



Contents lists available at ScienceDirect

Journal of International Management


 Fox School of Business  
 TEMPLE UNIVERSITY®


## Host-country Headquarters of U.S. Firms in China: An Empirical Study

 Yigang Pan <sup>a</sup>, Lefa Teng <sup>b,\*</sup>, Mingyang Yu <sup>d</sup>, Xiongwen Lu <sup>c</sup>, Dan Huang <sup>d</sup>
<sup>a</sup> Schulich School of Business, York University, 4700 Keele Street, Toronto, ON M3J 1P3 Canada

<sup>b</sup> College of Business and Economics, University of Guelph, Guelph, Ontario, Canada N1G 2W1

<sup>c</sup> School of Management, Fudan University, Shanghai, China

<sup>d</sup> Antai College of Economics & Management, Shanghai Jiao Tong University, Shanghai, China

### ARTICLE INFO

#### Article history:

Received 8 November 2012

Received in revised form 21 January 2014

Accepted 17 February 2014

Available online xxxx

#### Keywords:

Host-country headquarters  
U.S. firms in China

### ABSTRACT

Recent studies show that large multinational enterprises (MNEs) adopt an organizational unit, called host-country headquarters (HCHQ), in key foreign countries (Ma and Delios, 2010; Ma, Delios and Lau, 2013). In this study, we examine the factors that are associated with the establishment of an HCHQ by US firms in China. We hypothesize that an HCHQ is associated with both firm-specific factors and host country-specific factors. We find that an HCHQ is associated with the firm's scope diversification and degree of internationalization, and the strategic importance of foreign host country and subsidiary diversification in that host country. The findings are based on archival data of U.S. Fortune 500 firms. The findings add to the understanding of an important organizational structure of large U.S. firms in China, and possibly to MNE structures more widely in key foreign countries.

© 2014 Elsevier Inc. All rights reserved.

### 1. Introduction

The extent of globalization of firms has been of interest to scholars of international strategy (e.g., Arregle et al., 2009; Ghemawat, 2003; Rugman and Verbeke, 2008). Rugman and Verbeke (2008) suggest that the vast majority of multinational enterprises (MNEs) follow a home-region perspective and have regional components in their organizational structure. When one looks at a region more closely, there are core countries in a given region that drive and dominate the overall regional economic landscape, as compared to the smaller peripheral countries (Benito et al., 2003). Increasingly, MNEs are devoting attention to these core countries, such as China (Ambos and Birkinshaw, 2001; Li et al., 2010). Many MNEs not only have entered into these key countries, but also have expanded into various operations. In their 2010 JIBS paper, Ma and Delios examine an organizational unit, called host-country headquarters (HCHQ), and they find that 32% of Global Fortune 500 firms have established an HCHQ in China as of 2005. Pepsico reports having holding companies in China, Mexico, India, and so on (Pepsico annual report 2009).

There are MNEs that provide detailed information about their HCHQ in China on their websites (see footnote 1<sup>1</sup>). For example, Toyota (China) Investment Co., Ltd was established in 2001, and had 683 employees in 2013. The senior executives of HCHQ are not the same as those in charge of other Toyota subsidiaries in China. Toyota (China) Investment Co., Ltd is the headquarters of Toyota in China to invest in Toyota production, R&D, and market activities, to provide administrative and market support to

\* Corresponding author at: College of Business and Economics, University of Guelph, Guelph, Ontario, Canada N1G 2W1. Tel: +1 519 824 4120x53818; fax: +1 519 823 1964.

E-mail addresses: pan@yorku.ca (Y. Pan), leteng@uoguelph.ca (L. Teng), myyu@sjtu.edu.cn (M. Yu), xwlu@fudan.edu.cn (X. Lu), dhuang@sjtu.edu.cn (D. Huang).

<sup>1</sup> The address of webpage containing information about firm subsidiary in China is as follows: Toyota: <http://www.toyota.com.cn/corporate/inchina/independent01.html> General Motors: <http://www.gmchina.com/gm/front/about/china> Bayer: <http://www.bayer.com.cn/index.php/AboutBayer/BayerChina/2nd/ProfileOrganization?l=en-us> Caterpillar: <http://china.cat.com/en/caterpillar-in-china> Emerson Electric: <http://www.emerson.com/en-CN/about/overview/global-operations/Pages/Emerson-China-office.aspx> Cummins: [http://www.cummins.com.cn/SiteContent/zh/HTML/WhoWeAre/china\\_event.shtml?NodId=4&ParentId=2001](http://www.cummins.com.cn/SiteContent/zh/HTML/WhoWeAre/china_event.shtml?NodId=4&ParentId=2001)

Toyota activities, and to represent Toyota in dealing with government, media, and other entities in China. Similarly, General Motors (China) Investment Co. was established in Shanghai as the investor of all General Motors' joint ventures in China. Bayer (China) Ltd was established as a holding company to coordinate technology transfer and market development, and support the preparation and implementation of joint venture projects. Caterpillar (China) Investment Co., Ltd was established to augment the increased investment and business development activities in China, in which it has 23 manufacturing facilities. Emerson Electric (China) Holdings Co., Ltd was set up as a company of an investment nature headquartered in Shanghai in 1993, and by 2012, Emerson has over 30 manufacturing facilities in China. Cummins (China) Investment Co., Ltd was established in Beijing in 1997 to consolidate the managing of Cummins' investments and businesses in China.

While each host-country headquarters may function differently for different firms, the host-country headquarters (HCHQ) is generally defined as an umbrella company of an MNE that carries some of the following roles: 1) it is the MNE's local administrator, which manages the MNE's local subsidiaries; 2) it is the MNE's corporate ambassador to handle host-government relations (Ma et al., 2013); 3) it acts as a foreign investor to identify, negotiate, finalize, and implement new projects in the host country (Chandler, 1991; Ma and Delios, 2010), and 4) attempts to control and consolidate the profit/loss across all subsidiaries for corporate income tax purpose in a country, even though local government may require each subsidiary to file separate tax returns (Li et al., 2010; Lo et al., 2010; Ma et al., 2013). An HCHQ differs from an average host country subsidiary, because it is created to integrate and manage all the subsidiaries that the MNE has in a foreign country (Luo, 2007). It is the headquarters of the MNE in that foreign country.

While some functions of an HCHQ may be similar to those of a regional headquarters, there are major differences between an HCHQ and a regional headquarters. The regional unit is responsible for integrating and synergizing across countries in a region that may differ greatly in cultures, political systems, economic systems, and stages of development (Yeung et al., 2001). It would be difficult for regional headquarters to formulate and execute region-wide strategies to the same level of depth as within one single country. In contrast, an HCHQ is responsible for a given foreign host country, within which the differences are smaller. An HCHQ can achieve a high level of coordination and integration among various subsidiaries of the firm in that country (Luo, 2007). In short, through an HCHQ, the MNE can better integrate the various subsidiaries to exploit synergy across a given host country, to pool resources, to initiate new investments, and to signal the level of commitment of the MNE in that key foreign country (Li et al., 2010; Yeung et al., 2001).

It appears that a noticeable proportion of the large MNEs have adopted a unit of organization at the level of important foreign country, suggesting an emphasis by these large MNEs on localization of management and operations at the host country level (Birkinshaw, 2001). However, relatively little academic research has been done on this phenomenon. To our knowledge, Ma and Delios (2010) and Ma, Delios and Lau (2013) are the only two empirical studies on this subject. In their study, Ma and Delios (2010) examine the role of HCHQ in MNEs' diversification strategy in the host country. Ma et al. (2013) compares the HCHQs that are located in Beijing and Shanghai. In short, the determinants associated with the establishment of an HCHQ remain to be investigated. In this study, we investigate factors associated with the establishing an HCHQ in China. In other words, we examine the establishment of HCHQ as the dependent variable. Our study contributes to the understanding regarding why some MNEs have established an HCHQ and why some others have not.

## 2. Conceptualization

The organizational structure of MNEs and the relationship between headquarters and subsidiaries are important for international business (e.g., Chandler, 1991; Egelhoff, 1988). Headquarters controls corporate resources and serves as an orchestrator of assets, knowledge and administrative power, while subsidiaries are both a recipient and contributor with a varying degree of autonomy (Ambos and Birkinshaw, 2010; Asmussen et al., 2009; Johnston and Menguc, 2007). Most diversified MNEs operate as a hybrid of product, functional, and geographic organizational structure (Bartlett and Ghoshal, 1989; Chandler, 1962). When foreign market involvement (measured by the percentage of foreign sales) increased, MNEs tend to pay more attention to the geographic component of the structure (Pla-Barber, 2002).

Given the distance (geographic, economic, institutional, and cultural) between the headquarters and subsidiaries, there are often layers of organizational units between headquarters and subsidiaries. One layer between headquarters and subsidiaries is a regional unit (Enright, 2009; Li et al., 2010; Rugman and Verbeke, 2008). Establishing a regional unit is driven by the homogeneity of countries within a region and the heterogeneity across regions. As suggested by Rugman and Verbeke (2008), the intra-regional economic, cultural and institutional distance tends to be smaller than inter-regional distance. With the three key regions of North America, European Union, and Asia (the triad) dominating the global markets, many MNEs have established regional units that can balance the needs of global integration and local responsiveness (Morrison and Roth, 1992). The most common organizational structure for this regional unit is the regional headquarters (Li et al., 2010). The regional headquarters is given the power by the corporate headquarters to control, manage, and integrate the subsidiaries within a region (Yeung et al., 2001). Through a regional headquarters, MNEs can utilize the resources more efficiently within the region, manage the interdependence among subsidiaries more effectively, and increase the visibility in the region (Li et al., 2010). A regional headquarters plays both administrative and entrepreneurial roles (Bartlett and Ghoshal, 1989). As regional headquarters integrates the subsidiaries across a region, the roles of subsidiaries will undergo substantial changes. The need for miniature replicas will be reduced, while the collaborative and complementary roles of subsidiaries will be on the rise. Some capable subsidiaries will become regional players, while subsidiaries located in a peripheral area will play a lesser important role (Benito et al., 2003).

While the regional perspective has been shown to play a pivotal role for many MNEs, countries within a region exhibit a great degree of differences. There are core countries in a given region that drive and dominate the overall regional economic landscape,

Download English Version:

<https://daneshyari.com/en/article/7426587>

Download Persian Version:

<https://daneshyari.com/article/7426587>

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