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The role and functions of Head Offices: Towards increased complexity?

by

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Preface

This paper is part of the project "Norske storbyer fra hovedkontorbyer til filialbyer? (Metropolitan areas in Norway: from location of head offices to host of subsidiaries?). The paper is analysing the operation of head offices and discuss how existing role are alternated and new tasks and functions are introduced in a knowledge intense urban economy. An earlier version of the paper has been presented at the 33rd Annual Conference of RSAIBIS (Regional Science Association International British and Irish Section) St Andrew, Scotland 20th – 22nd August 2003

Abstract

There is a shortage of studies of what a head office is actually doing. In this paper we offer new insight into the operations of head offices by outlining three core functions; the strategy role, the co-ordination role and the control and policy role. In addition, we discuss how existing role are alternated and new tasks and functions are introduced. In a knowledge intense economy, in which competence and learning are pre-requisites for competitiveness, head offices are characterised by both increased complexity and tendency towards decentralisation of authority. Thus, there is a need for more sensitive management styles within large companies. Our discussion is based on empirical data from a postal survey among the largest companies in Norway and intensive case studies from a selection of these companies. Survey data are available from 123 head offices. In addition, case studies are conducted in 21 of these companies.

Contents

1. Introduction

While there is an extensive literature on the location and external linkages of head offices (Ahnstrøm, 1973; Pred, 1977; Chapman and Walker, 1982; Lyons, 1994; Hayter, 1997), there is a shortage of studies on what a head offices is actually doing. To some extent, the head office remains “a black box.”. This paper offers insight into the operation of head offices by discussing new roles for head offices in the urban economy, using empirical evidence from head office organisation in Norway.

Existing studies have described the main functions of a head office as (i) policy formulation and resource allocation within the company, and (ii) control of the activities of different divisions or business units. In this paper we argue that head offices *have a more complex role* in a modern knowledge-intensive economy. This type of economy is characterized by increased competition and rapid technological change. Head offices are essentially engaged in collecting and processing information, and this process is becoming even more vital in economies in which competence and learning are pre-requisites for competitiveness. There are also an increasing number of mergers and acquisitions and strong organic growth within selected companies, and large, and often multinational, companies seem to occupy a more dominant role in the economy (Lash and Urry, 1994; Lee and Wills, 1997). In summary, these developments give head office organization a greater priority within business management. Simultaneously, there is a *tendency towards decentralization of authority within large companies*. This reflects problems of co-ordination faced by large companies as they become complex organizations in an international economy characterized by rapid technological change, increased competition and a more prominent role for knowledge and collective learning.

The following issues are discussed in this paper:

(i) What are the role and functions of head offices in a knowledge-intensive economy?

(ii) To what extent are head offices characterized by increased complexity?

(iii) How are tendencies towards decentralization within large companies affecting the role of head offices?

The next section of the paper develops a theoretical approach for our empirical investigation. Contributions from management and organizational theory relevant for understanding head offices are discussed (section 2). This is followed by a presentation of the methodology used for analysing head offices organisation in Norway (section 3). In the first part of the empirical analysis, we outline different roles for head offices (section 4). Then we turn to the dynamics of head office organization, by analysing new roles, increased complexity in head office organization and tendencies towards decentralization within large companies (section 5). The concluding section contributes to the theoretical debate.

2. A theoretical approach

The head office is the top administrative level or the corporate centre of the company. With the development of divisional or multi-business companies and increased spatial division of operations, the roles and functions of the corporate centre become more important (Massey 1984). In his classical work on the history of the divisionalized companies, Chandler (1966) outlined two main functions for the head office. The first was to formulate company policy and allocate resources within the company. The second main function was to control the activity of the different divisions or business units within the company. In addition, Williamson (1975) stressed the importance of a head office that ensures the allocation of resources to the most profitable divisions of the multi-divisional organization.

However, the roles of head offices, and their emphasis on different functions, vary between companies. For instance, Hungenberg (1993) has identified three ideal types of head office organization. The starting point for his discussion is that the primary task for the corporate centre is to co-ordinate resources and decision-making processes and to define the business portfolio of the company. However, the intensity of co-ordination and strategy formulation varies between companies. His first ideal type is the operational holding company. In this case, the corporate centre controls the strategic management of the company and, to some extent, the operational management of business units. There is also a strong focus on potential co-ordination between business units. This type of head office may arise when there is extensive potential for synergies between business units within the company. The second ideal type of head office is the management holding company. In this case, the centre does not interfere with the operational management of business units, but does control strategic management. Some co-ordination between business units will occur. This type of head office suits a company that contains business units which require similar managerial skills and competence. The third type is the financial holding company. In this case, there is marginal intervention from the company centre and a high degree of autonomy for business units. This type of head office can be established when the company is broadly diversified. Hungenberg also argues that there is no single best role for the corporate centre of every company. Different corporate centres should adopt different management styles depending on the potential value contribution determined by internal and external situation factors (Hungenberg 1993: 67).

In a more diversified and competitive economy, head offices have various roles. Collis and Montgomery (1998) argue that there are four different roles for the head offices of large companies. The first is to articulate the strategy of the company. The second is to act as a guardian of its resources. The third is to fulfil the general overhead functions of the company. The fourth is to develop an administrative system for the firm. In a recent empirical study of corporate headquarters in selected countries, Young et al. (2001) identified three main roles for the head office. The first is the minimal corporate parent role. This involves raising capital, establishing an organizational structure, basic control over business units and meeting the company's obligations to investors. Secondly, there is the influential, and policy-making, role. This involves strategy formulation, setting performance targets for units and monitoring their achievements, defining and implementing group-wide policies and providing expert advice for units. Lastly, there is the service provider role. This includes providing necessary services to business divisions or units, such as information systems, purchasing systems and training systems. All head offices undertake these three roles, but their relative importance varies between companies.

Traditionally, studies of large companies have focused on the ability of head offices to control and integrate a number of units at different locations. The main influence over development was in the hands of top management at the head office (Martinez and Jarillo 1989). Even if the senior managers are often based in the head office, their decisions includes the opinion of a numbers of other managers, for instance department manager and team leaders. They relies on managers beneath them to broker and negotiate decisions. Thus, large companies have a more diffuse managerial system then the image of the centralised control of head office (Jones 2002). It is also a fact, that in a knowledge intense economy characterised by increased competition and a more prominent role for knowledge and collective learning large firms must delegate a greater variety of functions and more responsibilities to the subsidiary level, which enables subsidiaries to operate efficient and respond rapidly to changes (Morris 1992).

A tendency towards the decentralization of authority also reflects the coordination problems faced by large firms as they become increasingly complex organizations (Clarke and Beaney 1993). Decentralization enables top management to concentrate on overall strategic questions without being "overloaded" (Chandler 1966). The concepts of "interorganizational networks" (Ghoshal and Bartlett 1990) and "knowledge environments" (Amin and Cohendet 1999) characterize large companies as global networks of subsidiary operations. Sensitive management styles at head offices are required to ensure each subsidiary's contribution to overall organizational success (Taggert and Hood 1999). Large companies must also deal with the potential conflict between the need for collective direction and control from top management on the one hand, and the importance of subsidiaries' freedom to implement local strategies on the other (Pahlberg 1996; Taggart and Hood 1999).

Hedlund (1993: 221) uses the concept of "hetararchy" for the new polycentric company: *"…management is as much a horizontal as a vertical affair and becomes part of every unit's and individual's task."* O'Donnell (2000) argues that headquarter–subsidiary relationships have become characterized less by hierarchy and control, and more by mutual inter-dependence and learning. However, Kono (1999), using empirical data from Japanese firms, argues that "a strong head office makes a strong company". He argues that strong head offices are able to mobilize corporate resources, to develop a central support staff for every functional area within the company, and to develop a pool of competent talent within the organization.

The organization and the role of the head office takes various forms and is affected by both internal and external factors. Nevertheless, some general tendencies are apparent. In the empirical section of the paper, we analyse new roles for head offices in knowledge-intensive economies. Is the head office organization characterized by increased complexity or is there a tendency towards decentralization? Are increased complexity and decentralization in conflict, or do they complement each other? However, before discussing our empirical findings, we explain our methodology.

3. Methodology and data

Our empirical analysis is based on two datasets: a survey of head offices of the largest firms in Norway and on intensive case studies of a selected number of these head offices. A list of the largest companies in Norway was constructed from the database of "Kapital" and "The Largest Firms in Norway" (Norges største bedrifter). After preliminary screening, the potential sample was reduced to the 200 largest firms by turnover. All sectors are included, but investment companies and 'pure' sales companies, i.e., companies with a high turnover and a low numbers of employees, are excluded.

A postal survey of the head offices of these 200 companies, combined with telephone interviews, was conducted. Since two of the firms had been involved in mergers or buy-outs, our operational population was reduced to 198 firms. We obtained 123 useable returns, representing a response rate of 62%. By reflecting the structure of the population according to sector, size and location, our database is representative of head offices of large companies in Norway. Nearly all of the questionnaires were completed by a respondent who was part of the firm's executive group. The survey consists of questions related to the roles of head offices, the co-location of other activities and changes in the number and nature of tasks performed by head offices.

In our database, just over half of the head offices are in companies with at least 1,000 man-years (tab.1). In three-quarters of the cases, the status of the head office is the company head office, and the remainder are national head offices of foreign firms in Norway. Furthermore, 42% of the head offices are for companies in which manufacturing is the main activity. The main activities of the other companies are business services, trade, transport and shipping and ICT.

To obtain more detailed information about the changing roles of head offices, the survey was followed up by 21 intensive case studies. The criteria used to select the cases were geography (head office located in the capital region and head offices in regional centres), sector (head offices of companies in traditional industry sectors and in new sectors) and status/ownership (company head office and national head offices of foreign-owned companies). In all cases, the person(s) interviewed was part of the executive group of the company (e.g., CEO/president or executive vice president). We limited our case studies to the capital region (11 cases) and the regional centres of Bergen and Stavanger (10 cases), because these are the most important for head office location in Norway. In 2000, the head offices of 70 of the 100 top companies in Norway by turnover were located in the capital region, 15 were located in the specialized regional centres of Bergen and Stavanger, while the rest were located in non-metropolitan areas (Jakobsen and Onsager 2003).

Table 1. Characteristics of companies in our database

	All companies (N=123)	Head office in capital region (N=67) *	Head office in specialized regional centre (N=17) **	Head office in non-metropolitan area (N=39) ***
Size of company ****				
Less than 1,000 man-years	**44%**	36%	53%	54%
1,000 or more man-years	**56%**	64%	47%	46%
Head office status				
Company head office	**75%**	70%	65%	87%
National head office of foreign-owned company	**25%**	30%	35%	13%
Sector				
Manufacturing *****	**42%**	30%	65%	51%
Business services, trade, transport, ICT etc.	**58%**	70%	35%	49%

Notes: * Includes the capital city of Oslo and surrounding municipalities (all municipalities in Akershus county). The total number of inhabitants in this region in 2003 was about 1 million, which is 22% of the total population of Norway.
** Includes the regional metropolitan areas of Bergen and Stavanger. The Bergen region includes the municipality of Bergen and the surrounding municipalities of Os, Fjell and Askøy. The total number of inhabitants in this region is 290,000 (6.4% of Norway's population). The Stavanger region includes the municipality of Stavanger and the surrounding municipalities of Sandnes, Sola and Randaberg, which form a functional region of 195,000 inhabitants (4.3% of Norway's population).
*** The total number of inhabitants in non-metropolitan areas, or the rest of Norway, is 3.067 million (67.4% of the total population).
**** For foreign-owned companies, we refer to the number of man-years in Norway; for other companies, we refer to the total number of man-years for the company (both in Norway and internationally).
***** Including the petroleum sector.

4. Outlining the roles and characteristics of head offices

4.1. What is a head office?

While there is an extensive literature on the location and the external linkages of head offices (see for instance Pred 1977, Ross 1987, Lyon 1994, Bosman and de Smidt 1993, Sassen 2000, Jakobsen and Onsager 2003), there is a shortage of studies on what head offices actually do. To some extent, the head office remains ‘a black box’. Thus, our study examines the role and functions of the head office. We starts this section by discussing what a head office consists of, before outlining the roles of head offices.

A head office is the top administrative centre of the company. A head office consists of the the executive group, with certain support functions, and different departments such as finance, legal services, human resources, corporate services, and information and public relations. The size of the head office varies. In our survey of the larges companies in Norway, the mean size of the head office for all companies was 84 man-years (N=120). The mean head office size for large companies (firms with 1,000 or more man-years in total) was 116 man-years, while the mean for smaller companies (firms with less then 1,000 man years) was 60 man-years. However, the ratio of the size of the head office to the size of the company tends to be higher for larger companies. In companies with less than 1,000 man-years in total, there are 16 man-years in other activities for each person-year in the head office, while the corresponding figure for companies with 1,000 or more man-years is 60 man-years.

In general, advanced economies are characterized by strong concentrations of head offices in the metropolitan areas, especially in the capital region (Hutton and Ley, 1987; Ross, 1987; Edington, 1994; Lyons, 1994; Hayter, 1997). In Norway, the head offices of 70 of the 100 largest companies (by turnover) are located in the capital region of Oslo (Jakobsen and Onsager, 2003). In United Kingdom 74 of the 100 largest manufacturing firms has their head offices in the London region (Healey and Watts, 1987). In Canada 75 of the 100 largest manufacturing firms have their head offices in Toronto or Montreal (Ley and Hutton, 1987). In United States the pattern is a more disperse, although 40% of U.S. firms with at least half their revenue from international sales had their headquarters in New York City in 1990 (Sassen, 2000). Command functions are still concentrated in major cities, despite information technology facilitating dispersal.

In general, head offices differ according to spatial characteristics. In some cases, head offices are co-located with other activities within the company, such as production and research and development units. In other cases, the head office is spatially separated from these activities and operates as a 'pure' head office unit.

Table 2. The co-location of other activities with the head office (percentage of companies in which other units are co-located with the head office)

	Production	**Research & Development**	**Sales/ marketing**	**Purchasing**	**N**
All companies	**30%**	**48%**	**58%**	**63%**	**123**
Head office location					
The capital region	27%	45%	54%	60%	67
Specialized regional centres	47%	59%	71%	82%	17
Non-metropolitan areas	28%	49%	59%	59%	39
Size of company					
Less then 1,000 man-years	32%	54%	65%	70%	54
1,000 or more man-years	29%	41%	52%	57%	69
Head office status					
Company head office	33%	48%	59%	60%	92
National head office in foreign-owned company	23%	48%	55%	71%	31
Strategy *					
Specialization	31%	57%	60%	71%	35
Diversification	29%	44%	57%	59%	88
Main sector					
Manufacturing	33%	51%	49%	61%	51
Business services, trade, transport, ICT etc	28%	46%	64%	64%	72

Note: * Companies that are mainly operating in one business area or sector are classified as specialized, while others are classified as diversified.

In our survey, we asked firms about the degree to which other activities are co-located with the head office. In total, about one third of the companies responded that some or all of their production activities were co-located with their head office. Nearly half of the firms have research and development units located at the same site as the head office (tab.2). It is even more common for firms to have sales and marketing departments or purchasing departments co-located with their head offices.

There are variations between different types of company. It appears that companies with head offices located in specialized regional centres have co-located production and research and development facilities with their head offices to a larger extent than in particular those with head offices located in the capital region. In addition, smaller companies and specialized companies have spatially integrated organizations to a larger extent than larger and diversified companies. According to the management literature (Chandler 1966; Mintzberg 1979), larger and diversified companies represent a more mature stage of business development. The development of larger, diversified companies in many cases involves a more intense spatial division of functions, including the separation of head offices.

In general, we can distinguish between two types of head office organization, *integrated head offices* and *pure head offices*. These different types can be illustrated by examples from our case studies.

Our first example is of a diversified company listed on the Norwegian stock exchange. In total, the company has 32,000 employees in Norway and overseas. Its main activities are in food production, chemical production and the media (newspapers, television etc.). The company has *a 'pure' head office*; i.e., the head office is spatially separated from other activities within the company (such as production, and research and development). It is located in the capital region and the number of man-years at the head office is 80. The head office is divided into the following departments: executive group, human resources, legal services, information and public relations, finance department, corporate services and ICT. Within this company, there is an ongoing discussion about which functions and services should be located at the head office and which should be delegated to the operations units. The company especially emphasizes the control and strategy functions as the main functions of the head office. It also attempts to co-ordinate selected activities of the head office to exploit synergies and gain cost advantages. The company also aims to develop core competence at the head office in strategically important areas. This competence is important for supporting the operational activities of the divisions and units.

The second case is an ICT company established in the capital region in 1989, which was purchased by a Swedish company in 2000. The national head office for this foreign-owned firm is located in the capital region together with several other activities of the company. In total, the company has 730 man-years in Norway, about 500 of which are related to activities in the capital region. The co-location of the head office with other activities illustrates *an integrated head office*. Traditional head office functions in the capital region are carried out by an executive group with selected support functions, a finance department, and a department for organizational and strategic development. The latter is involved in the development of the organization, the co-ordination of different units and, in close co-operation with the executive group, the design and implementation of the firm's strategy. In addition, the department for marketing and sales, the department for research, and the department for production and development are co-located with the head office.

A third example is a food production company with its head office in the regional specialized centre of Bergen. The company has about 3,500 employees. From its origins in Bergen, the company has grown to become an international food company with production units in six different countries. A local family set up the company, and although it is now listed on the stock exchange, this family still controls the company. To a certain extent, the company is *a pure head office* located in Bergen. The head office includes the executive group with certain support functions. In addition, there are information, finance, and legal departments at this head office. Also, the management group and some marketing functions, for its Norwegian production units, are located at the head office. The co-location of the corporate executive group and the management group for operational units has raised the competence of the head office. At the head office, there is a deep knowledge of product development, marketing, private labelling and finance. The number of man-years at the head office is about 70. The company also has one of its main production sites in Norway located in Bergen, but not at the same site as the head office.

It is important to note that the concepts of the pure head office and the integrated head office are ideal types. In most cases, head offices are somewhere in between pure and integrated. It is also important to stress that head office organization changes, as our third case illustrates. Processes of head office change are discussed in detail in the next section.

Our cases also illustrate that business organization is not as clear-cut and predictable as the business cycle model seems to imply (from a small, specialized firm with an integrated head office to a large diversified firm with a pure head office). Different companies develop different head office organization depending on internal factors (such as history, management and strategy) and external factors (such as competition and regulation) (Hungenberg 1993).

4.2. Roles of head offices

The next question for our discussion is *what is the head office doing?* Treating the existing literature as a point of departure, we have outlined three *core functions* for a head office, which are described below.

a) The strategy role

This includes the formulation of corporate strategy, the definition of a business portfolio and the development of the organizational structure and the culture of the organization.

b) The co-ordination role

Included in this role is the exploitation of synergies between business units, the development of the core competence of the company and the provision of expert advice to different units.

c) The control and policy role

Included in this role is basic control of business units, setting performance targets for units, monitoring units' achievements, and ensuring a positive image for the company and lobbying political authorities.

In addition to these core functions, the head office also has *a service provider role*. In this role, the head office provides those services that business units require that it is best placed to provide, such as ICT systems and training systems.

Through our survey, we have tried to measure the importance of core functions for the head office. For each of the three core roles, we have outlined different activities, assuming that they are vital parts of these roles. Representatives for the head offices have evaluated the importance of these activities on a scale from 1 (no importance) to 6 (very important).

Table 3 shows that the respondents find most of the listed activities to be important. This indicates that our model of head office roles provides an adequate description of actual behaviour. However, activities not included in this list may also be important for head offices.

When comparing the score for different functions, we find that the strategy and control/policy role is slightly more important than the co-ordination role. Especially, "the formulation and implementation of company strategy" (part of the strategy role) and "the control of the income and profit of different units/divisions" (part of the control/policy role) seem to be essential activities for head offices.

Table 3. The importance of different head office functions for companies in Norway.
Respondents have evaluated the importance of different activities on a scale from 1 (no importance) to 6 (very important)

Roles and activities	Mean	N
The strategy role		
-Evaluate strategy and plans for different division/units	5.37	123
-Formulation and implementation of company strategy	5.52	123
-Developing the organizational strategy	5.15	123
-Developing the corporate culture	4.86	123
-Selling and purchasing business units	4.94	122
MEAN	**5.17**	
The co-ordination role		
-Co-ordination of production of different units	4.60	123
-Identifying and developing the core competence of the company	5.06	123
-Co-ordination of research and development	4.29	123
-Collecting information about important business sectors	4.80	123
-Establishing networks with research institutions	4.37	123
MEAN	**4.62**	
The control and policy role		
-Control of budgeting of different units/divisions	5.35	123
-Control of income and profit of different units/divisions	5.48	123
-Information activity to a ensure a positive image for the company	5.20	123
-Working with political authorities	4.16	122
MEAN	**5.04**	

Table 4 shows little variation between different types of company (according to location, size, status, strategy and main sector). This is partly a consequence of the atypical distributions for our variables; i.e., they exhibit strong concentration at one end of the scale.

Table 4. The importance of different head office functions for companies in Norway, according to head office location, size, status and main sector.
Respondents have evaluated the importance of different activities on a scale from 1 (no importance) to 6 (very important)

	The strategy role	**The co-ordination role**	**The control/policy role**	**N**
Head office location				
The capital region	5.10	4.51	4.99	66-67
Specialized regional centres	5.08	4.58	5.13	17
Non-metropolitan areas	5.32	4.83	5.10	38-39
Size of company				
Less then 1,000 man-years	5.18	4.74	5.01	53-54
1,000 or more man-years	5.16	4.53	5.07	68-69
Head office status				
Company head office	5.30	4.63	5.07	91-92
National head office in foreign-owned company	4.76	4.62	4.97	30-31
Strategy *				
Specialization	5.26	4.85	5.11	34-35
Diversification	5.13	4.53	5.02	87-88
Main sector				
Manufacturing	5.05	4.53	4.93	51
Business services, trade, transport, ICT etc.	5.25	4.69	5.12	71-72

Note: * Companies that are mainly operating in one business area or sector are classified as specialized, while others are classified as diversified.

However, to determine whether there is a systematic and statistically significant difference between various head offices with respect to emphasizing different roles, two-tailed *t-tests* were carried out. The results of the *t-tests* only indicate a significant difference between the strategy role of company head offices and that of national head offices of foreign-owned companies. Company head offices placed significantly more emphasis on the strategy role than national head offices of foreign-owned companies did (significance level < 0.01; $t= -3.28$, $df=120$). One possible explanation is that the national head office of a foreign-owned company is subordinate to the company head office of the parent company. A score of 4.76 nevertheless indicates that strategy development also is important for national head offices of foreign-owned companies. Other studies of foreign direct investment in Norway have reported a certain degree of autonomy among foreign-owned firms in formulating strategy (Jakobsen and Rusten 2003).

The head office also has *a service provider role*. Table 5 shows the importance of service activities carried out by head offices. Most provide the owners and investors with information, and ensure the supply of capital. In addition, most head offices in the sample provide ICT services and account services for the group.

Table 5. Head offices' service activities (N=123)
(number of companies in which the head office performs actual service functions)

Service activity	**Number**	**%**
Provide owners and investors with information	107	87
Ensure the supply of capital	105	85
ICT services	93	76
Accounting services	92	75
Develop training programs for employees	85	69
Develop quality systems	84	68
Develop supply and marketing systems	77	63

When comparing different types of head office, we found that service functions differ significantly according to group size. Sixty-seven per cent of the head offices of companies with less than 1,000 man-years perform all the service activities listed in table 4, compared to only 41% of head offices of companies with at least 1,000 man-years. There is a modest but significant difference between these two categories of head office according to this variable ("numbers of service activities") (significance level < 0.01; t= -2,95, df=121). In addition, we also find that 55% of head offices located outside the capital region perform all of the listed service functions while only 49% of head offices in the capital region do so.

5. Alternation of existing role and the introduction of new functions

5.1. Number of tasks

The alternation of existing role and the introduction of new functions for head offices in a knowledge-intensive economy are the main issue for discussion in this section. The economy is characterized by increased national and international competition, stronger emphasis on efficient modes of organization, concentration of ownership, and a more dominant position for multinational corporations. The concept of 'time-space compression' is a commonly used expression to describe these processes of internationalisation, in which technological innovations and the development of international socio-political systems enable the transfer of capital, knowledge and social relations between firms, regions and nations at an accelerating rate (Harvey 1989, Lash and Urry 1994). In a more knowledge-intensive economy, firms' capacities for learning and innovation are critical for future success. This also implies a more complex and demanding role for head offices in gathering, interpreting and distributing knowledge among its units and in formulating and implementing efficient strategies and modes of organization.

As a starting point for our discussion, our survey asked head offices if they had increased their numbers of tasks and functions during the previous five years. In total, about half of the companies reported an increase in the number of functions during the previous five years, while 30% reported no change (tab.6). An increase in the number of tasks or functions is more common among firms in business services and transport etc. than within manufacturing firms. In addition, company head offices have increased their numbers of tasks or functions by more than national head offices of foreign-owned companies.

Table 6. Has there been a change in the number of tasks or functions of the head office during the last five years? (%)

	Fewer number of tasks/functions	No change in number of tasks/functions	Increased number of tasks/functions	N
All companies	**19%**	**30%**	**51%**	**118**
Head office location				
The capital region	25%	26%	49%	65
Specialized regional centres	6%	59%	35%	17
Non-metropolitan areas	17%	27%	55%	33
Size of company				
Less then 1,000 man-years	19%	29%	52%	52
1,000 or more man-years	20%	30%	50%	66
Head office status				
Company head office	20%	25%	55%	87
National head office in foreign-owned company	19%	42%	39%	31
Strategy				
Specialization	18%	23%	59%	34
Diversification	20%	32%	48%	84
Main sector				
Manufacturing	24%	37%	39%	49
Business services, trade, transport, ICT etc	16%	25%	59%	69

Thus, our survey indicates that some changes occurred among the head offices of large companies. In the following discussion data from our case studies is used to describe these changes in detail.

5.2. Strategy formulation

The head office has a major role in developing the corporate strategy of the company. In a knowledge-intensive economy involving stronger competition and an increasing number of mergers and acquisitions, strategy formulation has become even more important.

Different factors such as cyclical fluctuations in the market, loss of market share, stagnation within the company and acquisitions or mergers can trigger increased emphasis on strategy formulation within firms. In addition, a change in strategy among a firm's main rivals can stimulate renewed discussions within the company. A respondent of one of the companies in our survey explains their strategy formulation: *"Every year we have an evaluation of our business plans, involving different groups and departments. The process begins in the executive group before we get feedback and start the discussion with our divisions and units"*. A person from another company states: *"We have short-term plans and more long-term plans. In the evaluation, we can involve consultancy firms to get some kind of benchmarks for similar firms internationally"*.

Among the companies in our case studies, it was also stressed that organizational ownership of the strategy process was essential. Strategy should not only concern the manager and the executive group but should involve the whole organization. A representative of one company stated: *"It is a kind of interactive process, it is both 'top-down' and 'bottom-up'. There has to be a two-way flow of information and knowledge. The executive group makes the first move by establishing a draft with some kinds of major directions for the company. Then there is an intense discussion in different units, followed by new discussions involving both the units and the executive group."*

The involvement of different parts of the organization in the strategy process is necessary to achieve an 'embedded' strategy. An open strategy process can also have other positive effects for the organization, such as uncovering new possibilities for co-ordination between business areas, strengthening the internal network within the organization, developing the culture of the company, and increasing the executive group's and the head office's knowledge of the operational activities of different units.

In general, it appears that the strategies themselves are becoming increasingly incremental and short-lived (Lorange 1998). They are based on the learning that occurs within the organization, and are organized on a project-by-project basis. The definition of business strategies, in particular, is becoming a continuous process that involves different units within the organization. But the co-ordination of initiatives, the organization of strategy processes and the instrumental role in defining corporate strategy remain in the hands of the head office.

Some major shifts in corporate strategy are apparent. Recently there has been an increased focus within the management literature, and within international business, on the importance of companies to focus on one or a few selected core areas (Porter, 1990). This also seems to be the case in Norway. Several of the large companies that we have spoken to have carried out this strategic shift, which can involve a more prominent role for the head office. One example is a diversified company that, during the last few years, has concentrated its activity to its three main business areas. A respondent from the company told us: *"The head office has now become more important according to control, co-ordination and defining company strategy. We have also become more aware of the responsibility of each unit in contributing to the overall development of the company. Our divisional managers at the head office have established tighter relations with the units included in their business area."* Another example is a food company. From being a diversified company, operating in quite different sectors, the firm has become a specialized food company in the last few years. Activities outside the core area have been sold, and the proceeds have been used for investment in the food sector. The company used to have a decentralized structure, in which the role of the head office was restricted to financial tasks and control. It is now a more pro-active head office, emphasising possibilities for co-ordination between units. Specialization by the company has generated extensive possibilities for synergies between business units.

A third example is a large ICT company that has recently relocated its head office from the capital city of Oslo to one of its suburbs. The company consists of four different divisions, and has recently stated that it wants to cultivate these business areas. In the new head office, the management and support functions and the research and development activities within the company are co-located, facilitating the exploitation of synergies between different divisions and units within the organization. The company has changed from being a loose organization, in which the head office was a kind of 'holding company', to one with a tight company structure in which formerly autonomous units are more closely inter-connected.

In general, it seems that when companies increase their focus on one or a few selected core areas, the possibilities for co-ordination and synergies between divisions and units are stronger, which facilitates a more prominent role for the head office.

5.3. Co-ordination and the exploitation of synergies

Increased focus on exploiting synergies is not restricted to strategy processes of concentration on core business areas. In general, companies in our case studies emphasized that it was important to ensure that the head office adds value to the organization. Centres have to justify their existence by contributing value (Hungenberg 1993). In this respect, the co-ordination of activities and the exploiting of synergies between business units are seen as vital functions of head offices.

Many firms emphasize an increased focus on the exploitation of synergies. A respondent from one of the companies states: *"In the last couple of years, the exploitation of synergies has become more important for us. Our head office co-ordinates cooperation, communication and collective learning between our units"*. However, the exploitation of synergies is a difficult task. Companies use different means to achieve this, such as rotating staff, organizing projects that involve several business units, spreading best practice, co-locating different operations, and developing a central pool of competence and knowledge that is available for different units and departments. Co-ordination is especially difficult when geographical distances between units are substantial. A representative for a multinational food company states: *"It is difficult for us to generate synergies when we are operating in three different countries, especially since the production technology varies. Our possibilities for co-ordination are first and foremost related to marketing"*.

5.4. Corporate culture

The concept of corporate culture has recently become more popular in the management literature (Hofstede, 1994; Fernandez et al., 2003). Culture can be defined as: *"...the collective programming of the mind which distinguishes the members of one category of people from another"* (Hofstede, 1989, p. 391). In the context of business, culture relates to how people in a company are likely to act in a give situation. It is about certain beliefs, behaviour and performance. It is argued that a strong corporate culture is an advantage for a company (Carnall, 1995). When there is a strong and clearly defined culture within a company, the staff have a clear idea about what is required of them and an understanding of the objectives and vision of the company. A strong culture can be an important invisible asset (Itami, 1987).

Many of the companies in our cases studies said that they had neglected the importance of developing their own corporate culture, and they argued for a greater emphasis on the cultural issue. The responsibility for developing a clear and unified corporate culture lies with the head office and this task seems to be of growing importance among our companies.

One company representative stated: *"We try to increase the consciousness of the (name of the company)-culture. However, it is difficult to define what our culture consists of. I think that one characteristic of our culture is extensive informal networking within our organization".* Another respondent states: *"I think we have a strong culture in our company, and we want it to become more explicit. We have an ongoing project to achieve this. Our values are about moderation, sobriety and reliability. We also try to learn from our history, and especially our positive experiences".*

Even if cultural orientation seems to be a general feature, mergers and acquisitions can trigger an emphasis on the development of the corporate culture. A representative from a company in banking and finance, which recently merged with a Nordic banking company, stated: *"We have to accept different ways of thinking in different countries. However, we have focused on travelling around and mixing with people from other parts of the company. We want to develop a unified understanding and a common corporate culture".*

The companies in our study suggest that different advantages are associated with a strong and unified corporate culture; the company can be more goal-oriented, it can make the staff more enthusiastic, it can reduce the level of conflict among the staff, it can increase loyalty among the staff and reduce staff turnover. A common understanding of the company's vision and goals also facilitates the transfer of competence between units.

There seems to be a growing consensus among our companies that the development of a corporate culture is an important strategic way of increasing the efficiency and competitiveness of the organization. However, as our case studies also revealed, it is difficult to develop a unified and common culture within an organization. It is also hard to change an inappropriate culture. This can only be done slowly and through hard work (Carnall 1995).

5.5. Increased decentralization

The discussion has so far illustrated a more complex role for head offices in the knowledge-intensive economy. However, there is evidence of a tendency towards decentralization of authority among the companies in our study. Other studies also suggest a certain degree of autonomy for subsidiaries of large companies (Jakobsen and Rusten 2003). With shorter product life cycles and increased competition within the economy, a decentralized structure is needed for a rapid response to changes in the environment. In a knowledge-intensive economy, it is also important for the organization to use the know-how of people in the organization to the best effect and to establish a structure that enables it to draw on the competence and technology excellence of different units. In general, large companies must reconcile the potential conflict between the need for collective direction and control from the head office and the importance of subsidiaries' freedom (Dunning 1995, Pahlberg 1996, Taggart and Hood 1999). Thus, there is a need for sensitive management styles.

A respondent from one of the companies in our study said: *"We have established a system for delegation and authorization. We have a decision model where we have define the room for manoeuvre for our units."* Another points out: *"We do not need a comprehensive formal strategic plan to define in detail what each unit is expected to do. Business and market competence is mainly located at the subsidiary level and they know best what to do. Still, some general control and a broad view of things are needed. It is also important to ensure the transfer of knowledge between units and the co-operation between units".*

The number of tasks undertaken by the head office appears to be increasing, head office relations and linkages with the company's business units and subsidiaries are becoming more comprehensive, and the flow of knowledge is going in both directions. Simultaneously, there are processes of decentralization, in which subsidiaries and units increase their authority within the organization. Thus, large companies are becoming increasingly "complex knowledge environments" that are trying to balance the need for collective direction and co-ordination with the freedom of manoeuvre for divisions and units.

6. Concluding remarks

Our empirical research has identified a more complex role for head offices in a modern knowledge intense economy. Head offices are essentially engaged in collecting and processing information, and this process is becoming even more vital in economies in which competence and learning are pre-requisites for competitiveness. There are also an increasing number of mergers and acquisitions and strong organic growth within selected companies. These developments give head office organization a greater priority.

In our study we have outlined three *core functions* for a head office. The first is *the strategy role.* This includes the formulation of corporate strategy, the definition of a business portfolio and the development of the organizational structure and the culture of the organization. The second is *the co-ordination role.* Included in this role is the exploitation of synergies between business units, the development of the core competence of the company and the provision of expert advice to different units. The third is *the control and policy role.* This includes the basic control of business units, setting performance targets for units, monitoring units' achievements, and ensuring a positive image for the company and lobbying political authorities. In our empirical analyses we found that the strategy and control/policy roles is slightly more important than the co-ordination role. Especially, "the formulation and implementation of company strategy" (part of the strategy role) and "the control of the income and profit of different units/divisions" (part of the control/policy role) seem to be essential activities for head offices. Our analysis shows little variation between different types of companies.

In our study we have also identified the alternation of existing role and the introduction of new functions for head offices in a knowledge intense economy. Strategy formulation is essential for head offices. However, in general, it appears that the strategies themselves are becoming increasingly incremental and short-lived. They are based on the learning that occurs within the organization, and are organized on a project-by-project basis. The definition of business strategies, in particular, is becoming a continuous process that involves different units within the organization. But the co-ordination of initiatives, the organization of strategy processes and the instrumental role in defining corporate strategy remain in the hands of the head office. Further, some major shift in corporate strategy is apparent. There seem to be an increased concentration to one or a few selected core business areas among companies. One effect of this is that the possibilities for co-ordination and synergies between divisions and units become stronger, which facilitates a more prominent role for the head office.

Increased focus on exploiting synergies is not restricted to strategy processes of concentration on core business areas. In general, companies in our study emphasized that it was important to ensure that the head office adds value to the organization. Centres have to justify their existence by contributing value. In this respect, the co-ordination of activities and the exploiting of synergies between business units are seen as essential tasks.

Within the management literature it is also argued that a strong corporate culture is an advantage for a company. It can make the company more goal oriented and reduce the level of conflict among the staff. A common understanding of the companys visions and goals also facilitates the transfer of competence between units. Many of the companies in our study said that they had neglected the importance of developing their own corporate culture, and they argued for a greater emphasis on the cultural issue. The responsibility for developing a clear and unified corporate culture lies with the head office and this task seems to be of growing importance. However, our study revealed, that it is difficult to develop a unified and common culture within an organization. It is also hard to change an inappropriate culture.

There is also a tendency towards decentralisation of authority among large companies. In a knowledge-intensive economy, it is important for the organization to use the know-how of people to the best effect and to establish a structure that enables it to draw on the competence and technology excellence of different units. Thus, large companies are becoming increasingly *"complex knowledge environments"* that are trying to balance the need for collective direction and co-ordination with the freedom of manoeuvre for divisions and units.

To conclude, our study gives the following contribution to the theoretical debate on head office organisation:

a) It offers new insight into the categorisation of head office organisation by outlining three core functions for head offices. The relevance of these roles are discussed by using empirical data

b) It has identified that structural changes within the economy characterised by increased numbers of merger and acquisitions and competence and learning as pre-requisites for competitiveness implies a more prominent role for head offices. Existing role are alternated and new functions are introduced

c) It has also illustrated that tendency towards decentralisation of authority within large companies and a more complex role for head offices seem to be simultaneously processes within large organisation. Thus, there is a need for more sensitive management styles.

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