e.g. Hoskisson & Hitt, 1988; Lorsch & Allen III, 1973): Corporate-level executives are mainly concerned with tasks related to corporate strategy, such as managing the corporation's set of domains, allocating resources among these domains, and dealing with the financial markets. Business-level executives are mainly concerned with business and/or geography domain tasks. Thus, new CEOs hired from the corporate level should possess specific corporate-level knowledge and skills, while business-level CEO successors should rather lack these.

Given the occurrence of the organizational dimension in the new CEO's origin, this study has two related motivations: One is to better understand the intermediate consequences of new CEOs recruited from either the corporate or the business level. Given that the 'CEO effect' in large firms is especially salient in explaining corporate-level rather than business-level performance (Mackey, 2008), it is important to better understand the CEO succession's intermediate consequences at the corporate level. In these firms, it is basically through the corporate headquarters (CHQ) that the CEO can

[28] For more examples on the practical relevance of the new CEO's origin, see Appendix 10.

impact the strategic and organizational outcomes of the overall firm (e.g. Chandler, 1991). Hence, the new CEO can be expected to largely drive the management and the design of the CHQ (e.g. Goold et al., 2001; Lewin & Stephens, 1994). I thus examine the relationship between the new CEO's corporate-level or business-level origin and changes in the CHQ size and scope.

A second and related motivation is to connect the two parallel, but related literature streams on CEO successions and on the CHQ of the modern corporation (multi-business and multi-national firms). The two, thus far disconnected research strands share a common focus on large and public firms: While the CEO succession literature largely centers on *who is in charge of running large firms* (Finkelstein et al., 2009; Giambatista et al., 2005; Kesner & Sebora, 1994), research on the CHQ mainly deals with *how large firms are managed* (Chandler, 1962, 1991; Collis et al., 2007, 2012; Porter, 1987). Obviously, the two concerns are greatly interrelated.

Integrating the upper echelons literature on top executives' cognitive orientation as well as research on multi-business and multi-national corporations, I propose a new dimension of the new CEO's origin that is related to the organizational context of large firms. On the basis of distinct CEO paradigms, new CEOs from either the corporate or the business level differ with respect to the importance they attach to CHQ concerns. I thus propose that this dimension of the new CEO's origin predicts the *magnitude* and *directionality* of changes in the CHQ size and scope. To test the arguments, I used a unique data set which originates from two sources: survey-based data to capture the changes at the CHQ, and secondary data on the CEO succession events. This data set comprises 68 CEO successions in 316 of the largest USA firms. The findings of this study contribute to our existing knowledge of the consequences of the new CEO's origin and to corporate strategy research.

3.2 Background

Since exploring the relationship between the new CEO's origin and changes at the CHQ is the principal focus of this study, I first review extant research on the consequences of the new CEO's origin and then portray the organizational context of the modern corporation. Thereby, this section serves two purposes: First, I aim at substantiating the need to consider the organizational context of large and public firms in

order to advance our understanding of the consequences of the new CEO's origin. Second, by underlining the relationship between CEO succession events and changes at the CHQ of the modern corporation I strive to link two related, but thus far disconnected, management research streams.

3.2.1 The New CEO's Origin and Its Consequences

CEO successions are major organizational events which differ in nature and can have important organizational consequences (e.g. Fondas & Wiersema, 1997; Furtado & Karan, 1990; Shen & Cannella Jr., 2002b). A major interest of CEO succession research centers on the new CEO's origin and, particularly, its consequences. A number of empirical studies have investigated the performance consequences of the new CEO's origin as well as the intermediate consequences such as strategic change. Kesner and Sebora concluded that "[…] a majority of the [CEO] successor origin work investigated consequences […]" (1994: 340). Appendix 11 provides a summary of existing studies in this area (for comprehensive reviews, see Finkelstein et al., 2009; Giambatista et al., 2005; Kesner & Sebora, 1994; Kunisch et al., 2012a).

The vast majority of studies on the consequences of the new CEO's origin have explored the differences between inside and outside CEO successions. Notably, Brady and Helmich argued that, as a variable, the new CEO's origin was effective in capturing "critical distinguishing characteristics that typify the prevailing profile of each category" (1984: 24-25). In particular, early studies relied on a dichotomy between inside and outside CEO successions. According to Brady and Helmich, the early studies' research findings supported the conclusion that "inside and outside CEO successors often bring different kinds of solutions as well as different kinds of problems to a company" (1984: 27).

Recently, scholars have refined the original inside/outside dichotomy and (re-) examined the consequences of the new CEO's origin accordingly (e.g. Karaevli, 2007; Shen & Cannella Jr., 2002b; Zhang & Rajagopalan, 2003, 2004, 2010). These refinements refer to CEO candidates from *inside*, as well as from *outside* the firm: With regard to the *inside* category, Shen and Cannella Jr. introduce 'followers' and 'contenders' as two types of inside CEO successors and argue that they "differ importantly with respect [to] their ability to manage change, their firm-specific knowledge, and the

risk of adverse selection (selection of an unsuitable successor) they pose" (2002b: 717). Zhang and Rajagopalan (2004) advance the inside category by differentiating between relay inside successions and non-relay inside successions, which account for whether or not an inside CEO successor is picked well in advance of the succession event—therefore, an heir apparent. Inside CEO successors, who have been groomed as heir apparent by the incumbent CEO (relay inside), are more likely to continue along the same lines as their predecessor. Likewise, scholars have advanced the *outside* category: Notably, the organizational implications of outsiders differ when newly appointed CEOs come from either inside or outside the industry (Davidson III et al., 2002; Zhang & Rajagopalan, 2003). In addition, the long-standing call for an outsider continuum[29] has recently been addressed by Karaevli (2007) and by Zhang and Rajagopalan (2010).

Although the existing studies on the consequences of the new CEO's origin have made valuable contributions, two main shortcomings can be identified: First, this research builds almost exclusively on the distinction between inside and outside CEO successions (see Appendix 11 for a summary). Yet, "the mixed results of the past suggest that this variable [CEO origin] may not be a function of tenure within a firm, but it may capture another dimension such as industry origin" (Kesner & Sebora, 1994: 366).[30] Thereby, Kesner and Sebora (1994) implicitly suggest that the new CEO's origin could be a multidimensional concept with firm and industry being two obvious candidates for such dimensions (Giambatista et al., 2005). As noted above, a few studies have recently explored industry origin as a refinement of the outsider category (Davidson III et al., 2002; Karaevli, 2007; Zhang & Rajagopalan, 2003). Moreover, a few others have even disregarded the insider/outsider distinction. For example, Cannella Jr. and Shen (2001) and Shen and Cannella Jr. (2003) define "an heir apparent as an inside or outside executive who is the only person appointed as the president

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[29] For example, Kesner and Sebora state their call as follows: "It may also be important to become more precise in our operationalizations of succession constructs. Researchers focusing on successor origin, for instance, have begun to call for greater construct validity. Indeed, the trend in this area is to treat origin as a continuous variable rather than a categorical variable." (1994: 366).

[30] In this regard, Kesner and Sebora point out: "Studies involving successor origin assumed that factors related to (if not completely captured by) the dichotomy between insider and outsider were important. Yet, little agreement was reached about what key dimensions were captured by these terms. Not even the definition of what constituted insiders and outsiders was consistent: ranging from 0 to 10 years." (1994: 355).

and/or COO of the firm and who is at least 5 years younger than the CEO" (Shen & Cannella Jr., 2003: 194). Another example comes from Fondas and Wiersema (1997), who, in a conceptual study, move beyond the CEO insider/outsider origin debate and associate the CEO's prior work experience, education, personality characteristics, role requirements, and social agents with an firm's change in its strategic direction.

Second, extant research has largely neglected the organizational features of the study context. In fact, Finkelstein et al. call attention to this shortcoming:

> *"[An] organizational characteristic not yet examined by researchers may have an important effect […]. We speak of the structure of the firm, particularly whether it consists of divisions (the "M-form" of Williamson 1975) or not. Essentially, a divisional structure creates multiple general management positions that enhance training for, and observation of, potential CEO skills. In contrast to a functionally organized firm, in which no executive other than the CEO has experience in running an entire business, the firm with a divisional structure (which may also have a layer of group executives responsible for multiple divisions) is more likely to have a ready pool of potential internal CEO candidates."* (2009: 176).

Although Finkelstein et al. refer to the importance of the organizational context pertaining to CEO departures and dismissals, this argument also applies to the new CEO's origin. For the most part, empirical studies on the consequences of the new CEO's origin examine CEO successions in large and public firms indeed (see also Appendix 11, method column). As I discuss in the following section, these companies are characterized by a distinct organizational context which, among others, could have important implications for the consequences of the new CEO's origin.

3.2.2 The Organizational Context of the Modern Corporation: The Corporate Level vs. Business Level[31]

The single most important organizational feature of today's large and public companies is probably the distinction between the corporate and the business level. According to Williamson (1985: 279), as well as Chandler (1991, 1992), the most noteworthy organizational innovation of the 20th century is the 'M-form' organization, which is still "the dominant organizational form for the conduct of industrial activity

[31] Different terms are used synonymously to distinguish these two levels: Synonyms for corporate include parent company, while synonyms for business include division, and subsidiary. In this study I use the terms 'corporate' and 'business' following Porter's (1987) widely used 'corporate' vs. 'business strategy' terminology.

(Fligstein, 2001)" (Collis et al., 2007: 383). While the 'M-form' originally focused on multi-business firms with different business domains, the focus—in line with the rise of globalization—extended to include multi-national companies (MNC) with different business and geographic domains. In both cases, such firms are characterized by relatively autonomous operating units and a distinct entity at the top, often referred to as the CHQ.

Accordingly, two related literature streams help distinguish between the corporate and the business level in the organizational context of today's large and public firms: corporate strategy research with a focus on the multi-business firm, and international strategy research with a focus on the multi-national firm. First, research on corporate strategy—typically focused on the nature of the multi-business corporation and its CHQ—explicitly separates the corporate level from the business level (Chandler, 1962; Porter, 1987). The reason for this is the need to divide the more strategic issues related to the overall company's management from the individual businesses' operation (Lorsch & Allen III, 1973).

Second, research on the MNC also builds on the differences between the corporate and the subsidiary level (Bartlett & Ghoshal, 1989; Doz & Prahalad, 1981; Ghoshal & Nohria, 1989; Roth & Nigh, 1992). As this research explores the relationships between the subsidiaries and the CHQ, it inherently assumes that there are fundamental differences between tasks at the business and the corporate level (e.g. Ambos & Mahnke, 2010b; Benito, Lunnan, & Tomassen, 2011; Bouquet & Birkinshaw, 2008; Bouquet et al., 2009; Ciabuschi et al., 2011a; Dellestrand & Kappen, 2011; Herbold, 2002; Leiponen & Helfat, 2011; Yamin, Tsai, & Holm, 2011). In their study of CHQ and subsidiary HQ relocations, Birkinshaw et al. (2006) explicitly contrast the CHQ' and the individual businesses' roles and activities. The authors note that:

> *"[t]here is a well-established distinction in the strategic management literature between business unit strategy (concerned with the competitive positioning of a business within its chosen industry domain) and corporate strategy (which defines the scope of businesses in which the firm participates, and the ways in which value is added across those businesses; Bourgeois, 1980; Chandler, 1991; Hofer and Schendel, 1978)" (2006: 681). Furthermore, they argue that: "[t]he M-form structure allowed far greater operational and geographic diversity than had been possible under a unitary structure, and it also enabled specialized roles to emerge for the executives responsible for the business unit and corporate HQ, respectively (Hofer, 1975; Vancil and Lorange, 1975)"* (Birkinshaw et al., 2006: 683).

I draw on both literature streams to establish how the two organizational levels differ along several dimensions (for a summary, see Table 3-1). For example, Porter (1980, 1985, 1987) and others draw clear lines around the corporate-level and the business-level strategies. Birkinshaw et al. (2006) use the internal and external exposures to delineate the CHQ from the business units' HQ. Building on this logic, corporate managers typically deal with many businesses, while business unit managers' activities occur largely in one business unit, and corporate managers are more exposed to financial markets, while business unit managers generally have higher levels of client domain market exposure.

Table 3-1: Contrasting the Corporate and the Business Level (Illustrative)

	Corporate level	**Business level**
Strategy	Corporate strategy: the set of businesses comprising the firm's business portfolio and the means by which the corporate level creates added value for the individual businesses (Porter, 1987)	Competitive strategy: the positioning of the business within its industry, and the means by which it strives to achieve above average returns within this industry (Porter, 1980, 1985)
Exposure	Internal and external focus Financial markets	External / market focus Customer, supplier
Knowledge and skills	General management knowledge Functional knowledge Internal resource allocation Administrative tasks; so-called 'hands-off' tasks	Industry-specific knowledge Market-specific knowledge (product and geographic markets) So-called 'hands-on' tasks
CHQ-specific knowledge	Internal and external CHQ unit knowledge Top-down view (multiple units)	External CHQ unit knowledge Bottom-up view (single unit)
Managerial perceptions (anecdotal)	Often a tendency towards bureaucracy, administrative complexity, empire-building, and a large and influential corporate level	Often expressing criticism concerning a too large and influential corporate level

Another useful dimension to delineate the two organizational levels refers to the knowledge and skills that are required and developed through the work experiences at either level. Recent research suggests that knowledge embodied in executives is tied to the organizational context in which it develops, and that these executives are conduits of organizational change (Karim & Williams, 2012). For example, Grant describes the knowledge difference at the corporate and the business levels as follows:

> *"[...] the divisional managers focus on business strategy and corporate managers focus upon corporate strategy on the simple basis that decisions need to be co-located with the knowledge pertinent to these decisions"* (2003: 515).

Quite similarrily, other scholars describe the fundamental differences in the work experiences at the two levels as follows:

> *"Corporate managers deal with a part of the total corporate environment which is different from that of any division. In fact, it is largely financial in nature. Corporate executives develop longer term orientations and are more concerned with financial matters than division managers. They also tend to work in less formalized units. This differentiation between corporate and division managers seems to be necessary for each to perform their own tasks effectively"* (Lorsch & Allen III, 1973: 111).

> *"Hoskisson & Hitt (1988) further argued that in multidivisional corporations, there are essentially two types of managerial roles. At the corporate level, managers are focused on strategic planning and managing the corporation as a whole. On the other hand, high-level managers in subunits typically focus on strategic and operational issues associated with their subunit. Corporations are commonly designed such that subunit managers are subject to tighter financial controls, holding them accountable for the operating profits of their business unit (Williamson, 1975). Business unit managers are typically responsible for the performance of their subunit rather than the firm because organizational complexity makes it increasingly difficult for corporate managers to track day-to-day subunit operations (Hill & Hoskisson, 1987)"* (Dunford, Boswell, & Boudreau, 2010: 28).

Once the fundamental differences between these two levels are clear, it becomes obvious that this dimension of the organizational context needs to be considered when studying the consequences of the new CEO's origin. The differences between these two levels should have significant implications for the consequences of the new CEO's origin—particularly with respect to corporate-level outcomes.

3.2.3 Summary of Critique

To sum up, previous research on the consequences of the new CEO's origin largely focused on (1) the insider/outsider distinction and (2) on 'distant outcomes.' The CHQ-level consequences of new CEOs from either the corporate or the business level have been overlooked so far.

This seems rather astonishing for two reasons: First, anecdotal evidence suggests that when a new CEO assumes office, changes at the CHQ are often a high and early priority (e.g. Goold et al., 2001). Second, exploring the new CEO's effect on the specific organizational entity hosting his/her office provides a rich context for investi-

gating CEO-specific organizational outcomes (Menz, 2012; see also chapter 2). By exploring the impact of the new CEO's origin (corporate or business level) on changes at the CHQ, this study addresses these shortcomings.

3.3 Theory and Hypotheses

I now develop a theoretical model for the relationships between the new CEO's origin (corporate or business level) and changes at the CHQ. This model integrates the upper echelons literature on top executives' cognitive orientation and research on multi-business firms. Specifically, I use the new CEO's paradigm—their cognitive orientation (schema) and skills/experiences (repertoire)—to predict whether and how the new CEO embarks upon changes at the CHQ. In this study, I presume that tacit, task-relevant knowledge specific and relevant to the CHQ is a factor in the new CEO's decisions that affect the CHQ size and scope.

3.3.1 The New CEO and Changes at Corporate Headquarters

CEOs have long been recognized as key individuals in charge of corporate-level strategy and as substantial catalysts of organizational change (Andrews, 1971; Child, 1972). While CEOs affect organizational outcomes in general,[32] recent empirical evidence suggests that the 'CEO effect' is especially salient for explaining corporate-level performance (Mackey, 2008). In large firms, understanding the impact of new CEOs should thus focus on corporate-level concerns. These corporate-level concerns center on the portfolio of domains and on how the CHQ manages this domain portfolio (Porter, 1987). Especially, how the CHQ manages the portfolio of domains is crucial to the overall firm performance (Chandler, 1991; Porter, 1987). For example, when Chandler describes how corporate-level executives make an impact at the CHQ level, this portrayal especially applies to the CEO as the highest-level corporate executive:

> *"[...] the decisions made by the senior executives at their headquarters have been absolutely critical to the performance of such multinational and multiproduct companies. For those*

[32] "[…] executives (CEOs, specifically) explain 'only' 5 to 20 percent of variance in company profitability […] evidence indicates that top executives have considerable influence over the form and fate of their specific companies. […] we can conclude that CEOs affect organizational outcomes" (Hambrick, 2007: 341).

> *corporate executives not only monitor the current performance of their several businesses but also determine and implement investment in facilities and personnel required for future production and distribution in the different product and geographical markets they serve"* (1991: 31).

The new CEO's decisions on how the CHQ manages the portfolio of domains are reflected in the size and scope of the CHQ. For example, Collis et al. argue that the size of the CHQ is related to the distinct activities of the CHQ:

> *"Autonomous business units are controlled and coordinated by a headquarters unit that performs a distinct set of activities. This implies that the size of headquarters is not merely the result of an arbitrary choice between locating employees in headquarters or in the business units. Rather, the division of activities between organizational levels is clear: operating units have authority over activities needed to compete in their business; headquarters has a different and unique set of tasks to perform."* (2007: 386).

Taking this argument one step further, the CEO should be a driving force for changes at the CHQ (Goold & Luchs, 1992). As an example of a specific CHQ-level outcome of new CEOs, Laamanen et al. (2012) speculate that CEO successions are an important driver of CHQ relocations; however, they do not have sufficient data for an empirical investigation. In general, CEO successions can have substantial implications for strategic and organizational change (e.g. Fondas & Wiersema, 1997; Shen & Cannella Jr., 2002b), as "structural changes are presumed to be a function of shifts in [the] beliefs of those doing the restructuring" (Lewin & Stephens, 1994: 190).

3.3.2 The New CEO's Paradigm

In general, the CEO position is characterized by complexity, ambiguity, and information overload (e.g. Kotter, 1982; Mintzberg, 1973). CEOs cannot process all relevant stimuli; hence, their decisions and behaviors are constrained by 'bounded rationality' (Cyert & March, 1963; March & Simon, 1958). In addition, their decisions and behaviors are influenced by prior roles and positions because top executives largely develop their skill set through prior work experience since effective management requires practice (Mintzberg, 1973). Naturally, these work experiences shape executives' mindsets. Hence, although newly appointed CEOs are presumed to be generalists, they have an orientation developed from their prior roles and experiences in, for example, specific functional areas (Hambrick & Mason, 1984: 199). On these founda-

tions, the CEO's impact on strategic and organizational outcomes can be framed as a function of their value, belief, and cognitive bases (Hambrick & Mason, 1984).[33]

Specifically, the CEO's paradigm introduced by Hambrick and Fukutomi suggests that the "CEO operates with a finite model, or *paradigm*, of how the environment behaves, what options are available, and how the organization should be run. A CEO's paradigm is based on two conceptually distinct but related elements—the CEO's *schema* and *repertoire*" (1991: 721). They define the two elements as follows:

> *"A schema is the preexisting knowledge system that a manager brings to an administrative situation [...]. It includes conscious and unconscious preconceptions, beliefs, inferences, and expectations. […] [A] repertoire is an executive's armament or tool kit […] Thus, whereas executives' schemas serve as perceptual and interpretive apparatuses, their repertoires represent their tangible abilities to 'apply' their schemas in a social and economic context"* (Hambrick & Fukutomi, 1991: 721).

Building on this idea, I argue that newly appointed CEOs enter the job with a paradigm. When new CEOs are recruited from either the corporate level or the business level, these CEOs operate with distinct paradigms and these differences help predict changes at the CHQ (see Table 3-2). Both of the new CEO's paradigms' constituting parts are largely developed by prior work experiences: "As with CEOs' schemas, their repertoires are derived from prior experiences and personal aptitudes" (Hambrick & Fukutomi, 1991: 721). Shaped by their prior roles and work experiences at distinct organizational levels, new CEOs hired from either the corporate or the business level should thus differ with respect to their paradigm.

More specifically, new CEOs hired from the corporate rather than the business level differ in their critical CEO characteristics (task knowledge, information diversity, task interest, and power). Their critical CEO characteristics impact the priorities of their tasks as the new CEO at the CHQ (*this matters*), as well as their approach to such CHQ-level concerns (*how to do it?*). The distinct experiences and skills of new CEOs from either the corporate or the business level feed into their cognitive orientation, which is based on their skills/experiences. Empirical evidence, for example, suggests that corporate-level staff possess a much broader network and receive a 'corporate

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[33] The upper echelons perspective posits that "(1) executives act on the basis of their personalized interpretations of the strategic situations they face, and (2) these personalized constructs are a function of the executives' experiences, values, and personalities" (Hambrick, 2007: 334).

imprimatur' (Kleinbaum & Stuart, 2011). I label the cognitive orientation (or CEO schema as part of the CEO paradigm) *corporate-level orientation* (or *business-level orientation*).

Table 3-2: New CEO Paradigms and Characteristics

The new CEO's paradigm*	**Corporate level**	**Business level**
Schema (values, beliefs, …)	corporate level matters	business level matters
Repertoire (skills, experiences)	corporate level (e.g. financial)	business level (domain-specific, product or geographic domain)
The new CEO's critical characteristics*	**Corporate level**	**Business level**
Commitment to a paradigm	high	high
Task knowledge	corporate-level tasks: high business-level tasks: low	corporate-level tasks: low business-level tasks: high
Information diversity	fewer sources largely filtered	many sources largely unfiltered
Task interest	corporate-level tasks: high business-level tasks: low	corporate-level tasks: low business-level tasks: high
Power	corporate-level power: high business-level power: low	corporate-level power: low business-level power: high

* Dimensions based on Hambrick and Fukutomi (1991).

3.3.3 Hypotheses

On the basis of the distinct paradigms, new CEOs from either the corporate or the business level should have diverse preconceptions of the corporate-level decisions that should be made and the corporate-level behaviors to be undertaken. These decisions and behaviors are reflected in changes in the size and changes in the scope of the CHQ (the centralization of the decision-making). Specifically, the new CEO's origin (corporate or business) is associated with (a) the magnitude (largely driven by the schema: corporate vs. business-level orientation) and (b) the directionality of changes at the CHQ (largely driven by the repertoire: corporate vs. business-level skills) due to differences in the new CEO's paradigms.

Magnitude of Changes in the Size and Scope of the CHQ

New CEOs recruited from either the corporate level or the business level should have distinct corporate-level decisions and behaviors which the magnitude of changes in the CHQ size and scope expose. I argue that business-level (corporate-level) CEOs are less (more) likely to deal with CHQ issues revealed by the magnitude of the changes in the CHQ size and scope. Given that new CEOs recruited from either the corporate or the business level differ in their skills and structural CHQ knowledge, they should also differ in the amount of change they implement in terms of the CHQ size and scope. New CEOs hired from either the corporate or the business level should engage in tasks of which they have skills and knowledge. Fondas and Wiersema (1997) argue that similar prior jobs are an important driver of strategic change in general. This argument is supported by Gabarro's empirical finding that newly appointed general managers instigate a large, immediate wave of changes, predominantly in the functional areas in which they have the most experience:

> *"…, the actions a new manager took and the areas in which he involved himself, …, were very much influenced by his previous experience, and to some degree by certain stylistic preferences"* (Gabarro, 1987: 37).

Specifically, new CEOs hired from the business level should have a disadvantage regarding corporate-level task knowledge given that they gained prior work experience at the business level. For similar reasons, they should also have a lower interest in corporate-level tasks and less corporate-level support to implement corporate-level changes. In particular, the corporate strategy (portfolio of businesses, corporate-level structure and policies) and the governance system (ownership and regulation) comprise important determininants of the CHQ size (Collis et al., 2007). Given that new CEOs recruited from the business level should have less corporate-level knowledge, less interest in corporate-level tasks as well as less power, they should implement fewer changes in the size of the CHQ.

A similar line of arguments suggests that new CEOs from the business level (the corporate level) implement fewer (more) changes in the CHQ scope. Hence, I hypothesize that the new CEO's origin (corporate or business level) is associated with the magnitude of the changes in the CHQ size and scope, and submit the following hypotheses:

H1 *There is a negative (positive) relationship between business- (corporate-) level CEO succession and the magnitude of the changes in the size of the CHQ.*

H2 *There is a negative (positive) relationship between business- (corporate-) level CEO succession and the magnitude of the changes in the scope of the CHQ.*

Directionality of Changes in the Size and Scope of the CHQ

New CEOs recruited from either the corporate level or the business level should have distinct preferences concerning the directionality of changes in the CHQ size and scope. However, the exact differences are difficult to predict. On the one hand, new CEOs from the business level should foster the decentralization of the decision-making authority to divisions (directionality). This presumption is based on the commonsense expectation that a new CEO from the business level enters the corporate job with a business-level orientation. On the other hand, once a new CEO from the business level enters the CEO job, he/she introduces business-level knowledge (industry-specific knowledge) to the corporate level, which allows him/her to centralize decision-making. Nonetheless, the limited available evidence on corporate-level executives suggests the former tendency. For the sake of coherence, I will follow this line of argument and return to the alternative explanation at a later point.

From a business unit manager's perspective, the interaction with corporate-level functional departments concerning tasks such as strategic planning, reporting, etc. often represents overheads. Managers socialized at the business unit level may attach less importance to the value that corporate-level activities, such as centralized functions, create. Consequently, I expect new CEOs recruited from the business level to rather strengthen the responsibilities of business units.

Conversly, corporate-level executives should be more likely to value the importance of corporate-level activities. At the corporate level, executives are concerned with strategic planning and managing the corporation as a whole, while executives at the business level typically focus on strategic and operational issues associated with their business (Hoskisson & Hitt, 1988). Thus, managers socialized at the CHQ level may give preference to the value-adding roles of the CHQ. Consequently, new CEOs from the corporate level could strengthen the role of the CHQ and initiate the centralization of certain activities.

Overall, business executives could be more skeptical regarding the value, if any, that the CHQ adds, whereas corporate executives should be more inclined to increase the administrative complexity and strengthen the role of the CHQ. For example, Hayes and Abernathy's (1980) caution that executives with backgrounds in peripheral functions who lack 'hands-on' experience rather "pursue strategies that fit with their relative deficiencies" (Hambrick & Mason, 1984: 199). Drawing on this concern, Hambrick and Mason (1984: 199) postulate a positive relationship between executives' peripheral function experience and administrative complexity. These peripheral functions (finance, law, etc.) are often located at the CHQ.

A new CEO hired from the business level should pursue a corporate-level strategy with a smaller CHQ, thus initiating downsizing activities soon after taking office, while a new CEO recruited from the corporate level should pursue a corporate-level strategy with a larger CHQ. Based on this line of argument, I hypothesize that the new CEO's origin (corporate or business level) is associated with the directionality of changes in the CHQ size and scope, and submit the following hypotheses:

H3 *The new CEO's origin (business level) is (a) positively related to the likelihood of a decrease in the CHQ size and (b) negatively related the likelihood of an increase in the CHQ size.*

H4 *The new CEO's origin (business level) is (a) positively related to the likelihood of a decrease in the CHQ scope and (b) negatively related to the likelihood of an increase in the CHQ scope.*

3.4 Methodology

3.4.1 Sample Selection and Data Collection

I compiled a unique data set for this study. The data set combines survey-based data and secondary data. The sample for this study is comprised of 68 CEO successions in 316 large USA firms and stems from the population of the largest publicly listed firms in the USA in 2009.

This population was chosen for three reasons. First, I selected the USA because focusing on firms from one country rather than many countries reduces the variance in

the external environment, in particular the country and regulatory factors which have been identified as influencing the CHQ design (Collis et al., 2007, 2012). As the home base of more than 25% of the Forbes Global 2000 firms in 2009 (DeCarlo, 2009), the USA is the dominant country and allows for a sufficient number of large and public companies. Second, I focused on large and somewhat diversified companies. The role and design of the CHQ is thought to be more important for these companies (Collis et al., 2007). To identify such firms, I followed the Forbes Global 2000 ranking approach (see DeCarlo, 2009) and used four size criteria—(1) total number of employees greater than 1,000, (2) sales revenues, (3) total assets, and (4) market capitalization greater than 250 million USD—each of which has an equal weighting. In addition, the company had to be active in more than one four-digit SIC code. Third, I used 2009 data since it was the most recent year for which data was available when I designed the study, and, hence, delivered the most recent data.

I used data from the *Thomson ONE Banker* database to identify 4,597 firms with more than one four-digit SIC code, 1,635 firms with more than 1,000 employees, and 1,824 (2,408 and 2,008) firms with sales (assets and market capitalization) greater than 250 million USD in 2009. The intersecting set meeting all of these criteria is comprised of 1,368 corporations. Based on this population, the data collection involved two steps.

Step 1: Survey-Based Data Collection

To capture changes at the CHQ, I collected survey data. Gaining a comprehensive understanding of CHQ change is a difficult task due to the strategic relevance and the highly political nature of this entity (Ferlie & Pettigrew, 1996). The CHQ is strategically significant because how the CHQ manages the business portfolio is an important aspect of the corporate strategy and, thus, a source of corporate advantage (Porter, 1987). Owing to the highly political nature of the CHQ, the careers and reputations of managers and consultants are often at stake, especially when changes occur (Ferlie & Pettigrew, 1996). Accordingly, information on changes at the CHQ are never fully disclosed, and changes at the CHQ are both complex and difficult to understand

when only relying on external sources of information. Hence, I conducted a survey of 1,368 companies of the largest US firms.[34]

I followed established survey procedures (e.g. Dillman, 2007; Marsden & Wright, 2010). Once the survey had been designed, I conducted several pretests before distributing it. In a first step, 10 academics (senior and junior faculty, and Ph.D. students) tested the survey and provided feedback on the contents of the questionnaire as well as the conduct of the survey. In a second step, 15 practitioners from large corporations filled out the questionnaire and provided, among others, comments on comprehensibility and the overall questionnaire design. Both rounds of pretests led to various changes in the letter of invitation, the instructions, to minor rephrasing of the questions, and in the overall design of the questionnaire. In a final step, I conducted technical tests after implementing the questionnaire as a PDF form and as an online survey to ensure that there were no technical problems with the survey.

I emailed an invitation to the companies' key informants to participate in the survey. These key informants had to be various corporate managers (CxOs including CEOs, CFOs, CSOs, CHROs, and senior corporate strategy managers in general) for the following three reasons: First, given the interest in changes at the CHQ, these executives are the most knowledgeable individuals. Second, from a pragmatic standpoint, they are also the individuals who can be identified from publicly available sources such as databases, company websites and annual reports. Third, I invited several individuals per company to address a potential single informant bias, which also increased the probability of reaching the most knowledgeable informants. Consequently, I also explicitly asked the contact person to allocate the questionnaire to the most appropriate senior person in his or her team.

The email included a short teaser and two links: The first link was to a website (www.chq-survey.com) which provided more detailed information on the survey and enabled the participants to access either an online tool or a PDF form. The second link went directly to the two-page PDF form, which could be filled out and submitted via email, or could be printed and mailed. Most of the total of 353 participants used the

[34] For details see Appendix 12 to Appendix 16.

online tool (328; 92,92%); only a small percentage used the PDF form (20; 5,67%), and even fewer mailed/faxed their response (5; 1,42%).

Two email follow-ups led to 352 completed and usable questionnaires from 316 firms. The overall firm-level response rate amounts to 23,30%; 35 firms sent two responses, and one firm sent three completed questionnaires.

Step 2: Secondary Data Collection

Thereafter, I collected publically available data on CEO successions and CEO characteristics from the 316 companies that submitted a completed questionnaire: I primarily used *BoardEx*—a comprehensive database which contains all publicly disclosed information on company boards and directors (www.boardex.com). To triangulate the data, I also analyzed annual reports, press releases, and other data sources used in previous CEO succession research, such as the catalogues of *Who's Who in* ... (e.g. Bigley & Wiersema, 2002), which were accessed through the *LexisNexis* database. In addition, I obtained data on the business activities and financial data of the multi-business corporations from the *Thomson ONE Banker* database.

Longitudinal Design

To explore the consequence of the new CEO's origin on CHQ-level outcomes, I used a longitudinal rather than a cross-sectional design with the CEO succession event preceding changes at the CHQ. For instance, Bigley and Wiersema (2002), studying the impact of CEO successions on corporate strategic refocusing, also calculated the difference in the level of diversification on the basis of a three-year time period following the CEO succession event. Similar to related studies (e.g. Wiersema, 1995), I used a three-year time frame (2004-2006) for CEO succession events prior to the four-year time period (2007-2010) capturing the changes at the CHQ for the two reasons: First, prior research suggests that new CEOs usually engage in change early in their tenures (Hambrick & Fukutomi, 1991). I followed Zhang and Rajagopalan (2010), who defined the early years of a CEO tenure as the first three years. Second, a three-year time frame ensured a large enough number of CEO succession events preceding the four-year time period for changes at the CHQ.

I identified a total of 68 CEO succession events in this time period. The sample size is thus similar to comparable studies on CEO successions and corporate-level

outcomes (e.g. Bigley & Wiersema, 2002) as well as to comparable studies on corporate-level strategic change (e.g. Klarner & Raisch, 2012). Of the total of 68 new CEOs, 44 (64.7%) were hired from the corporate level and 24 (35.3%) were recruited from the business level. More precisely, 31 (45.6%) of the new CEOs from the corporate level came from inside, while 13 (19.1%) came from outside the firm. In contrast, five (7.4%) of the new CEOs from the business level came from inside, while 19 (27.9%) came from outside. I also considered shorter and longer time frames (see Appendix 17).

I relied on the simple difference method to capture change (Bergh & Fairbank, 2002). This is a practicable approach which allows for objective and consistent measurements throughout the sample. Asking respondents directly about the change rather than determining two states at different points in time which is another option to capture change (e.g. Galan & Sanchez-Bueno, 2009), has two main advantages: From a pragmatic standpoint, this approach avoids having to ask respondents the same questions a couple of times, thus enhancing the likelihood of a response, which is critical for survey research, especially with high-profile respondents such as corporate-level managers (e.g. Huber & Power, 1985). From an empirical viewpoint, this approach mitigates the downsides of asking respondents to report on two states at different points in time and having to depend on their retrospective memory (e.g. Golden, 1992; Huber & Power, 1985). People are obviously, more likely to remember events closer to today than in distant times. Moreover, one's perception of a specific state in time is likely to influence one's perceptions of others states.

3.4.2 Measures

With the exception of the new dimension for the new CEO's origin, I relied on measures used in previous studies. Appendix 18 and Appendix 19 provide the codebooks with all the measures used in this study and further information.

Dependent Variables: Changes in the Size and Scope of the CHQ

Although it is more common to study only one dependent variable, it is not uncommon to explore two or more outcomes (e.g. Datta & Rajagopalan, 1998). In line with the hypotheses, I explored changes in the size of the CHQ (Collis et al., 2007, 2012; Young et al., 2000) and changes in the CHQ scope measured as changes in the

centralization of the decision-making (Cardinal, 2001). Both variables have been used as static variables in previous studies.

(1) Changes in the Size of the CHQ: Magnitude and Directionality

A common definition of the CHQ in the survey is key for the variables. Following prior research (Collis et al., 2007, 2012; Young et al., 2000), I used the following definition, which describes the CHQ as "staff functions and executive management with responsibility for, or providing services to, the whole of (or most of) the company, excluding staff employed in divisional headquarters" (Collis et al., 2007: 385). Basically, the definition comprises all staff who reports to the CHQ.

I used the average of three survey items to capture changes in the size of the CHQ: (a) change in the number of CHQ staff, (b) change in the number of CHQ functions, and (c) change in the CHQ costs (Collis et al., 2007, 2012; Young et al., 2000). I created three variables: a continuous variable to capture the magnitude of change as the absolute value of the change score, and two binary variables to capture the directionality of change (decrease and increase). These variables were coded 1 if the change was a decrease (or an increase) and 0 otherwise. 22 (32.35%) of the 68 firms experienced a decrease in the size of their CHQ, and 34 (50.00%) an increase in the size of their CHQ, while 12 (17.65%) reported no change.

(2) Changes in the Scope of the CHQ: Magnitude and Directionality

To capture changes in the scope of the CHQ, I used the centralization of the decision-making measured by the delegation of the decision-making authority to the divisions.[35] Based on Cardinal (2001), I used a nine-item survey measure (alpha = 0.88) (see Appendix 20). Similarly to changes in the size of the CHQ, I created three variables: a continuous variable to capture the magnitude of change as the absolute value of the change score, and two binary variables (decrease and increase) to capture the directionality of the change. These variables were coded 1 if the change was a decrease and 0 otherwise, and similar for an increase. 24 (35.29%) of the 68

[35] Although the measure actually captures the decentralization of the decision-making authority, I refer to the centralization of the decision-making authority in keeping with Cardinal (2001) and others.

firms experienced a decrease in the scope of their CHQ, and 34 (50.00%) an increase in the scope of their CHQ, while 10 (14.71%) reported no change.

Independent Variable: The New CEO's Origin

Following previous studies on the insider/outsider dimension of the new CEO's origin, I measured the corporate and the business levels of the new CEO's origin with a dichotomous variable, which was coded 1 if the new CEO's origin was the business level and 0 if he or she was hired from the corporate level. This measure reflects the new CEO's immediate prior position at either of the organizational levels.

Specifically, I considered the following positions and experiences as pertaining to the business level: positions at the business unit and subsidiary levels, which include those at regional subsidiaries; a Group VP with business responsibility; a VP/General Manager of a division; a Division VP; a Division MD; dual roles (e.g. if someone is a CFO and also the regional head); consulting/private equity experiences; single-business companies; co-founder. Conversely, I considered the following positions and experiences as pertaining to the corporate level: positions at a parent company, namely CEO, MD, and EVP; corporate function positions; and corporate division positions. Two special cases are noteworthy: if the new CEO did not have a position directly before—a few were previously independent directors before—the last positions was taken into account. If the new CEO had been an interim CEO before, the position before this was taken into consideration.

Control Variables[36]

There are a number of factors that could have an impact on the design of the CHQ (e.g. Collis et al., 2007, 2012; Young et al., 2000) and on the respective changes. Hence, to capture potentially confounding effects, I controlled for (a) industry-, (b) firm-, and (c) individual-level effects.

(1) Industry Level

To capture industry effects that might have an impact on changes at the CHQ, I controlled for industry growth over a four-year time period (2007-2010), measured as

[36] Some of these variables are not reported in the final models. Overall, I tested several models and then used the ones with the best model fit.

growth in return on assets (RoA). I used the 316 firms that participated in the survey to calculate the industry growth rates for two-digit SIC industries.

(2) Firm Level

I used several controls to capture firm-level effects. First, I controlled for the relative CHQ size to capture the differences in the roles of the CHQ (e.g. Collis et al., 2007, 2012) that might have an impact on changes at the CHQ. I calculated the natural logarithm of the number of CHQ staff per 1,000 employees.

Second, I controlled for changes in the firm's diversification strategy. Changes in the degree of diversification could have a significant impact on the CHQ and the centralization of the decision-making since "in highly diversified firms, it is unlikely that corporate managers will have experience and understanding in more than a few of the corporation's businesses. The more diversity, the less corporate management is able to recognize and accurately interpret relevant business level data" (Kerr, 1988: 216). I based the measure of change in the diversification strategy on the entropy measure of diversification (Jacquemin & Berry, 1979), which captures the diversity in the business portfolio, as well as related and unrelated diversity elements (Palepu, 1985). Despite well-known concerns (cf. Robins & Wiersema, 2003), this measures has been widely used (e.g. Bigley & Wiersema, 2002; Chakrabarti, Singh, & Mahmood, 2006; Goranova, Alessandri, Brandes, & Dharwadkar, 2007; Wiersema & Bantel, 1992) and has shown a high level of validity (e.g. Hoskisson, Hitt, Johnson, & Moesel, 1993b; Robins & Wiersema, 1995).

Third, I controlled for performance, measured as the efficiency of the resource use within the multi-business corporation. I based the measure of profitability on return on assets (RoA), and used a three-year average RoA to even annual fluctuations in the financial data. This performance indicator is an established measure and has been used in previous CEO succession studies (e.g. Bigley & Wiersema, 2002).

Finally, I considered additional variables, which had been used in previous studies and might be important as control variables: I considered the company size, measured as the natural logarithm of the total number of employees. I also considered the organizational age, measured as the natural logarithm of the number of years since the firm's founding.

(3) Individual Level: CEO Succession Characteristics

Essentially, there is a range of dimensions in which the nature of CEO successions, but also that of the CEO successors, can differ and could have an impact on changes at the CHQ (e.g. Fondas & Wiersema, 1997). Prior empirical evidence suggests that the individual characteristics of the CEO successor, especially his or her background and past experiences, can have substantial implications for strategic and organizational change (Wiersema, 1992). In particular, the functional background and career path (e.g. Gupta & Govindarajan, 1984), as well as the educational background (e.g. Slater & Dixon-Fowler, 2010) have been suggested as important individual characteristics with strategic significance when CEO succession events occur. I therefore included the new CEO's organizational tenure (inside vs. outside), heir apparent experience, the age of the successor CEO, and his or her functional experiences.

3.4.3 Analytical Procedures[37]

In keeping with the nature of the dependent variables, I used two types of analyses: I used multiple regression analyses to test the hypotheses on the *magnitude* of change (Aiken & West, 1991). To test the hypotheses on the *directionality* of change, I used logit regression analyses (Menard, 1995), which have been increasingly used in management research to analyze limited dependent variables (Hoetker, 2007; Wiersema & Bowen, 2009; Zelner, 2009).

3.4.4 Validity and Reliability[38]

I took the following measures to mitigate validity and reliability concerns: (1) potential common methods bias, (2) potential survey-responses biases, (3) two coders, and (4) multiple time frames.

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[37] Appendix 25 provides an overview of the Stata do files used to conduct the empirical analyses.

[38] In general, four validity and reliability aspects are important to consider: First, construct validity refers to the extent to which operational measurements are accurate measures for the concepts (Denzin & Lincoln, 1994). In other words, in how far do we study what we intend to study? Second, internal validity—occasionally referred to as logical validity (e.g. Cook & Campbell, 1979)—concerns the validity of the causal relationships between the constructs studied. Third, external validity or generalizability addresses the generalizability of the findings. Fourth, reliability is concerned with demonstrating that the study can be repeated and will produce the same results.

Potential Common Methods Bias

As described above, I used different data sources for the dependent and independent variables. In survey research, this is especially advantageous (e.g. Cardinal, 2001) to avoid a common methods bias (Podsakoff & Organ, 1986). Furthermore, multiple ratings of a subset of the total sample helped reduce the likelihood of a common methods bias (Doty & Glick, 1998).

Potential Survey Responses Biases

I tested for several potential biases with respect to the survey reponses (e.g. Marsden & Wright, 2010).[39] First, I examined a potential non-response bias (see Appendix 21 and Appendix 22). The t-tests of the differences regarding any of the size criteria (number of employees, sales, return on assets (RoA), and market capitalization), showed no significant differences between the 316 initially included firms and the remaining ones in the population of the largest public US firms (two-sided p value < 0.05). The t-tests of the differences concerning the degree of diversification and the change in diversification led to similar results, indicating no significant differences between the responding and non-responding firms (two-sided p value < 0.05). At a lower significance level (two-sided p value < 0.1), the t-tests indicated that the responding firms had a higher degree of diversification (0.6407 compared to 0.5856 in 2007, and 0.6482 compared to 0.5907 as a four-year average between 2007 and 2010), which is desirable since the CHQ tends to be more important for multi-business corporations.

Second, I examined a potential late response bias by comparing early to late(r) responses (see Appendix 23 and Appendix 24). This test is vital as potential differences between early and late responses may indicate the responding individuals' different motivations, which may have to be taken into consideration. I examined the potential differences in the completed questionnaires. The t-test results indicated no significant differences (two-sided p value < 0.05) with respect to all answers with two exceptions: Late respondents indicated that they experienced the last 'major change at the CHQ' (question 1) more recently (2007.3500 compared to 2006.1594), and that the

[39] While t-tests are most commonly used, I also performed non-parametric tests since the analyses of the distributional characteristics indicated the non-linearity of most of the variables. The results were similar.

number of CHQ staff at the end of 2010 (question 7) was larger (689.9854 vs. 500.2867). I also examined the potential differences in firm characteristics (organizational age, size, diversification, prior performance, and growth). The results of the t-tests indicated no significant differences regarding any of the firm characteristics (two-sided p value < 0.05).

Two Coders

The CEO succession data is key for this study and, especially, the measurement of the new CEO's origin. Some of the characteristics are, of course, more objective (e.g. age, tenure) than others (e.g. functional experience). Nonetheless, even measures used in previous studies, such as educational background and functional experience, leave some room for subjective judgment. Hence, the following two-step approach was taken to increase the validity and reliability of the CEO succession data: I first developed a codebook for all the relevant measures (see Appendix 18 and Appendix 19). Thereafter, using the detailed instructions for all the variables, two coders coded the characteristics of the CEO succession events and the new CEO. The differences were discussed until agreement was reached.

Different Time Frames

The survey data on changes at the CHQ (2007-2010) allow for exploring several potential time frames for CEO succession events (see Appendix 17). As described above, I used a three-year time frame (2004-2006) in order to have a large enough number of CEO succession events preceding the CHQ change time period.

3.5 Results

3.5.1 Magnitude of Changes in the Size and Scope of the CHQ

Descriptive Statistics

Table 3-3 presents the means, standard deviations, and correlations of all the variables in this study.[40] All the correlations between the IVs and DVs were smaller

[40] A comprehensive table with various other variables that had been considered is provided in Appendix 26.

than 0.35, which suggests that multicollinearity was not a problem in the analyses. In addition, I examined the variance inflation factor (VIF) after the models had been estimated. The VIF never exceeded 1.5. These measures underscore whether an IV has a strong linear relationship with other IVs, with the rule of thumb that multicollinearity is not an issues if the VIF is less than 4.0 and the tolerance level (1/VIF) is greater than 0.2 (Menard, 1995).

Table 3-3: Descriptive Statistics and Correlations: (1) Magnitude of the Changes in the Size and Scope of CHQ

Variables	Obs	Means	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Changes in the CHQ size	68	0.74	0.49	0.00	2.33	1.00									
(2) Changes in the CHQ scope	66	0.79	0.55	0.00	2.22	0.23 †	1.00								
(3) CEO origin (corp. or business level)	68	0.35	0.48	0.00	1.00	-0.25 *	0.12	1.00							
(4) CHQ size (2010): ln CHQ staff / 1,000 empl.	68	3.73	1.44	0.00	6.83	0.04	0.23 †	0.18	1.00						
(5) Change in diversification (2007-10)	68	0.02	0.28	-0.53	1.39	-0.21 †	0.14	0.06	-0.07	1.00					
(6) Average sales growth (2007-10)	68	0.02	0.06	-0.20	0.14	0.35 **	0.05	0.15	-0.07	-0.09	1.00				
(7) Industry effects: avg. RoA growth (2007-10)	68	0.05	0.85	-0.75	4.43	-0.20	0.06	-0.17	-0.05	0.04	-0.00	1.00			
(8) Outside CEO succession	68	0.47	0.50	0.00	1.00	-0.05	0.30 *	0.48 ***	0.19	0.15	-0.04	-0.16	1.00		
(9) New CEO MBA education	68	0.50	0.50	0.00	1.00	0.25 *	-0.05	-0.12	-0.18	0.01	0.12	-0.13	-0.18	1.00	
(10) New CEO funct. experience (throughput)	68	0.53	0.50	0.00	1.00	0.14	-0.12	-0.29 *	-0.34 **	0.20	0.01	0.16	-0.23 †	0.06	1.00

n=68

† p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Hypotheses Testing

I find mixed support for the hypotheses related to the magnitude of changes in the size and scope of the CHQ (see Table 3-4 and Table 3-5). As predicted in hypothesis 1 (H1), I find that the new CEO's origin (corporate or business level) is associated with the magnitude of the changes in the CHQ size. Model 1 and Model 2 in Table 3-4 provide the results.

Table 3-4: OLS Regression Results for the Magnitude of the Changes in the CHQ Size

Timeframe: A2 (2004-2006)	Δ CHQ size (2007-10)		Δ CHQ size (2007-10) [a)]	
VARIABLES	Model 1	Model 2	Model 1a	Model 2a
Constant	0.259	0.340 *	0.325	0.370 *
	(0.212)	(0.202)	(0.200)	(0.188)
Controls: (a) firm, (b) industry, (c) CEO				
CHQ size (2010):	0.054	0.060	0.0386	0.049
ln CHQ staff / 1,000 empl.	(0.041)	(0.038)	(0.038)	(0.036)
Change in diversification (2007-10)	-0.395 *	-0.355 *	-0.239	-0.213
	(0.201)	(0.190)	(0.189)	(0.178)
Average sales growth (2007-10)	2.601 ***	3.151 ***	2.427 ***	3.027 ***
	(0.918)	(0.885)	(0.851)	(0.827)
Industry: avg. RoA growth (2007-10)	-0.110 *	-0.128 **	-0.084	-0.103 *
	(0.066)	(0.062)	(0.061)	(0.058)
Outside CEO succession	0.031	0.172	-0.043	0.093
	(0.116)	(0.120)	(0.108)	(0.112)
New CEO MBA education	0.203 *	0.180 *	0.260 **	0.236 **
	(0.112)	(0.106)	(0.104)	(0.098)
New CEO funct. exp. (throughput)	0.257 **	0.193 *	0.187	0.147
	(0.119)	(0.115)	(0.113)	(0.108)
Main effects				
New CEO origin: business level		-0.371 ***		-0.346 ***
		(0.126)		(0.119)
Observations	68	68	66	66
R-squared	0.2872	0.3782	0.2956	0.3869
R-squared adj.	0.2040	0.2939	0.2106	0.3008
Prob > F	0.0036	0.0003	0.0035	0.0003

*** p < 0.01, ** p < 0.05, * p < 0.1, unstandardized beta coefficients, standard errors in parentheses.

a) For reasons of robustness I checked for outliers. I eliminated two observations with abs(res_stud > 2) and re-ran the analyses: see models 1a and 2a. I also performed a number of tests for post-estimation assumptions.

Model 1 includes the controls related to (a) firm, (b) industry, and (c) CEO succession characteristics. This model suggests that change in the diversification, the average sales growth, the industry effects, as well as in the new CEO's educational level and functional experience are significantly related to the magnitude of the changes in the size of the CHQ. Outside CEO succession is not significant. Model 2 adds the

new CEO's origin as a predictor, and suggests a negative relationship between the new CEO's origin (business level) and changes in the size of the CHQ. The negative coefficient (b = -0.371) is significant ($p < 0.01$), and the overall model fit is improved (R-squared increases from 0.2872 to 0.3782 and R-squared adj. increases from 0.2040 to 0.2939).

Table 3-5: OLS Regression Results for the Magnitude of the Changes in the CHQ Scope

Timeframe: A2 (2004-2006)	Δ centralization (2007-10)		Δ centralization (2007-10) [a)]	
VARIABLES	Model 3	Model 4	Model 3a	Model 4a
Constant	0.340	0.355	0.176	0.173
	(0.265)	(0.270)	(0.220)	(0.225)
Controls: (a) firm, (b) industry, (c) CEO				
CHQ size (2010):	0.082	0.082	0.076 *	0.076 *
ln CHQ staff / 1,000 empl.	(0.052)	(0.053)	(0.043)	(0.044)
Change in diversification (2007-10)	0.294	0.297	0.354	0.354
	(0.258)	(0.260)	(0.213)	(0.215)
Average sales growth (2007-10)	0.881	0.977	1.219	1.203
	(1.131)	(1.165)	(1.010)	(1.042)
Industry: avg. RoA growth (2007-10)	0.079	0.076	0.128 *	0.129 *
	(0.080)	(0.081)	(0.066)	(0.067)
Outside CEO succession	0.277 *	0.305 *	0.309 **	0.305 **
	(0.144)	(0.162)	(0.121)	(0.135)
New CEO MBA education	0.035	0.029	0.122	0.123
	(0.138)	(0.140)	(0.115)	(0.117)
New CEO funct. exp. (throughput)	-0.065	-0.074	0.002	0.004
	(0.148)	(0.151)	(0.122)	(0.125)
Main effects				
New CEO origin: business level		-0.066		0.011
		(0.169)		(0.142)
Observations	66	66	62	62
R-squared	0.1587	0.1609	0.2642	0.2642
R-squared adj.	0.0571	0.0432	0.1688	0.1532
Prob > F	0.1649	0.2309	0.0156	0.0286

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$, unstandardized beta coefficients, standard errors in parentheses.

a) For reasons of robustness I checked for outliers. I eliminated two observations with abs(res_stud > 2) and re-ran the analyses: see models 3a and 4a. I also performed a number of tests for post-estimation assumptions.

Contrary to the predictions in hypothesis 2 (H2), I find no support that the new CEO's origin is associated with the magnitude of the changes in the scope of the CHQ. Model 3 and Model 4 in Table 3-5 predict the magnitude of such changes.

Model 3, which includes three sets of controls, suggests that outside CEO succession is significantly related to the magnitude of the changes in the centralization of decision-making. Adding the new CEO's origin as a predictor, Model 4 suggests that

there is no significant relationship between the new CEO's origin (business level) and changes in the scope of the CHQ. The slightly negative coefficient ($b = -0.066$) is not significant ($p < 0.1$), and the overall model fit does not improve (while R-squared increases from 0.1587 to 0.1609, R-squared adj. decreases from 0.0571 to 0.0432). In addition, it is important to note that the overall models are not statistically significant ($p < 0.1$).

3.5.2 Directionality of Changes in the Size and Scope of the CHQ

Descriptive Statistics

Table 3-6 presents the means, standard deviations, and correlations of all the variables in this study. All the correlations between the IVs and DVs were smaller than 0.5, which suggests that multicollinearity was not a problem in the analyses. In addition, I examined the variance inflation factor (VIF) after the models had been estimated. The VIF never exceeded 3.5. These measures underscore whether an IV has a strong linear relationship with other IVs, with the rule of thumb that multicollinearity is not an issu if the VIF is less than 4.0 and the tolerance level (1/VIF) is greater than 0.2 (Menard, 1995).

Table 3-6: Descriptive Statistics and Correlations: (2) Directionality of the Changes at the CHQ

Variables	Obs	Means	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) Changes in the CHQ size: decrease	68	0.32	0.47	0.00	1.00	1.00										
(2) Changes in the CHQ size: increase	68	0.50	0.50	0.00	1.00	-0.69 ***	1.00									
(3) Changes in the CHQ scope: decrease	66	0.36	0.48	0.00	1.00	0.00	-0.04	1.00								
(4) Changes in the CHQ scope: increase	66	0.52	0.50	0.00	1.00	-0.02	0.15	-0.78 ***	1.00							
(5) CEO origin (corp. or business level)	68	0.35	0.48	0.00	1.00	-0.25 *	0.12	-0.22 †	0.26 *	1.00						
(6) CHQ size (2010): ln CHQ staff / 1,000 empl.	68	3.73	1.44	0.00	6.83	-0.15	0.16	0.03	0.01	0.18	1.00					
(7) Change in diversification (2007-10)	68	0.02	0.28	-0.53	1.39	0.17	-0.21 †	-0.24 †	0.23 †	0.06	-0.07	1.00				
(8) Average sales growth (2007-10)	68	0.02	0.06	-0.20	0.14	-0.42 ***	0.47 ***	-0.14	0.22 †	0.15	-0.07	-0.09	1.00			
(9) Industry effects: avg. RoA growth (2007-10)	68	0.05	0.85	-0.75	4.43	-0.11	0.02	0.04	-0.02	-0.17	-0.05	0.04	-0.00	1.00		
(10) Outside CEO succession	68	0.47	0.50	0.00	1.00	-0.15	0.06	-0.10	0.09	0.48 ***	0.19	0.15	-0.04	-0.16	1.00	
(11) New CEO MBA education	68	0.50	0.50	0.00	1.00	-0.00	0.18	-0.10	-0.03	-0.12	-0.18	0.01	0.12	-0.13	-0.18	1.00
(12) New CEO funct. experience (throughput)	68	0.53	0.50	0.00	1.00	0.27 *	-0.18	0.08	-0.12	-0.29 *	-0.34 **	0.20	0.01	0.16	-0.23 †	0.06

n=68

† p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Hypotheses Testing

Similar to the hypotheses related to the magnitude of the changes in the size and scope of the CHQ, I find mixed support for the hypotheses related to the directionality of such changes. Contrary to the predictions in hypothesis 3 (H3), the empirical results do not support its supposition that the new CEO's origin is associated with the directionality of changes in the size of the CHQ. Model 5 and Model 6 in Table 3-7 predict the likelihood of a decrease in the size of the CHQ.

Table 3-7: Logistic Regression Results for the Directionality of the Changes in the CHQ Size

Timeframe: A2 (2004-2006)	Δ CHQ size (2007-10): directionality (decrease)		Δ CHQ size (2007-10): directionality (increase)	
VARIABLES	Model 5	Model 6	Model 7	Model 8
Constant	-0.423	-0.160	-1.806	-1.831
	(1.243)	(1.268)	(1.245)	(1.277)
Controls: (a) firm, (b) industry, (c) CEO				
CHQ size (2010):	-0.174	-0.186	0.290	0.291
ln CHQ staff / 1,000 empl.	(0.237)	(0.241)	(0.237)	(0.237)
Change in diversification (2007-10)	0.974	1.204	-1.789	-1.805
	(1.191)	(1.230)	(1.374)	(1.389)
Average sales growth (2007-10)	-22.326 ***	-21.832 ***	25.520 ***	25.443 ***
	(7.251)	(7.439)	(7.863)	(7.904)
Industry: avg. RoA growth (2007-10)	-0.515	-0.558	0.281	0.283
	(0.427)	(0.445)	(0.326)	(0.327)
Outside CEO succession	-0.594	-0.268	0.325	0.302
	(0.756)	(0.826)	(0.676)	(0.726)
New CEO MBA education	-0.177	-0.228	1.058	1.062
	(0.680)	(0.687)	(0.660)	(0.663)
New CEO funct. exp. (throughput)	1.365 *	1.204	-0.624	-0.603
	(0.791)	(0.800)	(0.694)	(0.734)
Main effects				
New CEO origin: business level		-0.922		0.069
		(0.878)		(0.792)
Observations	68	68	68	68
Chi-squared	24.38	25.52	27.67	27.68
Pseudo R-squared	0.2848	0.2980	0.2936	0.2936
Prob > Chi-squared	0.0010	0.0013	0.0003	0.0005

*** p < 0.01, ** p < 0.05, * p < 0.1; standard errors in parentheses below.

Model 5, which includes controls related to (a) firm, (b) industry, and (c) CEO succession characteristics, suggests that the average sales growth is negatively related to the likelihood of a decrease in the CHQ size, while functional experience is positively related. Model 6 adds the new CEO's origin as a predictor, and suggests that the business-level CEO origin is not positively related to the likelihood of a decrease in

the CHQ size. If anything, the negative sign of the coefficient suggests the opposite ($b = -0.922$); however, it is not significant ($p < 0.1$). In addition, the model quality only increases slightly (pseudo R-squared increase from 0.2848 to 0.2980).

Model 7 and Model 8 in Table 3-7 predict the likelihood of an increase in the size of the CHQ. Model 7, which includes the controls, only suggests that the average sales growth and being an apparent heir are positively related to the likelihood of an increase in the CHQ size. Model 8 adds the new CEO's origin as a predictor and suggests that the business-level CEO origin is not negatively related to the likelihood of an increase in the CHQ size. The coefficient ($b = 0.069$) is not significant ($p < 0.1$). Furthermore, the model quality as indicated by pseudo R-squared (0.2936) does not increase. Therefore, the empirical findings suggest that the new CEO's origin (from the business level) is neither significantly related to the likelihood of a decrease in the size of the CHQ (H3a), nor to the likelihood of an increase in the size of the CHQ (H3b).

I find partial support for hypothesis 4 (H4), which suggests that the new CEO's origin is associated with the directionality of the changes in the scope of the CHQ. Four models (Model 9 to Model 12) in Table 3-8 predict the likelihood of the directionality of such changes.

Model 9, which includes the controls related to (a) firm, (b) industry, and (c) CEO succession characteristics, suggests that change in the diversification is negatively related to the likelihood of a decrease in the delegation of decision-making authority to divisions. Model 10, which includes the new CEO's origin (from the business level), fails to support the hypothesis that the business-level CEO origin is negatively related to the likelihood of a decrease in the delegation of decision-making authority to divisions. While the negative sign of the coefficient ($b = -1.173$) is in line with the prediction, it is not significant ($p < 0.1$). The model quality increases (pseudo R-squared increases from 0.1108 to 0.1399).

Model 11 and Model 12 predict the likelihood of an increase in the scope of the CHQ. Model 11, which includes the controls, suggests that change in the diversification and in the average sales growth are positively related to the likelihood of an increase in the delegation of decision-making authority to divisions. Model 12 adds the predictor variable and suggests that the business-level CEO origin is positively related

to the likelihood of an increase in the delegation of decision-making authority to divisions. The positive sign of the coefficient (b = 1.286) is significant (p < 0.1). The model quality also increases (pseudo R-squared increases from 0.1286 to 0.1645).

Table 3-8: Logistic Regression Results for the Directionality of the Changes in the CHQ Scope

Timeframe: A2 (2004-2006)	Δ CHQ centralization (2007-10): decrease		Δ centralization (2007-10): increase	
VARIABLES	Model 9	Model 10	Model 11	Model 12
Constant	-0.500	-0.295	0.294	-0.010
	(1.079)	(1.119)	(1.057)	(1.108)
Controls: (a) firm, (b) industry, (c) CEO				
CHQ size (2010):	-0.023	-0.019	0.059	0.082
ln CHQ staff / 1,000 empl.	(0.221)	(0.236)	(0.213)	(0.229)
Change in diversification (2007-10)	-3.457 **	-3.799 **	3.226 **	3.680 **
	(1.640)	(1.770)	(1.495)	(1.645)
Average sales growth (2007-10)	-7.405	-5.997	10.901 **	9.840 *
	(4.865)	(5.020)	(5.146)	(5.308)
Industry: avg. RoA growth (2007-10)	0.044	0.005	-0.045	0.007
	(0.312)	(0.314)	(0.316)	(0.316)
Outside CEO succession	-0.240	0.200	-0.042	-0.604
	(0.600)	(0.683)	(0.583)	(0.690)
New CEO MBA education	-0.385	-0.397	-0.287	-0.278
	(0.574)	(0.585)	(0.562)	(0.583)
New CEO funct. exp. (throughput)	0.680	0.527	-0.878	-0.732
	(0.621)	(0.639)	(0.610)	(0.633)
Main effects				
New CEO origin: business level		-1.173		1.286 *
		(0.767)		(0.733)
Observations	66	66	66	66
Chi-squared	9.58	12.10	11.76	15.04
Pseudo R-squared	0.1108	0.1399	0.1286	0.1645
Prob > Chi-squared	0.2134	0.1467	0.1089	0.0583

*** p < 0.01, ** p < 0.05, * p < 0.1; standard errors in parentheses below.

3.6 Discussion and Conclusion

How the CEO influences strategy and performance is at the core of strategic management (e.g. Blettner, Chaddad, & Bettis, 2012). In this study, I explored the consequences of the new CEO's origin from a corporate strategy perspective. Specifically, I argued that the organizational context of today's large and public firms—namely, multi-business and multi-national corporations—features two distinct types of new CEOs: those promoted from the corporate level and those appointed from the

business level. Building on the upper echelons theory and research on multi-business and multi-national corporations, this study suggests that the two types of the new CEO's origin differ in whether and how they deal with corporate-level concerns.

3.6.1 Summary and Interpretation of Results

Overall, the empirical findings provide partial support for the hypotheses. The findings suggest that the new CEO's origin (from the business level) is negatively related to the magnitude of the changes in the CHQ size. New CEOs from the business level are less inclined to adapt the size of the CHQ. In addition, the new CEO's origin (from the business level) is positively related to the directionality of the changes in the scope of the CHQ. New CEOs from the business level are more likely to decrease the delegation of the decision-making authority to the devisions and thus are less likely to increase the scope of the CHQ. These findings have intuitive appeal. The first finding supports the idea that business-level executives are less inclined to engange in corporate-level concerns. The second finding supports the widespread belief that business-level executives are more inclined to resist large and hyperactive CHQ.

The non-findings of this study require discussion, too. There is no significant empirical evidence of the relationship between the new CEO's origin and the magnitude of the changes in the scope of the CHQ. Considering that the new CEO's origin is related to the magnitude of the changes in the CHQ size, this non-finding might suggest that although the size and the scope of the CHQ are related, they are distinct concepts. I will come back to this idea later when I discuss possible implications for research on structural knowledge. In addition, the analyses yielded no empirical evidence for the relationships between the new CEO's origin and the directionality of the changes in the CHQ size (neither decrease nor increase), and the directionality of the changes in the CHQ scope (decrease). However, it is noteworthy that the negative coefficient in Model 6 (-0.922) and the negative coefficient (-1.173) in Model 10 only hardly fail the significance tests. While the former would indicate that new CEOs recruited from the business level are less likely to decrease the CHQ size, the latter would indicate that new CEOs recruited from the business level are less likely to decrease the delegation of the decision-making authority to the divisions. Further analyses could yield additional insights.

3.6.2 Contributions to Existing Research

The arguments and empirical findings lead to theoretical contributions to CEO succession research, to research on corporate strategy and, specifically, to research on the CHQ.

CEO Succession Research

The study contributes to existing CEO succession research in two ways: First, and most importantly, this study introduces a new dimension for the new CEO's origin. While previous studies on the new CEO's origin have largely focused on the distinction between inside and outside CEO successions (Finkelstein et al., 2009; Giambatista et al., 2005; Kesner & Sebora, 1994), this study suggests that it is important to consider the fundamental organizational feature of the study context: the organizational level of the new CEO's previous position which allows us to distinguish between the *corporate-level* and the *business-level CEO origin*. While the distinct nature of these two organizational levels has long been recognized as indispensable for managers at either level to work effectively (e.g. Lorsch & Allen III, 1973), the consequences of recruiting new CEOs from either of the two levels have not been studied. This study closes this gap by linking the CEO succession literature to research on corporate strategy and the CHQ of large firms.

Second, this study links CEO successions as important organizational events with an intermediate outcome at the corporate level, namely changes at the CHQ, which the new CEO is very likely to affect. Previous CEO succession studies have focused on exploring the strategic and organizational outcomes of CEO successions, such as corporate (portfolio) restructuring and strategic refocusing (e.g. Bigley & Wiersema, 2002; Fondas & Wiersema, 1997; Westphal & Fredrickson, 2001; Wiersema, 1995), as well as organizational design phenomena (e.g. Harrison, Torres, & Kukalis, 1988; Lewin & Stephens, 1994). I complement these studies by exploring changes at the CHQ as an important aspect of corporate strategy. Understanding the impact of CEOs on the CHQ provides additional insights regarding the effects of upper echelons on the organizational outcomes of large firms in general. The study extends our knowledge since the findings point to the importance of different organizational level backgrounds and experiences for different types of changes at the CHQ.

Corporate Strategy and CHQ Literature

The study also contributes to existing research on corporate strategy and the CHQ of large firms: The study unfolds specific drivers of and impediments to changes at the CHQ, thereby offering new insights into the dynamics of the CHQ. While previous CHQ studies have provided important insights into the nature of the CHQ (Chandler, 1991; Collis et al., 2007, 2012), they have largely remained static in their treatment of time (Ferlie & Pettigrew, 1996). This study is among the first to explore conditions that facilitate changes at the CHQ. The study provides empirical evidence of CEO successions as an important antecedent to changes at the CHQ. The findings suggest that some CEOs are more likely to engage in certain changes at the CHQ than others.

Structural Knowledge

Finally, this study adds to research on structural knowledge. Recent research postulates that knowledge embodied in executives is tied to the organizational context in which it develops, and that these executives are conduits of organizational change (Karim & Williams, 2012). This study's empirical findings and non-findings allow for speculating that this idea might have to be extended. This study's mixed empirical findings could suggest that there are different types of structural knowledge. Specifically, the design of the CHQ and how the CHQ manages the overall firm involve specific structural knowledge (1) enclosed in the unit and (2) disseminated from the unit across firms.

In other words, there might be two types of CHQ structural knowledge (see Appendix 27): (1) knowledge related to the CHQ unit, such as structural characteristics, and (2) knowledge related to the scope of the CHQ that can be extended to the business level, such as the centralization of the decision-making authority, which is defined by the CHQ but affects other levels along the corporate hierarchy. With regard to structural knowledge tied to the CHQ unit, new CEOs from the corporate level could possess this knowledge, while those from the business level could lack it. Regarding structural knowledge tied to the scope of the CHQ, new CEOs from the corporate and the business level could possess such knowledge but this knowledge will differ. This argument, however, requires further investigation.

3.6.3 Managerial Implications

According to a recent study in the Wall Street Journal, nearly 80% of CEO exits at companies in the Standard & Poor's 500 stock index since 2006 were 'ousters'—not planned retirements (Weidner, 2011). While there are many reasons for such a high failure rate, such as an increase in the number of shareholder activists, a short-term focus, etc. (e.g. Wiersema & Zhang, 2011; Zhang, 2008), the selection of 'the right CEO' is widely recognized as an important lever (Finkelstein et al., 2009). I therefore suggest three important implications for the main stakeholders in large firms: those involved in the CEO search and selection (e.g. the board of directors and executives search firms), thos involved in CEO evaluations (e.g. investment analysts), and the shareholders.

First, the results have significant implications for those in a position to select successors to the CEO rank. To the extent that a CEO appointment from either the business or the corporate level has significant impacts on certain changes at the CHQ, I recommend that this dimension of the new CEO's origin needs to be seriously considered by the board of directors and those involved in the CEO search. In particular, those who appoint CEOs may consider the potential need for CHQ change when selecting a new CEO, specifically the kind of change needed. Prior research suggests that a new CEO generally devotes his or her attention and energies to responding to the mandate given either by the board of directors, or by the predecessor CEO (Hambrick & Fukutomi, 1991). Given that the appointment of a new CEO provides a rare opportunity to initiate ample change (e.g. Karlsson & Neilson, 2009), the board of directors should consider changes at the CHQ that might be required.

Second, corporate or business-level CEO successions send different signals to external stakeholders. A corporate-level appointment symbolizes an emphasis on the corporation as a whole, while a business-level appointment symbolizes the need for 'hands-on' behavior and a certain industry or market focus. Likewise, changes at the CHQ, such as CHQ relocations (Birkinshaw et al., 2006), corporate restructuring (Wiersema, 1995), and CHQ staff downsizing, have a strong symbolic value as a means of signaling to external stakeholders such as financial markets, major clients, or competitors. Thus, it is important for practitioners to understand the relationship between new CEO appointments and changes at the CHQ.

Third, new CEOs hired from the corporate level offer different organizational learning opportunities than new CEOs promoted from the business level. CEO successions are major organizational events which can alter the value, beliefs, and cognitive bases at the top (Wiersema, 1995). Furthermore, these successions often provide organizations with rare opportunity windows for ample change (e.g. Karlsson & Neilson, 2009). Given the differences of corporate- or business-level CEOs, it is therefore important to consider a potential need for either corporate-level change or corporate-level stability. In other word, CEO successions need to be understood as an important means to influence corporate strategy.

3.6.4 Limitations and Future Research

This study has several limitations related to the chosen theoretical perspective and the methodological approach which, however, provide fruitful avenues for future research: First, in line with one of the major doubts frequently raised about the *upper echelons* theory (Hambrick, 2007), this study could be criticized for the extent to which it credits the CEO with organizational outcomes. While this study purposely centers on the new CEO's paradigm (Hambrick & Fukutomi, 1991) to look into the antecedents to CHQ changes, I acknowledge that other factors may also account for changes in the organizational design of this entity. In this vein, one could argue that CEO successions reflect the intent of change, or even a need for change, and thus instigate the change.

Second, the primary focus of this study was the CEO rather than the entire TMT. As the highest-level executive, the CEO is most likely to possess the highest level of managerial discretion (Hambrick & Finkelstein, 1987) and individual characteristics are hence very likely to be manifested as organizational outcomes. Nonetheless, related research shows that the experiences and backgrounds of corporate executives in general (e.g. Jensen & Zajac, 2004; Song, 1982) as well as the board of directors (e.g. Westphal & Fredrickson, 2001) can play an important role for corporate-level outcomes. Future work may thus extend this study by exploring the impact of other corporate executives or that of the board of directors on changes at the CHQ.

Third, the study relied on the last position prior to the CEO's appointment to measure the new CEO's origin. While this in line with a vast amount of studies on the

distinction between inside and outside CEO successions, examining the entire career tracks of new CEOs should advance this study.

Fourth, the study focused on large and public firms in the US. For validity purposes, future studies should also explore other types of organizations and other countries. Prior CHQ research suggests that the CHQ differs across countries and ownerships (Collis et al., 2007). Hence, it is important to corroborate the findings of this study beyond the US context.

Fifth, future studies may consider additional aspects. One way to advance the model is to investigate the potential impact of other CEO characteristics and, specifically, CEO attitudes (Lewin & Stephens, 1994). Another way to further develop the model is to examine the impact of various contextual factors such as managerial discretion, latitude, slack, etc. (for potential contingencies, see Hambrick, 2007). Since previous work has shown the importance of environmental contingencies, such as munificence, stability, and complexity (e.g. Wiersema & Bantel, 1993), the model could perhaps be improved in this regard. In addition, the impact of organizational contingencies such as change in the corporate strategy (diversification, mergers & acquisitions, divestitures, alliances, etc.) could be further investigated.

Finally, given the differences in the consequences of recruiting new CEOs from the corporate or the business level, the antecedents of these strategic choices are worthwhile investigating. The selection process could be very different: In particular, the firm's organizational structure—divisional vs. functional structure—may influence the type of succession significantly (e.g. Finkelstein et al., 2009). Given the differences in the consequences of this dimension of the new CEO's origin, future studies could explore the antecedents of such a decision.

3.6.5 Conclusion

Understanding those intermediate consequences of the new CEO's origin related to the distinct context of large corporations has been a crucial gap in the empirical literature on CEO successions. While this study has taken a first step in addressing this shortcoming, many promising avenues for future research still remain—as discussed above. As noted by Finkelstein et al., the "fundamental idea that executive disposition will be reflected in organizational outcomes is clearly bearing fruit. […] However, we

are far from definitive conclusions" (2009: 113). It is hoped that the findings of this study and the related directions for future research will be valuable to others interested in the topic of CEO successions, especially in large corporations.

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4 Too Much is Too Much! Antecedents and Consequences of Change in the Size of Corporate Headquarters[41]

Abstract

This study explores structural change at the corporate headquarters (CHQ) of multi-business and multi-national firms. Specifically, I investigate the relationships between changes in the business portfolio, change in the CHQ size, and firm performance. Data from a large-scale survey and public sources pertaining to a sample of large and public firms in the US and Europe revealed a paradox in these relationships: While changes in the business portfolio, specifically those in the related elements of business portfolios, trigger structural change at the CHQ, the two changes combined result in negative firm performance when the level of the changes in the related business portfolio is high. The empirical findings point to the disruptive nature of high levels of corporate-level change. The study contributes to the extant body of knowledge about corporate strategy, to research on the CHQ in particular, and to research on corporate strategic change in general.

Keywords

Corporate headquarters, corporate headquarters change, corporate strategy, corporate strategic change, organizational contingency theory, organizational adaptation

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[41] An earlier version of this study was presented at the 2011 Annual Meeting of the Strategic Management Society. I am grateful to the anonymous conference reviewers and participants at the presentation for helpful comments.

Acknowledgements: I owe special thanks to Rolf Bühner, David J. Collis, Jan Eppink, Michael Goold, and David Young for granting access to the Ashridge Strategic Management Center CHQ survey data and to Dominic Rainsborough for research assistance. I extend my gratitude to Michael Boppel, Florian Kunze, Christine Scheef, and Markus Schimmer for very valuable feedback.

"Ensuring that head office has the right number of heads in it is [...] more vital - and more difficult - than ever."

The Economist, 15 November 2008, p. 68

4.1 Introduction

Since the publication of Chandler's (1962) seminal work on the *American Industrial Enterprise*, the corporate headquarters (CHQ) of multi-business and multinational companies has been a central concern in strategy research. According to Rumelt, Schendel, and Teece, one of the four fundamental inquiries into the strategy field specifically concerns the CHQ: "What is the function of or value added by the headquarters unit in a diversified firm?" (1994: 44). CHQ concerns are at the core of strategy research because the CHQ is key for the overall performance of large and diversified firms (Campbell et al., 1995a; Chandler, 1991; Porter, 1987). Building on the CHQ roles and functions (Chandler, 1962, 1991, 1992; Markides, 2002), its styles (Goold & Campbell, 1987), and its rationales (Foss, 1997; Williamson, 1975), scholars have recently begun investigating the puzzling variety in the CHQ structure and size (e.g. Collis et al., 2007, 2012; Young et al., 2000). While extant studies in this area provide important empirical insights into the nature of the CHQ, they are largely static in their treatment of time (see also Ferlie & Pettigrew, 1996).

The lack of empirical research on changes in the CHQ structure and size is in sharp contrast to the importance that practicing managers, as well as scholars, attribute to this key concern of corporate strategy. From a managerial viewpoint, 'CHQ redesigns,' especially change in the CHQ size, are an important concern to corporate managers and consultants (e.g. Economist, 2008; Kontes, 2004). Especially during economic downturns, heated rhetoric frequently calls for the CHQ staff to be reduced (e.g. Economist, 2008). Nevertheless, the limited empirical evidence on the CHQ size-performance relationship contradicts the expected merits of CHQ staff downsizing. Although these few studies do not claim a causal relationship, they suggest that firms with a larger CHQ outperform those with a smaller CHQ (Collis et al., 2007; Goold & Young, 2005). The following two quotes from these studies illustrate this:

"Most surprising, we found no evidence that a lean and mean headquarters is associated with superior financial performance. On the contrary, the companies that reported above-average

> *profitability (measured by both the return on capital employed and total shareholder returns) had headquarters that were, on average, 20% larger than the headquarters of companies of similar size (in terms of total employees) and with similar influence over business decisions. This could mean that bigger headquarters are more effective than smaller ones and enable companies to perform better. Alternately, it might imply that better performance allows companies to support bigger-than-average headquarters. While the latter is sometimes true, we found that, in many companies, large corporate staffs improved performance by creating value that more than paid for their costs."* (Goold & Young, 2005: 18).

> *"Our research shows that [...] simply reducing the size of the headquarters is no guarantee of improved performance. Indeed, companies with larger headquarters typically outperform those with smaller headquarters"* (Collis et al., 2007: 402).

Since 'CHQ re-designs' can consume significant organizational resources, empirical testing of the antecedents and consequences of structural change at the CHQ is urgently needed to provide corporate managers with scholarly advice.

From an academic viewpoint, general knowledge of organizational change could be constrained by the distinct CHQ characteristics—e.g. the CHQ often has a strong symbolic value and is highly political in nature—, which could influence structural change at the CHQ (Ferlie & Pettigrew, 1996). Extant research on the CHQ holds that an appropriate organizational design of the CHQ is crucial to successfully manage the business portfolio (Collis & Montgomery, 1998; Collis et al., 2007; Porter, 1987). These studies suggest that a CHQ structure reflecting how the CHQ manages the firm's business activities is contingent upon the business portfolio. From a dynamic perspective, a widespread belief suggests that "[CHQ] re-designs are an integral component of many new corporate strategies and transformation processes" (Goold et al., 2001: 89). Nevertheless, the linkages between changes in the business portfolio, the adjusting of the CHQ organizational design, and firm performance still need to be explored (Ferlie & Pettigrew, 1996: 506).

This study thus sets out to explore the dynamic relationships between the two main corporate strategy concerns, namely the business portfolio and the CHQ (Porter, 1987):

1. What are the antecedents of change in the CHQ size? Specifically, what are the relationships between changes in the business portfolio and change in the CHQ size?

2. Do firms, depending on the extent to which changes in the business portfolio occur, benefit from change in the CHQ size?

To tackle these research questions, I build on the contingency and organizational adaptation perspectives to argue that change in the CHQ size will be contingent upon changes in the business portfolio—namely, corporate strategic change (CSC)—, and that firms will benefit from structurally aligning their CHQ to changes in the business portfolio. More specifically, I argue that especially changes in the related elements of the business portfolio—*related CSC*—rather than changes in its unrelated elements—*unrelated CSC*—are associated with change in the CHQ size and with performance benefits, since these changes affect the economic benefits that impact the CHQ structure. These arguments underline the manifold relationships between the two main corporate strategy concerns and stress the need for a considered approach to CHQ re-designs.

I believe this empirical study makes three important contributions to corporate strategy research. First, it adds to existing research on the CHQ of multi-business and multi-national firms (Chandler, 1991; Collis et al., 2007, 2012). While previous research on the CHQ has largely remained static (Ferlie & Pettigrew, 1996), this study reveals corporate-level factors in the internal environment that can foster and impede structural change at the CHQ. To some extent, the results challenge the prevailing notion of CHQ inertia (e.g. Goold & Luchs, 1992). Second, this study adds to corporate strategy research by linking the two main corporate strategy concerns (Porter, 1987). The empirical findings point to the potential disruptive effects of simultaneous change in both corporate strategy concerns. Finally, this study adds to research on CSC by exposing the potential differences between related CSC and unrelated CSC. While research on corporate diversification—which is static in nature—has long made the distinction between the related and unrelated elements in the portfolio diversity (see Palepu, 1985), empirical studies on CSC using corporate diversification—which is dynamic in nature—have not done so (e.g. Bigley & Wiersema, 2002; Westphal & Fredrickson, 2001; Wiersema & Bantel, 1992). By exposing the differences in related CSC and unrelated CSC, this study's empirical results suggest that, in general, a more fine-grained examination of CSC might be necessary.

The remainder of this study is organized as follows: Given that a main purpose of this study is to link CSC and CHQ changes, I first review relevant work in these areas. On the basis of organizational contingency and adaptation, I then develop a conceptual model with testable hypotheses. Third, I elaborate the empirical research design, and thereafter present the empirical results. Finally, I discuss the empirical evidence and its implications for management research and management practice.

4.2 Background

More than four decades ago, Chandler (1962) drew attention to the multi-business corporation characterized by rather autonomous business units and a distinct organizational entity (Chandler, 1962, 1991). Today this is often referred to as the CHQ (e.g. Birkinshaw et al., 2006; Collis et al., 2007, 2012; Laamanen et al., 2012). The multi-business company is still "the dominant organizational form for the conduct of industrial activity (Fligstein, 2001)" (Collis et al., 2007: 383). Key for the performance of these firms is that competition among them occurs not only on the business level, but also on the corporate level, which is why firms need business and corporate-level strategies (Ansoff, 1965; Porter, 1987). The corporate-level strategy basically concerns decisions on the business portfolio, as well as the CHQ (Porter, 1987: 43).[42]

Over time, a respectable body of literature on corporate-level strategy has accumulated. This literature can be classified into three areas (see Table 4-1): (1) the value of diversification strategy (corporate discount vs. corporate premium), (2) the diversification strategy and structure, and (3) the nature and value of the CHQ.[43] Given that a main purpose of this study is to explore the relationships between the two corporate strategy concerns, I draw on all three strands of corporate strategy literature. Although a comprehensive review of each of these areas is beyond the scope of this study, I draw attention to the insights that are relevant for this study.

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[42] A similar logic can be applied to multi-national firms. Although Chandler originally referred to multi-business firms in general, he included the geographic and product dimensions in his 1991 article: "As in the past, the decisions made by the senior executives at their headquarters have been absolutely critical to the performance of such multinational and multiproduct companies" (p. 31).

[43] Research on diversification strategy, structure, and performance had especially proliferated in the 1980s and 1990s.

Table 4-1: Previous Research and Candidate Explanatory Theories

On …	the value of diversification strategy	the link between diversification strategy and structure	the value and rationales of corporate headquarters (CHQ)
Concerns	▪ The value of diversification (premium vs. discount) ▪ The value of corporate divestitures/refocusing ▪ The antecedents, processes, and outcomes of change in the business portfolio	▪ The fit between corporate strategy and corporate structure (firm level) ▪ Performance implications of fit / regaining fit	▪ The roles and functions of the CHQ ▪ The determinants of the CHQ design (size and scope) ▪ Performance implications of the CHQ design ▪ The relationships with its subsidiaries
Explanatory theories	▪ Agency theory ▪ Transaction costs theory ▪ …	▪ Agency theory ▪ Contingency theory ▪ …	▪ Agency theory ▪ Contingency theory ▪ Information processing ▪ Resource-based view ▪ Transaction costs ▪ …
Exemplary studies (in chronological order)	▪ Rumelt (1982) ▪ Grant and Jammine (1988) ▪ Ginsberg (1990) ▪ Hoskisson and Hitt (1990) ▪ Palich et al. (2000) ▪ Campa and Kedia (2002) ▪ Villalonga (2004) ▪ Chakrabarti, Singh, and Mahmood (2006)	▪ Chandler (1962) ▪ Rumelt (1974) ▪ Donaldson (1987) ▪ Hill and Hoskisson (1987) ▪ Hoskisson and Hitt (1988) ▪ Powell (1992) ▪ Hoskisson et al. (1993a) ▪ Amburgey and Dacin (1994) ▪ Markides and Williamson (1996)	▪ Chandler (1991) ▪ Foss (1997) ▪ Markides (2002, 2006) ▪ Collis et al. (2007)
Critique	▪ Focuses on the business portfolio ▪ Largely neglects the second corporate strategy concern: the CHQ	▪ Focuses on the firm structure (e.g. M-form); ▪ Largely neglects the structure/design of the CHQ	▪ Focuses on the CHQ rationales and design ▪ Rather static; largely neglects change over time

4.2.1 The Value of Diversification Strategy

Decisions on the mix and weight of the businesses within the corporate portfolio are at the core of corporate strategy (Ansoff, 1965; Porter, 1987; Rumelt, 1974). Managers' 'obsession' with corporate diversification—as Porter (1987) called it—, as well as the availability of public data on large firms' business portfolios has motivated scholars from various management domains, such as Finance and Strategy, to conduct

empirical research. Consequently, a rich body of empirical work on the value of diversification strategy has emerged (for reviews, see Barkema & Schijven, 2008; Haleblian, Devers, McNamara, Carpenter, & Davison, 2009; Homberg, Rost, & Osterloh, 2009; Hoskisson & Hitt, 1990; King, Dalton, Daily, & Covin, 2004; Nippa, Pidun, & Rubner, 2011; Tuch & O'Sullivan, 2007).

Overall, the empirical results pertaining to the value of diversification have remained inconclusive (cf. the review studies). While some scholars have found a negative relationship between diversification and performance (e.g. Berger & Ofek, 1995), others have found a positive relationship (e.g. Villalonga, 2004). Again others have combined the two divergent linear relationships in an inverted u-shape which holds that moderate levels of diversification are most beneficial (e.g. Palich et al., 2000). The inconclusive results are rooted in theoretical and empirical reasons, which include the different theoretical lenses (Hoskisson & Hitt, 1990), different settings, different diversification and performance measures (Keats, 1990; Zollo & Meier, 2008), and endogeneity issues (Campa & Kedia, 2002).

Nonetheless, the findings have led scholars to conclude that different diversification strategies can be successful and that the circumstances under which the diversification strategy is carried out are rather important. Following Porter (1987) in important concern is how the CHQ manages the business portfolio. Consequently, studying changes at the CHQ can yield additional insights beyond the performance relationship and the intermediate outcomes of diversification.

4.2.2 The Link between Diversification Strategy and Structure

Scholars have explored different diversification strategies (e.g. Grant & Jammine, 1988; Palepu, 1985; Rumelt, 1982). The different strategies require distinct organizational arrangements to realize their distinct benefits (Hill, Hitt, & Hoskisson, 1992). Scholars have argued that especially the M-form organization allows far greater diversity in the business portfolio than is possible under other forms (for a review of the M-form organization, see Hoskisson et al., 1993a). The M-form organization particularly enabled business unit and CHQ executives to take on distinct roles (Hofer, 1975; Vancil & Lorange, 1975).

Diversification research has long pointed out the importance of how the business portfolio is managed—though often only referring to the CHQ implicitly. Hoskisson and Hitt (1990: 494, 498), for example, suggest that strategy implementation and issues of fit moderate the relationship between diversification strategy and firm performance. Building on Hill's (1988) study, Markides and Williamson explicitly consider the "head office involvement in operating decisions" and the "central controls (strategic and financial)" (1996: 354). Most of the organizational arrangements refer to the CHQ level rather than the firm level.

4.2.3 The Nature and Value of Corporate Headquarters

As noted earlier, corporate strategy also concerns decisions on the CHQ (Porter, 1987: 43). Two areas covered by previous work on the CHQ seem rather important. The first area centers on the roles and activities of the CHQ, or in general its *raison d'être*. According to Chandler (1962, 1991), the CHQ performs two distinct roles: an administrative role, which refers to monitoring and controlling the activities of the business units (Williamson, 1975), and an entrepreneurial role, which refers to additional sources of value. While the former is mostly internally focused and concerned with 'avoiding the negative,' the latter is more concerned with 'creating the positive' (Foss, 1997). By nature, the entrepreneurial role is more discretionary, and the extent to which it is executed varies substantively from corporation to corporation (Goold et al., 2001). In addition to these two roles, Chandler (1991) acknowledged a third role in a footnote on handling relations with external bodies and agencies. Birkinshaw et al. (2006) recently underlined the importance of this external role of the CHQ regarding financial markets and shareholders.

A second area of research on the CHQ concerns the heterogeneity in its organizational design. These studies are based on work mentioned above, since the CHQ roles are considered a key determinant of the variety in the organizational design. On a conceptual level, Porter (1987: 53) described the corporate-level organizational prerequisites for each of his four concepts of corporate strategy. Goold and Campbell (1987) describe three different (corporate management) styles, namely strategic planning, strategic control, and financial control, each of which influence the CHQ size and staff. Recently, a few empirical studies investigated the variety in the formal or-

ganizational design and uncovered several determinants of the CHQ structure and size based on the basic CHQ roles (see Collis et al., 2007, 2012; Young & Goold, 1993).

4.2.4 The Dynamics of Corporate Headquarters and Diversification Strategy

To summarize, while extant studies on corporate strategy have investigated static and dynamic phenomena, CHQ research has remained static. Despite the vast amount of studies exploring the dynamics of the first corporate strategy concern—changes in the business portfolio—, academic outlets conspicuously lack research on the dynamics of the second corporate strategy concern—changes at the CHQ (Ferlie & Pettigrew, 1996). Moreover, although a common theme in extant research holds that corporate strategy's two concerns are interrelated (Collis & Montgomery, 1998; Porter, 1987), little is known about the dynamic relationships between them. Specifically, the relationships between CSC (changes in the business portfolio) and structural change at the CHQ responsible for managing the business portfolio are largely unexplored (Ferlie & Pettigrew, 1996: 506; Grant & Jammine, 1988: 333).

4.3 Theory and Hypotheses

4.3.1 Theoretical Framework

While the CHQ is central in many existing theories of the firm (Kleinbaum & Stuart, 2011), contingency theory has particularly helped explain the puzzling variety in the organizational design of the CHQ (e.g. size) of multi-business and multinational firms (Collis et al., 2007, 2012; Young et al., 2000). Contingency theory originated with Burns and Stalker (1961) and Lawrence and Lorsch (1967). As a response to the previous search for the 'one best way' to manage firms, the contingency view postulates that there is 'no one best way' but that the suitability of managerial decisions (e.g. pertaining to the organizational design) is contingent upon the situation in the internal and external environments (Donaldson, 1995, 2001). Such situational factors, among others, include technical and market changes (Burns & Stalker, 1961), the organizational size (Blau, 1970), and the firm's strategy (Chandler, 1962; Miles & Snow, 1978).

The contingency perspective has long been used in management studies (for a history, see Peteraf & Reed, 2007). The concept of 'fit' (Venkatraman, 1989) has been widely used, especially in strategy research, and the contingency view has become one of the most prominent theories in strategic management research over the last three decades (Boyd, Takacs Haynes, Hitt, Bergh, & Ketchen, 2012)[44]. This view has been used to explain organizational design phenomena such as the adoption of the M-form, structural differentiation, formalization, and decentralization (for a comprehensive review, see Donaldson, 2001). A contingency view has been applied in recent studies on organizational change (e.g. Battilana & Casciaro, 2012) and on topics closely related to the CHQ, such as structural alignments in the top management team (TMT) (e.g. Hambrick & Cannella, 2004; Marcel, 2009; Menz & Scheef, 2012).[45]

Another theoretical perspective that is closely related to contingency theory is organizational adaptation, which more explicitly emphasizes organizational change. Organizational adaptation theory posits that firms adapt their structures to cope with change in the internal and external environments, e.g. low firm performance fosters strategic change (Kimberly & Quinn, 1984). Organizational adaptation theory has also been applied in recent studies pertaining to changes at the CHQ, such as structural alignments in the TMT (e.g. Zhang, 2006).

The common premise of the contingency and organizational adaptation perspectives is that decision-makers rationally strive to align their organizations with the situation in the internal and external environments, and that firms' performance depends on the extent that *fit* has been achieved (Donaldson, 2001; Lawrence & Lorsch, 1967). Hence, these two theoretical lenses deviate from other prominent views on organizational choice, such as the institutional theory's claim that decision-makers imitate others (DiMaggio & Powell, 1983); the upper echelons' logic that managers act on the basis of their values and prior experiences (Hambrick & Mason, 1984); and the agency

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[44] The authors underline the fundamental difference between contingency theory and contingency hypotheses (Boyd et al., 2012: 280).

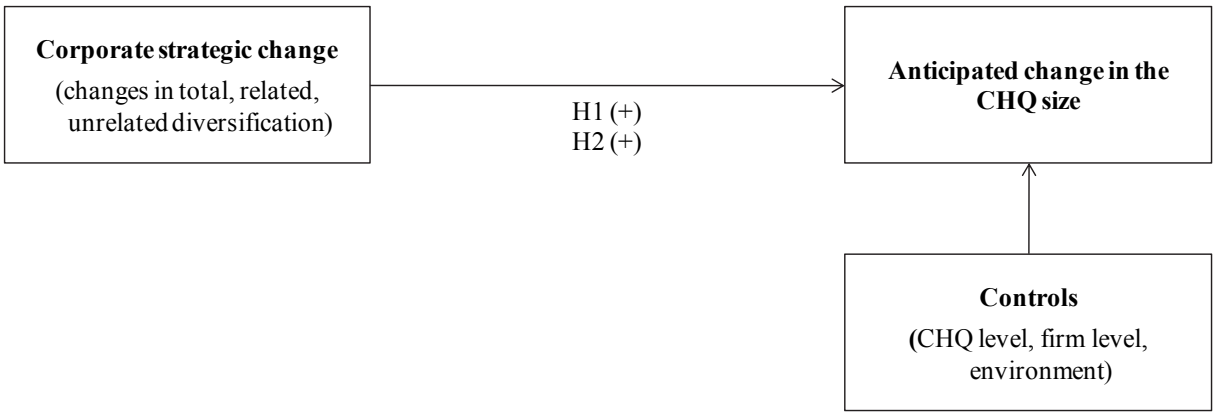
[45] In response to criticism that the contingency theory is rather static, Donaldson (1987) demonstrates that this perspective can explain dynamic phenomena adequately. He advances the 'structural adjustment to regain fit' perspective, which is contrary to the two prevailing theories of structural change ('contingency determinism' and 'strategic choice'). Furthermore, this perspective underlines that the contingency theory maintains that there is a misfit rather than a change in the contingency variable, which leads to a change in the structural variable.

theory's premise that managers strive to optimize their own benefits rather than those of the shareholders (Jensen & Meckling, 1976).[46] Moreover, these two perspectives differ from other famous theories of change that allow for much less managerial choice, such as population ecology (Hannan & Freeman, 1977, 1989) that posits that 'structural inertia' inhibits organizational change (Hannan & Freeman, 1984).[47] To maintain a coherent theoretical framework, I focus on the logic of the contingency and adaptation theories when developing hypotheses. I will, however, later return to some of the alternative lenses for possible insight.

4.3.2 Conceptual Model and Hypotheses

Building on the contingency and organizational adaptation perspectives, I argue that structural change at the CHQ is contingent upon corporate strategic change (CSC). In addition, structural change at the CHQ leads to positive performance depending on the extent to which CSC occurs, because these changes are needed to regain internal fit between the two corporate strategy aspects. Two conceptual models, one for the antecedents (see Figure 4-1) and one for the consequences (see Figure 4-2) of structural change at the CHQ, illustrate these arguments.

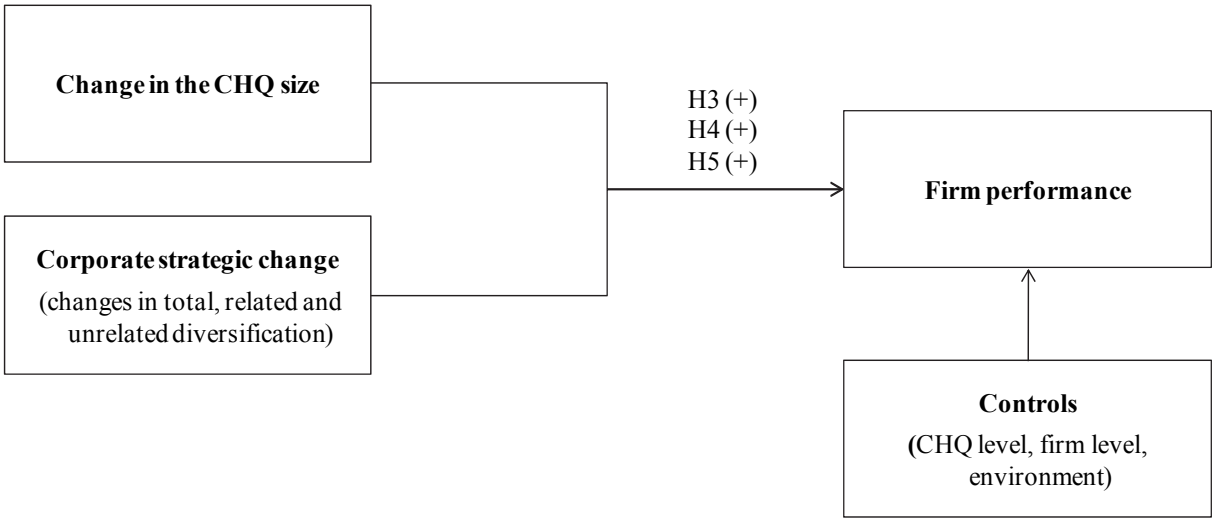
Figure 4-1: Antecedents of Change in the CHQ Size



[46] Here, I follow Hambrick and Cannella (2004) who made a similar argument in their study on the existence of COOs in which they relied on the contingency view.

[47] In his book on the proliferation of the "American Anti-Management Theories of Organization," Donaldson complained that "work on the topic of organization structure has become afflicted of late by an outbreak of irrationality" (1995: 1) and promoted the use of contingency theory.

Figure 4-2: Consequences of Change in the CHQ Size



Antecedents: Corporate Strategic Change

I develop two hypotheses for the relationships between CSC and structural change at the CHQ. To develop the argument, I start with the static logic, and thereafter advance the dynamic logic. The hypotheses focus on the magnitude of change (change vs. no change).[48] Although I do not develop specific hypotheses for the directionality of change (increase vs. decrease), I report the analyses as supplementary analyses.

A baseline hypothesis postulates that changes in the business portfolio are expected to relate to change in the CHQ size. Prior research suggests that the business portfolio serves as an important determinant of the CHQ size (Collis et al., 2007), because the potential for economic benefits varies in different business portfolios (Hill & Hoskisson, 1987; Palepu, 1985; Rumelt, 1982). The potential synergies often build on economies of scale and/or economies of scope (Teece, 1982). Creating synergies relies on the ability to transfer skills and/or share activities between separate business units (Porter, 1987). Both of these—transferring skills and sharing activities—need to be coordinated and organized (Porter, 1987). Identifying and ultimately exploiting the

[48] Although, change vs. no change is a binary measure, I call this 'magnitude' in order to distinguish between 'magnitude' and 'directionality.' I acknowledge this as an empirical limitation rather than a conceptual one.

synergies between business units requires effort from the CHQ and thus leads to corporate overheads at the CHQ (Hungenberg, 1993).

CSC can modify the potential for economic benefits in various ways. Building on this logic, changes in the business portfolio can be expected to alter the potential for certain economic benefits, which in turn fosters the need to adapt the organizational arrangements required to realize the economic benefits. Limited empirical evidence suggests that changes in the corporate portfolio[49] are related to changes in the CHQ functions and roles. Cibin and Grant (1996), for example, study corporate restructuring in eight international oil majors during 1980-1992 and link changes in the corporate strategy (narrowing of scope) to various changes at the CHQ, including decentralization, less formality, less specialization, a quest for non-hierarchical systems of coordination and control, and a redefinition of the TMT and CHQ staff roles.

Based on this line of argument, I thus expect changes in the business portfolio to foster structural change at the CHQ:

H1: CSC is positively related to the likelihood of an anticipated change in the CHQ size.

A second hypothesis is more specific about the changes in the different elements of the business portfolio. Substantial differences can be found in similarly diversified firms—notably differences in the related and unrelated elements in the business portfolio (Palepu, 1985). Hence, CSC can differ widely, as change can occur in the related and/or unrelated elements in the business portfolio. The following line of reasoning leads me to suggest that changes in the related elements in the business portfolio—*related CSC*—are more likely to foster structural change at the CHQ than do changes in the unrelated elements—*unrelated CSC*.

Related and unrelated diversifications are managed in different ways because distinct economic benefits are associated with each of the diversification strategies (Hill et al., 1992; Hill & Hoskisson, 1987; Hoskisson & Hitt, 1988; Jones & Hill, 1988; Porter, 1987): Related diversification relies on synergistic economies (econo-

[49] Often labeled 'changes in corporate strategy.' Other synonyms include 'corporate strategic change' and 'corporate refocusing.'

mies of scope, economies of integration, and internal capital markets), while unrelated diversification mainly benefits from financial economies (internal capital markets) and efficient internal governance mechanisms. Moreover, these studies suggest that distinctly different internal organizational arrangements are required to realize these different benefits. Hill and Hoskisson (1987), for example, propose that different diversification strategies require specific organizational control arrangements to realize the corresponding economic benefits. These scholars also suggest that organizational and environmental constraints can inhibit the realization of these benefits.

As noted earlier, even though scholars often do not explicitly refer to the CHQ, these organizational arrangements mostly relate to the CHQ. Moreover, extant research on the CHQ suggests that relatedness is positively associated with the CHQ size (Collis et al., 2007; Goold & Campbell, 1987). Firms pursuing related diversification typically have larger CHQ. Conversely, firms pursuing unrelated diversification usually require fewer corporate-level staff and thus have a smaller CHQ (Dundas & Richardson, 1982). For example, Collis and Montgomery argue that "[t]he more general the resources and the less the need for sharing, the smaller the corporate office should be" (1998: 73). Notably, the CHQ roles differ greatly in terms of related and unrelated diversification.

These differences suggest that changes in the related and unrelated elements of the business portfolio should affect the CHQ in different ways. Related CSC basically means switching from lower levels to higher levels of related diversification or vice versa. In the former case, synergies associated with the related elements in the business portfolio play a less important role in the lower levels of related diversification, but a more important role in the higher levels. In the latter case, the argument is exactly the opposite. In both cases, synergies play a more or less important role at some point. When the potential for creating synergies is higher, additional staff and/or subunits are usually required at the corporate level to realize economic benefits. Vice versa, when the potential for creating synergies is lower, fewer staff and functions are required. In other words, given that certain organizational arrangements are required at the CHQ to realize these synergies, structural changes can be expected there.

Conversely, unrelated CSC means that a firm switches from lower levels to higher levels of unrelated diversification, or vice versa. In either case, the change

'only' affects the economic benefits associated with the unrelated diversification (financial economies [internal capital markets] and efficient internal governance mechanisms), which should have a limited influence on the CHQ size. Hence, structural change at the CHQ is less likely.

Based on these arguments, I posit the following hypothesis:

H2: The relationship between related CSC and the likelihood of an anticipated change in the CHQ size is stronger than the relationship between unrelated CSC and the likelihood of an anticipated change in the CHQ size.

Consequences: Firm Performance

Although there is no systematic evidence of the performance implications of structural change at the CHQ, an essential tenet of organizational contingency theory holds that organizations need to be internally aligned, and internal fit leads to superior performance (Donaldson, 1987, 2001; Lorsch & Allen III, 1973). Besides the main effects, the contingency view applied in this study thus leads me to suggest moderation effects.

Specifically, the two concerns of corporate strategy are interrelated and need to be aligned (Collis & Montgomery, 1998; Collis et al., 2007, 2012; Porter, 1987). A common theme in (static) CHQ research is that the appropriate design of this entity is a key factor for superior performance (e.g. Collis & Montgomery, 1998; Hansen & Peytz, 1991), and that the fit between diversification strategy and the organizational design (structure) on the firm level and the CHQ level is crucial for superior performance (Collis & Montgomery, 1998; Porter, 1987).

Changes in the business portfolio alter the fit between the business portfolio and the organizational arrangements at the CHQ to manage the business portfolio. This presumption suggests that CSC, along with a change in the CHQ size, results in superior performance since the CHQ design requires adjustments to regain the internal fit between the two corporate strategy aspects. A fit between the business portfolio and the organizational arrangements at the CHQ allows the benefits (as described above) to outweigh the costs. Since fit is associated with superior performance (Donaldson, 1987), firms that succeed in establishing fit between the two aspects of corporate strategy should benefit from superior performance.

Based on this logic and bearing in mind the line of arguments of the antecedents, CSC and structural change at the CHQ should lead to superior performance. I thus submit the following general hypothsis:

H3: Firms benefit from change in the CHQ size to the extent that CSC occurs.

In addition, building on the differences between the changes in the business portfolio as presented above, I submit two specific hypotheses:

H4: Firms benefit from change in the CHQ size to the extent that related CSC occurs.

H5: Firms benefit from change in the CHQ size to the extent that unrelated CSC occurs.

4.4 Methodology

4.4.1 Sample Selection

The strategic importance and highly political nature of the CHQ are the primary reasons for the difficulty to gain a comprehensive understanding of structural change at the CHQ (Ferlie & Pettigrew, 1996). The strategic importance of the CHQ is rooted in how it manages the business portfolio which comprises the core of corporate strategy (Porter, 1987). In turn, the political nature of the CHQ is rooted in its many high-profile positions, which is why managerial and consultant careers and reputations are often at stake (Ferlie & Pettigrew, 1996). Both these reasons make it unlikely that information on CHQ changes are fully disclosed. Consequently, the CHQ dynamics are complex and difficult to understand when research relies on external sources of information. I thus utilized survey-based data on structural change at the CHQ.

The most comprehensive CHQ data was probably collected by an international research consortium led by the Ashridge Strategic Management Centre (Collis et al., 2007, 2012; Young et al., 2000). I negotiated access to data on four countries, namely Germany (DE), the Netherlands (NL), the United Kingdom (UK), and the United States of America (US), which covers 299 companies with various ownership types

(private, government, and public).[50] I focused on publicly listed firms and thus excluded 129 companies. Most of the excluded firms were private and government owned firms at the time of the survey, and two firms were redundant. This led to a sample of 170 companies. Since my analysis span several years, several of these firms had disappeared and/or missing data further reduced the final sample.

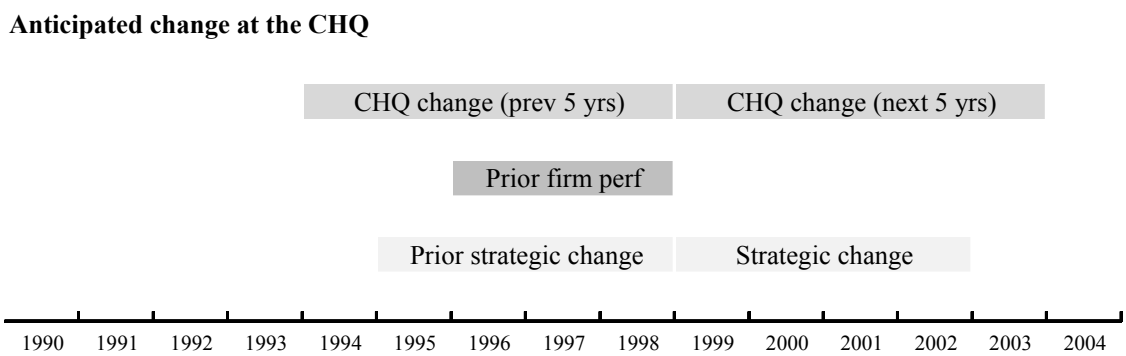
4.4.2 Data Collection

Overall, I relied on two data sources. First, as indicted by the sample description above, I used existing survey data on changes in the CHQ size (Collis et al., 2007; Young et al., 2000). Second, I collected publically available data on CSC, firm performance, and environmental characteristics. Data on business activities and financial data on the multi-business corporations were obtained from the Thomson Reuters OneBanker database.

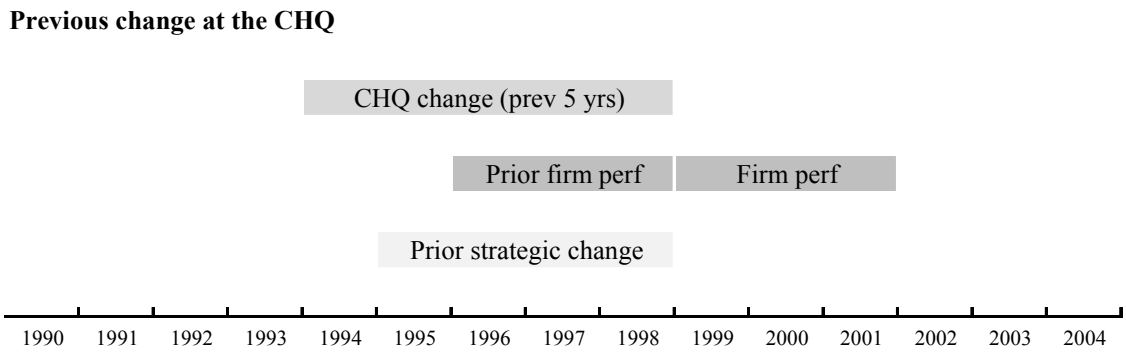
4.4.3 Variables

In the following, I describe the independent variables (IV), dependent variables (DV), and control measures used in this study. Appendix 29 provides a complete list with all variables used in this study. To account for time lags, the variables were measured so that the DV lag the IV (see Figure 4-3). Specifically, in the analysis of the antecedents of changes in the CHQ size, data capturing the anticipated changes at the CHQ lags the data for CSC. In the analysis of the consequences of changes in the CHQ size, the performance data lag the data capturing changes at the CHQ and CSC.

Figure 4-3: Survey Data on Changes in the CHQ Size



[50] See Appendix 28.



Changes in the CHQ Size

To capture structural change at the CHQ, I relied on changes in the CHQ size in terms of the number of CHQ staff. Following prior studies, the CHQ is defined as "staff functions and executive management with responsibility for, or providing services to, the whole of (or most of) the company, excluding staff employed in divisional headquarters" (Collis et al., 2007: 385). From a theoretical standpoint it may be hard to delineate CHQ activities from those carried out by business units (Markides, 2002). However, this definition is practical, as it basically comprises all staff reporting to the CHQ (Collis et al., 2007, 2012).

Based on this CHQ definition and this logic, two survey questions captured structural change at the CHQ. One question was dedicated to the prior change in the CHQ size ('How has the number of CHQ staff changed over the previous five years?') while the other inquired about the anticipated future change in the CHQ size ('What change do you anticipate in the number of CHQ staff over the next five years?'). The informants were asked to indicate whether the number of CHQ staff was lower, the same (±10%), or higher (see Young et al., 2000).[51]

Conceptually, these change measures are based on 'true change.' While there are several approaches to measuring and analyzing change, each of them has certain advantages and disadvantages (for details, see Bergh & Fairbank, 2002). Galan and Sanchez-Bueno (2009), for example, asked their survey informants to provide data for two points in time and then calculated the difference to measure change. Conversely,

[51] For details see Appendix 30.

inquiring about the 'true change' is a practicable approach which allows for objective and consistent measurements throughout the sample.

Based on the data from the two questions, changes in the CHQ size were captured as follows: I created two sets of three dummy variables; one set to capture the anticipated future change and another one to capture the previous change. Each of the sets includes one binary variable to capture the magnitude of change, which was coded 1 for change and 0 for no change, and two binary variables (decrease and increase) to capture the directionality of the change, which were coded 1 if the change was a decrease (or an increase) and 0 for no change.

Corporate Firm Performance

I measured corporate firm performance according to the efficiency of the resource use within the firm as a whole, since my arguments regarding the hypotheses largely center on the efficiency effects of a fit between corporate strategy and structure. I based the measure of profitability on return on assets (RoA). This performance indicator is an established measure used in previous studies investigating the strategy and structure fit (e.g. Hill et al., 1992). Specifically, Pehrsson argues:

> *"Performance has commonly been measured in relatedness studies by accounting or market based objective measures […] Market values and similar external measures are generally more distant from internal firm activities, such as perceptions of business relatedness, than are accounting-based measures. […] Return on assets (ROA) is generally considered an accounting-based indicator and superior to return on equity, which is affected by capital structure as well as operational efficiency"* (2006: 268 f.).

Similar to previous studies on CSC (e.g. Bigley & Wiersema, 2002), I used a three-year average RoA to even the annual fluctuations in the financial data. The firm's average RoA for the three years following the structural change at the CHQ is a more stable measure of firm performance than just the following year's performance.

Corporate Strategic Change

As noted earlier, corporate strategy concerns decisions on the mix and weight of the businesses within the corporate portfolio (Ansoff, 1965; Porter, 1987; Rumelt, 1974). Given this definition and this study's specific purpose to link the two corporate strategy concerns, I measured CSC as a change in the firm's diversification strategy.

Following previous CSC studies (e.g. Wiersema & Bantel, 1992), I based the measure of diversification strategy on the entropy measure of total diversification (DT) (Jacquemin & Berry, 1979). This method captures both the diversity of the business portfolio and the related versus unrelated elements of diversity (Palepu, 1985). While related diversification (DR) captures the "distribution of the output among related products within the industry group" (Palepu, 1985: 244), unrelated diversification (DU) measures "the extent to which a firm's output is distributed in products across unrelated industry groups" (Palepu, 1985: 244). The DT index has been widely used in prior corporate strategy studies (e.g. Bigley & Wiersema, 2002; Hill et al., 1992). To better understand the relationships between CSC and structural change at the CHQ, I also used the DR and DU indexes capturing the related and unrelated diversification. Formal representations of the three measures of diversification read as follows (Palepu, 1985: 252 f.):

$$\text{Entropy of total diversification DT} = \sum_{i=1}^{N} P_i * \ln\left(1/P_i\right)$$

with N the number of industry segments and

P_i the share of the *i*th segment in the total sales of the firm.

$$\text{Entropy of related diversification DR}_j = \sum_{i \varepsilon j} P_i^j * \ln\left(1/P_i^j\right)$$

with P_i^j the proportion of the segment i of the industry group j in the total sales of the group.

$$\text{Entropy of total related diversification DR} = \sum_{j=1}^{M} \text{DR}_j * P_j$$

with P_j being the proportion of the *j*th group sales.

$$\text{Entropy of total unrelated diversification DU} = \sum_{j=1}^{M} P^j * \ln\left(1/P^j\right)$$

with P_j the proportion of the *j*th group sales and

$\left(1/P^j\right)$ being used to weight the importance of the group for sales.

On the basis of this logic, CSC was measured as the absolute difference between the entropy measures of diversification in two years *t* and *t-3* (e.g. Bigley & Wiersema, 2002; Wiersema & Bantel, 1992). Specifically, I used the 1998 (*t*) and 1995 (*t-3*) entropy measures of diversification to calculate CSC. I calculated three measures for CSC, one for each of the three entropy measures of diversification: total

CSC (CSCT), related CSC (CSCR) and unrelated CSC (CSCU). Building on the logic of the entropy measures, related CSC captures change in the "distribution of the output among related products within the industry group" (Palepu, 1985: 244), whereas unrelated CSC embraces change in "the extent to which a firm's output is distributed in products across unrelated industry groups" (Palepu, 1985: 244). Formally, the three CSC measures can be described as follows:

Total corporate strategic change $\mathrm{CSCT}_{t/t-3} = \mathrm{DT}_t - \mathrm{DT}_{t-3}$

with DT_t and DT_{t-3} as the entropy of total diversification in years t and $t-3$.

Related corporate strategic change $\mathrm{CSCR}_{t/t-3} = \mathrm{DR}_t - \mathrm{DR}_{t-3}$

with DR_t and DR_{t-3} as the entropy of related diversification in years t and $t-3$.

Unrelated corporate strategic change $\mathrm{CSCU}_{t/t-3} = \mathrm{DU}_t - \mathrm{DU}_{t-3}$

with DU_t and DU_{t-3} as the entropy of unrelated diversification in years t and $t-3$.

I developed a Microsoft Excel macro to calculate the entropy measures. To confirm that the computations were correct, I calculated Palepu's (1985: 253) examples. As an additional check, I compared the sum of the related and unrelated diversification to the total diversification to validate that these two were equal. Similar to the entropy measures, the sum of related CSC and unrelated CSC must equal total CSC. I thus also applied this check to the three CSC measures and validated that the sum of related CSC and unrelated CSC equaled total CSC. Examples are given in Appendix 31.

Controls

To account for potentially confounding effects and alternative explanations, I considered three sets of control variables. First, I considered factors from previous empirical studies on the determinants of the CHQ size (Collis et al., 2007, 2012) and controlled for the following CHQ-level characteristics:

Relative CHQ size. I calculated the CHQ size as the natural logarithm of the number of CHQ staff per 1,000 total employees (Collis et al., 2007).

CHQ performance. Since prior performance can affect change, I controlled for CHQ performance and considered two self-reported measures, namely (1) the ability to support corporate strategy and (2) the cost effectiveness of the CHQ. While these

measures are rather subjective, they do evaluate the CHQ performance directly (Collis et al., 2007).

Second, I considered the following firm-level characteristics:

Firm performance. To gain a better understanding of the performance antecedents and implications of structural change at the CHQ, I also considered firm performance. I thereby followed the approach taken by Collis et al. (2007) and used two types of performance measures, each of which has unique advantages and disadvantages. While financial firm performance measures are rather objective, they are also influenced by many factors other than the CHQ performance (Collis et al., 2007).

Degree of diversification. I used the three entropy measures to account for the firm's degree of total, related, and unrelated diversification (see details above).

Firm size. Following previous studies on CSC (e.g. Boeker, 1997; Carpenter, 2000), I controlled for firm size since it has been argued that firm size is related to change (e.g. Hannan & Freeman, 1989; Haveman, 1993; Mintzberg, 1978). I used the firm's market capitalization to measure firm size on the basis of the logic that the CHQ serves as an intermediary between the internal and external environments. In line with previous studies (e.g. Amburgey & Dacin, 1994; Boeker, 1997; Carpenter, 2000; Collis et al., 2007; Kelly & Amburgey, 1991), I calculated the natural logarithm, since the distribution of the values was extremely skewed.

Third, I accounted for environmental characteristics. Both, industry and country effects can have a significant impact on the CHQ size (e.g. Collis et al., 2007, 2012) and can thus also potentially influence change in the CHQ size:

Industry. Using the Thomson Reuters OneBanker general industry classification, I created six industry dummies (01='Industrial,' 02='Utility,' 03='Transportation,' 04='Banks/Savings and Loan,' 05='Insurance,' 06='Other Financial') and used five of them in the analyses with 06 as the omitted industry. I created an additional industry dummy to distinguish between industrial (01='Industrial') firms and non-industrial firms (others).

Country. I created a total of four country dummies (DE, NL, US, UK) for the countries in the sample, and used three of them in the analyses, with NL as the omitted

country. Furthermore, I created a region dummy to distinguish between US and non-US firms.

4.4.4 Analytical Procedures

To test the hypotheses, I applied two types of regression analyses in order to avoid violating the respective assumptions in each of the analyses (e.g. Sanders & Carpenter, 1998): I used logistic regression analyses to test the hypothesized antecedents and multiple linear regression analyses to test the hypothesized consequences of change in the CHQ size.

Antecedents

According to the binary/categorical nature of the DV, I applied binominal logit and multinomial logit regression analyses to analyze the hypothesized antecedents of change in the CHQ size (Hoetker, 2007; Menard, 1995; Wiersema & Bowen, 2009). I used binominal logit regression to estimate the likelihood of change in the CHQ size, and multinomial logit regression to simultaneously estimate the likelihood of an increase and a decrease against the base category 'no change in the CHQ size' (e.g. Ocasio & Kim, 1999; Parrino, 1997; Zhang & Rajagopalan, 2003).

Consequences

I relied on OLS regression to analyze the hypothesized performance consequences of change in the CHQ size (Aiken & West, 1991; Baron & Kenny, 1986). Following the instructions by Hair Jr. et al. (2005), I tested the regression assumptions relating to both the individual variables, as well as to the relationship as a whole. While assumptions regarding the individual variables have to be tested before the model has been estimated, those applying to the relationship have to be tested after this (Hair Jr. et al., 2005: 79-95; 204-208).

Moderations

I created three sets of dummy variables to capture the moderation effects with regard to CSC, related CSC and unrelated CSC. Each set contained two binary variables; one that was coded 1 if the CSC (related CSC and unrelated CSC, respectively) was high and change in the CHQ size occurred and 0 otherwise; and another one that was coded 1 if the CSC (related CSC and unrelated CSC, respectively) was high and

no change in the CHQ size occurred. A high level of CSC (related CSC and unrelated CSC, respectively) was defined as the mean value plus 0.5 of the standard deviation.

4.4.5 Validity and Reliability[52]

The following steps helped address validity and reliability issues: First, I used two different sources of data for the DV and IV in this study. I countered a potential single source bias (Cardinal, 2001) because in each of the analyses, data for the DV and IV originated from survey and secondary data or vice versa. Second, all the measures considered for this study (survey items, as well as CSC and performance measures) were validated in prior studies.

4.5 Results

4.5.1 The Antecedents of Anticipated Changes in the CHQ Size

Descriptive Statistics and Correlations

Table 4-2 shows the number of companies which had anticipated change in the size of their CHQ over the next five years (1999-2003) and the numbers for past change in the CHQ size (1994-1998). Approx. 56% (65) anticipated change in their CHQ size compared to 44% (51) that reported no change. Specifically, 43% (50) anticipated a decrease and 13% (15) an increase in the size of their CHQ. Approx. two third (69) reported past change compared to one-third (35) which reported no change. Specifically, 35.6% (37) reported a decrease and 30.8% (32) reported an increase in the size of their CHQ.

[52] For further details on validity and reliability aspects, see chpater 2, page 88.

Table 4-2: Descriptive Statistics of the Change in the CHQ Size

Δ CHQ size (number of staff)		**Past change** (previous 5 years, 1994-1998)		**Anticipated change** (next 5 years, 1999-2003)	
Magnitude of change					
0	No change	35	(33.65%)	51	(43.97%)
1	Change	69	(66.35%)	65	(56.03%)
	Total	104	(100%)	116	(100%)
Directionality of change					
-1	Decrease	37	(35.58%)	50	(43.10%)
0	No change	35	(33.65%)	51	(43.97%)
1	Increase	32	(30.77%)	15	(12.93%)
	Total	104	(100%)	116	(100%)

Table 4-3 provides descriptive statistics of all the variables in this study related to the anticipated structural change at the CHQ and their correlations. The correlations between firm size and anticpated decrease in CHQ size (0.64) and between CHQ size and anticpated increase in CHQ size (-0.44) were comparably high. With the exception of these two cases, all the correlations between the IV and DV were smaller than 0.30, which suggests that multicollinearity was not a problem in the analyses.

Table 4-3: Descriptive Statistics and Correlations: Anticipated Change in the CHQ Size

	Obs	Mean	SD	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Anticipated change in the CHQ size (yes/no)	116	0.56	0.50	0.00	1.00	1.00								
(2) Anticipated decrease in the CHQ size (yes/no)	116	0.43	0.50	0.00	1.00	0.77 ***	1.00							
(3) Anticipated increase in the CHQ size (yes/no)	116	0.13	0.34	0.00	1.00	0.34 ***	-0.34 ***	1.00						
(4) CSCT: abs. change in total diversif. (1995-1998)	116	0.27	0.30	0.00	1.32	0.15 †	0.09	0.10	1.00					
(5) CSCR: abs. change in rel. diversif. (1995-1998)	116	0.21	0.30	0.00	1.34	0.26 **	0.18 †	0.12	0.70 ***	1.00				
(6) CSCU: abs. change in unrel. diversif. (1995-1998)	116	0.15	0.26	0.00	1.35	0.10	0.12	-0.03	0.43 ***	0.18 *	1.00			
(7) Prior firm performance: avg. RoA (1996-1998)	116	1.77	0.81	-0.70	3.34	0.02	-0.12	0.20 *	0.06	0.07	0.09	1.00		
(8) Degree of total diversification (1998)	116	0.76	0.48	0.00	1.69	0.13	0.23 *	-0.15	0.19 *	0.32 ***	0.15	0.00	1.00	
(9) Degree of related diversification (1998)	116	0.41	0.41	0.00	1.50	0.05	0.10	-0.08	0.30 ***	0.52 ***	0.04	-0.03	0.55 ***	1.00
(10) Degree of unrelated diversification (1998)	116	0.35	0.43	0.00	1.63	0.11	0.17 †	-0.09	-0.07	-0.14	0.14	0.03	0.60 ***	-0.33 ***
(11) Firms size: ln market capitalization (1998)	116	8.33	1.94	3.39	12.09	0.12	0.12	0.01	-0.16 †	0.01	-0.13	-0.04	0.26 **	0.27 **
(12) Firms size: ln number of total employess (1998)	116	9.95	1.43	2.64	12.49	0.25 **	0.30 **	-0.07	-0.11	-0.09	0.02	-0.07	0.24 *	0.05
(13) CHQ size: ln (CHQ staff / 1,000 empl) (1998)	116	2.26	1.42	-0.45	10.26	0.07	0.10	-0.04	0.04	0.19 *	-0.18 †	0.04	-0.05	0.25 **
(14) Prior CHQ change: abs. change in CHQ staff (1994-1998)	116	0.67	0.47	0.00	1.00	0.23 *	0.13	0.16 †	-0.13	0.04	0.01	-0.12	0.07	0.08
(15) CHQ perf.: CHQ ability to supp. corporate strategy (1998)	116	1.59	0.60	1.00	3.00	0.07	0.12	-0.08	0.07	0.03	0.08	-0.05	0.13	0.06
(16) CHQ perf.: CHQ cost effectiveness (1998)	116	1.68	0.64	1.00	3.00	0.21 *	0.33 ***	-0.17 †	-0.04	0.02	-0.09	-0.16 †	-0.05	0.03
(17) Region dummy: U.S. vs. non-US (Europe) (1/0)	116	0.39	0.49	0.00	1.00	0.21 *	0.13	0.11	0.08	0.21 *	-0.10	0.14	-0.11	0.07
(18) Industry dummy: manufacturing vs. non-manufacturing (1/0)	116	0.78	0.42	0.00	1.00	0.15	0.09	0.08	0.11	0.11	0.07	0.45 ***	0.03	-0.09

	Obs	Mean	SD	Min	Max	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
(1) Anticipated change in the CHQ size (yes/no)	116	0.56	0.50	0.00	1.00									
(2) Anticipated decrease in the CHQ size (yes/no)	116	0.43	0.50	0.00	1.00									
(3) Anticipated increase in the CHQ size (yes/no)	116	0.13	0.34	0.00	1.00									
(4) CSCT: abs. change in total diversif. (1995-1998)	116	0.27	0.30	0.00	1.32									
(5) CSCR: abs. change in rel. diversif. (1995-1998)	116	0.21	0.30	0.00	1.34									
(6) CSCU: abs. change in unrel. diversif. (1995-1998)	116	0.15	0.26	0.00	1.35									
(7) Prior firm performance: avg. RoA (1996-1998)	116	1.77	0.81	-0.70	3.34									
(8) Degree of total diversification (1998)	116	0.76	0.48	0.00	1.69									
(9) Degree of related diversification (1998)	116	0.41	0.41	0.00	1.50									
(10) Degree of unrelated diversification (1998)	116	0.35	0.43	0.00	1.63	1.00								
(11) Firms size: ln market capitalization (1998)	116	8.33	1.94	3.39	12.09	0.04	1.00							
(12) Firms size: ln number of total employess (1998)	116	9.95	1.43	2.64	12.49	0.22 *	0.64 ***	1.00						
(13) CHQ size: ln (CHQ staff / 1,000 empl) (1998)	116	2.26	1.42	-0.45	10.26	-0.29 **	-0.06	-0.44 ***	1.00					
(14) Prior CHQ change: abs. change in CHQ staff (1994-1998)	116	0.67	0.47	0.00	1.00	0.01	0.12	-0.07	0.20 *	1.00				
(15) CHQ perf.: CHQ ability to supp. corporate strategy (1998)	116	1.59	0.60	1.00	3.00	0.09	-0.05	0.08	-0.06	-0.13	1.00			
(16) CHQ perf.: CHQ cost effectiveness (1998)	116	1.68	0.64	1.00	3.00	-0.08	0.09	0.20 *	0.11	0.08	0.36 ***	1.00		
(17) Region dummy: U.S. vs. non-US (Europe) (1/0)	116	0.39	0.49	0.00	1.00	-0.19 *	0.00	0.01	0.31 ***	0.07	-0.26 **	-0.13	1.00	
(18) Industry dummy: manufacturing vs. non-manufacturing (1/0)	116	0.78	0.42	0.00	1.00	0.12	-0.22 *	0.03	-0.12	-0.24 **	0.05	-0.04	0.13	1.00

N=116; † p<0.10, * p<0.05, ** p<0.01, *** p<0.001
Note: CHQ performance is reverse coded, i.e. higher values refer to lower CHQ performance

Hypotheses

The baseline hypothesis refers to changes in the business portfolio as an antecedent of anticipated change in the CHQ size. Table 4-4 and Table 4-5 show the binomial and multinomial logistic regression models for the likelihood of change in the CHQ size. Model 1 and Model 2 in Table 4-4 estimate the likelihood of change in the CHQ size compared to no change. With the controls, Model 1 indicates that prior change in the CHQ size and in the CHQ cost effectiveness are positively related to the likelihood of change in the CHQ size ($p < 0.05$), while industry and country effects also play a role. Model 2 adds the main effect and predicts that CSC is positively related to the likelihood of change in the CHQ size ($p < 0.05$). Both models are significant ($p < 0.01$). Model 2 is superior to Model 1 as both the statistical (Chi-squared) significance and the practical significance (pseudo R-squared) are higher. The results provide empirical support for hypothesis 1 (H1).

As supplementary analyses, Model 3 and Model 4 take the directionality of change in the CHQ size into consideration and simultaneously estimate the likelihoods of a decrease and an increase in the CHQ size compared to the base outcome of no change. With the controls, Model 3 predicts that diversification ($p < 0.1$), prior change in the CHQ size ($p < 0.1$), and the CHQ cost effectiveness ($p < 0.01$) are positively related to the likelihood of a decrease in the CHQ size. In addition, Model 3 predicts that the relative CHQ size ($p < 0.1$) is negatively related to the likelihood of an increase in the CHQ size, while prior change in the CHQ size ($p < 0.01$) is positively related. Adding the main effects, Model 4 predicts that CSC is positively related to the likelihood of a decrease in the CHQ size ($p < 0.1$), as well as to an increase ($p < 0.05$). Both models are significant ($p < 0.01$). Model 4 is superior to Model 3 as both the statistical (Chi-squared) significance and the practical significance (pseudo R-squared) are higher.

Table 4-4: Logistic Regression Models for the Anticipated Change in the CHQ Size (1/2)

Δ CHQ size: Anticipated change (next 5 years)	Model 1 [a)]	Model 2 [a)]	Model 3 [b)]		Model 4 [b)]	
Variables	*CHQ size change*	*CHQ size change*	*CHQ size decrease*	*CHQ size increase*	*CHQ size decrease*	*CHQ size increase*
Constant	-4.873 ***	-6.029 ***	-5.123 ***	-6.983 **	-6.161 ***	-8.944 ***
	(1.653)	(1.809)	(1.763)	(3.053)	(1.911)	(3.327)
Controls						
CHQ characteristics						
CHQ size: ln (CHQ staff / 1,000 total employees) (1998)	-0.062	-0.109	0.016	-0.633 *	-0.040	-0.637 *
	(0.163)	(0.167)	(0.171)	(0.366)	(0.176)	(0.375)
Prior CHQ change: abs. change in CHQ size (1994-1998)	1.223 **	1.449 ***	0.864 *	3.090 ***	1.070 *	3.417 ***
	(0.478)	(0.511)	(0.521)	(1.125)	(0.547)	(1.171)
CHQ performance: CHQ ability to supp. corporate strategy (1998) [c)]	0.272	0.225	0.136	0.289	0.092	0.190
	(0.401)	(0.407)	(0.432)	(0.692)	(0.436)	(0.752)
CHQ performance: CHQ cost effectiveness (1998) [c)]	0.787 **	0.854 **	1.155 ***	-0.451	1.208 ***	-0.404
	(0.386)	(0.393)	(0.425)	(0.681)	(0.431)	(0.693)
Firm characteristics						
Prior firm performance: avg. RoA (1996-1998)	-0.054	0.010	-0.381	0.878	-0.322	1.112 *
	(0.313)	(0.316)	(0.351)	(0.568)	(0.353)	(0.597)
Degree of total diversification (1998)	0.520	0.264	1.032 *	-1.108	0.822	-1.541 *
	(0.475)	(0.493)	(0.541)	(0.864)	(0.560)	(0.910)
Firms size: ln market capitalization (1998)	0.119	0.180	0.101	0.209	0.158	0.276
	(0.123)	(0.129)	(0.134)	(0.194)	(0.140)	(0.206)
Environmental characteristics						
Industry dummy: industrial (n=91) vs. non-industrial (n=25) [d)]	1.206 *	1.244 *	1.395 **	1.337	1.448 **	1.145
	(0.632)	(0.637)	(0.709	(1.044)	(0.712)	(1.073)
Country dummy 1: US (n=45)	1.203 *	1.360 *	0.958	1.782	1.157	2.232
	(0.712)	(0.751)	(0.749	(1.348)	(0.781)	(1.435)
Country dummy 2: UK (n=40)	-0.016	0.085	-0.402	0.874	-0.315	1.280
	(0.679)	(0.698)	(0.734	(1.334)	(0.742)	(1.372)
Country dummy 3: DE (n=13), NL (n=18)	0.464	0.993	0.082	1.570	0.548	2.730
	(0.861)	(0.915)	(0.910	(1.728)	(0.954)	(1.845)
Predictors						
CSCT: abs. change in total diversification (1995-1998)		1.870 **			1.681 *	3.095 **
		(0.896)			(1.001)	(1.268)
Log likelihood	-66.43	-63.97	-88.73		-85.23	
Likelihood ratio Chi-squared	26.25	31.17	51.89		58.89	
Prob > Chi-squared	0.0059	0.0019	0.0003		0.0001	
Prob > Δ Chi-squared		0.0369			0.0435	
Pseudo R-squared	0.1650	0.1959	0.2262		0.2568	
Δ Pseudo R-squared		0.0309			0.0306	
Observations	116	116	116		116	

*** p < 0.01, ** p < 0.05, * p < 0.1, standard errors in parentheses below.

[a)] Results of binominal regression analyses.

[b)] Results of multinomial regression analyses. The omitted group is 'no change in CHQ size.'

[c)] CHQ performance is reverse coded, i.e. higher values refer to lower CHQ performance.

[d)] I collapsed industries into industrial (91) and non-industrial (25: 7, 6, 3, 7, 2). I also ran the analyses with five dummies; since the results did not change, I provide the analyses with one dummy for parsimony's sake. In addition, I also ran the analyses with one region dummy (US vs. non-US). Since the results did not change, I provide the analyses with country dummies. Although the simple region split produces more significant region predictors, I am not interested in region effects and the presented analyses have a better model fit.

CHQ … Corporate Headquarters.

CSCT … total Corporate Strategic Change.

Table 4-5: Logistic Regression Models for the Anticipated Change in the CHQ Size (2/2)

Δ CHQ size: Anticipated change (next 5 years)	Model 5 [a)]	Model 6 [a)]	Model 7 [b)]		Model 8 [b)]	
Variables	*CHQ size change*	*CHQ size change*	*CHQ size decrease*	*CHQ size increase*	*CHQ size decrease*	*CHQ size increase*
Constant	-4.904 ***	-6.097 ***	-5.262 ***	-6.905 **	-6.753 ***	-7.335 **
	(1.644)	(1.883)	(1.771)	(3.023)	(2.046)	(3.654)
Controls						
CHQ characteristics						
CHQ size: ln (CHQ staff / 1,000 total employees) (1998)	-0.005	0.007	0.118	-0.611 *	0.127	-0.760 *
	(0.175)	(0.187)	(0.189)	(0.363)	(0.203)	(0.409)
Prior CHQ change: abs. change in CHQ size (1994-1998)	1.216 **	1.303 **	0.851	3.051 ***	0.947 *	3.348 ***
	(0.479)	(0.514)	(0.523)	(1.123)	(0.558)	(1.162)
CHQ performance: CHQ ability to supp. corporate strategy (1998) [c)]	0.287	0.282	0.169	0.288	0.098	0.474
	(0.400)	(0.422)	(0.433)	(0.689)	(0.460)	(0.787)
CHQ performance: CHQ cost effectiveness (1998) [c)]	0.797 **	0.929 **	1.178 ***	-0.498	1.345 ***	-0.821
	(0.389)	(0.411)	(0.431)	(0.693)	(0.460)	(0.841)
Firm characteristics						
Prior firm performance: avg. RoA (1996-1998)	-0.105	-0.140	-0.484	0.853	-0.527	0.896
	(0.319)	(0.331)	(0.365)	(0.562)	(0.381)	(0.574)
Degree of related diversification (1998)	0.142	-1.053	0.440	-0.961	-0.570	-2.834 *
	(0.632)	(0.790)	(0.696)	(1.188)	(0.860)	(1.482)
Degree of unrelated diversification (1998)	0.812	0.551	1.505 **	-1.131	1.235 *	-1.532
	(0.580)	(0.611)	(0.661)	(0.992)	(0.690)	(1.054)
Firms size: ln market capitalization (1998)	0.140	0.240 *	0.137	0.199	0.252 *	0.283
	(0.127)	(0.138)	(0.139)	(0.205)	(0.150)	(0.229)
Environmental characteristics						
Industry dummy: industrial (n=91) vs. non-industrial (n=25) [d)]	1.216 *	1.266 *	1.431 **	1.336	1.535 **	1.444
	(0.636)	(0.664)	(0.719)	(1.054)	(0.746)	(1.181)
Country dummy 1: US (n=45)	1.062	0.928	0.764	1.852	0.761	1.562
	(0.726)	(0.842)	(0.765)	(1.408)	(0.875)	(1.632)
Country dummy 2: UK (n=40)	-0.242	-0.541	-0.749	0.973	-0.930	0.441
	(0.723)	(0.812)	(0.784)	(1.485)	(0.860)	(1.685)
Country dummy 3: DE (n=13), NL (n=18)	0.164	0.555	-0.436	1.598	0.052	2.036
	(0.932)	(1.026)	(1.017)	(1.800)	(1.098)	(2.025)
Predictors						
CSCR: abs. change in related diversification (1995-1998)		3.082 ***			2.845 **	5.024 ***
		(1.180)			(1.283)	(1.781)
CSCU: abs. change in unrelated diversification (1995-1998)		1.542			2.049 *	-0.955
		(1.123)			(1.207)	(2.146)
Log likelihood	-66.02	-60.25	-87.65		-79.87	
Likelihood ratio Chi-squared	27.07	38.62	54.04		69.61	
Prob > Chi-squared	0.0075	0.0004	0.0004		0.0000	
Prob > Δ Chi-squared		0.0106			0.0151	
Pseudo R-squared	0.1702	0.2427	0.2356		0.3035	
Δ Pseudo R-squared		0.0725			0.0679	
Observations	116	116	116		116	

*** p < 0.01, ** p < 0.05, * p < 0.1, standard errors in parentheses below.
[a)] Results of binominal regression analyses.
[b)] Results of multinomial regression analyses. The omitted group is 'no change in CHQ size.'
[c)] CHQ performance is reverse coded, i.e. higher values refer to lower CHQ performance.
[d)] I collapsed industries into industrial (91) and non-industrial (25: 7, 6, 3, 7, 2). I also ran the analyses with five dummies; since the results did not change, I provide the analyses with one dummy for parsimony's sake.
CHQ … Corporate Headquarters.
CSCR … related Corporate Strategic Change.
CSCU … unrelated Corporate Strategic Change.

Extending the baseline argument, I hypothesized differences in the relationships between related and unrelated CSC, and anticipated change in the CHQ size. Table 4-5 provides the results. Since the models are fairly similar to those in Table 4-4, I only point out the most noteworthy results. With regard to the degree of diversification as a control variable, the models also distinguish between related and unrelated diversification. Model 5 only contains the controls. Model 6 predicts that related CSC is positively related to the likelihood of change in the CHQ size ($p < 0.1$), while unrelated CSC is not significantly related to it. Model 6 is superior to Model 5, as both the statistical (Chi-squared) significance and the practical significance (pseudo R-squared) are higher.

To formally test hypothesis 2 (H2), I undertook a Wald test to determine whether the standardized coefficients for related CSC and unrelated CSC in the estimated regression model (Model 6) are equal.[53] This null hypothesis can, however, not be rejected (Chi-squared (1) = 1.16, Prob > Chi-squared = 0.2817). The results therefore fail to support hypothesis 2 (H2).

In addition, I used the predicted probabilities to calculate the changes at the 95% confidence intervals while holding all other variables at their mean values. A standard deviation increase in related CSC (about 0.2951875), centered on the mean, increases the probability of change in the CHQ size by 0.2148, while holding all other variables at their mean values. This difference is significant (95% confidence interval: 0.0616, 0.3680). A standard deviation increase in unrelated CSC (about 0.2614357), centered on the mean, increases the probability of change in the CHQ size by 0.0967, while holding all other variables at their mean values. This difference is not significant (95% confidence interval: -0.2370, 0.4304). The difference in the increase in the probability of change in the CHQ size (0.2148 vs. 0.0967) indicates that the influence of related CSC is greater than that of unrelated CSC.

As supplementary analyses, Model 7 and Model 8 (similar to Model 3 and 4) take the directionality of change in the CHQ size into consideration. Model 8 predicts that related CSC ($p < 0.05$) and unrelated CSC ($p < 0.1$) are positively related to the

[53] I used the Stata *test* command which "performs Wald tests of simple and composite linear hypotheses about the parameters of the most recently fitted model" (source: Stata/IC 11.2 help).

likelihood of a decrease in the CHQ size. Conversely, while related CSC ($p < 0.01$) is positively related to the likelihood of an increase in the CHQ size, unrelated CSC is not significantly related to the likelihood of an increase in the CHQ size.

4.5.2 The Performance Consequences of Changes in the CHQ Size

Descriptive Statistics and Correlations

Table 4-6 provides descriptive statistics and correlations of all variables regarding the analyses of the consequences of change in the CHQ size.

With the exception of the correlation between prior firm performance and firm performance (0.56), all the correlations between the IV and DV were smaller than 0.30, which suggests that multicollinearity was not a problem in the analyses. In addition, I examined the variance inflation factor (VIF) after the models had been estimated. With the exception of four industry dummies (ind01: 9.46; ind05: 4.73; ind02: 4.60; ind03: 3.69), the VIF never exceeded three. The mean VIF amounted to 2.76.

Table 4-6: Descriptive Statistics and Correlations: Past Change in the CHQ Size

	Obs	Mean	SD	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) Past change in the CHQ size (yes/no)	104	0.66	0.47	0.00	1.00	1.00						
(2) Past decrease in the CHQ size (yes/no)	104	0.36	0.48	0.00	1.00	0.53 ***	1.00					
(3) Past increase in the CHQ size (yes/no)	104	0.31	0.46	0.00	1.00	0.47 ***	-0.50 ***	1.00				
(4) Firm performance: avg. RoA (1999-2001)	104	1.58	0.91	-1.18	3.09	-0.19 †	-0.18 †	-0.01	1.00			
(5) CSCT: abs. change in total diversif. (1995-1998)	104	0.26	0.30	0.00	1.32	-0.16 †	-0.06	-0.10	0.10	1.00		
(6) CSCR: abs. change in rel. diversif. (1995-1998)	104	0.20	0.29	0.00	1.34	-0.01	0.04	-0.05	0.03	0.75 ***	1.00	
(7) CSCU: abs. change in unrel. diversif. (1995-1998)	104	0.14	0.24	0.00	1.35	-0.01	0.17 †	-0.19 †	0.06	0.45 ***	0.13	1.00
(8) Prior firm performance: avg. RoA (1996-1998)	104	1.84	0.77	-0.70	3.34	-0.11	-0.09	-0.01	0.56 ***	0.08	0.11	0.06
(9) Degree of total diversification (1998)	104	0.76	0.50	0.00	1.69	0.05	0.06	-0.02	-0.00	0.20 *	0.30 **	0.18 †
(10) Degree of related diversification (1998)	104	0.42	0.40	0.00	1.36	0.06	0.05	0.01	-0.00	0.30 **	0.47 ***	0.03
(11) Degree of unrelated diversification (1998)	104	0.34	0.42	0.00	1.63	-0.00	0.02	-0.03	0.00	-0.05	-0.11	0.18 †
(12) Firms size: ln market capitalization (1998)	104	8.45	1.93	4.74	12.09	0.14	0.05	0.09	0.01	-0.16	-0.02	-0.16 †
(13) Firms size: ln number of total employess (1998)	104	10.01	1.30	6.90	12.49	0.01	0.06	-0.05	-0.01	-0.01	0.01	0.05
(14) CHQ size: ln (CHQ staff / 1,000 empl) (1998)	104	2.22	1.26	-0.45	5.20	0.14	0.00	0.14	-0.04	-0.08	0.04	-0.34 ***

	Obs	Mean	SD	Min	Max	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(1) Past change in the CHQ size (yes/no)	104	0.66	0.47	0.00	1.00							
(2) Past decrease in the CHQ size (yes/no)	104	0.36	0.48	0.00	1.00							
(3) Past increase in the CHQ size (yes/no)	104	0.31	0.46	0.00	1.00							
(4) Firm performance: avg. RoA (1999-2001)	104	1.58	0.91	-1.18	3.09							
(5) CSCT: abs. change in total diversif. (1995-1998)	104	0.26	0.30	0.00	1.32							
(6) CSCR: abs. change in rel. diversif. (1995-1998)	104	0.20	0.29	0.00	1.34							
(7) CSCU: abs. change in unrel. diversif. (1995-1998)	104	0.14	0.24	0.00	1.35							
(8) Prior firm performance: avg. RoA (1996-1998)	104	1.84	0.77	-0.70	3.34	1.00						
(9) Degree of total diversification (1998)	104	0.76	0.50	0.00	1.69	-0.04	1.00					
(10) Degree of related diversification (1998)	104	0.42	0.40	0.00	1.36	-0.04	0.57 ***	1.00				
(11) Degree of unrelated diversification (1998)	104	0.34	0.42	0.00	1.63	-0.01	0.62 ***	-0.29 **	1.00			
(12) Firms size: ln market capitalization (1998)	104	8.45	1.93	4.74	12.09	-0.06	0.29 **	0.27 **	0.08	1.00		
(13) Firms size: ln number of total employess (1998)	104	10.01	1.30	6.90	12.49	-0.13	0.39 ***	0.22 *	0.25 *	0.72 ***	1.00	
(14) CHQ size: ln (CHQ staff / 1,000 empl) (1998)	104	2.22	1.26	-0.45	5.20	0.09	-0.20 *	0.07	-0.30 **	-0.08	-0.30 **	1.00

N=104; † p<0.10, * p<0.05, ** p<0.01, *** p<0.001
Note: CHQ performance is reverse coded, i.e. higher values refer to lower CHQ performance

Main Effects

Although I did not hypothesize any main effects, Model 9 and Model 10 in Table 4-7 (change vs. no change), and Model 15 and Model 16 in Table 4-8 (directions of

change) provide the respective results. The remaining models in Table 4-10 and Table 4-11 show the results of the main effects in the supplementary analyses (see below). With the control variables, Model 9 predicts that in addition to some industry effects, prior firm performance and firm size ($p < 0.05$) are positively related to firm performance. Model 10 predicts that there is no significant main effect between change in the CHQ size and firm performance. The coeeficient (-0.166) is not significant. Furthermore, Model 15 and Model 16 indicate that there are no significant relationships between the directionality of change in the CHQ size (both, decrease and increase) and firm performance. The coefficients (-0.136 and -0.239) are not significant.

Moreover, the analyses with regard to related CSC and unrelated CSC yield similar results. Models 24-25 in Table 4-10 present the results of the analyses with regard to related CSC. With the control variables, Model 24 predicts that prior firm performance and firm size ($p < 0.05$) are positively related to firm performance. In addition, industry effects play a role. Model 25 adds the main effects and indicates that there is no significant direct relationship between change in the CHQ size and firm performance. Similarily, Models 27-28 in Table 4-11 present the results with regard to unrelated CSC. With the control variables, Model 27 predicts that prior firm performance and firm size ($p < 0.05$) are positively related to firm performance. In addition, industry effects play a role. Model 28 predicts that there is no significant direct relationship between change in the CHQ size and firm performance.

Hypotheses

I hypothesized three contingency relationships between changes in the business portfolio, structural change at the CHQ, and firm performance. Specifically, I expected that firms benefit from change in the CHQ size to the extent that total CSC (H3), related CSC (H4) and unrelated CSC (H5) occur. With respect to the former, Model 23a and Model 23b in Table 4-9 add the moderation effects. The results do not support hypothesis 3 (H3). With respect to the latter, Model 29a and 29b in Table 4-11 show the results. The results indicate that there are no significant relationships. The empirical results thus fail to support hypothesis 5 (H5).

The results of the hypothesized contingency relationship for unrelated CSC, structural change at the CHQ, and firm performance are the most interesting ones. Model 26a and Model 26b in Table 4-10 add the moderation effects. Although the

results do not support hypothesis 4 (H4), they provide some support for the contrary (Model 26b). Interestingly, the moderation effect of a high level of related CSC and change in the CHQ size is negatively associated with firm performance (beta = -0.461; $p < 0.05$). The model quality also increases significantly (R-squared increase from 0.4805 to 0.5014, and the difference is significant, $p < 0.05$).

Table 4-7: Change in the CHQ Size and Firm Performance (1/2)

Firm Performance: Avg. RoA (1999-2001)	Overall		**Small CHQ** [a)]		**Large CHQ** [a)]	
Variables	Model 9	Model 10	Model 11	Model 12	Model 13	Model 14
Constant	0.658	0.801	-1.857 **	-2.054 **	-0.053	0.496
	(0.653)	(0.666)	(0.843)	(0.837)	(0.793)	(0.820)
Controls						
CHQ characteristics						
CHQ size: ln (CHQ staff / 1,000 total employees) (1998)	-0.038	-0.027	-	-	-	-
	(0.064)	(0.064)				
Firm characteristics						
Prior firm performance: avg. RoA (1996-1998)	0.351 **	0.341 **	0.297 *	0.310 **	0.434	0.414
	(0.140)	(0.140)	(0.155)	(0.152)	(0.271)	(0.263)
CSCT: abs. change in total diversification (1995-1998)	0.267	0.230	-0.144	-0.132	0.407	0.231
	(0.256)	(0.259)	(0.320)	(0.314)	(0.384)	(0.383)
Firms size: ln market capitalization (1998)	0.117 **	0.118 ***	0.117 **	0.116 **	0.169 **	0.166 **
	(0.045)	(0.045)	(0.057)	(0.056)	(0.070)	(0.068)
Degree of total diversification (1998)	-0.182	-0.166	-0.293	-0.398 *	-0.169	-0.160
	(0.166)	(0.166)	(0.204)	(0.211)	(0.288)	(0.279)
Environmental characteristics						
Industry dummy 1	-0.450	-0.510	2.387 ***	2.505 ***	-0.641	-0.731
	(0.518)	(0.521)	(0.741)	(0.732)	(0.562)	(0.546)
Industry dummy 2	-1.222 **	-1.216 **	1.274	1.222	-0.933	-0.939
	(0.592)	(0.592)	(0.758)	(0.746)	(0.758)	(0.734)
Industry dummy 3	-0.858	-0.928	3.356 ***	3.454 ***	-2.109 ***	-2.196 ***
	(0.618)	(0.621)	(0.878)	(0.865)	(0.741)	(0.719)
Industry dummy 4	-2.139 ***	-2.177 ***	*omitted*	*omitted*	-1.968 *	-1.974 *
	(0.773)	(0.774)			(1.038)	(1.005)
Industry dummy 5	-2.050 ***	-2.089 ***	0.694	0.667	-2.255 **	-2.402 ***
	(0.644)	(0.645)	(0.701)	(0.689)	(0.866)	(0.842)
Country dummy 1	0.333	0.310	0.377	0.464	0.518	0.484
	(0.271)	(0.272)	(0.322)	(0.321)	(0.437)	(0.423)
Country dummy 2	0.091	0.094	-0.048	-0.069	0.806	0.580
	(0.228)	(0.228)	(0.237)	(0.233)	(0.560)	(0.555)
Country dummy 3	0.058	0.068	0.017	-0.029	0.185	0.160
	(0.178)	(0.178)	(0.238)	(0.235)	(0.258)	(0.251)
Predictors						
Prior CHQ change: abs. change in CHQ size (1994-1998)		-0.166		0.297		-0.457 *
		(0.157)		(0.189)		(0.240)
R-squared	0.4788	0.4853	0.6370	0.6584	0.5695	0.6069
Prob > F	0.0000	0.0000	0.0000	0.0000	0.0003	0.0001
Δ R-squared		0.0065		0.0215		0.0354
Prob > F		0.2675		0.2005		0.0300
Observations	104	104	52	52	52	52

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$, unstandardized beta coefficients, robust standard errors in parentheses below.
[a)] I performed a median sample split. The median value equals 8.3982 (ln 2.1280) CHQ staff per 1,000 employees.
CHQ … Corporate Headquarters. CSC … Corporate Strategic Change.

Table 4-8: Change in the CHQ Size and Firm Performance (2/2)

Firm Performance: Avg. RoA (1999-2001)	Overall		Small CHQ [a)]		Large CHQ [a)]	
Variables	Model 15	Model 16	Model 17	Model 18	Model 19	Model 20
Constant						
	0.724	0.851	-1.942 **	-2.202 **	-0.253	0.272
Controls	(0.661)	(0.672)	(0.847)	(0.851)	(0.824)	(0.868)
CHQ characteristics						
CHQ size: ln (CHQ staff / 1,000 total employees) (1998)	-0.036	-0.020	-	-	-	-
	(0.067)	(0.068)				
Firm characteristics						
Prior firm performance: avg. RoA (1996-1998)	0.349 **	0.335 **	0.306 *	0.330 **	0.510 *	0.492 *
	(0.141)	(0.142)	(0.155)	(0.154)	(0.274)	(0.269)
CSCR: abs. change in total diversification (1995-1998)	0.010	0.010	-0.294	-0.358	0.459	0.328
	(0.275)	(0.276)	(0.402)	(0.400)	(0.391)	(0.394)
CSCU: abs. change in total diversification (1995-1998)	0.143	0.208	-0.004	-0.105	1.473	1.411
	(0.339)	(0.345)	(0.312)	(0.316)	(1.556)	(1.586)
Firms size: ln market capitalization (1998)	0.111 **	0.115 **	0.121 **	0.118 **	0.175 **	0.168 **
	(0.045)	(0.046)	(0.057)	(0.056)	(0.071)	(0.069)
Degree of total diversification (1998)	-0.145	-0.139	-0.232	-0.321	-0.270	-0.237
	(0.176)	(0.176)	(0.226)	(0.231)	(0.317)	(0.309)
Environmental characteristics						
Industry dummy 1	-0.446	-0.515	2.390 ***	2.594 ***	-0.680	-0.752
	(0.524)	(0.528)	(0.746)	(0.748)	(0.567)	(0.553)
Industry dummy 2	-1.252 **	-1.236 **	1.335 *	1.371 *	-1.073	-0.925
	(0.600)	(0.601)	(0.771)	(0.769)	(0.769)	(0.755)
Industry dummy 3	-0.872	-0.924	3.353	3.538 ***	-2.074 ***	-2.025 ***
	(0.626)	(0.634)	(0.886)	(0.882)	(0.745)	(0.741)
Industry dummy 4	-2.163 ***	-2.202 ***	*omitted*	*omitted*	-1.801 *	-1.888 *
	(0.782)	(0.783)			(1.051)	(1.022)
Industry dummy 5	-2.019 ***	-2.064 ***	0.739	0.772	-2.209 **	-2.341 ***
	(0.652)	(0.655)	(0.710)	(0.705)	(0.860)	(0.842)
Country dummy 1	0.298	0.274	0.308	0.397	0.657	0.677
	(0.278)	(0.279)	(0.343)	(0.343)	(0.471)	(0.468)
Country dummy 2	0.079	0.092	-0.0836	-0.133	0.851	0.626
	(0.232)	(0.233)	(0.242)	(0.242)	(0.565)	(0.563)
Country dummy 3	0.082	0.077	0.0229	-0.0277	0.193	0.132
	(0.182)	(0.184)	(0.240)	(0.239)	(0.262)	(0.258)
Predictors						
Prior CHQ change: increase in CHQ size (1994-1998)		-0.136		0.251		-0.301
		(0.186)		(0.229		(0.282)
Prior CHQ change: decrease in CHQ size (1994-1998)		-0.239		0.388 *		-0.562 **
		(0.179)		(0.226		(0.273)
R-squared	0.4736	0.4842	0.6406	0.6682	0.5762	0.6209
Prob > F	0.0000	0.0000	0.0000	0.0000	0.0004	0.0004
Δ R-squared		0.0106		0.0276		0.0446
Prob > F		0.4195		0.3631		0.0796
Observations	104	104	52	52	52	52

*** p < 0.01, ** p < 0.05, * p < 0.1, unstandardized beta coefficients, robust standard errors in parentheses below.
[a)] I performed a median sample split. The median value equals 8.3982 (ln 2.1280) CHQ staff per 1,000 employees.
CHQ … Corporate Headquarters.
CSCR … related Corporate Strategic Change.
CSCU … unrelated Corporate Strategic Change.

Table 4-9: Change in the CHQ Size, Corporate Strategic Change and Performance

	Firm Performance: Avg. RoA (1999-2001)			
Variables	Model 21	Model 22	Model 23a	Model 23b
Constant	0.779	0.801	0.802	0.698
	(0.642)	(0.500)	(0.537)	(0.568)
Controls				
CHQ characteristics				
CHQ size: ln (CHQ staff / 1,000 total employees) (1998)	-0.044	-0.027	-0.027	-0.036
	(0.063)	(0.055)	(0.057)	(0.060)
Firm characteristics				
Prior firm performance: avg. RoA (1996-98)	0.349 **	0.341 **	0.341 **	0.361 **
	(0.140)	(0.156)	(0.159)	(0.162)
Firms size: ln market capitalization (1998)	0.107 **	0.118 ***	0.118 ***	0.117 ***
	(0.043)	(0.044)	(0.045)	(0.043)
Degree of total diversification (1998)	-0.129	-0.166	-0.166	-0.161
	(0.158)	(0.130)	(0.130)	(0.134)
Environmental characteristics				
Industry dummy 1	-0.433	-0.510 **	-0.510 **	-0.459 **
	(0.518)	(0.205)	(0.207)	(0.224)
Industry dummy 2	-1.235 **	-1.216 ***	-1.216 ***	-1.199 ***
	(0.592)	(0.345)	(0.351)	(0.347)
Industry dummy 3	-0.856	-0.928	-0.928	-0.854
	(0.618)	(0.724)	(0.729)	(0.779)
Industry dummy 4	-2.159 ***	-2.177 ***	-2.177 ***	-2.120 ***
	(0.774)	(0.463)	(0.466)	(0.474)
Industry dummy 5	-2.006 ***	-2.089 ***	-2.089 ***	-2.013 ***
	(0.643)	(0.412)	(0.417)	(0.422)
Country dummy 1	0.276	0.310	0.310	0.313
	(0.266)	(0.235)	(0.238)	(0.236)
Country dummy 2	0.079	0.094	0.095	0.076
	(0.228)	(0.259)	(0.263)	(0.273)
Country dummy 3	0.078	0.068	0.068	0.064
	(0.177)	(0.166)	(0.167)	(0.168)
Predictors				
Direct effects				
CSCT: abs. change in total diversification (1995-1998)		0.230	0.231	0.352
		(0.240)	(0.264)	(0.296)
Prior CHQ change: abs. change in CHQ size (1994-1998)		-0.166	-0.167	-0.094
		(0.148)	(0.198)	(0.197)
Moderation effecs				
High CSCT x no CHQ change			-0.002	
			(0.249	
High CSCT x CHQ change				-0.165
				(0.305
R-squared	0.4726	0.4853	0.4853	0.4875
Prob > F	0.0000	0.0000	0.0000	0.0000
Δ R-squared [a)]		0.0127	0.0000	0.0022
Prob > F		0.2770	0.9933	0.5900
Observations	104	104	104	104

*** p < 0.01, ** p < 0.05, * p < 0.1, unstandardized beta coefficients, robust standard errors in parentheses below.
[a)] Model 22 is compared to Model 21. Models 23a and 23b are compared to Model 22.
CHQ … Corporate Headquarters.
CSCT … total Corporate Strategic Change.

Table 4-10: Change in the CHQ Size, Related Corporate Strategic Change and Performance

	Firm Performance: Avg. RoA (1999-2001)			
Variables	Model 24	Model 25	Model 26a	Model 26b
Constant	0.749	0.929 *	0.834	0.867 *
	(0.643)	(0.480)	(0.505)	(0.458)
Controls				
CHQ characteristics				
CHQ size: ln (CHQ staff / 1,000 total employees) (1998)	-0.044	-0.034	-0.041	-0.047
	(0.064)	(0.057)	(0.061)	(0.057)
Firm characteristics				
Prior firm performance: avg. RoA (1996-98)	0.363 **	0.355 **	0.389 **	0.393 ***
	(0.140)	(0.142)	(0.152)	(0.139)
Firms size: ln market capitalization (1998)	0.093 **	0.092 **	0.089 **	0.098 **
	(0.043)	(0.042)	(0.042)	(0.040)
Degree of related diversification (1998)	0.085	0.161	0.166	0.103
	(0.198)	(0.236)	(0.237)	(0.229)
Environmental characteristics				
Industry dummy 1	-0.435	-0.489 **	-0.497 **	-0.585 ***
	(0.519)	(0.224)	(0.206)	(0.172)
Industry dummy 2	-1.226 **	-1.202 ***	-1.222 ***	-1.381 ***
	(0.594)	(0.318)	(0.305)	(0.291)
Industry dummy 3	-0.796	-0.878	-0.851	-0.986
	(0.621)	(0.773)	(0.789)	(0.762)
Industry dummy 4	-2.177 ***	-2.248 ***	-2.188 ***	-2.366 ***
	(0.777)	(0.463)	(0.464)	(0.442)
Industry dummy 5	-1.950	-1.976 ***	-1.909 ***	-1.997 ***
	(0.643)	(0.376)	(0.368)	(0.326)
Country dummy 1	0.253	0.209	0.256	0.233
	(0.265)	(0.221)	(0.232)	(0.219)
Country dummy 2	0.000	-0.030	-0.022	-0.027
	(0.244)	(0.322)	(0.313)	(0.309)
Country dummy 3	0.075	0.087	0.101	0.073
	(0.179)	(0.171)	(0.172)	(0.171)
Predictors				
Direct effects				
CSCR: abs. change in related diversification (1995-1998)		-0.180	-0.319	0.237
		(0.293)	(0.339)	(0.324)
Prior CHQ change: abs. change in CHQ size (1994-1998)		-0.190	-0.085	-0.020
		(0.147)	(0.197)	(0.173)
Moderation effecs				
High CSCR x no CHQ change			0.313	
			(0.262)	
High CSCR x CHQ change				-0.461 **
				(0.217)
R-squared	0.4697	0.4805	0.4865	0.5014
Prob > F	0.0000	0.0000	0.0000	0.0000
Δ R-squared [a)]		0.0108	0.0060	0.0209
Prob > F		0.3458	0.2347	0.0366
Observations	104	104	104	104

*** p < 0.01, ** p < 0.05, * p < 0.1, unstandardized beta coefficients, robust standard errors in parentheses below.
[a)] Model 25 is compared to Model 24. Models 26a and 26b are compared to Model 25.
CHQ … Corporate Headquarters.
CSCR … related Corporate Strategic Change.
CSCU … unrelated Corporate Strategic Change.

Table 4-11: Change in the CHQ Size, Unrelated Corporate Strategic Change and Performance

	Firm Performance: Avg. RoA (1999-2001)			
Variables	Model 27	Model 28	Model 29a	Model 29b
Constant	0.812	0.865 *	0.868	0.905 *
	(0.639)	(0.501)	(0.525)	(0.505)
Controls				
CHQ characteristics				
CHQ size: ln (CHQ staff / 1,000 total employees) (1998)	-0.060	-0.044	-0.044	-0.036
	(0.065)	(0.055)	(0.056)	(0.056)
Firm characteristics				
Prior firm performance: avg. RoA (1996-98)	0.355 **	0.347 **	0.347 **	0.337 **
	(0.138)	(0.148)	(0.150)	(0.148)
Firms size: ln market capitalization (1998)	0.105 **	0.112 **	0.112 **	0.115 ***
	(0.042)	(0.043)	(0.044)	(0.043)
Degree of unrelated diversification (1998)	-0.251	-0.235	-0.235	-0.261 *
	(0.184)	(0.149)	(0.151)	(0.153)
Environmental characteristics				
Industry dummy 1	-0.411	-0.486 **	-0.486 **	-0.528 **
	(0.515)	(0.236)	(0.238)	(0.252)
Industry dummy 2	-1.234 **	-1.217 ***	-1.217 ***	-1.281 ***
	(0.588)	(0.357)	(0.359)	(0.344)
Industry dummy 3	-0.809	-0.876	-0.876	-0.938
	(0.613)	(0.755)	(0.756)	(0.760)
Industry dummy 4	-2.227 ***	-2.246 ***	-2.247 ***	-2.293 ***
	(0.770)	(0.497)	(0.500)	(0.491)
Industry dummy 5	-2.022 ***	-2.080 ***	-2.080 ***	-2.152 ***
	(0.638)	(0.411)	(0.415)	(0.425)
Country dummy 1	0.299	0.308	0.307	0.338
	(0.265)	(0.213)	(0.216)	(0.213)
Country dummy 2	-0.006	0.002	0.002	0.002
	(0.225)	(0.260)	(0.258)	(0.263)
Country dummy 3	0.037	0.038	0.037	0.048
	(0.180)	(0.171)	(0.174)	(0.169)
Predictors				
Direct effects				
CSCU: abs. change in unrelated diversification (1995-1998)		0.144	0.144	0.092
		(0.217)	(0.217)	(0.215)
Prior CHQ change: abs. change in CHQ size (1994-1998)		-0.167	-0.169	-0.218
		(0.148)	(0.156)	(0.165)
Moderation effecs				
High CSCU x no CHQ change			-0.007	
			(0.233)	
High CSCU x CHQ change				0.164
				(0.218)
R-squared	0.4794	0.4889	0.4889	0.4920
Prob > F	0.0000	0.0000	0.0000	0.0000
Δ R-squared [a)]		0.0095	0.0000	0.0031
Prob > F		0.3963	0.9772	0.4529
Observations	104	104	104	104

*** p < 0.01, ** p < 0.05, * p < 0.1, unstandardized beta coefficients, robust standard errors in parentheses below.
[a)] Model 28 is compared to Model 27. Models 29a and 29b are compared to Model 28.
CHQ … Corporate Headquarters.
CSCR … related Corporate Strategic Change.
CSCU … unrelated Corporate Strategic Change.

4.5.3 Supplementary Analyses: Small vs. Large CHQ

To further explore the performance consequences of change in the CHQ size, I conducted supplementary analyses: I investigated the potential differences between firms with a small and a large CHQ. The logic is that managing an entire firm with a 'minimum CHQ' with very few CHQ staff is a rather different approach than doing so with a larger CHQ (e.g. Goold et al., 2001).

To explore potential differences, I used subgroup moderation rather than interaction moderation: With a reference to Arnold (1982) and Gerdin and Greve (2004), Boyd et al. argue that "[s]ubgroup moderation relates to the strength of an effect, while interaction refers to the form of an effect" and although "the two approaches to moderation are interrelated, they do not always yield comparable results" (2012: 302). Following the typical procedure for subgroup moderation as applied in previous research (see Boyd et al., 2012: 292), I used the median to split the sample into two subsamples. The median value of the relative CHQ size was 8.3982 (ln 2.1280), which means that small CHQ have less and large CHQ have more than approx. 8.4 CHQ staff per 1,000 employees.

Models 11-14 in Table 4-7 and Models 17-20 in Table 4-8 present the results. While change in the CHQ size was not significantly related to firm performance for firms with a small CHQ, there was a significant negative relationship between change in the CHQ size and firm performance for firms with a larger CHQ. Specifically, while an increase in the CHQ size was not significantly related to firm performance in either a small or large CHQ, a decrease in the CHQ size was significantly related to firm performance. Specifically, Model 18 predicts that a decrease in the CHQ size is positively related to firm performance for firms with a relatively small CHQ (beta = 0.393, $p < 0.1$). Conversely, Model 20 predicts that a decrease in the CHQ size is negatively related to firm performance for firms with a relatively large CHQ (beta = -0.599, $p < 0.05$). All models are significant (R-squared, $p < 0.001$).

4.6 Discussion and Conclusion

This study explored structural change at the CHQ of multi-business firms. Specifically, I explored the relationships between CSC, change in the CHQ size, and firm

performance—and thereby the dynamic linkages between Porter's (1987) two corporate strategy concerns. As will be discussed below, the findings support the contingency view that CSC fosters the likelihood of change in the CHQ size; however, simultaneous change in both the corporate strategy concerns can yield negative performance. The empirical findings contribute to existing research on the CHQ and CSC.

4.6.1 Summary of the Main Findings

The analyses suggest several important findings. Overall, various factors at the firm and CHQ levels appear to influence change in the CHQ size. While the results provide some support for the contingency and organizational adaptation views by explaining the relationships between CSC and structural change at the CHQ, I found no support for the expected performance benefits. Instead, I found some support for the opposite: While related CSC was especially positively associated with the likelihood of change in the CHQ size, change in the CHQ size entailed negative performance at high levels of related CSC. These findings hint at the disruptive effects of high levels of corporate-level change and urge a considered approach to CHQ redesigns.

Overall Factors: Control Variables

The control variables require discussion since this is the first empirical study on structural change at the CHQ. In keeping with the contingency and organizational adaptation lenses, I included prior performance at the CHQ and firm levels. The empirical results indicate that, at both levels, prior performance can influence structural change at the CHQ.

The findings related to CHQ performance were mixed. While there were no significant findings regarding the ability of the CHQ to support corporate strategy as an antecedent of structural CHQ changes, the positive coefficients in all the models indicate that lower performance may increase the likelihood of structural change at the CHQ. However, I found that lower CHQ cost effectiveness raises the likelihood of change in the CHQ size. Specifically, lower CHQ cost effectiveness raises the likelihood of a decrease in the CHQ size. These findings are in line with prior studies on organizational adaptation (Kimberly & Quinn, 1984), suggesting that lower performance increases the pressure for change.

The empirical results with regard to firm performance differed somewhat from the findings on the CHQ performance. While there was almost no support for firm performance as an antecedent of structural change at the CHQ, the signs of the coefficient alternated consistently with regard to a decrease and an increase in the CHQ size, indicating that higher performance may decrease the likelihood of a decrease in the CHQ but may also increase the likelihood of an increase in the CHQ size. Prior research suggests that slack is needed to initiate and implement change (e.g. Haveman, 1993). This seems especially true for changes at the CHQ.

A Paradox Related to Structural Change at the CHQ

The relationships between CSC—in this study defined as change in the product-market diversification—, the structural change at the CHQ, and corporate performance were key in this study. Specifically, I was interested in the consequences of structural change at the CHQ: whether firms, depending on the extent to which CSC occurs, benefit from change in the CHQ size.

The empirical findings suggest that CSC, and especially related CSC, are positively related to the likelihood of change in the CHQ size. Moreover, while I did not find empirical evidence of the contingency view to explain the performance effects, the analyses of the moderation effects yielded interesting insights. The empirical findings suggest that structural change at the CHQ leads to negative performance when the level of related CSC is high.

This finding hints at the disruptive effects of substantial corporate-level change. Existing theoretical frameworks have pointed to the disruptive effects of strategic change, especially at the corporate level. For example, Amburgey et al. (1993) suggest that organizational change can be both adaptive and disruptive. Zhang and Rajagopalan (2010) find an inverted U-shape relationship between CSC and performance, thus indicating that disruptive effects prevail at high levels of CSC. These disruptive effects relate to limitations in an organization's absorptive capacity (Cohen & Levinthal, 1990) and especially to changes in an organization's 'core features' (Hannan & Freeman, 1984; Haveman, 1992; Kelly & Amburgey, 1991; Singh, House, & Tucker, 1986a). A possible explanation for my findings is thus that structural change at the CHQ concerns the core elements or core features in large and diversified firms.

4.6.2 Contributions

The study contributes primarily to research on the CHQ of large firms and to the CSC literature. First, this study adds to existing research on the dynamics of the CHQ by revealing various factors that foster and impede structural change at the CHQ. While previous CHQ studies (e.g. Goold & Campbell, 1987; Goold et al., 1993b; Pettigrew, 1987a) and organizational change and inertia theories (Hannan & Freeman, 1977, 1984, 1989) have nurtured concepts of CHQ inertia, the results of this study yield little empirical support for this viewpoint with respect to structural change at the CHQ. Indeed, when studying (corporate) strategic change, scholars have typically taken two polar viewpoint: either adaptation or inertia (Ginsberg, 1988; Rajagopalan & Spreitzer, 1997). It appears that especially CSC and lower CHQ performance foster the need for structural change at the CHQ.

Second, the study adds to the classic strategy/structure literature (Chandler, 1962). While previous studies empirically tested the dynamic contingency relationship between strategy and structure at the firm level, as proposed by Chandler (e.g. Amburgey & Dacin, 1994; Galan & Sanchez-Bueno, 2009), this study was focused on the specific relationships between changes in the corporate portfolio and structural change at the CHQ. In line with other empirical studies (e.g. Amburgey & Dacin, 1994; Galan & Sanchez-Bueno, 2009), the findings still support Chandler's (1962) observation that structure follows strategy and provide empirical support for this proposition.

Third, this study adds to CSC research by suggesting the distinction between related and unrelated CSC. The notion of relatedness and the distinction between related and unrelated diversification have become crucial in 'static' diversification research. Although strategy researchers have often relied on the diversification portfolio to study (corporate) strategic change (CSC) in large firms and public companies, i.e. diversification (e.g. Hoskisson & Hitt, 1990) and corporate restructuring (Berger & Ofek, 1999; Bowman & Singh, 1993; Brauer, 2006; Johnson, 1996), these 'dynamic' studies have only utilized the total diversification index to calculate CSC. In other words, relatedness has not been considered in prior studies exploring CSC. This study's empirical findings, however, recommend such a fine-grained examination of CSC.

4.6.3 Practical Implications

'CHQ re-designs' are an important concern to corporate managers and consultants (e.g. Economist, 2008; Kontes, 2004). For example, in a recent international survey of the largest companies in North America and Europe, approximately two of every three firms mentioned that they had implemented 'major change' at their CHQ in the past four years (Kunisch et al., 2012c). Such endeavors are often aimed at changing the CHQ size. The empirical findings of this study suggest that when considering change at the corporate level, corporate managers need to take both aspects of corporate strategy into consideration and time them cautiously.

Notably, the findings of this study lead to three practical implications: First, regarding the antecedents, the study reveals various prompts for CHQ reviews, such as the CHQ performance and changes in the business portfolio. Certain changes in the business portfolio appear to require adjustments to the way the business portfolio is managed, which in turn affects the CHQ size. While the focus is often only on changes in the business portfolio (e.g. Porter, 1987), changes to how the business portfolio is managed and to the CHQ design are equally important. Hence, in line with changes in their business portfolio firms should put their CHQ designs to the test.

Second, regarding the consequences, no empirical evidence was found that structural change at the CHQ influenced firm performance directly. Specifically, neither an increase nor a decrease in the CHQ size was directly related to either lower or better firm performance. These non-findings are actually not extremely surprising. Like many other factors that influence firm performance, structural change at the CHQ seems unlikely to per se affect firm performance directly. In line with prior empirical evidence (Collis et al., 2007; Goold & Young, 2005), the findings do not suggest that firms with smaller CHQ outperform those with larger; if anything, the opposite appears to be true. Rather than simply downsizing the CHQ, the study thus cautions corporate managers to engage in a considered approach when reviewing their CHQ.

Finally, the empirical findings hint at the disruptive effects of corporate-level change. Related empirical research already suggests that "simply reducing the size of the headquarters is no guarantee of improved performance" (Collis et al., 2007: 402) and that a strong CHQ is especially needed in times of uncertainty (Raynor & Bower,

2001). In a similar vein, I suggest that firms should keep the disruptive effects in mind when considering structural change at their CHQ and expecially CHQ downsizing.

4.6.4 Limitations and Future Research

As with all research, this endeavor has limitations, which offer opportunities for future research: First, the empirical findings are not generalizable beyond the constraints of the sample in this study, which is characterized by (a) four countries in the US and Europe, (b) public firms (ownership), and (c) large, and somewhat diversified firms. Future studies may thus test whether the study's findings apply to (a) other countries, (b) under different ownership conditions (Boeker, 1997), and (c) for smaller and single business firms.

Second, this study was focused on structural change at the CHQ. While analyzing the structures of an organizational entity is a practicable approach for identifying the underlying activities and capabilities that was applied previously (e.g. Grant, 2003), it could be criticized for its mere focus on organizational structures. Structural change may merely reflect superficial change while the personnel, behaviors, and/or culture remain the same (Ferlie & Pettigrew, 1996: 501, 508). Studies on reorganizations in governments are specifically skeptic in this regard (Brunsson, 1989; Brunsson & Olsen, 1993; March & Olson, 1983). In a similar vein, Goold and Luchs (1992) suggest that companies rarely change their management styles. Although beyond the scope of this study, future studies may investigate to what degree structural change at the CHQ is not merely relabeling and symbolic but actually reflects genuine change.

Third, this study relied on changes in the CHQ size and was thus based on the assumption the CHQ size is crucial in large firms (Collis et al., 2007, 2012). The CHQ size is, admittedly, fairly vague and prior research has suggested that many factors actually contribute to the CHQ size. Hence, more fine-grained research is required which for example distinguishes between administrative and value adding activities (Collis et al., 2007, 2012). The focus on the CHQ is also based on the assumption that the tasks at the CHQ level and the business level are somewhat distinct (Hofer, 1975; Vancil & Lorange, 1975) and cannot simply be switched between these levels. In addition to understanding the change in the CHQ size per se, it would be interesting to explore what happens at the subsidiary level; e.g. is there a company-wide change or

merely a shift from the CHQ to the division or business unit levels?[54] Hence, future research could simultaneously explore the dynamics at both these levels.

Third, a few limitations are related to the approach chosen to conceptualize and measure CSC. On the basis of Porter's (1987) two corporate strategy concerns, I focused on product market diversification as a basis to capture CSC. While the original focus in CHQ research was indeed on the CHQ of multi-business firms (e.g. Chandler, 1991; Collis et al., 2007), the growing importance of internationalization research has made the CHQ of multi-national firms equally important (e.g. Collis et al., 2012). Future research could thus use the geographic diversification (Geringer, Tallman, & Olsen, 2000)[55] to capture CSC and reexamine the relationships with structural change at the CHQ. For instance, if corporations diversify to enter new markets, they probably need to adapt their organizational design to capture cross-border synergies and to protect local value (Ghislanzoni, Penttinen, & Turnbull, 2008).

In addition, since product market diversification and geographic diversification are obviously focused on firm output rather than the firm's capabilities or core competences (e.g. Markides & Williamson, 1996), future studies could investigate other measures of CSC. Prior research on CSC has used a variety of measures.[56] In a similar vein, future studies could explore different means of corporate strategy and drivers of CSC such as M&A, internal growth, and alliances (Villalonga & McGahan, 2005) that may affect structural change at the CHQ. For example, if two firms merge or one acquires another one, what, for example, happens to the CHQ?

Finally, the focus on internal contingencies and internal fit rather than external fit and contingencies constitutes a theoretical limitation. Recent research has stressed the importance of the CHQ as "a 'middleman' or broker between the business units on the one hand, and the external stakeholders on the other" (Birkinshaw et al., 2006: 686). Thus, the impact of external contingencies on structural change at the CHQ

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[54] I thank an anonymous conference reviewer for pointing out this limitation.

[55] Vertical diversification is a third dimension (e.g. Hill & Hoskisson, 1987; Jones & Hill, 1988).

[56] For a list of different measures of strategic change used in prior studies, see Appendix 32. The list indicates that a variety of measures have been used but scholars have mostly investigated the magnitude of strategic change and have omitted the directionality of change.

could lead to interesting research. For example, what influence do changes in the external environment have on structural change at the CHQ?

4.6.5 Conclusion

I hope this contingency study on the antecedents and consequences of structural change at the CHQ begins to answer Ferlie and Pettigrew's (1996) call for testing in the field and more theoretically informed research on dynamic CHQ phenomena. Although many areas in strategy research have indeed shifted attention from a static to a more dynamic viewpoint, existing research into the puzzling variety of the structure and size of the CHQ in large firms has remained static. Through a contingency and organizational adaptation lens, this study sheds light on the antecedents and performance implications of structural change at the CHQ. To conclude, I hope this study stimulates further empirical research on this contemporary phenomenon.

5 The Seasons of Corporate Functions: A Dynamic Approach to Functional Management at the Corporate Level[57]

Abstract

Corporate functions such as HR, IT, marketing, and strategy have become increasingly important in today's large companies; their number and their influence on business units are increasing. Nevertheless, many functions perform poorly: They do not add as much value as they could and often even destroy value. Why is it so difficult for corporate managers to succeed? One reason, which has received too little attention thus far, is the dynamic nature of the management of corporate functions. We identified four *value stages* of corporate functions, each of which has a distinct *value trap* that corporate managers need to handle.

Keywords

Corporate strategy, corporate functions, central functions, corporate functional strategy, value stages, value traps, adding value, corporate added value, parenting advantage.

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[57] This chapter is a slightly revised version of a co-authored article by Sven Kunisch, Günter Müller-Stewens, and Andrew Campbell (see Kunisch et al., 2012b).

Acknowledgements: We are grateful to Michael Boppel, David J. Collis, Michael Goold, Tomi Laamanen, Markus Menz, and David Young as well as the participants of a brown bag session at the University of St.Gallen for valuable comments. Moreover, we thank all our interview partners for their willingness to share their experiences and insights into this topic.

"When you create organizational subunits of any form,
they'll have a tendency to focus internally on their own things"

Toby E. Stuart, Professor of Business Administration at Harvard Business School, 2012[58]

5.1 Introduction

Corporate functions[59] are a crucial management concern in companies that contain a number of business divisions. Such corporate functions can span a variety of management areas such as IT, HR, marketing/branding, finance and controlling, purchasing, legal, and corporate development. Furthermore, any stage in the value chain, ranging from R&D to sales, can be centralized as a corporate function.[60] The broad scope and variety of corporate functions are reflected in their numbers across large and diversified firms. While the minimum number is around five, the upper limit can be a multiple of this (Kunisch et al., 2012c). General Electric (GE), for example, has six corporate functions; its competitors Siemens and ABB have 13 and 28 corporate functions respectively (see Appendix 33).

Definition: A corporate function is defined as (1) an organizational entity (a department) (2) in a company structured into business divisions (3) which provides (centralized) guidance/policy and support to the whole or most of the company, and (4) the head is typically a member of the top management team (TMT, management board, including the CEO) or reports directly to one of them.

Overall, the importance of corporate functions has increased significantly over the last couple of decades. With the upsurge in globalization, the unprecedented technological evolution, and the increasing environmental complexity, the pressure to integrate functional activities at the corporate level has increased (Raynor & Bower, 2001). The growing importance of corporate functions is reflected in a dramatic rise in the number of functional managers in the 'C-suite' (Guadalupe et al., 2012a;

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[58] See Blanding, 2012.

[59] Synonyms: corporate staff functions, staff functions, corporate units, centralized functions, group functions, support functions, corporate departments, corporate office departments.

[60] For example, for corporate R&D, see Argyres and Silverman, 2004; for corporate sales, see Kleinbaum and Stuart, 2011.

Guadalupe, Wulf, & Li, 2012b; Neilson & Wulf, 2012)[61], and in several recent publications on individual corporate functions.[62]

Indeed, many companies have recently added new corporate functions such as supply chain management, real estate, corporate compliance, and corporate purchasing.[63] Moreover, firms have altered the scope of their existing corporate functions: They have often extended the range of their activities, such as talent management to become part of the corporate HR function. At times, companies have also reduced the scope of corporate functions, or even abolished some, such as organizational development. Whether launching a new corporate function, adapting, or even shutting down existing functions, these undertakings reveal the dynamic nature of corporate functions.

Corporate functions have the potential to add significant value and contribute to the overall value of the 'corporate parent' (Campbell et al., 1995b). More often, however, corporate functions have a tendency to destroy value: Their positive impact is less than their costs. Why is it so difficult for corporate managers to get it right? Although there is little general advice on how corporate functions should be managed beyond that pertaining to specific functional areas, one reason is the dynamic nature of the management of corporate functions—especially in today's dynamic and ever-changing environments. This article thus examines the dynamic nature of corporate functions and suggests a management approach that can help increase the value created and reduce value destruction.

Our research shows that corporate functions are characterized by several *value stages*—with distinct challenges arising at each stage. Specifically, we identified four value stages broadly paralleling the typical stages in life cycle models.[64] We noted that

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[61] Guadalupe et al. demonstrate that "top management structures in large US firms radically changed since the mid-1980s. While the number of managers reporting directly to the CEO doubled, the growth was driven primarily by functional managers rather than general managers." (2012: 1).

[62] For example, for corporate IT and the CIO see Peppard, 2010. For corporate strategy and the CSO see Angwin, Paroutis, and Mitson, 2009. For corporate Marketing and the CMO see Aaker, 2008. For corporate HR see Ulrich, 1998. For an overall review on functional top management team members see Menz, 2012.

[63] For recent trends, see Kunisch et. al, 2012c.

[64] Life cycle approaches have been used in many areas of management research such as the life cycle of products, technologies, industries or organizations. For example, see Miller and Friesen, 1984.

at each stage, corporate managers face difficult *value traps*—challenges that, if badly handled, frequently lead to value destruction. These value traps are rooted in the specific strategic and organizational design characteristics in each value stage. To avoid these value traps, managers needs to take specific actions—*antidotes*—to keep their function balanced and value creating. Figure 5-1 summarizes the four value stages and the value traps, as well as their antidotes:

1. In the launch stage, a new corporate function is set up to address a new opportunity. The 'opportunity trap' frequently occurring in this stage stems from a desire to start having an impact before the mandate is clear or the expertise is in place. The antidote is to focus on clarifying the mandate and finding the appropriate talent to implement the mandate.

2. In the growth stage, corporate functions expand their original mandate and grow in size and importance. The 'ambition trap' which is typical in this stage stems from natural ambition—the functional leaders begin to believe that the function can do many more things. The antidote is to contain ambition by strengthening the challenges of any new mandates proposed by the function.

3. In the maturity stage, corporate functions have reached stability in terms of their mandate and hence focus more on improving their internal excellence. The 'best practice trap' typical in this stage stems from the functional leaders' desire to benchmark their performance and to seek best practices in other companies. This can distract from the specific needs of the function's customers—the company's business divisions. The antidote is thus to reinforce the focus on internal customers.

4. Finally, in the decline stage, the challenge for the management of corporate functions is to scale back the mandate and shrink the resources. The 'redefinition trap' frequently occurring in this stage stems from the natural desire to maintain the status quo—a tendency of managers and staff to cling to old ways of working and resist change. The antidote centers on breaking the existing mold.

Figure 5-1: Corporate Functions' Value Stages and Value Traps

Value stages	Value traps	*Causes*		*Antidotes*
1 **Launch**	A **Opportunity trap**	Lack of experience and expertise	→	Scale mandate and resources
2 **Growth**	B **Ambition trap**	Unguided growth	→	Challenge new initiatives
3 **Maturity**	C **Best practice trap**	Focus on benchmarking and functional excellence	→	Focus on internal customers
4 **Decline**	D **Redefinition trap**	Desire to maintain status quo	→	Break the mold

The purpose of this article is to spotlight the dynamic nature of corporate functions and to identify the specific management challenges in each of the value stages. We first briefly review the nature of corporate functions. Subsequently, we describe the specific characteristics of the four value stages, and thereafter elaborate the value traps and the potential antidotes.

5.2 Managing Corporate Functions

5.2.1 A Strategic Task Beyond Specific Functional Areas

Historically, corporate functions were regarded as administrative overhead activities in the corporate office (Chandler, 1962, 1991, 1992; Strikwerda & Stoelhorst, 2009). These functions had to perform administrative tasks at the corporate level (e.g. consolidation of the balance sheet). Owing to this administrative focus, corporate functions often received little top management attention. The dominant view was that value creation in large firms stemmed mainly from the businesses. Consequently, the business units attracted most of the corporate management's attention. Moreover, managers often focused on the individual functions rather than taking a corporate strategy perspective.

Today, scholars and managers largely agree that corporate functions are a crucial part of any successful corporate strategy. The quest for corporate strategy and parenting advantages require large and diversified companies to create value beyond the sum of the individual parts (Campbell et al., 1995a; Porter, 1987, 1988).[65] According to Michael Porter's influential definition, corporate strategy has two concerns: which businesses a company should own, and how the corporate office should manage the set of individual businesses in a firm's business portfolio in order to create value for the company as a whole (Porter, 1987, 1988). Porter's second corporate strategy concern does speak to corporate functions. Since most of the corporate office's activities and its staff are organized into corporate functions, their management is an important way of addressing this second part of corporate strategy.

Given the premise that corporate strategy matters (Bowman & Helfat, 2001), corporate functions can be a vital source of value creation (Campbell et al., 1995b; Raynor, 2007).[66] For example, the British retailer Tesco provided its individual businesses with outstanding market research data because Tesco allocated specific resources to this corporate function (e.g. Bell, 2006; Mukund, 2003). It would not make sense for individual businesses to have made similar investments. Another example is Danaher, which is well known for its Danaher Business System, a set of corporate capabilities and a way of managing that enable the corporation to raise the performance of the individual businesses it acquires (e.g. Anand, Collis, & Hood, 2008; Nadathur & Bourgeois, 2010). Corporate functions can, therefore, help develop corporate-level capabilities in areas such as competitive intelligence, mergers and acquisitions, and talent management that give the overall company a parenting advantage.

The number and scope of corporate functions are largely subject to strategic choices. Some activities at the corporate level are, of course, more discretionary while

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[65] According to Porter, corporate strategy is "the overall plan of a diversified company [… and] concerns two different questions: what businesses the corporation should be in and how the corporate office should manage the array of business units. Corporate strategy is what makes the corporate whole add up to more than the sum of its business unit parts" (1987: 43).

[66] For example, Campbell et al. (1995b) propose four ways for corporate parents to affect the corporate value. One of them centers on corporate functions and services.

others are less so (Chandler, 1991; Collis et al., 2007).[67] A basic set of non-discretionary activities, such as tax management and financial reporting, has to be carried out at the corporate level. All firms have to undertake these activities in more or less the same way. These activities are, therefore, subject to operational efficiency but are not part of the firm's strategy for adding value since they can only be carried out either more or less efficiently (Collis & Rukstad, 2008; Porter, 1996).[68] However, control activities, shared services, and value-adding activities are subject to strategic choices: Firms can differentiate these areas in ways that allow them to outperform their rivals. In other words, the non-discretionary part of a corporate function has the potential to add value or avoid value destruction. Hence, each firm has to align the number and scope of its corporate functions very carefully with the overall corporate strategy.

5.2.2 A Dynamic Rather Than a Static Challenge

Above and beyond this corporate strategy perspective, the management of corporate functions needs a dynamic approach because their number and scope change over time in all firms. The dynamics of corporate functions are driven by several forces, partly from the outside, but most importantly from the inside. Specifically, there are at least two well-known reasons which demonstrate that corporate functions need to be managed dynamically: the centralization pendulum, and the tendency of organizational subunits to focus internally on their own business.

In general, changes in the number and scope of corporate functions over time reflect the ever-swinging pendulum between centralization and decentralization (Ferlie & Pettigrew, 1996). Managing this pendulum implies a balancing act between the

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[67] Building on the four roles of the CHQ (Collis et al., 2007), corporate functions can host four types of activities: (1) Non-discretionary activities: Obligatory or public company functions required of any corporate entity, such as external tax and financial reporting. (2) Shared services activities: These are services which can, but must not be performed at the corporate headquarters. They could also be performed at a business unit, or even outsourced to a third party. (3) Value-adding activities: These are functions governing the development, allocation, and deployment of valuable corporate resources within the hierarchy. (4) Control activities: A control system monitors and evaluates the performance of its constituent units in order to minimize the agency costs of delegating substantial decision-making authority.

[68] Porter (1996) clearly distinguishes strategic choices from the relentless, but competitively fruitless, search for operational efficiency.

drivers of centralization at the corporate level—the desire to improve, control, and standardize—, and the drivers of decentralization—the desire for local autonomy and accountability, resistance to standardization, and concerns about bureaucracy. These drivers vary over time. For example, a finance function manager recalled that after his company had given the regions more autonomy, it recently centralized certain activities again:

> "*Now we notice that we have lost some access to the system. We have to regain this for topics like compliance.*"

Admittedly, it is not easy to get the balance between centralization and decentralization right. From the perspective of business units (products and regions), corporate functions often do not deliver on their promises. For example, many companies have indicated that IT is one of the areas in which the corporate level can add value. Nevertheless, many fail. Centralized IT has often made matters worse rather than better. A head of corporate IT even revealed that many ERP projects are overdesigned:

> "*I have witnessed a number of ERP projects that have cost a lot and delivered little.*"

Getting the balance right is partly about managing the politics between the corporate and the business level, but is—more importantly—about clarifying value adding sources and ensuring that the risks outweigh the benefits. This underlines the importance of clearly identifying how corporate functions add value, as well as defining the management processes and initiatives that realize value without creating interference, de-motivation, and bureaucracies. This is the essential task of strategy-making within corporate functions.

In addition, the nature of the corporate functions' internal focus illustrates the need for a dynamic approach to the management of corporate functions. As illustrated by the prologue quote, like any other organizational subunit, corporate functions have a natural tendency to focus internally on their own issues once they have been set up. For example, heads of corporate functions run the risk of driving their own agendas, engaging in prestigious projects, or acting on the basis of their previous company experiences. There is often a natural desire to grow the function and make it more influential—beyond its actual value adding potential. Sometimes a corporate function's ineffectiveness manifests in the inflexibility of its services to the business units.

A large and integrated IT system may turn into a major obstacle to required adjustments to the corporate functions' strategy. Furthermore, their services in place may not cater for the distinct needs of businesses and countries. Internal functional services may be more expensive for the business units than sourcing those services from the outside, but they may have no choice. None of these arguments regarding which activities should be carried out at the corporate level may necessarily lead to an advantage for the company as a whole. Instead, they illustrate corporate functions' self-dynamic tendency to destroy value that often persists.

Offsetting this tendency does not happen organically. It needs appropriate management intervention to shift the natural internal focus of corporate functions' to value adding for the company as a whole. Successfully managing corporate function thus requires managers to take the dynamics of corporate functions into consideration. Companies which fail to do so are likely to destroy value. This article will not only explain that the corporate functions' self-dynamic tendency to destroy value varies markedly in the course of time, but also how appropriate management intervention may look like.

So how can one incorporate the dynamics of corporate functions into a management concept? In this article, we advocate the conceptualization of corporate functions' value stages as a dynamic approach to functional management at the corporate level. As we describe below, the value stages emerge over time from the distinct nature of the corporate functions' value adding mandate and the corporate functions' distinct organizational design characteristics.

5.3 The Value Stages of Corporate Functions

Our empirical research with approx. 40 functional leaders at some of Europe's leading companies[69] suggests that corporate functions show very distinct characteristics over time.

[69] See Appendix 34 and Appendix 35.

Table 5-1: Characteristics of the Corporate Functions' Value Stages[70]

Value stages / Characteristics	(1) Launch	(2) Growth	(3) Maturity	(4) Decline
Brief description	▪ young (1-2 years) ▪ new ▪ small	▪ still young (1-5 years) ▪ still rather new ▪ expanding	▪ older (3+ years) ▪ established ▪ large	▪ various ages ▪ established ▪ shrinking
Strategy				
Mandate	▪ limited mandate ▪ abstract and often informal	▪ expanding mandate ▪ becoming more explicit	▪ stable mandate ▪ formal and explicit	▪ declining or changing mandate ▪ mix of formal and informal
Organizational design				
Tasks / roles	▪ exploration of new corporate issues ▪ focusing on some core activities	▪ exploration of additional activities ▪ diversifying scope of activities	▪ stable scope of activities ▪ exploitation of activities: attention to efficiency and effectiveness	▪ reducing scope of activities ▪ cutting back and closing down some activities
Resources / people	▪ basic infrastructure ▪ limited resources and expertise ▪ few staff and few functional experts	▪ enhanced infrastructure ▪ enhanced resources and expertise ▪ growing number of staff and functional experts	▪ stable infrastructure ▪ streamlined resources ▪ stable number of staff and percentage of functional experts	▪ stable infrastructure ▪ excess of resources and expertise ▪ number of staff declining; often staff with long tenures
Design (formal and informal)	▪ low formalization, and centralization ▪ emerging acceptance in the organization	▪ some formalization, and centralization ▪ growing acceptance in the organization	▪ high formalization, and centralization ▪ broad acceptance in the organization	▪ high formalization and centralization under challenge ▪ lower acceptance in the organization
Leadership	▪ clear sponsor in the top management team	▪ functional head becoming own sponsor	▪ functional team with significant status	▪ status of functional team under challenge

Specifically, the differences showed up along two basic dimensions: the corporate functions' strategy and organizational design. The strategy dimensions can be characterized by the corporate functions' specific value adding mandate. The corporate

[70] See also Appendix 36.

functions' organizational design can be characterized according to the nature of their tasks/roles, their resources/people, their formal and informal design, and their leadership characteristics.[71] From these two basic dimensions, we have been able to identify the four value stages: launch, growth, maturity, and decline (see Table 5-1).

5.3.1 The Launch Stage—A Limited Mandate

In the launch stage, a new corporate function is set up. Such functions can be set up for either entirely new corporate activities, or activities carved out from other corporate functions. For example, recently, many companies have established corporate functions in areas such as supply chain management, real estate, corporate compliance, R&D and corporate sales (e.g. Kontes, 2004; Kunisch et al., 2012c). In addition, companies have reorganized activities at the corporate level and designated activities as new corporate functions, although these were previously carried out by other corporate functions. In both cases, a new corporate functions is launched which then starts developing a life of its own.

Although there are many different reasons for setting up a new corporate function, common to essentially all of them is either an opportunity for value creation or a need to avoid value destruction. In the former case, the corporate management identifies a specific value creation opportunity as part of the firm's corporate strategy. The objective of the corporate function is to exploit this newly identified opportunity, for example, by creating synergies by coordinating across the business divisions, or reducing the risk of mistakes by imposing controls.

In either case, a limited mandate, which holds the reasons for setting up this new corporate function, is the norm in the launch stage. This mandate embodies the value adding potential or the need to avoid value destruction. But, given the novelty of the topic, the mandate often does not elaborate how to exploit the identified opportunity. The function manager normally has to develop the action plan. The HR head of a global industrial company had the following to say on how he negotiated the mandate with the CEO after he had been appointed to this position from the outside:

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[71] Organization theorists typically distinguish between unit and organization level and multiple organizational design dimensions such as work, people, formal organization, and informal organization. See, for example, Nadler et al., 1992.

> *"Well, we didn't centralize anything. I initiated things centrally that didn't exist. [...] There was no corporate HR function when I arrived. [...] And it really amazed me that a company of this size didn't identify someone internally for the role of head of HR. I dug a bit deeper and discovered that, of the 50 top managers of the company, half had never been subject to an appraisal throughout their careers. There was no attempt to develop or assess talent. I therefore got the CEO to agree that the number one priority had to be talent management [...]."*

From an organizational point of view, a team of corporate managers is charged with executing the limited mandate. A limited portfolio of central activities is normal. Scarce resources and capabilities are also the norm in this stage. A basic infrastructure is put in place but the interfaces with the business units have to be defined. New corporate functions typically have a 'natural sponsor' in the top management team who is responsible for this part of the corporate strategy being executed. He/she often has a very close and personal link to the head of the corporate function.

5.3.2 The Growth Stage—An Expanding Mandate

The growth stage is characterized by an expanding mandate. The corporate function's original mandate has been clarified, and is usually extended. The corporate function identifies additional activities that extend the services provided to its internal clients.

The corporate function's organizational characteristics are quite different from those in the launch stage. With an extension of the mandate, the corporate function's set of activities 'diversifies.' The diversification of the nature of the tasks/roles can result in a mix of control activities, shared services, and value-adding activities. The corporate function also has a growing quantity and quality of resources at its disposal. Furthermore, the extension of the activities requires the function's formal and informal structures to be aligned with these activities. Sometimes, growing teams of experts are organized into specialized departments (e.g. Ulrich, 1997, 1998). An important characteristic of this stage is that the functional head is usually his/her own sponsor.

5.3.3 The Maturity Stage—A Stable Mandate

In the maturity stage, the function is typically older, larger, and established throughout the organization. Notably, the function has mostly stopped expanding its mandate and focuses more on efficiency, best practice, and the standardization and

formalization of corporate activities. The value potential is flattening because there are few new opportunities to add value.

For example, at the beginning of 2007, a large German multi-business firm set up a centralized and global compliance function that had been imposed after a corruption scandal. After two years, more than 700 people reported to the global compliance function worldwide. The original mandate had been implemented: Standards and processes had been developed and introduced. The function thus began to focus on its operating efficiency.

From an organizational viewpoint, corporate functions have a stable set of activities in this stage, are equipped with rich resources, and an array of expertise. Most tasks are undertaken in a rather standardized and formalized way. Because of its tradition, central position, and its many interfaces with the organization, the function is backed by a strong network of long-standing relationships. The function has also become a more bureaucratic organizational unit.

5.3.4 The Decline Stage—A Declining or Changing Mandate

In the decline stage, the function's mandate is changing or declining. The value adding potential and, thus, demand for the corporate function's activities can change dramatically or dry up significantly. The existing mandate loses its relevance because the corporate function has already 'mined out the value adding opportunity' and/or because the challenges facing the business units have changed.

The former corporate controlling head at a large bank recalled the rise and fall of the organizational development departments: Until the late 1990s, large banks organized their organizational design competence in large corporate departments. By 2012, most have disappeared. Some organizational development experts were moved to corporate IT, and had to support the standardization of processes. Some found a new home in the corporate development department. Another example was given by a head of a strategic foresight function in an automobile company who mentioned the following reasons for his function's decline:

> *"We have been shrinking since 2001. There are two reasons for this. First, we have lost different, non-automotive customers due to our concentration on our automotive core business—we aren't working for [industry A, company B] and other companies anymore. […]*

The projects for non-automotive businesses just vanished, because those customers have left, have been sold, or just changed their business. Second, we have been subject to our corporation's different cost-cutting programs."

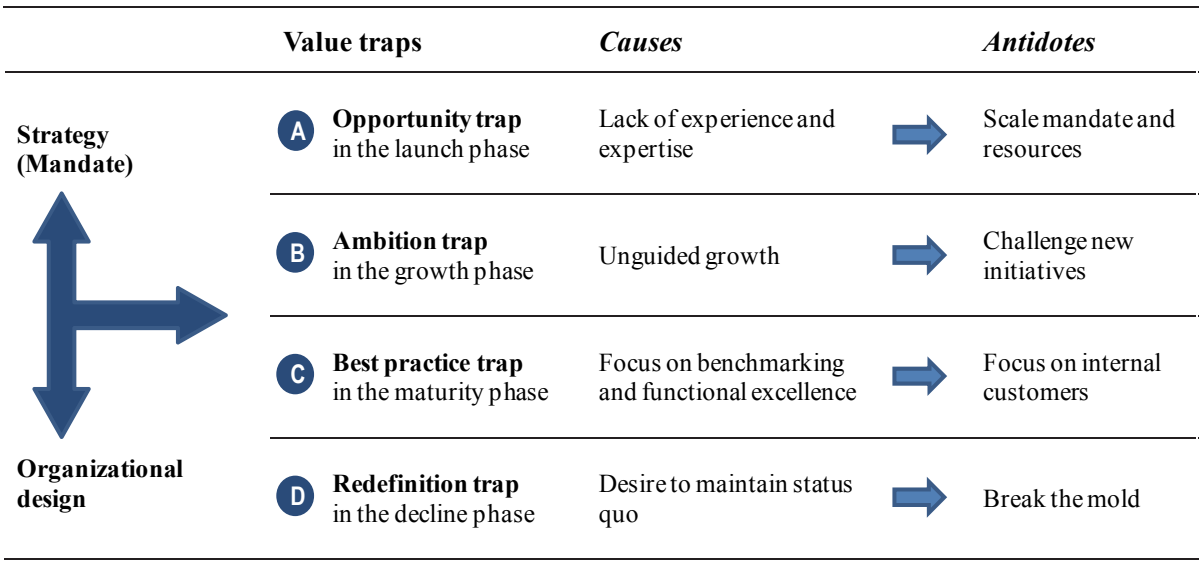
In this stage, the organizational design characteristics also differ greatly from those in the previous stage: Fewer activities actually add value. While corporate functions usually still have sufficient resources at their disposal, resources become increasingly disputed in this stage. The staff numbers usually decline and many staff members have rather long functional tenures. Overall, the corporate functions are rather formalized in this stage. A corporate manager identified a lack of resources and a loss of value adding potential as contributing to the decline:

"The function had been starved of resources and had become reactive and very transactional."

5.4 The Value Traps of Corporate Functions

The distinct characteristics of the value stages—the nature of the corporate functions' strategy (mandate) and the organizational design characteristics—breed the value traps. For example, the lack of appropriate talent in the launch stage contributes to the opportunity trap; the internal sponsorship in the growth stage contributes to the ambition trap; the focus on internal efficiency in the maturity stage contributes to the best practice trap; while the long tenure of the staff and the high levels of formalization in the decline stage contribute to the redefinition trap.

Figure 5-2: Corporate Functions' Value Traps and Antidotes



	Value traps	*Causes*		*Antidotes*
Strategy (Mandate)	A **Opportunity trap** in the launch phase	Lack of experience and expertise	→	Scale mandate and resources
	B **Ambition trap** in the growth phase	Unguided growth	→	Challenge new initiatives
	C **Best practice trap** in the maturity phase	Focus on benchmarking and functional excellence	→	Focus on internal customers
Organizational design	D **Redefinition trap** in the decline phase	Desire to maintain status quo	→	Break the mold

Specific actions—*antidotes*—can countermand the specific forces at play in each value stage. Corporate management needs to administer these antidotes to counter the value traps. The antidotes then help reposition corporate functions towards the value-stage-specific optimal value adding. In the following, we characterize the value traps and suggest vital antidotes[72] (see Figure 5-2).

5.4.1 The Opportunity Trap—The Boon and Bane of Unique Opportunities

Our research shows that in the launch stage, corporate functions typically face what we call the *opportunity trap* (see Table 5-2). This trap is rooted in the opportunity that triggered the launch of the corporate function. The causes stem from the nature of the tasks that have to be carried out: The mandate often involves uncharted waters, and the corporate function lacks the expertise and experience to implement the mandate. Starting to execute the mandate before an agreement has been reached with the business divisions and before sufficient expertise is in place are typical contributing factors. A lack of adequate skills when working with reluctant businesses destroys value rather than creating it. The function thus fails to deliver the mandate and loses credibility and support right from the beginning.

Table 5-2: Summary of the Opportunity Trap

Opportunity trap	
Main causes:	**Lack of experience and expertise**
▪ Strategy:	Novelty of the corporate issue / abstract mandate
▪ Organizational design:	Lack of talent
Consequences:	▪ Lack of practicality in implementing the mandate ▪ Burdens the business units without adding value ▪ No/weak delivery (due to lack of skills) leading to frustration
Antidotes:	**Scale mandate and resources**
	[1] Recruit a few highly-skilled people with business credibility [2] Involve selected business units only (decreasing the complexity) [3] Focus on low hanging fruits (quick wins)

[72] Although we use specific measures to illustrate the functioning of the antidotes, the measures are not exhaustive. Other measures might work as well. The antidotes must, however, address the specific forces at play in each value stage.

Causes: Lack of Experience and Expertise

The main strategic and organizational drivers underlying this value trap are the nature of the mandate combined with a lack of appropriate resources. The mandate usually addresses a new corporate issue; therefore, almost by definition, the actions and skills required cannot be very precise. Hence, the mandate is often vague and its exact scope remains tenuous. A clear identification of how to realize the value adding potential is lacking. The business case for setting up a new corporate function is, in most cases, not quite clear. A corporate HR manager pointed out that although the mandate was clear, what it exactly meant remained tenuous:

> *"I think the problem came about because—although the new CEO knew he wanted HR—the management board was not really able to articulate exactly what they wanted this role to do."*

As another example, a new corporate real estate function was installed in an international insurance company. The head of this function described the uncertainty inherent in his mandate's unique opportunity:

> *"That would presuppose that I already perfectly know what I actually want to do at this point in time. […] This is often the challenge in life. If one starts doing something new, especially something that no one else has done before, then one has to be the first to figure it out. That makes it interesting but also valuable. […] There are not many comparable units in the world […] that also belong to an insurer."*

Due to the nature of the mandate, there is normally insufficient talent. As described above, the mandate often taps uncharted waters but there is no relevant talent for this specific area. The problem often lies in the quality of the resources and not the amount: The managers within the function lack the required capabilities and implementation skills to clarify the mandate and eventually bring the business case to life.

Antidotes: Scale Mandate and Resources

Most importantly in this stage, corporate functions should focus on matching the mandate and resources, and getting the doable done. Corporate managers can adopt three measures to avoid getting caught in the opportunity trap. First, *recruit appropriate talent:* Appropriate resources and people are crucial to carry out the accepted mandate and realize the benefits expected from the mandate. Often, only a few people are allocated to the function in the beginning. The head of the function thus has to ensure that they are highly skilled and capable of exploring this new mandate. In the launch

stage, it is especially important that people with a realistic approach to implementing the mandate are recruited. For example, the head of a corporate development function in a large and diversified firm pointed out that:

> *"In the first year, we had to establish our interfaces with the company, with its business, and regional units. The question was: 'How should we work together? Who has which rights and responsibilities?' [...] I really tried to ensure that there would not to be too many interfaces to manage and too many people on my payroll. I was more focused on borrowing people to work for me and adding an additional functional reporting line to what they already do. We work very pragmatically and in a project-based way."*

Recruiting the right people is not only about functional expertise, but also about social skills: Ideally, these people have credibility with the business units. The new corporate function often lacks appropriate skills to build the necessary relationships with the businesses, regions, and other functions, as well as to design its activities so that they meet the business units' needs. Building the required relationships with the business units is crucial to have the impact they need to add value. Two functional managers commented on their approach as follows:

> *"Don't make all people report to you—use relationships."*

> *"Exerting influence is an underestimated competence. The only way you can exert influence is to first have integrity and, second, build a relationship with the businesses. I think corporate heads have to build the relationship with the businesses. And in this sense, they have to get to know the business. We are not undertaking functional activities for some greater glory. We are undertaking them to support the businesses. [...] At the end of the day, we all drive one P&L."*

Second, *focus on low hanging fruits.* In the very beginning, activities which are most likely to add value in the short run without major risks—the so called 'low hanging fruits'—need to be prioritized. This can help demonstrate the corporate function's value adding potential and establish credibility. This step is also an important part of clarifying the scope of the mandate. The head of the corporate real estate function explained his approach to experimenting:

> *"This we have to test just a little. But I like to deduce—and this sets the framework for the testing—what we need, and what we don't from that for which we stand. That is the idea behind it."*

In an international insurance company, a new 'real estate' corporate function was installed with about 50 people. They started collecting data to obtain a first complete picture of the situation. They could instead have interpreted the mandate differ-

ently and focused on concrete and quick improvements. The head of this function explained:

> *"Our company invested about 17 billion euro in real estate all over the world. But from the perspective of our national units, these investments were completely fragmented: A bit here, a bit there. Our first task was to obtain a global overview: What do we have and where? This resulted in a real estate portfolio which we can now see for the first time. Now we have to find ways to manage this global portfolio better than before."*

Third, *involve selected business units only* to reduce the uncertainty and complexity that is often inherent in novel corporate issues. If the scope of the mandate does not specify the span of businesses, an important aspect feeding into the uncertainty and complexity of the task is the question of which business should be involved. Often, too many business units are involved from the beginning. The new function underestimates the barriers to executing the mandate in the organization. However, it is more realistic to involve only some business units. Hence, the corporate function should focus on those with the most obvious potential to add value through the corporate function's activities. The following statements by two functional managers illustrate this argument:

> *"The complexity and risks of the launching phase can be reduced by keeping some business divisions separate so that they are not subject to interference."*

> *"Remain sensitive to the burden you are placing on businesses."*

5.4.2 The Ambition Trap—The Awakening Corporate Appetite

Our research shows that corporate functions are likely to face the *ambition trap* in the growth stage (see Table 5-3). With some successes in the beginning and decreasing top management attention, managers in corporate functions start to believe that the function should be doing more and extend the mandate. The additional functional ambition may be appropriate in some areas, but, this ambition often goes too far. When this happens, the corporate function engages in activities that destroy value and begins to lose the business divisions' support.

Table 5-3: Summary of the Ambition Trap

Ambition trap	
Main causes:	**Unguided growth**
▪ Strategy:	Overly ambitious growth
▪ Organizational design:	Lack of top management attention (strategic leadership)
Consequences:	▪ Value destruction (waste of resources) ▪ Internal problems: low efficiency and low effectiveness ▪ Burdens the business units without adding value
Antidotes:	**Challenge new initiatives**
	[1] Clarify the major sources of the corporate value added [2] Set up a challenge process [3] Review the corporate function's strategy annually

Main Causes: Unguided Growth

In their growth stage, corporate functions' distinct strategic and organizational characteristics foster the ambition trap. From a strategy standpoint, corporate functions are likely to become overly ambitious in this stage. Given the credentials gained in the launch stage, the functional managers start to extend their activity base. The actual problem is that corporate functions often start producing services for which there are no client needs. For example, a head of corporate HR told us:

> *"Some people in HR had created this huge system that was not understood or used properly. […] A lot of 'HR products' were being developed and delivered, but the organization was not ready for them."*

From an organizational standpoint, a main concern is that corporate functions in this stage often lack sufficient strategic guidance from the top management (e.g. Campbell, Kunisch, & Müller-Stewens, 2012). While the sponsor who gave the initial mandate ensures sufficient top management attention in the launch stage, the functional head has become his own sponsor in the growth stage. Therefore, heads of corporate functions quite naturally start exercising their increased managerial discretion and strive to extend their influence and power base through an extended portfolio of activities. A corporate manager underlined this problem:

> *"One of the central problems—a recurring one with these cross-holding functions—is the unbelievable appetite."*

As the function expands, it places too large a burden on the business units. Obviously, each of the corporate function's activities has implications for the business units and other functions. The business units face a simple trade-off regarding their scarce resources. If the corporate function's activity offers better opportunities than the business unit activities, they will support it. If not, they will resist. Many of the activities do not offer attractive value adding opportunities from the business units' perspective. These are additional burdens added to the business units' tasks. The following statement by a functional manager exemplified this situation:

> *"The company thought that the best way to do things was to command from the center. This nearly killed the place."*

Antidotes: Challenge New Initiatives

Most importantly in this stage, the corporate function's growth ambitions need to be managed. In particular, managers can take three measures to ameliorate the situation: First, firms need to *clarify the major sources of the corporate value added.* The corporate strategy should define a few major sources of added value. These will each have a significant positive influence on the business divisions, and, together, they will give the firm a 'parenting advantage' (Campbell et al., 1995a; Goold et al., 1994). Corporate functions should then be mandated to focus on these few sources of parenting advantage. A head of corporate strategy remembered how they defined the strategic priorities:

> *"The first task the management board gave us was to establish—in cooperation with group controlling, which reports to the CFO—a corporate planning process, which included an analysis of our business units for a portfolio analysis. I remember well that we ran a first workshop with the executive board to define the strategic priorities on the corporate level."*

The head of the corporate development unit of an international bank, which diversified into investment banking, retail banking, and asset management, noted:

> *"Our One Bank strategy of an integrated bank forced us to significantly improve our collaboration between the three business lines. We had to manage three collaboration pairs. I believe that this collaboration engine and capability have since become a competitive advantage for us. We undertake collaboration in a much more structured and granular way than others. I think the whole One Bank culture that we developed, and which emerged, is a corporate advantage for us: It gives us a much stronger institutional client retention, it helped us to remain stable in the crisis, and to recruit excellent people, etc."*

Such an effort can be reinforced with a corporate initiatives matrix which captures corporate functions' major initiatives in a table. This table lists the major sources of added value on one axis and the corporate functions on the other. Each function's contribution to each source of added value is defined in the boxes. Any initiative by a function can then be placed in the table. If it does not address one of the major sources of added value, it is quickly exposed as a potential distraction. The table also helps corporate functions generate an integrated approach and helps the holders of critical resources spot problems. For example, the CEO can ascertain whether certain corporate initiatives will place unreasonable demands on individual business units given their commercial pressures. The head of IT can assess whether there are sufficient IT resources to support all the corporate initiatives. Unilever, which uses a table of corporate initiatives to check whether sufficient resources are in place to implement each project, offers an example (e.g. Campbell et al., 2012): If there are conflicts or insufficient resources, corporate initiatives are delayed or sequenced.

Second, firms should *set up a challenge process*. Such a challenge process gives the business units an opportunity to reject new corporate function initiatives with a low value adding potential. Since the ultimate goal of any successful corporate function is to nurture the success of the individual businesses, the business units (product or regional divisions) should have the possibility to challenge the corporate functions' activities. A head of corporate strategy explains:

> *"It is now important that the corporate parent and affected functions have all initiatives accepted by the regions so that they can drive them in the businesses."*

Third, *review the corporate function's strategy annually*: An important way to review and calibrate a corporate function's strategy, is to ensure that there is actually an explicit corporate function strategy in place, to allow business units to challenge the functional strategy, and to check that the strategy is linked with the annual strategic planning process (for example, see Birshan, Dye, & Hall, 2011). Surprisingly, this often does not happen. Although corporate functions do have annual budgets, they rarely have strategic plans explaining what they are doing and how their activities add value. Moreover, it is even rarer for these plans to be reviewed and challenged by the business units. The head of a corporate strategy department explains how this can be done:

> *"Today our activities are mainly defined by the CEO, to whom we report directly, or by another board member. We do nothing without the sponsorship of a board member. Once or twice a year we run a workshop with the executive board to review the strategic priorities and our portfolio of activities. But I also want to be seen as a sparring partner and service partner by our operating units. It is therefore push and pull at the same time."*

Just like business units define a business strategy, a corporate function should develop a corporate function strategy with its own agenda properly aligned with the corporate strategy and strategic guidance provided by the responsible top management team member. While most strategic planning efforts are devoted to interacting with businesses to develop successful marketplace strategies, a significant part of the process should focus on the corporate level's role and added value. A corporate manager told us that clarifying the roles between the corporate strategy and the decentralized strategy departments was helpful:

> *"Corporate strategy invited sector strategists, and also certain strategic contact persons in the regional clusters, to a strategic meeting. All of them came. There were no comments such as: There is some overlapping; we question your work's added value. On the contrary, there were questions about orientation."*

This effort will provide a review of the effectiveness of each corporate function's activities. In addition, it will challenge each corporate function's plans. Are the activities justified by a significant synergies initiative, by the legal requirements, or because there is a low risk of bureaucracy and interference? If not, the activities should be eliminated or repositioned. Moreover, the array of individual corporate function's strategies must also be aligned. The top management has to ensure that all parts of the corporate strategy are fully integrated. Some companies have installed a global functional forum which meets once or twice per year and is coordinated by the corporate headquarters. A corporate HR head explained his approach as follows:

> *"We have an approach that we call the people strategy, which is completely integrated into our business strategy. And the reason for this is that I developed the strategy part before installing the extended HR function. Because I was responsible for the strategy, I started to develop the people strategy within the corporate strategy."*

5.4.3 The Best Practice Trap—Against the Essence of Corporate Advantage

In the maturity stage, corporate functions are likely to face the *best practice trap* (see Table 5-4). Specifically, they face the risk of being too focused on the external community instead of their internal clients. Too much attention is paid to external

benchmarks and functional excellence. Such a development usually leads to a loss of focus on their internal clients. From the perspective of the business units, the function becomes bureaucratic and mistrust increases.

Table 5-4: Summary of the Best Practice Trap

Best practice trap	
Main causes:	**Focus on benchmarking and functional excellence**
▪ Strategy:	Driven by external benchmarks (follow the peers)
▪ Organizational design:	Organizational size cultivates a internal focus on corporate function issues
Consequences:	▪ Loss of focus on the value added ▪ Bureaucratic processes and policies that can hamper businesses ▪ Mistrust by the business units
Antidotes:	**Focus on internal customers**
	[1] Separate services and value adding activities [2] Involve internal customers (business units) [3] Establish a rigorous performance challenge process

Main Causes: Focus on Benchmarking and Functional Excellence

In their maturity stage, corporate functions' distinct strategic and organizational characteristics nurture the best practice trap. In this value stage, corporate functions often start to pay more attention to increasing their efficiency. Because they hardly ever have good internal performance measures (Pettifer, 1998), they start focusing on their peers: They start looking to similar corporate functions in other companies for good practice ideas and performance benchmarks.[73] This is reinforced by the functional leader's desire to acquire professional acknowledgment in the functional community. Frequently, corporate functions strive for a best in class position as revealed by statements such as the following:

> *"We want to have the best HR"; "We lead in HR"; "We are the gold standard [in this specific functional area]"*

[73] Although often advocated in managerial practice, best practices harbor an obvious risk. In academic terms, the risk arises from sampling the dependent variable, which means that one draws conclusions from the factors that lead to a desired outcome on the basis of just one or a few observations in which that desired outcome was achieved (for example, see King, Keohane, & Verba, 1994).

In our interviews, many heads of corporate functions justified their activities by comparing their function with similar functions in other companies. Although, looking to functional peers can spur new ideas, and benchmarking can increase operational efficiency, they avert attention from the needs of internal business units and encourage corporate functions to copy their rivals (Porter, 1996). This tendency to focus on corporate peers is also due to the fact that functions in this stage have generally reached a size that nurtures an internal focus. Size and age frequently lead to a focus on internal operations and less focus on business clients. A head of corporate IT told us:

> *"What had happened in IT was that they were driving their own agenda."*

Antidotes: Focus on Internal Customers

To counter the strategic and organizational forces driving the best practice trap, corporate functions need to give more attention to the needs of their business divisions. Specifically, we suggest the following three antidotes: First, *separate services and value adding activities:* In this value stage, corporate functions have often developed a broad set of activities that differ in their nature, and, hence, need to be managed differently. There are at least two markedly different types of activities: policy and control activities and service activities. Service activities require a service orientation in which the business division is the customer and the function is the service provider. Service level agreements with the business units are a well-established management tool for shared services. Policy and control activities require an influencing orientation in which the function requires or persuades the businesses to do something. While the businesses may be the beneficiary, they are not the customer. They cannot decide to shop elsewhere.

Service activities perform better when separated from policy and control activities: They are typically allocated to a shared services division that looks after all the shared services of all the corporate functions. Moreover, this removes that part of the corporate function for which benchmarking and external comparisons are most relevant, reducing the need for peer comparisons. A head of corporate HR explained the split of their HR organization as follows:

> *"We did a simple split into two equal parts: the HR center concept and the HR partner concept. In the one half, we have one HR center per region in which we have all the HR transactional services. And we have the centers of expertise (recruitment, talent management, learning, and development and remuneration). And the other half of HR is HR as a business*

> *partner. These guys are paid for by the businesses but they report to me as head of the corporate HR. And because one half is no more important than the other, the two need to work together."*

Second, *engage the internal customers*. Corporate functions are a vital means of increasing the firm's value and of competing on a corporate level. According to Porter, an important premise of corporate strategy holds that "unless a corporate strategy places primary attention on nurturing the success of each unit, the strategy will fail, no matter how elegantly constructed" (1987: 46). Hence, corporate functions need to focus on nurturing the success of the business units. For example, a head of corporate HR told us:

> *"Profitability is the ultimate measure for business. And certainly from my point of view, any HR person who doesn't subscribe to this philosophy isn't of any use to me. HR people need to draw on profitably metrics. There are HR people who do what they do because they like working with people. I hate that attitude."*

Another head of a corporate function stressed that his focus is on internal clients:

> *"If the businesses call me and complain about something we do—I go nuclear. Also, if you come to me and ask me to send them an email to tell them to do what you want them to do, that is bad."*

There are many ways to engage internal customers. For example, bringing in new people—especially from the business units—will help keep the function sensitive to the needs of the businesses.[74] In addition, such a model ensures that corporate function staff has enough knowledge of the business units which they are advising. A head of corporate HR underlined the importance of business knowledge:

> *"I don't want HR people who can't talk about the businesses. And when I first arrived here, there were far too many HR people who didn't know the numbers and the business. And I even had HR people telling me that they joined HR to stay away from figures. That is totally unacceptable. If you don't know your impact on the bottom line of this company, you are useless. I therefore turned many people over."*

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[74] For example, IBM's corporate strategy department brought in managers with business-level experience: "Their presence has transformed the department's formerly academic planning culture to one that is much more action-oriented" (Harreld et al., 2007: 34).

Another way is to give the heads of corporate functions a second role and responsibility in one of the business units, which links the functions better with their clients, and to integrate the corporate and the business perspective into one decision-maker. In this regard, a corporate manager mentioned the following about second roles in his company:

> *"We have CFO double-heads. The CFO is the functional head and the regional managers report to him; but he is also the line manager in the business because he is a global markets head. He thus also has a foot in the business. And it's that connectivity that, I think, helps us overcome some of the issues."*

Third, *establish a rigorous performance challenge process:* While, ideally, each corporate function should be challenged systematically from the very beginning, a systematic performance challenge to avoid complacency and bureaucracy becomes critical in the maturity stage. Such a process has to create transparency for those involved. However, it often seems difficult to measure the performances of corporate functions (Pettifer, 1998). Metrics and data may not be available from financial accounting, or it is simply hard to measure the net added value in economic terms. It is crucial, however, to engage in some kind of performance challenging process. If direct measures—like the net present value—are not available, proxies can help. Corporate functions may, for example, undertake regular surveys to measure the satisfaction of the internal customers with respect to the corporate functions' promises. A head of a corporate development department told us:

> *"We measure and track the progress of our One Bank approach very, very closely and report it to the board every month. We measure the collaboration in the three cross-divisional pairs. And in each of these pairs we track 3-5 collaboration initiatives. The regional collaboration heads meet regularly to give an update, to improve our approach, to exchange experiences and best practices, etc."*

5.4.4 The Redefinition Trap—The Struggle for Survival at All Costs

In the decline stage, corporate functions typically face the *redefinition trap* (see Table 5-5). The challenge is often to manage a dramatic withdrawal, or even an exit, from the incumbent activities. This means a fundamental change, which the corporate functions' staff usually does not welcome. They want to prolong the 'old ways' even

though the value creating logic has changed. A desire to maintain the status quo persists.[75]

Table 5-5: Summary of the Redefinition Trap

Redefinition trap	
Main causes:	**Desire to maintain status quo**
▪ Strategy:	Strategic imprint (legacy)
▪ Organizational design:	Structural inertia
Consequences:	▪ Misuse of available resources ▪ Value destruction from activities continuing when they are no longer needed ▪ Loss of reputation because the function is seen as less relevant
Antidotes:	**Break the mold**
	[1] Bring in new leadership (head of corporate functions) with a new mandate [2] Conduct zero-based reviews with three options: (1) downsize, (2) close (decentralize), or (3) re-launch [3] Isolate new, value adding activities

Main Causes: Desire to Maintain the Status Quo

In such a critical phase, the corporate functions' leadership does, of course, contemplate its future options: Is there an option to revitalize the function with a redefinition of its value proposition for the business units and a radical restructuring of the portfolio of activities? And sometimes—if sufficient innovative capabilities are still available—the threat of being closed down can stimulate entrepreneurial activities to discover new opportunities for significant value creation. Such a scenario leads to a new launch stage.

Nevertheless, a desire to maintain the status quo is often prevalent in the decline stage. The strategic and organizational characteristics of a corporate function in its decline stage help explain this desire. From a strategic viewpoint, the corporate function has typically served the organization very well for quite some time. It is thus of 'historic importance' and there is resistance to shrinking its size and resources. The managers often disavow the decline of the corporate function's importance and impact.

[75] The underlying ideas are well established in the management literature: Among others, the most prominent ideas are 'the competency trap' (Levinthal & March, 1993), 'organizational path dependence' (Sydow, Schreyögg, & Koch, 2009), and 'structural inertia' (Hannan & Freeman, 1984).

They naturally prefer the business model they know. They furthermore resist change because they fear losing their power, reputation, influence, and jobs. Consequently, they continue with activities that are often no longer needed.

In addition, corporate function's managers often become quite 'innovative' in the way they shift resources and define new services to deliver in order to avoid the decline. Good examples of this are strategy departments that shifted their resources to new areas of activities, such as M&A, when strategic planning's importance declined. Unfortunately, these new activities often do not add value and even worse can destroy value.

Antidotes: Break the Mold

Given the strategic and organizational forces at play, it is important to break the mold in this stage. We suggest three specific antidotes which help counter the underlying forces: First, *replace the leadership.* The challenge in this stage is to manage the decline that may lead to the function having to be shut down. The incumbent head of the corporate function is likely to resist the changes needed. Hence, an important means of handling a decline is to replace the leadership. Installing a new leader not only helps win support for change, but it also clearly signals that change is needed, which makes it easier for the new leader to implement radical downsizing, the cutting back of unnecessary management systems, and changes in the management team.

Second, *conduct zero-based reviews.* It is important to recognize that the survival of a corporate function per se is in no way a valid objective. The corporate function may have served the firm well for many years, but if the value adding propositions disappear, there is no other option but decline. Each activity should be put to the test regardless of its legacy. Activities need to be scrutinized regarding the internal client needs and their value adding potential. Options for future development paths have to be elaborated and evaluated. Ultimately, the size and scope of the function have to be adapted to the updated mandate. For example, one manager recalled the following:

> *"In one corporate finance function we found an old fashioned team doing little more than consolidation, foreign exchange, and compliance tax."*

Third, *isolate new value adding activities.* There is, of course, a probability that the corporate function will discover a new value potential to explore. However, corpo-

rate functions often use existing resources to carry out new activities that are not needed. Because declining functions can become highly creative in finding new activities to justify their existence, it is often helpful to impose the discipline on them that any new value adding activity has to be set up in a separate function. In this case, the team submits a new business case to seek a sponsor who mandates a new corporate function's value stage. While this is not always practical, it is a useful way of exposing new activities to general scrutiny and challenge. Hence, if a major part of the function is in decline, corporate management should keep any new value adding activities separate, either as a new function or as a separate department within existing functions so that the launch and decline stage are kept as separate as possible.

5.5 Conclusion

Corporate functions play an important role in corporate strategy: They are one of the ways in which the corporate headquarters can add value. However, corporate functions are not static; they change continuously. New functions are set up, existing functions grow, and long established functions become redundant or need to change to match new circumstances. Our research and research by others have shown that corporate functions often underperform and frequently destroy more value than they add. A dynamic approach to the management of these functions pinpoints some of the reasons for this underperformance and suggests solutions.

Our research has identified four *value stages* through which corporate functions appear to evolve. These stages exist because, at different times, corporate functions have different strategy and operating characteristics. These characteristics nurture a common *value trap* in each of the four value stages. A dynamic approach to the management of corporate functions requires the leaders of these functions and their sponsors within the top management team to be aware of the function's current value stage and to put antidotes in place that will reduce the likelihood that the function will underperform due to the value trap.

Through its two unique contributions, this article has vital advice for corporate managers: First, this article offers a corporate strategy perspective on corporate functions. Despite the increasing importance of corporate functions in large firms, there is little general advice on managing them beyond the guidance in specific functional

areas. Owing to the very essence of corporate strategy, an integrated approach to the management of corporate functions is required to create value for the firm as a whole. Second, this article reveals the value of considering the dynamics of corporate functions. Despite the dynamic nature of corporate functions, previous management approaches have largely remained static. As described, corporate functions' value stages imply specific challenges over time, and, hence, require specific management approaches at the different stages (for a summary see Appendix 37).

We believe this study will focus attention on the management of corporate functions from a dynamic perspective. This value stages approach applies to a variety of corporate functions rather than only specific functional areas. It helps corporate managers optimize the value added by corporate functions, an essential element of any successful corporate strategy.

6 Discussion and Conclusion

About 30 years ago, Bower argued that "the charter of business policy is to focus on the life and death issues of central interest to the top managements of the firms" (1982: 632). In ever-changing and dynamic environments, changes at the CHQ have become key concerns for practicing managers. Hence, management scholars need to gain a better understanding of CHQ change. The purpose of this dissertation was to explore the dynamic nature of the CHQ of the modern corporation.

6.1 Summary

This dissertation comprises four core chapters, each of which is a self-contained study with a distinct approach to exploring the phenomenon of CHQ change. In the following, I briefly condense the main findings of these studies. Table 6-1 summarizes the key characteristics of the core chapters of this dissertation.

Table 6-1: Summary of Dissertation: Four Self-Contained Studies

	Study 1	**Study 2**	**Study 3**	**Study 4**
Topic	Conceptualizing CHQ change	CHQ change: CEO successions as antecedents	CHQ change: the antecedents and outcomes from a contingency perspective	CHQ functions: corporate-level functional strategies over time
Type	Review study	Deductive theory-testing	Deductive theory-testing	Inductive theory-building; practitioner-oriented
Positioning and gap(s)	▪ Corporate strategy and the CHQ ▪ Fuzzy definitions and missing conceptualizations of CHQ change ▪ Existing research on three parallel but interrelated tracks	▪ CEO successions and corporate strategy ▪ Lack of knowledge about the corporate-level consequences of new CEOs from the corporate or business level ▪ Lack of knowledge about the impact of upper echelons on CHQ change	▪ Corporate strategy and the CHQ ▪ Lack of knowledge about the relationships between corporate strategic change (CSC) and CHQ change ▪ Lack of empirical evidence of the consequences of CHQ change	▪ Dynamics of corporate functions ▪ Observation that most functional strategies are of a poor quality ▪ Lack of knowledge about how corporate functions create corporate value over time

	Study 1	Study 2	Study 3	Study 4
Research question	What do we know about CHQ change and what should we know about it?	When (under which conditions) are CEO successions linked to changes in the size and scope of the CHQ?	What are the relationships between CSC, changes in the size of the CHQ, and corporate performance?	How do functional heads develop corporate-level functional strategies?
Approach (method)	▪ Conceptual, initial theory-building ▪ Articles from defined list of journals	▪ Quantitative ▪ Data: new survey data and secondary data	▪ Quantitative ▪ Data: past survey data and secondary data	▪ Qualitative ▪ Data: semi-structured interviews
Theory	n/a	Upper echelons theory, knowledge-based view	Organizational contingency theory, corporate strategy	Parenting theory
Contributions (to theory)	Corporate strategy/ CHQ literature: ▪ Definition and conceptualization of CHQ change ▪ Framework to provide a basis for circumscribing and evaluating existing research, and directing future research ▪ Suggestions for future research	CEO successions/ upper echelons literature: ▪ New dimensions of the new CEO's origin ▪ Insights into intermediate organizational outcomes Corporate strategy/ CHQ literature: ▪ Dynamic perspective on CHQ ▪ Testing in the field ▪ Insights into the impact of new CEOs on CHQ change	Corporate strategy/ CHQ literature: ▪ Dynamic perspective on CHQ ▪ Testing in the field (fit-performance relationship) Other theoretical streams: ▪ Extends the findings of the organizational change and inertia literature by adding insights into a specific organizational entity	Corporate strategy/ CHQ literature: ▪ Opening of the corporate parent black box ▪ Insights into specific ways of manipulating corporate value to extend the parenting theory ▪ Insights into the value-adding role of corporate parents
Managerial implications	n/a	▪ Advice for those involved in CEO appointments ▪ Insights into the importance of career paths for corporate managers ▪ Advice on the definition of corporate strategy	▪ Awareness that corporate strategy comprises two interrelated aspects ▪ Awareness that CHQ design needs to be evaluated when corporate strategic change occurs	▪ Framework and set of criteria which functional leaders can use to make better choices over time ▪ Definition of the different roles that corporate functions take on

6.1.1 A Conceptualization, Review and Research Agenda

In this part, I reviewed the extant knowledge to lay the groundwork for further investigation of the dynamic phenomena related to the CHQ. The conceptual review study was primarily motivated by the absence of clear definitions and conceptualizations of CHQ change. The purpose was basically twofold: First, I aimed at providing ways to conceptualize and define CHQ change. Second, I aimed at providing a framework for the investigation of CHQ change. The conceptualizations serve as the basis for the framework.

I reviewed the existing knowledge on CHQ change and developed a framework for modeling and assessing changes at the CHQ. This framework provides a basis for directing future research. The framework emerged from the literature and reflects the focus on three essential questions: (1) which factors relate to pressure for and resistance to change at the CHQ?; (2) what are the various types of changes that occur at the CHQ?; and, finally, (3) what are the consequences of the various types of changes at the CHQ? Furthermore, the framework allows for integrating research from three separate tracks—strategic change, organizational design change, and physical/geographic change—, provides researchers with a comprehensive overview, and uncovers novel research opportunities.

Overall, I found that changes at the CHQ have received modest and insufficient scholarly attention. However, excellent research opportunities exist with appealing potential regarding CHQ phenomena. Moreover, scholars can use the CHQ as an exemplary entity offering a compelling context in which to study strategic and organizational change in general.

6.1.2 The Antecedents from an Upper Echelons Perspective

In this part, I developed and tested a theoretical model which sheds light on the antecedents to changes at the CHQ from an upper echelons perspective. Although anecdotal evidence suggests that CEOs play an imperative role with respect to CHQ change, especially when CEO successions occur, the extent to which CHQ change actually reflects alterations in organizations' upper echelons had not been investigated. Therefore, the purpose of this part was to examine the link between CEO successions and CHQ change as signified by changes in the entity's formal organizational design.

Table 6-2: Summary of the Empirical Findings of Study 2

Hypotheses	Predictions	Results
Magnitude		
H1	The new CEO's origin (from the corporate or business level) is associated with the magnitude of the changes in the CHQ size. Specifically, … there is a negative (positive) relationship between business-level (corporate-level) CEO succession and the magnitude of changes in the CHQ size.	Supported
H2	The new CEO's origin (from the corporate or business level) is associated with the magnitude of the changes in the CHQ scope. Specifically, … there is a negative (positive) relationship between business-level (corporate-level) CEO succession and the magnitude of the changes in the scope of the CHQ.	Not supported
Directionality		
H3	The new CEO's origin (corporate or business level) is associated with the directionality of the changes in the CHQ size. Specifically,	
H3a	… the new CEO's origin (from the business level) is positively related to the likelihood of a decrease in the CHQ size.	Not supported (opposite seems more likely)
H3b	… the new CEO's origin (from the business level) is negatively related to the likelihood of an increase in the CHQ size.	Not supported
H4	The new CEO's origin (from the corporate or business level) is associated with the directionality of the changes in the CHQ scope. Specifically,	
H4a	… the new CEO's origin (from the business level) is positively related to the likelihood of a decrease in the CHQ scope.	Not supported (almost supported)
H4b	… the new CEO's origin (from the business level) is negatively related to the likelihood of an increase in the CHQ scope.	Supported

* For parsimony's sake, hypotheses were posited for the business-level CEO origin only. The opposite hypotheses could be stated with regard to the corporate-level CEO origin.

As summarized in Table 6-2, the empirical findings suggest that the new CEO's origin (from the business level) is negatively related to the magnitude of the changes in the size of the CHQ. New CEOs from the business level adapt the size of the CHQ less than new CEOs hired from the corporate level. There is no significant empirical evidence of the relationship between the new CEO's origin and the magnitude of the changes in the scope of the CHQ. Contrary to the hypotheses, the empirical findings suggest that the new CEO's origin (from the business level) is positively related to the

directionality of the changes in the scope of the CHQ. Specifically, new CEOs from the business level are less likely to increase the scope of the CHQ. However, there is no significant empirical evidence of the relationship between the new CEO's origin and the directionality of the changes in the CHQ size. Overall, these findings have intuitive appeal. Especially, the latter supports the widespread belief that business-level executives are rather opposed to centralized decision-making and hyperactive CHQ.

6.1.3 The Antecedents and Outcomes from a Contingency and Organizational Adaptation Perspective

The purpose of this part was to examine the relationships between changes in the business portfolio, structural changes at the CHQ, and firm performance. While static research suggests that an appropriate organizational design of the CHQ is crucial to successfully manage the business portfolio (Collis et al., 2007, 2012; Porter, 1987), the linkages between changes in the business portfolio (corporate strategic change, CSC), the adjusting of the organizational design of the CHQ, and firm performance were still unexplored (Ferlie & Pettigrew, 1996: 506). I relied on the organizational contingency theory and the organizational adaptation theory to develop and test a theoretical model which sheds light on the antecedents and outcomes of CHQ change.

The analyses suggest several important findings. Table 6-3 summarizes the empirical findings related to the hypotheses. The control variables also need attention since this is the first empirical study on structural change at the CHQ. Overall, various factors at the firm and CHQ levels appear to influence change in the CHQ size. While the results provide some support for the contingency and organizational adaptation views by explaining the relationships between CSC and structural change at the CHQ, I found no support for the expected performance benefits. Instead, I found some support for the opposite: While related CSC was especially positively associated with the likelihood of change in the CHQ size, change in the CHQ size entailed negative performance at high levels of related CSC. These findings hint at the disruptive effects of high levels of corporate-level change and urge a considered approach to CHQ redesigns.

Table 6-3: Summary of the Empirical Findings of Study 3

Hypotheses		Changes at the CHQ	Past change (previous 5 years, 1994-1998)	Anticipated change (next 5 years, 1999-2003)
Antecedents				
Prior corporate strategic change (CSC)				
H1	CSC is positively related to the likelihood of an anticipated change in the CHQ size.		-	supported
H2	The relationship between related CSC and the likelihood of an anticipated change in the CHQ size is stronger than the relationship between unrelated CSC and the likelihood of an anticipated change in the CHQ size.		-	not supported
Consequences				
Contingency effects: CSC and firm performance				
H3	Firms benefit from change in the CHQ size to the extent that CSC occurs.		not supported	
H4	Firms benefit from change in the CHQ size to the extent that related CSC occurs.		not supported (opposite supported)	-
H5	Firms benefit from change in the CHQ size to the extent that unrelated CSC occurs.		not supported	-

6.1.4 The Dynamics of Corporate-Level Functions

This study introduced a dynamic perspective on corporate functions. The study was largely motivated by the observation that most corporate-level functional strategies are of poor quality. Yet, although corporate functions provide appealing opportunities to create value, there had been little research on how corporate functions actually do so and why many actually destroy value. Thus, the research purpose of this part was to investigate corporate-level functional strategies.

The study identified four *value stages* of corporate functions. These stages exist because, at different times, corporate functions have different strategy and organizational design characteristics. Moreover, these characteristics nurture a common *value trap* in each of the four value stages. The study also suggested specific antidotes that counter the value trap's underlying forces. Overall, this study suggests that a dynamic approach to the management of corporate functions is needed.

6.2 Overall Contributions to Research

Through its four studies, this dissertation contributes to the extant corporate strategy and CHQ literature. I merge the specific contributions elaborated in the respective chapters and discuss them in terms of three general areas.

6.2.1 Contribution 1: Advancing a Dynamic Perspective on Corporate Headquarters

This dissertation advances a dynamic perspective on the CHQ, which received little scholarly attention before. Increasingly, theories, as well as method considerations, reflect a focus on change in management research and the need to explain dynamic phenomena (e.g. Beck, Brüderl, & Woywode, 2008; Bergh & Fairbank, 2002; Pettigrew, Woodman, & Cameron, 2001). This dissertation responds to the call for more 'dynamic' research on CHQ phenomena in general (e.g. Ferlie & Pettigrew, 1996) and thus complements the extant corporate strategy literature with a dynamic perspective on the CHQ. It offers new insights not only into changes at the CHQ, but also into the functioning of the CHQ in general.

6.2.2 Contribution 2: Providing Well-Established, Theoretically Grounded Empirical Evidence

This dissertation answers the call to empirically test existing knowledge pertaining to the CHQ. Previous CHQ studies have often remained descriptive (e.g. Ferlie & Pettigrew, 1996), and there has been repeated criticism of the *a-theoretical* nature of extant CHQ research (e.g. Foss, 1997; Markides, 2002). The empirical studies relied on well-established theories in management research. With two quantitative parts based on well-established theories, I thus answer the calls for more theoretically informed studies on CHQ change and theory-testing in the field (e.g. Ferlie & Pettigrew, 1996).

For example, by applying the *upper echelons* perspective (Hambrick, 2007; Hambrick & Mason, 1984), I build on a well-established theoretical foundation in study 1. In their attempt to link CHQ change with broader streams of theoretically informed literature, Ferlie and Pettigrew (1996) explicitly suggest that the role of the new CEO should be studied with respect to changes at the CHQ. In this sense, they

paved the way for studying the phenomenon of CHQ change from an *upper echelons* perspective.

Study 4 is another example. This study contributes to the parenting theory (e.g. Campbell et al., 1995a; Campbell et al., 1995b; Goold et al., 1998). It provides further insights into how corporate functions create value. Thus far, related studies have mainly focused on the CHQ as a whole. Since most of the staff at the corporate level work in corporate functions, functional strategies should clearly define the main sources of corporate added value. I complement previous research by capturing a specific value-adding lever, namely corporate-level functional strategies.

6.2.3 Contribution 3: Connecting Corporate Strategy Dots—Intra and Extra Corporate Headquarters

This dissertation contributes to the extant body of literature on corporate strategy by connecting corporate strategy dots; it connects the dots between the CHQ elements as well as between the CHQ and the overall corporate strategy literature.

From an intra CHQ perspective, the dissertation provides further insights into the impact of powerful actors on intermediate organizational outcomes. The dissertation turns the spotlight on the 'landlord' of the CHQ—namely, the CEO as the highest-ranked corporate executive—(study 2), and on high-level 'residents' of the CHQ—namely, corporate function executives—(study 4). Previously, the relationship between CEO successions and changes at the CHQ had been an uncharted area of academic research (Ferlie & Pettigrew, 1996: 518). The second dissertation study links CEO successions to an intermediate organizational outcome influenced by the organizations' upper echelons. In addition, the study on the dynamics of corporate functions turns the spotlight on corporate function executives and how they manage corporate functions.

From an extra CHQ perspective, this dissertation links the two main corporate strategy concerns, namely the business portfolio and the CHQ (Porter, 1987).

6.3 Overall Managerial Implications

Similar to the theoretical contributions, the dissertation's managerial implications stem from those of the individual studies. Overall, the dissertation provides those concerned with the CHQ—corporate managers, boards, executive search firms, financial analysts, and strategy consultants—with important insights into the different aspects of CHQ change.

For example, the research has implications for executive selection, succession practices, career paths, and executive education. The findings of this dissertation help answer the following questions: "What career paths best prepare a manager for a role as corporate parent? From what pools of managers should parent managers be selected and how can the quality of these pools be enhanced?" (Goold et al., 1998: 314).

In addition, the empirical findings underline that when considering corporate-level change, corporate managers need to take both aspects of corporate strategy into consideration and time them cautiously. Finally, the findings on corporate functions provide corporate managers, especially corporate-level functional heads, with guidance and insights that can spur new ideas to help make better choices. Overall, this dissertation fosters awareness that the CHQ is an essential lever to influence corporate strategy.

6.4 Overall Conclusion

According to Pettigrew, Woodman, and Cameron, "the study of change and development is one of the great themes in the social sciences … [and] research and writing on organizational change is undergoing a metamorphosis" (2001: 697). Every company must eventually adapt its strategy and organizational design to keep pace with the ever-increasing complexity and dynamism in the environment. Theories as well as method considerations increasingly reflect a focus on change in management research and the need to explain dynamic phenomena. This dissertation turned the spotlight on the *dynamics of the strategic apex*.

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Appendices

List of Appendices

Appendix 1: Selected Studies on Corporate Effects

Study*	Research topic	Methodology	Corporate effect
(Schmalensee, 1985)	Firm, markets and market share impact on performance	Sample: FTC Line of Business data (1975) Method: cross-sectional; simple analysis of variance (ANOVA)	Corporate effects: do not exist; Market-share effects exist but are negligible; Industry effects at least 75%
(Wernerfelt & Montgomery, 1988)	Tobin's q and the importance of focus in firm performance	Sample: Trinet/EIS; FTC; other sources (1976): 247 firms Method: ANOVA	Small but significant corporate effect: 0.2%-3.7%
(Rumelt, 1991)	Impact of industry effects on business unit performance	Sample: FTC Line of Business data (1974-1977); manufacturing firms; two data sets Method: ANOVA	negligible, astonishing small corporate effects: 0.8% in sample A; 1.64% in sample B
(Powell, 1996)	Industry effects	Sample and method: 143 firms; survey- and interview-based methodology to measure executives' perceptions	Industry effects 20%; thus remaining 80% include both shared and firm-specific factor
(Roquebert, Phillips, & Westfall, 1996)	Industry and management effects	Sample: COMPUSTAT (1985-1991): 10 randomly selected samples of 100-150 corporations Method: maximum likelihood estimation	Corporate effect accounts for 17.9% of the variance explained; Combined variance accountability of corporate and SBU effects is 55%
(Brush & Bromiley, 1997)	Impact of statistical technique used in studies on corporate and SBU effects:	Sample: n/a Method: Monte Carlo simulation	Corporate effect is of one-fifth the size of the business unit effect
(McGahan & Porter, 1997)	Year, industry, corporate and business effects	Sample: COMPUSTAT (1981-1994): 72,742 observations, average 5,196 SBU per year; 13,660 distinct SBU in 668 different industries Method: decomposition of variance	Corporate-parent accounts for 4%; Year accounts for 2%, industry for 19% and business-specific effects account for 32%
(Brush, Bromiley, & Hendrickx, 1999)	Industry and corporate effects on business unit performance	Sample: COMPUSTAT (1986 to 1995): 4,114 SBU-year observations for two or more SBU corporations, 2,359 for three, 988 for four, 355 for five, and 114 for six or more SBU corporations Method: simultaneous equation model	Both corporations and industries influence business unit profitability but corporations have the larger influence
(Bowman & Helfat, 2001)	Corporate effects and impact of corporate strategy	Comprehensive analysis and review of existing empirical studies which employ variance decomposition techniques	Corporate effects are substantial rather than negligible; Factors associated with corporate strategy contribute to corporate effects

(McGahan & Porter, 2002)	Year, industry, corporate and business effects	Sample: cross-industry sample (1981-1994); see McGahan and Porter (1997) Method: simultaneous ANOVA implemented using regression analysis	Corporate effect between 8.6% and 12%
(Adner & Helfat, 2003)	Corporate effects and dynamic managerial capabilities	Sample: 30 companies; US petroleum industry 1977-1997; data from the Financial Reporting System (FRS) Method: ANOVA using the method of least squares	Stable corporate effects contribute 2.7%; specific corporate management decision (downsizing) add 4.6%; Business effects contribute 19.42%; industry segment account for 2%
(McNamara et al., 2003)	Hyper-competition; Corporate, business and industry effects	Sample: COMPUSTAT (1978-97): 114.191 business unit ROA observations Method: variance components analysis	Increasing corporate effect in successive four-year windows from 78-81 (0%) until 94-97 (36.8%)
(Misangyi, Elms, Greckhamer, & Lepine, 2006)	Multilevel approach to industry, corporate, business unit effects	Sample: COMPUSTAT (1984-99): 2,055 SBUs, 1,512 corporations, 76 industries Method: cross-nesting multilevel technique using hierarchical linear modeling (HLM)	Business segment effects carry the most relative importance, industry and corporate effects are also important

* In chronological order.

Appendix 2: Overview of Corporate Strategy Definitions

Source*	Definition
Vance (1970)	Corporate strategy fundamentally is the deployment of resources to achieve an objective.
Andrews (1971)	Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and noneconomic contributions it intends to make to its shareholders, employees, customers, and communities.
Hofer and Schendel (1978)	[…] corporate-level strategy is concerned primarily with answering the question of what set of businesses should we be in. Consequently, scope and resource deployments among businesses are the primary components of corporate strategy.
Sutton (1980)	Corporate Strategy is concerned with the long-term survival and growth of business organizations. It involves the choice of objectives, the search for developments which may help to meet those objectives, and the identification of those developments which are most likely to be feasible with the organization's existing resources.
Beard and Dess (1981)	Corporate-level strategy is defined in terms of variation in the deployment of a firm's resources among the portfolios of industries within which all business firms compete.
Ohmae (1982)	Corporate strategy thus implies an attempt to alter a company's strength relative to that of its competitors in the most efficient way.
Porter (1987)	Corporate Strategy, the overall plan of a diversified company […]. Corporate strategy concerns two different questions: what businesses the corporation should be in and how the corporate office should manage the array of business units. Corporate strategy is what makes the corporate whole add up to more than the sum of its business unit parts.
Kay (1993)	Corporate strategy is concerned with the firm's choice of businesses, markets and activities.
Stahl and Grigsby (1997)	Corporate level strategy refers to decisions on what business(es) the firm should be in.
Goold, Campbell, and Alexander (1998)	The objective of corporate strategy should be to add more value to the businesses in the portfolio than other rival parent organizations would.
Lynch (2000)	Corporate strategy is the pattern of major objectives, purposes or goals and essential policies or plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be.
Bryan (2002)	A CEO can think about corporate strategy as a 'portfolio of initiatives' intended to achieve favorable outcomes for the entire enterprise.
Ambrosini and Bowman (2003)	[…] the main rationales for corporate strategy are portfolio planning, synergy, core competence, sticking to the knitting, growth, survival and spreading risk.
Hitt, Ireland and Hoskisson (2003)	Corporate-level strategy specifies actions taken by the firm to gain a competitive advantage by selecting and managing a group of different businesses competing in several industries and product markets.

Collis and Montgomery (2005)	Corporate strategy is the way a company creates value through the configuration and coordination of its multimarket activities.
Grant (2005)	Corporate strategy defines the scope of the firm in terms of the industries and markets in which it competes. Corporate strategy decisions include investment in diversification, vertical integration, acquisitions, and new ventures; the allocation of resources between the different businesses of the firm; and divestments.
Morris and Jamieson (2005)	Corporate strategy is a means of thinking through and articulating how an organization's corporate goals and objectives will be achieved.
Johnson, Scholes and Whittington (2006)	Corporate-level strategy is concerned with the overall purpose and scope of an organization and how value will be added to the different parts (business units) of the organization.
Raynor (2007)	[…] a definition of corporate strategy consists of two parts: (i) capturing interdivisional synergies—which is the extent of current thinking; and (ii) how the organization identifies and manages strategic uncertainty.
Kunisch and Menz (2010)**	Corporate Strategy is about strategic choices including configuration and coordination of a firm (what?) under the consideration of its internal and external boundaries, transaction costs, hierarchies, time horizons, markets, and environmental changes (when and where?) by using governance mechanisms, strategic and financial control systems, processes such as information processing by corporate headquarters personnel, resources, synergies, vertical integration, corporate entrepreneurship, and innovation (how?) in order to achieve performance that leads to firm-level competitive advantage (why?).

* In chronological order. We gratefully acknowledge the contribution of Michael Schaerer who gathered the various definitions and largely supported the execution of the respective research by means of his bachelor thesis.

** Research in progress; the final definition may deviate from the current version.

Appendix 3: Overview of CHQ Synonyms and Definitions

Term	Definition	Source*
General office	"At the top is a *general office*. There, general executives and staff specialists coordinate, appraise, and plan goals and policies and allocate resources for a number of quasi-autonomous, fairly self-contained divisions" (p. 9)	(Chandler, 1962)
Strategic apex	"The strategic apex is charged with ensuring that the organization serve its mission in an effective way, and also that it serve the needs of those people who control or otherwise have power over the organization" (p. 25) *Comment:* ▪ The link between the strategic apex and the CHQ explicated for the divisionalized form as: "the structural relationship between the headquarters and the divisions, in effect between the strategic apex and the top of the middle line" (page 381); ▪ Depending on the scope of the definition, two other parts (technostructure and support staff) can, to some extent, also be considered the CHQ.	(Mintzberg, 1979)
Corporation	"refers to the parent organization which owns several business units." (p. 14)	(Yavitz & Newman, 1982)
Central administrative office	"the functions of employees include general company policy determination, planning, and management (i.e., company purchasing, accounting, general engineering, direction of company personnel matters, and legal and patent matters)." (p. 20)	(Montague, 1986)
Corporate center	"the apparatus of CEO and other top managers, plus the staff advising them" (p. 128)	(Hansen & Peytz, 1991)
Corporate headquarters	"include corporate directors, central functions such as finance and personnel, and other staff functions that coordinate across business operations" (p. 4) "Focused on: ▪ provide advice, information, guidance or other services to the parent company or to the business units, ▪ do not primarily trade with outside customers or clients, ▪ report directly to the corporate center, rather than to business units or intermediate management levels" (p. 4)	(Young & Goold, 1993); (Young, 1993a)
Corporate parent (parent organization)	*Comment*: no explicit definition but identifies five categories of a parent organization: (1) mental maps; (2) corporate structures, systems, and processes; (3) central functions, services, and resources; (4) nature, experience and skills (people); and (5) decentralization contract. (p. 124 f.)	(Campbell et al., 1995a)
Corporate parent	"The corporate parent consists of all managers and staff not assigned to a business unit, including not only the corporate headquarters but also division, group, region and other intermediate levels of management." (p. 80)	(Campbell et al., 1995b)
Corporate headquarters	"a corporate hierarchy of line managers and staff outside these businesses, called the 'corporate headquarters (CHQ). Generally, the CHQ includes functions that coordinate activities across business units. I here follow Chandler (1994) (but not Young and Goold, 1993) in thinking of the CHQ as also including top-level management." (p. 313)	(Foss, 1997)

Term	Definition	Source*
Corporate center	"the physical corporate centre as a part of the home base or corporate parent." (p. 142)	(Baaij et al., 2004)
Headquarters and corporate headquarters	"the HQ as having two essential elements: a top management group that typically has an official location at which it meets, and a series of HQ functions that have the formal responsibility for fulfilling the roles discussed above (treasury, investor relations, corporate communications etc.), each one of which has an identifiable physical location. There is also a third element in the case of the corporate HQ (but not the business unit HQ), namely the legal domicile—the registration of the MNC in a particular sovereign nation, under which all the other legal entities that make up the MNC can be grouped." (p. 684)	(Birkinshaw et al., 2006)
Central administrative office	"administrative units including headquarters, which process information both within and between firms." (p. 480)	(Aarland et al., 2007)
Corporate headquarters	"staff functions and executive management with responsibility for, or providing services to, the whole of (or most of) the company, excluding staff employed in divisional headquarters." (p. 385)	(Collis et al., 2007)
Central administrative office	"These facilities […] produce services that are consumed by the operating units and plants of their firms. Examples include strategic planning, business, financial and resource planning, as well as centralized ancillary. administrative services such as legal, accounting, and the like. Some of these services may be out-sourced, given out-sourcing is also a central function of HQ's." (p. 446 f.)	(Davis & Henderson, 2008)
Corporate headquarters	"[…] various departments at headquarters frame policies, develop programs, and make key strategic, budgeting, pricing, and marketing decisions that shape the field organization's priorities, behavior, and actions." (p. 108)	(Garvin & Levesque, 2008)
Headquarters	"[…] process information within the firm and between firms, provide service functions for the firm such as advertising, accounting and legal services, and co-ordinate and administer a variety of plant level activities within the firm. Sometimes firms, especially bigger firms, spatially separate administrative functions from production activity and create stand-alone HQs." (p. 431)	(Henderson & Ono, 2008)
Headquarters	"Headquarters are defined as a management center and are strictly different from a plant. More specifically, in our database a headquarters corresponds to a center of a firm's operations, administration and marketing activity. This general definition of headquarters encompasses regional managerial centers and may include sales offices.[12] A firm may have several headquarters […]. [12] This broad definition of headquarters is adequate for our work as regional headquarters as well as sales offices have similar inputs requirements than central headquarters in term of labor, business services or information. Their relocation across cities has similar implications on employment or economic activity than the relocation of central headquarters." (p. 170)	(Strauss-Kahn & Vives, 2009)

* In chronological order.

Appendix 4: Fundamental Change in the Environmental and Organizational Context of Large Firms (Illustrative)

	Changes in the internal and external context of large companies	Implications for corporate headquarters (CHQ)	
(De-)Regulation	▪ Sarbanes Oxley Act in 2002 ▪ New rules and regulations by the major stock exchanges ▪ New rules and regulations in the EU e.g. Basel II & III, Insolvency I & II, IFRS, controlled foreign corporation (CFC) legislation (e.g. Baaij et al., 2004) ▪ Industry deregulations in the EU, e.g. Telecom, Energy	▪ New corporate governance practices (partly driven by corruption scandals), e.g. use of compliance officers ▪ CHQ-subsidiary relationships (perhaps more central control) ▪ Location and mobility of CHQ	*(De-)Regulation*
Globalization (and internationalization)	▪ Increase in globalization since 1990, e.g. KOF Index of Globalization (Roth, 2011) ▪ More complex and dynamic organizational environments - More complex and diverse organizations, e.g. MNCs with local subsidiaries ▪ Global capital markets: - Increase in short-term focus (e.g. on financial performance) at expense of long-term investments - Increase in shareholder activism and shareholder pressure - Increase in international investors ▪ Global executive labor market: - Change in executive career paths - Change in pool of managerial resources within the firm (decrease in value of firm-specific human capital and managerial resources)	▪ The CHQ challenged by having to manage more complexity and diversity: - CHQ-subsidiary relationships - Need for knowledge of the new and overseas markets (subsidiary operations) ▪ Roles of the CHQ: - Potential shift in the internal vs. external roles (regarding the shareholders and capital markets)of the CHQ ▪ Resources and capabilities at the CHQ, e.g.: - Need for GM techniques (such as corporate strategic planning) to help CEOs and the TMT cope with complexity and dynamism - Need for cross-functional collaboration capabilities - Use of chief strategy officers ▪ Location and mobility of CHQ	*Globalization (and internationalization)*
Technology	▪ IT revolution: - Email - Internet - Digitalization ▪ Evolution of supply chain (e.g. Fujita & Thisse, 2006) - more diverse product portfolio - new markets	▪ Resources and capabilities at the CHQ, e.g.: - Need for know-how of new and overseas markets - Need for know-how of modern communication ▪ Roles of the CHQ: - Corporate standards - Need for business acumen (e.g. Groysberg, Kelly, & MacDonald, 2011) ▪ Location and mobility of the CHQ (dispersed CHQ)	*Technology*
	Changes at corporate headquarters (CHQ)		

Source: Kunisch et al. (2012c: 9).

Appendix 5: Three Options for Review Timeline

	Option 1	Option 2	Option 3
Description	all relevant articles since Porter (1987, 1988) and Ginsberg (1988)	all relevant articles since Ferlie and Pettigrew's (1996)study on changes at the CHQ	all relevant articles over entire timeline, e.g. since Chandler (1962)
Reasoning	▪ publication of two influential articles: o influential corporate strategy definition (377 Web of Science citations as of January 2012) o conceptualization of strategic change (119 Web of Science citations as of January 2012) ▪ coincides with beginning of a wave of changes at the CHQ (e.g. Ferlie & Pettigrew, 1996) ▪ coincides with the beginning of significant globalization (e.g. Roth, 2011) and the rise of MNC etc.	▪ publication date of first study on changes at the CHQ	▪ beginning of research on multi-business corporations and corporate headquarters
Pros	▪ ensures sufficient number of studies for a review ▪ beneficial overlap with Ferlie and Pettigrew's (1996) study: nothing missing but also few redundancies ▪ manageable timeline which allows for conceptual parts, not only a review	▪ allows for evaluating progress of this research stream since last stimulus ▪ allows for focus on CHQ relocations studies of last decade	▪ ensures sufficient number of studies for a review ▪ allows for identifying stages of this research stream (like the CEO succession review study)
Cons	▪ overlap with Ferlie and Pettigrew's (1996) study on changes at CHQ	▪ Ferlie and Pettigrew's (1996) study not very influential in terms of: o quantity (10 Web of Science citations as of January 2012) and o quality (not highly ranked journals) of citing articles ▪ might overemphasize CHQ relocations studies of last decade	▪ not much research on changes at the CHQ before beginning of 1990 ▪ partly ignores (disregards) Ferlie and Pettigrew's (1996) study ▪ potential redundancies with Ferlie and Pettigrew's (1996) study

Appendix 6: Theoretical Perspectives for Research on the CHQ and Changes at the CHQ

Theoretical lens/ literature streams*	Research concerns	Key ideas	Intellectual roots	Exemplary studies
Organizational contingency theory	▪ internal and external alignment ▪ no 'one best way' to configure organizations	▪ internal fit ▪ strategy-structure debate	(Chandler, 1962) (Galbraith, 1973) (Lorsch & Allen III, 1973)	(van Oijen & Douma, 2000)
Agency theory	▪ hierarchical structures and agency costs; contracts between agents and principals ▪ incentive agreements and allocation of decision rights	▪ influence of ownership ▪ corporate governance	(Jensen & Meckling, 1976) (Eisenhardt, 1989)	(Birkinshaw et al., 2006)
Transaction cost economics (TCE)	▪ costs of economic exchange	▪ economies of scale and scope ▪ efficient internal markets	(Coase, 1937) (Williamson, 1975) (Teece, 1980, 1982)	(Teece, 1986) (Roth & Nigh, 1992)
Resource-based view (RBV)	▪ organizational resources and capabilities	▪ valuable, rare, imitable, and substitutable resources	(Penrose, 1959) (Wernerfelt, 1984, 1995) (Barney, 1991) (Peteraf, 1993)	(Markides & Williamson, 1994, 1996) (Robins & Wiersema, 1995) (Collis, 1996; Collis & Montgomery, 1998, 2005)
Corporate strategy (diversification)	▪ multi-business corporation ▪ related vs. unrelated diversification	▪ the CHQ roles	(Rumelt, 1974, 1982) (Porter, 1987)	(Goold & Campbell, 1987)
Internationalization theory	▪ multi-national companies (MNC) ▪ CHQ-subsidiary relationships ▪ CHQ relocations	▪ cross-border mobility	(Dunning, 1981) (Rugman, 1981) (Bartlett & Ghoshal, 1989)	(Birkinshaw et al., 2006) (Baaij et al., 2012; Baaij et al., 2004)
Institutional theory	▪ influence of the environmental setting on organizations ▪ rules, demands, and expectations of an organization's environment and stakeholders	▪ symbolic value and signaling ▪ legitimacy ▪ mimetic change	(DiMaggio & Powell, 1983) (Abrahamson, 1991)	(Brunsson, 1989) (Birkinshaw et al., 2006)

Theoretical lens/ literature streams*	Research concerns	Key ideas	Intellectual roots	Exemplary studies
Upper echelons theory	▪ upper echelons, including the CEO and the TMT ▪ succession events, CEO and TMT turnover	▪ top-down-driven change ▪ changed dependent on managerial cognitions and experiences	(March & Simon, 1958) (Cyert & March, 1963) (Hambrick & Mason, 1984) (Hambrick, 2007)	(Lewin & Stephens, 1994)
Organizational learning / adaptation	▪ organizational adjustment to environments	▪ single-loop vs. double-loop learning ▪ absorptive capacity	(Argyris & Schön, 1978) (Hedberg, 1981) (Kimberly & Quinn, 1984) (Fiol & Lyles, 1985)	
Organizational change and inertia / evolutionary theories	▪ wide range of large organizations ▪ drivers of and barriers to change ▪ nature of change processes	▪ CHQ inertia ▪ adaptation of business portfolio to the CHQ characteristics	(Hannan & Freeman, 1977, 1984) (Nelson & Winter, 1982)	(Goold & Luchs, 1992) (Campbell et al., 1995a)
Dynamic capabilities	▪ sustainable advantage in rapidly changing environments over time ▪ genesis, development, and renewal of resources	▪ firm's ability to integrate, build, and reconfigure internal and external competences ▪ dynamic managerial capabilities	(Teece, Pisano, & Shuen, 1997) (Eisenhardt & Martin, 2000) (Teece, 2007)	(Adner & Helfat, 2003) (Bowman & Ambrosini, 2003) (Harreld et al., 2007)

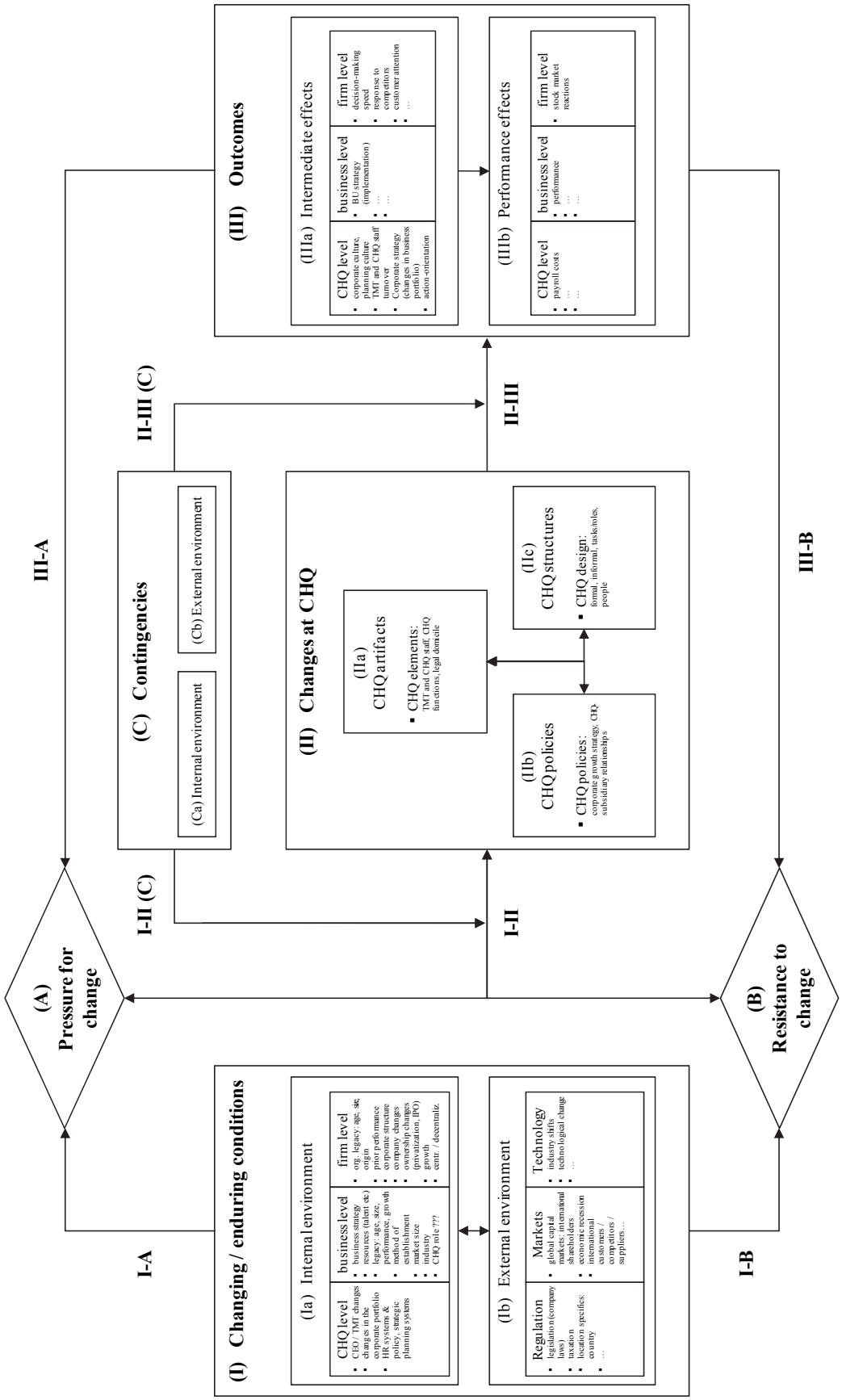
* Menz and Collis (2009: 60) present a list with theoretical perspectives on the corporate center.

Appendix 7: Conceptual and Method Studies Relevant for the Study of Changes at the CHQ

Study (year)*	Journal	Type of study	Research focus
(Ginsberg, 1988)	Strategic Management Journal	Conceptual review focusing on definitions, and methodologies	Theoretical foundations and empirical directions for measuring and modeling changes in strategy
(Pettigrew, 1990)	Organization Science	Method study focused on codifying learning from experiences	Theory and practice of longitudinal field research on change
(Mintzberg & Westley, 1992)	Strategic Management Journal	Conceptual study	Cycles of organizational change
(Bergh, 1993)	Journal of Management	Method review study	Use and misuse of time effects in management research
(Ferlie & Pettigrew, 1996)	Journal of Management Studies	Conceptual review study (including two case vignettes)	Nature and transformation of CHQ
(George & Jones, 2000)	Journal of Management	Conceptual review study	Multiple aspects of temporality for theories, e.g. six important time dimensions
(Ancona et al., 2001)	Academy of Management Review	Conceptual study; final article of special issue on temporal lens	Time as a research lens: temporal organizational research
(Huy, 2001)	Academy of Management Review	Conceptual study	Conceptual model for large-scale change involving multiple organizational
(Mitchell & James, 2001)	Academy of Management Review	Conceptual study in special issue on temporal lens	Implications for causal relationships depend on when X and Y are measured
(Pettigrew et al., 2001)	Academy of Management Journal	Conceptual study	Research challenges of studying organizational change and development
(Bergh & Fairbank, 2002)	Strategic Management Journal	Research note, method review study	Measuring and testing change in strategic management research
(Beck et al., 2008)	Academy of Management Journal	Empirical study	Theoretical and methodological reflections on the analysis of organizational change
(Moon & LeSage, 2011)	Applied Economics Letters	Method study	Method issues when estimating whether CHQ location matters for stock prices
(Shi, Sun, & Prescott, 2012)	Journal of Management	Review study	A temporal perspective of merger and acquisition and strategic alliance research

* In chronological order.

Appendix 8: Organizing Framework for Research on Changes at the CHQ (Details)



Appendix 9: Examples of CEO Successors from the Corporate and the Business Level[76]

Individual (firm, year)	Previous positions (snapshot)
Corporate level CEO successors	
Robert (Bob) A Iger (The Walt Disney Company, 2005)	▪ 2000 - 2005: pres., COO, Walt Disney Co., Burbank, Calif. ▪ 1999 - 2000: pres., Walt Disney International ▪ 1996 - 1999: pres., ABC, Inc., NYC ▪ 1994 - 1996: pres., COO, Capital Cities/ABC Inc., NYC ▪ 1993 - 1994: exec. v.p., Capital Cities/ABC Inc., NYC ▪ 1989 - 1992: pres., ABC Entertainment ▪ 1992 - 1994: pres., ABC TV Network Grp. ▪ 1988 - 1989: exec. v.p., ABC TV Network Grp. ▪ 1987 - 1988: v.p. prog. planning & acquisition, ABC Sports ▪ 1985 - 1987: v.p. prog. planning, devel., ABC Sports ▪ 1976 - 1985: various positions, ABC-TV Sports ▪ 1974 - 1976: studio supr., ABC-TV
Muhtar Kent (The Coca-Cola Company, 2008)	▪ 2006 - 2008: pres., COO, Coca-Cola Co. ▪ 2005 - 2006: pres, CEO North Asia, Eurasia & Middle East Group, Coca-Cola Co. ▪ 1999 - 2005: pres., CEO, Efes Beverage Group, Istantbul, Turkey ▪ 1995 - 1998: mng. dir. Coca-Cola Amatil-Europe, Coca-Cola Co. ▪ 1989 - 1995: sr. v.p. internat., pres. East Ctrl. Europe divsn., Coca-Cola Co. ▪ 1985 - 1989: gen. mgr. Coca-Cola Turkey & Ctrl. Asia, Coca-Cola Co. ▪ 1978 - 1985: various mktg. and operations roles, Coca-Cola Co., Atlanta
Ellen J Kullman (DuPont, 2009)	▪ 2008: pres., E.I. du Pont de Nemours & Co. ▪ 2006 - 2008: exec. v.p. Dupont Safety & Protection, Dupont Coatings & Color Tech., mktg. & sales and safety & sustainability, E.I. du Pont de Nemours & Co. ▪ 2002 - 2006: group v.p. DuPont Safety & Protection, E.I. du Pont de Nemours & Co. ▪ 2001 - 2002: v.p., gen. mgr. DuPont Flooring Systems & DuPont Surfaces, E.I. du Pont de Nemours & Co. ▪ 1999 - 2000: v.p., gen. mgr. bio-based materials, E.I. du Pont de Nemours & Co. ▪ 1998 - 1999: v.p., gen. mgr. safety resources, E.I. du Pont de Nemours & Co. ▪ 1995 - 1998: v.p., gen. mgr. white pigment & mineral products, E.I. du Pont de Nemours & Co. ▪ 1994 - 1995: global bus. dir. white pigment & mineral products, E.I. du Pont de Nemours & Co. ▪ 1992 - 1994: global bus. dir. electronic imaging printing & pub., E.I. du Pont de Nemours & Co. ▪ 1990 - 1992: bus. dir., x-ray film, E.I. du Pont de Nemours & Co. ▪ 1988 - 1990: med. imaging mktg. mgr., E.I. du Pont de Nemours & Co. ▪ 1983 - 1988: various bus. devel., mktg. and sales positions, General Electric Co.
Keith E Wandell (Harley Davidson, Inc., 2009)	▪ 2006 - 2009: pres., COO, Johnson Controls, Inc., Milw. ▪ 2005 - 2006: exec. v.p., Johnson Controls, Inc., Milw. ▪ 2003 - 2006: pres., automotive group, Johnson Controls, Inc., Milw. ▪ 1998 - 2003: pres., power solutions bus., Johnson Controls, Inc. ▪ 1997 - 2003: pres. battery group, Johnson Controls, Inc., Milw. ▪ 1997 - 2005: corp. v.p., Johnson Controls, Inc., Milw. ▪ 1988 - 1997: mgmt. positions, Johnson Controls, Inc., Milw. ▪ 1987 - 1988: with, Farley Industries ▪ 1979 - 1987: with, Sheller Globe Corp.

[76] Source: BoardEx database, Who's Who catalogues accessed through the LexisNexis database.

Individual (firm, year)	Previous positions (snapshot)
James Skinner (McDonalds Corp., 2004)	▪ 2003 - 2004: vice chmn., McDonald's Corp. ▪ 2002 - 2003: pres., COO, McDonald's Restaurant Group ▪ 2001 - 2002: pres., COO, McDonald's Europe/Asia/Pacific and Middle East ▪ 1997 - 2001: pres., McDonald's Europe ▪ 1995 - 1997: exec. v.p., internat. relationship ptnr., McDonald's Ctrl. Europe, Middle East, Africa, India ▪ 1992 - 1995: sr. v.p., relationship ptnr., McDonald's Corp. ▪ 1987 - 1992: US zone v.p., McDonald's Corp. ▪ 1971 - …: restaurant mgr. trainee to numerous positions within the US Co., McDonald's Corp.
Business level CEO successors	
John Joseph Donahoe II (eBay, Inc., 2008)	▪ 2005 - 2008: pres. eBay Marketplaces, eBay, Inc., ▪ 2000 - 2005: mng. dir., Bain & Co., Inc. ▪ xxx: with, Rolm Corp. ▪ xxx: with, Salomon Brothers (now Citigroup Inc.)
Eugene (Gene) A Hall (Gartner, Inc., 2004)	▪ 1998 - 2004: sr. v.p. to pres. employer svcs. Major Accounts Divsn., Automatic Data Processing, Inc., Roseland, NJ, … ▪ xxx: dir., sr. ptnr., McKinsey & Co.. ▪ xxx: aerostructures engr., Sikorsky Aircraft
Mark D Ketchum (Newell Rubber-maid, Inc., 2005)	▪ 1999 - 2004: pres. Global Baby and Family Care, Procter & Gamble Co., ▪ 1996 - 1999: pres. N.Am. Paper Sector, Procter & Gamble Co., ▪ 1990 - 1996: v.p., gen. mgr. Tissue/Towel, Procter & Gamble Co., ▪ 1984 - 1990: brand mgmt., Procter & Gamble Co.,. ▪ 1971 - 1984: with paper div., Procter & Gamble Co., ▪ 1971: joined Procter & Gamble Co.
Mark G Parker (NIKE, Inc., 2006)	▪ 2001 - 2006: pres. Nike Brand, Nike, Inc. ▪ 1998 - 2001: v.p., gen. mgr. global footware, Nike, Inc. ▪ 1993 - 1998: v.p. consumer product mktg., Nike, Inc. ▪ 1988 - 1993: corp. v.p. rsch. design & devel., Nike, Inc. ▪ 1987 - 1988: divsn. v.p. footware rsch., design and devel., Nike, Inc. ▪ 1985 - 1987: head, spl. design project teams, Nike, Inc. ▪ 1983 - 1985: mgr. footware mktg., Nike, Inc. ▪ 1982 - 1983: dir. footwear design, Nike, Inc. ▪ 1981 - 1982: dir. design concepts & engring., Nike, Inc., Beaverton, Oreg. ▪ 1980 - 1981: mgr. advanced product design, Nike, Inc. ▪ 1979 - 1980: designer, devel. mgr., Nike, Inc., Exeter, NH ▪ 1979: joined Nike, Inc.
Michael (Mike) E Szymanczyk (Altria Group, Inc., 2008)	▪ 2002 - …: chmn., Philip Morris USA ▪ 1997 - …: pres., CEO, Philip Morris USA ▪ 1990 - 1997: sr. v.p. sales, Philip Morris USA (now divsn. of Altria Grp., Inc.), NYC ▪ 1989 - …: sr. v.p., Swift-Eckrich Inc. ▪ 1988 - …: v.p retail ops., Kraft Inc., Glenview, Ill. ▪ 1987 - 1988: v.p. sales, Kraft Inc., Glenview, Ill. ▪ 1971 - 1987: various sales and gen. mgmt. positions, Procter & Gamble Co.
Stephen A Elop (Nokia, 2010)	▪ former President of Microsoft Business Division named CEO of 2010
Carleton (Carly) S Fiorina (Hewlett Packard, 1999)	▪ former Lucent ▪ 1997 - 1999: LUCENT TECHNOLOGIES INC (De-listed 11/2006) Group President ▪ 1996 - 1997: LUCENT TECHNOLOGIES INC (De-listed 11/2006) Division President Customer Products and Initial Public Offering
Virginia "Ginni" Rometty (IBM, 2011)	▪ former IBM Senior VP/Group Executive Sales, Marketing and Strategy

Appendix 10: The New CEO's Origin: Illustrative Examples

In the following, I provide a few examples from case studies and the business press to illustrate the practical relevance of this study's topic: The a example concerns HP, which hired NCR's corporate CEO Mark Hurd in 2004. A *businessweek.com* article, commenting on the new CEO, points to the importance of the new CEO's corporate-level experience and responsibility for multiple divisions:

> *"HP's choice has some logic. Although NCR is a far smaller company than HP, Hurd is one of the handful of executives who has run a multiline, multibillion computer company successfully"* (Burrows & Elgin, 2005: 7).

The new CEO engaged in significant change and restructuring and also presided over three major acquisitions (Lorsch, Palepu, & Barton, 2011: 2).

> *"HP said it would 'carefully target' the job cuts, with few reductions coming in the sales staff and in the areas of research and development, with the heaviest cuts targeted as so-called 'support functions', such as human resources, finance and IT support"* (Regan, 2005).

Another example is Intuit's new CEO Steve Bennett, who was appointed in late 1999. He was hired from GE Capital, the financial services subsidiary of GE, which is responsible for five separate companies with more than 22,000 employees as his most recent assignment (Sahlman & Wagonfeld, 2004: 16 & 25):

> *"They [the board] gave him [an executive search consultant from Spencer Stuart] a set of criteria that included items such as being operationally disciplined, experienced in running multiple divisions, and comfortable with technology (but not necessarily being from a technology company). They also wanted someone with proven experience in producing change inside an organization"* (Sahlman & Wagonfeld, 2004: 4).

> *"As the CEO I have three primary responsibilities. First, I need to set expectations for the company on how we deliver for all three of our stakeholders—employees, customers, and shareholders. […] Second, it is my job to ensure that we are operating in businesses that we can win. […] And third, a CEO must define and implement the processes and methodology for running the company […] My changes are focused on these three areas."* (Sahlman & Wagonfeld, 2004: 14).

Soon after taking the helm, he initiated three major changes: (1) a major reorganization; (2) change in the operating reviews and budgeting process; and (3) ensuring stronger functional expertise:

> *"Bennett made his first set of changes five weeks into the job … Bennett announced a major reorganization of the company. Rather than having three major business groups managed by*

senior vice presidents who reported to the CEO, Bennett opted for 16 direct reports, removing the layer of senior vice presidents" (Sahlman & Wagonfeld, 2004: 6).

"[...] changing the way operating reviews and the budgeting process were conducted" (Sahlman & Wagonfeld, 2004: 7).

"A third set of changes made by Bennett during spring 2000 involved bringing in stronger functional expertise. Bennett believed that Intuit lacked functional leaders to support the business units, which led to a number of issues. [...] In addition, Bennett established a new function called 'process excellence' [...] The increased attention on functional units was a departure from the past, as Intuit had been managed almost entirely through its business unit. [...] Bennett's focus on functional units was a welcome change. Our sales group was sometimes seen as a peripheral before he came on board, but he recognized the importance of understanding the retail markets. He allowed us to invest more in the retail function. It might have looked like an additional expense, but the investment made a positive impact on the bottom line. The focus on functional strength caused some money to be diverted from the budgets of each business unit ..." (Sahlman & Wagonfeld, 2004: 8).

As a large and diversified firm that has developed many high-profile business leaders, GE provides another interesting example:

"In grooming and testing the leading contenders, Welch deliberately used several GE businesses as proving grounds. Facing strong competition and long-term unionized labor terms, Appliances and Lightning had long been used as places to develop managers' operations skills. Transportation Systems, Energy Systems and Aircraft Engines enhanced candidates' ability to manage through capital spending cycles. And their performances at Plastics and Medical Systems could be evaluated for the candidate's ability to exploit technological growth, acquisitions, and globalization" (Bartlett & McLean, 2006: 9).

Finally, King Lear serves as an example in which the cultural (international) background of the corporate CEO also mattered:

"First of all, given the company's global orientation, what kind of person should lead the group?" (Balazs, 2004: 4).

Appendix 11: Previous Studies on the Consequences of the New CEO's Origin

Study*	CEO's origin**	Theory	Method	Findings***
(Helmich & Brown, 1972)	dichotomous variable: inside vs. outside successions	no explicit theory	204 corporate president successions in 208 chemical and allied product firms; 1959–1969; US	Corporations experiencing inside corporate president successions exhibit less organizational change than firms with outside succession. Moderating effects: organizational performance, successor's style of leadership, intensity of operations, firm size, and industry administrative growth.
(Helmich, 1974)	dichotomous variable: two succession patterns inside vs. outside successions	no explicit theory	29 corporate president succession patterns in 29 manufacturing firms; 1964–1972; US	Succession patterns with one or more outsiders (adaptive) are associated with higher levels of firm growth compared to those with two insiders in succession (non-adaptive). Adaptive successions relate to percentage growth in the number of subsidiaries and growth in the board size; but not to product diversification, and corporate sales growth.
(Chung, Rogers, Lubatkin, & Owers, 1987)	dichotomous variable: inside vs. outside CEO successions	no explicit theory	99 CEO successions in large firms; 1971–1976; US	A firm's long-term profitability is more a function of its pre-succession performance than the change of CEO, regardless of the CEO's origin. Insiders tend to make good CEOs, but are not necessarily superior to outsiders. The stock price rises when high-performing firms appoint outsiders as CEOs.
(Worrell & Davidson III, 1987)	dichotomous variable: inside vs. outside CEO successions	no explicit theory; corporate finance	60 CEO successions in large publicly held firms following the death of the incumbent; 1966–1982; US	The market reacts positively to the announcement of internal succession, but external succession was not associated with significant abnormal returns. The findings support the importance of examining the organizational conditions surrounding succession events.
(Davidson III, Worrell, & Cheng, 1990)	dichotomous variable: inside vs. outside key executive successions	no explicit theory; corporate finance (shareholder wealth)	367 key executive successions (CEO, president, chair) in large public firms (Fortune 500); 1963–1985; US	There are significant, positive market reactions to key executive changes (total sample); however, there are differences regarding successor's origin, position, and age at the time of appointment.

Study*	CEO's origin**	Theory	Method	Findings***
(Wiersema, 1992)	dichotomous variable: inside vs. outside president successions	multiple: agency theory, upper echelons perspective	86 president successions in large manufacturing firms (Fortune 1,000); 1977–81; US	Firms have a greater likelihood of experiencing significant strategic change if they choose outside successors; firms that select their key executives from within are more likely to experience significantly less corporate-level strategic change.
(Cannella Jr. & Lubatkin, 1993)	dichotomous: inside vs. outside CEO successions	no explicit theory; socio-political	472 CEO successions in large, publicly traded firms; 1971–1985; US	The relationship between performance and CEO selection (CEO origin) is moderated by the socio-political context.
(Harris & Helfat, 1997)	dichotomous: inside (internal) and outside (external) CEO successors	human capital; CEO labor market (supply vs. demand)	305 CEO successions in large companies; 1978-1987; US	Inside and outside CEO successors receive different compensations: outsiders receive greater initial non-contingent compensation than insiders, and succesors from outside the industry receive a greater premium than those from within the industry.
(Lauterbach, Vu, & Weisberg, 1999)	dichotomous: inside (internal) and outside (external) top management successors	upper echelons, power	165 top management successions; 1989–1991; US	Outside successions are more likely in small firms, in firms with poor economic performance, and in firms which offer the successor several top positions (e.g. Chairman and CEO). On average, the post-succession performance of outsiders is superior to that of insiders.
(Davidson III et al., 2002)	categorical: three categories of new CEO's origin: insider, outsider from within, or outside the same industry	no explicit theory; corporate finance	421 CEO succession (363 insiders vs. 55 outsiders) in large firms; 1982–1992; US	The stock market reacts favorably to announcements that an outsider is to be the CEO successor. However, this reaction is more positive when the outsider comes from a related industry firm.
(Shen & Cannella Jr., 2002a)	dichotomous: inside vs. outside CEO successions	power perspective	CEO successions in 387 large and publicly listed firms; 1988–1997; US	The CEO origin, CEO tenure, non-CEO inside directors, and senior executive ownership are important antecedents of CEO dismissal and are followed by inside CEO succession.
(Shen & Cannella Jr., 2002b)	categorical: three CEO successor types: followers, contenders, and outsiders	power circulation theory of control	228 CEO successions in 300 relatively large and public firms; 1988–1994; US	The CEO successor type interacts with post-succession senior executive turnover to influence a firm's return on assets. There is an inverted U-shaped relationship between the departing CEO tenure and post-succession firm return on assets.

Study*	CEO's origin**	Theory	Method	Findings***
(Bailey & Helfat, 2003)	categorical: one inside and three outside CEO successor types: firm-specific (inside), industry-specific, related industry, generic	human capital	36 outside CEO succession in large public companies; 1978–1987; US	Outside CEO successors with fewer transferable (related-industry) skills show greater variance in firm performance.
(Shen & Cannella Jr., 2003)	categorical: three CEO succession types: heir apparent promotion, non-heir apparent inside succession, outside succession	no explicit theory; multiple	193 CEO successions in large corporations, 1988–1997; US	Investors react positively to heir apparent promotion to the CEO position, and to outside CEO promotion, and negatively to non-heir apparent inside CEO promotion.
(Zhang & Rajagopalan, 2003)	categorical: three categories of new CEO's origin: intra-firm, intra-industry, and outside industry	economic, managerial labor market (supply vs. demand)	220 CEO successions; relatively large, public manufacturing firms; 1993–1998; US	Intra-firm CEO succession is positively associated with the presence of an heir apparent and the number of non-heir apparent inside directors. Intra-industry CEO succession is positively associated with strategic homogeneity among industry firms and a focal firm's strategic conformity with central industry tendencies.
(Zhang & Rajagopalan, 2004)	categorical: three categories of a new CEO's origin: relay, non-relay inside, and outside	organizational learning and adaptation perspective	204 CEO successions in non-diversified manufacturing firms; 1993–1998; US	The likelihood of relay succession is negatively (positively) associated with the number of internal candidates (with pre-succession firm performance). Relay successions leads to better post-succession firm performance, particularly at lower levels of pre-succession firm performance and higher levels of post-succession strategic and industry instability.
(Agrawal, Knoeber, & Tsoulouhas, 2006)	dichotomous: inside (internal) and outside (external) CEO successors	no explicit theory	1,035 CEO successions in large firms (Forbes 800); 1974–1995; US	Outsiders are chosen only if markedly better than inside candidates to strengthen the incentive for inside candidates in CEO succession contests. Firms are more likely to choose an insider when inside (outside) candidates are more (less) comparable, when more inside candidates are available, and when firms switch to a product or line of business structure (making insiders more comparable).

Study*	CEO's origin**	Theory	Method	Findings***
(Bower, 2007)	dichotomous: inside and outside CEO successors; in addition: 'inside outsiders'	managerial, no explicit theory	Conceptual (building on 1,800 successions and illustrative examples)	Firms need to nurture 'inside outsiders' who combine the strengths of inside CEO successors and outside CEO successors (since both of them have advantages and disadvantages).
(Karaevli, 2007)	continuous: new CEO 'outsiderness'	adaptation vs. continuity view of CEO successions; resource dependence, upper echelon	140 CEO successions in firms in the airline and chemical industries; 1972–2002; US	New CEO 'outsiderness' has no major effect on post-succession firm performance. Environmental munificence, pre-succession firm performance, and concomitant strategic and senior executive team changes are significant moderating effects.
(Zhang & Rajagopalan, 2010)	dichotomous: outside CEO	no explicit theory; organizational change, upper echelons	193 CEO successions in relatively large, public manufacturing firms; 1993–1998; US	There is an inverted U-shaped relationship between the level of strategic change and firm performance. The effects of strategic change on firm performance are more pronounced for outside CEOs than for inside CEOs, but only show up in the later years but not in the early years of the CEO tenure.
(Barron, Chulkov, & Waddell, 2011)	categorical: three CEO successor types: followers, contenders, and outsiders	finance and economics; management (upper echelons, power circulation theory)	1,787 CEO succession in 2,399 publicly traded firms; 1993 to 2005; US	CEO successions correlate with strategic change, but only for specific CEO succession types (contenders, followers, and outsiders), and only if non-CEO members of the TMT also leave the firm. Non-CEO departures play a key role in strategic change at a firm.
(Pan & Wang, 2012)	dichotomous: inside and outside CEO successors	no explicit theory; corporate finance	2,221 CEO successions in in firms available from the ExecuComp database; 1992–2007; US	Outsider CEOs tend to outperform insider CEOs due to their higher propensity to shakeup the TMT and the operations. Outsider CEOs are better candidates if changes have to be made because they can more effectively circumvent some of the agency-related frictions which can prevent a new CEO from implementing value-enhancing strategies.

* Selected, in chronological order.
** Other terms used included: successor type, …
*** The summaries are largely taken from the article's abstract and summaries.

Appendix 12: CHQ Survey Implementation: Website

http://www.chq-survey.com/ - Windows Internet Explorer provided by IE - UniSG

http://www.chq-survey.com/

HARVARD | BUSINESS | SCHOOL

Institute of Management
University of St.Gallen

Optimizing the Size and Scope of Corporate Headquarters

Top Executive Survey

by Prof. David Collis, Ph.D., Prof. Dr. Guenter Mueller-Stewens, Sven Kunisch (Ph.D. candidate)

Welcome!
This survey is an important part of our continuing research on the **nature of corporate headquarters** at the **Harvard Business School (USA)** and the **University of St. Gallen (Switzerland)**. It will only take **approx. 10 minutes** to complete the two-page questionnaire. You will obtain a **free report with our findings**.

Access online survey **Access PDF form**

Background information (click here to download letter of invitation)

What do we explore?
For many companies, **trying to optimize the size and scope of their corporate headquarters (CHQ)** remains a contemporary challenge. The strategic choices often concern: whether and how the corporate level adds value; what activities should be centralized or de-centralized; and, how to avoid bureaucracy and interference. While in the 1990s we primarily observed **downsizing and de-centralization**, in recent years many companies tended to engage in **centralizing core activities and setting up new functions at CHQ**. Yet, some companies appear more disposed to such changes, while others tend to be less inclined to changing their CHQ.
Our interest is in better understanding this phenomenon. **Your response will be extremely valuable** for creating new knowledge pertaining to **when, why and how changes at CHQ occur**. The output of this research will be empirical evidence for specific motors, impediments and performance implications of CHQ change. These insights can be used by companies to help make better choices when considering changes to their CHQ.

How can you participate?
There are two basic options to fill in the questionnaire (see above): You can fill in the **(1) online survey** or use the **(2) PDF form** and submit it as an **e-mail attachment** to kunisch@fas.harvard.edu or print it and return it by **fax or mail** to the contact details given below.

Thank you very much for taking the time and trouble to contribute to this valuable research!

Contact
Sven Kunisch, c/o Prof. David Collis, Ph.D.
Harvard Business School | Morgan Hall 220C | Soldiers Field Rd | Boston, MA 02163 | USA
P: +1.617.866.3131 | F: +1.617.495.0355 | kunisch@fas.harvard.edu

or: Institute of Management | University of St. Gallen | Dufourstr 40a | CH-9000 St. Gallen | Switzerland
F: +41 71 224 2355 | sven.kunisch@unisg.ch

Appendix 13: CHQ Survey Implementation: PDF Form

HARVARD | BUSINESS | SCHOOL

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University of St.Gallen

Optimizing the Size and Scope of Corporate Headquarters

Top Executive Survey

by Prof. David Collis, Ph.D., Prof. Dr. Guenter Mueller-Stewens, Sven Kunisch (Ph.D. candidate)

Welcome!

We have selected your company for participation in this **Corporate Headquarters Survey**. The survey is an important part of our continuing research at the **Harvard Business School** (USA) and the **University of St. Gallen** (Switzerland) on **the nature of corporate headquarters**. We kindly invite you to fill in the questionnaire or designate it to the most appropriate senior person in your team. It will only take **approx. 10 minutes** to complete the two-page questionnaire. You will obtain a **free report with our findings** and **an individual company profile**.

What do we explore?

For many companies, **trying to optimize the size and scope of their corporate headquarters (CHQ)** remains a contemporary challenge. The strategic choices often concern: whether and how the corporate level adds value; what activities should be centralized or de-centralized; and, how to avoid bureaucracy and interference. While in the 1990s we primarily observed **downsizing and de-centralization**, in recent years many companies tended to engage in **centralizing core activities and setting up new functions at CHQ**. Yet, some companies appear more disposed to such changes, while others tend to be less inclined to changing their CHQ.

Our interest is in better understanding this phenomenon. **Your response will be extremely valuable** for creating new knowledge pertaining to **when, why and how changes at CHQ occur.** The output of this research will be empirical evidence for specific motors, impediments and performance implications of CHQ change. These insights can be used by companies to help make better choices when considering changes to their CHQ.

How can you participate?

There are two options to complete the survey (if the either link does not work automatically, please copy and paste it to your browser):

(1) **Online survey:** www.chq-survey.net/online.htm
(2) **PDF form:** www.chq-survey.net/Form.pdf
In case you use the PDF form, you may (2a) directly submit it as an email attachment or (2b) print it and return it by fax or mail to the contact details given below.

Once we have analyzed the data, we will send you a **free report with our findings** and/or an **individual profile with your CHQ characteristics** in comparison to all other participating companies. All responses will be kept strictly confidential, and will only be used on an aggregated level. **Published reports will preserve the confidentiality of the information you provide.**

Thank you very much for taking the time and trouble to contribute to this valuable research!

Contact details:
Sven Kunisch, c/o Prof. David Collis, Ph.D.
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P: +1.617.866.3131 | F: +1.617.495.0355 | kunisch@fas.harvard.edu
or: Institute of Management | University of St. Gallen | Dufourstr 40a | CH-9000 St. Gallen | Switzerland
F: +41 71 224 2355 | sven.kunisch@unisg.ch

Appendix 13: CHQ Survey Implementation: PDF Form (cont.)

Top Executive Survey: Optimizing the Size and Scope of Corporate Headquarters — Questionnaire page 1 of 2

For this survey please consider the following definitions:

Corporate headquarters (CHQ)	*all executive directors and staff functions with responsibility for, or providing services to the whole (or most) of the company.*	• includes: full-time executive directors and their support staff; staff of centralized functions • excludes: staff employed at divisional headquarters • synonyms: *corporate center* and *corporate head office*
Corporate headquarters change	*changes in the size and/or scope of corporate headquarters over time.*	• reducing or increasing the number of CHQ staff or costs • changing the role(s) of CHQ • centralizing or de-centralizing functions such as Supply Chain Management or Procurement

Question 1: Last major change

When did the last major change at corporate headquarters take place (year)? *Please think of 'major change' as a coordinated initiative with the intent to systematically affect multiple dimensions of corporate headquarters (i.e. location, roles, activities, size, culture).*	_____

Regardless of the last major change, we are interested in **what happened over the past 4 years (2007-2010)**.

Question 2: Overall change

	Over the past 4 years (2007-2010), how has corporate headquarters changed?	decrease by ←			same	→		increase by
		> 50%	20-50%	5-20%	± 5%	5-20%	20-50%	> 50%
1	Number of staff in corporate headquarters.	☐	☐	☐	☐	☐	☐	☐
2	Number of corporate headquarters' functions.	☐	☐	☐	☐	☐	☐	☐
3	Cost of corporate headquarters (in real terms).	☐	☐	☐	☐	☐	☐	☐
4	Services bought-in by corporate headquarters.	☐	☐	☐	☐	☐	☐	☐
5	Quantity of services provided to divisions or business units.	☐	☐	☐	☐	☐	☐	☐
6	Quality of services provided to divisions or business units.	☐	☐	☐	☐	☐	☐	☐
7	Other (please specify):	☐	☐	☐	☐	☐	☐	☐

Question 3: Change in influence on divisional decisions

	Over the past 4 years (2007-2010), how has corporate headquarters' influence on major decisions affecting divisions changed? Please consider the following areas:	very great decrease ←			same	→		very great increase	
		-3	-2	-1	0	+1	+2	+3	n/a
1	Setting of budgets and financial targets.	☐	☐	☐	☐	☐	☐	☐	☐
2	Major capital investment.	☐	☐	☐	☐	☐	☐	☐	☐
3	Business strategy / new business creation.	☐	☐	☐	☐	☐	☐	☐	☐
4	Human resources.	☐	☐	☐	☐	☐	☐	☐	☐
5	Research and development.	☐	☐	☐	☐	☐	☐	☐	☐
6	Marketing.	☐	☐	☐	☐	☐	☐	☐	☐
7	Purchasing and logistics.	☐	☐	☐	☐	☐	☐	☐	☐
8	Property management.	☐	☐	☐	☐	☐	☐	☐	☐
9	Information technology.	☐	☐	☐	☐	☐	☐	☐	☐
10	Overall influence of corporate headquarters on divisional decisions.	☐	☐	☐	☐	☐	☐	☐	☐

Question 4: Change in formalization

	Over the past 4 years (2007-2010), how has the extent to which the following is true for corporate headquarters changed?	substantial decrease ←			same	→		substantial increase	
		-3	-2	-1	0	+1	+2	+3	n/a
1	Whatever situation arises, written procedures are available for dealing with it.	☐	☐	☐	☐	☐	☐	☐	☐
2	Rules and procedures occupy a central place at corporate headquarters.	☐	☐	☐	☐	☐	☐	☐	☐
3	Written records are kept for everyone's performance.	☐	☐	☐	☐	☐	☐	☐	☐
4	Employees at corporate headquarters are rarely checked for rule violations.	☐	☐	☐	☐	☐	☐	☐	☐
5	Written job descriptions are formulated for positions at all levels at corporate headquarters.	☐	☐	☐	☐	☐	☐	☐	☐

Appendix 13: CHQ Survey Implementation: PDF Form (cont.)

Top Executive Survey: Optimizing the Size and Scope of Corporate Headquarters — Questionnaire page 2 of 2

Question 5: Change in centralization of decision-making

Over the past 4 years (2007-2010), how has the extent to which your company delegates decision-making authority to the divisions changed? Please consider the following issues:		substantial decrease ←			same		→ substantial increase		
		-3	-2	-1	0	+1	+2	+3	n/a
1	Choosing divisional projects to work on.	☐	☐	☐	☐	☐	☐	☐	☐
2	Choosing employee assignments for divisional projects.	☐	☐	☐	☐	☐	☐	☐	☐
3	Hiring and firing divisional staff.	☐	☐	☐	☐	☐	☐	☐	☐
4	Promoting divisional staff.	☐	☐	☐	☐	☐	☐	☐	☐
5	Administering the salary administration systems.	☐	☐	☐	☐	☐	☐	☐	☐
6	Allocating salary raises.	☐	☐	☐	☐	☐	☐	☐	☐
7	Making major capital expenditures.	☐	☐	☐	☐	☐	☐	☐	☐
8	Making major non-capital expenditures.	☐	☐	☐	☐	☐	☐	☐	☐
9	Making minor non-capital expenditures.	☐	☐	☐	☐	☐	☐	☐	☐

Question 6: Effectiveness

How would you rate the effectiveness of your corporate headquarters in the following areas?		highly ineffective ←			→		highly effective
		1	2	3	4	5	6	7
1	Overall effectiveness of corporate headquarters.	☐	☐	☐	☐	☐	☐	☐
2	Ability to define and communicate corporate strategy.	☐	☐	☐	☐	☐	☐	☐
3	Ability to support implementation of corporate strategy.	☐	☐	☐	☐	☐	☐	☐
4	Cost effectiveness of corporate headquarters.	☐	☐	☐	☐	☐	☐	☐
5	Other aspects particularly satisfactory or unsatisfactory (please specify):	☐	☐	☐	☐	☐	☐	☐

Question 7: Background information

Company name:	_____		
Number of divisions (i.e. business units or groups of business units) with profit/loss responsibility reporting directly to corporate headquarters (end of 2010):			_____
Number of employees at corporate headquarters (end of 2010):	_____	Number of corporate headquarters' functions (end of 2010):	_____

Your position:	_____	Year of taking on this position:	_____
Your position's hierarchical level (CEO = 1, direct report to CEO = 2, etc.):	_____	Year of entering the company:	_____
Functional background (e.g., Finance, HR, Marketing):	_____	Educational background (e.g., Business, Engineering):	_____

If you are interested in a report with the findings and/or an individual profile, please provide the following:

Please indicate your particular interest:	☐	Overall report	☐	Company profile
Email:	_____			

Any additional remarks?	*Please use this text field to provide additional information on the last major change at corporate headquarters (as indicated by your answer to Question 1). What were the major changes and why were they implemented? You may also add anything (1) you thought was missing, (2) you think we should also know related to the topic and/or (3) any general comments on the questionnaire.*

Thank you very much for completing this questionnaire!

Clear form | **Submit via email (desktop appl. only)** | **Print document**

Appendix 14: CHQ Survey: Email Invitation

Kunisch, Sven

Subject: Corporate headquarters study by Harvard Business School (HBS) and University of St.Gallen (HSG) researchers

Salutation...here

We have selected your company for participation in this **Corporate Headquarters Survey**. The survey is an important part of our continuing research at the **Harvard Business School** (USA) and the **University of St. Gallen** (Switzerland) on **the nature of corporate headquarters**. We kindly invite you to fill in the questionnaire or designate it to the most appropriate senior person in your team. It takes approx. 10 minutes to complete the 2-page survey. You will obtain a **free report with our findings** and/or an **individual company profile**.

There are two options to complete the survey:
(1) Go to the **online survey**: www.chq-survey.net/online.htm
(2) Use the **PDF form** (online or as a print-out): www.chq-survey.net/Form.pdf
In case you use the PDF form, you may (2a) directly submit it as an email attachment or (2b) print it and return it by fax or mail to the contact details given below.

What exactly do we explore?
For many companies, **trying to optimize the size and scope of their corporate headquarters (CHQ)** remains a contemporary challenge. The strategic choices often concern: whether and how the corporate level adds value; what activities should be centralized or de-centralized; and, how to avoid bureaucracy and interference. While in the 1990s we primarily observed **downsizing and de-centralization**, in recent years many companies tended to engage in **centralizing core activities and setting up new functions at CHQ**. Yet, some companies appear more disposed to such changes, while others tend to be less inclined to changing their CHQ.
Our interest is in better understanding this phenomenon. **Your response is extremely valuable** for creating new knowledge pertaining to **when, why and how changes at CHQ occur**. The output of this research will be empirical evidence for specific motors, impediments and performance implications of CHQ change. These insights can be used by companies to help make better choices when considering changes to their CHQ.

Once we have analyzed the data, we will send you a free report with our findings and/or an individual company profile with your CHQ characteristics in comparison to all other participating companies. **All responses will be kept strictly confidential, and will only be used on an aggregated level. Published reports will preserve the confidentiality of the information you provide.**

Thank you very much for taking the time and trouble to contribute to this valuable research!

Contact:
Sven Kunisch, c/o Prof. David Collis, Ph.D.
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P: +1.617.866.3131 | F: +1.617.495.0355 | kunisch@fas.harvard.edu
www.chq-survey.net

New book: "From Grey to Silver - Managing the Demographic Change Successfully"

Appendix 14: CHQ Survey: Email Invitation (cont.)

Kunisch, Sven

Subject: Final reminder: Corporate headquarters study by Harvard Business School (HBS) and University of St.Gallen (HSG) researchers

Salutation...here

We would like to kindly remind you of our invitation for you and your company to participate in this **Corporate Headquarters Survey**. The deadline for completing the survey is **Friday, 29 July 2011**. Your response is very important for creating new knowledge on corporate headquarters. We thus kindly ask you to fill in the questionnaire or designate it to the most appropriate senior person in your team. It takes approx. 10 minutes to complete the very short two-page survey, and we offer to provide you with a **free report with our findings** and/or an **individual company profile**.

There are two options to complete the survey:
(1) Go to the **online survey**: **www.chq-survey.net/online.htm**
(2) Use the **PDF form** (online or as a print-out): **www.chq-survey.net/Form.pdf**
In case you use the PDF form, you may (2a) directly submit it as an email attachment or (2b) print it and return it by fax or mail to the contact details given below.

IMPORTANT NOTE: If you have already completed the survey, we may either not have received your response yet or not been able to match the response to your company. In both cases, please let us briefly know that you have already completed the survey.

What exactly do we explore?
For many companies, **trying to optimize the size and scope of their corporate headquarters (CHQ)** remains a contemporary challenge. The strategic choices often concern: whether and how the corporate level adds value; what activities should be centralized or de-centralized; and, how to avoid bureaucracy and interference. While in the 1990s we primarily observed **downsizing and de-centralization**, in recent years many companies tended to engage in **centralizing core activities and setting up new functions at CHQ**. Yet, some companies appear more disposed to such changes, while others tend to be less inclined to changing their CHQ.
Our interest is in better understanding this phenomenon. **Your response is extremely valuable** for creating new knowledge pertaining to **when, why and how changes at CHQ occur**. The output of this research will be empirical evidence for specific motors, impediments and performance implications of CHQ change. These insights can be used by companies to help make better choices when considering changes to their CHQ.

Once we have analyzed the data, we will send you a free report with our findings and/or an individual company profile with your CHQ characteristics in comparison to all other participating companies. **All responses will be kept strictly confidential, and will only be used on an aggregated level. Published reports will preserve the confidentiality of the information you provide.**

Thank you very much for taking the time and trouble to contribute to this valuable research!

Contact:
Sven Kunisch, c/o Prof. David Collis, Ph.D.
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www.chq-survey.com

New book: "From Grey to Silver - Managing the Demographic Change Successfully"

[Seite]

Appendix 15: CHQ Survey: Participation

Number and Percentage of Questionnaire Returned and Cumulative Response Rate for the US Sample

	Emailing					Questionnaires returned				
				Emails delivered		*by individuals*		*by firms*		
Date	***Status***	***Deadline*** [a]	***Emails sent***	***total***	***%***	***total***	***%***	***total***	***%***	**Cumulative response rate**[b]
Initial invitation [c]										
30./31.03.2011	sent	12.04.2011	472	338	71.61%	10	2.96%	-	-	-
12.-14.04.2011	sent	28.04.2011	4'120	2'359	57.26%	-	-	-	-	-
19.-21.04.2011	sent	04.05.2011	1'723	1'187	68.89%	-	-	-	-	-
28./29.04.2011	sent	10.05.2011	1'054	740	70.21%	-	-	-	-	-
04./05.05.2011	sent	18.05.2011	11	5	45.45%	-	-	-	-	-
10.05.2011	sent	24.05.2011	4	3	75.00%	-	-	-	-	-
			7'384	4'632	62.73%	144	3.11%	136	10.03%	10.03%
1st reminder [d]										
12.04.2011	sent	28.04.2011	316	316	100.00%	-	-	-	-	-
28.04.2011	sent	10.05.2011	2'191	2'191	100.00%	-	-	-	-	-
04.05.2011	sent	18.05.2011	1'078	1'078	100.00%	-	-	-	-	-
10.05.2011	sent	24.05.2011	661	661	100.00%	-	-	-	-	-
18.05.2011	sent	01.06.2011	3	2	66.67%	-	-	-	-	-
24.05.2011	sent	07.06.2011	1	1	100.00%	-	-	-	-	-
			4'250	4'249	99.98%	133	3.13%	121	8.92%	18.95%
Final reminder [d]										
28.04.2011	sent	06.05.2011	297	297	100.00%	-	-	-	-	-
10.05.2011	sent	20.05.2011	2'090	2'090	100.00%	-	-	-	-	-
18.05.2011	sent	27.05.2011	1'009	1'008	99.90%	-	-	-	-	-
24.05.2011	sent	03.06.2011	600	600	100.00%	-	-	-	-	-
01.06.2011	sent	10.06.2011	2	2	100.00%	-	-	-	-	-
07.06.2011	n/a	17.06.2011	-	-	-	-	-	-	-	-
			3'998	3'997	99.97%	75	1.88%	59	4.35%	23.30%
total			**15'632**	**12'878**		**352**	**7.60%**	**316**	**23.30%**	**23.30%**

[a] Only announced for the final reminder.

[b] On firm level.

[c] This includes (a) 10% of the sample and (b) several 'guesses' to identify valid email address.

[d] Based on valid email addresses.

No. of individuals approached	5'085	
No. of individuals reached	4'632	91.09%
No. of firms approached	1'368	
No. of firms reached	1'356	99.12%
No. of individuals approached (avg per firm)	3.72	
No. of individuals reached (avg per firm)	3.42	
No. of individual responses	352	
No. of firm responses	316	

Overall, the questionnaires were emailed to 4,623 individuals in 1,356 firms.

Appendix 16: CHQ Survey: Final Report (Extract)

Responsible Corporate Competitiveness

University of St.Gallen

Housekeeping at Corporate Headquarters

International Trends in Optimizing the Size and Scope of Corporate Headquarters

Survey Report

Appendix 16: CHQ Survey: Final Report (Extract) (cont.)

Housekeeping at Corporate Headquarters

International Trends in Optimizing the Size and Scope of Corporate Headquarters

Survey Report

Sven Kunisch, Prof. Dr. Günter Müller-Stewens & Prof. David J. Collis, Ph.D.
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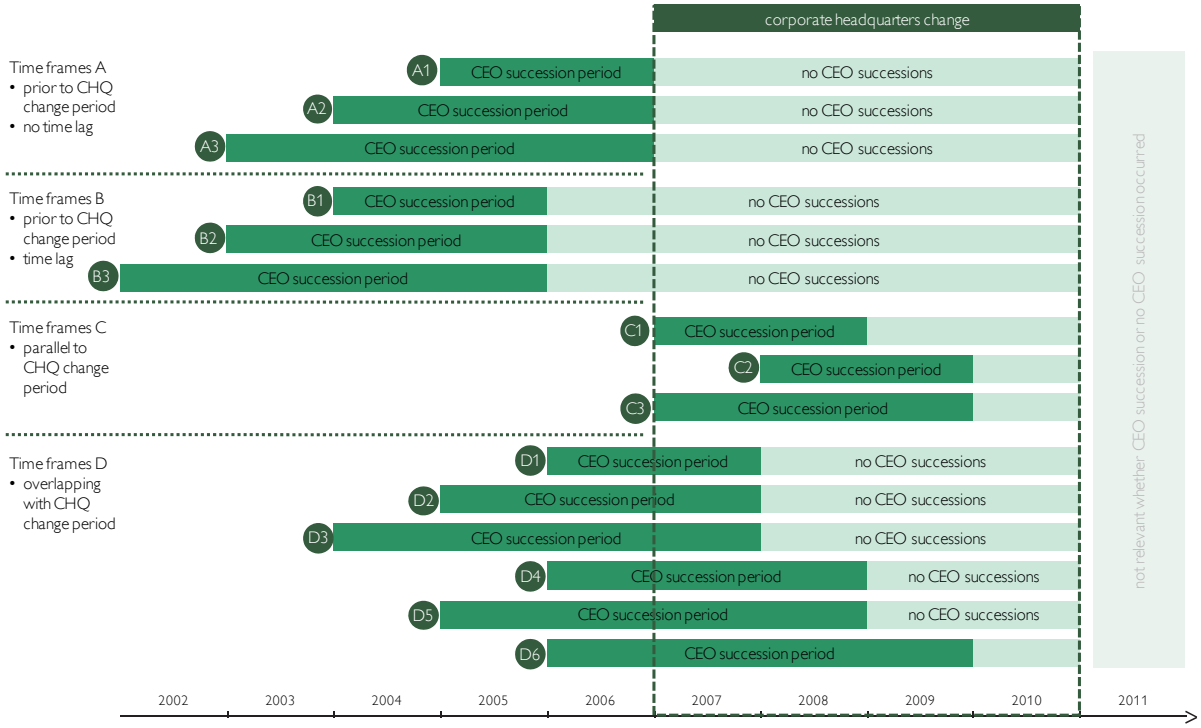
Please cite as follows
Kunisch, S., Müller-Stewens, G., & Collis, D. J. 2012. Housekeeping at Corporate Headquarters: International Trends in Optimizing the Size and Scope of Corporate Headquarters, Survey Report. St.Gallen/Boston: University of St.Gallen/Harvard Business School.

We are grateful to Michael Boppel, Andrew Campbell, Michael Goold and Markus Menz for providing valuable comments and additional input. This research project was partly funded by the Swiss National Science Foundation (SNSF).

Appendix 17: Potential Time Frames for CEO Succession Events



Time frames A

		A1 CEO succession (2005-2006)		A2 CEO succession (2004-2006)		A3 CEO succession (2003-2006)	
		succ	no succ	succ	no succ	succ	no succ
CHQ change period afterwards	succ	19	98	25	92	34	83
	no succ	48	151	68	131	80	119

number of companies with no succession event 2003-2006 (prior to CHQ change window) and no succession event in the time period afterwards (here 2007-2010)

Time frames B

		B1 CEO succession (2004-2005)		B2 CEO succession (2003-2005)		B3 CEO succession (2002-2005)	
		succ	no succ	succ	no succ	succ	no succ
CHQ change period afterwards	succ	20	120	32	108	45	95
	no succ	45	131	57	119	69	107

Time frames C

		C1 CEO succession (2007-2008)		C2 CEO succession (2008-2009)		C3 CEO succession (2007-2009)	
		succ	no succ	succ	no succ	succ	no succ
CHQ change period afterwards	succ	6	51	4	28	6	26
	no succ	60	199	56	228	85	199

Time frames D

		D1 CEO succession (2006-2007)		D2 CEO succession (2005-2007)		D3 CEO succession (2004-2007)		D4 CEO succession (2006-2008)		D5 CEO succession (2005-2008)		D6 CEO succession (2006-2009)	
		succ	no succ	succ	no succ	succ	no succ	succ	no succ	succ	no succ	succ	no succ
CHQ change period afterwards	succ	16	72	23	65	29	59	11	46	17	40	11	21
	no succ	52	176	77	151	97	131	83	176	108	151	108	176

Appendix 17: Potential Time Frames for CEO Succession Events (cont.)

succession period	CEO origins													
	corporate level						business level						total [b]	
	inside [a]		*outside*		*total*		*inside*		*outside*		*total*			
	abs	%	abs	%	abs	%	abs	%	abs	%	abs	%	abs	%
A1 (2005-2006)	24	*50.0%*	8	*16.7%*	32	*66.7%*	3	*6.3%*	13	*27.1%*	16	*33.3%*	48	*100.0%*
A2 (2004-2006)	31	*45.6%*	13	*19.1%*	44	*64.7%*	5	*7.4%*	19	*27.9%*	24	*35.3%*	68	*100.0%*
A3 (2003-2006)	36	*45.0%*	15	*18.8%*	51	*63.8%*	7	*8.8%*	22	*27.5%*	29	*36.3%*	80	*100.0%*
B1 (2004-2005)	19	*42.2%*	8	*17.8%*	27	*60.0%*	4	*8.9%*	14	*31.1%*	18	*40.0%*	45	*100.0%*
B2 (2003-2005)	24	*42.1%*	10	*17.5%*	34	*59.6%*	6	*10.5%*	17	*29.8%*	23	*40.4%*	57	*100.0%*
B3 (2002-2005)	32	*46.4%*	10	*14.5%*	42	*60.9%*	7	*10.1%*	20	*29.0%*	27	*39.1%*	69	*100.0%*
C1 (2007-2008)	29	*48.3%*	12	*20.0%*	41	*68.3%*	8	*13.3%*	11	*18.3%*	19	*31.7%*	60	*100.0%*
C2 (2008-2009)	27	*48.2%*	13	*23.2%*	40	*71.4%*	8	*14.3%*	7	*12.5%*	15	*26.8%*	55	*98.2%*
C3 (2007-2009)	45	*52.9%*	17	*20.0%*	62	*72.9%*	10	*11.8%*	12	*14.1%*	22	*25.9%*	84	*98.8%*
D1 (2006-2007)	30	*57.7%*	9	*17.3%*	39	*75.0%*	3	*5.8%*	10	*19.2%*	13	*25.0%*	52	*100.0%*
D2 (2005-2007)	42	*54.5%*	12	*15.6%*	54	*70.1%*	5	*6.5%*	18	*23.4%*	23	*29.9%*	77	*100.0%*
D3 (2004-2007)	49	*50.5%*	17	*17.5%*	66	*68.0%*	7	*7.2%*	24	*24.7%*	31	*32.0%*	97	*100.0%*
D4 (2006-2008)	41	*49.4%*	17	*20.5%*	58	*69.9%*	9	*10.8%*	16	*19.3%*	25	*30.1%*	83	*100.0%*
D5 (2005-2008)	53	*49.1%*	20	*18.5%*	73	*67.6%*	11	*10.2%*	24	*22.2%*	35	*32.4%*	108	*100.0%*
D6 (2006-2009)	57	*52.8%*	22	*20.4%*	79	*73.1%*	11	*10.2%*	17	*15.7%*	28	*25.9%*	107	*99.1%*

a) Outside succession occured if the new CEO joined the company less than two years before being appointed CEO.
b) The total of succession periods C2, C3 and D6 does not equal 100% since they include one record with co-CEOs which has not been classified.

Appendix 18: Codebook: Changes at the CHQ

Variable	Alpha	Item(s)	Scale	Reference(s)
Change in the CHQ structure				
Change in the CHQ size (employees) *7-point Likert scale*	N/A	Over the past 4 years (2007-2010), How has corporate headquarters changed? - Number of staff in corporate headquarters.	decrease by >50%, same (±5%), increase by >50%	(Collis et al., 2007) (Young et al., 2000)
Change in the number of CHQ functions *7-point Likert scale*	N/A	Over the past 4 years (2007-2010), How has corporate headquarters changed? - Number of corporate headquarters' functions.	see above	see above
Change in the CHQ costs *7-point Likert scale*	N/A	Over the past 4 years (2007-2010), how has corporate headquarters changed? - Cost of corporate headquarters (in real terms).	see above	see above
Change in the CHQ policies				
Change in divisional influence: general planning influence *7-point Likert scale*	0.82	Over the past 4 years (2007-2010), How has corporate headquarters' influence on major decisions affecting divisions changed? Please consider the following areas: - Setting of budgets and financial targets. - Major capital investment. - Business strategy / new business creation.	-3 = 'very great decrease', 0 = 'same', +3 = 'very great increase'	(Collis et al., 2007) (Young et al., 2000)
Change in divisional influence: functional influence *7-point Likert scale*	0.82	Over the past 4 years (2007-2010), how has corporate headquarters' influence on major decisions affecting divisions changed? Please consider the following areas: - Human resources. - Research and development. - Marketing. - Purchasing and logistics. - Property management. - Information technology.	see above	see above
Change in formalization *7-point Likert scale*	0.77	Over the past 4 years (2007-2010), how has the extent to which the following is true for corporate headquarters changed? - Whatever situation arises, Written procedures are available for dealing with it. - Rules and procedures occupy a central place at corporate headquarters. - Written records are kept for everyone's performance. - Employees at corporate headquarters are rarely checked for rule violations.[a)] - Written job descriptions are formulated for positions at all levels at corporate headquarters.	-3 = 'substantial decrease', 0 = 'same', +3 = 'substantial increase'	Cardinal (2001)
Change in the delegation of the decision-making authority *7-point Likert scale*	0.88	Over the past 4 years (2007-2010), how has the extent to which your company delegates decision-making authority to the divisions changed? Please consider the following issues: - Choosing divisional projects to work on. - Choosing employee assignments for divisional projects. - Hiring and firing divisional staff. - Promoting divisional staff. - Administering the salary administration systems. - Allocating salary raises. - Making major capital expenditures. - Making major non-capital expenditures. - Making minor non-capital expenditures.	see above	see above

[a)] Reverse item. Excluded in the analyses.
All change measures are collapsed with the following scale 0 = 'same / no change', 3 = 'substantial change'

Appendix 19: Codebook: CEO Succession and Controls

Variable	Measurement	Reference(s)
CEO origin		
Business or corporate-level succession	If the CEO's immediate prior position (before the individual assumed the CEO position) was at the business level, then his or her business/corporate status is coded 1; otherwise it is coded 0 Coding rules for the business level: ▪ Positions at the business unit or subsidiary level, including regional subsidiaries ▪ Group VP with business responsibility (e.g. AVERY DENNISON CORP, Group VP Fasson Roll North America and Europe) -> in the US 'group' level is below 'corporate' level ▪ VP/General Manager for a division (e.g. AVERY DENNISON CORP VP/General Manager Fasson Roll Europe Operation) ▪ Division VP ▪ Division MD ▪ Dual roles coded as BU experience (e.g. someone is CFO and also regional head) ▪ Consulting/PE experiences coded as BU experience ▪ Single-business companies / co-founder Coding rules for corporate level: ▪ Positions at a parent company: CEO, MD, EVP ▪ Positions at corporate functions ▪ Positions at corporate divisions Special cases: ▪ If the new CEO did not have a position directly before (a few were independent directors before), then the last position is taken into account. ▪ If the new CEO was an interim CEO before, then the position before interim CEO is taken into consideration.	
Prior work experience		
Business or corporate-level work experience	measured as the ratio of the years of work experience at the corporate and the business levels (see above)	
Potential controls: individual level		
Inside vs. outside succession	dichotomous variable if the CEO's organizational tenure is zero (alternatively: two) 0 years at the time the individual assumed the CEO position, then insider/outsider status is coded 1 (outsider); otherwise insider/outsider status is coded 0 (insider)	many (see Appendix 11)
Heir apparent experience	dichotomous variable based on Cannella and Shen (2001) who defined an heir apparent as "any officer who was the only person in the firm holding the title of president or COO or both and who was at least five years younger than the incumbent CEO" (2001: 258).	(Cannella Jr. & Shen, 2001)
Relay vs. non-relay	dichotomous variable based on Zhang and Rajagopalan: "the new CEO was an executive of the given firm who had firm tenure of at least two years at the time of succession and was the heir apparent to the predecessor CEO" with "a new CEO as a former heir apparent if he or she had had the title of president or COO or both before the succession occurred" (2004: 489 f.).	(Zhang & Rajagopalan, 2004)
Non-routine succession	dichotomous variable measured as CEO succession events in which the departing CEO is less than 65 years of age	(Wiersema, 1995)
Departing CEO age	age of the departing CEO in years	
Departing CEO tenure	measured as the total number of years the CEO was employed within the organization at the time the person assumed the position of CEO	
New CEO's age	age of the departing CEO in years	
Educational level: number of degrees	number of degrees received by a CEO from universities or colleges	

Variable	Measurement	Reference(s)
Educational level (1-7)	educational level measured on a 7-point scale based on the highest degree earned by the CEO as follows: 1 = high school, 2 = some college, 3 = undergraduate degree, 4 = some graduate school, 5 = masters degree, 6 = attended doctoral program and 7 = doctorate degree more details (not from the references): ▪ 1: high school ▪ 2: some college: Associate Degree ▪ 3: undergraduate degree ▪ 4: some graduate school: Advanced Management Program; Advanced Graduate Program; Senior Executive Program; Certificate ▪ 5: masters degree, LLM, MBA, EMBA, diploma ▪ 6: attended doctoral program and JD ▪ 7: doctorate degree (Ph.D.)	(Datta & Rajagopalan, 1998) (Herrmann & Datta, 2002)
Educational level in years	each year of college education was added to a base score of 12 (for example, bachelor's degree = 12 +4 =16, masters degree = 12+6=18, etc.). ▪ some colledge and associate degree = 12+2=14 ▪ bachelor's degree = 12+4 =16 ▪ masters degree = 12+4+2=18 (12+6=18) ▪ JD = 12+4+3=19 ▪ Ph.D. degree = 12+4+4=20 ▪ Other degrees/certificates not considered. For examples: Executive education (Advanced Management Program; Advanced Graduate Program; Senior Executive Program); Others: Associate Degree; Certificate	(Thomas, Litschert, & Ramaswamy, 1991)
Elite education	number of degrees received by a CEO from universities or colleges rated as elite educational institutions	(Bigley & Wiersema, 2002)
MBA vs. non-MBA	MBA degree: yes/no	(Slater & Dixon-Fowler, 2010)
Functional exp.: throughput	dichotomous variable which classifies into 'throughput' coded as 1 or 'non-through- put' categories coded as 0; The area in which the incoming CEO spent the longest amount of time was used to determine his or her functional background: 1 = throughput: accounting, operations, process R&D, finance engineering, manufacturing, Public Affairs and Communications 0 = output: marketing, sales, product R&D, entrepreneurship Not considered: ▪ CEO and GM experience, business development ▪ experience in input functions, e.g. procurement	
Functional exp.: peripheral	years in functional positions in areas such as law and finance, which are not integrally involved with the organization's core activities	(Hambrick & Mason, 1984)
Potential controls: firm level		
Change in diversification	absolute percentage change in entropy measure of diversification (sum of percentages of total sales in segments) from 2004-2007	(Wiersema & Bantel, 1992)
Average firm growth	sales growth, RoA growth, employee growth average for the three years prior to succession	(Zhang & Rajagopalan, 2004)
Firm performance:	RoA	
Organizational size	measured number of employees, sales, market capitalization etc.	
Organizational age	measured as the number of years since its foundation	
Potential controls: industry level		
Average sales growth	sales growth, RoA growth, employee growth average for the three years prior to succession	(Wiersema & Bantel, 1992)

Appendix 20: Cronbach's Alphas (Optional: Factor Analysis)

Variable	Number of items	Average inter-item covariance	Cronbach's Alpha
change in influence on divisional decisions (general planning influence)	3	0.8766	0.8204
change in influence on divisional decisions (functional influence)	6	0.5712	0.8155
change in formalization	4	0.4580	0.7735
change in centralization	9	0.4965	0.8758
effectiveness of CHQ in defining and supporting corporate strategy	2	1.0795	0.8604

Appendix 21: CHQ Survey: t-Tests for Non-Response Bias (Firm Level)

Total sample (n=1368)		Non-Respondents (n=1052)		Respondents (n=316)		t-test			
Variable		***mean***	***n***	***mean***	***n***	***t statistic***	***two-sided p-value***	***one-sided p-value***	***n***
Employees	c_e_2007	21,242.5120	1028	20,948.8040	306	0.0629	0.9498	0.4749	1334
	c_e_avg_03_06	18,985.1150	1022	19,515.1700	304	-0.1326	0.8945	0.4473	1326
	c_e_avg_04_06	19,396.9490	1021	20,091.6960	304	-0.1674	0.8671	0.4336	1325
	c_e_avg_07_10	21,229.2000	1048	20,123.1560	315	0.2425	0.8084	0.4042	1363
Sales	c_s_2007	7,967.6169	1046	6,118.1539	316	1.3109	0.1901	0.0950 †	1362
	c_s_avg_03_06	6,262.0535	1042	5,078.0131	314	1.0538	0.2922	0.1461	1356
	c_s_avg_04_06	6,618.5156	1042	5,336.7859	314	1.0745	0.2828	0.1414	1356
	c_s_avg_07_10	8,055.1826	1052	6,179.4008	316	1.3327	0.1829	0.0914 †	1368
Return on Assets (RoA)	c_roa_2007	7.1084	1026	6.7009	306	0.8112	0.4174	0.2087	1332
	c_roa_avg_03_06	5.9588	1023	6.6939	305	-0.9021	0.3672	0.1836	1328
	c_roa_avg_04_06	6.4530	1023	7.1135	305	-0.8015	0.4230	0.2115	1328
	c_roa_avg_07_10	5.3717	1048	5.2487	315	0.2868	0.7743	0.3871	1363
Market Cap	c_mc_2007	11,394.8770	1023	8,548.8621	306	1.4166	0.1568	0.0784 †	1329
	c_mc_avg_03_06	9,572.5977	1001	7,154.8403	299	1.3830	0.1669	0.0834 †	1300
	c_mc_avg_04_06	9,967.4038	1001	7,514.2267	299	1.3661	0.1721	0.0861 †	1300
	c_mc_avg_07_10	9,366.8506	1048	7,137.2219	315	1.4022	0.1611	0.0805 †	1363
Diversification	c_div_2007	0.5856	1031	0.6407	313	-1.7184	0.0859 †	0.0430 *	1344
	c_div_avg_03_06	0.5841	1035	0.6328	313	-1.5893	0.1122	0.0561 †	1348
	c_div_avg_04_06	0.5843	1035	0.6346	313	-1.6151	0.1065	0.0533 †	1348
	c_div_avg_07_10	0.5907	1047	0.6482	315	-1.8715	0.0615 †	0.0307 *	1362
Change in diversification	ch_div_abs_03_06	0.0008	992	0.0098	299	-0.4395	0.6604	0.3302	1291
	ch_div_perc_03_06	9.109%	992	14.666%	299	-0.4697	0.6387	0.3193	1291
	ch_div_abs_04_06	0.0019	1006	0.0070	303	-0.3167	0.7515	0.3758	1309
	ch_div_perc_04_06	19.352%	1006	20.704%	303	-0.0588	0.9531	0.4765	1309
	ch_div_abs_07_10	0.0070	1022	0.0108	312	-0.2326	0.8161	0.4081	1334
	ch_div_perc_07_10	7.730%	1022	21.389%	312	-1.0128	0.3113	0.1557	1334

† p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Appendix 22: CHQ Survey: Nonparametric Tests for Non-Response Bias (Firm Level)

Total sample (n=1368)		Wilcoxon rank-sum test*				Equality-of-medians test			
Variable		***z statistic***	***Respondents (n=1052)***	***Respondents (n=316)***	***n***	***chi2***	***p***	***p exact***	***n***
Employees	c_e_2007	-0.8764	1028	306	1334	0.0679	0.7945	0.8451	1334
	c_e_avg_03_06	-1.0740	1022	304	1326	0.1536	0.6951	0.7440	1326
	c_e_avg_04_06	-1.1529	1021	304	1325	0.0212	0.8842	0.8962	1325
	c_e_avg_07_10	-0.6606	1048	315	1363	0.1130	0.7368	0.7483	1363
Sales	c_s_2007	0.0366	1046	316	1362	0.0659	0.7974	0.8473	1362
	c_s_avg_03_06	-0.4416	1042	314	1356	0.0166	0.8976	0.9487	1356
	c_s_avg_04_06	-0.3914	1042	314	1356	0.0000	1.0000	1.0000	1356
	c_s_avg_07_10	0.0200	1052	316	1368	0.0165	0.8979	0.9489	1368
Return on Assets (RoA)	c_roa_2007	1.1496	1026	306	1332	0.8316	0.3618	0.3972	1332
	c_roa_avg_03_06	-0.4812	1023	305	1328	0.0043	0.9480	1.0000	1328
	c_roa_avg_04_06	-0.4507	1023	305	1328	0.1064	0.7443	0.7942	1328
	c_roa_avg_07_10	0.2005	1048	315	1363	0.0063	0.9369	0.9488	1363
Market Cap	c_mc_2007	0.0604	1023	306	1329	0.1648	0.6848	0.6962	1329
	c_mc_avg_03_06	0.2555	1001	299	1300	0.0043	0.9475	1.0000	1300
	c_mc_avg_04_06	0.2494	1001	299	1300	0.1086	0.7418	0.7921	1300
	c_mc_avg_07_10	0.3779	1048	315	1363	0.0063	0.9369	0.9488	1363
Diversification	c_div_2007	-1.4888	1031	313	1344	0.3374	0.5614	0.6057	1344
	c_div_avg_03_06	-1.7201	1035	313	1348	3.0334	0.0816 †	0.0934 †	1348
	c_div_avg_04_06	-1.7284	1035	313	1348	1.8350	0.1755	0.1970	1348
	c_div_avg_07_10	-1.6766	1047	315	1362	0.9292	0.3351	0.3683	1362
Change in diversification	ch_div_abs_03_06	-0.2240	992	299	1291	1.2657	0.2606	0.2738	1291
	ch_div_perc_03_06	-0.5337	992	299	1291	1.6975	0.1926	0.2057	1291
	ch_div_abs_04_06	-0.2810	1006	303	1309	0.8627	0.3530	0.3760	1309
	ch_div_perc_04_06	-0.5882	1006	303	1309	1.2612	0.2614	0.2666	1309
	ch_div_abs_07_10	-0.0807	1022	312	1334	0.5352	0.4644	0.4623	1334
	ch_div_perc_07_10	-0.1710	1022	312	1334	0.8409	0.3591	0.3731	1334

Critical values from z distribution: ±2.58 (0.01 significance level) and ±1.96 (.05 significance level)

† p<0.10, * p<0.05, ** p<0.01, *** p<0.001

* Wilcoxon rank-sum test (Stata command: ranksum) also known as the Mann-Whitney two-sample statistic (Wilcoxon 1945; Mann and Whitney 1947)
Mann, H. B., and D. R. Whitney. 1947. On a test whether one of two random variables is stochastically larger than the other.
Annals of Mathematical Statistics 18: 50-60. Wilcoxon, F. 1945. Individual comparisons by ranking methods. Biometrics 1: 80-83.

Appendix 23: CHQ Survey: t-Tests for Late Response Bias Test (Individual Level)

Total number of responses (n=352)		Early respondents (n=144)		Late respondents (n=208)		t-test			
Variable		*mean*	*n*	*mean*	*n*	*t statistic*	*two-sided p-value*	*one-sided p-value*	*n*
Corporate headquarters change (survey data)									
Q1	last major change at corporate headquarters	2006.1594	138	2007.3500	200	-2.90	0.0040 **	0.0020 **	338
Q2.1	change in number of staff	4.2014	144	4.2933	208	-0.70	0.4874	0.2437	352
Q2.2	change in number of functions	4.1250	144	4.2452	208	-1.67	0.0958 †	0.0479 *	352
Q2.3	change in costs	4.1736	144	4.2837	208	-0.86	0.3900	0.1950	352
Q2.4	change in services bought-in	4.2986	144	4.3237	207	-0.29	0.7740	0.3870	351
Q2.5	change in quantity of services provided	4.5069	144	4.5433	208	-0.40	0.6918	0.3459	352
Q2.6	change in quality of services provided	4.7292	144	4.7308	208	-0.02	0.9859	0.4930	352
Q3	change in overall infl. on divisional decisions	5.1875	144	5.2500	208	-0.48	0.6302	0.3151	352
Q3	change in general planning influence	15.4357	140	15.6570	207	-0.65	0.5182	0.2591	347
Q3	change in functional influence	29.2326	129	29.6120	183	-0.67	0.5019	0.2509	312
Q4	change in formalization (at CHQ)	4.6743	142	4.7937	206	-1.39	0.1652	0.0826 †	348
Q5	change in centralization of decision-making	4.2342	139	4.2125	205	0.26	0.7974	0.3987	344
Q6.1	overall effectiveness	5.2014	144	5.1010	208	0.84	0.3995	0.1997	352
Q6.2	ability to define and communicate corp strategy	5.2778	144	5.3269	208	-0.37	0.7130	0.3565	352
Q6.3	ability to support corp strategy impl	5.2431	144	5.1587	208	0.66	0.5085	0.2542	352
Q6.4	cost effectiveness	4.9375	144	4.8365	208	0.73	0.4687	0.2343	352
Q7.2	number of divisions / business units (2010)	6.6338	142	18.2010	204	-1.65	0.1007	0.0504 †	346
Q7.3	number of CHQ staff (2010)	500.2867	143	689.9854	206	-1.92	0.0559 †	0.0280 *	349
Q7.4	number of CHQ functions (2010)	10.9101	139	11.8308	201	-0.61	0.5424	0.2712	340
Firm characteristics									
Organizational age (2007)		57.5556	144	59.8606	208	-0.48	0.6343	0.3171	352
Organizational size:									
	employees (2007)	21'460.5790	140	20'538.3760	202	0.19	0.8520	0.4260	342
	sales (2007)	6'188.6944	144	5'848.3413	208	0.27	0.7885	0.3943	352
	assets (2007)	9'761.9861	144	10'170.8890	208	-0.17	0.8686	0.4343	352
	market cap (2007)	8'444.7571	140	8'059.2090	201	0.21	0.8354	0.4177	341
CHQ size (2010) (per 1,000 employees)		0.0783	142	0.0878	205	-0.70	0.4832	0.2416	347
Diversification									
	entropy measure (2007)	0.6564	143	0.6499	206	0.12	0.9057	0.4528	349
	abs change in entropy measure (2003-2006)	0.2397	137	0.4561	196	-1.47	0.1412	0.0706 †	333
	abs change in entropy measure (2004-2006)	0.4330	140	0.3152	199	0.50	0.6144	0.3072	339
	abs change in entropy measure (2007-2010)	0.2297	142	0.4720	206	-0.78	0.4375	0.2188	348
Prior performance									
	return on asset (RoA) (2007)	6.6143	140	6.9653	202	-0.49	0.6215	0.3108	342
	avg return on asset (RoA) (2004-2006)	6.8535	140	7.4767	201	-0.86	0.3916	0.1958	341
	avg return on asset (RoA) (2007-2010)	5.2367	143	5.3060	208	-0.10	0.9172	0.4586	351
Growth									
	avg sales growth (2002-2006)	0.1955	137	0.1671	193	1.05	0.2967	0.1484	330
	avg sales growth (2003-2006)	0.1490	140	0.1899	197	-0.86	0.3882	0.1941	337
	avg sales growth (2004-2006)	0.1139	142	0.1176	200	-0.25	0.8051	0.4025	342
	avg sales growth (2007-2010)	-0.0100	144	0.0008	207	-0.98	0.3282	0.1641	351

† p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Appendix 24: CHQ Survey: Nonparametric Tests for Late Response Bias Test (Individual Level)

Total number of responses (n=352)		Wilcoxon rank-sum test*				Nonparametric equality-of-medians test			
Variable		*z statistic*	*Early respondents (n=144)*	*Late respondents (n=208)*	*n*	*chi2*	*p*	*p exact*	*n*
Corporate headquarters change (survey data)									
Q1	last major change at corporate headquarters	-2.7388 **	138	200		3.8897	0.0486	0.0588 †	338
Q2.1	change in number of staff	-0.9143	144	208		0.6943	0.4047	0.4454	352
Q2.2	change in number of functions	-1.9685 †	144	208		5.9528	0.0147 *	0.0180 *	352
Q2.3	change in costs	-0.9422	144	208		0.4202	0.5168	0.5834	352
Q2.4	change in services bought-in	-0.5505	144	207		0.7796	0.3772	0.4310	351
Q2.5	change in quantity of services provided	-0.5066	144	208		0.6693	0.4133	0.4485	352
Q2.6	change in quality of services provided	0.1528	144	208		1.2574	0.2621	0.3099	352
Q3	change in overall infl. on divisional decisions	-0.6109	144	208		0.0319	0.8583	0.9132	352
Q3	change in general planning influence	-0.6200	140	207		0.6746	0.4115	0.4377	347
Q3	change in functional influence	-0.7084	129	183		1.8080	0.1787	0.2061	312
Q4	change in formalization (at CHQ)	-1.4576	142	206		1.3002	0.2542	0.2678	348
Q5	change in centralization of decision-making	0.1843	139	205		0.0914	0.7624	0.8253	344
Q6.1	overall effectiveness	0.9991	144	208		0.2906	0.5899	0.6606	352
Q6.2	ability to define and communicate corp strategy	-0.2873	144	208		0.2093	0.6473	0.7460	352
Q6.3	ability to support corp strategy impl	0.7972	144	208		0.5958	0.4402	0.4483	352
Q6.4	cost effectiveness	0.9592	144	208		0.3256	0.5683	0.5706	352
Q7.2	number of divisions / business units (2010)	-1.1270	142	204		0.1266	0.7220	0.7374	346
Q7.3	number of CHQ staff (2010)	-1.2752	143	206		0.1685	0.6815	0.7441	349
Q7.4	number of CHQ functions (2010)	-1.2651	139	201		0.1033	0.7479	0.8254	340
Firm characteristics									
Organizational age (2007)		-0.0538	144	208		0.0315	0.8592	0.9138	352
Organizational size:									
	employees (2007)	-0.5901	140	202		0.7740	0.3790	0.4415	342
	sales (2007)	0.4863	144	208		0.4231	0.5154	0.5879	352
	assets (2007)	-0.3121	144	208		0.1880	0.6646	0.7451	352
	market cap (2007)	-1.2049	140	201		2.9451	0.0861 †	0.0989 †	341
CHQ size (2010) (per 1,000 employees)		-0.8304	142	205		1.6015	0.2057	0.2302	347
Diversification									
	entropy measure (2007)	0.3681	143	206		0.6505	0.4199	0.4471	349
	abs change in entropy measure (2003-2006)	0.2325	137	196		0.3632	0.5468	0.5785	333
	abs change in entropy measure (2004-2006)	1.3761	140	199		0.3340	0.5633	0.5826	339
	abs change in entropy measure (2007-2010)	1.0488	142	206		0.0476	0.8273	0.9132	348
Prior performance									
	return on asset (RoA) (2007)	-0.2229	140	202		0.1600	0.6891	0.7417	342
	avg return on asset (RoA) (2004-2006)	-1.0033	140	201		0.6980	0.4035	0.4415	341
	avg return on asset (RoA) (2007-2010)	-0.1868	143	208		0.8713	0.3506	0.3853	351
Growth									
	avg sales growth (2002-2006)	0.5070	137	193		0.3120	0.5764	0.6550	330
	avg sales growth (2003-2006)	0.0340	140	197		0.0307	0.8610	0.9121	337
	avg sales growth (2004-2006)	0.1093	142	200		0.7707	0.3800	0.4424	342
	avg sales growth (2007-2010)	-1.6271	144	207		2.8619	0.0907 †	0.1038	351

† p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Critical values from z distribution: ±2.58 (0.01 significance level) and ±1.96 (.05 significance level)

† p<0.10, * p<0.05, ** p<0.01, *** p<0.001 (two-sided)

* Wilcoxon rank-sum test (Stata command: ranksum) also known as the Mann-Whitney two-sample statistic (Wilcoxon 1945; Mann and Whitney 1947)
Mann, H. B., and D. R. Whitney. 1947. On a test whether one of two random variables is stochastically larger than the other.
Annals of Mathematical Statistics 18: 50-60. Wilcoxon, F. 1945. Individual comparisons by ranking methods. Biometrics 1: 80-83.

Appendix 25: Stata Do Files

```
1   ************************************************************
2   *  STATISTICS FOR CORPORATE HEADQUARTERS CHANGE STUDY
3   ************************************************************
4
5   clear
6   cd "D:\SK HSG\02 Research\01 Doctoral Studies\04 Dissertation
    Thesis\02 CHQ Change CEO Succession\02 Stata"
7   log using Log CHQ Change US.log, replace
8
9
10  ************************************************************
11  * (I) DATA CLEANING
12  *  Output File:    US dataset CHQ Successions.dta
13  ************************************************************
14
15      ************************************************************
16      *  Description:    ...
17      *  Input Files:    US CHQ Change data clean.csv
18      *  Output File:    US CHQ Change data clean.raw (survey data for Excel analyses)
19      *                  US CHQ Change data collaps clean.raw (cleaned and collapsed survey
    data for Excel analyses)
20      *                  US_data_survey_clean.dta (survey data in Stata format)
21      *                  US data survey collaps clean.dta (cleaned and collapsed survey
    data in Stata format)
22      ************************************************************
23      do clean survey data.do
24
25      ************************************************************
26      *  Description:    Prepare company data set
27      *  Input Files:    US Company data clean.csv
28      *  Output File:    US data company clean.dta
29      ************************************************************
30      do clean comp data.do
31
32      ************************************************************
33      *  Description:    prepare succession events per time frame
34      *  Input Files:    US Succession data clean.csv
35      *  Output File:    tmp successions.raw (successions per time frame for Excel analyses)
36      *                  US data succ clean.dta
37      ************************************************************
38      do clean succ events data.do
39
40      ************************************************************
41      *  Description:    prepare succession event characteristics in two steps
42      *                  (a) prepare data set: succession details
43      *                  (b) prepare data set: individual backgrounds
44      *  Input Files:    US Succession details clean.csv
45      *  Output File:    US data succ details clean.dta
46      ************************************************************
47      do clean succ charact data.do
48
49      ************************************************************
50      *  Description:    merge.do
51      *  Input Files:    US data survey collapsed clean.dta
52      *                  US data company clean.dta
53      *                  US data succession clean.dta
54      *                  US data succession details clean.dta
55      *                  US_data_CEO_background_clean.dta
56      *  Output File:    US dataset CHQ successions.dta
57      ************************************************************
58      do merge.do
59
60
61  ************************************************************
62  * (II) DATA ANALYSES: OVERALL REPORT
63  ************************************************************
64
65      ************************************************************
66      *  File (Purpose): Analyses of the sample (pie charts etc.)
67      *  Input Files:    US_dataset_CHQ_Succ_compl.dta
68      *  Output File:    ...
69      ************************************************************
70      do analyses sample.do
71
```

Appendix 25: Stata Do Files (cont.)

```
    ************************************************************
    *  File (Purpose): Analyses of the survey (pie charts etc.)
    *  Input Files:    US dataset CHQ Succ compl.dta
    *  Output File:    ...
    ************************************************************
    do analyses survey.do


*************************************************************
* (III) DATA ANALYSES: EMPIRICAL STUDY I
*************************************************************

    ************************************************************
    *  Step 1: Analyze variables (Cronbach's Alpha)
    *  File (Purpose): analyses cronbachs alpha.do
    *  Description:    calculate after collapsing since all analyses are reported on company level
    *  Input File:     US dataset CHQ Succ compl.dta
    *  Output File:    ...
    ************************************************************
    do analyses cronbachs alpha.do

    ************************************************************
    *  Step 2: Analyze distributional characteristics
    *  Input Files:    US dataset CHQ Succ compl.dta
    *  Output File:    ...
    ************************************************************
    do analyses_dataset.do

    ************************************************************
    *  Step 3: Analyze hypotheses; t-tests
    *  File (Purpose): analyses t tests.do
    *  Input File:     US dataset CHQ Succ compl.dta
    *  Output File:    ...
    ************************************************************
    do analyses response bias.do

    ************************************************************
    *  Step 4: Analyze hypotheses; t-tests
    *  File (Purpose): analyses_t_tests.do
    *  Input File:     US dataset CHQ Succ compl.dta
    *  Output File:    ...
    ************************************************************
    do analyses t-tests.do

    ************************************************************
    *  Step 5: Estimations (regressions)
    *  File (Purpose): analyses regress.do
    *  Input File:     US dataset CHQ Succ compl.dta
    *  Output File:    ...
    ************************************************************
    do analyses_regress.do

    ************************************************************
    *  Step 6: Post estimation analyses
    *  File (Purpose): analyses post regress.do
    *  Input File:     US dataset CHQ Succ compl.dta
    *  Output File:    ...
    ************************************************************
    do analyses post regress.do

* finish and close log file
clear all
log close
```

Appendix 26: Descriptive Statistics and Correlations (Comprehensive)

Table 6-4: Descriptive Statistics and Correlations: (1) Magnitude of the Changes in the Size and Scope of CHQ (Details)

Variables	Obs	Means	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Changes in the CHQ size	68	0.74	0.49	0.00	2.33	1.00									
(2) Changes in the CHQ scope	66	0.79	0.55	0.00	2.22	0.23 †	1.00								
(3) CEO origin (corp. or business level)	68	0.35	0.48	0.00	1.00	-0.25 *	0.12	1.00							
(4) Prior work exp.: corp. vs. business level ratio	68	0.59	0.38	0.00	1.00	-0.17	0.08	0.63 ***	1.00						
(5) Inside vs. outside succession	68	0.47	0.50	0.00	1.00	-0.05	0.30 *	0.48 ***	0.35 **	1.00					
(6) Relay vs. non-relay succession	68	0.37	0.49	0.00	1.00	0.07	-0.11	-0.56 ***	-0.29 *	-0.60 ***	1.00				
(7) Departing CEO age	68	59.85	7.81	39.00	80.00	-0.08	-0.21 †	-0.23 †	-0.14	-0.40 ***	0.45 ***	1.00			
(8) New CEO's age	68	49.38	6.55	32.00	66.00	-0.09	-0.21 †	-0.22 †	-0.04	-0.04	-0.03	0.22 †	1.00		
(9) Educational level (years)	67	17.54	1.65	12.00	23.00	0.24 †	-0.08	-0.14	-0.25 *	-0.07	-0.10	-0.05	0.16	1.00	
(10) Educational level (1-7)	67	4.37	1.23	1.00	7.00	0.13	-0.12	-0.09	-0.21 †	-0.01	-0.08	0.04	0.21 †	0.90 ***	1.00
(11) MBA vs. non-MBA	68	0.50	0.50	0.00	1.00	0.25 *	-0.05	-0.12	-0.26 *	-0.18	0.09	0.11	0.08	0.54 ***	0.57 ***
(12) Functional exp.: throughput	68	0.53	0.50	0.00	1.00	0.14	-0.12	-0.29 *	-0.10	-0.23 †	0.17	0.19	0.09	-0.04	0.01
(13) Functional exp.: peripheral	68	0.29	0.46	0.00	1.00	0.01	-0.13	-0.27 *	-0.38 **	-0.22 †	0.11	0.22 †	0.17	0.36 **	0.31 *
(14) CHQ size (2010): ln CHQ staff / 1,000 empl.	68	3.73	1.44	0.00	6.83	0.04	0.23 †	0.18	-0.03	0.19	-0.26 *	-0.39 ***	-0.27 *	0.03	-0.07
(15) Change in diversification (2007-10)	68	0.16	0.23	0.00	1.39	0.01	0.10	0.25 *	0.16	0.27 *	-0.26 *	-0.05	-0.05	-0.05	-0.09
(16) Average sales growth (2007-10)	68	0.02	0.06	-0.20	0.14	0.35 **	0.05	0.15	0.07	-0.04	-0.02	0.20	-0.11	0.03	0.07
(17) Prior change in diversification (2003-06)	65	0.18	0.21	0.00	0.75	-0.01	-0.07	0.07	-0.11	-0.00	0.01	0.18	0.19	-0.02	-0.01
(18) Prior average sales growth (2003-06)	66	0.24	0.88	-0.17	7.20	-0.00	0.00	0.09	0.09	0.11	-0.04	-0.09	-0.10	0.00	-0.09
(19) Firm performance: RoA (2007)	67	6.94	6.79	-28.00	19.00	-0.04	-0.01	0.02	0.12	-0.09	0.05	0.19	0.15	-0.15	-0.05
(20) Prior firm performance: avg RoA (2004-06)	67	7.60	6.10	-5.78	22.62	-0.04	0.03	-0.07	0.07	-0.19	0.14	0.39 **	0.17	-0.18	-0.11
(21) Organizational size (2007)	67	9.00	1.36	6.84	12.87	-0.22 †	-0.08	-0.16	0.01	-0.26 *	0.20	0.24 *	0.39 **	-0.07	0.02
(22) Organizational age (2007)	68	3.92	0.93	0.00	5.16	0.03	0.06	0.05	0.17	-0.03	0.20	0.18	0.10	0.11	0.08
(23) Industry effects: avg sales growth (2007-10)	68	0.05	0.85	-0.75	4.43	-0.20	0.06	-0.17	-0.13	-0.16	0.14	0.18	0.08	0.03	0.07

Variables	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)
(1) Changes in the CHQ size													
(2) Changes in the CHQ scope													
(3) CEO origin (corp. or business level)													
(4) Prior work exp.: corp. vs. business level ratio													
(5) Inside vs. outside succession													
(6) Relay vs. non-relay succession													
(7) Departing CEO age													
(8) New CEO's age													
(9) Educational level (years)													
(10) Educational level (1-7)													
(11) MBA vs. non-MBA	1.00												
(12) Functional exp.: throughput	0.06	1.00											
(13) Functional exp.: peripheral	0.19	0.35 **	1.00										
(14) CHQ size (2010): ln CHQ staff / 1,000 empl.	-0.18	-0.34 **	-0.15	1.00									
(15) Change in diversification (2007-10)	-0.02	0.15	-0.06	0.07	1.00								
(16) Average sales growth (2007-10)	0.12	0.01	-0.04	-0.07	0.04	1.00							
(17) Prior change in diversification (2003-06)	0.08	0.02	-0.06	-0.08	0.14	0.11	1.00						
(18) Prior average sales growth (2003-06)	-0.11	-0.12	-0.08	0.04	0.06	0.02	-0.09	1.00					
(19) Firm performance: RoA (2007)	-0.06	-0.12	-0.25 *	-0.06	-0.01	0.28 *	0.02	-0.04	1.00				
(20) Prior firm performance: avg RoA (2004-06)	-0.13	0.04	-0.13	-0.06	-0.07	0.18	0.04	-0.02	0.56 ***	1.00			
(21) Organizational size (2007)	0.10	0.23 †	0.15	-0.60 ***	-0.17	-0.16	-0.00	-0.12	0.23 †	0.09	1.00		
(22) Organizational age (2007)	0.22 †	-0.05	0.05	-0.07	0.13	0.03	0.09	-0.04	0.15	0.01	0.28 *	1.00	
(23) Industry effects: avg sales growth (2007-10)	-0.13	0.16	0.06	-0.05	-0.18	-0.00	-0.06	-0.04	-0.05	0.00	0.19	-0.29 *	1.00

† p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Table 6-5: Descriptive Statistics and Correlations: (2) Directionality of the Changes at the CHQ (Details)

Variables	Obs	Means	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) Changes in the CHQ size: decrease	68	0.32	0.47	0.00	1.00	1.00										
(2) Changes in the CHQ size: increase	68	0.50	0.50	0.00	1.00	-0.69 ***	1.00									
(3) Changes in the CHQ scope: decrease	66	0.36	0.48	0.00	1.00	0.00	-0.04	1.00								
(4) Changes in the CHQ scope: increase	66	0.52	0.50	0.00	1.00	-0.02	0.15	-0.78 ***	1.00							
(5) CEO origin (corp. or business level)	68	0.35	0.48	0.00	1.00	-0.25 *	0.12	-0.22 †	0.26 *	1.00						
(6) Prior work exp.: corp. vs. business level ratio	68	0.59	0.38	0.00	1.00	0.03	-0.03	-0.07	0.25 *	0.63 ***	1.00					
(7) Inside vs. outside succession	68	0.47	0.50	0.00	1.00	-0.15	0.06	-0.10	0.09	0.48 ***	0.35 **	1.00				
(8) Relay vs. non-relay succession	68	0.37	0.49	0.00	1.00	0.19	0.03	0.21 †	-0.15	-0.56 ***	-0.29 *	-0.60 ***	1.00			
(9) Departing CEO age	68	59.85	7.81	39.00	80.00	0.10	0.02	-0.10	0.08	-0.23 †	-0.14	-0.40 ***	0.45 ***	1.00		
(10) New CEO's age	68	49.38	6.55	32.00	66.00	0.03	-0.13	-0.01	-0.14	-0.22 †	-0.04	-0.04	-0.03	0.22 †	1.00	
(11) Educational level (years)	67	17.54	1.65	12.00	23.00	-0.04	0.13	-0.18	-0.02	-0.14	-0.25 *	-0.07	-0.10	-0.05	0.16	1.00
(12) Educational level (1-7)	67	4.37	1.23	1.00	7.00	-0.01	0.07	-0.17	-0.04	-0.09	-0.21 †	-0.01	-0.08	0.04	0.21 †	0.90 ***
(13) MBA vs. non-MBA	68	0.50	0.50	0.00	1.00	-0.00	0.18	-0.10	-0.03	-0.12	-0.26 *	-0.18	0.09	0.11	0.08	0.54 ***
(14) Functional exp.: throughput	68	0.53	0.50	0.00	1.00	0.27 *	-0.18	0.08	-0.12	-0.29 *	-0.10	-0.23 †	0.17	0.19	0.09	-0.04
(15) Functional exp.: peripheral	68	0.29	0.46	0.00	1.00	0.11	-0.06	-0.06	-0.05	-0.27 *	-0.38 **	-0.22 †	0.11	0.22 †	0.17	0.36 **
(16) CHQ size (2010): ln CHQ staff / 1,000 empl.	68	3.73	1.44	0.00	6.83	-0.15	0.16	0.03	0.01	0.18	-0.03	0.19	-0.26 *	-0.39 ***	-0.27 *	0.03
(17) Change in diversification (2007-10)	68	0.16	0.23	0.00	1.39	-0.12	0.08	-0.14	0.01	0.25 *	0.16	0.27 *	-0.26 *	-0.05	-0.05	-0.05
(18) Average sales growth (2007-10)	68	0.02	0.06	-0.20	0.14	-0.42 ***	0.47 ***	-0.14	0.22 †	0.15	0.07	-0.04	-0.02	0.20	-0.11	0.03
(19) Prior change in diversification (2003-06)	65	0.18	0.21	0.00	0.75	-0.12	0.03	-0.06	-0.06	0.07	-0.11	-0.00	0.01	0.18	0.19	-0.02
(20) Prior average sales growth (2003-06)	66	0.24	0.88	-0.17	7.20	-0.07	0.13	-0.07	0.10	0.09	0.09	0.11	-0.04	-0.09	-0.10	0.00
(21) Firm performance: RoA (2007)	67	6.94	6.79	-28.00	19.00	-0.28 *	0.18	-0.09	0.19	0.02	0.12	-0.09	0.05	0.19	0.15	-0.15
(22) Prior firm performance: avg RoA (2004-06)	67	7.60	6.10	-5.78	22.62	0.04	-0.11	-0.10	0.21 †	-0.07	0.07	-0.19	0.14	0.39 **	0.17	-0.18
(23) Organizational size (2007)	67	9.00	1.36	6.84	12.87	0.07	-0.19	0.02	-0.00	-0.16	0.01	-0.26 *	0.20	0.24 *	0.39 **	-0.07
(24) Organizational age (2007)	68	3.92	0.93	0.00	5.16	0.09	0.08	-0.16	0.07	0.05	0.17	-0.03	0.20	0.18	0.10	0.11
(25) Industry effects: avg sales growth (2007-10)	68	0.05	0.85	-0.75	4.43	-0.11	0.02	0.04	-0.02	-0.17	-0.13	-0.16	0.14	0.18	0.08	0.03

Variables	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)
(1) Changes in the CHQ size: decrease														
(2) Changes in the CHQ size: increase														
(3) Changes in the CHQ scope: decrease														
(4) Changes in the CHQ scope: increase														
(5) CEO origin (corp. or business level)														
(6) Prior work exp.: corp. vs. business level ratio														
(7) Inside vs. outside succession														
(8) Relay vs. non-relay succession														
(9) Departing CEO age														
(10) New CEO's age														
(11) Educational level (years)														
(12) Educational level (1-7)	1.00													
(13) MBA vs. non-MBA	0.57 ***	1.00												
(14) Functional exp.: throughput	0.01	0.06	1.00											
(15) Functional exp.: peripheral	0.31 *	0.19	0.35 **	1.00										
(16) CHQ size (2010): ln CHQ staff / 1,000 empl.	-0.07	-0.18	-0.34 **	-0.15	1.00									
(17) Change in diversification (2007-10)	-0.09	-0.02	0.15	-0.06	0.07	1.00								
(18) Average sales growth (2007-10)	0.07	0.12	0.01	-0.04	-0.07	0.04	1.00							
(19) Prior change in diversification (2003-06)	-0.01	0.08	0.02	-0.06	-0.08	0.14	0.11	1.00						
(20) Prior average sales growth (2003-06)	-0.09	-0.11	-0.12	-0.08	0.04	0.06	0.02	-0.09	1.00					
(21) Firm performance: RoA (2007)	-0.05	-0.06	-0.12	-0.25 *	-0.06	-0.01	0.28 *	0.02	-0.04	1.00				
(22) Prior firm performance: avg RoA (2004-06)	-0.11	-0.13	0.04	-0.13	-0.06	-0.07	0.18	0.04	-0.02	0.56 ***	1.00			
(23) Organizational size (2007)	0.02	0.10	0.23 †	0.15	-0.60 ***	-0.17	-0.16	-0.00	-0.12	0.23 †	0.09	1.00		
(24) Organizational age (2007)	0.08	0.22 †	-0.05	0.05	-0.07	0.13	0.03	0.09	-0.04	0.15	0.01	0.28 *	1.00	
(25) Industry effects: avg sales growth (2007-10)	0.07	-0.13	0.16	0.06	-0.05	-0.18	-0.00	-0.06	-0.04	-0.05	0.00	0.19	-0.29 *	1.00

---

† p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Appendix 27: Structural Knowledge and the New CEO's Origin From Corporate or Business Level

New CEO's origin	Structural knowledge: CHQ size	Structural knowledge: Centr.
Corporate level	X	X(▼)
Business level	/	X (▲)

X indicates knowledge
/ indicates no/limited knowledge
X(▼), X (▲) indicate specific knowledge

Appendix 28: ASCM CHQ Survey Data: Agreement / Terms of Use

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31 March 2009

Agreement / Terms of Use

Dear Andrew

I intend to use the Ashridge Strategic Management Centre database of corporate headquarters ("the Database") in research for my PhD at St Gallen University. I agree that:

- The Database will be used solely for the purpose of my PhD research.
- The Database will not be used for commercial gain.
- I will not provide copies the Database or any part of it to other people or organisations.
- I will take reasonable steps to prevent other people gaining access to the Database.
- Any publications incorporating information derived from the Database will not reveal details of the responses provided by individual companies.
- Ashridge Strategic Management Centre will be acknowledged as the source of the data in any publications.

Best regards

Sven

Universität St.Gallen
Hochschule für Wirtschafts-, Rechts-
und Sozialwissenschaften (HSG)

Appendix 29: Overview Measures

Measure [a)]	Description	Reference(s)
Antecedents: corporate strategic change (CSC)		
Corporate strategic change		(Marcel, 2009) (Goranova et al., 2007) (Chakrabarti et al., 2006) (Wiersema & Bantel, 1992)
Corporate strategic change (CSC)	Absolute percentage change in total diversification strategy over four years	
Related corporate strategic change (CSCR)	Absolute percentage change in related diversification strategy over four years	
Unrelated corporate strategic change (CSCU)	Absolute percentage change in unrelated diversification strategy over four years	
Diversification		
Product-market diversification: entropy measures of diversification	Measured on the basis of three entropy measures: ▪ total diversification ▪ related diversification ▪ unrelated diversification To calculate the entropy indexes, I used Thomson Reuters One Banker data.	(Jacquemin & Berry, 1979) (Palepu, 1985)
Geographic diversification: degree of internationalization *(not used in this study, but suggested for future research)*	Composite measure calculated as the sum of the following three components: ▪ the ratio of foreign sales to total sales ▪ foreign assets divided by total assets ▪ the number of country subsidiaries (calculated as the percentage of the highest value in the sample)	(Sullivan, 1994) (Sambharya, 1996) (Sanders & Carpenter, 1998) (Carpenter, 2000) (Westphal & Fredrickson, 2001)
Structural change at the CHQ		
Anticipated change		
Change in the CHQ size as change in the number of CHQ staff	Scale (-1…+1): -1 = decrease; 0 = no change; +1 = increase; over a five-year time period	(Collis et al., 2007) (Young et al., 2000)
Past change		
Change in the CHQ size as change in the number of CHQ staff	Scale (-1…+1): -1 = decrease; 0 = no change; +1 = increase; over a five-year time period	(Collis et al., 2007) (Young et al., 2000)
Outcomes: performance		
CHQ performance		
Overall effectiveness *(not used in this study)*	Scale (1-3): 1 = good in most areas; 2 = needs improving in some areas; 3 = needs improving in many areas	(Collis et al., 2007) (Young et al., 2000)
Effectiveness and clarity of corporate strategy *(not used in this study)*	See above	(Collis et al., 2007) (Young et al., 2000)
Ability to support corporate strategy	See above	(Collis et al., 2007) (Young et al., 2000)
Cost effectiveness	See above	(Collis et al., 2007) (Young et al., 2000)
Firm performance		
Return on Assets (RoA)	Three-year average following the period of structural change at the CHQ	(Bigley & Wiersema, 2002)

Measure [a)]	Description	Reference(s)
Control variable(s)		
CHQ characteristics		(Collis et al., 2007) (Young et al., 2000)
Relative CHQ size	Natural logarithm number of CHQ staff per 1,000 employees (1998)	
Prior structural change at the CHQ	See above	
Prior CHQ performance	See above	(Collis et al., 2007)
Overall effectiveness	See above	
Ability to support corporate strategy	See above	
Cost effectiveness	See above	
Firm characteristics		
Firm size	Natural logarithm of total number of employees	(Collis et al., 2007) (Carpenter, 2000)
	Natural logarithm of total sales revenues	(Amburgey & Dacin, 1994) (Boeker, 1997)
	Natural logarithm of market capitalization	
	Natural logarithm of total assets	(Kelly & Amburgey, 1991)
Prior firm performance	See above: firm performance (prior to structural change at the CHQ)	
Diversification	See above: entropy measures of diversification: ▪ total diversification ▪ related diversification ▪ unrelated diversification.	
Firm age *(not used in this study)*		(Boeker, 1997)
Ownership *(not used in this study)*		(Boeker, 1997)
CEO and TMT change and characteristics *(not used in this study)*		(Boeker, 1997)
Environmental characteristics: industry and country		
Country dummy 1	Coded as 1 if country DE and 0 otherwise	
Country dummy 2	Coded as 1 if country NL and 0 otherwise	
Country dummy 3	Coded as 1 if country US and 0 otherwise	
Country dummy 4	Coded as 1 if country UK and 0 otherwise	
Industry dummy 1	Coded as 1 if industry 01 and 0 otherwise	
Industry dummy 2	Coded as 1 if industry 02 and 0 otherwise	
Industry dummy 3	Coded as 1 if industry 03 and 0 otherwise	
Industry dummy 4	Coded as 1 if industry 04 and 0 otherwise	
Industry dummy 5	Coded as 1 if industry 05 and 0 otherwise	
Industry dummy 6	Coded as 1 if industry 06 and 0 otherwise	
Region dummy	Coded as 1 if US and 0 if non-US (Europe)	
Industry dummy	Coded as 1 if manufacturing firms (industry 01) and 0 otherwise (non-manufacturing firms)	
Industry	Industry growth, industry profitability and industry concentration (based on SIC codes)	(Wiersema & Bantel, 1992)

[a)] This list also contains measures which were initially considered but not used in the data analysis and/or which are suggested for future research.

Appendix 30: ASCM Survey: CHQ Questionnaire (Extract)

Change in corporate headquarters over the previous five years

	How has corporate headquarters changed over the previous five years? ✓	Lower	Same (±10%)	Higher
1.21	Number of staff in corporate headquarters	☐	☐	☐
1.22	Number of corporate headquarters functions	☐	☐	☐
1.23	Cost of corporate headquarters (in real terms)	☐	☐	☐
1.24	Services bought-in by corporate headquarters	☐	☐	☐
1.25	Influence of corporate headquarters on divisional decisions	☐	☐	☐
1.26	Quantity of services provided to divisions or business units	☐	☐	☐

Drivers of past change in corporate headquarters

	If corporate headquarters has changed over the previous five years, what have been the driving forces? ✓	Increasing Importance → None	Some	Major
1.27	Change in portfolio of subsidiary businesses	☐	☐	☐
1.28	Change in corporate strategy	☐	☐	☐
1.29	Need to improve ability of headquarters to support corporate strategy	☐	☐	☐
1.30	Need to improve cost effectiveness of corporate headquarters	☐	☐	☐
1.31	Were there other major drivers?			

Effectiveness of corporate headquarters and the need for future change

	How would you rate the effectiveness of your corporate headquarters in the following areas? ✓	Increasing Need for Change → Good in most areas	Needs improving in some areas	Needs improving in many areas
1.32	Overall effectiveness of corporate headquarters	☐	☐	☐
1.33	Effectiveness and clarity of corporate strategy	☐	☐	☐
1.34	Ability of headquarters to support corporate strategy	☐	☐	☐
1.35	Cost effectiveness of corporate headquarters	☐	☐	☐
1.36	Are there any other aspects of corporate headquarters that are particularly satisfactory or unsatisfactory?			

Anticipated future change in corporate headquarters

	What changes in corporate headquarters do you anticipate over the next five years? ✓	Lower	Same (±10%)	Higher
1.37	Number of staff in corporate headquarters	☐	☐	☐
1.38	Number of corporate headquarters functions	☐	☐	☐
1.39	Cost of corporate headquarters (in real terms)	☐	☐	☐
1.40	Services bought-in by corporate headquarters	☐	☐	☐
1.41	Influence of corporate headquarters on divisional decisions	☐	☐	☐
1.42	Quantity of services provided to divisions or business units	☐	☐	☐

Source: Young et al., 2000.

Appendix 31: Examples of Diversification and Corporate Strategic Change

Sales						**Diversification**			**Corporate Strategic Change**		
	Group 1		***Group 2***								
Total	***Seg. 1***	***Seg. 2***	***Seg. 1***	***Seg. 3***	***Seg. 3***	***Total***	***Related***	***Unrel.***	***Total***	***Related***	***Unrel.***
100	100	-	-	-	-	0.00	0.00	0.00			
100	95	5	-	-	-	0.20	0.20	0.00	0.20	0.20	0.00
100	90	10	-	-	-	0.32	0.32	0.00	0.12	0.12	0.00
100	80	10	10	-	-	0.64	0.32	0.32	0.32	0.00	0.32
100	70	20	10	-	-	0.80	0.48	0.32	0.16	0.16	0.00
100	60	10	10	10	10	1.23	0.62	0.61	0.43	0.14	0.29
100	20	20	20	20	20	1.61	0.94	0.67	0.38	0.32	0.06
						1.23	0.62	0.61	0.38	0.32	0.06
						0.80	0.48	0.32	0.43	0.14	0.29
						1.61	0.94	0.67	0.81	0.46	0.35
						0.32	0.32	0.00	1.29	0.62	0.67
						0.80	0.48	0.32	0.48	0.16	0.32

I used the examples of sales and diversification given by Palepu (1985: 253) to calculate corporate strategic change (CSC). More specifically, I treated each row as a single time period to calculate CSC as the arithmetic difference between two time periods $t+1$ and t. Notably, the examples show that total CSC (CSCT) equals the sum of related CSC (CSCR) and unrelated CSC (CSCU). In fact, Palepu (1985: 253) formally demonstrates that the sum of related and unrelated diversification equals total diversification. Based on this equation one can also formally demonstrate that the sum of CSCR and CSCU equals CSCT.

Appendix 32: Measures of (Corporate) Strategic Change Used in Previous Studies (Exemplary)

Study*	Period	Sample / unit of analysis	Measurement of (corporate) strategic change**
Singh, House and Tucker (1986a)	1970-1982	Canadian voluntary social service organizations	Organizational change: 1. chief executive officer (CEO) change 2. change in service areas 3. change in goals 4. change in sponsorship 5. change in location 6. structural change
Singh, Tucker and House (1986b)	1970-1982	Canadian voluntary social service organizations	Internal organizational change: 1. chief executive officer (CEO) change 2. change in service areas 3. change in goals 4. change in client groups 5. change in structure
Finkelstein and Hambrick (1990)	1978-1982	US computer manufacturers, US chemical firms, US natural gas distribution firms	Composite measure of strategic persistence based on six strategy dimensions: a. advertising intensity (advertising/sales); b. research and development intensity (R&D/sales); c. plant and equipment newness (net P&E/gross P&E); d. non-production overhead (selling, general, and administrative [SGA] expenses/sales); e. inventory levels (inventories/sales); and f. financial leverage (debt/equity)
Kelly and Amburgey (1991)	1962-1985	136 Airline firms	1. Cumulative changes in strategic orientation: a) business-level change: two business cumulative change variables: a change from specialism to generalism and change from generalism to specialism at the business level (based on change in the product mix (single vs. multiple products)) b) corporate level change: two corporate cumulative change variables: a change from specialism to generalism and change from generalism to specialism at corporate level (based on related diversification, unrelated diversification, and divestitures) 2. Cumulative changes peripheral features: occurrence and timing of horizontal and market-extension mergers
Haveman (1992)	1977-1986	Californian savings and loans industry	Change in asset investments in eight markets (magnitude and direction).
Wiersema and Bantel (1992)	1980-1983	Fortune 500 firms	Absolute change in the entropy measure of the total diversification
Amburgey, Kelly and Barnett (1993)	1771-1963 (193 years)	Finish newspaper organizations	1. Change in newspaper contents 2. Change in publication frequency

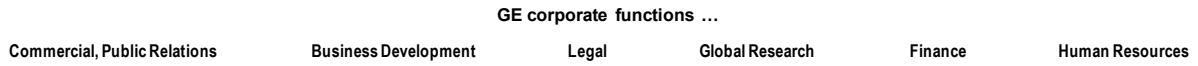
Study*	Period	Sample / unit of analysis	Measurement of (corporate) strategic change**
Zajac and Kraatz (1993)	1971-1986	US colleges	Examples of 'core' changes in these organizations: (1) added any business program for the first time ever, (2) added any graduate program for the first time ever, and (3) changed from a single sex to coeducational institution for the first time ever
Amburgey and Dacin (1994)	1949-1977	Fortune 500 firms	Nine levels of diversification based on Rumelt's (1974, 1989) classification system: 0 … for the undiversified firms ⋮ 8 … for the unrelated firms
Boeker (1997)	1978-1992	US semiconductor producers	Absolute percentage of change in degree of diversification (based on the entropy measure of total diversification) between two years *t* and *t+1*.
Stoeberl, Parker and Joo (1998)	1973-1990	Missouri wineries	1. Diversification: ▪ brand portfolio change (number of brands) ▪ product line change (number of product lines) 2. Land ownership change: land acquisition or land divestment
Carpenter (2000)	1991-1998	314 S&P 500 firms 1991-1998	Two multi-item index measures based on the six dimensions defined by Finkelstein and Hambrick (1990) (see below) plus international commitment (foreign sales/total sales): 1. strategic variation 2. strategic deviation
Westphal and Fredrickson (2001)	1984-1996	US industrial and service firms listed in the 1983 Forbes and Fortune 500 indexes	1. Product market diversification: ▪ entropy measure of diversification 2. Geographic diversification: c) ratio of foreign sales to total sales d) foreign assets divided by total assets e) number of country subsidiaries
Bigley and Wiersema (2002)	1990-1994	Forbes 500 firms	Absolute value of negative change in entropy measure of total diversification (refocusing only)
Jansen (2004)	1997	Longitudinal case study (qualitative and quantitative data) US Military Academy	Culture change
Zhang (2006); Zhang and Rajagopalan (2003, 2010)	1993-1998	publicly traded, relatively large, non-diversified US manufacturing firms	Composite measure of the magnitude of strategic change based on six strategy dimensions: see Finkelstein and Hambrick (1990)

* In chronological order.
** The measurement descriptions are taken from the method sections of the respective studies.
P&E = plant and equipment; R&D = Research and development; SGA = selling, general, and administrative.
I gratefully acknowledge the contribution of Dominic Rainsborough, who helped compile this list.

Appendix 33: Company Examples for the Functional Organization of Large Firms

The functional organization of General Electric (GE)[77]

General Electric (GE) is an American multinational conglomerate with approximately 300,000 employees and revenues of 147.3 billion USD in 2011. The company operates through four segments: energy, technology infrastructure, capital finance, and consumer & industrial. According to its 2011 organizational chart, GE operates six corporate functions.



The functional organization of Siemens[78]

Siemens is an integrated technology company operating in the industry, energy, healthcare and infrastructure sectors. Siemens and its subsidiaries employ approximately 402,000 people across 190 countries with global revenues of approx 73.5 billion Euros for 2011. Siemens runs 13 corporate functions labeled as corporate units.

The functional organization of the ABB Group of companies[79]

ABB is a leader in power and automation technologies that enable utility and industry customers to improve performance while lowering their environmental impact. The ABB Group of companies operates in around 100 countries and employs

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[77] GE website: http://www.ge.com/pdf/company/ge_organization_chart.pdf. Accessed on March 19, 2012.

[78] Siemens annual report www.siemens.com/investor/pool/en/investor_relations/siemens_ar_2011.pdf. Accessed on March 19, 2012.

[79] ABB website: http://www.abb.com/cawp/abbzh252/0d19f10409ed9884c1256aed0048503a.aspx. Accessed on February 23, 2012.

about 130,000 people. ABB group is structured into five divisions. ABB group runs 27 corporate functions to coordinate and integrate the firm. They all report to one member of the executive committee.

ABB corporate functions …

… reporting to CEO
- Corporate Communications
- Corporate Strategy
- Group Internal Audit
- Mergers & Acquisitions
- Quality and Supply Chain OPEX
- Corporate Technology

… reporting to CFO
- Assurance and Internal Control
- Corporate Taxes
- Finance and Controlling
- Group Treasury
- Real Estate
- Information Systems
- Investor Relations

… reporting to General Counsel
- Antitrust
- Contracts
- Corporate & Finance (Legal)
- General Legal
- Integrity
- Intellectual Property
- Mergers & Acquisitions (Legal)

… reporting to Head of Marketing and Customer Solutions
- Group Account Management
- Group Service
- Smart Grids
- Technology Ventures

… reporting to Head of Human Resources
- HR Talent
- HR Remuneration
- Sustainability Affairs
- Business Excellence

Appendix 34: About the Research

We interviewed the heads of corporate functions in large multi-business corporations in the UK, Switzerland, and Germany. Between 2009 and 2011, we conducted approx. 40 in-depth interviews with corporate function's managers of large multi-business corporations in the UK, Switzerland, and Germany. For generalizability purposes, we covered a broad range of corporate functions: HR, IT, corporate development/strategy, and others (such as real estate).

Table 6-6: Interview Focus Points and Guiding Questions

Semi-structured interviews
Focus points
1. Please, briefly tell us about your current role. 2. Please, tell us about changes you have made to the functional activities at the group level. 3. Please, tell us how/why you made these changes (then probing the stories to understand the criteria the person was using to make the decisions).
Guiding questions
▪ What role does the corporate function play in setting policy, guiding decentralized activities and supporting business divisions? ▪ What is centralized and what decentralized? ▪ What are the priorities of the corporate-level functional team? ▪ How do you develop functional strategies for your function? ▪ How do you link your functional strategy to corporate strategy? ▪ How do you avoid bureaucracy, empire building and interference? ▪ How do you measure added value? ▪ How do you decide what skills are needed at the corporate level?

The interviews were mainly conducted for exploratory purposes. Thus, in the interviews, we discussed a broad range of issues relating to how heads of corporate functions develop strategies for their function (see Table 6-6). These include how they link their corporate function's strategy to the corporate strategy; how they avoid bureaucracy, empire building, and interference; how they measure added value; and how they decide what skills are needed at the corporate level. To address these issues, we focused on recent changes that the head of the corporate function had made to corporate level activities or roles.

Appendix 35: Invitation Letter for Interviews with Functional Heads

Institute of Management

University of St.Gallen

ASHRIDGE

CORPORATE-LEVEL FUNCTIONAL STRATEGIES

International Research Project with the Ashridge Strategic Management Centre (ASMC)

Prof. Dr. Guenter Mueller-Stewens, Sven Kunisch (doctoral candidate), University of St. Gallen

Welcome!

We would like to invite you to participate in a joint research project of the Institute of Management, University of St. Gallen, and the Ashridge Strategic Management Centre (Prof. Andrew Campbell) which explores corporate-level functions in multi-business corporations. Specifically, we are interested in finding out how heads of corporate functions develop strategies for their functions. For example, what is centralised and what decentralised? What role does the corporate level function play in setting policy, guiding decentralised activities and supporting business divisions? What are the priorities of the corporate-level functional team?

What do we explore? Why are we interested in corporate-level functional strategies?

In many companies there is a continuing discussion about the relationship between the corporate-level and the business divisions. The discussion often focuses on whether the corporate level adds value, what activities should be centralised, the size of the staff at the corporate level and how to avoid bureaucracy and interference. Since most of the staff at the corporate-level is part of corporate functions, it is through the development of functional strategies that these issues are resolved. We are interested in finding out how functional leaders make these strategic choices.

The theory of corporate groups states that the group levels must add value (ideally more value than other groups) in order to justify their existence. However, research (e.g. by the Ashridge Strategic Management Centre) suggests that many groups fail to add value (the break-up value of many groups is greater than their market value) and fail to define clearly the main sources of corporate added value. Moreover, many managers in business divisions complain that group functions are more of a hindrance than a help. How, then do heads of functions develop functional strategies? How do they link their functional strategy to group strategy? How do they avoid bureaucracy, empire building and interference? How do they measure added value? How do they decide what skills are needed at the group level?

To address these issues we will focus on recent changes that the leader of the function has made to corporate-level activities or role. We will try to understand how these decisions were made.

How do you benefit?

The outputs of the research will be a framework or set of criteria which functional leaders can use to help make better choices, a definition of the different roles that corporate functions take on and examples of the range of solutions that different companies have chosen.

- Reflexivity: The interviews provide an excellent opportunity for reflecting on your corporate-level functional activities with academic experts. This may positively impact - 'bend back on' - future actions.
- Research insights: We would be pleased to share with you the findings of our study (see above).
- Presentation (optional): We may also offer the possibility to present the findings of our study to executives and managers at your company.

How can you participate?

The research design is based on interviews with functional heads of corporate HR, IT, and strategy. The interviews are scheduled approx. 1 hour and shall be conducted in autumn 2009. They will be held in English or German. If you are interested in participating, we would be pleased to arrange an individual appointment. For that reason, we will contact you by telephone in the next couple of weeks.

Thank you very much for your support!

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Appendix 36: Characteristics of the Corporate Functions' Value Stages (Details)

Value stages / Characteristics	(1) Launch	(2) Growth	(3) Maturity	(4) Decline
Brief description	▪ young (1-2 years) ▪ new ▪ small	▪ still young (1-5 years) ▪ still rather new ▪ expanding	▪ older (3+ years) ▪ established ▪ large	▪ various ages ▪ established ▪ shrinking
Strategy				
Apparent logic	▪ focusing on some core activities ▪ clear business case ▪ informal	▪ diversifying ▪ clear ▪ becoming more explicit	▪ broad scope of activities ▪ clear ▪ formal and explicit	▪ restructuring ▪ unclear/changing ▪ mix of formal and informal
Patterns	▪ careful exploration of new corporate issues ▪ business orientation with a focus on developing trust	▪ bolder exploration of additional activities ▪ business orientation and some external benchmarks	▪ exploitation of activities/more attention to efficiency and effectiveness ▪ focus shifts to improving function	▪ close down some activities ▪ functional orientation as future of function is threatened
Parenting advantage	▪ low focus on adding value	▪ discovered and delivered	▪ fine tuned	▪ unclear
Organizational design				
Tasks / roles	▪ limited	▪ growing	▪ stable	▪ thinning out
Resources / people	▪ very limited resources ▪ basic infrastructure ▪ very few staff and few functional experts	▪ extended resource base ▪ extended infrastructure ▪ growing number of staff and functional experts	▪ streamlined resources ▪ stable infrastructure ▪ large number of staff / large percentage of functional experts	▪ restricted resources ▪ stable infrastructure ▪ number of staff declining; often staff with long tenures
Design (formal and informal)	▪ low formalization ▪ low centralization ▪ large support by top management team	▪ some formalization in structure ▪ growing centralization ▪ growing acceptance in the organization	▪ high formalization ▪ significant centralization ▪ broad acceptance in the organization; widely distributed network	▪ high formalization and centralization under challenge ▪ lower acceptance in the organization
Leadership	▪ clear sponsor in the top management team	▪ functional head becoming own sponsor	▪ functional team with significant status	▪ status of functional team under challenge

Appendix 37: Summary of the Corporate Functions' Value Traps (Details)

Value trap		Cause(s) / mechanisms		Consequences (illustrative)	Antidote(s)
		Strategy	*Org. design*		
A)	**Opportunity trap**	**Lack of experience and expertise**			**Scale mandate and resources**
	The boon and bane of unique opportunities	***Novelty of corporate issue / mandate***	***Lack of talent***	▪ Lack of practicality in implementing the mandate ▪ Burdens the business units without adding value ▪ No/weak delivery (due to lack of skills), so frustration	[1] Recruit a few highly-skilled people with business credibility [2] Involve selected business units only (decreasing the complexity) [3] Focus on low hanging fruits (quick wins)
B)	**Ambition trap**	**Unguided growth**			**Challenge new initiatives**
	The awakening corporate appetite	***Overly ambitious growth***	***Loss of top management focus***	▪ Value destruction (waste of resources) ▪ Internal problems: low efficiency and low effectiveness ▪ Burdens the business units without adding value	[1] Clarify the major sources of the corporate value added [2] Set up a challenge process [3] Review the corporate function's strategy annually
C)	**Best practice trap**	**Focus on benchmarking and functional excellence**			**Focus on internal customers**
	Against the essence of corporate advantage	***Driven by external benchmarks***	***Size breeds an internal focus***	▪ Loss of focus on the value added ▪ Bureaucratic processes and policies that can hamper businesses ▪ Mistrust by the business units	[1] Separate services and value adding activities [2] Involve internal customers (business units) [3] Establish a rigorous performance challenge process
D)	**Redefinition trap**	**Desire to maintain status quo**			**Break the mold**
	The struggle for survival at all costs	***Strategic imprint / strategic inertia***	***Structural inertia***	▪ Misuse of available resources ▪ Value destruction from activities continuing when they are no longer needed ▪ Loss of reputation because the function is seen as less relevant	[1] Bring in new leadership (head of corporate functions) with a new mandate [2] Conduct zero-based reviews: (1) downsize, (2) close (decentralize), or (3) re-launch [3] Isolate new, value adding activities

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Sven Kunisch

Education

01/2011 – 06/2012	**Harvard University**, Cambridge (MA), USA Visiting research fellow at Harvard Business School
09/2007 – 2012	**University of St. Gallen**, St. Gallen, Switzerland Doctoral studies in strategic management
06/2008 – 07/2008	**University of Michigan**, Ann Arbor (MI), USA Summer school in social science data analysis
02/2002 – 11/2002	**Flinders University of South Australia**, Adelaide, Australia Exchange year
10/1999 – 04/2005	**University of Rostock**, Rostock, Germany Studies in business informatics (Dipl.-Wirt.-Inf.)

Academic and Business Experience

09/2007 – 11/2010	**Institute of Management, University of St. Gallen**, St. Gallen Switzerland Editor-in-chief M&A REVIEW
05/2005 – 08/2011	**Accenture GmbH**, Munich, Germany Employee, management consultant (including a leave of absence since 08/2007)
04/2004 – 03/2005	**Dr. Ing. h.c. F. Porsche Aktiengesellschaft**, Stuttgart, Germany Intern and student working on diploma thesis
04/2003 – 03/2004	**University of Rostock**, Rostock, Germany Student assistant with the chair of business informatics
11/2002 – 02/2003	**Learn.ed Solutions**, Adelaide, Australia Intern
08/2001 – 02/2002	**Institute for Manufacturing Strategies (IMS) GmbH**, Magdeburg, Germany Intern and working student
10/1999 – 12/2001	**University of Rostock**, Rostock, Germany Student assistant, editorial staff with the Journal of Plant Nutrition and Soil Science

Honors and Awards

2011	Swiss National Science Fund (SNSF) scholarship for a visiting research fellowship at Harvard Business School
2010	Participant in the 7th annual doctoral workshop at the 30th Strategic Management Society (SMS) conference 2010 in Rome
2009 – 2010	Finalist Deutscher Journalistenpreis (djp), category "Private Equity and M&A" (2009, 2010)
2009	Nomination for the best paper award at the 29th annual international conference of the Strategic Management Society (SMS)
2008	Swiss National Science Fund (SNSF) scholarship for the "quantitative methods of social research" summer program

Selected Publications

Journal articles

Campbell, A., Kunisch, S., & Müller-Stewens, G. 2012. Are CEOs Getting the Best from Corporate Functions? ***MIT Sloan Management Review***, 53(3): 12-14.

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Books

Kunisch, S., Boehm, S. A., & Boppel, M. 2011 (Eds.). ***From Grey to Silver—Managing the Demographic Change Successfully***. Heidelberg: Springer.

Müller-Stewens, G., Kunisch, S., & Binder, A. 2010 (Eds.). ***Mergers & Acquisitions: Analysen, Trends und Best Practices***. Stuttgart: Schäffer-Poeschel.

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