



Contents lists available at ScienceDirect

Journal of World Business

journal homepage: [www.elsevier.com/locate/jwb](http://www.elsevier.com/locate/jwb)



## Multinational enterprise regional management centres: Characteristics and performance

Dwarka Chakravarty, Ying-Ying Hsieh, Andreas P.J. Schotter\*, Paul W. Beamish

Ivey Business School, Western University Canada, 1255 Western Road, London, Ontario, N6G 0N1, Canada

### ARTICLE INFO

#### Article history:

Received 13 April 2015

Received in revised form 12 November 2016

Accepted 24 December 2016

Available online xxx

#### Keywords:

MNE evolution

Multinational enterprise

Regional headquarters

Regional management centres

Theory of the MNE

Regionalization

### ABSTRACT

In multinational enterprises (MNEs), regional management centres (RMCs) most frequently take the form of either dedicated regional headquarters (RHQs) or regional management mandates (RMMs) assigned to operating subsidiaries. We identify a series of critical differences in characteristics and performance between RHQs and RMMs, using a longitudinal sample of 855 Japanese RMCs across 41 countries. We also investigate parent-level differences between MNEs with distinct RMC configurations. We propose a structural complement to regional strategy extensions of the integration-responsiveness framework, and provide an important large sample baseline, aiding new theoretical and empirical research into MNE regional management strategy and structure.

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### 1. Introduction

The idea that regionalization may better describe multinational enterprise (MNE) internationalization than global integration or multi-domesticity (Rugman & Verbeke, 2004), has led to renewed academic interest in regional strategies and structures, which can help balance global integration and local responsiveness (Prahalad & Doz, 1987). Most of the research on regional management structures (e.g., Ambos & Schlegelmilch, 2010; Hoenen, Nell, & Ambos, 2014; Lunnan & Zhao, 2014) has focused on regional headquarters (RHQs). An RHQ is a special type of MNE foreign affiliate, tasked with the coordination, control, development and/or implementation of business strategies in a specific region (Enright, 2005a). The use of RHQs by MNEs leads to a three-tier nested structure (Hoenen & Kostova, 2014), with regular subsidiaries reporting to RHQs and RHQs reporting to corporate headquarters (HQ).

In a number of MNEs, HQ functions may be regionally distributed to specialized administrative units (RHQs), and/or to

operating subsidiaries which are mandated to allocate some time and resources to performing HQ functions (Alfoldi, Clegg, & McGaughey 2012; Piekkari, Nell, & Ghauri, 2010; Schütte, 1997; Verbeke & Asmussen, 2016). Consistent with Alfoldi et al. (2012), we use the term Regional Management Mandates (RMMs) for the latter, and use the term Regional Management Centres (RMCs) to collectively describe RHQs and RMMs.

There is evidence suggesting that a focus on RHQs has led to a neglect of research on other types of regional management units such as RMMs (Alfoldi et al., 2012). Apart from a few studies such as Lasserre (1996), Enright (2005a, 2005b) and Alfoldi et al. (2012), there is very little research on the nature and characteristics of diverse units performing HQ functions at a regional level. Instead, most regional management research has focused on RHQ roles, evolution, and locations (e.g., Asakawa & Lehrer, 2003; Piekkari et al., 2010; Yeung, Poon, & Perry, 2001) Hence, there is a need to investigate regional structural elements beyond RHQs with regards to their relative prevalence, different characteristics, establishment logics, evolution, and simultaneous usage.

Additionally, literature suggests that of the few studies examining RMC characteristics, apart from exceptions such as Enright (2005a, 2005b), large scale empirical studies are scarce (Alfoldi et al., 2012). An extensive search for RMC studies across the major international business and strategy

\* Corresponding author.

E-mail addresses: [dchakravarty.phd@ivey.ca](mailto:dchakravarty.phd@ivey.ca) (D. Chakravarty), [yhsieh.phd@ivey.ca](mailto:yhsieh.phd@ivey.ca) (Y.-Y. Hsieh), [aschotter@ivey.ca](mailto:aschotter@ivey.ca) (A.P.J. Schotter), [pbeamish@ivey.ca](mailto:pbeamish@ivey.ca) (P.W. Beamish).

literatures<sup>1</sup> yielded only 30 papers, largely focused on RHQs (see Appendix A). Most of these studies are based on small sample sizes, restricted to one particular region, or are descriptive single-company case studies with limited generalizability.

Hence, the extant literature lacks both scope and scale in regard to examining diversity within RMCs and characteristics of these diverse units. Accordingly, we develop a three-part research question to guide our exploratory investigation:

- a How do RMCs (RMMs and RHQs) differ in their characteristics and performance?
- b How do characteristics and performance differ between MNEs deploying different RMC configurations?
- c How do characteristics of RMCs, and of MNEs with RMCs evolve over time?

We aim to make two contributions. First, based on our findings, we provide a structural complement to Verbeke and Asmussen's (2016) regional strategy extension of the integration-responsiveness framework (Bartlett & Ghoshal, 1989); and develop four related propositions. Second, our results provide an important large sample baseline to inform subsequent theory building and empirical research into MNE regional management strategy and structure.

## 1.1. Background

### 1.1.1. Regional management rationale

Balancing conflicting demands for global integration and local responsiveness (Prahalad & Doz, 1987) remains an important challenge for MNEs. Regional management structures offer a feasible trade-off when operations within a region are large, complex, and different from other regions, providing opportunities for regional level scale economies and responsiveness (Egelhoff, 1982; Verbeke & Asmussen, 2016). Stopford and Wells (1972) was one of the earliest contingency studies to associate MNE regional structures with strategy implementation. They discussed how MNEs with a high percentage of foreign sales adopted regional (area) management structures, and how global product divisions were preferred when product diversity was high. Egelhoff (1988) tested the Stopford and Wells (1972) hypothesis. His results suggested that higher levels of foreign manufacturing rather than foreign sales led to regional management structures (due to coordination required for optimizing regional sourcing strategies). Using a sample of 95 German firms, Wolf and Egelhoff (2002) re-tested and found support for Egelhoff's (1988) model, and extended it by considering strategy-structure fit for matrix structures. Their results suggested that a region-product matrix was more likely with high product diversity, and a region-functional matrix was more likely for higher levels of foreign manufacturing.

Internalization scholars have pointed to regional strategies and structures being driven by the need to reduce "spatial transaction costs" which limit transferability, deployment, and exploitation of firm specific advantages (FSAs) outside of an MNE's domestic market. These costs arise due to institutional, economic, cultural, geographic, and other differences between countries (Ghemawat, 2003; Rugman & Verbeke, 1992). MNEs do combine FSAs with host

country specific advantages (CSAs) such as markets, resources, and regulations to address these challenges and strengthen competitive advantage (Hennart, 2009; Johanson & Vahlne, 2009). However, doing so at a regional rather than at a country level becomes optimal when intra-regional "spatial transaction costs" are much lower than those between regions. Further, the advantages of operating regionally are more pronounced for downstream value chain activities (e.g., sales, service, distribution and retail), which require commitments from key external stakeholders such as customers and partners (Rugman & Verbeke, 2005). Hence, Rugman and Verbeke (2008) extended the FSA/CSA framework with the concept of region-specific advantages requiring the presence of organizational structures supporting regional strategic decisions.

### 1.1.2. Regional management centre roles

Researchers have extended the dominant view that regional management centres only serve as geographic extensions of corporate headquarters for purposes of regional coordination, control, governance, and information processing. For instance, Lasserre (1996), in a survey-based study on European MNEs in Asia, investigated the entrepreneurial and regional integration roles of RHQs. He identified a series of region-specific mandates that RHQs carry out at different stages during MNE internationalization processes. In a study of European RHQs, Hoenen et al. (2014) discussed how RHQs, by being embedded across local, regional, and global markets, can help build MNE entrepreneurial capabilities. Asakawa and Lehrer (2003) explained how certain RHQs transform local innovation into global strategic assets by identifying and nurturing local R&D activity to develop knowledge, followed by dissemination of knowledge assets across the MNE network. Verbeke and Asmussen (2016) suggested that regional head office structures may be vital to identifying, absorbing, and disseminating new globally applicable knowledge from host-regions. They also emphasized the importance of RMCs in orchestrating regional value chains to exploit cross border resource and market differences, while achieving scale efficiencies.

Several studies describe how RMC roles may evolve over time. Based on a study of RHQs in Asia Pacific, Lasserre (1996) suggested that RHQs start off with an entrepreneurial orientation, serving as a base to seek opportunities, initiating new regional ventures, and helping subsidiaries to develop strategy. As the MNE becomes better established in the region and subsidiaries mature, RHQs take on coordinating and integrative functions, until they wind down almost completely or move into purely administrative roles. Ambos, Schlegelmilch, Ambos, and Brenner (2009) discussed how mergers and acquisitions (M&As) outside of the home region may lead to regional management structures evolving over time. In a case study of an M&A in the banking sector in Central and Eastern Europe (CEE), they found that post acquisition, the head office of the acquired bank was initially assigned a regional governance and standardisation role, which did not align well with its actual capabilities. Over time, driven by the need for legitimacy and influence, the unit strengthened its distinctive capabilities and transformed its role into a regional center of excellence in banking practices. Based on a longitudinal case study in a European MNE, Piekari et al. (2010) suggested that matching regional management capabilities with information processing requirements is a complex process of evolution and adaptation. The MNE regional management system evolved at unit, regional, and corporate levels to address the need for internal, and external complexities at various levels, and inter-region differentiation.

### 1.1.3. Regional management centre configurations

Research has noted the presence of regional management structures distinct from dedicated RHQs. Enright (2005a, 2005b)

<sup>1</sup> Our literature search covered the following journals: Academy of Management Journal, Academy of Management Review, Asia Pacific Journal of Management, Administrative Science Quarterly, European Journal of Management, International Marketing Review, Journal of International Business Studies, Journal of International Management, Journal of Management Studies, Journal of World Business, Long Range Planning, Management International Review, Organization Science, Strategic Management Journal, and Urban Studies.

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