REGIONALISATION OF GLOBAL THINKING: STRATEGY AND ORGANISATION OF EUROPEAN MNCs IN ASIA

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Re-assessing Asia

Some European MNCs like Unilever, Cable & Wireless and Siemens were already represented in the Asia Pacific region a hundred years ago. Others had built up a number of offices and factories after WW II, but in the seventies and even eighties such activities were still considered fringe business run by "expatriates" despatched to distant lands appropriately called the "Far East".

As a result, the presence of European MNCs in Asia is weak, both in terms of foreign investment in and exports to the region. While data on FDI and trade differ from source to source, there is agreement that European MNCs have neglected Asia in comparison with other parts of the world, and play a less important role in Asia than their American and Japanese equivalents (European Commission and UNCTAD, 1996; European Parliament, 1996; OECD, 1995). Various reasons have been posited for the slow response to the growing opportunities in Asia, including the preference given by European MNCs to the exploitation of opportunities arising from the European integration process and, more recently, the changes in Central and Eastern Europe.

An equally important reason for the low priority given to Asia in the past by the board rooms of European MNCs was the perception that Asia was too difficult in comparison with neighbouring countries in Europe, the United States and even Latin America. The then booming Japanese market was perceived as closed, while Japanese competitors dominated the rest of Asia and started to threaten entrenched markets at home. The developing markets of Asia were considered not yet ready for sophisticated European products or else were riddled with corruption and red tape. Consequently, few European MNCs were committed to the region.

At the same time customers in Asia were increasingly demanding world class rather than outdated technology; local manufacturing and service capabilities rather than imported goods; and products and services adapted to Asia rather than global, i.e. standardised offerings. Operationally, MNCs saw their growth opportunities curtailed by their inability to recruit and retain top-notch Asian talents who refused to work for firms stuck in the managerial

behaviour of post-colonial times and which were not prepared to provide them with equal career opportunities.

Despite all these problems sales, and often profits, grew, albeit from a very low base and accompanied by very low expectations. This was the reason why hardly anyone in the eighties realised that the traditional approach of European MNCs towards doing business in Asia no longer suited the speed with which the region was growing and changing. Low or moderate growth in sales, considered normal in Europe, meant losing market share in Asia's dynamic environment. Low profits were not, as it was often thought, the result of high entry costs, but rather signs of managerial under-performance when compared with the success of local, regional, and also Japanese and American competitors.

In the nineties consistently high growth in Asia had brought about volumes in demand for many product and service categories matching those of Europe and the Americas. Finally the prospects of continuing higher growth rates in Asia than in the rest of the world led to a major re-think of the position of Asia in the corporate portfolio. Hardly a week passes today without a major European MNC announcing its intention to double, if not triple its sales and investments in the region. Asia, excluding Japan, now becomes the primary investment priority, a "hot" destination compared to the Americas and Central and Eastern Europe[1] (Arthur Andersen/Ministry of Economic Affairs of France, 1996, pp. 23 and 34). The rush towards Asia since 1994 finally becomes visible also in export and investment statistics, and the first worries over the build-up of potential overcapacities surface.

It was probably the emergence of China and the consequent realisation that it may - after all - not be too late to jump on the Asian bandwagon that triggered this major re-assessment. As a result, in many European MNCs, Asia has now become "strategically important". What, however, does this mean and what are the consequences?

The Strategic Importance of Asia

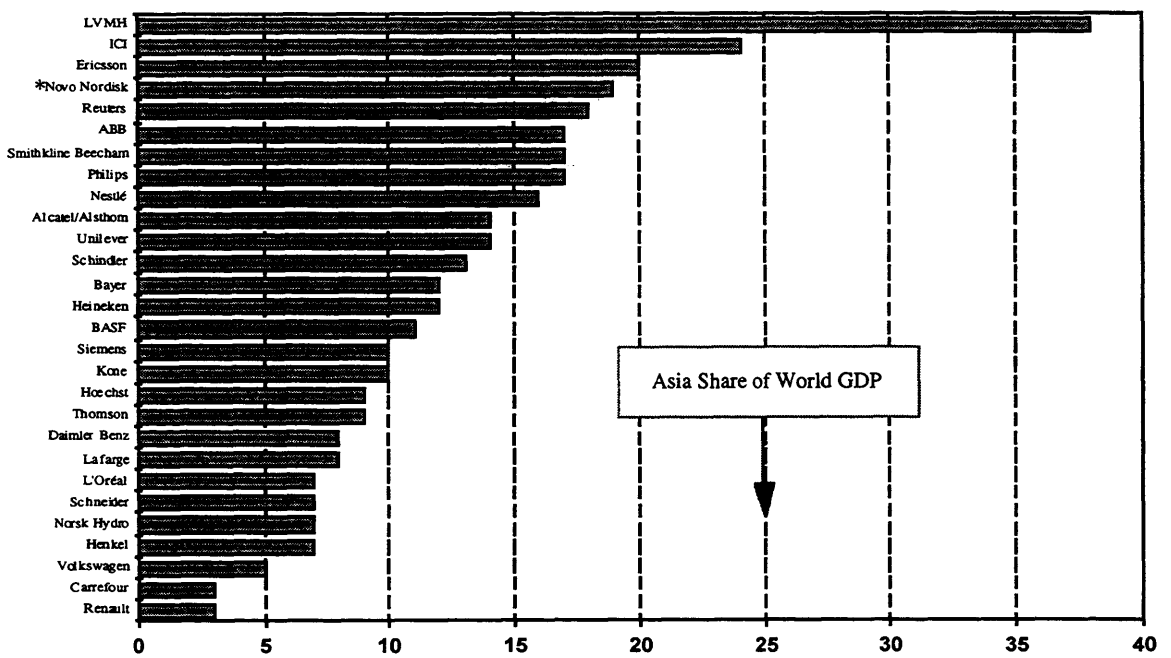
The strategic importance of a region is derived from its market size and potential as a source of sales and profits, the competitive threat emanating from competitors' activities in the region, and the availability of resources.

If GNP or GDP is taken as a proxy for the overall market size, Asia Pacific at the middle of the nineties represents about 25% of the world's output (The World Bank, 1996), i.e. 25% of

[1]European MNCs consider investments in other European countries still equally important. This contrasts with American and Asian MNCs which consider Asia an absolute, unrivalled priority.

all the opportunities in the world to make a sale or a profit. Within the next 10 or so years, the region will be equal in size to North America or Europe. As far as international trade is concerned, 24% of world imports go into the region already (World Trade Organisation, 1995). Any firm claiming to have a global reach should ideally have already one quarter of its business in Asia. This may sound unrealistic as from a historical perspective firms tend to start growing in their home country, then expand into neighbouring territories before exploring distant markets. However, as can be seen from figure 1, most European MNCs are so far away from a regional alignment of their activities with market opportunities that their status as global players can hardly be confirmed.

Figure 1: European MNCs in Asia



% of Sales in Asia Pacific (Source: Annual Reports for 1995)

*Japan only

The consequences of the under exploitation of Asian markets can be severe. Imagine if European rather than Japanese MNCs had taken over the markets for motorcycles, passenger cars and trucks in Asia 10 to 20 years ago. Consider the case of Schindler, a fine Swiss manufacturer of elevators. It is number 2 in the world (behind Otis), but only number 6 in Asia (behind three Japanese manufacturers, Otis and one Korean firm). More than half of all elevators sold today are installed in Asia, and this percentage will probably rise. Everything else being equal, competitors better placed in Asia than Schindler should grow faster than the Swiss firm. What is even more important, these other firms will probably reap profits more easily than Schindler. Fast growing markets rarely see the price battles and product

proliferation that companies are exposed to when they fight for survival in stagnating markets, where gains for one firm lead to losses for another.

Exploiting market opportunities in Asia, however, is only one side of the coin. The other is that slower growth and unsatisfactory profit performance in markets at home and insufficient participation in the growth of Asia can endanger the global market position in the long run. Often an expansion into the region can be justified only for strategic reasons, i.e. to limit competitors' growth and profit opportunities, thereby denying them the opportunities for cross-subsidisation and protection of their traditional markets closer home. This applies particularly to MNCs from Japan and more lately from Korea for whom the whole region meanwhile has become a profitable "home" market, allowing them to generate cash for expansion into Europe. It is at times of the announcement of their investments that Europeans realise how outdated the term "Far East" has become.

While market considerations have gained weight in strategic discussions of Asia, the possibilities to profit from Asia's resources have lost some of their attraction. Asia has plenty of natural resources, but few of them are proprietary or unique in the sense that they cannot be obtained outside the region. Its most valuable resources are its people, many of them prepared to work hard for long hours against low wages. But most of this cheap labour is unskilled and as such represents neither an attractive opportunity for cost savings nor a competitive threat for MNCs - except in very few industries such as shoes, garments and toys. Today's and tomorrow's technologies require skilled labour and management, good infrastructure and access to markets - all factor conditions not in abundant supply in Asia, and on their own not sufficient reason for an European MNC to move production to the region.

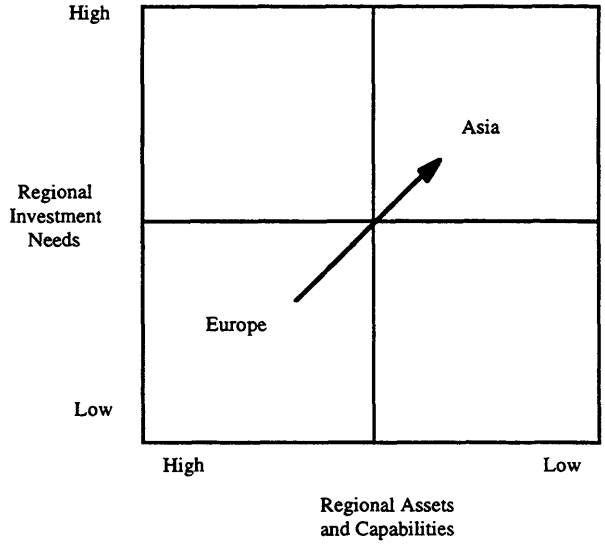
Pure offshore production has therefore lost its attractiveness. Exceptions to the general rule exist in special sectors such as computer parts and components in Taiwan or software production in India. And even in those cases, manufacturing can be outsourced, giving MNCs more flexibility and better opportunities for concentrating on their core competences. However, cost advantages based on cheaper labour at all levels can often contribute to a competitive advantage when combined with a presence in the market, as companies such as Thomson in Singapore or Philips in Taiwan have experienced. Local manufacturing in a market not only reduces entry barriers, but also leads to better understanding of the market itself. The accompanying insider status - difficult to reach for firms exclusively involved in offshore manufacturing or import and sales activities - provides indirect marketing support.

Technology is another resource that can be accessed in Asia, so far primarily in Japan. Korea, Taiwan and Singapore are emerging as innovative places, particularly in the area of information technology (Hobday, 1995). The experience in strategic alliances with Japanese

firms, is, however, not encouraging many European MNCs to seek further co-operative ventures with other Asian firms. American partners continue to be preferred for joint technological developments (Schütte, 1993, pp. 25-31).

The strategic importance of a region in terms of markets, competition and resources differs from MNC to MNC and even from business to business within the same firm. This is what makes it so irrational to prescribe Asia for everybody. In reality, however, most European MNCs have discovered that Asia is attractive for them, but that their assets and capabilities in the region are limited. In Europe, on the other hand, they are well established but for most industries this does not offer much hope for increased sales or profits. Consequently Europe's role is reduced to that of a cash-cow (see figure 2) – or even a dog – producing the money needed for investments in Asia: not an attractive proposition for managers in Europe already struggling to squeeze profits out of mature, embattled markets.

Figure 2: Portfolio of Regions



The divergent growth momentum in Europe and in Asia, however, makes a massive shift of funds inevitable. Even if Asian operations quickly show good returns on investments, the profits generated will not be sufficient to finance internal growth in the region, let alone new projects or acquisitions. Strong leadership is required in Euro-centric MNCs to boost their exposure to Asia when a substantial re-allocation of resources is required.

Giving priority to Asia means changing the company status from that of an explorer or laggard to that of a mover or strategic investor as depicted in figure 3. Such a move is often preceded or accompanied by symbolic gestures like the holding of important meetings in the

region, the presence of the chairman or major shareholders at a highly publicised inauguration of a new plant in Asia or the appointment of a board member as regional head - all actions designed to signal strong commitment of the MNC to Asia, and to give Asian managers and projects high visibility, both internally and externally.

Figure 3: European MNCs in Asia

Stage	Explorer	Strategic Investor	Global Consolidator
Objectives	• Exploit Local Opportunities	• Build Regional Presence • Pre-empt	• Balance Global Portfolio
Operations	• Limited • Self-contained	• Regional Linkages • RHQs	• Global Linkages
Commitment to the Region	• Ambivalent	• Very High	• High

To implement the strategic re-orientation, major steps have to be undertaken to develop a common regional perspective across countries and businesses, to upgrade the quality of managers involved in Asia, and to cope with the existence of a number of local partners and the resistance of subsidiary managers with limited interests in regional affairs. A truly regional presence has to be established and independent, country-based operations must be integrated to counter competition on a regional basis. Eventually a regional organisation has to be set up to initiate change and co-ordinate operations. Without these moves, announcements of Asia being very important will remain just words, with managers despatched from headquarters continuing to see their own career lying elsewhere.

The Need for a Regional Strategy

If Asia is supposed to receive a substantial boost, the first question to be asked is whether a special strategy for Asia will be needed. The intuitive answer is negative. MNCs have enough difficulties managing the trade-off between the pressures for global integration on the one hand, and the need to be locally responsive on the other (Prahalad and Doz, 1987, pp. 24-26) and thus shy away from further complications. What is acceptable and easily done is to divide

global strategies up into different geographic sectors without adjusting them to different circumstances. This, however, cannot be counted as a truly regional strategy that would be distinct and different from the rest of the world.

Arguments in favour of a regional strategy for Asia would have to show that first, Asia is different from the rest of the world, and secondly, that the various parts of Asia are somewhat similar to each other. Only if both conditions are met, could a regional strategy be useful. The assessment of the situation has to be based on internal and external factors. Internal factors are firm specific and depend on the resources available and the perceptions of the region at headquarters as well as the specific product markets in which the company competes. If the firm has not been successful in the region so far and resources for Asia are limited, Asia is often perceived as complex and psychologically distant. This alone may justify a specific regional strategy in order to break the vicious circle of failure and non-commitment. Equally, when products such as cosmetics differ considerably (whitening creams in Asia vs. tanning creams in Europe) a different strategy may be called for. In diversified MNCs this assessment can easily lead to a need for a regional strategy for certain businesses, but not for others. It makes finding a common strategic direction difficult, if not impossible.

Two external factors shape the need for a regional strategy and apply to almost all MNCs and businesses. The first refers again to the different growth dynamics in Asia and the rest of the world. Asia's economic development over recent decades is the result of the efforts of its entrepreneurs and managers whose mind-set thus far is almost exclusively shaped by success stories. Investing, acquiring, expanding, diversifying - thereby constantly taking risks and progressing - comes naturally in Asia. Growth of revenue and market share still come first, and the shortage of good and loyal staff is considered the most serious bottleneck. Contrast this with the thoughts going through the mind of a senior executive in Europe: restructuring, re-engineering, concentration on core businesses, cutting costs, and last, but not least down-sizing or getting rid of surplus staff.

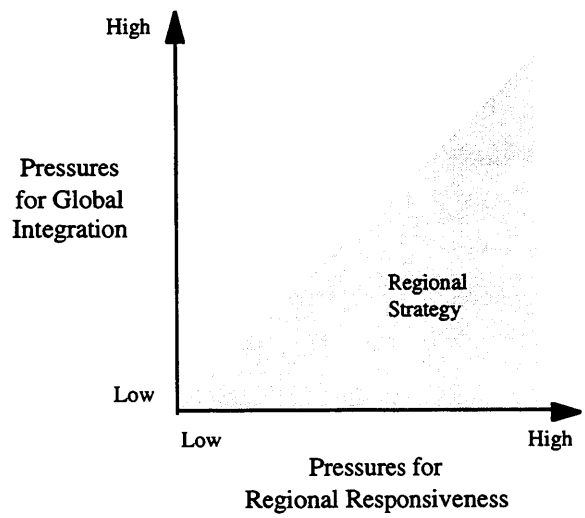
Strategies born in and suitable for mature, slow moving markets in Europe can rarely be expected to work in the fast growing, rapidly changing environment of Asia in which growth is almost taken for granted. In the same way experienced managers coming from a predictable setting in Europe find it impossible to use their standard business approach to cope with the ambiguities and volatility of Asian markets. Yet these not only create uncertainties, but also surprising market opportunities for entrepreneurial executives.

Secondly, the region is becoming more integrated. Intra-Asian trade is increasing, as is intra-Asian investment, travel and cultural exchange. Contrary to Europe where politicians initiated the integration, governments are not the driving force behind this trend, but the business

community itself, the Overseas Chinese and the Japanese MNCs in particular. Korean MNCs and bumiputra firms from Malaysia and Indonesia have also evolved into regional players. Their strongly centralised approach which varies little from country to country requires European MNCs to adopt a similarly regional approach. Equally, regional key account management is needed to deal with them as customers. The increasing integration of Asia also enables MNCs to rationalise production activities in order to exploit cost advantages across countries and to develop common marketing concepts adjusted to specific Asian needs and communicated through increasingly regional media.

Conceptually, a shift towards a regional strategy replaces the need for local responsiveness with that for regional responsiveness (see figure 4), and gives more weight to the pressures of regional responsiveness than to those for global integration. It is only justified when regional concerns are fundamentally different from global ones and therefore require a modification of management practices. Such a distinct strategy for Asia requires a different thinking mode compared to other parts of the world in terms of different mental models and different relationship paradigms (Lasserre and Schütte, 1995, pp. 44-46).

Figure 4: IR Grid for Regional Strategy[2] (Lehrer and Azakawa, 1995, pp. 3-4)



[2]Figures 4 and 5 are based on the integration/responsiveness grid of Prahalad and Doz which was then further developed to include a regional component by Lehrer and Asakawa.

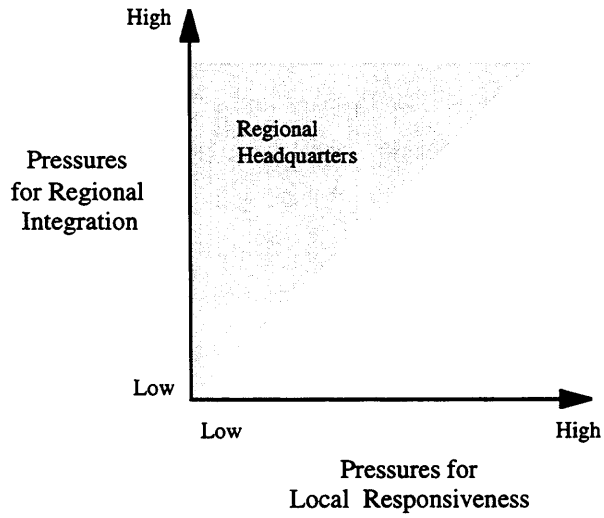
This does not suggest that local needs are becoming irrelevant, especially bearing in mind that the differences between the various Asian markets and business cultures remain large, certainly much larger than those between the various European countries. Local needs have, however, to be subordinated to regional concerns in the framework of regional strategies. In comparison with the difference between global and regional needs, the gap between regional and local responsiveness can be bridged by simple adaptation of management practices to different languages, institutions, legal frameworks and social codes. Responding to local needs may imply acting differently in the various markets, but still under the umbrella of one common Asian way of thinking.

The Need for a Regional Organisation

Leading on from the discussion of the need for a regional strategy is the question of a regional organisation. This is normally understood to mean an additional administrative level in between global headquarters and local subsidiary, though it need not be the case as we shall see below. The intuitive answer of managers concerned at both ends will again be negative. Such an organisational solution is not in line with today's moves towards delayering and lean management.

Assuming that structure follows strategy (Chandler, 1962), there is no justification for a regional organisation when there is no regional strategy. There are cases in which the regional organisation was established with the task first of all to develop a regional strategy (Schütte, 1995), though this may be the exception rather than the rule. Regional organisation in this context is defined as a regional headquarters (RHQ) to which authority is transferred to solve problems in the region which cannot be handled by the national units and otherwise would have to be dealt with and acted upon by headquarters. It actively manages the integration and co-ordination of activities of the MNC within the region, and represents the link between the region and headquarters - independently of its location. A representative office, a holding company set up for fiscal reasons or a regional organisational unit simply providing services and an infrastructure on behalf of headquarters could exist and be useful. However, such entities are not considered RHQs here.

Figure 5: IR Grid for Regional Organisation



Conceptually RHQs are justified when the pressures on the MNC for integrating its operations in the region are greater than the pressures for local responsiveness, as figure 5 shows. This implies that the benefits from regional integration must be higher than the cost of an RHQ as an additional organisational unit and hierarchical level, especially the cost associated with the loss of relative independence of the national units. The measurement of these costs is difficult, of the benefits practically impossible. This may be one of the explanations why RHQs of European MNCs in Asia have such a chequered track record and are largely unstable organisational phenomena. Their number is still low, but increasing. Most of the larger, diversified European MNCs with substantial operations in Asia have such an RHQ already established[3] (Schütte, 1996).

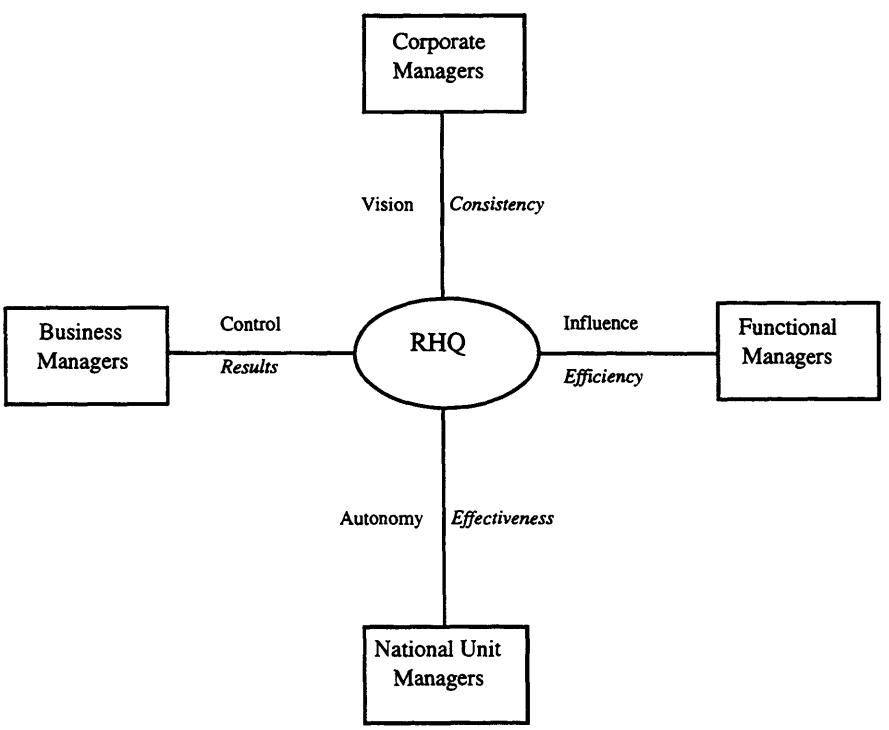
The roles of RHQs can be divided between those more directed towards headquarters and others more directly involved in regional operations. The first set of roles is concerned with strategy development and implementation in the sense of budgeting and control, strategic stimulation, intelligence gathering, new business development, and the bundling of otherwise fragmented demands from dispersed operations for resources or simply more attention from headquarters in competition with other regions. The second set of roles consists of raising efficiency and effectiveness through the pooling of resources, benchmarking and the spread of best practice and the co-ordination of activities across borders and business divisions. The

[3]These statements as well as others given below are based on a comprehensive, yet unpublished study of Regional Headquarters of Multinational Corporations by Schütte. RHQs of 30 MNCs were explored in-depth, 15 of which were from Japanese MNCs for Europe, 15 of Western MNCs for Asia. Among the 15 Western MNCs 12 were from Europe.

aim of the latter set of roles is to achieve synergies and consistency, and is integrative and administrative in nature (Lasserre, 1996).

Regional managers do not go unchallenged when carrying out their tasks. Corporate, business, functional and national unit managers feel their influence and power over the activities in the region, or their specific territory in the region, is curtailed (see figure 6). Corporate managers fear that the region may go astray and therefore try to keep the RHQ in line with the other parts of the world. Business managers argue that product specific knowledge counts more than regional market know how; functional managers believe that their expertise is best leveraged across the world without any modification; and national unit managers maintain that their specific market is different from the rest of the region and the world, and should best be left alone[4] (Morrison, Ricks and Roth, 1991, and Blackwell, Bizet, Child and Hensley, 1992).

Figure 6: Stakeholders in RHQs



To overcome resistance from the various stakeholders, some European MNCs have decided to assign very senior executives to head their RHQs. In ABB, Schindler, Unilever and Volkswagen main board members have been appointed to manage the RHQ. Other MNCs have despatched managers just one level below the board to direct the regional activities. Our

[4]Resistance to the establishment of RHQs is, however, not a typical Asian phenomenon.

data show that where less senior managers are transferred to the RHQ, they tend to be less effective. The actual leverage of an RHQ within the whole organisation also depends on the overall organisational logic of the MNC. Where the businesses dominate in the board, and a geographic dimension is not represented, for example in a matrix structure, RHQs tend to be relatively weak.

Despite the emphasis in the management literature on processes rather than structure (Ghoshal and Bartlett, 1995), RHQs tend to stress authority and power, thus reinforcing the perception of an organisation as a structure consisting of hierarchical layers. Those RHQs in which the national unit managers report to the RHQ, which in turn reports to headquarters, can be called vertical RHQs. In diversified MNCs this system is more complex as at least one further communication line (the "dotted" line) exists to a business division, but in principle hierarchical relationships continue to dominate.

The demand of business managers for greater powers of control is difficult to resist. Within the portfolio of a diversified MNC some businesses will be better off pursuing a global, others a regional strategy. Similarly, among those businesses for which a regional strategy is appropriate, some will require a high degree of integration and are therefore in urgent need of an RHQ, while others are better suited to the national unit approach. Rarely can a suitable strategy and organisation in the region be found which fits all businesses of an MNC equally well. Unilever, for example, runs its chemical division on a global basis without the intermediary of an RHQ, while its main businesses (detergents, toiletries and food) are organised regionally. Rhone-Poulenc and ICI have separate RHQs for their various businesses, not all of them physically located in the same countries of the region. Synergies between businesses, already difficult to create in central RHQs, may become impossible to achieve when managers are based at different locations. There is also the danger that in the process of designing such organisations, too much complexity becomes too costly and cumbersome (Ghoshal and Nohria, 1993). As many MNCs have discovered, the problems related to the establishment and operation of a RHQ are nothing else than a microcosm of their overall problems of managing complexity!

Two models of organisation can be proposed to convert destructive conflicts into productive tension within the region. The first, the horizontal RHQ, operates on a consensus basis, with the authority of the RHQ dependent to some extent on the national units. In the extreme, the RHQ becomes the executing arm of the operating units in the region and can direct and control only with the consent of those governed. The second model, the virtual RHQ, also relies on input from national units, but an RHQ as a separate organisational unit with its own office and dedicated staff does not exist. The responsibilities and functions of the traditional RHQ are not abandoned, but are distributed to existing national units. As such, the RHQ

continues to fulfil its tasks, though only in a conceptual sense through the activities of dispersed local/regional managers. These can take over additional responsibilities as regional business or functional managers, as in the case of the horizontal RHQ.

Attempts of this kind come close to what has been described as federalism in organisations combining the autonomy of individual organisational units with the scale benefits of co-ordination (Handy, 1992). Applied to the regional organisation, the horizontal and virtual RHQs maintain the integrity of the national units, while at the same time unifying their activities for the common objectives of the region. They allow the local directors to become local barons or local heroes, while moderating their individualism through mechanisms that demand collegial approval and enforce close co-operation. Both models, however, lack mechanisms for conflict resolution among the various country units. Difficult or unpopular decisions are rarely made by consensus.

So far it seems, none of the European MNCs in Asia has moved towards a more federalist organisation in the region, though some firms have asked their managers in Asia to carry both regional and other responsibilities. "Wearing two hats" in these cases means, for example, being a member of an existing RHQ and at the same time of another unit, which may be a local subsidiary, a functional group such as an R & D centre, or a business division/SBU.

The term 'double-hatting' was probably coined by BP when it introduced such a system at the beginning of the 1990s. The MNC decided then that all managers should belong to profit centres, and that almost all purely staff functions would be eliminated. The resulting cost savings were significant but, what is more important, people began to find it easier to understand and appreciate each others' point of view. Wearing two hats became synonymous with having two perspectives, a welcome development in the MNC. An alternative route to double-hatting is the assignment of regional responsibilities for certain businesses or functional areas to senior managers who accept these tasks in addition to their continuing responsibilities as heads of national units. Some American MNCs such as Hewlett-Packard and Apple operate such a system in Europe (Doz and Ghoshal, 1994). Henkel has started applying this logic with the appointment of the senior head of their local Malaysian operations to a major regional responsibility without asking him to join the RHQ physically. Unilever in South East Asia brings senior managers regularly together in task force meetings to accelerate the roll-out of new products or practices.

To work well, the more senior managers in the region should know and trust each other, and the method of co-operation must be well established. This means that double-hatting is hard to achieve for relatively new regional organisations. As the regional networks of European

MNCs in Asia mature, more of them can be expected to follow the example of longer established RHQs of American MNCs in Europe.

Asia as a Region

By and large European MNCs use a broad definition of Asia, sometimes far exceeding the common understanding of what is represented by the region. Pragmatism seems to be the dominant principle when delineating borders. Distances and transportation links apparently matter more than political linkages and cultural similarities.

While politicians and diplomats work on the ideas of the EAEC (East Asian Economic Caucus) and the expansion of ASEAN (Association of South East Asian Nations); on APEC (Asia Pacific Economic Co-operation) and ASEM (Asia-Europe Meeting) and place major emphasis on the economic benefits that accompany closer integration, managers in MNCs find these discussions rather irrelevant for their purposes.

If the core of Asia may be defined as Japan, the ASEAN 4 (Indonesia, Malaysia, the Philippines and Thailand), the NIEs or newly industrialising economies (Hong Kong, Singapore, South Korea and Taiwan), Vietnam and China, then almost all European MNCs take this definition as their base (Lasserre and Schütte, 1995, pp. 1-4). Australia and New Zealand are included in Asian territory, probably by default.

It is the extension to the West where MNCs differ in their interpretation of Asia. Heineken's Asian region represents the broadest scope and even includes Israel. For several other MNCs the Asian territory reaches as far as Pakistan. Most European MNCs now include India in the region, though not all are committed wholeheartedly. Several of them are starting to explore this market more seriously under the leadership of their Asian RHQs, but are uncertain whether to group this large country together with the other countries in the Asian region, or to create a new region called 'South and Central Asia'. Both BP and Unilever exclude India from the ambit of their Asian region due to long-standing special relationships between national units and their headquarters.

The more broadly the region is defined, the more urgent is the question of whether a single regional strategy can do justice to the increasing variations in the region, and whether one regional organisation is able to exercise such a span of control. The answer is in the affirmative, at least in the sense that European MNCs try to operate on the basis of one Asia. Some MNCs, like BASF, have however introduced sub-regions that then need to be co-ordinated, most likely by a board member at headquarters. The cost of managing this

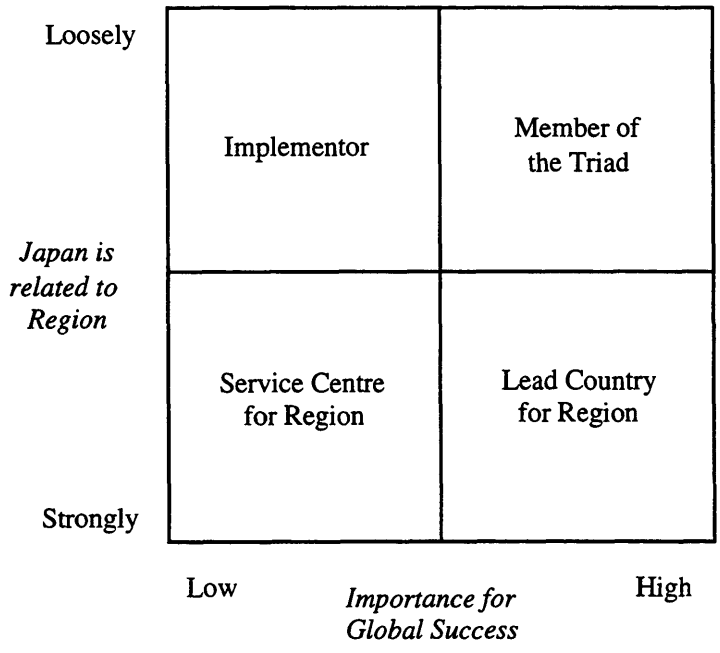
additional complexity has to be weighed against the potential costs of losing specificity and control.

European MNCs in Asia are exposed to a further issue, namely the inclusion of Japan today or, in future, other major countries like China and India in a region otherwise consisting of small and medium-sized countries.

Discussion of the issue is difficult due to the often strong desire of the representative of a major country to follow a different strategy than the other countries and to report directly to headquarters rather than first to the RHQ. To reach an effective solution to the problem, two points must be taken into consideration. The first concerns the extent to which the specific country business is related to the region. Factors to take into account include, among others, differences in technical standards and the presence of regional customers. Secondly, the importance of the country operation itself for the global success or overall competitiveness of the MNC has to be determined.

The matrix in figure 7 takes the example of Japan and describes the effect of its inclusion in or exclusion from an MNC's Asian regional organisation.

Figure 7: The Role of Japan in Asia



In the case of a close relationship between the country activities and the region, the units in Japan should be included in the region and be used either as service centres or to lead

operations which depend on the overall importance of Japan. Both IBM and Procter & Gamble have chosen the latter solution and rely on their Japanese subsidiaries continually to create new ideas and products. If the local units in Japan are only loosely connected with Asia and are less important for the MNC's global success, they can be dealt with on a case by case basis. No strong argument speaks in favour of or against their inclusion in the region. However, when Japan is important, for example due to its market size or the technological capabilities of the local units, but is less related to the region, a separate strategy and organisation are called for. BASF, Bayer and Hoechst have all opted for this solution.

China represents an even more complex case in that its scale and momentum are sufficiently great for it to be considered as a region in itself. It is closely linked with many other parts of the region, but technologically or in volume terms has for many MNCs not yet reached the stage that it is important for global success. At the end of 1996, several MNCs had between 10 and 20 ventures in operation in the country and several more under negotiation. Under such circumstances the distribution of an MNC's activities across the whole Asian region is thrown out of balance. The formation of a China holding company as a new legal entity adds to the uncertainty over the organisational treatment of the country. If the various China ventures are first bundled under a China office which in turn reports to an RHQ which in turn reports to headquarters, lines of communication clearly become too long. If all these ventures report to the RHQ directly, it will turn into a disguised China office itself. The alternative is to establish a direct link between the China office and headquarters - a clear signal that a common regional strategy and a unifying regional organisation for Asia are coming to an end.

In sum, Europe's MNCs are rising to meet the opportunities which Asia's markets offer. But the shift towards Asia brings unexpected problems which are rooted in the strategic and organisational complexities of large firms.

There is no end in sight to the new challenges for European MNCs in Asia.

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