

# The Relocation of Functional Headquarters - on the Drivers and Implications of Locating Corporate Functions Abroad

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## ABSTRACT

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### **THE RELOCATION OF FUNCTIONAL HEADQUARTERS – ON THE DRIVERS AND IMPLICATIONS OF LOCATING CORPORATE FUNCTIONS ABROAD**

The present study researches the relocation of functional commercial headquarters of Outokumpu Oyj to Brussels, Belgium in April 2008. The rationale behind this relocation can be largely based on increasing international competition, globalization and locational advantages. Moreover, one of the underlying reasons for the tendency of Finnish Multinational Corporations (MNC) to relocate parts of their corporate functions abroad is the need to be close to the most important markets. Also, as recruiting non-Finns to Finland seems to pose problems, the recruitment of global talent becomes easier when parts of corporate functions are located abroad.

Therefore, this study aims to clarify the need of Finnish MNCs to relocate abroad as well as the process within which this is taking place. The consequences and challenges presented in the new location are thereby a central topic in order to consult Outokumpu on possible problems ahead. In addition to data from newspaper articles, an interview and an Organizational Blog, the researcher's personal work experience of 1,5 years at the commercial function at Outokumpu provides a reliable basis for discussion.

The main findings of this study suggest that the relocation of functional headquarters bears significance throughout the group, particularly in the case of Outokumpu, where the structural changes help to realign the organization with a shift in strategic direction. The relocation of functional HQs can increase diversity in a MNC through an international location that attracts diverse and best global talent. Nevertheless, some of the downsides are the problems related to the dilemma of shared responsibilities due to the new unit and matrix structure. Moreover, the relocation goes hand in hand with a changing nature of corporate headquarters, which loose on power and control over operations, thus resulting in a decentralized structure while at the same time aiming to centralize a function. Particularly the issues of responsibility and control stand therefore against the multiple benefits of a more geocentric and global approach.

**Keywords:** Functional Headquarters, Change Management, Relocation Process, Multinational Corporation (MNC), Location, SMOPEC countries.

## **PREFACE AND ACKNOWLEDGEMENTS**

The main motivator for this Master's thesis was my earlier work experience as Commercial Analyst Trainee at Outokumpu Oyj. In my work, I had been confronted with the analysis of customer segmentation data, which gave the framework for the new organization that was implemented one year later, in April 2008.

Writing this thesis has been a real journey that took me from Espoo, Finland to Brussels, Belgium, enabling me to better grasp the changes that have been taking place since April 1<sup>st</sup> 2008 and that are still, as this thesis is written, implemented. I would like to thank Ms. Karoliina Heikkinen, Manager of Commercial Process Execution and my superior, for the possibility to write my Master's thesis for Outokumpu Oyj and to relocate personally to Brussels. I would also like to thank my supervisor, Prof. Rebecca Piekkari for providing me with valuable information and material on the relocation of divisional headquarters. Last but not least, I would like to thank M.Sc. (Econ), M.Sc. (Eng) Perttu Kähäri for giving me new insights and ideas on how to structure the final version of my thesis

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## **1. INTRODUCTION**

### **1.1 Background**

In order to stay competitive in an ever-changing global market, companies need to learn to adapt to changes in the market by transforming or developing their organization. Contemporary research such as Foster & Kaplan (2001) and Hamel & Välikangas (2003) suggest that the strategies can no longer be considered as being as long term as previously. This means that strategic change must or should happen more frequently, to a point where change management in itself is increasingly seen as a permanent business function required to keep organizations adapted to a competitive marketplace (Meisinger, 2008). The need for organizational change derives from an inherent divergence between the organization and the development of the external environment, which has become more rapid. Thus, while most organizational change is evolutionary, revolutionary changes are often needed to stay adapt to the marketplace. Therefore, examining such revolutionary changes and the process that has and is taking place along with the evolutionary development, is highly interesting, as knowing how to understand, lead, manage, and change organization is of utmost importance (Burke 2008, 1).

In spring 2008, Outokumpu Oyj is in the middle of such a revolutionary change as it regroups its earlier Business Unit and Sales Company structure to a sales organization that is divided into customer segments. This change not only affects the entire structure of the sales organization and changes job descriptions, but it brings along new functional headquarters based in Brussels, Belgium. The function that is moved to Brussels from the 1<sup>st</sup> of April 2008 is the “Group Sales and Marketing” – the function the researcher has been working at for over one year. The changes occurring in Outokumpu are largely influenced by the new strategic direction that has been implemented ever since the inauguration of the new CEO, Juha Rantanen, in 2005. This new strategy is based on a change from an earlier production focus to a more customer-oriented way of operations, while pursuing Key

Account Management practices and putting the customer at the heart of everything that is done.

In today's turbulent times of globalization, companies are increasingly dependent on an international network of affiliates. Cross-border interdependence as well as integration of production and markets has lead to a widening of the extent and form of international transactions. The influence of globalization on international business activity has ushered in fundamental changes in which MNCs undertake cross-border activities, described by Dunning as "alliance capitalism" (Cantwell & Narula 2001, 157). Cross-border value-adding activity has therefore shifted away from an emphasis on hierarchies towards a richer variety of organizational modes. This systematic vertical integration has contributed to the creation of networks within and outside the firm (Cantwell & Narula 2001, 162).

In this context of increased integration, the home base plays a continued and increasingly important role for the global firm. Although the improvement of communication and global sourcing creates a firm that is fundamentally shaped through its networks, local clusters create the need to stay close to the home base or to relocate to an environment with important local clusters in order to facilitate spillover and learning effects (Porter 1998, 237).

Although Finland, and small economies in general, possess a great number of local clusters, corporate functions seem to be, one by one, relocated to other countries. The role of Finland in the location of headquarters has lost on importance especially due to a high tax burden on income. There are no more clear business reasons to locate corporate headquarters in Finland also due to the peripheral location of Finland in regard to the world's important financial markets, the percentage of foreign ownership of Finnish multinationals, and the growth of foreign subsidiaries. Therefore, the relocation of Outokumpu's functional headquarters is hardly surprising.

The relocation of corporate functions can also be seen on a larger scale and in relation to foreign direct investment as small countries are particularly dependent on FDI inflows and

external trade, with trade accounting for more than 50 percent of GDP and outward FDI for roughly 25 percent of GDP (Benito et al. 2002, 66). Therefore, small countries are particularly dependent on their MNCs and find themselves in an exceedingly vulnerable position (Benito et al. 2002, 74). The location of corporate headquarters and personal tax payments play therefore a central role in regard to how well a nation is able to gain international investments. Therefore, as large Finnish multinationals relocate parts of their corporate activities such as functional headquarters abroad, the position of Finland in regard to FDI is being weakened.

## 1.2 Research Problem and Gap

The location of corporate functions is of great importance as managers are influenced by the local context in their decision process. The literature on organization of MNC has mainly focused on the relationship between the formal organization and internationalization of production and sales, but has not dealt with the physical location of top management (Forsgren et al. 1995, 476). Moreover, traditional research has failed to view the company as what it is and is continuously developing to today – an integrated organization rather than a hierarchical pyramid. In fact, the increasingly sophisticated decision-making in MNCs forces managers to divide activities more finely in locating each activity into its optimal location (Buckley & Ghauri 2004, 81). As the competitive advantage of MNCs will thereby come from its unique potential for radical innovation by leveraging from distinctive knowledge drawn from diverse geographical contexts around the world (Doz et al. 2003, 154), the relocation of functions becomes of particular interest.

Although relocations are becoming increasingly common, the issue has received only little attention (Barner-Rasmussen et al. 2007, 261). This research gap has been filled with earlier research by Forsgren (1990), Bartlett & Ghoshal (1989), Ali-Yrkkö & Ylä-Anttila (2002), Euro (2001), Marschan (1996), Lampinen (2005), and Barner-Rasmussen et al.

(2007). Particularly interesting about these earlier studies is their focus on headquarter relocation not only from the viewpoint of headquarter movement, but also divisional relocation.

Euro (2001, 15) emphasizes in his doctoral dissertation that large Finnish multinationals have particularly since 1980 started moving divisional HQs outside the home country. Yet, this phenomenon has not been studied to any greater extent (Euro 2001, 27). The latter research has primarily focused on the relocation of divisional HQs, whereas in the case of Outokumpu, the unit moved abroad is not divisional, but rather functional, as will be investigated in this study.

### **1.3 Research Objectives and Questions**

#### **1.3.1 Research Objectives**

*“By any objective measure, the amount of significant, often traumatic, change in organizations has grown tremendously over the past two decades. Although some people predict that most of the reengineering, restrategizing, mergers, downsizing, quality efforts, and cultural renewal projects will soon disappear, I think this is highly unlikely. Powerful macroeconomic forces are at work here, and these forces may grow even stronger over the next few decades.”*

These were the words of John Kotter in 1996 (Kotter 1996, 3), and still today, over ten years later, organizations are experiencing tremendous changes each year.

The objective of this thesis is therefore to investigate the reasons why MNCs are moving parts of their corporate activities abroad and what effect this has on the company in the short- as well as the longer term. This data will help Outokumpu to identify the implications of their relocation to Brussels. In its aim of becoming the undisputed number one with success based on commercial and operational excellence, Outokumpu is not only redesigning its sales organization, but also creating a whole new set of opportunities for taking on future competitive challenges.

Moreover, from the viewpoint of change management, Finnish companies are particularly interesting research objects due to the smallness of the home market, the very limited number of Finnish multinationals in comparison to other larger European countries, and the rareness of relocation processes in this small context of companies.

### 1.3.2 Research Questions

Based on the established research problem and research objectives, the research questions for this study as well as the follow-up questions help to create a red thread to guide the reader throughout the study:

*Why and how are corporate activities of MNCs moved abroad and what are the implications for the firm?*

- ⇒ *What are the motives to relocate corporate activities abroad?*
- ⇒ *How can strategic change be communicated effectively?*
- ⇒ *What is the role of leadership in strategic change?*
- ⇒ *From a strategic viewpoint, what are the benefits and challenges for a MNCs operations?*

**Table 1: Research Questions as answered in the Literature and Empirical part**

<b>Research Question</b>	<b>Literature Review</b>	<b>Empirical Part</b>
<i>What are the motives to relocate corporate activities abroad?</i>	2.2 Internationalization Process of MNCs 2.3 Strategy and the Relocation Decision	4.2 Motives for Relocation and Change
<i>How can strategic change be communicated effectively?</i>	2.4 Change Management in the Context of Organizational Change	4.3 Leadership and Communication
<i>What is the role of leadership in strategic change?</i>	2.4 Change Management in the Context of Organizational Change	4.3 Leadership and Communication
<i>From a strategic viewpoint, what are the benefits and challenges for a MNCs operations?</i>	---Empirical answer only---	4.4 Implications and Challenges of the New Organizational Structure

*Source: Author*

## **1.4 Definitions and Limitations**

### **1.4.1 Definitions**

The terminology used in this thesis is attained from international business and international management.

#### **Multinational Corporation (MNC)**

A group of geographically dispersed and goal-disparate organizations that includes headquarters and the different national subsidiaries (Ghoshal & Bartlett 1990, 603).

#### **Functional Headquarters**

An entity at the top of a corporate function. Functional headquarters are not very common as usually, they are integrated into the corporate headquarters.

#### **Headquarter Unit**

A unit that has two essential elements: a top management group that typically has an official location at which it meets, and a number of HQ functions (treasury, investor relations, corporate communications etc.) each of which has an identifiable physical location (Barner-Rasmussen et al. 2007, 262; Birkinshaw et al. 2006, 684).

#### **SMOPEC (Small and Open Economy)**

SMOPEC countries i.e. Small and Open Economies have been defined as small advanced economies with a human development index higher than 0.9, nominal gross domestic product (GDP) less than \$600 billion, and nominal (GDP) per capita higher than €15,000 per annum, with a population between 2 and 20 million. (Scott-Kennel 2007, 12)

#### **Key Account Management (KAM)**

The systematic selection, analysis and management of the most important current and

potential customers of a company, including the set-up and maintenance of a necessary infrastructure. (Zupancic 2008, 323)

#### **1.4.2 Limitations**

The most noticeable limitation in the research is probably that the entire change episode in Outokumpu is not yet finalized. That is, the restructuring and relocation examined has just been taking place (April, 2008) and is thus neither finalized nor fully institutionalized. Obviously, change is continuous and the changes might not even be fully institutionalized before further evolutional or revolutionary change reoccurs. Thus, the researcher believes that such impact is unavoidable, and that it is ultimately a trade-off between analyzing a finalized historical change episode and an up-to-date episode where information is more contemporary.

Another limitation to the research is that the primary information for the main case company is based on experiences gained personally at the company, discussions on the “New Organizational Blog”, as well as one interview. This obviously means that much of the information may have been pre-filtered, thus not allowing for full objectivity. Nevertheless, the information from the “New Organizational Blog” and the interview help to see the issue from the company’s point of view and much of the personal information may be seen as advantageous.

Another limitation must be mentioned in regard to the final induction of the research, i.e. generalization of research findings. In this context it should be noted that the findings are bound to be very context dependent. Therefore, even if patterns and recommendations for successful facilitation of future strategic changes can be identified in this specific case, inducing this knowledge into a broader context may prove difficult. In other words, what worked or did not work for Outokumpu may or may not work in other contexts.

## **1.5 Structure of the Study**

Given the importance of organizational change, it is necessary to create a thorough understanding of the dynamics, features, practices and difficulties that accompany the relocation of functional operations. This thesis therefore aims to provide additional insights that will improve the reader's understanding in regard to the relocation of functional headquarters and organizational change through the following steps:

*First*, the literature review provides additional insights on (1) the relocation of corporate activities, (2) the internationalization process of MNCs, (3) strategy and the relocation decision, and (4) change management in the context of organizational change. The aim is thereby to lay a foundation of theory to better understand the relocation of corporate functions, external (globalization) and internal (strategy) drivers for relocation and the change process itself (change management). *Second*, the methodology section explains the rationale and method of research. *Third*, the empirical part explores the relocation of the corporate function "Group Sales and Marketing" (GS&M) by (1) giving an insight on the company, (2) exploring reasons for the relocation (both internal and external), (3) discussing the impact of leadership and communication on the change, and (4) providing an understanding of preliminary impacts and challenges for Outokumpu. *Finally*, the discussion and analysis summarizes the findings and discusses the validity and reliability thereof before finishing the discussion with managerial implications and suggestions for further research.

## **2. LITERATURE REVIEW**

The following literature review will focus on four different areas – the relocation of corporate activities, the internationalization process of MNCs, strategy and the relocation decision, and change management in the context of organizational change. The chapter ends with a review of the theoretical framework applied in this chapter.

### **2.1 The Relocation of Corporate Activities**

#### **2.1.1 Definition of Corporate Functions**

The relocation of corporate functions can mean both a more centralized organization of operations, while at the same time decentralizing the corporate headquarters as such and dispersing the decision-making and leadership authority to subsidiaries and different geographic regions.

The following chapter will shed light on the relocation of functional headquarters as part of a geographic dispersion of competences and the creation of an integrative network. The new structural forms of multinational corporations lead away from a hierarchical structure and towards operating as an integrative network. In these less-hierarchical structures, the majority of assets and competences are located outside the home country and resources are geographically dispersed across locations (Marschan 1996, 1).

Also Doz et al. (2001, 10) argue for decentralization of corporate activities as global spread is no longer a distinctive competitive advantage, and firms therefore need to stop projecting their home-country know-how abroad and start to ‘fish’ from a pool of global knowledge. The relocation of corporate activities should therefore be seen as a means to increase the knowledge through outside sources and to tap into local clusters of expertise.

Nevertheless, the physical location of functional headquarters is a problematic issue because of the need to be close to the corporate headquarters as well as to the most

important markets and customers (Forsgren et al. 1995, 475). The decision to relocate corporate functions or headquarter units of a MNC is therefore based on a strategic decision to reorganize critical activities. The relocation of functions is often combined with a merger, a reorganization of operations or a partial migration (Euro 2002, 440). Yet, while in the past mergers and acquisitions accounted for a large share of headquarter relocation, today companies relocate their headquarters or parts of their corporate activities abroad without a major acquisition, merger or organization change (Braunerhielm 1999, 14). The relocation of headquarter units can in fact be either direct or indirect, and therefore ‘hidden’. Hidden relocation takes place when the function in question is actually a product of the decentralization of headquarter units, which are then relocated (Barner-Rasmussen et al. 2007, 263).

### **Functional HQs**

As mentioned, the relocation at hand is a functional relocation, as Outokumpu is relocating the “Group Sales and Marketing”, which will be in charge of delivering information, monitoring financial and business objectives, and providing inputs to operating decisions. As there is very limited information to be found on functional headquarters, the term is defined here as an entity at the top of a corporate function. In practice, separate functional HQs are not very common, as this corporate function is usually integrated in the corporate headquarters.

The rationale for corporate function relocation is based on the fact that the division between strategic and operational questions helps management to focus more on the relevant information that helps to steer the company. The delegation of tasks leads to a declined need of data processing and a tighter role of corporate headquarters. Yet this also creates a need for a closer monitoring of subsidiaries (Euro 2002, 441).

In general terms, subsidiaries functions operating abroad are more dynamic than home country located subsidiaries. Also, headquarters located abroad have a more positive experience in relation to ‘relationships with the industry and authorities’, ‘social costs’ and

‘individual taxation’ (Braunerhielm et al. 1999, 9). This is rooted in the difference in attitude of host-country authorities towards the company that invests in activities on-site.

Moreover, as the later discussion of the OLI paradigm as well as Porter’s cluster theory show, the relocation of functions abroad enables a company to be close to major clusters that can benefit the company, which makes spillover effects possible. Also, the ownership advantage can be regarded as major important competitive factor, yet according to Doz et al. (2001, 32): “Multinationals that adopt a strategy of global projection are missing a huge untapped opportunity: the opportunity to differentiate themselves through ‘learning from the world.’” This ‘learning from the world’ becomes only possible by being close to major world markets and customers and can therefore help a company to gain important competitive advantage. Therefore, considering the ownership and cluster advantages may be too narrow a view and the firm should focus on its external environment to gain a broader competitive edge. The relocation of Outokumpu’s functional HQs is based on a change in strategic direction and operational structure combined with a need for change management.

## **2.1.2 Key Drivers and Rationale behind the Relocation of Corporate Activities**

### **2.1.2.1 The Headquarter Perspective**

In the context of functional HQ relocation, it is important to discuss the implications of the change on the HQ and the new functional unit, as well as the intra-firm political forces that influence which part of the HQ is relocated and where to. Overall, the corporate headquarters is not only a training center for company executives, but it also acts as enabler for new expansions and its geographical localization and is essentially important (Braunerhielm et al. 1999, 10). The increase in information systems use has also an impact on the understanding of headquarters – headquarters are no more firmly linked to the home country, but rather a structure of people leading the organization through a network with its

subsidiaries (TT 2002, 13). Forsgren et al. (1995) label the relocation of headquarter units as the 'third degree of internationalization'. The early stages and the first degree of internationalization tend to start from the overseas transfer of functions such as sales and marketing, followed later by R&D. In the second stage, subsidiaries may develop into strategic centers or centers of excellence with international responsibilities (Barner-Rasmussen et al. 2007, 262). The internationalization is thereby closely linked to the company strategy, which may unfold from an ethnocentric viewpoint to a multidomestic approach (truly global and interdependent on a global basis) (Heenan & Perlmutter 1979,17-19).

As decision-making power and information is spread throughout the organization, the company is likely to experience a shift in the understanding of corporate HQs as more a linking element than primarily a steering element. This is also supported by Euro's findings on headquarter relocation (Euro 2002, 441), as he establishes that the importance of the corporate HQ has remained the same although its nature is changing. The need for social, cultural and spiritual leadership has grown, while this need is satisfied not only from corporate HQ, but also other units, such as functional units located outside the organization's home country. The corporate HQ is thereby shifting towards a guiding focus opposed to an earlier even split between running, directing and targeting. Guiding means thereby that the earlier interventionist and directive nature of the corporate center is shifting towards a more decentralized approach, which focuses on coordinating business strategies, setting and monitoring financial and business objectives, and providing inputs to operating decisions. In fact, as mentioned in Towers Perrin's research findings (1998, 5-6), the guiding type is preferred by two thirds of companies, which were previously Targeting or Directing types.

Based on a study on four Finnish MNCs by Barner-Rasmussen et al. (2007, 267), there are six key drivers and three dimensions that explain the rationale behind the relocation of corporate headquarter functions. These key drivers are prioritized differently in different firms and even within the same firm.

**Table 2: Conceptualization of HQ Relocation**

Key drivers	Control and integration of subsidiaries	<i>Dimensions</i>	
		<i>Pragmatic</i>	<i>Symbolic</i>
	Inducing HR-related change	Recruiting non-Finns, attracting ‘global’ talent that is not prepared to move to Finland	Acquiring global mindset, diversity in decision making, instilling Nordic mindset
	Responding to owners and other stakeholders	Improving communication with parent corporation and owners, unions and industry organizations in Finland	Enacting corporate strategy
	Physical presence in relevant area	Being inside the EU, being co-located with key customers, skilled employees and key competitors	Perceived credibility derived from presence in EU, being a Nordic company, being where owners are
	Costs and spatial structure of management	Benefits of being located close to a logistical hub, direct flights, but also high costs	Location politically neutral with regard to stockholders and key competitors as well as major subsidiaries
	Quality-of-life	Good climate, easy language, availability of housing and schools	Image of target location as an attractive place to live

Source: Barner-Rasmussen et al. 2007, 268

While in the past mergers and acquisitions accounted for a large share of headquarter relocation, today companies relocate their headquarters or parts of their corporate activities abroad without a major acquisition, merger or organization change (Braunerhielm 1999, 14). The reasons as shown in the table by Barner-Rasmussen et al. (2007, 268) speak for a trend (in the four companies researched) towards a larger presence of Finnish MNC at the heart of Europe and logistical and capital hubs. These hubs most likely help the firm in attracting competent and dedicated managers to work for several years on headquarter assignments and to acquire more international expertise (Euro 2001, 50). It is interesting that in the study conducted by Barner-Rasmussen et al. (2007, 269) none of the case

companies mentioned financial reasons for relocation. In fact, for large MNCs with a long-term orientation, any location-related savings would constitute only a small fraction of annual operating costs. Moreover, relocation of corporate units or divisional HQs is not necessarily a single event, but may be repeated over time or even take a virtual form (Barner-Rasmussen et al. 2007, 269).

The decision to relocate can also be seen from a political viewpoint as discussed in the following chapter.

#### **2.1.2.2 The Political Perspective**

The location of the division HQ reflects the different interests of the MNC's actors (Nyman et al. 2004, 12). The process of deciding to relocate a corporate function or division abroad has very much to do with power from individuals, and is not only based on economic rationale. Nevertheless, it is not possible to know *a priori* if the new organizational arrangements are going to work. Therefore, division HQ location is regarded as a result of a sequential bargaining process rather than a quick decision (Forsgren et al. 1995, 477).

In his research of 104 divisions of 19 of the largest Swedish MNCs within the manufacturing sector, Forsgren (*ibid.*) explains the phenomenon by a model viewing relocation of divisional HQs as a consequence of power relations within the MNC. The relations between the three management levels (CHQ, divisional headquarters and subsidiaries) are analyzed in terms of a political perspective stressing power, information and resource dependence. Thus, organizational arrangements are the outcome of a continuous struggle between the different actors whereas each one mobilizes resources to better serve their own interest in the location decision (Forsgren et al. 1995, 478). As the organization reaches more advanced stages of internationalization, the authority is shifted from the headquarters to different parts of the organization (divisional HQs, headquarter units, subsidiaries) and the power struggle becomes more intense (*ibid.* 476).

## 2.2 The Internationalization Process of MNCs

### 2.2.1 Globalizing Internationals

As the foregoing chapter has given a basic understanding on corporate activities, the following two chapters explore the external (globalization) as well as internal (company strategy) factors which influence the relocation decision.

The research by Gabrielsson & Gabrielsson (2004) and Gabrielsson et al. (2006) on globalizing internationals in the ICT field provides an overall framework on how large internationals globalize out of their home continent. This research is also valuable in the study at hand as Outokumpu is, in 2008, still a Eurocentric company with 2/3 of sales coming from the European market, although over 80 percent outside of Finland. Moreover, the research by Gabrielsson & Gabrielsson can be applied to different industries as well. The following framework explains the globalization concept:

**Figure 1: The Globalization Concept as Geographic Market Expansion and Global Market Development Phases**



Source: Gabrielsson et al. (2006)

“A globalizing international is a company that has first internationalized its businesses within the home continent after a domestic period and only then started to globalize outside

its home continent” (Luostarinens & Gabrielsson 2002, 5-6).

The globalization process is seen as a step-wise process with three particularly important steps (Gabrielsson & Gabrielsson 2004, 664):

- 1 International market entry phase (to create scale economies)
- 2 International market penetration stage (to meet local market requirements)
- 3 Global alignment phase (to benefit from synergies without loosing local responsiveness)

Outokumpu can be viewed as being in the phase of globalizing international, creating a “one company approach” and thus aligning its businesses worldwide. The opening of the Brussels office as well as the further global expansion is a further indicator of this stage. Moreover, Outokumpu has developed its business from a copper company to concentrating solely on stainless steel, divesting all other business, as will be shown in the later empirical discussion (Environmental factors leading to change).

Gabrielsson et al. (2006) argue that product strategies, such as those of Nokia, are aligned in the globalizing international stage. In the early 1990s, Nokia started to sell its non-core activities to focus on the core activities, i.e. mobile phones and telecommunications. This concentration on core products enabled Nokia to triple its sales between 1995 and 1999 (Nyman et al. 2004, 5). Therefore, the focus on primarily a few businesses helps the globalizing international to benefit from synergies from a few core activities.

The effect of this global alignment can be further explored in looking at distinctive competitive advantages and locational benefits, as explained in the OLI paradigm by Dunning.

### **2.2.2 The OLI Paradigm**

MNCs today are generally competing with one another in international markets, they are usually not in the earliest stages of internationalization and their investments are not all local market oriented (Cantwell & Narula 2001, 159). All surviving MNCs have thereby some distinctive competitive edges which differentiates them from major competitors. It is this competence that constitutes the firm's ownership advantage rather than some absolute cost advantage. The MNC has an international network of competence-creating subsidiaries whereas ownership and location advantages are cumulatively developed together (*ibid.*). An example to this is Disney, which has taken its home base advantages around the world in promoting an American fantasy, or IKEA, which has built its international home furnishing business on Swedish woodworking and design (Doz et al. 2001, 30).

The eclectic paradigm contends that MNCs have competitive ownership advantages vis-à-vis their major rivals, which they utilize in establishing production in sites that are attractive due to their location advantages (Cantwell & Narula 2001, 157). Although the eclectic paradigm by John Dunning (1993) is quite general, it helps to understand the internationalization of particularly knowledge intensive operations (Ali-Yrkkö & Ylä-Anttila 2002, 15). The paradigm affirms that the extent of geography and industrial composition of foreign production of MNCs is determined by three independent variables – the ownership specific advantages, location attractions, and internalization of these advantages. Unlike the transaction cost theory, the eclectic paradigm asserts an active role of managerial strategy. The firm is therefore not only influenced by market conditions, but can contribute to transactional circumstances itself (Cantwell & Narula 2001, 159). According to Dunning (2000, 164), foreign-based MNC activity can be distinguished into four main types:

1. Activities designed to satisfy a particular foreign market or markets -> market seeking
2. Those designed to gain access to natural resources -> resource seeking

3. Activities to promote a more effective division of labor or specialization -> efficiency seeking
4. Those designed to protect or augment existing owner specific advantages -> strategic asset seeking.

A knowledge-based society has encouraged the efficient exploitation of MNC's ownership advantages and the need to constantly innovate and augment their competitive advantages has lead to a complex interdependence between ownership and location advantages. Globalization has affected how MNCs seek to organize their cross-border activities in response to changing boundaries of the MNC (Cantwell & Narula 2001, 155). Firms therefore invest abroad to augment their existing asset base and to create more competitive advantages in regard to major competitors.

Dunning's (1993) OLI paradigm can help companies to gain a strategic advantage over competitors. Applied to Outokumpu, this means:

- 1 Ownership (copper mine in Outokumpu in the past, today: Tornio works, the world's largest stainless steel plant)
- 2 Location (integrated production chain for stainless steel production in the Kemi-Tornio region in Northern Finland)
- 3 Internalization (knowledge, company management, new organizational structure)

The analysis of Dunning's OLI paradigm shows that Outokumpu has a particularly good ownership advantage today, with the world's largest stainless steel producing plant in Tornio, Finland. Nevertheless, as the Asian competition is gaining more experience and learns to match the Western quality, this ownership advantage may be jeopardized in the future. Finnish companies have a relative disadvantage in regard to peripheral location attractiveness of company headquarters (Euro 2001, 23). Therefore, location is of crucial

importance for Finnish multinationals. “Firms must have the ability to attract talent and dedicated managers to work for several years on headquarter assignments and to acquire more international expertise at various levels of the organization” (Euro 2001).

Internalization refers to the ability to create and maintain knowledge and know-how within the organization. The particular country location of companies is thereby less important than internal, company specific competitive advantages (Ali-Yrkkö & Ylä-Anttila 2002, 15). The creation of a functional headquarter unit in Brussels is a way to create a center for information and strategy that helps the entire organization.

Although centrifugal forces (as explained in the following paragraph) such as mergers and acquisitions force MNCs to grow outside of their home country, this creates at the same time opportunities to tap into local clusters, as well as knowledge and resource pools (Benito et al. 2002, 74). Therefore, the symbiotic relationship between the MNC and its environment has become increasingly complex (Benito et al. 2002, 58). The research conducted by Benito et al. (2002, 59) on the ten largest companies in Denmark, Finland and Norway, shows that these companies are regarded as the economic locomotives of their home countries. Although there is considerable variation between SMOPEC (Small and Open Economies such as Finland) countries and they are by no means a homogeneous group, the importance of large MNCs seems to be a uniting factor. Smaller countries will have more outward FDI and large firms from these countries tend to be more multinational than small companies (Dunning 2000, 165). From a foreign direct investment perspective, Nokia in particular has an enormous impact on the Finnish economy as it represents one-fifth of the Finnish economy’s total exports (Ali-Yrkkö et al. 2000, 10; Gabrielsson & Gabrielsson 2004, 662).

The importance of large MNCs for SMOPEC countries can be analyzed with the help of two determinants of internationalization: (1) factors that encourage internationalization (i.e. centrifugal forces, push and pull factors); and (2) factors that encourage concentration of these firms’ activities in their home country (i.e. centripetal forces). Centripetal forces,

which are bound to the home country, help MNCs to excel in their industry. Intense competition and favorable cluster-contacts develop strong competitive advantages (Benito et al. 2002, 61). According to Cantwell and Narula (2001, 160; Benito et al. 2002, 61), the ownership advantages underlying the firms' internationalization tend to reflect the particular location advantages of their country of origin. This refers particularly to the technological development of the firm as it taps into alternative streams of innovation in different centers, and establishes favorable cross-border interaction between them (Cantwell & Narula 2001, 160).

The corporate headquarters' ownership advantages created through home-country location is increasingly challenged today, as companies are becoming more complex, less hierarchical and less dependent on firm's specific advantages based on their home-country cluster (Benito et al. 2002, 62). As companies are focusing on a more geocentric (truly global and interdependent on a global basis) mindset and structure, multi-center and network structures evolve in MNCs (Benito et al. 2002, 62; Forsgren 1990) and help the company to internalize knowledge. Also, this represents a shift away from ethnocentric (home country interest), polycentric (multi-domestic), or regiocentric (interdependent on a regional basis) thinking that influences the decision-making, control, incentives, communication and geographical identification and staffing within a MNC. In particular, geocentrism is a global systems approach to decision-making where headquarters and subsidiaries see themselves as parts of a worldwide entity. Nationality is not seen as criterium for superior performance and good ideas come from any country and go to any country within the firm (Heenan & Pfeffer 1979, 17-19).

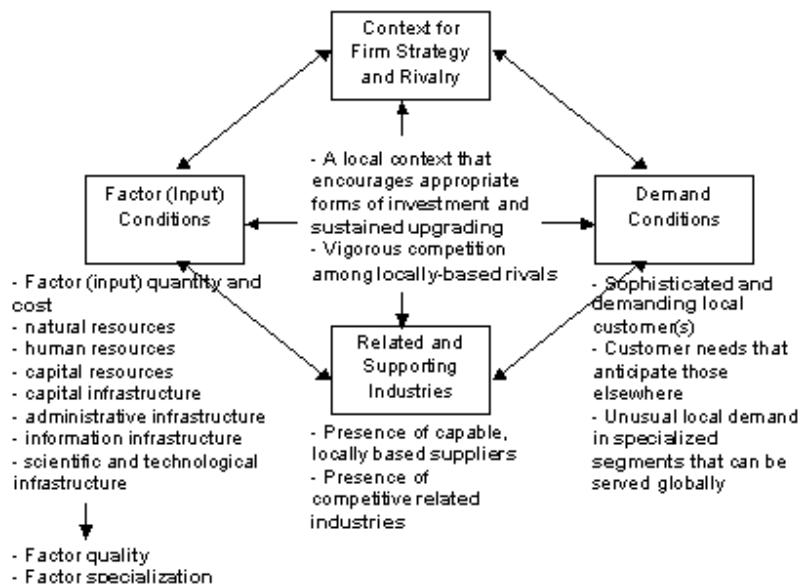
### **2.2.3 Cluster theory by Porter**

According to Porter (1990, 69), the home base is where strategy is set, core products and process development takes place and the essential and proprietary skills reside. Therefore,

Porter looks at the ‘location advantages’ from the OLI paradigm and calls them ‘diamond clusters’.

According to Cantwell & Narula (2001, 161), the location advantages of countries are improved (along with an improvement of ownership advantages), through spillovers and linkages through MNC activity. Nevertheless, this is only possible if the domestic firms have necessary absorptive capacity (Cantwell & Narula 2001, 161). Porter’s cluster theory, linked with Dunning’s location and ownership specific advantages, shows that the location of a global firm can lead to an increased competitive advantage through spillovers and cooperation between firms. The location paradox therefore asserts that although communication technology facilitates the spread of information, location does still matter, as local clusters do not move along with the firm. Nevertheless, this also implies that companies can actively relocate to locations with large and important local clusters, which can benefit the company in its global operations. The context for firm strategy and rivalry in a location is depicted in Porter’s diamond framework:

**Figure 2: Sources of Locational Competitive Advantages**



*Source: Porter (1998, 211)*

As comparative advantage through economies of scale or an efficient use of factors of production (such as labor and capital) fails to satisfy the true nature of location advantages, the cluster model explains how linkages with buyers, suppliers, and other stakeholders contribute importantly not only to efficiency but to the rate of improvement and innovation (Porter 2008, 209). The prosperity of a location rests on how companies compete and what companies decide to do in the location. The presence of sophisticated foreign firms often enhances the productivity of domestic firms and vice versa (Porter 2008, 210). Therefore, by looking at a location in search for possible spillover effects, the local cluster and the presence of international firms are a valuable measure of the quality of the new business environment. Firms cannot operate efficiently in an environment with onerous amounts of red tape and regulations, requiring dialogue with the government and consuming time and money without contributing to customer value (*ibid.*). The decisive aspect nevertheless remains cluster specific – the presence of institutions, universities and particular types of suppliers that help to put the factor input into efficient use (i.e. Factor (Input) Conditions). Examples of such clusters are the United Kingdom in auctioneering and insurance, the

United States in agriculture chemicals, computer software, and networking products, of which probably the most well known cluster is Silicon Valley (Doz et al. 2001, 33). The firm should thereby start building on the core strengths from its homeland to gain international advantage (Doz et al. 2001, 37).

Porter's cluster theory therefore helps to explain why companies choose to relocate parts of their operations or even headquarters abroad – in search of spillover effects and valuable factors inputs. These factors can thereby also contribute to the creation of new innovations and ideas that are derived from the locational spillover effects.

## **2.3 Strategy and the Relocation Decision**

### **2.3.1 Globalization and SMOPEC countries**

While the foregoing chapter emphasized the external forces for relocation and change (globalization), the following chapter will discuss the more company-internal forces driving the relocation of corporate activities. The chapter first discusses the globalization in the case of SMOPEC countries, which is particularly relevant as Outokumpu is from a SMOPEC country and thus needs to align its strategy with the prerequisites of this environment. Next, the centralization and decentralization is discussed, as the new commercial HQ centralizes the function, while decentralizing the HQ. Last but not least, Key Account Management is an important marketing tool that defines the new organization in Brussels and represents an integral part of the strategic change.

The interaction between the MNC and its environment is much more pronounced in the case of SMOPEC countries, since they outgrow their home base more easily, and small countries are much more dependent on their large companies (Benito et al. 2002, 58). Moreover, SMOPEC countries tend to be more focused in their industry dispersion, concentrating only on a few industries, such as pulp and paper in Finland and oil and gas in

Norway. A large share of industrial activity is explicitly conducted to serve overseas markets and firms from these countries tend to be competitive in a few niche sectors (Benito et al. 2002, 60).

The internationalization of firms from SMOPEC (Small and Open Economies) such as Finland is based on the following forces that push MNCs away from the home country (Luostarinen 1994, 7):

- Small, open and peripheral domestic market
- Large size and openness of the global target markets, and
- The general global enablers

Moreover, the host country is pulling these companies abroad as their largeness and openness attract MNCs from small countries. This has also an impact on the firm's choice of headquarter location as the globalization of industries, changing global competition and liberalization of capital, human, product and service movements, demands a change in strategy.

According to a study conducted by the Finnish industry union TT (today called Elinkeinoelämän keskusliitto EK) on Finland's competitiveness as a headquarter and legal mother entity location (Teollisuus ja Työnantajat 2002,7), the particular reason for Finnish multinationals to consider headquarter location abroad are the growth of operations abroad, the relative power of foreign subsidiaries, the high taxation rate on corporate and per capita income, as well as the distance of Finland from all major markets. Moreover, the relocation of functions abroad enables access and closeness to important financial markets and highly educated personnel, particularly the hiring of new leaders becomes easier. Finland has, although the situation has improved, major problems in attracting key personnel to Finland (TT 2002,18). The pressures to move headquarters abroad have increased as push and pull factors are gaining on ever-greater importance and the loss of competitiveness of Finland as location is reflected in the growth of operations abroad.

Nevertheless, factors preferring Finland as location for company headquarters are the

company's history and Finnish legacy, the stable political and social system, as well as the predominantly Finnish ownership structure, which are all still relevant factors in the headquarter location decision (Ali-Yrkkö & Ylä-Anttila 2002, 27; TT 2002, 11). These are the reasons why the relocation of the whole headquarter is currently still unlikely (Baaij 2004) and the largest part of headquarter functions are still located in Finland. Yet it should also be noted that since 1990 and the opening of a possible foreign ownership of Finnish companies, the share of foreign owners has increased, which in turn has an effect on the headquarter relocation decision (Ali-Yrkkö & Ylä-Anttila 2002, 4).

Small market size constitutes a disadvantage in the development of process technology due to the absence of scale economies, yet it provides grounds for the establishment of clusters and innovation. Moreover, as firms from small economies have access to fewer possibilities to create location advantages at home, the economy tends to be focused on a few industrial sectors (Benito et al. 2002, 60). Coming from a SMOPEC (Small and Open Economy) country can therefore constitute a major benefit in global competition. According to Doz et al. (2001, 54), because the knowledge needed by MNCs from SMOPEC countries is not available at home, they have to develop skills of sensing, mobilizing, and operationalizing technologies and market knowledge drawn from abroad. Necessity is therefore the mother of invention and large Finnish multinational companies have benefited from their urge to look for knowledge abroad.

Although it seems as if the full relocation of Finnish companies HQs is still unlikely in the near future, the relocation of corporate functions has been an ongoing process for years. The more global a company is, the more likely is a full relocation of headquarters. In general, the functions that are moved abroad are the one's which require international coordination, such as marketing, purchasing and logistics. In 2002, only approx. 25 percent of all marketing, purchasing, logistics and information systems were located in Finland only (TT 2002, 7-10). In fact, 50 percent of internationalizing Finnish companies focus on augmenting the share of corporate functions abroad and 80 percent of companies are decreasing the share of functions located in Finland. Moreover, the power of HQs in regard

to Business Units is increasing, especially also due to the relative ease of managing with the help of modern information systems (TT 2002, 12). Large companies are operating more dispersedly than before and the corporate HQ can be located far away from production as well as product development operations (Ali-Yrkkö & Ylä-Anttila 2002, 4). Nevertheless, a clear majority of the divisional HQs of Finnish MNCs remain in the home country, and some divisional HQs located abroad have been re-relocated back to Finland (Euro 2001, 236). Overall, from a societal point of view, the relocation of corporate functions can be seen as a negative phenomenon as it says something about the ability of local authorities to attract MNCs in intensive global competition (Euro 2001, 18).

The reasons for relocating a function or division outside the home country are also to be understood on an individual level. The peripheral location, culture, climate and distance are important psychological factors (Euro 2002, 440). Moreover, the quality of living is also associated to traffic congestion, proximity to internal airports and closeness to major corporate centers such as New York and London (Baaij et al. 2004, 145-146). A high quality of life therefore attracts a competent workforce.

### **2.3.2 Centralization vs. Decentralization**

As organizations are globalizing and are under increasing pressure to re-define their strategies, processes and structures, the issue of centralization versus decentralization of operations has become an increasingly important issue, particularly also for MNCs from SMOPEC countries looking to compete on a global market. Thereby, the advantages of greater standardization and coordination are opposed by the increasingly important needs of flexibility and local responsiveness (Busco et al., 2008, 103). Decentralization reflects the extent to which decision-making authority is delegated away from the headquarters and towards the subsidiaries, such as in the case of increased push and pull factors of domestic and foreign locations.

In order to leverage their competitive advantage across borders (see Dunning's OLI paradigm), a certain degree of centralization and coordination is necessary. Yet at the same time, local responsiveness calls for decentralization and local autonomy. Thereby, the issue of power within the organization gains of central importance as it creates the organizational structures and processes (Busco et al., 2008, 106). In a centralized organization, a limited number of top managers have decision-making authority; while in a decentralized organization, this power is more distributed along geographic or vertical patterns, such as the new organizational structure of Outokumpu.

Organizations differ in the degree of formalization based on which decisions are made and rules, policies and procedures are defined. As the environment changes, the organizational design needs to change in order to stay competitive in the market place. Wienclaw (2008) argues that organizational design should help the HQs to support the various operations of the organization and not only impose new reporting structures which increase the amount of work at the local level. Also, each function within the organization should be manageable by competent functional managers. Therefore, one major part of the decentralization discussion should be the level of accountability by functional management. In building sufficient accountability into the organizational design, particularly the issue of shared responsibility and delegation of power should be considered. In the case of Outokumpu, the new organizational design also implements accountability structures that help to steer the more decentralized organization and to centralize the commercial responsibility of management.

In order to circumvent potential future problems, the organizational design should also be flexible enough to accommodate the future needs of the organization (Wienclaw, 2008). In fact, Busco et al. (2008, 107) argue that whereas centralized structures with identifiable centers of power and authority seem to be outdated, new organizational forms with a multitude of centers of control are emerging. Busco et al. (*ibid.*) call these new organizational structures, which are neither centralized nor decentralized, 'a-centered'.

### **2.3.3 Key Account Management**

While the issue of centralization versus decentralization is an important one and needs to be considered by company executives in deciding how to compete, another important part of it is the choice of the management model, which can help a company to develop a winning strategy. The management model is the choices made by top executives on how to define objectives, coordinate activities, motivate employees and allocate resources (Birkinshaw & Goddard, 2009, 82). Birkinshaw & Goddard (2009, 84) argue that the most profitable companies are the ones focusing on a higher-order goal rather than on profitability per se. These higher-order goals can be e.g. “Creating people-flow solutions” (KONE) or “Commercial Excellence” (Outokumpu) achieved partly by identifying most important customers, i.e. Key Accounts.

Key Account management (KAM) is one of the most important strategic marketing trends of the past decades. Already in the past, strategically important customers have been treated differently all the time as even most companies that do not formally have a KAM program treat their most important customers with more care than “regular” customers. (Zupancic 2008, 323). Key Account customers generally account for a large proportions of the company’s revenues (e.g. the 80/20 rule - 20% of customers account for 80% of sales) and are thus assigned special attention and management. Moreover, they help to increase market share and improve operational efficiency as more attention can be geared towards them (Wienclaw, 2008). The issue is of great importance to discuss in the case of Outokumpu as KAM has been implemented in Outokumpu and has served as a trigger for the organizational change.

Yet overall, KAM is not an inexpensive endeavor as it includes developing criteria for choosing key customers and increasing investments into these customer relationships. Moreover, Key Account Managers have to be assigned to these customers and they have to be given a high level of authority and status within the company in order to help them implement their KAM programs. Thereby, it is not only important to identify and acquire

Key Account customers, but also to retain them in order to build lasting relationships and increasing revenues in the long run. This is especially due to the fact that it is more costly to acquire new customers than to retain existing ones. Building lasting relationships with key customers can require up to 10 years to completely implement and to achieve the full potential benefits of the relationship (Wienclaw, 2008).

As these key customers are of strategic importance to the organization, they receive premium customer service. Wienclaw (2008) states that, according to previous research, 30 percent of businesses cite financial reasons as primary motivation for KAM implementation. Also, the improvement of relationships, greater market share and higher operational efficiency are main reasons for KAM implementation (Wienclaw, 2008). Moreover, based on an empirical test of about 300 firms in 2 industries conducted by Ivens and Pardo (2008), Key Account relationships help to reduce internal uncertainty (customer's future behavior), while increasing external uncertainty (forecasting of downstream markets). In a Key Account relationship, the supplier's relationship specific investments are higher, which also increases the supplier's dependence while increasing the average revenue of the relationship (Ivens & Pardo, 2008).

## **2.4 Change Management in the Context of Organizational Change**

The foregoing discussion on globalization and strategic rationale behind the relocation of corporate functions has helped to establish a firm understanding on why corporate activities are moved abroad. In the following chapter, the focus shifts from a focus on the motives of relocation towards discussing change management activities that help to implement organizational change.

In order to stay competitive in an ever-changing global market, companies need to learn to adapt to the changes in the market by transforming or developing their organization. Outokumpu aims to focus its attention more on the customer as opposed to an earlier focus

primarily only on the amount of steel produced and sold. The following section will create a framework for understanding why change is necessary and how it is implemented.

#### **2.4.1 The Rationale behind Change**

“Change management is increasingly seen as a permanent business function to improve efficiency and keep organizations adapted to the competitive marketplace” (Meisinger 2008). Change is today a constant fact of an organization’s daily work. In order to remain competitive, companies need to change their processes and people.

Foster & Kaplan (2001) refer to the index by Standard and Poor in order to explain the urgent necessity for corporations to change – whereas in the 1920s, major US companies used to stay on the list of the 90 biggest US companies for 65 years, by 1998, the average anticipated tenure had decreased to 10 years. Also, Hamel & Välikangas (2003) confirm that from 1973 to 1977, an average of 37 Fortune 500 companies per year were entering or leaving the list, yet in the midst of a 50 percent, five-year decline in net income, from 1993 to 1997, the average number of companies doubled to 84 each year. These arguments confirm the growing need of large companies to step up to the change challenge, because earlier theories of continuity no more apply in the same magnitude today.

The particular discrepancy between an organizations’ aim for continuity and a discontinuous environment, creates a tension that needs to be well understood and managed in order to hinder discontinuous external forces to destabilize the organization. The problem is that corporate control systems rely on convergent thinking, i.e. on clear problems and fast solutions. Discontinuity on the other hand thrives on divergent thinking – the focus on questions rather than quick answers (Foster & Kaplan 2001, 45-46).

Adams & Bell (2003) argue that the adaptation to strategic failure in companies is not possible without traumatic wake-up calls. The loss of market share, a falling share price or

earning slumps are necessary in order to make managers aware of the need to change. Also, although managers were able to grasp the need to change and to apply resources strategically, the change needs to be far-reaching, not a convenient solution that requires only little adaptation. “Disconnections occur when managers begin to seek multiple, hedge, or pain-free solutions” (Adams & Bell 2003).

In the case of Outokumpu, the company has been very much dependent on the highly volatile market of nickel, inconsistent buying behaviors of speculative distributors and an ever changing stainless steel market that is strongly influenced by the emergence of new competitors in the Asia Pacific region. The need for organizational change is deeply rooted in the emergence of a world market and the fast pace of globalization.

Burke (2008, 1) argues: “Planned organization change, especially on a large scale, affecting the entire system, is unusual: not exactly an everyday occurrence. Revolutionary change – a major overhaul of the organization resulting in a modified and entirely new mission, a change in strategy, leadership and culture – is rare indeed.” Evolutionary organization change is rather unplanned and gradual, a day-to-day occurrence. Outokumpu, established in 1914 as a copper mill in Outokumpu, Finland, has gone through numerous evolutionary changes, but only few revolutionary changes such as the merger to become AvestaPolarit in 2000 and the restructuring based on a change in strategic direction in 2008.

Organization change needs to be understood on a deeper level because current and future trends in the external environment affect the actions of multinational corporations on both national and international level. Moreover, the external environment changes much faster than organizations themselves and business organizations do not last as long as they did in the past. Therefore, knowledge about how to understand, lead, manage, and change organization is of utmost importance (Burke 2008, 1).

In order to stay ahead of the competitive game, Foster & Kaplan (2001) argue that corporations need to get more like the market itself. The inherent conflict between the need for corporations to control existing operations and the need to create an environment that

permits the flow of new ideas to flourish, has thereby a central point. Few corporations have attempted the current transformation from a state of continuity to a state of discontinuity and even fewer have been able to make change a permanent state of the business. One reason for this can be found in the “cultural lock-in” – the inability to change the corporate culture in the face of clear market threats (Foster & Kaplan 2001, 43). Corporate culture is thereby central as it is the key towards implementing change and enabling the flow of new ideas. The market moves to new spheres regardless of whether the corporation follows or not. This is the reason why so many large corporations fail to compete effectively when the market changes. Managing for divergent thinking therefore means managing to ensure that the right questions are addressed early enough. This requires the establishment of a “rich context” of information to stimulate the right questions (Foster & Kaplan 2001, 50).

Burke (2008, 11) argues that organizational improvements are possible, but that fundamental organization change is difficult. One example is the management of mergers, whereas 75 percent of mergers fail and change is not implemented properly. Attempting to change the culture of an organization is particularly difficult when the danger is not perceived as threatening.

#### **2.4.2 Factors and Drivers of Change**

In the light of the rationale of change, it is of equal importance to understand the drivers which lead to the change. As Hamel & Välikangas (2003) note: “a turnaround is a transformation tragically delayed... companies need to build the capacity of change before the case for change becomes desperately obvious.”

Many organizations have invested heavily in capital-intensive expenditures such as new equipment and technology (e.g. SAP or Oracle) in order to decrease costs and increase productivity (Hornstein 2008). Change Management is therefore closely connected to

technological advances as technology helps to create the framework within which the changed organization will operate. “The international development of MNCs is guided by overall corporate strategy decisions based on sophisticated information systems.” (Forsgren et al. 1995, 488). Typically change consists of fine-tuning, of installing a new system for sales management, initiating a program to improve the quality of products or services, or changing the organizational structure to improve decision-making (Burke 2008, 11). Outokumpu has gone even further than this – changing not only the structure, but also the strategy of the company. New systems and programs have been introduced, new people recruited and new investments made (Kauppalehti Online: Outokumpu investoi 10 miljoonaa Sheffieldiin, 16.5.2008; Outokumpu ostaa italialaisen teräsjakelijan, 23.4.2008).

Nevertheless, the introduction of new technologies does not guarantee that employees will actually use them and therefore, the people factor is of utmost importance (Harrison 2008, 19). The integration of these new assets into the change management process through people is even more important than the technology itself (Hornstein 2008).

The change needs to be lead and managed by senior management for change to be consistent and well implemented. A structured approach to change management ensures that it is managed, reinforced and focuses on delivering sustained business benefits (Harrison 2008, 19). Technology initiatives need to engage the most impacted staff in order to proactively avoid a negative response. Negative reactions may be linked to insufficient information, the training implications and the potential impact on role changes (Hornstein 2008).

Change strategy should be aligned with business goals and project objectives. All streams of the project should support the delivery of the same vision and target. According to Harrison (2008, 20), a good means to achieve this is to list the planned benefits in tabular form, with an owner allocated to each benefit, as appendix to all project documentation. Change management should be treated like any other stream of the project, defining deliverables, clear actions and timelines (*ibid.*).

Managers use change management strategies to create a culture that embraces change – which often makes the difference between the success and failure of new management processes and system implementation. People tend to resist change as they do not understand the change or do not agree with the new direction that management is taking. Also, resistance is often based on anxiety about the future and how one fits into the new organization (Gotsill & Natchez 2007, 24-25). Executives that acknowledge the human side to change management can take important first steps to a positive outcome (Gotsill & Natchez 2007, 26). In acknowledging the following fundamentals to change management, a successful implementation of change becomes possible (*ibid.*):

- 1 **Focus on people:** Employees need to be part of the project and their opinion needs to be taken into consideration in order to avoid the resistance to crush the project.
- 2 **Communicate strategic messages:** Corporate communications play a key role in any change management strategy.
- 3 **Combine communication and training:** New company management systems and processes affect the way people work, therefore, training is of major importance. This includes self-help, e-learning, local experts to provide group or individual training.
- 4 **Action learning:** In helping staff and managers to work together as they learn the new processes, action learning helps individuals and groups to learn from each other's experiences.
- 5 **ROI metrics:** Successful learning environments budget between nine and 17 percent of their total payroll to change management and training.

Therefore, “Focused, organizational change management is the prescription that leads to successful programs” (Gotsill & Natchez 2007, 27).

### **2.4.3 Leading Change**

“Control is fundamental to the manager. There is no point making decisions if there is no assurance that the decisions will be carried out” (McDonald, 2004).

The drivers of change help to understand why change is necessary, yet it is leadership that defines the framework within which the change takes place. Leadership creates a vision for change and aligns people with that vision in order to enable the implementation of change despite possible obstacles and problems. The creation of change management roles within the organization, populated by organizational members, helps to create successful outcomes of the change management process. Identifying key individuals that support the change initiative is only one part of the key change enablers, others are: organizational structure, policies, information dissemination, training and development, performance evaluation and recognition (Hornstein 2008).

According to Hornstein (2008), systematically approaching the issue of change management, leaders, managers, and staff can work together in order to implement the new technology and business process changes. Four independent approaches help to create such collaboration:

- 1 **Participative leadership:** values and leadership behaviors that help align employees with the goals of the company, it increases involvement and empowers employees to work together – on a managerial and a staff level
- 2 **Empowerment:** supports high staff involvement in change initiatives in sharing some decision-making responsibilities among management, supervisors and staff
- 3 **Systems thinking:** changes in one part of the organization will affect all the other parts of the organization, therefore some initiatives need to be more group-focused than individual-focused
- 4 **The eight-step change process** by Kotter.

In accordance with the fourth approach, Kotter (1996) sees leading change as an eight-step process:

1. Establishing a sense of urgency

Identifying and discussing major opportunities and being clear why they must be accomplished now

2. Creating the guiding coalition

Putting together a group with enough power to lead the change

3. Developing a vision and strategy

Creating a vision to help direct the change effort and developing strategies for achieving that vision

4. Communicating the change vision

Using every vehicle possible to constantly communicate the new vision and strategies

5. Empowering employees for broad-based action

Changing systems and structures that undermine the change, encouraging risk taking and non-traditional ideas, engaging employees as partners

6. Generating short-term wins

Visibly recognizing people who made wins possible

7. Consolidating gains and producing more change

Using increased credibility to change systems, structures, and policies that do not fit the new vision and hiring, promoting, and developing people who can implement the change vision

8. Anchoring new approaches in the culture

Creating better performance through customer- and productivity-oriented behavior, more and better leadership, and articulating the connections between new behaviors and organizational success

Also Aquila (2008) argues that employees are at the heart of the change. In order to help employees think strategically, the following activities are necessary:

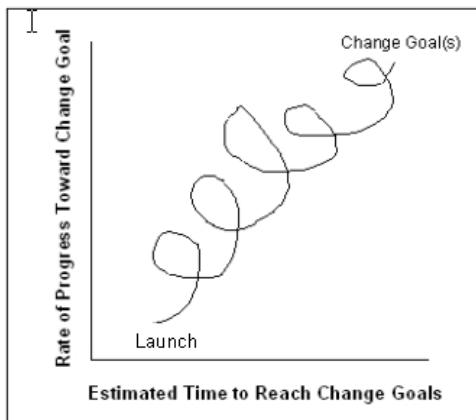
- Set Priorities (establish 2-5 priorities)
- Focus (create measurable results)
- Measurement and Reporting (performance management)
- Organizational Structure (make sure the tasks in the organization flow together on the basis of the company's structure)
- Communication (tell employees what you are doing and why)
- Commitment (involve your employees)
- Compensation and Awards (performance-oriented compensation system)

These different approaches show that managers must create a company culture that helps to implement the change. Establishing too many priorities, failing to communicate results, or lack of commitment can hinder the establishment of a changed culture.

#### **2.4.4 The Change Process**

As drivers define why change is necessary and leadership helps to align the organization with the change, the change process is much more complex. In fact, the paradox of a linear change process is not realistic as companies implementing change usually see a more confusing and unanticipated way of implementation. The emergence of patterns may arise during the implementation phase, yet this emergence is only realistic when clear goals and targets have been set on beforehand (Burke 2008, 12).

**Figure 3: The Change Process**



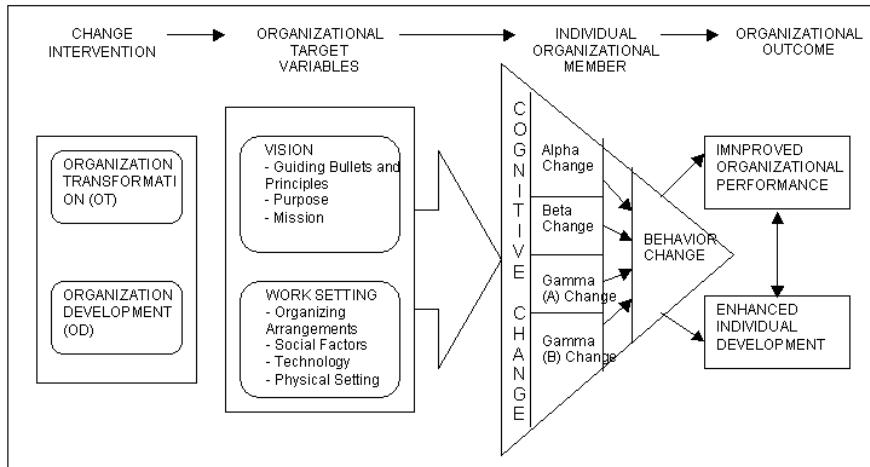
Source: Burke (2008, 13)

The change process as such can therefore not be regarded as linear. Nevertheless, Burke (2008, 104 from Lewin, 1958) identifies three different phases of change:

- (1) **Unfreeze** the system by creating a sense of urgency, educating managers to behave differently – leaving the organization at a more liable condition to change
- (2) **Movement** in changing the organization and pushing it to new directions with different technologies and ways of operating
- (3) **Refreeze** the system in its new state in order to reinforce the changes

Based on this very simple model, Porras & Silvers (1991) developed a more sophisticated model to explain the process of organizational change:

**Figure 4: The Process of Organizational Change**



Source: Porras & Silvers (1991)

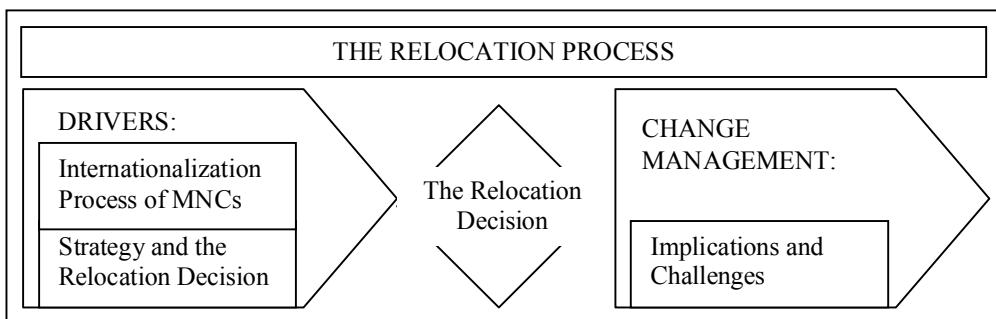
The process of organizational change begins with a change intervention that is intended to have an effect on the organization's vision, purpose and mission (an OT intervention, e.g. the election of a new CEO) or an intervention that is aimed at changing aspects of the work setting (an OD intervention, e.g. the introduction of a Six Sigma production system) (Porras & Silvers 1991). The theory by Porras & Silvers (1991) is very straightforward, going out from a linear view on organization change. The setting of targets creates a mission and purpose for the change, which is then adopted by individual employees in different functions. The idea is therefore that individuals will act upon the change once it is implemented. As such, the framework is therefore disregarding the important people factor behind the change, which is a prerequisite for successful organization change, and therefore partly contradicts Burke's view of a non-linear change process (2008, 12).

The different areas of change – the rationale, the drivers, leadership and the process of change show that change management is a strategic process that needs to be well managed while focusing on people, as it is the employees that are instituting the change that has been decided by management. Overall, although organizational development can be seen as a way of adapting to the market, large-scale change only occurs when organizations are fully transformed.

## 2.5 Theoretical Framework

The foregoing chapter has established a framework to explain the relocation of corporate activities abroad, in linking the external pressures of change (particularly globalization) with the internal pressures of organizational change (strategy) and the resulting need for change management. The framework for this thesis can be explained by the following figure:

**Figure 5: Theoretical Framework of the Study**



*Source: Author*

This thesis explores the relocation process through key drivers that lead to the relocation decision and thus make change management necessary. The chapter on the relocation of corporate activities forms the background, creating understanding of functional HQ relocation. The internationalization as well as the strategy section help to grasp the magnitude of external pressures to globalize and strategic decisions to reorganize corporate activities in the process. These two sections can be seen as the external and internal drivers for relocation. The chapter on change management explores the implications and challenges of relocation by focusing on management and communications aspects of the change.

Overall, this framework serves as a basis for how the strategic change and organizational reorganization is explored in the empirical chapter of the thesis. Both the theoretical framework as well as the empirical findings are designed and structured to answer the research questions presented in the beginning of the thesis.

### **3. METHODOLOGY**

#### **3.1 Methodological Choices**

The used methodology in this thesis is qualitative, with a focus on one case and a consultative approach. Case studies help to better understand the complex organizational processes and which actors attach to their actions (Barner-Rasmussen et al. 2007, 263). The real-life context is distinct from laboratory experiments, which isolate the phenomena from their context. In fact, case studies emphasize the rich, real-world context within which the phenomenon occur (Eisenhardt and Grabner 2007, 25). Although Yin (1994) argues that case studies provide little basis for scientific generalization, it is nevertheless applied extensively in as wide subject areas as e.g. psychology, sociology and management. Also, although the single case study methodology has been regarded as inferior to the multiple case study methodology (Yin, 1994), Easton (1995, 382) argues that a larger number of cases does not guarantee for the quality of the study: “Researching greater numbers of cases, with the same resources, means more breadth, but less depth”. The methodology for this case study is single and thus the depth of the research gains a central point. Whereas single case studies can richly describe the existence of a phenomenon, multiple case studies can be used for theory building (Eisenhardt and Grabner 2007, 27). Therefore, the main aim is to describe the phenomena of functional relocation of Outokumpu and to benchmark the two other case companies.

As case studies should not simply be a description of events (Easton 1995, 379), the underlying theory gains on special importance and the researcher should “invest in theory to keep some intellectual control over the burgeoning set of case descriptions.” (Weick 1979, 38). For these reasons, this thesis puts great weight on theory in examining the reality and its implications for Outokumpu, as described in the literature review chapter. Moreover, the study is as a first thought deductive: “developing propositions from current theory and making them testable in the real world” (Dubois & Gadde 2002, 559).

Dubois & Gadde (2002, 558) argue for a tight and evolving framework that does not force

the study within certain borders, but rather evolves over time. Therefore, the original idea is to create a case study within certain boundaries that nevertheless does not “dictate” the results. The research method is thus not solely positivistic, but aims to explore and to find new insights into the research area as it evolves. In order to avoid to be overwhelmed by the volume of data (Eisenhardt 1989, 536), the research questions were developed to guide the process of data collection and analysis and to help adhere to a “red thread” throughout the study.

### **3.2 Data Collection Method**

Yin (1994) argues for the accuracy of case studies that use numerous sources. Therefore, this thesis is based on different sets of sources. The earlier work experience and personal involvement of the researcher in the change gains thereby on central importance. This data is further complemented by presentations of company representatives during different occasions at company HQs and at HSE, communication of the change in the Outokumpu stakeholder magazine, as well as an Organizational Blog, discussing the change on a more detailed, managerial level. Moreover, an interview with an earlier change agent who was personally involved in the change process over two years before the actual organizational change and who now works as Vice President at the new functional HQs in Brussels, helps to understand the change on a deeper level.

Also, Eisenhardt (1989, 534) argues for the use of several sources as case studies typically combine data collection methods such as archives, interviews, questionnaires, and observations – most of which are used in this study.

The following table shows the different data sources used for the analysis of the relocation of Outokumpu:

**Table 3: Data Collection Sources**

<b>Company</b>	<b>Name</b>	<b>Date</b>	<b>Subject</b>
Outokumpu	Own work experience before, during and shortly after the implementation of the new organizational structure	4/2007 - 8/2008	Analyst Trainee in "Commercial Excellence" and "Business Process Development" at HQs in Espoo as well as 2 months at new functional HQs in Brussels, Belgium
Outokumpu	Interview with Liam Bates, Vice President and earlier Change Agent, conducted in Brussels	1.8.2008	Interview on the relocation of functional headquarters to Brussels
Outokumpu	New Organizational Blog, Outokumpu intranet	5.3.2008 – 3.7.2008	Blog on Outokumpu intranet with the purpose to share thoughts and feelings on the organizational change
Outokumpu	Kauppalehti	28.4.2008, 19.05.2008	Outokumpu divestment of copper tube assets
Outokumpu	Kick-off meeting in Stockholm	16.4.2008	New organization kick-off, meeting of all members of the new team
Outokumpu	Visit to Outokumpu Corporate HR department in Espoo	14.04.2008	Presentations by Executive VP – HR, Timo Vuorio; VP – Corporate Strategy, Antti Bergholm; VP – HR, Resource Management, Heli Alén; and VP – HR Development, Carita Himberg
Outokumpu	Presentation by Armi Temmes	9.04.2008	Presentation at HSE on the History of Outokumpu Oyj
Outokumpu	Presentation by Juha Rantanen, CEO of Outokumpu	3.04.2008	Presentation at HSE on Organizational Change
Outokumpu	Outokumpu Factor	2008	Outokumpu Group's biannual stakeholder magazine
Outokumpu	Annual Report 2003, 2007 and 2008	2003, 2007 & 2008	Annual information on Outokumpu

### 3.3 Data Analysis Method

The analysis of qualitative data is particularly different from statistical analysis, as the data as such does not exist in a quantitative form. The analysis of the different sources of data as mentioned in the last chapter (presentations, interviews, press releases, etc.) is based on “systematic combining”.

Eisenhardt (1989, 538) points out the frequent overlap of data analysis with data collection

and argues for the need of keeping a field diary that helps to record findings on the field. Therefore, as the researcher has gathered data throughout the spring and summer 2008 and presentations, company visits, intranet and newspaper articles have helped to shape the final idea for the thesis, this kind of field analysis has been taken into account. This kind of activity can also be called “systematic combining” (Dubois & Gadde 2002, 555), as it means constantly going back and forth between theory and empirical observations. The researcher can thus expand her understanding of both theory and empirical phenomena. As the theory is confronted with data from presentations, press releases etc. and then further explored through an interview at Outokumpu, the theory is being explored through the empirical world and vice versa.

Eisenhardt (1989, 540) emphasizes cross-case search for patterns. In order to avoid information-processing biases, categories and dimensions were selected to look for within-group similarities coupled with inter-group differences. The dimensions were chosen by the research of Barner-Rasmussen et al. (2007), adding new dimensions as reflected based on further theoretical evidence through primary as well as secondary data. The next step was the systematic comparison between these cases, in further reflecting on the theory on unit relocation as suggested by *inter alia* Forsgren et al. (1995) and Kalevi Euro (2002).

As Dubois & Gadde (2002, 559) argue based on Weick (1979, 37), findings are not stable over time and thus, interpretations specific to situations are actually a strength rather than a weakness. Therefore, although the data analysis is based on data that is instable, such as in the case of the real-time research on Outokumpu, it provides valuable information for interpretations.

## **4. EMPIRICAL FINDINGS AND ANALYSIS**

### **4.1 Outokumpu Corporation**

In the following, the case company will be presented first, before discussing the motivations for relocation, change management issues in the process and the implications of the relocation of functional HQs. As mentioned in the previous chapter, the data for the analysis is based on own experience, an Organizational Blog on the change, presentations by company representatives, a stakeholder magazine, as well as an interview with a Vice President at the new functional headquarters of Outokumpu in Brussels, Belgium.

Outokumpu Oyj has dramatically changed its organizational structure from April 1<sup>st</sup> 2008, which has resulted in a matrix organization as well as the very recent relocation of functional headquarters of the “Group Sales and Marketing” function to Brussels, Belgium.

#### **4.1.1 Company Profile**

Outokumpu today is an international stainless steel company operating in some 30 countries employing around 8,000 people. The company is considered to be one of the leading producers of stainless steel in the world and an innovator in many fields, for example in technical support and research and development. Outokumpu was founded in 1914 in Outokumpu, Finland, after the discovery of a copper source. Outokumpu’s history in stainless steel started in the late 1950s with the discovery of a very rich chromium deposit in Kemi, with ore reserves of five percent of the world’s total chrome and ore supply (Lövio 2003, 282). The company has been largely owned by the Finnish state and has experienced drastic internationalization and expansion from 1970 onwards. Throughout the years, the company has engaged in licensing agreements as well as acquired several businesses. One of the most significant acquisitions was the merger with Avesta Sheffield AB to form AvestaPolarit in 2000. Outokumpu had agreed to reduce its holding to no more

than 40 percent within the next three years, yet one year later, Corus (the majority holder of Avesta Sheffield AB) was ready to divest its whole stainless steel business. This resulted in the biggest individual acquisition of Outokumpu, carried out as a cash deal of 1.1 billion € in 2002. Interestingly, the merger consolidated the stainless steel production of Finland, Sweden and the UK (Lovio 2003, 283).

Outokumpu has since divested several of its businesses and focuses today only on the stainless steel industry (Presentation by Armi Temmes, HSE, 9.4.2008; Lovio 2003). The divestment is based on the competitive advantage of the company in stainless steel:

*“Looking at our business portfolio, it is quite obvious that our highly efficient stainless steel production chain, including chrome-ore mining and ferrochrome production, will be our foremost growth area...”* (Former CEO Jyrki Juusela 1998: Lovio 2003, 282)

A further withdrawal has taken place only recently through the divestments of the last copper businesses as well as the technology business, which forms today a new company called ‘Outotec Oyj’ (see also chapter on ‘Globalizing Internationals’).

In 2008, the Outokumpu Group’s sales were some 5,5 billion €, of which some 95 percent were generated outside Finland. The main market area of the company is Europe, where Outokumpu has a market share of 16 percent of the stainless steel coil market. The company’s main production sites are located in Tornio and Kemi in Finland, Nyby, Långshyttan and Degerfors in Sweden, Sheffield in Britain and Newcastle in the USA. The company also has various other locations for bar products, welded tubes and tube components in the different parts of Europe as well as in North America. Outokumpu headquarters are located in Espoo, Finland and the parent company, Outokumpu Oyj, has been listed on the Helsinki stock exchange since 1988 (Outokumpu Annual Report 2008, 6). The main products of the Outokumpu Group are hot and cold rolled stainless steel coil, sheet and plate. Customers include processing and constructions industries, the transport sector, food and electronics industries as well as the producers of domestic appliances and industrial machinery around the world (Outokumpu Company website).

Outokumpu is one of the world's largest producers of stainless steel, with melting capacity totaling 2,55 million tons, thus only 0,6 tons under the market leader, ArcelorMittal of the Netherlands (Outokumpu Annual Report 2008, 7).

#### **4.1.2 Vision, Strategy and Leadership**

The following section will introduce the vision, strategy and leadership principles of Outokumpu Oyj, which form an important basis for the understanding of the company and its culture.

##### **Vision and strategic objectives**

The vision of Outokumpu is to be the undisputed number one in stainless steel with success based on operational excellence. This means:

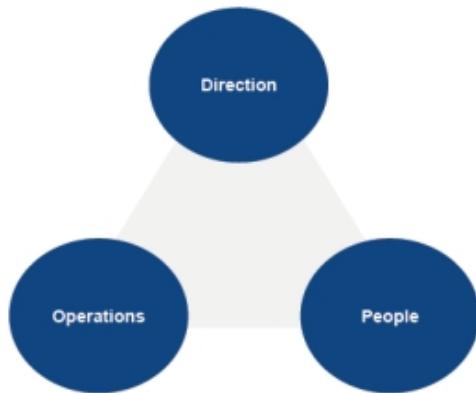
- 1 Best financial performance in the industry
- 2 Industry benchmark in customer relationship management
- 3 Most efficient production operations
- 4 Most attractive employer

In order to achieve this vision, the board of directors has defined two key strategic objectives:

- 1 Value creation through building superior production and distribution capabilities in all the world's major markets
- 2 Value realization through commercial and production excellence

Outokumpu's future success is based on building and reinforcing operational excellence in both the commercial and production sectors. Key strategic objectives are the creation of value due to superior production in all markets, realization of value by using commercial and production excellence and sustaining value by continuously developing employees and by putting customer at the heart of everything (Outokumpu Company website).

**Figure 6: Three important Areas of Outokumpu's Strategy**



*Source: Presentation by Juha Rantanen, HSE, 3.4.2008*

The above picture shows the three important areas of Outokumpu's strategy as viewed by Juha Rantanen, CEO of Outokumpu Oyj. *Direction* refers to moving away from bold decision-making and towards a portfolio approach in Group management, thus creating a “one company approach” according to which the whole company operates. *Operations* are already strong with a strong reputation, yet the large performance variations as well as site-based performance culture have to be tackled. These changes should help *People* to feel pride in commercial excellence and foster a strong feeling of accountability, while emphasizing people development.

### **Outokumpu's key strengths**

The key strengths of the company are (Outokumpu Company website)

- 1 Stainless steel is the fastest growing segment in the metals market
- 2 The world's most cost-efficient production site in Tornio
- 3 A strong position in specialty products
- 4 Strong commitment to customer-related performance and orientation

The consumption of stainless steel is growing more rapidly than any other metal in the world. Outokumpu is one of the largest producers of stainless steel and is widely recognized as a world leader in technical support, research and development. Outokumpu's

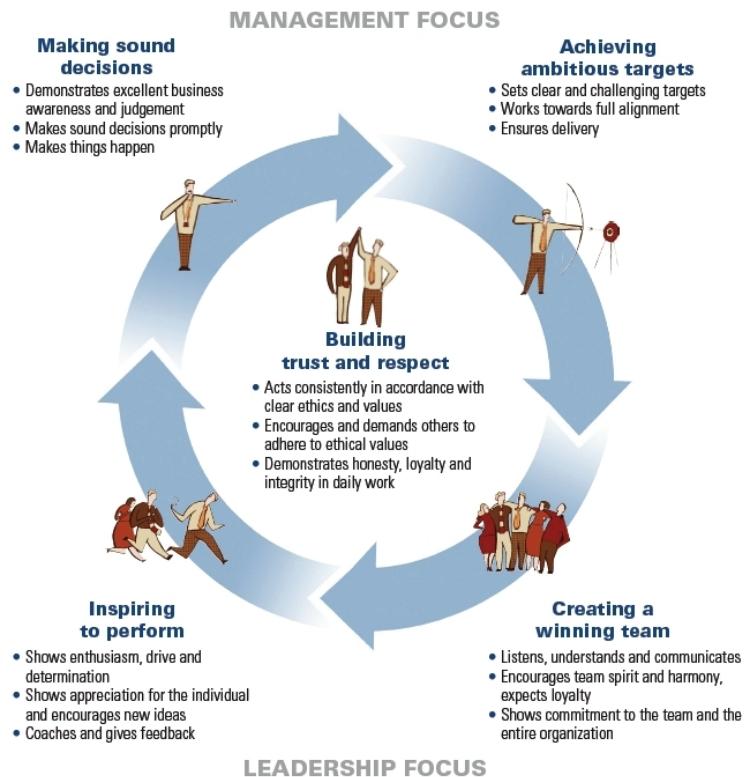
main products are cold and hot rolled stainless steel coil sheet and plate. Other products include precision strip, hot rolled plate, long products as well as tubes and fittings. These products are mainly used in the process industries such as pulp and paper and chemicals as well as in the offshore industry, catering and households, automotive industry and building and construction. Outokumpu produces specialty stainless products also e.g. for the electronics and IT industries (Outokumpu Company website and intranet).

One large transaction, and one of the most exciting from my point of view, was the delivery of Outokumpu stainless steel for the construction of the BMW World building in Munich, Germany, which was inaugurated in 2007 (Outokumpu homepage – Stainless Shines on Architectural Masterpiece).

### **Leadership principles**

The company has a distinct corporate culture that is based on the “Outokumpu leadership principles” and emphasizes ambitious targets, teamwork and the ability to inspire and make the right decisions (Presentation by Juha Rantanen, HSE, 3.4.2008). Good leadership is a basic element of successful business. It is built on trust and respect. Inspiration springs from a work environment that motivates and encourages participation. Outokumpu leaders have the task of creating such an environment and of making sure that people feel enthusiastic about their work (Outokumpu Intranet, Juha Rantanen).

**Figure 7: Leadership Principles at Outokumpu Corporation**



*Source: Intranet and presentation by Carita Himberg at Outokumpu headquarters, 14.4.2008*

According to Timo Vuorio, Executive Vice President – Human Resources, winning companies incorporate five essential elements (Visit to Outokumpu Corporate HR department, 14.4.2008):

- 1 Leaders who can manage people: engage, coach, trust, allow flexibility
- 2 Good performance management systems
- 3 Good competence management systems
- 4 Strong change management capabilities
- 5 Distinct corporate culture

The leadership principles were developed for facilitating the behavior change, emphasizing the importance of leadership and creating a behavior model for the ‘One Company’ idea.

The principles are a set of concrete behaviors for clarifying what is expected of Outokumpu leaders. There is strong correlation between leadership and motivation, people satisfaction and employer image (Timo Vuorio, New Organizational Blog 19.3.2008).

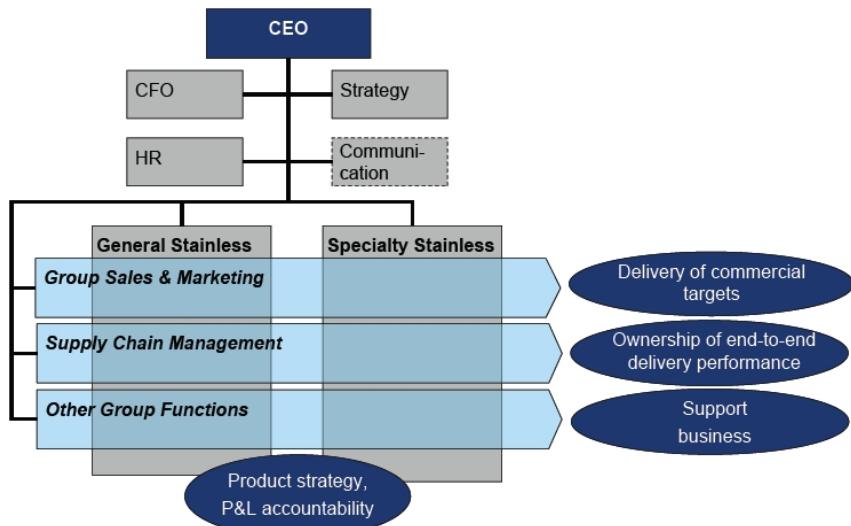
According to Carita Himberg Vice President – HR Development, the role of corporate culture in Outokumpu is to give guidelines to employees according to which daily operations can be conducted. Culture is as important as strategy for business success. The 2007 Bain & Company survey of nearly 10,000 global managers cited this as the number one management truism of today and 91 percent of managers agreed (Visit to Outokumpu Corporate HR department, 14.4.2008).

Antti Bergholm, Manager – Corporate Strategy, emphasized that HR is a key area of consideration in both strategy formulation, and in its implementation. The recent elevated role of HRM in corporations is based on the demographical challenges and the resulting “competition for talent”, cross-cultural management, increased knowledge-intensity of the work, and innovation by diversity (Visit to Outokumpu Corporate HR department, 14.4.2008).

#### **4.1.3 The New Organization**

Outokumpu Oyj introduced a new organization starting from 1<sup>st</sup> of April 2008 in order to align the organization with its new strategy. The company was formerly divided in different units with corporate functions located in Espoo, Finland. These different sets of units were Business Units (such as Tornio and Avesta), which produce stainless steel and incorporate hot- or cold-rolled facilities, different service centers, and sales companies (e.g. Finland, Italy, etc.), which handle the sale of stainless steel to customers.

**Figure 8: Outokumpu – Integrated Organization as of April 1<sup>st</sup> 2008**



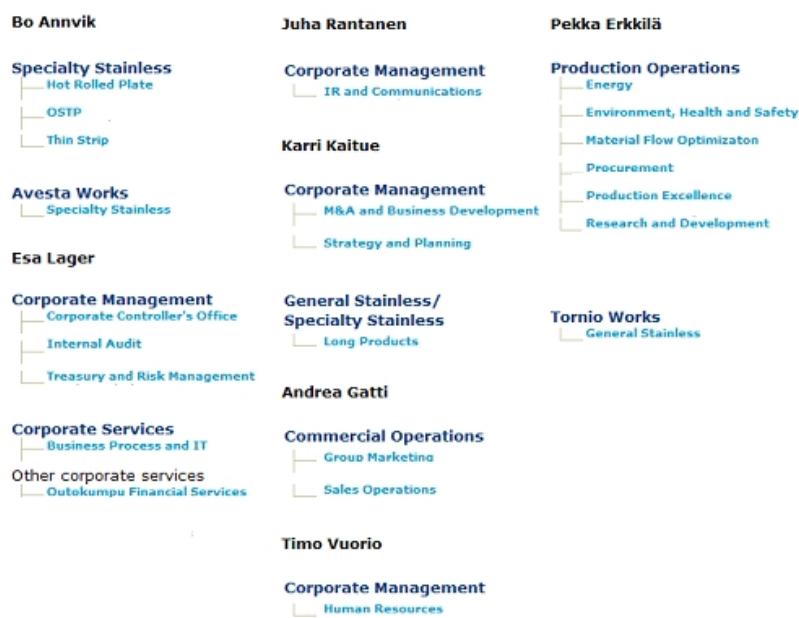
*Source: Outokumpu Intranet, Presentations by Antti Bergholm and Carita Himberg, Outokumpu headquarters, 14.4.2008*

The figure shows that the different group functions are part of the corporate functions. It is thereby noteworthy that the heads of the ‘Group Sales and Marketing’, ‘Supply Chain Management’ and ‘Other Group Functions’ are part of the executive team of the company and that especially the ‘GS&M (Group Sales and Marketing)’ is of central importance due to the customer focus and relocation of the function to Brussels, Belgium. In fact, the idea of the new organizational structure is to serve customers better in an integrative way ('One company approach') and to avoid overlapping customer relationships, as the customer deals with several units at the same time. The GS&M divides the different customer groups by clusters and segments and essentially shifts commercial responsibilities to cluster heads, based in Brussels, who are responsible for the cluster overall and supervise the segment leaders that belong to their cluster (e.g. cluster: automotive, segments: transport etc.). The Key Accounts receive thereby special attention from cluster and segment teams. The new organization is key to create a more stable business model, diminishing the importance of distributors and increasing sales to end-users and special grades sales, as well as truly understanding the customer’s needs.

The organizational change has been prepared since 2005 after the inauguration of Juha Rantanen as new CEO of Outokumpu. The researcher was working 1,5 years at the GS&M function (since April 2007) and was involved in analyzing the customer base and preparing the KAM. The former function at HQs in Espoo was also called 'Group Sales and Marketing' and the researcher was working in 'Commercial Excellence' which became 'Business Process Development' after April 1<sup>st</sup>. The function in Espoo was rather small, with around 10 people in total working on what would become a group-wide change and the single most important function of the new customer-oriented organization, based in Brussels.

**Figure 9: Outokumpu – the ‘old’ Organization**

**Overview - Organization 1st October 2007**



Source: Outokumpu Communications, received on 10.7.2008

As the picture of the old organization structure shows, the earlier focus was very much on the different Business Units and thus on the production of stainless steel rather than on the customer.

## **4.2 Motives for Relocation and Change**

The following chapter discusses the relocation process of the GS&M functional HQ. Next to the author's own 1,5 year work experience and personal relocation to Brussels, the research on Outokumpu's relocation is further supported by evidence received in an interview with a Vice President at new commercial headquarters in Brussels, during the kick-off meeting for the new Group Sales and Marketing in Stockholm, Sweden, on the 16<sup>th</sup> of April, the 'Outokumpu Factor' stakeholder magazine, as well as the 'New Organizational Blog', on the Outokumpu Intranet, dealing with the organizational change.

The decision to relocate functional headquarters is closely interlinked with a change in strategic direction and organization at Outokumpu. The relocation of functional headquarters has been a result of a new organizational structure and a strategic change towards KAM and a customer-based approach. It has to be noted that the change process overall is rather an evolution through small steps of change than a drastic overnight re-organization. For Outokumpu, the changes were institutionalized starting with the inauguration of the new CEO in 2005 and the change in organizational structure is by no means complete by moving the functional headquarters to Brussels on April 1<sup>st</sup> 2008.

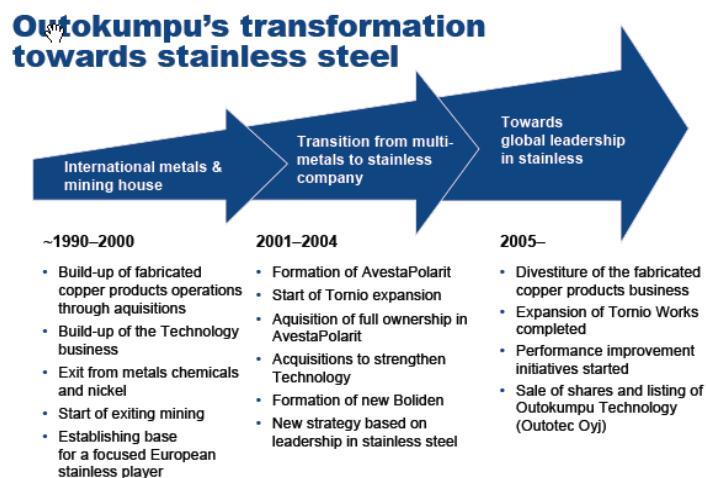
### **4.2.1 Environmental factors leading to change**

Outokumpu's organizational change is to a great extent influenced by the company's need to comply with market-product considerations in order to stay competitive in the fiercening market for metals and metals technology. As mentioned in the previous chapter, the stainless steel market is a growing market as it is the fastest growing segment in the metals market. Particularly the increased influence of China as low-cost producer of stainless steel as well as the increased competition and globalization have to be mentioned as main triggers for change.

*"In today's competitive situation, where anyone with sufficient funds can buy the same equipment and build plants with similar capability, the competitive edge has to be found elsewhere. Phrased slightly differently, one could say that excellence in product development is an equally important strategic differentiator as manufacturing capability." (New Organizational Blog, 18.4.2008)*

According to Mintzberg and Waters (1985), the environmental boundaries determine the variety of strategic alternatives a company can draw upon. As Mintzberg puts it, "strategies can be imposed from outside...; that is, the environment can directly force the organization into a pattern in its stream of actions" (Mintzberg & Waters 1985, 268). The response of Outokumpu was to develop as a "Globalizing International" (see theory by Gabrielsson), as shown in the below picture from a presentation by Juha Rantanen, Outokumpu is today in the phase of global alignment and has divested its non-core activities to globalize through one core activity (stainless steel) . The last divestments of non-core activities have taken place especially in summer 2007 with the divestments of Outokumpu Technology (which today forms a new company called 'Outotec Oyj') as well as the divestments of the remaining copper tube assets to Cupori Group in 2008 (Pörssitiedote, April 2008).

**Figure 10: Outokumpu's Transformation towards Stainless Steel**



Source: Presentation by Juha Rantanen, HSE, 3.4.2008

As mentioned, particularly China has thereby served as external trigger for this change as China has become a huge and steadily growing market with annual growth rates of 15

percent in the last years, compared to 2 percent in Europe (Outokumpu Annual Report 2008, 6). As the CEO states:

*"China has become a significant stainless steel market, with cold rolled consumption already higher than that of the Europe! Simultaneously Chinese companies are building new production capacities that will turn China from being a net importer to becoming self-sufficient" (Outokumpu Company website, 2008)*

Chinese stainless steel companies manage to work on exceedingly profitable convergent margins, as their cost-efficiency is among the highest in the world. Although cost-efficiency is also one of Outokumpu's major strengths, the factor prices in Finland can not reach the ones available in China or other developing countries. This situation forced Outokumpu to further focus on its key competence, which had been identified as an "extensive knowledge in metals processing" (Outokumpu Annual Report, 2003). The logical consequence was thus to aim at a quality leadership in the stainless steel business, by not only building up a strong technology base, but also concentrating on marketing and sales excellence (KAM). The need for an extensive and professional customer relationship management, build on operational excellence, was at the heart of Outokumpu's strategic alignment from 2005 onwards (after the inauguration of Juha Rantanen as CEO).

#### **4.2.2 Decision process and strategic rationale of relocation**

The relocation of commercial headquarters of Outokumpu Oyj to Brussels, Belgium, was closely interlinked with a shift in strategic change and an increased focus on commercial and customer needs while increasing the share of end-user customers. It was also a reaction to the dearth in commercial talent that needed to be recruited. As the competition intensifies and particularly China can be seen as an upcoming threat to the company, the recruitment of top talent becomes one major distinguishing factor for Outokumpu:

*"Having a strong employer brand is critical in the attraction of talent. Our image as an employer is an integral part of our corporate brand and identity. It tells potential*

*applicants and candidates about us, what our people do, what kind of people we are and what makes Outokumpu an interesting and rewarding place to work. We all know that competition for top talent is fierce - companies that win are those that differentiate themselves with a clear and genuine value proposition on what makes them unique in comparison to others...We should also boost excitement and pride internally about our workplace. What is key to building our employer brand is having a One Outokumpu face to the labor market." (New Organizational Blog, 17.3.2008)*

The main aim was to recruit 30 new employees from Brussels and Outokumpu needed to accommodate 80 new commercial people that all came from different parts of the organization. In the relocation decision, two main decisions had to be made: (1) is the new function going to be moved abroad, and (2) where to? There were several cities on the final list of possible locations, whereas the final decision was made based on an analysis in considering the best location for an office that would serve as a working as well as central meeting point for commercial executives and employees (Interview with Liam Bates, 1.8.2008).

As mentioned, before the relocation of the function, the function had been decentralized in the different Business Units and was proceeded only by a small unit that was introduced in 2005 and located in the corporate HQ in Espoo. The relocation of commercial HQ can therefore be seen as both a centralization of commercial responsibility while at the same time leading to a decentralization of the corporate HQ (Interview with Liam Bates, 1.8.2008). The commercial strategy unit was moved to Brussels, where commercial decisions are made centrally, while the Business Units loose on responsibility. As the strategy is changed to a focus on the commercial function, this means that the corporate HQ actually gives away parts of its decision-making, while keeping other corporate functions in Espoo.

Due to this earlier split of the commercial function across Business Units, there was a weak case to have the commercial HQ in Espoo and the physical move of the function abroad had a large symbolic meaning that made the change visible throughout the organization. Moreover, the power shift disqualified many potential locations from inception and rivalry

among Business Units meant that Sweden and Finland (the countries where the largest Outokumpu operational units are located) were not an option (Interview with Liam Bates, 1.8.2008). Therefore, the choice of Brussels was partly politically motivated:

*“We could not have put the commercial headquarters in Espoo as this would have meant a loss in responsibility [for the Business Units].” (Interview with Liam Bates, 1.8.2008)*

Nevertheless, the Commercial function was not located to a country that would be of most convenience to the main decision-makers, as Mr. Bates put it:

*“We did the opposite than Nokia. Andrea Gatti [The Commercial Senior Vice President originally from Italy] wanted to avoid Italy, although this would have made his life easier [for him].” (Interview with Liam Bates, 1.8.2008)*

The choice of Brussels was based on the need of a neutral and central location. Brussels provided very good infrastructure, it is close to the Northern European countries, it helps to minimize total travel time and has ‘central gravity’, i.e. it is attractive for people who travel there for up to four days a week. Also tax benefits and flexible tax regulations were a reason to locate in Brussels. Furthermore, Brussels has a large pool of English-speaking people, something that Paris or Düsseldorf do not provide to this extent. (Interview with Liam Bates, 1.8.2008)

The particular choice of the ‘Corporate Village’ located close to the Brussels airport in Zaventem, was based on the need to match the needs of commuting and meeting for conferences.

*“The decision is based on what you are aiming to do: do you want to encourage people to live here – thus discouraging them to commute? Or do you want that everybody has access to this office – so that occasional visitors have it easy to come here?” (Interview with Liam Bates, 1.8.2008)*

The decision for Outokumpu was clear – the company needed a flexible, open office for everybody. Although the relocation agency suggested Outokumpu to move to Waterloo (a district in central Brussels with 30 percent of expatriates and a Scandinavian school), the

decision was made to move closer to the airport (Interview with Liam Bates, 1.8.2008).

In order to attract diverse people, the functional HQ had to be in an attractive location, which is confirmed in several studies, where location attractiveness is mentioned as a factor leading to relocation and as defining the location of headquarter activities (Euro 2001, 19; TT 2002, 14).

Finally, it is also interesting to see that the findings by Barner-Rasmussen et al. (2007, 269) were confirmed in the case of Outokumpu. Barner-Rasmussen et al. (*ibid.*) found in their study on large Finnish multinationals moving abroad that none of the case companies mentioned financial reasons for relocation. This was also confirmed by Mr. Bates as the decision did not involve large financial considerations of the location, yet some employees worried about the costs getting out of hand due to the enormous financial input in the relocation of the commercial headquarters.

### **4.3 Leadership and Communication**

The announcement and implementation of the relocation of the headquarters from Finland to Brussels was a strong signal that Outokumpu was not only talking about change, but also implementing it. This did not only mean to move closer to central Europe in order to serving customer demands better, it also meant a reconceptualization of the whole business structure, and redistribution of tasks and responsibilities.

#### **4.3.1 At the verge of the new organization**

In the Outokumpu kick-off meeting for the new organizational team (16.04.2008, Stockholm), the common view was that the implementation of a new strategy will be a challenge, especially as in the beginning of the new organization and with all internal changes taking place, people are looking at their individual destiny. This leads to a focus on internal company procedures and processes, whereas the external world, and especially the

customer, is neglected. Nevertheless, as the new organization is in place, the focus is most likely to shift back to external (GS&M kick-off meeting 16.04.2008).

Particularly during the change process, the focus should therefore not be too much on structure and new roles:

*"It is important that we don't get too obsessed with structures and roles and responsibilities... we should also ensure that we get our old jobs done until we are absolutely sure that someone [the new holder of the position] has understood and taken over these challenges." (New Organizational Blog, 3.4.2008)*

Also, the customer should not be forgotten in the process of changing the organization:

*"One thing that we all have to remember though is that April 1 was a big day for us, but it was like any other day for our customers. We must therefore ensure that our customers do not share any problems or uncertainty associated with our changes. We don't want it to be like Heathrow's terminal 5 which opened last week- an excellent new airport with ultra modern facilities - but 20 000 bags lost and hundreds of flight cancellations." (New Organizational Blog, 3.4.2008)*

Although the new organization is reshaping the organizational structure and the division of tasks and roles is newly established, the competence and experience from the whole organization should also be used in the future (New Organizational Blog 9.4.2008). In the following, the change will therefore be further investigated from the viewpoint of leadership and the success of management in communicating the change and thus enabling a functioning organization.

#### **4.3.2 Internal leadership and communication**

The inauguration of the new Chief Executive Officer, Juha Rantanen, in 2005 was a strong symbol for communicating the urgency for change. According to academic research (e.g., Hammer & Champy, 1993) the change of leader personalities facilitates strategic changes as the new person does not have a fixed role in the organization yet and is thus more free and willing to initiate and implement change. From the beginning, Rantanen, set a new

course and realigned Outokumpu with the new strategy to become the 'undisputed number one in stainless'.

Rantanen's tactic was to communicate it with a top down approach, which meant that managers were supposed to spread the strategy downwards the hierarchy to the next lower level of the organization. Although the logic behind communicating it in this manner appears intuitive, the implementation of the same communication strategy appeared more challenging than expected. Many employees were not aware of the details of the change, as cascading the information seemed problematic (Interview with Liam Bates, 1.8.2008).

*"We are good at getting top management to explain the rationale of change...[yet] I don't think the cascading works so well..."* (Interview with Liam Bates, 1.8.2008)

This clearly states that information was given on the new strategy, but not communicated in a way that employees could understand it.

An issue with strategy acceptance within the company emerged and sources within the company and also the Organizational Blog showed that the strategy was not accepted lower down in the organization. Many employees on the Organizational Blog pointed out that this issue was due to information that was only presented in front of selected managers.

The aim of communication is to make the employees trust that the company is changing to strengthen its position on the market and that the employees can ultimately benefit from it. This requires management to transform the perception of the employees from negative to positive, enabling the company to change from within.

*"Juha Rantanen and his team have been very effective in communicating the change...yet the change needs to come from the inside, the organization needs to build itself..."* (Kick off meeting, Stockholm, April 2008)

For an organization to change from within it is important that managers show commitment to the new strategy, facilitating the change through their own actions. Furthermore, strengthening the company's agenda and employee perception of change as something important would impact all levels of the organization.

In the case of Outokumpu, however, none of the senior managers and only few of the middle management personally relocated to Brussels. The credibility of the new location is therefore shaped by this signal, while most people seem to wait and see how the new office develops before making the decision to personally relocate to Brussels. In fact, most employees are, in the summer of 2008, commuting and have not made any concrete decisions to immigrate to Belgium, which by itself shows that there is a big gap between intentions and commitment. As Juha Rantanen puts it in the ‘New Organizational Blog’:

*“I have been long enough in business to know that structure is no guarantee of organization’s success. It is an enabler. What is most important is people’s behavior.”* (5.3.2008)

The change in strategy seems to be difficult to understand for some Business Units, whereas the Business Units still have profit/loss, but no more commercial responsibility. Yet decoupling them is difficult and this leads to problems of understanding in the Business Units. Some Business Units pretend they do not understand the changes such as Admiral Nelson in the Battle of Copenhagen 1801:

*“Nelson, knowing that this was no time to flee, put his blind eye to good use by putting his telescope to it and saying, “I really don’t see the signal.”* ([http://www.geocities.com/Athens/3682/lord\\_nelson.html](http://www.geocities.com/Athens/3682/lord_nelson.html), comment made by Liam Bates in the interview, 1.8.2008)

Therefore, the Sales Companies (primarily focusing on selling steel, located in different locations worldwide) that had read all the literature on the change, received very different information from the Business Units (the production units) that pretended everything to be ‘business as usual’. This nevertheless has not been true for all Business Units as e.g. Tornio was very progressive in the change process, which was very much based on the fact that key commercial decision makers left the commercial function and welcomed the strategic change.

Furthermore, in the current state (in the summer of 2008) of already introduced changes, that nevertheless were not yet 100% implemented, the senior management took a step back,

leaving the reinforcement of the change to the next level management as the communication strategy was intended:

*"Communication after all, is not only about talking, but about making sure that people listen and understand..."* (Interview with Liam Bates, 1.8.2008)

The intended communication strategy consisting of consistent and continuous communication of change was meant to be one of the key levers in the strategic change process at Outokumpu: In the kick-off meeting in Stockholm, it became very clear that information sharing is of essential importance in the strategic change. As one member of the team expressed:

*"People look at the Brussels office and wonder what they are going to do. We need to make it clear what we are going to do and communicate our goals..."* (Kick off meeting, Stockholm April 2008)

#### **4.3.3 The 'New Organizational Blog' as vehicle to communicate and discuss change**

Key element to communicate and promote change was the 'New Organizational Blog' on the company intranet. Not only the CEO and the management team wrote and commented on the intended steps, but also employees at lower management level could share their perspectives and concerns on the change. The word was passed on from one party to the next through each person's individual network. Juha Rantanen was the first to make an entry:

*"In the midst of this internal change, it is good to remind ourselves, why we have decided to do the changes - even when it creates some temporary turbulence and uncertainty. The main reason is to align our organization with our strategy... The key new feature in the "integrated organization" is building the cluster and segment teams. They will provide us a better understanding of the needs of different customer groups and make plans how we can do more business with targeted customer groups. Important is also that these plans are made in teams, where also the BU Commercial, R&D and supply chain management people participate and make a contribution."* (New Organizational Blog, 5.3.2008)

By giving the employees this opportunity to express themselves, Outokumpu managed to mobilize employees to get involved in the change process. Change was no longer seen as a strategic need imposed by the top management, but rather as something that they could discuss and influence. This proactive involvement and integration of the whole company can be seen as a key driver and factor that not only facilitated, but even enabled the strategic change. The involvement of the employees gave them the feeling that they were needed to implement the change and could actively participate in it.

During the implementation phase, the ‘New Organizational Blog’ answers emphasized the devotion and belief of Outokumpu executives in the new organization and strategy:

*"As earlier stated on this blog we have throughout our organization a strong belief & commitment towards our strategy. We are currently in a phase when detailing this, concerns are also being raised from our sales organization. At meetings last week we very much discussed the very present effect that we in many cases will transfer customer contacts within our organization and what this means for our business but also on a personal level where relations has been in place for a long time. Going forward on this we must have a very high respect for this process and be really ready to describe and show the positive values for our customers!"* (New Organizational Blog, 25.3.2008)

Therefore, the change was seen as a very positive development that nevertheless should be taken seriously, as one answer from the US reveals:

*"Change is good. To most people it can be confusing, frustrating and even scary. It is certainly challenging and requires dedication, patience and good communication."* (New Organizational Blog 5.5.2008)

The management removed mental barriers and resistances to change and at the same time created an atmosphere of urgency and strategic need to change. Communication affects the way people work and support the change. With reference to Kotter (1996), Outokumpu concentrated on key steps in the change process:

It established a sense of urgency within the company, set up a new CEO and management group that were empowered to lead the change. It developed a vision and strategy together with its employees that participated through the New Organizational Blog, and

communicated this change visions and finally empowered the employees for action through the relocation of the headquarters and a redistribution of tasks and responsibilities. Starting in 2008, Outokumpu had to anchor the changes and consolidate the new corporate culture and global thinking of the people, i.e. the change had to become institutionalized.

#### **4.3.4 External leadership and communication**

Outokumpu Factor (since 2008 called Outokumpu Ideas) is the Outokumpu Group's stakeholder magazine. It is distributed biannually to the company's customers, partners, investors, and other external target audiences. As consistent communication and information to all stakeholder groups is crucial for making the company ready to change, this magazine had a key role in all phases of change. Outokumpu itself states that "Factor" seeks to promote the image and the businesses in the different markets as well as informing about what is happening in the group. It also analyzes trends in the industry, society and the global markets that affect their business (Outokumpu Company website).

It sensitized not only the employees, but also the whole business environment for the changing market conditions and therefore created the awareness and understanding for the need to change the strategy. The editorial was used by the CEO to address people directly with current issues and to explain the next strategic moves to everyone. Examples are the discussion of new challenges in the Asian markets, concentrating on core competencies, environmental issues or the relations to stakeholders (Outokumpu Company website).

## **4.4 Implications and Challenges of the New Organizational Structure**

### **4.4.1 Implications of the change**

After having explored the organizational change and change management at Outokumpu, it is now interesting to understand the immediate effects of the change as seen after the relocation.

One major challenge as identified by employees working in Brussels is the need to truly convert people's minds to match the new organizational structure of Outokumpu. As responsibilities shift away from Business Units towards the new function in Brussels, managers at the BU's find themselves holding less power than before. Although several of these function heads are transferred to Brussels, a change in thinking at the local Business Units is a prerequisite for a successful Brussels office (Informal discussions with staff at the new Brussels office).

Moreover, another key implication is a more international focus of the commercial function. The culture in the Brussels office will be decoupling from others as the function will be strongly international with up to 30 new non-Finnish staff being recruited from Brussels.

*“[In the past] there has not been one single person from a commercial function in Sweden or the UK moving to Finland or vice versa, although there are some Englishmen that have moved to Sweden.”(Interview with Liam Bates, 1.8.2008)*

Therefore, the new office will bring along a strongly international culture next to a central commercial function. Also, according to Liam Bates (Interview 1.8.2008) “In a global company, there is no such thing as ‘abroad’,” which clearly reveals the nature the new office is aiming for in its decision to relocate – an international unit with global talent and expertise.

On the question on whether spillover effects are made possible through the new function in Brussels, Mr. Bates strongly distinguished the Brussels function from Silicon Valley and

other areas where spillover effects are possible.

*“Knowledge cannot be shared with competitors...corporate steel head offices do not communicate...If Arcelor were to move in next door, we would move out.”*  
*(Interview with Liam Bates, 1.8.2008)*

Therefore, in this knowledge intensive function, spillover effects through competitors not play any role as the unit needs to be located far away from its competition to avoid sharing its competitive strategy. Nevertheless, this does not mean that spillover effects from other stakeholders such as suppliers or universities are unwelcome.

As Wienclaw (2008) argues that organizational design should help the HQs to support the various operations of the organization and not only impose new reporting structures, each function within the organization should be manageable by competent, accountable functional managers. The new organizational design of Outokumpu implements such accountability structures that help to steer the more decentralized organization and to centralize the commercial responsibility of management as segment and cluster leaders are given full accountability for their customers.

Overall, the Brussels' office becomes a major stronghold of the whole company as main control and decision-making for the commercial function is shifted to Brussel, while the corporate HQs in Espoo decline in size. Moreover, the Business Units give away part of their commercial importance as the commercial function is centralized. Therefore, the shift in power helps to further centralize decision-making to a few managers, while at the same time encouraging less-hierarchical structures, away from the corporate HQs.

#### **4.4.2 Key challenges of the new location and organizational structure**

As Forsgren et al. (2005) mention in their five propositions on divisional HQ relocation, international company relations to important parts of the foreign operations become more important than relations to corporate HQs. Therefore, the move to Brussels will have an

impact on the power and social links within the corporation. As decision-making power is shifted away from the corporate HQs, the company is likely to experience a shift in the understanding of corporate HQs as more a linking element than primarily a steering element. This is also supported by Euro's findings on headquarter relocation (Euro 2002, 441), as he establishes that the importance of the corporate HQ has remained the same although its nature is changing.

With the opening of the Brussels office, the commercial function is becoming the steering element of the Outokumpu Group, delivering data and information to the global network of Sales Companies and Business Units. As the function is being implemented, the change nevertheless requires the GS&M to work immediately. Information is being asked for from day one – information that is delivered from the commercial function to local units. This creates the need for increased input from all employees in GS&M in order to “help the organization help itself” through data and information (GS&M kick-off meeting 16.04.2008).

As Liam Bates (Interview, 1.8.2008) sees it, one major initial challenge in 2008 and 2009 is not only to get the unit operational, but first of all to get full personnel to Brussels. Apparently, there have been difficulties to recruit people internally for the new unit as particularly Swedes want to stay at their Business Unit commercial function in Sweden, which is, in the new organization, relocated to Brussels.

*“People rather want to sit back, wait and see what happens, before they choose to relocate physically...although being back home two to three years from now should be seen as an advantage” (Interview with Liam Bates, 1.8.2008)*

In fact, about ¾ of the problems at the time are related to trying to get people to leave their Business Unit and to move to Brussels. (*ibid.*)

In the longer run, making sure that Brussels is a functioning office seems to be one major challenge. The creation of another ‘Stockholm office’ has to be avoided:

*“Stockholm is good for meetings, but hardly anyone works there...we have to avoid creating that in Brussels.” (Interview with Liam Bates, 1.8.2008)*

Some initiatives to support the functioning of the office have already been made with the decision of Juha Rantanen to hold all commercial meetings only in Brussels. Also, anybody who is commuting nevertheless has to take part in late Friday afternoon meetings in Brussels.

*“The Sales Companies and Business Units have to feel that Brussels is the commercial office.” (Interview with Liam Bates, 1.8.2008)*

Nevertheless, this commercial office will, according to Mr. Bates (Interview 1.8.2008), stay close to the airport and not be moved closer to the center of Brussels, as the location in Zaventem, close to the Brussels airport gives the best opportunities to come in for just a day and fly back to the home office in the evening.

In regard to Outokumpu's new organizational structure, the challenges of the matrix organization are especially eminent as the new integrated Outokumpu organization divides tasks not only between sectors and clusters, but also across the range (GS&M kick-off meeting 16.04.2008). The challenge therefore seems to be to coordinate and work inside a less-hierarchical structure that shifts power from the corporate HQ as well as the local units.

Confusion is trying to be avoided at Outokumpu, as all new nominations in the new organizational structure are published on the intranet. Nevertheless, the responsibilities of all might not be clear from inception, as the new organization will have to prove its competence.

## **5. DISCUSSION AND ANALYSIS**

### **5.1 Analysis of Results**

The foregoing chapter provided a summary and analysis of the key findings gathered from 1,5 years of own experience at Outokumpu, the Organizational Blog and an interview at Outokumpu functional headquarters in Brussels. The following section will draw on these key findings in connection to the literature, providing answers to the research questions as well as the main question identified in the beginning of the study:

*Why and how are corporate activities of MNCs moved abroad and what are the implications for the firm?*

Following is a review of the answers that were found in this thesis:

⇒ *What are the motives to relocate corporate activities abroad?*

The main motives are the possibility to recruit global talent, to co-locate with key customers and to increase diversity in decision-making. This is also confirmed by the literature as Forsgren et al. (1995) propose that the more internationalized the division's operations, the more likely that division HQ will be located outside the corporate HQ country as well as "the more a division is dominated by one single foreign subsidiary (California), the more likely that division HQ will be located outside the corporate HQ country". (Forsgren et al. 1995)

The relocation was therefore largely based on Outokumpu's need to grow as a multinational corporation coming from a SMOPEC country. As the knowledge and access to foreign competent and skilled managers is restricted in Finland, the company developed skills of sensing, mobilizing, and operationalizing technologies and market knowledge drawn from abroad (Doz et al. 2001, 54).

Brussels is an attractive location due to its location, international atmosphere and attractive

tax rates. For Outokumpu, the change need and the resulting organizational change can be regarded as a trigger for further internationalization. Moreover, the need to align the company's overall structure with its strategy needs to be highlighted. Outokumpu's organizational change is strongly based on more customer-oriented operations, while moving away from a production-centered focus. Putting the customer at the heart of everything is a very new phenomenon for Outokumpu, which has earlier concentrated on selling tons instead of building long-term relationships.

Moreover, as the new commercial office in Brussels is centralizing commercial operations that were formerly split between business units, the commercial responsibility is shifted to one central location that helps to align the customer orientated strategy group-wide.

In conclusion, the relocation decision seems to be very much based on the result of organizational change and the reasons underlying this change as well as the need to become an international company with competent, foreign managers. Moreover, the push forces (small, open, peripheral location) of SMOPEC countries as well as the pull forces (large, open, global target market) of foreign locations seem to be a reason for relocation (Luostarinen 1994, 7).

⇒ *How can strategic change be communicated effectively?*

⇒ *What is the role of leadership in strategic change?*

Leadership and communication are closely intertwined, therefore these two questions will be discussed together. In the short run, the communication of the change through presentations on the details of the change can help employees and other stakeholders to understand the changes taking place in the organization. Moreover, in being serious about the change, 'our way or the high way', it is possible to create a sense of urgency and to keep the people in the organization that are willing to continue working for the company in a new strategic setting or location.

Thereby, leadership plays a major role and the words and actions of corporate and middle management influence the way the change is perceived. Yet top-down communications only is no guarantee for a functioning changed organization and bottom-up communication is equally important.

Outokumpu concentrated on key steps in the change process, focused on people and communicated effectively. Especially the mix of top-down and bottom-up communication helped to align the company with the new, changed structure as the 'New Organizational Blog' helped employees to discuss the change and read other colleague's views on the change.. The redistribution of tasks and responsibilities was only possible as Senior Management stood behind the change and encouraged commuting and relocation to Brussels.

In the long run, change management can help Outokumpu to align the company with the new strategy. It is thereby important to not only communicate the change, but to implement and reinforce the change (Interview with Liam Bates, 1.8.2008; New Organizational Blog). Moreover, as "actions speak louder than word", the relocation of managerial staff to Brussels can help to create a sense of credibility, giving a strong signal on the willingness of management to take on the challenge and commit to the change.

⇒ *From a strategic viewpoint, what are the benefits and challenges for a MNCs operations?*

The relocation of corporate functions or divisional HQs enables the multinational corporation closer ties to important markets and customers. This has an important impact on the global operations of the corporation.

In the case of Outokumpu, the relocation of functional headquarters to Brussels can be expected to have similar positive and negative implications. Some of the benefits are the closeness to important customers, the possibility to recruit international talent, as well as better international brand awareness. Furthermore, the ability to create an international

culture, a unit that has a particularly global mindset, with the possibility to commute between the home base and the home unit, can be regarded as a very positive development for a company that aims to become more global, shifting away from its Eurocentric focus.

The challenges for Outokumpu in the short-term include the ability to make sure that the new office works and to relocate the staff from Business Units to Brussels (Interview with Liam Bates, 1.8.2008). In the longer term, the unit is likely to have an impact on the headquarters located in Espoo and it will be interesting to see how the power shift, that centralizes all commercial function formerly located in the Business Units, will affect the company in the long run.

The relocation of corporate functions and divisional HQs can therefore be a great means to increase the share of international knowledge within the MNC and help to transfer and incorporate the knowledge within the company, i.e. becoming a metanational company (Doz et al. 2001, 74). Nevertheless, the shift of power and shared responsibilities through a matrix structure can negatively affect the functioning of the company.

## **Summary**

The answers to the research question are presented in the matrix below. Particularly interesting is in this regard the relocation of Outokumpu to Belgium, another Small and Open Economy (SMOPEC) that provides a fertile ground for intra-and inter-firm capability building and knowledge transfer. (Scott-Kennel 2007, 1)

This table can be linked back to the theoretical framework of the study discussed at the end of the literature review. The relocation process forms the overriding concept. The key drivers necessitate the relocation, while the implications and challenges are closely linked to effective change management in implementing the relocation.

**Table 4: Key Drivers, Implications and Challenges of Unit Relocation**

Key drivers	Key implications	Key challenges
Organizational change as a result of a shift from product to customer orientation	Power shift from Business Units to commercial HQs and area managers	Creation of a central information centre with group-wide commercial accountability
Enacting corporate strategy by relocating corporate function	Centralization of commercial responsibility	Dilemma of shared responsibilities as effect of the matrix structure
Creating a new functional unit that helps to manage the entire company from a commercial point of view	Positive effect on social structure (centralization) and reinforcement of organizational structure	Changing nature of Business Units and shift in power towards central commercial office
Need to locate on a neutral site to avoid ballast from the past	Relocation outside of the Nordic countries to avoid ballast	Short-term: Need to get full personnel to Brussels and to create a functioning unit
Recruiting non-Finns, attracting ‘global’ talent that is not prepared to move to Finland	Possibility to recruit international talent (up to 30 new employees), geocentric staffing policy	Long-term: High costs of new office as well as expatriate and commuter agreements
Shorter traveling times - located close to a logistical hub, direct flights, central location	Improved corporate competitiveness due to new central commercial headquarters	Decentralization of corporate HQs and shift in power towards functional HQs
Acquiring global mindset, diversity in decision making, instilling Nordic mindset	Positive effect on corporate culture and brand (more international)	Need to prove the new HQ as worthy of its investment

*Source: Findings from different sources used in the research (see Table 2).*

The relocation of divisional and functional HQs has been initiated by a change in strategy and organizational structure. The functional relocation of Outokumpu is very much based on the shift from a production oriented focus towards a customer oriented approach. For Outokumpu, the location in Brussels as such was not so much based on the relative strength of a local subsidiary (Forsgren et al. 1995) or the need to integrate recently acquired units, but rather on the shift in organizational structure and the need for Brussels to act as a local hub between the different subsidiaries, an information center with cluster and segment leaders that lead the way for the whole group. As a result, the centralization not only diminishes the power of local Business Units, but has also a strong influence on the

significance of corporate HQs in Espoo, Finland. It remains to be seen how this organizational change will impact the corporate HQs and how the new functional unit in Brussels will develop.

In the long run, the relocation of divisional and functional HQs bears a great possibility to create a truly international, as Doz et al. (2001) call it, a metanational company. In other words, relocating parts of corporate activities abroad can help to create a less-hierarchical and more integrated structure that can respond more efficiently to global markets, especially those located outside the primary business area of the company (such as India and China).

## **5.2 Subjectivity and Philosophy of Science**

In any social scientific research, the issue of subjectivity and objectivity becomes important in the context of validity and reliability. This is linked with the philosophy of social science, which denotes the methodology and overall approach to research and analysis of the research topic. The approach utilized in this thesis follows a social constructivist paradigm. This means that the researcher believe that subjectivity is unavoidable and even appreciated in order to fully understand a subject (Guba, 1990). While the more positivistic paradigms reject subjectivism as a source of bias, constructivism embraces subjectivity as a means of understanding respondents perspectives and explore the individual reality that exist for the given respondent. The discussion of validity and reliability therefore becomes apparent as “The entire research process, to an important extent becomes concentrated in the person of the researcher” (Berry et al., 2006, p. 294). Thus, the reflexivity becomes an important means for the researcher to reflect on her own potential influence on research and analysis. The use of multiple sources of information, primary (own experience) and secondary ('New Organizational Blog'), helps to reduce the potential impact on research findings.

## **6. CONCLUSIONS**

### **6.1 Managerial Implications**

The relocation of functional HQs of Outokumpu is based on the need to align the corporate structure with a change in strategic direction. The managerial implications of such an alignment are far-reaching as managers as well as staff have to start working with new rules, in new environments and with different colleagues that are recruited to the company.

The relocation of divisional and functional HQs therefore goes hand in hand with effective change management and a future vision that helps the company to flourish in its new location. The motives for relocating abroad are most commonly based on the need to live up to an increasingly international and global clientele while staying ahead of global competition (China) through new strategies and future visions. The implications of relocation can thereby be multifold positive and negative, yet always combined with the need to take small steps at once.

The role of leadership and communication in the change process per se can thereby not be overstressed as the actions and words by corporate and middle management creates the framework within which the change takes place and how it is perceived by both internal and external stakeholders. The example of Outokumpu shows that the lack of personal relocation of commercial top management can have negative effects on the success of the change and the functioning of the corporate function in Brussels. Nevertheless, the strong communication by management, particularly by Juha Rantanen and comments on the 'New Organizational Blog' help employees to understand the urgency of the change while looking at the change as a positive challenge.

Relocation and change does not take place over night and thus, strategic alignment needs to be a constant part of relocation. Therefore, the current (2008) setting of the Brussels office and even the location might change again in the future and management should be ready to realign the organization with new internal and external needs.

## **6.2 Suggestions for Further Research**

It has become evident that as MNCs expand globally, they start to call more than one city home of the corporate headquarters. This helps to build a new corporate culture not dominated by any one nation. Yet technically of course, each company has only one legal home, determining the corporate laws and taxation. Corporate headquarters, where top executives and main corporate offices are based, are typically in the same country. Marketing often plays a major role in how companies describe themselves and their legacy. Some companies even build global brands and do not want to be associated with just one region or country. One example to this is Accenture, which does not even have any one country as headquarters. Also, UniCredit's group identity is international rather than national: "We regard ourselves as having a home base in each of the 23 countries where we operate" says Marc Beckers, the executive in charge of UniCredit's group identity (Dvorak 2007).

Therefore, a next step could be to research the way companies view their legacy and home base in the context of corporate culture. Nevertheless, as Finland is still a quite homogeneous country, only few companies are actually facing the dilemma of having to redefine a global identity. Outokumpu is a Finnish company and bears this identity in the way it conducts business. Nevertheless, as divisions and functions are moved abroad and as the ownership structures of multinational companies change, this also affects Finnish MNCs. The new commercial headquarters of Outokumpu change the corporate culture of at least this one unit and change the corporate culture and language. This trend has been visible in other companies as well as e.g. the Italian UniCredito Italiano, with roots in the 15<sup>th</sup>-century, which merged with a big German lender and started calling itself UniCredit SpA, also adopting English as corporate language (Dvorak, The Wall Street Journal, 2007).

Moreover, as this thesis suggests, the phenomenon of functional HQs has yet to be researched more thoroughly. There have been several studies on divisional HQ relocation, yet the functional relocation has received close to no attention and even the term has not

been defined in the organizational literature. Therefore, as the relocation of functional HQs is practically very relevant and contemporary, it remains to be further researched.

As the world globalizes, the matter of corporate headquarters is becoming increasingly a complex issue that cannot be clearly defined. As corporate functions move abroad and corporate headquarters are relocated as a result of mergers and acquisitions or organizational change, the field of research possibilities is constantly enlarged.

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## **APPENDICES**

### **Appendix 1: Interview Agenda Outokumpu Corporation**

#### **AGENDA**

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**Subject:** Relocation of Outokumpu's functional headquarters to Brussels, Belgium

**Interviewee:** Liam Bates, Vice President and earlier Change Agent

**Interviewer:** Ms. Jenny Lindholm, Helsinki School of Economics

**Place:** Brussels office, Belgium

**Date:** 1<sup>st</sup> August 2008, 09:00

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1. Introduction to the project
2. Discussion on the relocation of Outokumpu's functional headquarters to Brussels
  - 1 Decision process
  - 2 Strategic rationale for relocating Outkumpu's Group Sales & Marketing abroad
  - 3 Choice of Brussels as new location
  - 4 Implications of the change (e.g. on organizational structure, the division of tasks and roles between corporate headquarters and divisional headquarters)
  - 5 Challenges in the relocation process
  - 6 Change management in the context of organizational change
  - 7 The role of leadership in the change
3. Expected future challenges
  - 8 Expected challenges in the new location
  - 9 Specific requirements of the new location