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Are Smaller (Larger) Corporate Headquarters Better?

ABSTRACT

This article investigates the size and performance effect of corporate headquarters for a large sample of Japanese firms. We find that the size of headquarters is systematically associated with firm attributes, such as scale, industrial scope, and R&D and advertising intensities. We also observe that better governed firms have larger headquarters in contrast to the view that corporate headquarters are apt to be overstaffed due to managerial agency problems. Our analysis of firm value suggests that enlarging headquarters involves a cost that is particularly large for multi-business firms. Specifically, as headquarters grow in size, the efficiency of inter-business fund flow declines. This novel finding suggests that downsizing headquarters can improve firm performance by increasing allocative efficiency.