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4. How does digitalization affect headquarters and what does it mean for CEE-focused headquarters in Austria?

Phillip C. Nell, Jan Schmitt, Benoit Decreton

Headquarters (HQs) represent central units within corporationsⁱ and their goal is to add value to the firm and its respective subunits. They do so by taking over various responsibilities, such as allocating resources within the firm, coordinating and monitoring subunits, and identifying and realizing synergies, among others.

HQs are also important for the economy of the countries they are located in, as they offer for example high-value employment, increased demand for related business services (e.g., legal and financial services), and represent a non-trivial source of tax income. Additionally, there is scientific evidence suggesting that the location of the HQ influences its investment decisions and consequently adjacent economies (e.g., investments that are in regions close to the HQ are favoured). Thus, many countries consider it important to attract and maintain HQsⁱⁱ.

In this article, we will focus on a topic that has not received much attention yet. Specifically, we discuss how digitalization (i.e., recent advancements in areas such as big data analytics, automation, artificial intelligence, the internet of things, etc.) influences HQs in Austria, most of which have a strong focus on CEE countries. Companies are dealing with a variety of issues stemming from digitalization, which results in changes to business models, firm processes, and company culturesⁱⁱⁱ. Yet, digitalization also affects the role and value added of the HQs but we still lack a clear understanding of that^{iv}.

In the following, we first discuss Austria as a location for HQs, then the impact of digitalization on HQs, and finally, we explore how the digitalization might influence the attractiveness of Austria for CEE-oriented HQs. Thereby, we refer to recent empirical material that we have collected.

Austria as an HQ location

Austria serves as an important hub for HQs in general and for divisional HQs (DHQs) for the CEE region in particular. Our study on HQ relocations in Austria for the period of 2000-2017 revealed the attractiveness of Austria as a hub for DHQs and an increase of inbound HQ relocations to Austria. In total, Austria gained 25 HQs over the observed period.

Direction

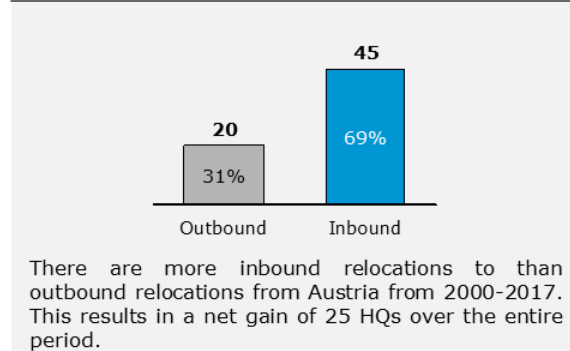


Figure 1. Number of HQ relocations to and from Austria between 2000 and 2017

When taking a closer look at the relocations, we observe three major trends. First, it becomes clear that corporate HQs (CHQs) are stickier than DHQs, as there are four times as many DHQ relocations than CHQ relocations. That means that HQs responsible for product divisions or regions (such as a DHQ for the CEE region) are more mobile than CHQs.

Second, HQs in general, but also DHQs in particular, have become more mobile over the last years, as the number of HQ relocations has steadily increased. This means that the competition for HQs between countries has gained in importance.

Types of HQs

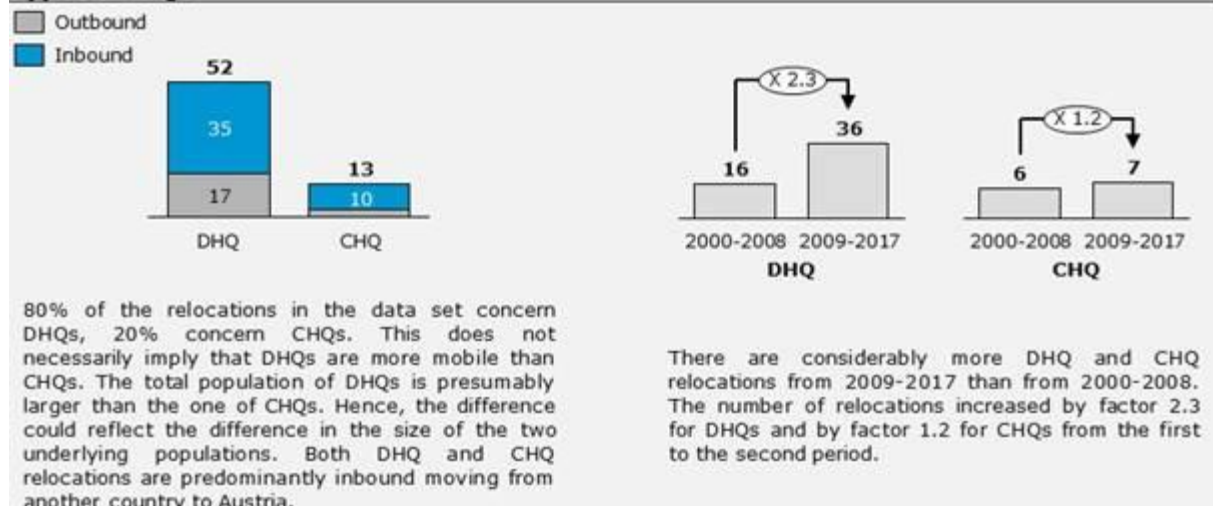


Figure 2. Split of HQ relocations between DHQ and CHQ

Third, the primary motivation for relocations is often a perceived need to improve value creation (e.g., higher proximity to important markets and/or customers, better access to more qualified employees) by the HQ. This is more important than the motive of cost reduction (e.g., lower costs of resources such as labour, more favourable tax conditions) and is valid for both in- and outbound relocations, as well as for the relocation of DHQs and CHQs.

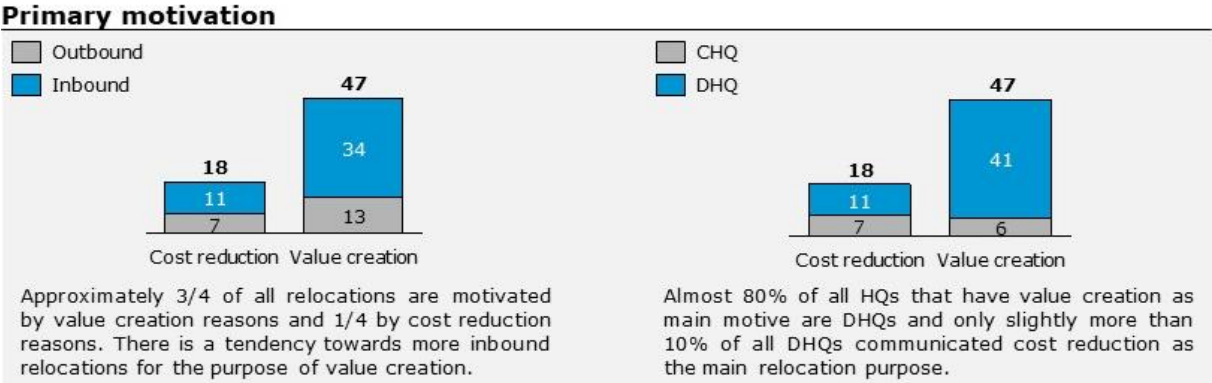


Figure 3. Motivation for HQ relocation between 2000 and 2017

In sum, HQs seem pretty mobile – especially DHQs – and when they are relocated firms seem to predominantly look for locations that allow their HQ to add more value. Austria has been an attractive location for HQs in the past and has recently even gained more HQs. But will that still be so in the age of digitalization, given the radical changes it implies for firms?

The impact of digitalization on HQs

Survey responses from more than 160 HQ managers in three European countries suggest that digitalization seems to have a large impact on HQs. We would like to highlight three major insights from our study.

Most importantly, the participants of the study believe that the ongoing digitalization could particularly improve HQs’ ability to add value to the rest of the firm (e.g., availability of more timely as well as better information and data for decision-making, ability to better predict relevant factors). Increased cost efficiency (e.g., reduction of administrative work and cumbersome reporting duties for subunits, increase in the efficiency of how the HQ is run) – albeit being important – seems less relevant than the opportunities to improve HQ value added.

Second, the firms surveyed appear to be well equipped concerning resources and capabilities needed to further ‘digitalize’ their HQ. However, only a quarter of the participants think that their firm has sufficient access to digital talent. These findings apply to all kinds of HQs and industries that we investigated.

Third, digitalization is seen as making HQs more important vis-à-vis its subunits within the organization. Yet, this only holds if the HQ’s activities and processes can benefit from digitalization opportunities. Here, the lack of access to digital talent is key. By consequence, future HQ location choices will probably be increasingly driven by considerations of access to digital talent and improvement of value added – less so by efficiency motives.

Location attractiveness of Austria in times of digitalization

Part of our study also assessed directly how Austria as an HQ location would develop given the ongoing digitalization. We asked more than 80 managers of HQs located in Austria. The survey revealed two key insights.

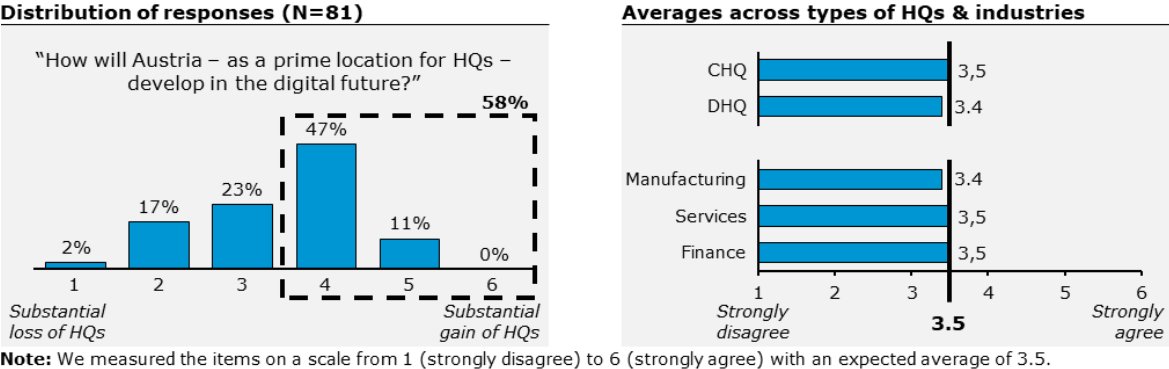
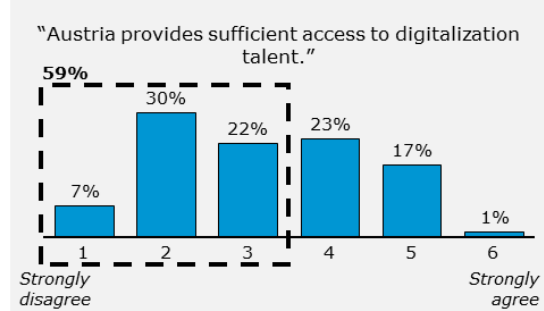


Figure 6. HQ Location attractiveness Austria

First, Austria will likely remain attractive as an HQ location in the digital age. 58% of participants disagree with the notion that Austria will (substantially) lose HQs to other locations that may be better hubs for digitalized HQs. The responses suggest that the status quo in terms of location attractiveness of Austria will not drastically change in the future. Thus, Austria will also remain an important hub for DHQs for the CEE region.

Distribution of responses (N=82)



Note: We measured the items on a scale from 1 (strongly disagree) to 6 (strongly agree) with an expected average of 3.5.

Averages across types of HQs & industries

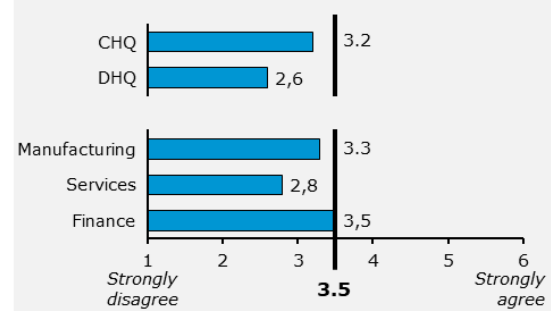


Figure 7. Availability of digitalization talent in Austria

Second, Austria seems to lack sufficient access to digitalization talent. Even though the majority of respondents agree that Austria provides adequate technological infrastructure and digitalization expertise (e.g., consulting/law firms, supplier firms, startups/incubators/accelerators, etc.) to digitalize the HQ, 59% of participants disagree that Austria provides sufficient access to digitalization talent. This can be a challenge to the attractiveness of Austria for CEE-focused HQs.

To conclude, Austria's attractiveness as a hub for HQs is not expected to change dramatically in the digital age. The majority of study participants thinks that Austria will be able to retain or even attract more HQs due to digitalization in the future. However, ensuring that digitalization talent is sufficiently available is crucial for Austria to remain a competitive location.

ⁱ Nell, P. C., & Ambos, B. (2013). Parenting advantage in the MNC: An embeddedness perspective on the value added by headquarters. *Strategic Management Journal*, 34(9), 1086-1103.

ⁱⁱ Valentino, A., Schmitt, J., Koch, B., & Nell, P. C. (2019). Leaving Home: An Institutional Perspective on Intermediary HQ Relocations. *Journal of World Business*, 54(4), 273-284.

ⁱⁱⁱ Galbraith, J. R. (2012). The Future of Organization Design. *Journal of Organization Design*, 1(1), 3-6.

^{iv} Schmitt, J., Decretton, B., & Nell, P. C. (2019). How corporate headquarters add value in the digital age. *Journal of Organization Design*, 8(1), 9.