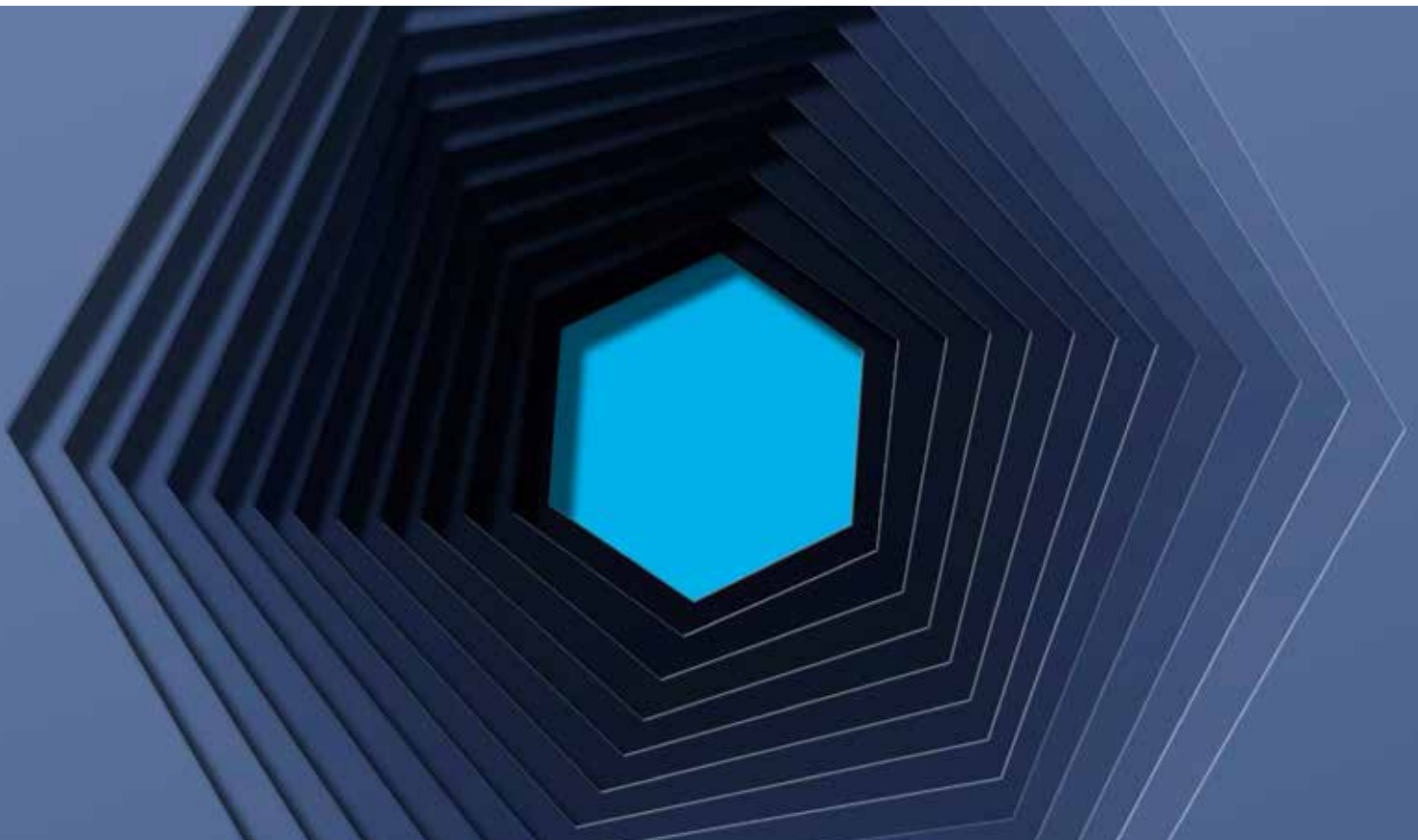


Operations Practice

The corporate center: Driving the next normal

As organizations adjust to a new world of work, they're looking at the corporate center to take the lead in driving the change.

by Torsten Bernauer, Nathalie Bouvier-Tersiguel, Heiko Heimes, and Abhishek Shirali



Organizations are adapting their operations

as they continue to reimagine how work gets done in a persistently volatile environment. While some companies (and geographies) have seen a high percentage of staff returning to offices, others are sustaining significantly increased remote work, and may do so indefinitely. The struggle to find the right balance has continued pressure to improve remote working technologies and reduce spending on office spaces.

In our latest survey (see sidebar, “Our methodology”) of nearly 300 global CXOs across industries and functions, we found an increased imperative for sales, general, and administrative (SG&A) spend, while adjusting for the next normal. Our conclusions about how the role of the

corporate center is envisaged in the context of the next normal are laid out below.

Cost is still king

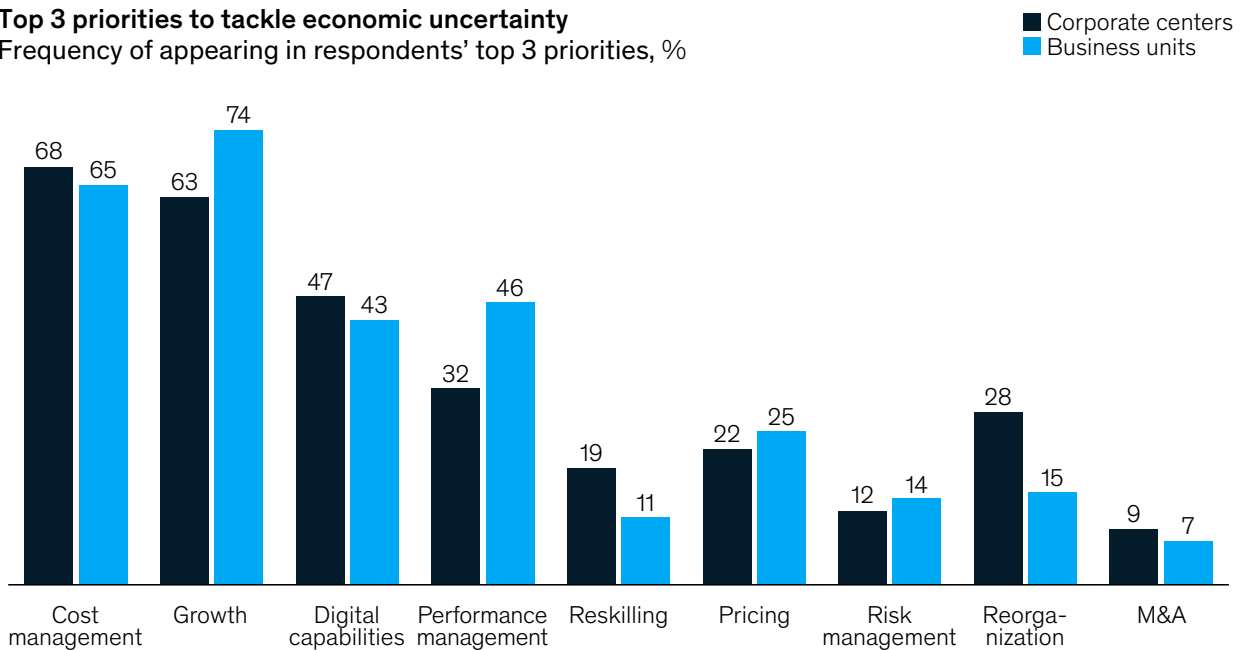
As we found in our earlier survey, cost management remains the highest priority across all parts of organizations—68 percent of respondents from corporate centers rated cost management as their highest priority. Growth and digital capability building follow closely, with differences across the organization. We especially noted the additional focus that corporate centers are placing on reorganization: 28 percent of these respondents included it in their top three priorities, compared to only 15 percent among business-unit respondents (Exhibit 1).

Exhibit 1

Cost management, growth, and digital capabilities are top priorities in both corporate centers and business units.

Top 3 priorities to tackle economic uncertainty

Frequency of appearing in respondents' top 3 priorities, %



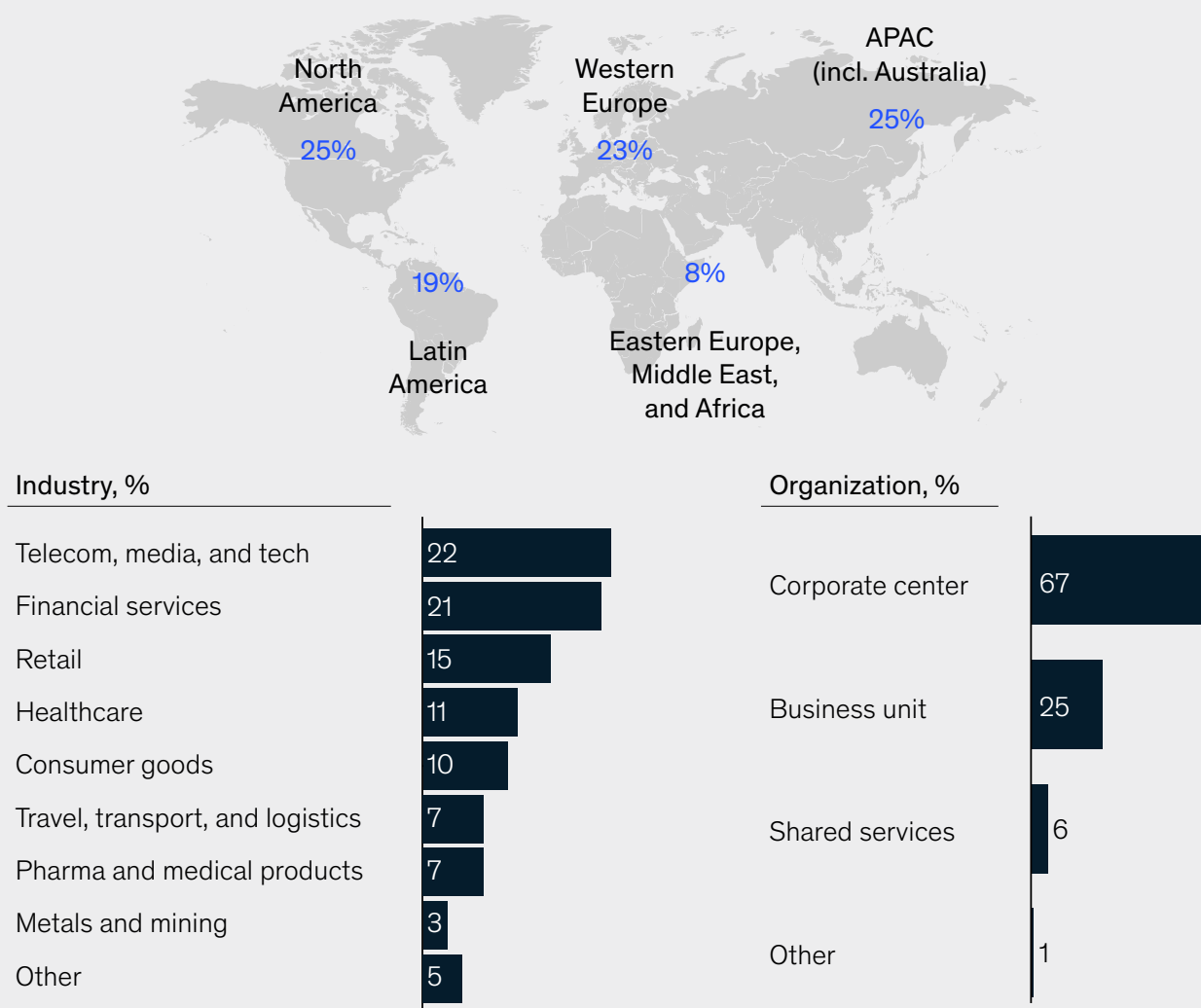
Our methodology

The latest edition of our quarterly survey of CXOs across the world gathered responses from 283 C-suite leaders, split across the major geographic regions and with representation across corporate centers (67 percent of respondents), business units (25 percent), and shared services (6 percent) (exhibit). A wide range of sectors were represented, with the highest number of responses from the telecom, media, and technology subsectors at 22 percent, financial services close behind at 21 percent, and retail accounting for 15 percent. Functional representation was diverse as well, with finance, HR, procurement, and IT together accounting for just over 60 percent of the total responses.

Exhibit

We listened across industries and regions.

**289 CXOs
as of September 2020**



Source: McKinsey Corporate Business Functions Practice

Light at the end of the tunnel?

In our last report, we suggested that while the cost-improvement train had left the station, the final destination for many SG&A programs was unclear, with targets varying substantially. It seems that little has changed in the intervening months: three-quarters of executives across the whole organization report having kicked off their improvement programs, but ambitions regarding target percentage reductions continue to differ slightly among functional roles.

Nevertheless, corporate-center leaders appear to be assuming a pivotal role in driving cost-reduction targets, particularly in facilities (21 percent), HR (19 percent), and strategy (18 percent). We also found that across all functions, executives envision target reductions of 15–20 percent over the next two years. Looking with more granularity across

functions, HR, strategy, and finance leaders working in corporate centers call for slightly higher reductions than their peers from business units (Exhibit 2). Additionally, within procurement functions, business unit–based leaders are calling for 20 percent reductions, compared to 15 percent reductions among corporate-center respondents.

A new role for the corporate center?

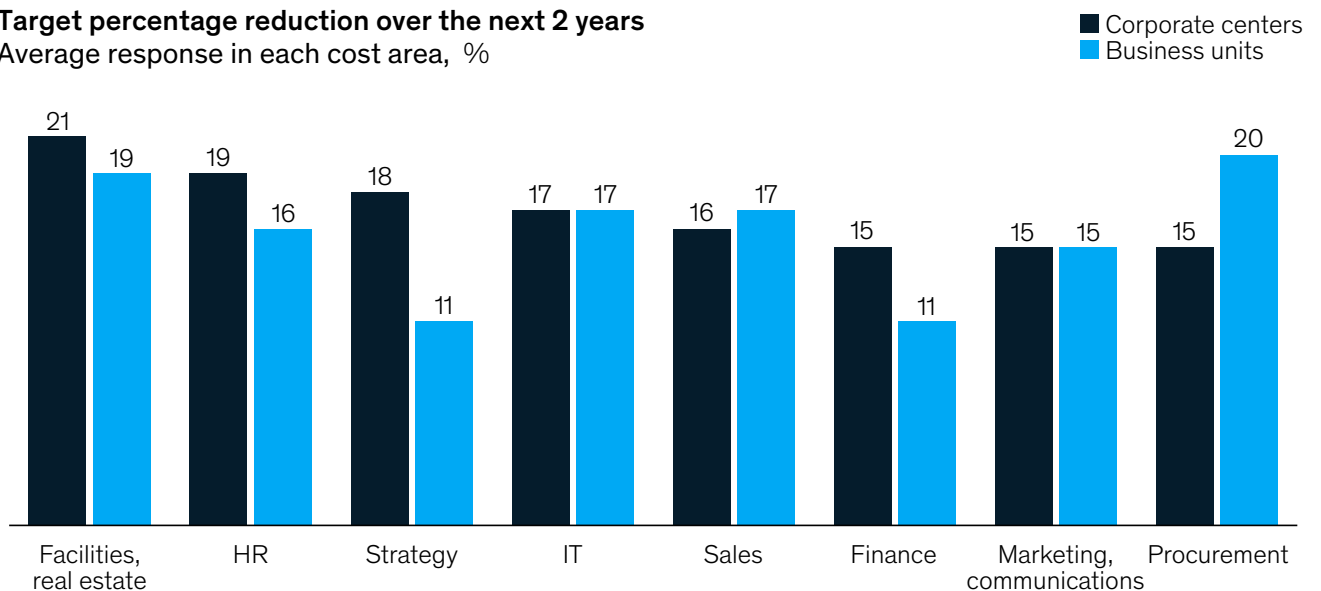
While cost considerations are one of the biggest drivers of the decision-making process, and tough choices will continue to be necessary across the whole organization as targets are set for the next normal, the role of the corporate center in leading the way is increasing in importance. We found that executives in all organizations expect the corporate center to drive change—and, increasingly, to serve as a role model across the whole organization.

Exhibit 2

Real estate, HR, and strategy leaders in corporate centers call for higher reductions than do peers from business units.

Target percentage reduction over the next 2 years

Average response in each cost area, %



In particular, we found that while 90 percent of corporate-center executives believe that the corporate center will be a driver of change or a role model for the rest of the organization (Exhibit 3), 75 percent of business unit leaders are also aligned with this mission, which legitimizes and reinforces the role of the corporate center. We also found that more than 80 percent of the whole organization expects the corporate center to contribute to cost initiatives in line with, or even more than, the rest of the organization.

This could be important for overall organization success, as transformational work in the corporate center can serve as a beacon for the entire company, and efficiency in one functional area of the corporate center can imply efficiency in other functions.

This correlation is showing itself in practice, with about 80 percent of all executives envisioning the corporate center as driving strategy setting, and about 65 percent of executives seeing it as leading the financial direction of the organization (Exhibit 4). Additionally, corporate centers are expected to play a role in driving new ways of working, and also in driving an optimization of physical space.

Challenges are equal, but pressures are not

We have seen all parts of the organization facing parallel challenges, with 50 to 70 percent of executives listing pressures to make changes to the working model, to work more efficiently (doing more

Exhibit 3

More than 90 percent of respondents expect corporate centers to drive or role model change.

Which role will the corporate center play in changing ways of working?
Respondents, %

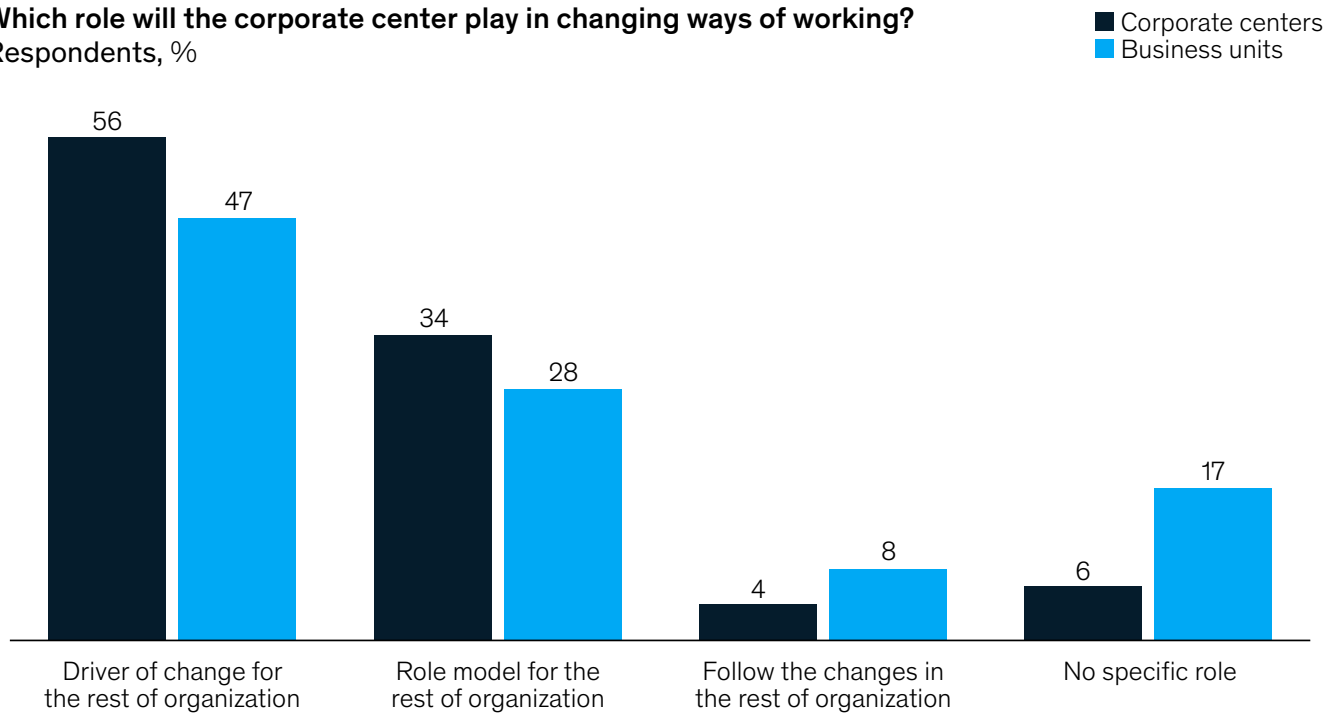
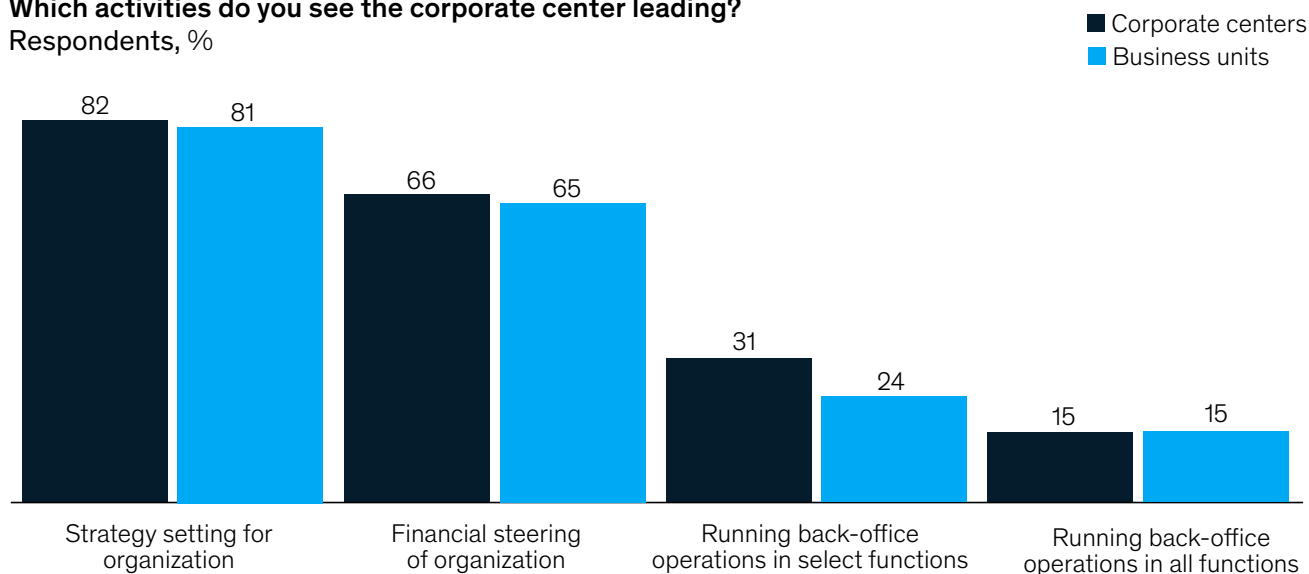


Exhibit 4

Across organizations, executives see the corporate center taking a greater lead in strategy and financial activities.

Which activities do you see the corporate center leading?

Respondents, %



with less), and to increase the adoption of digital technologies as their current issues to address.

However, corporate centers are setting higher goals regarding the adoption of work from home, likely because business units need a higher share of employees to work on-site, leaving remote working a lower priority. Furthermore, while all organizations are modifying policies to enable remote working, corporate centers are the frontrunners regarding reduction of travel, establishment of online training, and allowing people to work from home for more than two days a week (Exhibit 5).

The pressures being felt by business units to implement remote working extend beyond technological infrastructure. Business-unit executives list coaching (67 percent), burnout (64 percent), and workflow issues (50 percent) as specific challenges in the current situation—all challenges that seem to be significantly less relevant for corporate-center executives, with numbers

respectively reduced to 55 percent, 52 percent, and 37 percent (Exhibit 6).

Does the rise of remote working mean the fall of the office?

With corporate centers facing fewer challenges relating to remote working, the question they now face is in their use of space. Many are planning aggressive optimization of office space in the next nine months, compared to business units. Our results showed that in the short term, 68 percent of corporate-center executives plan to reconfigure office space, versus 54 percent in business units. Additionally, over the mid term, 30 percent of corporate centers want to terminate existing leases early, compared with 14 percent of business units. Finally, as they look to the longer term, 55 percent of corporate centers plan to shift towards fewer and lower-cost locations, a step reported among only 28 percent of business-unit respondents (Exhibit 7).

Exhibit 5

Remote work is being adopted across the organization.

Top 5 policy modifications

Respondents, %

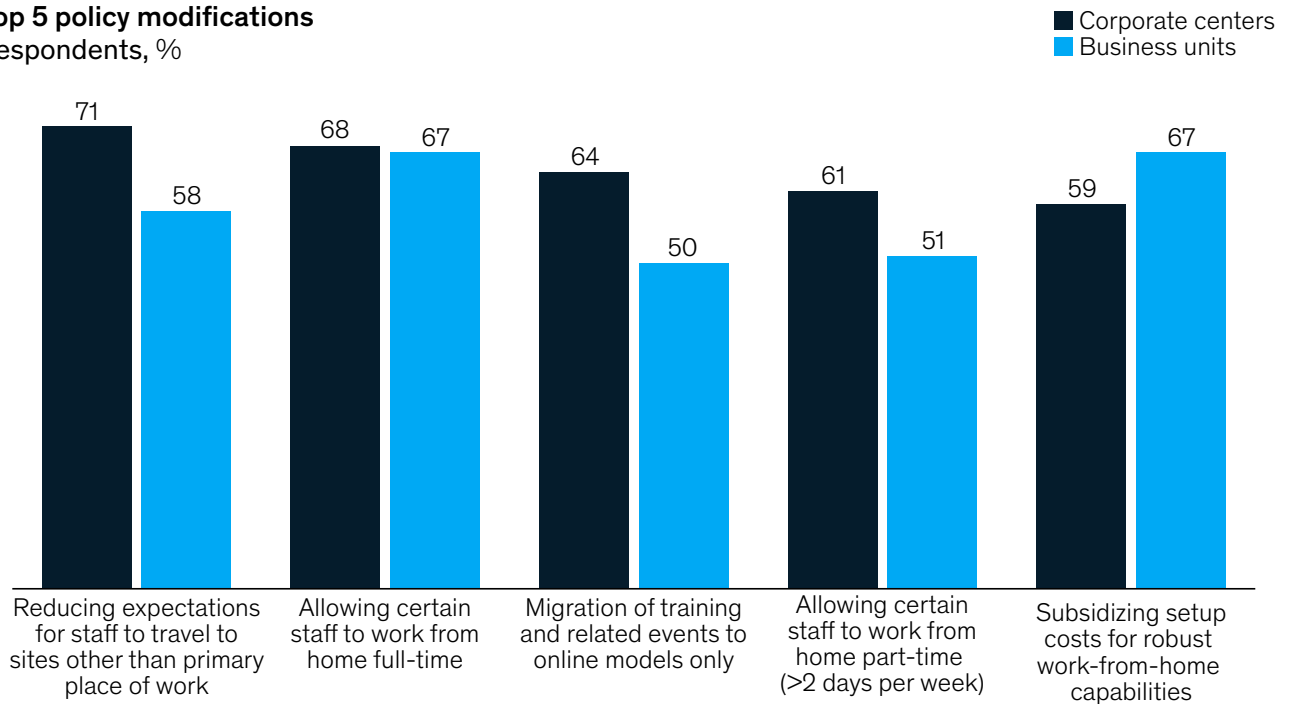


Exhibit 6

Business units face greater challenges in sustaining remote working.

Top challenges in sustaining work from home beyond current emergency situation

Respondents, %

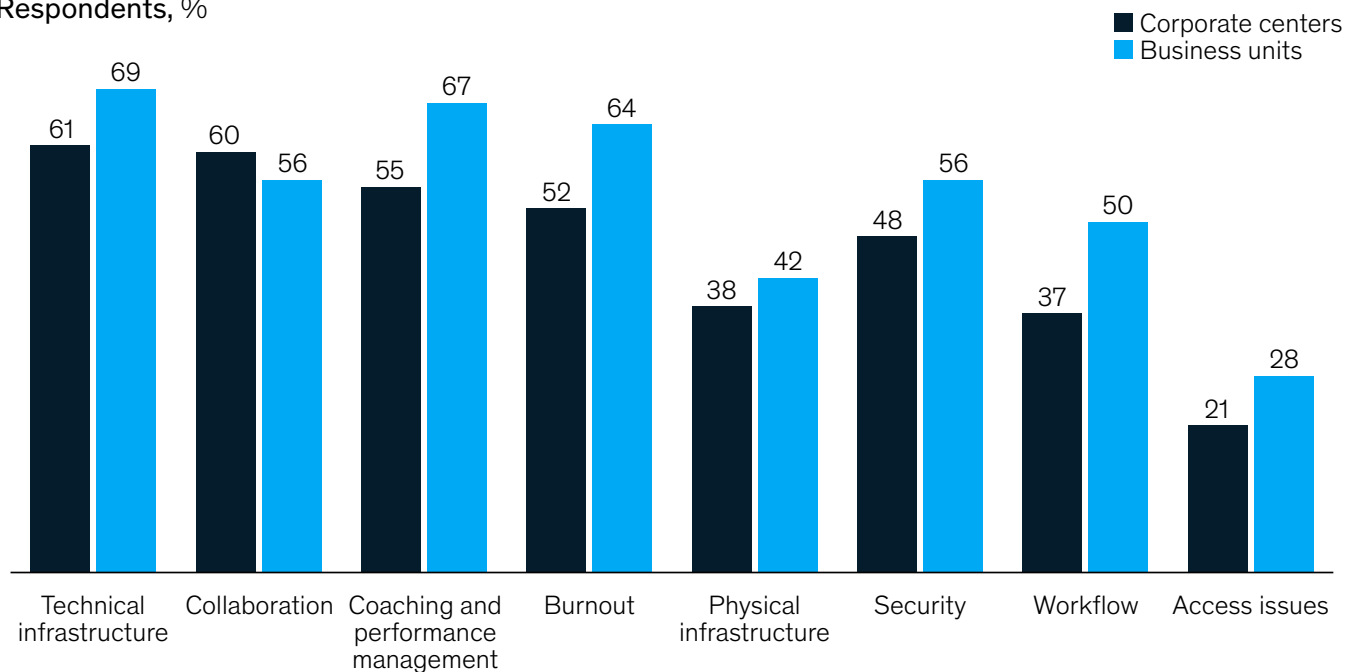


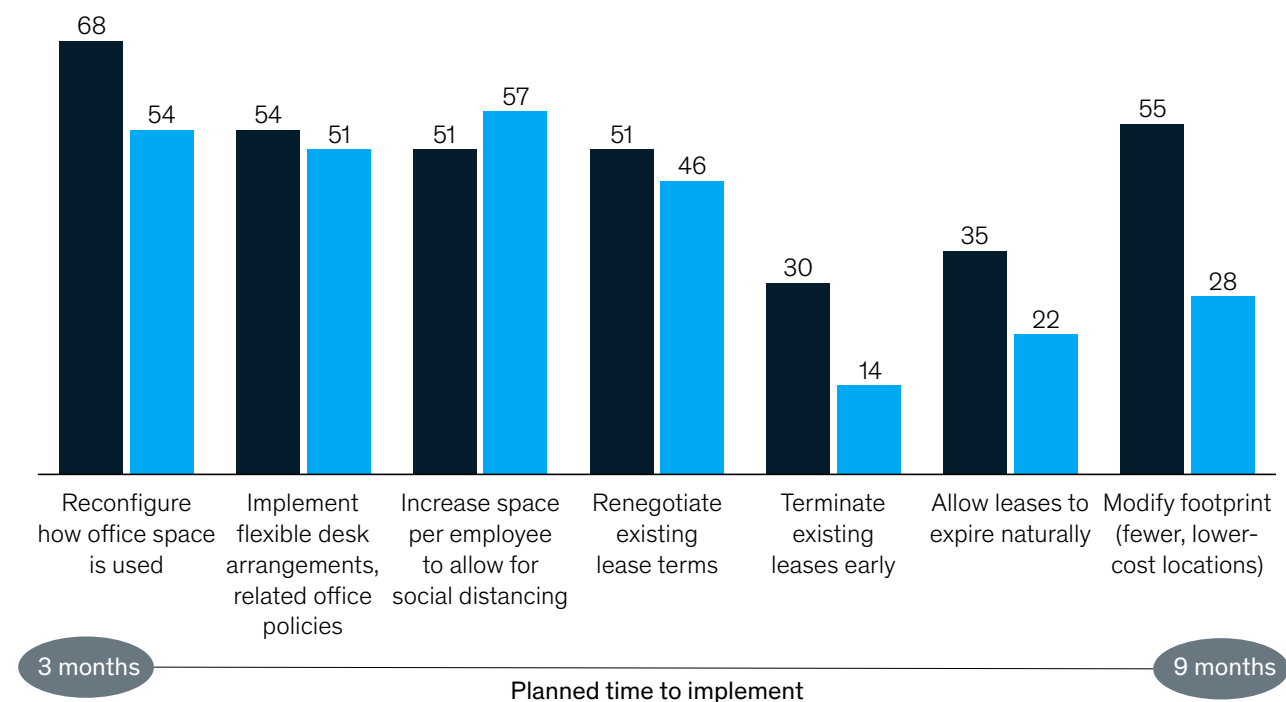
Exhibit 7

Corporate centers are planning a more radical optimization of office space.

Top steps to optimize office space

Respondents, %

■ Corporate centers
■ Business units



Corporate centers and business units are experiencing different pressures as they adapt for

the next normal. And while cost remains the major driving factor behind decision making for all parts of the organization, there is a new opportunity for the corporate center to drive the agenda.

This article was updated in June 2023.

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