



# Spatially dispersed corporate headquarters: A historical analysis of their prevalence, antecedents, and consequences<sup>☆</sup>



Sven Kunisch<sup>a,b,\*</sup>, Markus Menz<sup>c</sup>, Julian Birkinshaw<sup>d</sup>

<sup>a</sup> Institute of Management, University of St. Gallen, Dufourstrasse 40a, 9000 St. Gallen, Switzerland

<sup>b</sup> Department of Business Development and Technology, Aarhus University, Birk Centerpark 15, 7400 Herning, Denmark

<sup>c</sup> Geneva School of Economics and Management, University of Geneva, 40 Bd du Pont d'Arve, 1211 Genève 4, Switzerland

<sup>d</sup> London Business School, Regent's Park, London NW1, 4SA, United Kingdom

## ARTICLE INFO

### Keywords:

Corporate headquarters  
Multi-business firm  
Information-processing theory  
Corporate strategy  
Parenting approach  
Organizational design  
Spatial design

## ABSTRACT

Our study, which complements recent works challenging the traditional conceptualization of the CHQ as a single organizational unit, has a dual purpose. First, in descriptive terms, we set out to explore the prevalence of spatially dispersed CHQs in a historical context. Second, we aim to shed additional light on the CHQ's spatial design by exploring internal antecedents and potential consequences. Building on arguments from information-processing theory, we propose that the strategic complexity facing the CHQ (affecting its information-processing demands) is associated with the likelihood of a spatially dispersed CHQ (affecting its information-processing capacity). In line with our dual purpose, we conduct a historical study drawing on survey and archival data covering 156 public firms domiciled in four countries (Germany, the Netherlands, the UK, and the US) in the late 1990s. Our results provide empirical support for the hypothesized associations between strategic complexity and the CHQ's spatial design. Moreover, although we find no empirical support for the expected contingency effects, the results suggest that a spatially dispersed CHQ can have negative effects on CHQ and firm performance. Overall, our theoretical arguments and empirical results advance our knowledge about complex CHQ configurations.

## 1. Introduction

The functioning and design of the corporate headquarters (CHQ) is a key concern in management and international business (IB) research because the CHQ is a key feature of multi-business firms<sup>1</sup> (Chandler, 1962, 1991; Martinez & Jarillo, 1989; Menz, Kunisch, & Collis, 2015; Perlmutter, 1969). A wealth of studies provides important insights into the roles and designs of CHQs, which ultimately inform our knowledge about the theory of the firm in general (see Ambos & Mahnke, 2010; Ambos & Mueller-Stewens, 2017; Ciabuschi, Dellestrand, & Holm, 2012; Kunisch, Menz, & Ambos, 2015; Menz et al., 2015). Notably, this stream of literature largely rests on the assumption that the CHQ is a single organizational unit with all of its activities and staff in one location (Menz et al., 2015).

However, prima facie evidence, suggests that CHQ activities can be

split among two or more locations. Indeed, a small number of studies offers initial evidence that some firms maintain “dual CHQs” (e.g., DuBrule, Bouquet, & Birkinshaw, 2010), or disaggregate and disperse CHQ activities across multiple locations (e.g., Baaij, Mom, Van den Bosch, & Volberda, 2015; Birkinshaw, Braunerhjelm, Holm, & Terjesen, 2006). A prominent example is Amazon, which released a “Request for Proposals” for its HQ2 in 2017 (see Amazon, 2017). Recently, scholars have thus advocated for contesting this traditional assumption. For example, in a special issue on complex HQ configurations, Nell, Kappen, and Laamanen (2017) stress the need to “explicitly break with the dominant view of the prior research on ‘the headquarters’ as a single, identifiable unit in one specific location” (p. 1121).

Yet, despite these initial efforts, our knowledge about CHQ dispersion is still limited in various ways: First, it is unclear whether CHQ dispersion is a phenomenon that has only recently emerged or one that

<sup>☆</sup> We gratefully acknowledge the Ashridge Strategic Management Centre and the scholars of its international headquarters research consortium for the generous provision of the headquarters survey data, which have been used for this paper's empirical analyses. Furthermore, we thank Bjoern Ambos, Kazuhiro Asakawa, Andrew Campbell, David J. Collis, and Carola Wolf for insightful discussions and helpful comments. The usual disclaimer applies.

\* Corresponding author at: Institute of Management, University of St. Gallen, Dufourstrasse 40a, 9000 St. Gallen, Switzerland.

E-mail addresses: [sven.kunisch@unisg.ch](mailto:sven.kunisch@unisg.ch), [skunisch@btech.au.dk](mailto:skunisch@btech.au.dk) (S. Kunisch), [markus.menz@unige.ch](mailto:markus.menz@unige.ch) (M. Menz), [jbirkinshaw@london.edu](mailto:jbirkinshaw@london.edu) (J. Birkinshaw).

<sup>1</sup> In line with Chandler (1962), we use “multi-business firm” as an umbrella term to capture firms that operate in multiple product and/or geographical markets, including multinational companies (MNCs).

has prevailed for quite some time but has been neglected in HQ research. In other words, we do not know whether prior research on unitary CHQs accurately reported on the nature of those entities at those points in time or whether it provided an overly simplified view of a more complex phenomenon. By looking closely at historical data, we can resolve this uncertainty and potentially avoid the “reductive fallacy” of oversimplification that has hampered IB research in the past (Nohria & Ghoshal, 1994, p. 492). A number of prior studies in IB and management research have used this type of historical data to show how business practices are (or are not) changing, and as motivation for broader theoretical arguments (for extensive discussions, see Bucheli, Mahoney, & Vaaler, 2010; da Silva Lopes, Casson, & Jones, in press; Decker, Üsdiken, Engwall, & Rowlinson, 2018; Maclean, Harvey, & Clegg, 2016; O’Sullivan & Graham, 2010; Perchard, MacKenzie, Decker, & Favero, 2017; Rowlinson, Hassard, & Decker, 2014; Vaara & Lamberg, 2016).

Second, we know little about the internal factors that may be associated with a spatially dispersed CHQ and whether firms benefit from this spatial-design choice. Prior research has focused either on external factors or other HQ levels. For example, several studies on the relocation of certain CHQ activities have explored external factors, such as the perceived attractiveness of locations (Baaij et al., 2015) and the roles of external stakeholders (Birkinshaw et al., 2006). However, since the CHQ fulfills external and internal roles (e.g., Chandler, 1991; Foss, 1997), internal factors may also be associated with the CHQ’s spatial design. In a related vein, the CHQ’s spatial design can be expected to affect its functioning, especially how the CHQ creates value for the overall firm (Birkinshaw et al., 2006). We do not know whether firms benefit from this spatial-design choice.

Prior research suggests that information processing plays a key role with respect to the CHQ’s design and its potential implications. For example, in empirical studies, Collis, Young and Goold (2007, 2012) revealed that the CHQ’s organizational design, especially its size, is related to its information-processing demands. In a related vein, conceptual studies suggest that the CHQ’s spatial design relates to information processing at the CHQ as well as in relation to its subsidiaries (Baaij & Slangen, 2013; Baaij, Van den Bosch, & Volberda, 2004). Yet, although an information-processing lens is useful for studying the CHQ’s spatial design, it is not clear whether information-processing demands related to strategic complexity are associated with CHQ spatial dispersion and whether the benefits of CHQ spatial dispersion outweigh the costs (Nell et al., 2017).

Against this backdrop, the purpose of our study is twofold. First, in descriptive terms, we set out to explore the prevalence of spatially dispersed CHQs. While prominent examples and a few studies have recently documented the existence of spatially dispersed CHQs, we use a historical dataset to understand the occurrence of variations in the CHQ’s spatial design beyond a present-day context. Second, in prescriptive terms, we develop and test a historically informed theory that brings together internal antecedents and potential consequences of operating a spatially dispersed CHQ. Specifically, we examine whether the *strategic complexity* facing the CHQ affects the decision to operate a spatially dispersed CHQ and we conduct the first empirical analysis of the potential *performance consequences* of this fundamental decision.

Drawing on information-processing theory (Egelhoff, 1982, 1991) and the underlying complexity arguments (Dobrajska, Billinger, & Karim, 2015; Schotter, Stallkamp, & Pinkham, 2017), we argue that the strategic complexity associated with a portfolio strategy of related diversification and a parenting approach that emphasizes influence on operating units’ decisions increase the information-processing demands on the CHQ. This, in turn, increases the likelihood that the firm will rely on a spatially dispersed CHQ to provide the information-processing capacity needed to address those demands. Furthermore, in line with the premises of information-processing theory, we argue that operation of a spatially dispersed CHQ will be more beneficial under the two strategic-contingency conditions.

In line with the twofold purpose of our study, we conducted a historical study of the *occurrences*, *antecedents*, and potential *consequences* of CHQ dispersion. Our analysis of unique survey data and archival data for a sample of 156 public firms active in multiple industries and domiciled in Germany, the Netherlands, the UK, and the US in the late 1990s offers notable empirical support for the hypothesized associations between strategic complexity and the CHQ’s spatial design. However, we find no support for the expected contingency effects. Instead, the empirical results reveal a direct negative association between a spatially dispersed CHQ and firm performance.

This study makes several theoretical contributions to management research, especially in the fields of IB and strategy. First, our study links the complexity arguments underlying the information-processing perspective to the CHQ’s spatial design and, thus, supports information-processing theory in a domain that has received little attention. More specifically, our findings reveal the linkages between strategic complexity and spatial design, and suggest that the costs of having a spatially dispersed CHQ may outweigh the benefits. Second, our study advances the emerging stream of knowledge about complex HQ configurations. In particular, by turning the spotlight on the internal factors associated with CHQ dispersion, our study complements prior research that has focused on other HQ levels and external factors. Third, our study contributes to research about CHQ-subsidiary relations. While most of the extant research has conceptualized CHQ-subsidiary relations as 1-n relations, our study suggests that they often resemble n-n relations. Therefore, future CHQ-subsidiary research may benefit from shifting the level of analysis from the CHQ as a whole to CHQ parts.

Our study also contributes to the extant literature by showing that although CHQ dispersion is highly relevant in a modern business context, its origins can be traced back to at least the end of the previous century. Just as HQ-subsidiary research had long been hampered by the “reductive fallacy” of neglecting differences across a firm’s subsidiaries (Nohria & Ghoshal, 1994), the HQ literature fails to account for differences among CHQ spatial configurations. As a result, some of the extant knowledge may need to be revisited.

## 2. Background

The emergence and diffusion of multi-business firms is probably the most noteworthy organizational phenomenon in modern business history (Chandler, 1962, 1992; Fligstein, 1985; Perlmutter, 1969).<sup>2</sup> These firms, which operate across multiple geographical, product, and customer markets, have emerged as the dominant organizational form for the conduct of business in many economies (McKinsey Global Institute, 2013). The separation of activities performed by the CHQ from those performed by product divisions and/or international subsidiaries is a key characteristic of these firms (Andersson & Holm, 2010; Chandler, 1962, 1991; Ciabuschi, Dellestrand, & Nilsson, 2015; Menz et al., 2015). Whereas the product and geographical operating units are responsible for creating competitive advantages within their particular markets (Porter, 1980, 1985), the CHQ is responsible for creating a whole that is greater than the sum of its parts, thereby justifying the existence of the multi-business firm (Campbell, Goold, & Alexander, 1995; Contractor, 2012; Foss, 1997; Porter, 1987).

In formal terms, the CHQ can be defined as the multi-business firm’s central *organizational entity*, “which is (structurally) separate from the product and geographic operating units, and hosts corporate executives as well as central staff functions that fulfill various internal and external roles for the overall firm” (Menz et al., 2015, p. 642). As discussed in the strategy and IB literature (e.g., Birkinshaw et al., 2006; Laamanen, Simula, & Torstila, 2012), the CHQ is conceptually different from

<sup>2</sup> For example, Nobel laureate Oliver Williamson noted that “the most significant organizational innovation of the twentieth century was the development in the 1920s of the multidivisional structure” (1985, p. 279).

Download English Version:

<https://daneshyari.com/en/article/11004986>

Download Persian Version:

<https://daneshyari.com/article/11004986>

[Daneshyari.com](https://daneshyari.com)