

**REGIONAL HEADQUARTERS  
OF JAPANESE AND WESTERN MNCs:  
A COMPARATIVE STUDY**

**by**

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# **Regional Headquarters of Japanese and Western MNCs:** **A Comparative Study**

## ABSTRACT

This in-depth survey of 30 RHQs in Asia and in Europe shows that the RHQs of Japanese MNC are less involved in shaping the regional perspective and in integrating operations in the region than the RHQs of Western MNCs. RHQs of Japanese MNCs were not staffed with more expatriates than those of Western MNCs, and in terms of the mind-set resemble those of Western MNCs. Japanese and Western MNCs use different organisational mechanisms in their RHQs in dealing with the national units in the region, but the differences are less pronounced than expected.

Overall the differences between Japanese and Western MNCs in terms of management of their RHQs are small. This is confirmed by cluster analysis which shows that the difference in strength between the RHQs of Western and Japanese MNCs is statistically insignificant.

Hellmut Schütte

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## **1. Conceptual Framework**

### **1.1. Multinational Corporations (MNCs) as Complex Organisations**

The multinational corporation (MNC) as a phenomenon of recent times differs from simpler organisations by 'the combined consequences of multidimensionality and heterogeneity' [Doz and Prahalad 1991]. Multidimensionality in this context is the result of multiple geographical markets, multiple product lines and multifunctional activities. Heterogeneity comes from the different economic and political characteristics which make an impact on the various countries, businesses and tasks in varied ways. Ghoshal and Westney [1993] describe the MNC as 'one of the most complex forms of organisation currently in existence'. Egelhoff [1991] notes that management theory has difficulties in keeping pace with advances in the management of MNCs and fails to provide an abstract, generalised and therefore more reliable understanding of the complexities of MNCs.

The literature on MNCs is relatively new and has evolved from various streams of research carried out over the last decades. The academic field of international business was strongly influenced by economists, and focused on trade flows, direct foreign investment and comparative advantage. In parallel, two schools of thought in the area of international management concentrated on administrative and managerial issues [Bartlett and Ghoshal 1991]. The first is represented by Stopford and Wells [1972] and Franko [1976] and built on Chandler's [1962] argument that the structure of an organisation follows strategy. Stopford and Wells [1972] argued that MNCs with a high number of products sold internationally would need an organisation based on product line. MNCs with a high percentage of sales abroad would prefer an organisation based on geographical area, while those with both large product diversity and important sales abroad would choose a matrix organisation.

The second school is represented by Prahalad, Doz, Bartlett, Ghoshal and Hedlund, the so-called process school. Prahalad and Doz [1987] describe the management of the MNC as a balancing act between two environmental influences, i.e. pressures for global integration and pressures for local responsiveness. While strategy is their departure point, Bartlett and Ghoshal [1989] focus on organisational issues, though in the sense of processes rather than structural forms. They observe a co-ordination crisis in MNCs arising from the sheer volume and intensity of the task and the need for greater variety in the way that things are done, and propose a new form of MNC, the transnational corporation. It functions as an integrated network in which subsidiaries have differentiated and specialised roles and participate in the worldwide sharing and development of knowledge.

Most of the literature in the area of the management of multinational corporations is based on research carried out in Western firms. While reference is made occasionally to Japanese corporations, the bias towards Western thinking cannot be denied. Unfortunately, the comprehensive works on Japanese firms [Yoshino 1976, Pascale and Athos 1981, Abegglen and Stalk, 1985] are now either somewhat dated and/or have tended to overlook the managerial and organisational challenges faced today by Japanese firms with substantial operations abroad. The description of the Japanese firm as a social organisation with its emphasis on shared norms and visions and cultural control mechanisms, however, has remained undisputed. This profile compares with that of the Western firm as a more rational organisation which operates according to formalised control mechanisms and clearly defined organisational structures [Jaeger and Baliga 1985].

Newer literature on the Japanese firm as a multinational corporation is scattered and provides either uninterpreted statistics on activities abroad, or is of a sketchy, journalistic nature. Nonaka [1990] is one of the rare exceptions, drawing a clear distinction between Western and Japanese MNCs. He characterises US MNCs as typically executing multinational strategies but with strong control being exerted by a global headquarters, while European MNCs pursue multi-domestic strategies based on a loose network of national subsidiaries. In contrast, he

describes a Japanese MNC pattern of export-centred global expansion which is now in need of renewal.

Like Nonaka, Bartlett and Yoshihara [1988] point to the urgent need for Japanese MNCs to adjust from an export-led strategy backed up by a centralised organisation, to a more foreign investment-driven strategy which takes into account foreign operations as contributors rather than implementors. They observe that Japanese MNCs rely on centralised decisions made by groups of Japanese managers at headquarters, or on Japanese expatriates supported by frequent visits from headquarters personnel to the subsidiaries.

Empirical research carried out by Mitsubishi Research Institute (MRI) among Japanese MNCs confirms the concerns of Bartlett and Yoshihara, and of Nonaka. The results of MRI's large-scale survey demonstrate that the need to decentralise and to delegate authority to subsidiaries is widely recognised, but is rarely acted upon. Localisation and decentralisation measures are progressing, but only gradually and at varying speeds depending on functions and businesses [Makino 1993].

## **1.2. Regionalisation between Globalisation and Localisation**

In the mid-1960s, Heenan and Perlmutter [1979] had already observed a trend in MNCs towards regional integration. Consequently, they proposed adding regiocentrism to the earlier described ethnocentric, polycentric and geocentric orientations of top management in conducting business abroad. They characterise MNCs with a regiocentric orientation as organisationally highly interdependent on a regional basis, while authority and decision making are concentrated within a regional headquarters and/or collaborating subsidiaries.

Only scant attention is paid to regional integration issues in the recent literature on MNCs. Neither Stopford and Wells, nor Franko, nor any of the representatives of the process school have explored regional strategies or regional organisations as alternatives to the globalisation-localisation dilemma. This is somewhat surprising as the dimensions of regional strategies and regional organisations could have helped to disentangle many of the global-local and

centralisation-decentralisation dichotomies. Lehrer and Asakawa [1995] are among the few to pursue this avenue of research. They advance the idea of the integration-responsiveness grid of Prahalad and Doz by splitting it into two sub-grids with a regional component. The first grid maps the pressures for global integration against those for regional, as opposed to local, responsiveness. The second grid maps the pressures for regional (rather than global) integration against pressures for local responsiveness.

While Heenan and Perlmutter describe regiocentrism as one option in structuring the operations of an MNC, Aoki and Tachiki [1992] – from a Japanese perspective – view regionalisation as a necessity for implementing globalisation. Nonaka [1990], on the other hand, suggests a worldwide organisational information sharing imbedded in a network of multiple headquarters consisting of, for example, a top global headquarters and independent regional headquarters in order to ensure global integration and local responsiveness simultaneously. Morrison and Roth [1992] see regionalisation as a second-best solution to globalisation, especially for firms with a historical legacy of strong subsidiaries and difficulties in implementing global strategies. However, external pressure from regional competition and the formation of regional blocs can turn regionalisation into a feasible alternative to globalisation, thereby leading to ‘a compromise between the traditional strategies adopted by miniature replica subsidiaries and the global strategies currently being advocated’ [Morrison et al 1991].

## **2. The Study of Regional Headquarters (RHQs)**

### **2.1. Research Questions**

Two trends have been observed which triggered the interest of the author in studying the regionalisation attempts of MNCs, and in RHQs in particular. The first trend is internally driven and the result of the strategic and organisational shift in large, diversified MNCs towards global strategies and a more centralised organisation with the locus of power mainly, but not exclusively, at headquarters. After experiencing difficulties in implementing these more globally oriented strategies, MNCs have started to pay more attention to regional strategies, and

this has in turn required an intermediate organisational solution – the establishment of regional headquarters.

The second trend is initiated by the environment, political forces in particular, and concerns the creation of geographic regions covering groups of countries bound together by preferential trade and investment regimes. MNCs react to these signals by increasing regional trade and investment. This is accompanied by an increasing awareness of the similarities of markets within one region, and the need to exploit these similarities and geographic proximity in terms of marketing, manufacturing, finance etc. To do this more systematically, regional headquarters are often established to integrate the diverse activities of the local subsidiaries whose influence, in general, is limited to the boundaries of the country in which they operate.

As initial interviews and four in depth case studies have shown, the creation of an RHQ is rarely a thoroughly planned undertaking with clearly defined responsibilities. This is especially true in Japanese MNCs where according to Lehrer and Asakawa [1995], the importance of regional management is recognised, but there is reluctance to delegate and to establish influential RHQs. Kidd and Teramoto [1993], who interviewed a number of heads of RHQs of Japanese MNCs in Europe in 1980 and again in 1993 found that the MNCs were still ‘just observing and undertaking changes, one step at a time’.

The study therefore aims at shedding light on the managerial activities of RHQs, particularly with regard to the development of a regional perspective, the problems concerning the regional integration of the MNC's operations and the use of systems and culture by the RHQs in managing the regional operations. The analysis of these aspects will allow an overall assessment of the strength of RHQs which will then be correlated with a number of variables.

Existing RHQs of large MNCs have been chosen for the study. They are defined as organisational units concerned with and involved in the integration and co-ordination of

activities of the MNC within a given geographical region, and representing the link between the region and the headquarters.

This definition is, deliberately, very broad. It stresses the active managerial role taken by the RHQ and de-emphasises the locality of the regional headquarters. It includes a 'virtual RHQ', in which managers working in different national units are charged with regional responsibilities and work across borders without sharing the same office facilities. The definition, however, excludes holding companies set up for purely fiscal or financial reasons, representative offices, and R&D centres which are not integrating and co-ordinating research and development activities across borders.

## **2.2. Sample of MNCs**

Two groups of large multinational companies with existing RHQs have been selected for the non-random sample, i.e. 15 Japanese MNCs with regional activities in Europe and 15 Western MNCs with regional activities in Asia. All of them have billion dollar sales and large numbers of staff both at home and abroad. They are all among the leading global competitors in their specific industries.

The expected outcome of the study is contingent upon two variables, i.e. the country of origin and the region for which the RHQ is in charge. The first variable is expected to produce different results at least in some aspects of managerial behaviour. Among the 15 Western MNCs seven different home countries are represented. As issues such as shareholder value are not touched upon in this study, the differences between the anglo-american and the continental European model of the firm are seen as relatively unimportant. Contrasting Japanese MNCs with a group of Western MNCs from different countries of origin, thus, seems to be acceptable.

The second variable, the region concerned, is expected to influence the results much less despite the obvious differences between Europe and Asia. From the MNCs' point of view,

both respective regions are far away from corporate headquarters. The MNCs are relatively new in the region. In absolute terms they have substantial operations in the region concerned, though not relative to the size of their operations in other parts of the world. European MNCs are presently less involved in Asia than in North America, while American MNCs are less involved in Asia than in Europe. Europe is less important than North America for Japanese MNCs. This general observation of the geographic distribution of the activities of MNCs applies to all firms in the sample. It means that the region in question does not represent an area of prime importance for any of the MNCs in the sample, at least not at this moment. However, several of the Western MNCs are very ambitious so far as their growth targets for Asia are concerned. None of the Japanese MNCs in the sample sees Europe in a similar light or has made known ambitious targets for Europe.

Table 2.1: MNCs in Sample

Company	Sector	Nationality
ABB	Engineering	Swiss/Swedish
Accor	Hotels	French
BASF	Chemicals	German
BP	Oil	British
Heineken	Beer	Dutch
Henkel	Chemicals	German
ICI	Chemicals	British
Otis	Elevators	American
Raychem	Electronics	American
Rhone-Poulenc	Chemicals	French
Schindler	Elevators	Swiss
Schneider	Electricals/Electronics	French
Seagram	Drinks	American
Unilever	Food/Toiletries	British/Dutch
Volkswagen	Cars	German

Table 2.2: Japanese MNCs

Company	Sector	Nationality
Asahi Glass	Glass	Japanese
Chugai	Pharmaceuticals	Japanese
Honda	Cars	Japanese
Kao	Toiletries/Chemicals	Japanese
Komatsu	Construction Equipment	Japanese
Matsushita	Consumer Electronics	Japanese
Mitsubishi Electric	Engineering	Japanese
Mazda	Cars	Japanese
NEC	Electronics	Japanese
Seiko	Watches	Japanese
Shimizu	Construction	Japanese
Shiseido	Cosmetics	Japanese
Sony	Consumer Electronics	Japanese
Toyota	Cars	Japanese
YKK	Zippers	Japanese

For the most part, MNCs in the manufacturing sector have been selected for study as they tend to have tangible investments that require active management in the respective regions. The hotel group Accor and the construction company Shimizu are the exceptions. Both belong to the service sector, but have major investments in real estate in Asia or Europe respectively which are managed as active businesses.<sup>1</sup>

26 MNCs of the total of 30 belong to five more broadly defined groups of industries. The remaining four are special cases and each represents a separate industry group. Most of the MNCs are involved in several, though related, businesses. Four of the Western and five of the Japanese MNCs show a low degree of diversification. It can therefore be assumed that in terms of diversification no major differences exist between the two sub-sets in the sample.

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<sup>1</sup>Trading firms were excluded as the Japanese *sogo shosha* have no Western equivalent. Financial institutions were also excluded as their operations are strongly influenced by regulatory forces which may distort organisational structures and systems.

## 2.3. Hypotheses

Five hypotheses of RHQs have been developed based on the literature and in-depth case studies. The first two hypotheses (1 and 2) concern the activities of the RHQ and test statements related to what RHQs do. The second set of hypotheses (3, 4 and 5) concern the structure and systems of the RHQ and seek validation of assertions on the way in which RHQs operate.

### 2.3.1. Role of RHQs

Prahalad and Doz [1987] assign responsibility for global integration to corporate headquarters, and for national responsiveness to national units. According to Heenan and Perlmutter [1979], RHQs are given the authority for bringing a regiocentric orientation into the MNC. They reduce the span of control, provide for greater sensitivity towards an area and for better allocation of resources. Lasserre [1996] describes strategy development and regional integration as the core tasks of RHQs. This argues that RHQs are in charge of shaping the regional perspective in the sense of developing a strategy, initiating new business and setting and controlling targets.

However, any influence of the RHQ on the region will encroach on both the power of the headquarters and the national units and may be opposed, as Morrison et al [1991] and Blackwell et al [1992] have pointed out. RHQs can therefore contribute to, but need not necessarily be strongly involved in, shaping a regional perspective. This would apply, as Lehrer and Asakawa [1995] and Makino [1993] have observed, especially to Japanese MNCs. However, the decision to set up an RHQ as a special organisational unit can also be interpreted as a deliberate transfer of the leadership for the region to the group of managers assigned to it. Therefore the first hypothesis reads,

Hypothesis 1. RHQs play a dominant role in shaping the regional perspective of an MNC, though less so in the case of Japanese MNCs.

### **2.3.2. Regional Integration**

With increasing integration of regions through external forces, pressure grows to bring functional activities such as marketing, finance and human resource development in line in order to reduce inconsistencies – which could lead, for example, to arbitrage between neighbouring countries in the case of different price levels, a confusing brand or company image through different advertising campaigns, or dissatisfied employees feeling unfairly treated in the case of unaligned personnel policies within the region. Internal integration of this nature also achieves a better allocation of resources within the region in terms of the vertical and horizontal division of labour [Morrison and Roth 1992] and the bundling of scattered national activities which makes HQ more aware of their needs.

Combined activities and/or common platforms in the region will result in lower costs through scale effects [Morrison et al 1991], and improved opportunities for benchmarking and exchange of best practice. This is desirable in view of the often observed fragmentation into small activities below the critical mass, particularly when they are dispersed over a number of smaller businesses in smaller countries. Aoki and Tachiki [1992] consequently consider RHQs as suitable vehicles for integrating and co-ordinating the activities of dispersed subsidiaries. Both from a conceptual point of view and from empirical observation, there should not be any major differences between Japanese and Western MNCs in this respect. For this reason the second hypothesis states,

Hypothesis 2. RHQs of both sub-samples of MNCs foster regional integration through functional activities and try to achieve synergies between different businesses.

### **2.3.3. Staffing of RHQs**

The staff for RHQs may either be drawn from among senior local managers in the region or assigned from HQs to the region. Nationals who come neither from the region nor from HQs may also become RHQ staff. In their day-to-day work they will be asked to act as the bridge

between the region and HQ on the one hand, and generate benefits from bringing dispersed businesses or country units closer together on the other.

Bartlett and Yoshihara [1988] have reported on the centralised decision making process in Japanese MNCs and the close links between headquarters and national units in which expatriates tend to dominate. This pattern is mirrored by the central concern of Japanese expatriates to maintain their direct ties with headquarters, as Schneider and Asakawa [1994] observe. Staffing in their units abroad is heavily biased towards the Japanese and, as Kopp [1994] reports, contrasts sharply with the practices of European and American MNCs. The perception of an overwhelming presence of Japanese expatriates abroad is strengthened by their tendency to cluster in certain localities<sup>2</sup> and encourages the widely spread belief in the business press that Japanese subsidiaries depend more heavily on expatriates than their Western counterparts [The Economist 1995]. The third hypothesis therefore states,

Hypothesis 3. RHQs of Japanese MNCs are more staffed with expatriates than those of Western MNCs.

#### **2.3.4. The Mind-Set of RHQ Staff**

It is in the interest of HQ managers to assign regional tasks to staff who know the headquarters well and have a high degree of loyalty to the global centre of operations. For this reason RHQ staff not only should come from HQ, but should also be closely tied to it. Preferably they are despatched for limited periods only and see their future career prospects lying at HQ rather than in the region. In the case of the head of the RHQ, he should remain closely integrated with the HQ organisation while being responsible for a region far away from HQ.

This requirement contrasts with the need to staff RHQs with managers who have accumulated experience in and in-depth knowledge of the region. On the basis of this argument RHQs in Europe are to be staffed with Europeans, those in Asia with Asians. Unfortunately, geographical proximity of countries does not necessarily result in cross-border knowledge. A

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<sup>2</sup>In Düsseldorf, for example, the concentration of Japanese businessmen in one particular central part is so strong that it is known as "Little Tokyo".

French senior manager may be more familiar with Africa or Canada than with Germany or the UK, an Indonesian more with the Netherlands or the USA than with China or Japan. Managers from a region are thus not automatically better qualified as RHQ staff than outsiders. On the contrary, strong loyalties to their home country may lead them to subconsciously hold biased views and to make decisions in favour of their home country rather than for the good of the whole region.

Finally, appointments to the more senior positions at RHQs are made by decision makers at HQ. As they tend to trust their own colleagues more than those far away and from different cultures, the fourth hypothesis is formulated as follows:

Hypothesis 4. RHQ staff are more closely linked with HQ than with the region, both in the case of Japanese and of Western MNCs.

### **2.3.5. Organisational Mechanisms**

Co-ordination within the region can take different forms, ranging from central direction with line authority to informal co-operation based on exchange of information [Blackwell et al 1991]. The 'one size does not fit all' approach is supported by Doz and Ghoshal [1994] in their survey of organisational changes in large, long established American MNCs in Europe.

Both formal and informal mechanisms are used by MNCs to co-ordinate their diverse activities. Formal mechanisms include, among others, the allocation of authority within the organisation. Informal mechanisms consist of lateral relationships, informal communication, and socialisation in the sense of network building [Martinez and Jarillo 1991].

Western MNCs present themselves as rational organisations emphasising clearly defined organisational structures and formalised control systems. It can therefore be hypothesised that they will prefer to use formal mechanisms to transform the relationship between RHQ and local units into a strict hierarchy in which the RHQ is the only unit with authority and there are no direct links between national units and headquarters.

Japanese MNCs, on the other hand, seem to be primarily social organisations with shared norms and visions, and cultural control mechanisms. They will therefore prefer a consensus based system in which the authority of the RHQ is dependent to some extent on the national units. Such a horizontal model approaches what Handy describes as federalism in organisations, in which the autonomy of individual organisational units is combined with the scale benefits of co-ordination [Handy 1992]. Applied to the regional organisation, the RHQ maintains the integrity of the national units, while at the same time unifying their activities for the common objectives of the region.

Case studies underline the discrepancies between Western and Japanese firms [Schütte 1995; Butler and Schütte 1993]. The German chemical MNC Henkel formally sets up a structure in Hong Kong called Henkel Asia-Pacific to develop a strategy for Asia. Structure thus comes before strategy and not the other way around as Chandler [1962] states. Henkel's Japanese equivalent, Kao, on the other hand, pursues a consistent strategy of expansion in Europe without bothering too much about formal organisational mechanisms to guide and control this process. The fifth hypothesis therefore postulates,

Hypothesis 5. Western and Japanese RHQs use different organisational mechanisms.

## **2.4. Research Design**

### **2.4.1. Structured Interviews**

Due to the complexity of the issues for discussion, structured interviews were carried out. Preference was given to conducting a greater number of interviews in a limited number of firms, rather than opting for incomplete information from a larger number of MNCs. This facilitated cross-checking of statements as the topics occasionally resulted in the expression of biased views by interviewees. Most of the managers interviewed were directly involved in regional tasks and considered to be the most knowledgeable and least biased with respect to the

global-local dichotomy [Sullivan 1992]. Attention was, however, paid to balance their views with those of managers at headquarters and of managers working in subsidiaries.

The interviews were carried out between summer 1994 and autumn 1995 in the 30 MNCs in the sample. Some intensive interviewing by the author related to RHQs in Henkel, Kao, Shiseido and Asahi Glass had preceded this larger survey and led to the writing and publication of four case studies [Schütte 1994, Butler and Schütte 1993, Probert and Schütte 1993, Probert and Schütte 1995]. A total of 96 interviews took place in 17 different locations in 11 countries. The average interview lasted about two hours.

#### **2.4.2. General Questions**

All interviews commenced with a number of general questions. Three issues were explored in particular:

1. The extent to which the RHQ is in charge of all or only some of the businesses of the MNC in the region

In two thirds of the cases the RHQ was in charge of all businesses of the firm in the region. The degree of diversification did not represent a differentiating variable. Cases of limited coverage of the region by the RHQ derived from a variety of firm specific reasons. In some cases the MNC ran some businesses on a regional, others on a global basis (Unilever). In other cases a specific business was not pursued in the region at all (NEC) or else the different businesses were the responsibility of different RHQs (ICI and Rhône-Poulenc).

2. The degree of change in regional organisation (either for Asia or for Europe) over the last five years

Only 17% of the MNCs in the sample had not seen a substantial change, while 57% of the MNCs had undergone a dramatic change in their regional organisation. 'Dramatic' in this context refers to the establishment or dismantling of the RHQ during the last five years; to a major change in strategy with implications for the organisation; or to a major change in the worldwide organisation of the MNC concerned. It does not refer to changes of personnel, even if they have been dramatic. No significant difference between the Western and the Japanese

MNCs could be detected. The instability of the RHQ reported by the majority of MNCs implies that their present regional organisation is relatively new.

3. The organisational structure at board level as an indication of the dominant organisational logic

24 out of the 30 MNCs in the sample had a clearly identifiable organisational logic. One third of them used a matrix structure, in which businesses and geographic regions carried more or less equal weight. Two thirds preferred a divisional set-up. Almost all Japanese MNCs were organised by business divisions. Several of them assign profit responsibility to the businesses, but run sales and marketing divisions along geographic lines. The latter activities are considered cost centres. While this arrangement could be categorised as a matrix structure, it is apparent that the power resides within the product divisions.

#### **2.4.3. Vertical and Horizontal Analysis**

The following sections discuss the responses to most of the topics raised in the interviews. The five hypotheses will be tested in the process. The results give an in-depth, vertical view of how the MNCs in the two sub-samples manage certain aspects of their RHQs. This analysis will be followed by a horizontal approach which explores how specific MNCs have set up and/or operate their RHQs across all aspects researched. The data collected are detailed enough to give a good picture of the RHQ of each of the 30 MNCs in the sample.

Available data will then be grouped in such a way as to indicate the strength of the specific RHQ according to a given definition. From there a ranking is developed. Clusters will then be formed among MNCs with similar characteristics, and correlation analysis will be used to identify important relationships between variables.

### **3. Research Results**

#### **3.1. Hypothesis 1: Regional Perspective**

The first group of issues raised during interviews deals with the influence of the RHQ on shaping the regional perspective, i.e. the MNC's long-term view of a specific region. The first aspect explored was the RHQ's influence in the development of the regional strategy. Descriptions of the RHQ role given by the respondents were distributed between five models of influence ranging from 'RHQ with HQ consensus' to 'HQ with limited RHQ input'. The responses are shown in table 3.1 in exhibit 1.

The results show that the role or power of HQs and RHQs in the development of a regional strategy differs in the two sub-samples. The regional strategy development in Japanese MNCs tends to be more dominated by the HQs, though not in all cases. The RHQs of both YKK and Asahi Glass (through its Belgian subsidiary Glaverbel) remain firmly in charge. Among Western MNCs, the RHQs have reasonably strong influence, though again not in every case. Aggregating the two sub-samples eliminates some of the differences, though a slight tendency towards 'some' HQ input remains. RHQs are, thus, not in the driver's seat – or at least not alone – when it comes to developing a regional strategy. In most cases headquarters have kept alive their influence over the strategy development process despite the existence of RHQs. This finding does not support Hypothesis 1, that the RHQ dominates the development of the regional perspective, although it confirms the differences between the sub-samples.

As Western and Japanese MNCs are still relatively new and small in Asia and Europe, respectively, further expansion relies significantly on the development of new business. Therefore questions were raised regarding the degree of initiative being taken by the RHQs to generate new business. Responsibility for this activity may be either assigned to specific organisational units in the MNC or left as a general task for everyone involved in the region. Three models for taking initiatives emerged from the interviews. Either RHQs were in charge, or the HQs were (though never exclusively), or else the responsibility was equally shared between HQs, RHQs and national units.

Only 21 valid responses were received to this question, as either the task of developing new business had never been specifically allocated or managers were not aware of any one unit's responsibility. The results are shown in table 3.2 in exhibit 1. Overall the MNCs indicated considerably greater involvement by the RHQ than the HQ, although the role of the RHQs was significantly greater in the case of the Western than the Japanese MNCs. Often the answer was based on the fact that the RHQ is simply closer to the market than the HQ. The three Japanese MNCs in which the new initiatives are mainly derived from HQ (i.e. Shimizu, Shiseido and Toyota) all dominant market leaders in Japan. The response to this aspect of influencing the regional perspective somewhat supports Hypothesis 1.

The role of the RHQ in shaping the regional perspective is also mirrored by the degree of its responsibility in setting targets for, and exerting control over, the national units. While the overall perspective for a region needs at least the consensus of the HQ in order to become part of a worldwide vision, specific targets for sales, profits, market share, and so on for the units in the region may be allocated either by the RHQ alone, or by HQ and the RHQ together. Control over the operating units is either exercised jointly by the RHQ and HQ, or alone by the RHQ.

Three models of target and control management emerged. First, both targets and control are handled by the RHQ (see table 3.3 in exhibit 1). This applied to the largest number of MNCs in the sample and indicates an influential role for the RHQ. Secondly, targets are allocated jointly by HQ and RHQ, while control remains solely with the RHQ. Thirdly, targets and control are the joint responsibility of HQ and RHQ. All three models were represented among the surveyed MNCs. Joint target setting, however, is more common than joint responsibility for control due to the need for fit with corporate targets and budgets in the planning process. The differences between the two sub-sets of the sample are small. It is noteworthy that none of the four RHQs of Japanese MNCs which are in charge only of marketing and sales in the region is solely responsible for target setting and control.

Summing up, these findings lend limited credibility to Hypothesis 1, that RHQs are dominant in shaping their MNC's regional perspective. However, they do play an important role. The findings confirm that the RHQs of Japanese MNCs are even less involved in shaping the regional perspective than their Western counterparts.

### **3.2. Hypothesis 2: Regional Integration**

The second set of questions concerning the activities of RHQs deals with the role they play in moulding the various activities of the national units within a region into a single greater entity. Regional integration takes place through the co-ordination of functional activities across borders, the provision of services from the RHQ to the national units, and through the co-ordination of the various business divisions within the region in order to achieve synergies.

The regional co-ordination of functional activities takes place when functional managers across borders exchange views and support each other, normally under the guidance of the RHQ. Where certain local units have been established as centres of excellence in the region, the network may also radiate around their leadership.

In only 18 out of the total of 30 MNCs is the co-ordination of functional activities across the region an important task. Among the 18, Japanese and Western MNCs are almost equally represented. Four important areas for co-ordination were raised during the interviews: marketing, human resource management, manufacturing, and product adaptation and development.

Marketing was mentioned as an important area of regional co-ordination mainly by those selling to consumers. Its significance is triggered by the increased activities of pan-regional media, growing intra-regional travel and increasing arbitrage between neighbouring markets. In the area of human resource management most efforts are concentrated on the development of common guidelines (such as for recruitment manuals and pension schemes) or of training programmes. Administrative affairs concerning expatriates are also dealt with by the RHQs.

Only two RHQs, those of Otis and YKK, mentioned the regional co-ordination of manufacturing through some specialisation in their factories in their region. Japanese MNCs are undertaking efforts to streamline their manufacturing operations across Europe, but this is done within the framework of global manufacturing and sourcing, and often without involvement of the RHQ. Some Western MNCs have products requiring adaptation to Asian markets and make concerted efforts towards product development inside the region. No Japanese MNC claims to make the same product adaptation in Europe under the leadership of an RHQ, perhaps because technical aspects are closely controlled by the business divisions in Japan.

While co-ordination of functional activities within the region implies the active involvement of national units, this is not the case when services are provided by RHQs to the national units. RHQs here act as suppliers. A larger number of RHQs provide services, the majority of them being of Western origin. Others made no reference to this activity at all. The more important services are listed in the order of frequency mentioned (respondents often named more than one service): Human resource management (11), technical services (11), sourcing/logistics (11), finance/tax/legal services (7), information systems (6), marketing (6).

Overall, RHQs clearly have some involvement in functional co-ordination and service provision. This confirms the first part of Hypothesis 2, which states that RHQs foster integration through activities in functional areas across borders. However, these activities are more pronounced when resources are provided by the RHQs to the national units than when the RHQs and national units actively have to co-operate. The RHQs of Western MNCs tend to be slightly more active in these domains.

Co-operation in functional areas takes place mainly within a given business. When the various businesses in the region are brought together, it is hoped that synergies can be created. This type of regional integration and the role of the RHQ in fostering and facilitating exchange

between the different product divisions was the last aspect of integration to be explored. The response to this issue was rather negative. Only six out of the 30 MNCs confirmed the existence of closer links between the businesses in the region. All six were RHQs of Western MNCs. Even these stressed the limited importance of synergy creation.

Where links do exist between different businesses, they are based on common customers in the region who are supplied by different product divisions. Key account management can provide benefits to both the customer and the various product divisions involved. Sourcing from other manufacturing facilities in the region which belong to another business of the same MNC is another example of synergy creation. This requires the setting of priorities and of transfer prices: tasks better handled by RHQs.

None of the RHQs of Japanese MNCs saw any synergy worth mentioning. As the degree of diversification among them is similar to that of the Western MNCs in the sample, this criteria cannot be used to explain the difference in this finding. The discrepancy may instead relate to the greater prominence of the product divisions in the Japanese sub-set of MNCs. Lastly, it may also be the result of a lack of initiative on the part of the RHQ. If managers working in the RHQ perceive their role as rather weak, they may tend to avoid imposing themselves on the national units.

The responses to the issue of regional integration show that RHQs play a negligible role in bringing together different product divisions in the region to achieve synergies. Hypothesis 2 which states that RHQs are instrumental in integrating the region through the support of functional activities and the co-ordination of their different businesses is therefore only partially confirmed. The findings also show unexpected differences between the integration activities of the two sub-samples.

### **3.3. Hypothesis 3: Staffing**

The first step to determine how much the mind-set of the RHQ staff is geared towards HQ or the region is to find out the number of staff members who 'work at the RHQ office' or 'belong to the RHQ'. This is a difficult task as quite a few managers are 'double-hatted', a term used to describe managers who have both a regional and a business responsibility. Regional managers may also hold office in a location separate from the main RHQ. The data gathered show that the staff size of an RHQ ranges from five to several hundreds with an average of about 50 full-time equivalents in both Japanese and Western MNCs.

Further, an attempt has been made to discover the distribution of expatriate and local managers on the RHQ staff, and in particular the percentage of expatriates among the total staff.<sup>3</sup> An expatriate is defined as a person who is dispatched to the RHQ by the HQ. In Western MNCs an expatriate was generally understood to be non-Asian, and in Japanese MNCs the term referred to Japanese staff. In a majority of the RHQs, more than two thirds of the staff were expatriates (see table 3.4 in exhibit 1). For most of them the assignment to the RHQ was their first posting in the region. One relatively large RHQ employed not a single person from the region. In only 17% of all RHQs was the percentage of expatriates lower than one third. It was in these offices that a more regional or cosmopolitan mind-set could be discovered.

Surprisingly, the RHQs of Japanese MNCs employed a substantially smaller percentage of expatriates than the RHQs of Western MNCs. This result contradicts findings [Kopp 1994] and deep seated beliefs that Japanese MNCs rely less on locals than comparable Western MNCs. The fact that the percentage of Japanese among the staff of their RHQs is relatively small should not, however, be confused with the issue of central control of these offices. A small number of Japanese staff may indicate, paradoxically, high integration and more centralisation, while a large number could indicate a greater degree of delegation and, thus, decentralisation [Pucik 1990].

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<sup>3</sup>This question raised two issues. First, the expatriate/local alternative is generally only relevant for managerial positions or functions which require special expertise. Therefore a preliminary inquiry had to be made into the number of such qualified staff before asking for the number of expatriates. Secondly, the term 'expatriate' had to be given a precise meaning, as an increasing number of Asian managers work in countries in the region other than their own, i. e. *ex patria*.

Hypothesis 3 which states that RHQs of Japanese MNCs are more staffed with expatriates than those of Western MNCs is not supported.

### **3.4. Hypothesis 4: Mind-Set**

Almost all heads of the RHQs surveyed had arrived directly or indirectly from HQ. None had made his career in a country of the region and then moved into this most senior regional position. 29 of the 30 heads of the RHQs were expatriates. To determine how close or distant they were from HQ the number of levels between them and the highest level of authority, the board or the head of the board, were taken into account. Unfortunately the terms 'board' and 'board members' do not have the same meaning in every country.<sup>4</sup> In this survey the reporting lines explored refer to boards consisting of managing directors and not the supervisory board.

The answers to the question on reporting lines for RHQ heads were classified into four categories. Of the 30 RHQs surveyed a total of 14 are headed by board members. Half of them head the RHQs of Japanese MNCs, the other half the RHQs of Western MNCs. However, Western heads tend to be more senior board members (table 3.5 in exhibit 1). Although they are stationed in the region, a number of them regularly attend board meetings at HQ. The others stay in very close contact with their board colleagues at HQ. Among those heads who report to non-board members, the ones in charge of Western RHQs tend to be again more closely linked with the centre of power at HQ than their Japanese equivalents who often report to a general manager in charge of the international division only.

The degree of connectedness to HQ in terms of hierarchical levels, however, does not necessarily indicate where managers' loyalties lie. Therefore questions were raised to explore the extent to which the heads of RHQs consider themselves men from headquarters charged with enforcing global strategies, or representatives of the region.

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<sup>4</sup>The Japanese board system allows for up to five different levels of hierarchy within the board and for a high number of board members. The most important decisions are in practice made by the Executive Committee of the board [Schütte 1994a]. Western systems tend to be more collectivist and rely on a limited number of equally empowered board members. Board members in different countries therefore do not carry the same responsibility. For the sake of simplicity, it is nevertheless assumed here that board members are in general more powerful than those not on the board.

Three groups emerged from the answers (table 3.6). The first group consists of managers who are more committed to the region and have weaker allegiance to HQ. These heads of RHQs can be called *mentors*, *advocates* or *supporters*. Those who try to balance regional and global needs are grouped as *arbiters* or *buffers*. The third group has strong allegiance to HQ and a weak commitment to the region. They are classed as *controllers*, *enforcers* or *coaches*.

Overall 57% of the heads of the RHQs considered themselves more committed to the causes of the region than to HQ concerns. Apparently, their mind-set is not in line with their official function as HQ representative. This percentage was slightly lower in the case of the heads of Japanese RHQs, though they also tend to take on the role of controller on behalf of HQ less frequently. A qualification, however, should be made. Some respondents mentioned that their allegiance to HQ had been strongest when they arrived at the RHQ, but weakened over time. Therefore the possibility cannot be excluded that commitment to the region correlates more closely with the length of the tenure of the regional head than any other factor. In general the answers given do not lend themselves to easy conclusions.

Hypothesis 4 states that RHQ staff of both Japanese and Western MNCs are more closely linked with HQ than with the region. The findings do not strongly support this claim.

### **3.5. Hypothesis 5: Organisational Mechanisms**

As described above most heads of RHQs either belong to the board or are in a position one level below the board. This indicates that they are hierarchically very distant from the operating level in the national units. This will make a non-hierarchical management style with mutual respect and some degree egalitarianism less likely, both for the RHQs of Japanese and of Western MNCs.

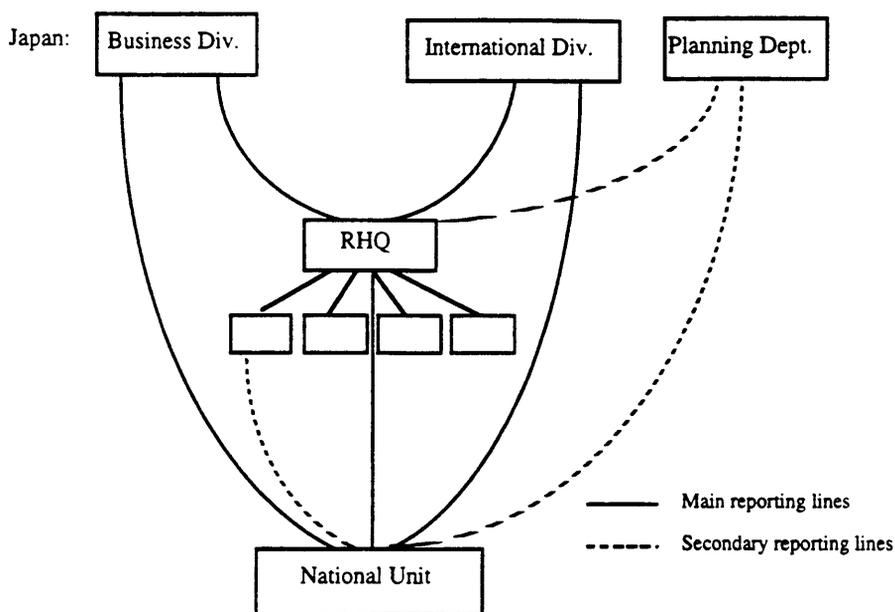
To see how the RHQs relate to the national units questions were asked about the extent of the reporting relationship between the various organisational units in the region and the head of the

RHQ. The responses reveal that for 69% of the RHQs all units report to the head. An additional 21% reported that most of the units in the region belong to the RHQ (table 3.7 in exhibit 1). The results, however, draw a different picture for the Western and the Japanese MNCs. In almost every Western MNC all the various units in the region report directly or indirectly to the head of the RHQ. In the case of most Japanese MNCs the very term 'reporting line' created a number of ambiguities and was often understood to be synonymous with communication lines. It often was taken for granted that reporting in the Western sense of a power relationship could be shared among several parts of the organisation. It was equally accepted in a number of RHQs of Japanese MNCs that not all units in the region would report to them.

In the case of Toyota, the head of their RHQ commands a large number of staff at his office, but only the sales and marketing operations in Europe report to him. All factories and R & D centres report directly to relevant departments in Japan. Similarly, Sony's European RHQ does not exercise full authority over all factories and development activities. Those in charge of the region for Kao and Shiseido are located at the international division based in Japan. The heads of the units in Europe report to them, but also to the business division to which they belong and to certain board members as well.

Figure 3.1 shows the multiple lines from a given national unit to the RHQ and HQ. When confronted with this fictional illustration, a number of Japanese respondents felt that it described their situation well.

Figure 3.1: Multiple Reporting Lines in Japanese MNCs.



With less control and profit responsibility over many of the units in the region, RHQs of Japanese MNCs presumably have to use a more federalist style of management to co-ordinate the region than their Western equivalents. To test this assumption, data were collected on the attempts of RHQs to foster linkages between the various units in the region. Linkages may be of a formal or an informal nature and be established on a permanent basis or as temporary activities, as in the case of task forces or project teams. Frequent travel and communication, the setting up of committees and task forces, the holding of regional meetings, conferences and seminars, and the publication of regional newsletters are all organisational mechanisms which indicate the importance given by the organisation to regional linkages.

In total 27% of all RHQs laid great emphasis on creating strong regional linkages and saw them as beneficial (table 3.8 in exhibit 1). 43% saw only limited benefits and undertook few efforts to build a regional network, while another 30% did not pay very much attention to linkages and considered them less beneficial. RHQs of Japanese MNCs, however, tend to be more concerned with building networks across Europe than Western RHQs in Asia, though the difference between the two sub-groups in the sample is not very large. It is not clear whether the preference for closer linkages among Japanese MNCs is due to their greater efforts, or is forced upon them by the more integrated nature of the business in (borderless) Europe in

comparison with the still fragmented business environment in Asia. The data also hide the existence of informal networks which may provide very strong linkages but are frequently not reported in full owing to their political sensitivity.

Few RHQs had set up regional councils or committees other than temporary task forces. In Japanese MNCs the European committees tended to be dominated – if not exclusively staffed – by Japanese expatriates. Similar observations have been made in some European MNCs operating in Asia. By and large RHQs felt that the task of linking the local units across borders is better left to the expatriates – acting as supra-nationals without any country bias.

Overall Western and Japanese MNCs use different organisational mechanisms in their RHQs, particularly with regard to reporting lines. Otherwise the differences are less pronounced than expected. Hypothesis 5 is therefore only partially supported.

## **4. Data Analysis**

### **4.1. Data Summary and Interpretation**

In section 3 the data for each aspect of the RHQ researched were reported and described separately. Here the responses to the various research questions will be examined for each MNC individually. The analysis thus moves from a vertical approach – an in-depth exploration of how MNCs as a group manage certain aspects of their RHQs – to a horizontal approach which examines how individual MNCs have set up and operate their RHQs. This approach is undertaken to identify consistencies, to detect correlations between variables and to find clusters of MNCs which exhibit similar patterns of characteristics and behaviour.

#### **4.1.1. Determinants of the Strength of RHQs**

A consistent numerical system is applied to all the data collected, based on the principle that aspects of the RHQs indicating strength have been given positive values and those indicating weakness have been given negative values. An aspect considered to be neutral has been allocated a value of zero.

The strength of the RHQ in this respect is defined by the role such an organisational unit may play in shaping and influencing its MNC's direction and activities in the region, and by the way its staff is positioned in terms of power and linkages within the overall organisation.

Ten of the various aspects of the RHQ explored have been selected as variables to measure the strength of the RHQ. The first three are derived from the development of a regional perspective (tables 3.1, 3.2 and 3.3). The next two aspects of the RHQ relate to regional integration: coordination of functions and the achievement of synergies (section 3.2). The provision of services, however, has been excluded as a variable based on the limitation of the data and the ambiguity of certain responses which may have been influenced as much by environmental factors as by internal factors.

The number of staff assigned to an RHQ has been considered an indicator of RHQ strength (table 3.4). Similarly the position of the head of the RHQ in relation to headquarters has been included in the analysis (table 3.5). The commitment of the head to the region and to headquarters is also taken as a variable (table 3.6). The position of the head of the RHQ within the region (table 3.7) and the linkages which the RHQ tries to establish with the various units in the region (table 3.8) represent the other contributing factors for the measurement of the strength of the RHQ.

#### 4.1.2. Variations of Strength across the Sample

The values of the ten variables for each MNC in the sample have been totalled. A high value indicates a strong RHQ. A low or even negative value indicates a weak RHQ. The highest achievable value for the ten variables is 12, the lowest possible score -10. The reason for the asymmetry lies in the non-assignment of negative values in the variables for co-ordination of functions and the development of synergies. The average theoretical score therefore is  $(12-10)/2 = 1$ . The actual average score across the whole sample is  $(2.8+0.93)/2 = 1.87$ , i.e. only slightly higher than the theoretical average.

A wide range of scores emerges from the survey. Otis has the strongest RHQ according to our definition with a score of +9, while Seiko achieved a score of only -6. The full ranking can be seen from table 4.1, which lists MNCs in descending order of strength.

Table 4.1: Ranking of Scores of MNCs

Score	Western MNCs	Japanese MNCs
9	Otis	
8		
7	Accor	YKK
6		Komatsu, Sony
5	ABB	Honda, Mazda
4	Heineken, Henkel, ICI	Asahi Glass
3	BASF, Schindler, Seagram	
2	Volkswagen	NEC
1	Rhone-Poulenc, Schneider	Chugai
0	Raychem, Unilever	Shimizu
-1		Matsushita
-2		
-3		Kao, Mitsubishi Electric
-4	BP	Toyota
-5		Shiseido
-6		Seiko

### **4.1.3. Correlation Analysis**

Three steps were taken to identify correlations between variables (called 'aspects' of RHQs in this survey).

First, an attempt was made to see whether the answers given to one specific set of questions are related to the answers given to another question, i.e. whether linear regressions exist. Only one weak relationship could be identified, between the position of the head of the RHQ (table 3.5) and his commitment to the region (table 3.6). This relationship is negative or inverse. According to this finding, the more senior the head of an RHQ is, the less committed he appears to be to the region. This contradicts intuitive thinking as well as the proposition by Aoki and Tachiki [1992] that a strong man would lend more weight to the concerns of the region. Board members in particular are apparently more aware of their responsibility towards overall corporate goals than they are of the concerns of their region. It should be stressed here that, while this relationship is statistically proven, it is nevertheless weak.

Secondly, the independent variables were tested with regard to their impact on the total score. Regression analysis shows that the most important criteria for creating a strong RHQ are the active involvement of the RHQ in developing a regional perspective through strategy building and formulation, the taking of new business initiatives, and the setting and controlling of targets. Significantly contributing to RHQ strength are two other aspects, the development of linkages in the region and the position of the head of the RHQ within the region. Both of these aspects concern RHQ systems and culture.

Thirdly, multiple regression analysis was used to determine the extent to which two selected variables could serve as predictors of the existence of a strong or a weak RHQ. For this purpose the total score was used as the dependent variable, and the development of a regional strategy (table 3.1) and the seniority of the head of the RHQ (table 3.5) were taken as independent variables. The result shows a close relationship between the two described aspects

and the total outcome, explaining 80% of the variation of the score.<sup>5</sup> This indicates that further research on RHQs could be carried out by neglecting the other eight variables (aspects) of the survey without losing too much predictability with regard to the strength of the RHQ.

A further relationship qualifies the statement that board members feel greater responsibility to overall corporate goals than to concerns of the region. Of the 30 RHQs surveyed, 14 are led by board members. Six of these preside over strong RHQs with a total score of 5 and more. The remaining eight board members head much weaker RHQs (with scores ranging from 3 to -4). All six heads of the stronger RHQs stated that they are fully committed to the region. In contrast, only one head among RHQs in the second group made the same statement. This finding suggests that it is not the status of the head of the RHQ which makes it strong: it is the status and the commitment of the individual in charge which gives weight to the region. This indicates the importance of the role of the regional head on the one hand, but also the limitations of determining the strength of the RHQ based only on his position and commitment.

## **4.2. Clusters across MNCs**

### **4.2.1 Clusters by Country of Origin**

Analysis of the various aspects of RHQs examined in the survey disclosed differences between the clusters of Western and Japanese MNCs, but only in a limited number of variables did major contrasts emerge. The statistical summary in table 4.1, however, reveals a clear distinction between the overall strength of the RHQs of Western and Japanese MNCs. With an average score of 2.8, RHQs of Western MNCs appear more powerful and more influential than those of Japanese MNCs, which achieved an average score of 0.93. However, the wide distribution of the scores across the two sub-samples – and particularly across the Japanese sub-sample – renders the difference statistically insignificant.

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<sup>5</sup>R-squared = 0.805.

Total score = 1.76 + 2.6 x Variable 1 (strategy development) + 0.67 x Variable 8 (reporting of head of RHQs)

The majority of the RHQs of Western MNCs rated scores between 0 and 5. With the exception of three outlying MNCs, the Western group therefore is rather homogeneous. The same cannot be said for the sub-sample of Japanese MNCs. Their results are distributed across the whole spectrum. It may therefore be possible to make statements regarding the set-up of a typical Western MNC's RHQ, but generalised statements about a typical Japanese RHQ cannot be made, at least not on the basis of the present findings. This contradicts intuitive thinking.

#### **4.2.2. Clusters by Industry**

Of the total sample of 30 MNCs 26 belong to five broadly defined industry groups or industry clusters. In allocating the total scores of the survey (table 4.1) to the members of each cluster, an attempt was made to determine similarities of strength of the RHQs within the clusters and dissimilarities with other clusters.

Although each cluster showed a different average score, the wide range of scores (defined as the difference between the highest and the lowest score within each relatively small cluster) renders any meaningful conclusion impossible.

In a second step a single cluster of companies in industries dealing from business to business was formed, and compared with a second cluster comprising consumer goods and cars (industries dealing directly with consumers). The difference in average score between the clusters shrinks considerably, while the range of scores within the clusters remains high. As a result no significant differences between the two combined clusters emerge. Industry characteristics therefore do not seem to have an impact on the strength of RHQs.

#### **4.2.3. Clusters by Maturity of RHQ**

The maturity of an RHQ is the length of time the organisational unit has been in operation in its present form. In sub-section 2.4.2. the maturity of the RHQ was explored through discussion of how much the regional organisation had changed over the last five years. An attempt has been made to establish whether the three clusters of MNCs which had either not experienced

substantial change, had seen some change, or had undergone dramatic change are consistent within themselves yet at the same time are different from each other.

The results show that RHQ maturity cannot be used as a basis for clustering the MNCs in the sample. The differences in average score between the clusters are very small, while the range of scores among the relatively small number of MNCs in each cluster remains large.

#### 4.2.4. Clusters by Organisational Structure

By definition an RHQ represents the geographical dimension in the organisation of the MNC. It can be argued that its role and strength will therefore be influenced by the way in which the geographical dimension is dealt with at HQ. In sub-section 2.4.2 this issue was explored through questions regarding the organisational structure of the MNC at the board level. The results revealed two distinct groups using what was called a different organisational logic. The majority of the MNCs are primarily guided by the business divisions, while members in the smaller group utilise a matrix organisation where businesses balance geography or vice versa.

Figure 4.1: Organisational Structure Matrix

<i>Dominating Organisational Logic</i>	<b>Business Dominates</b>	<b>I</b> Asahi Glass Komatsu Rhone-Poulenc Seiko Shiseido YKK  Average score 1.17	<b>II</b> BASF BP Henkel Kao Matsushita Mitsubishi Elec NEC Raychem Sony  Average score 0.44
	<b>Geography/ Business Matrix</b>	<b>III</b> Accor ICI Ous Schindler Seagram  Average score 5.2	<b>IV</b> ABB Honda Schneider Unilever  Average score 2.75
		Low	High

*Degree of Diversification at RHQ*

The organisational set-up was further researched through inquiry into the degree of diversification at the level of the RHQ. This revealed that half of the sample is rather diversified, while the other half is not. Organisational logic and the degree of diversification of the RHQ are the determinants of what is called here the organisational structure.

The MNCs are grouped together in clusters according to these two organisational characteristics and the scores from the survey distributed between them. Then the average score per cluster is calculated. Figure 4.1 shows the distribution of the MNCs across a matrix. The clusters in the four quadrants display distinctively different average scores, though again the significance of the differences is severely hampered by the small size of the sample and the wide range of scores within each cluster, particularly in quadrants I and II.<sup>6</sup>

Aggregating the MNCs into two rather than four clusters, however, sheds some light on the influence of the organisational structure on the strength of the RHQ. In the first step one combined cluster is formed among those RHQs that are less diversified (I + III) and another comprises those that are more diversified (II + IV). However, hypothesis testing of differences between the means of the two combined clusters using the t-distribution test again reveals no significant variation between these two clusters of RHQs.

In a second step, horizontal clusters are created, comparing all those MNCs with a dominant divisional or business logic to those organised according to a geography/business matrix.

In contrast to the hypothesis testing in step one, here the differences were significant between the two combined clusters.<sup>7</sup> At a level of significance of 5%, RHQs of MNCs which have adopted a geography/business matrix organisation at headquarters level are stronger than those of MNCs which are dominated by businesses, or where divisions play the most important role in the organisational logic. Indirectly this cluster analysis distinguishes between the RHQs of

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<sup>6</sup>Coefficient of Variation = Standard Deviation/Mean. The results of the clusters are as follows:  
Coefficients of Variation: 4.77 for cluster I; 7.9 for cluster II; 0.52 for cluster III; 0.96 for cluster IV.

<sup>7</sup>Coefficients of Variation: 5.82 for combined clusters I + II and 0.68 for III + IV.

Japanese and Western MNCs, because eight of the nine matrixed MNCs were of Western origin and none of them had a weak RHQ. Among the MNCs with a business dominated logic, 67% were of Japanese origin. Among this group several had a weak RHQ. The statistical link to the weakness of the RHQ is, however, not based on country of origin of the MNC, but on its adoption of a specific organisational logic. In other words, regardless of their origin, MNCs in which businesses are dominant run a high risk of ending up with weak RHQs. This is an important finding.

## **5. Conclusions**

This survey of 30 RHQs in Asia and in Europe has shed some light on the activities, structures and processes of the organisational units which stand between HQ and national subsidiaries. It was found that RHQs play an important, though not a dominant role in shaping the regional perspective of their MNCs. Among the two sub-sets of the MNCs in the sample, the RHQs of Japanese MNCs were even less involved in shaping the regional perspective.

RHQs are instrumental in integrating the region through the support of functional activities, but are rarely able or willing to create synergies between different businesses or divisions. Some unexpected differences between the integration activities of the two sub-samples surfaced.

Contrary to conventional thinking, the RHQs of Japanese MNCs were not staffed with more expatriates than those of Western MNCs. In terms of the mind-set, no strong evidence has been found among the two sub-sets of MNCs that the heads and the staff of RHQs are more closely linked with the HQ than with the region. Japanese and Western MNCs use different organisational mechanisms in their RHQs in dealing with the national units the region, but the differences are less pronounced than expected.

Overall it can therefore be stated that, based on the findings of this study, differences exist between Japanese and Western MNCs in terms of management of their RHQs, but such differences are small.

This is confirmed by cluster analysis which shows that the difference in strength between the RHQs of Western and Japanese MNCs is statistically insignificant. Equally, neither industry characteristics nor the maturity of an RHQ have an impact on the strength of the RHQ. Significant differences were, however, discovered during examination of the organisational structure of the MNC at headquarters level. Where businesses dominate the organisational logic, RHQs tend to be weaker than those of MNCs where a matrix organisation exists.

Assuming that a weaker RHQ means greater difficulty in pursuing regional strategies, and further assuming that MNCs may need a strategy in a given region which differs from their global attempts, MNCs with businesses as their overriding organisational logic are likely to show a weaker performance in that region. Therefore MNCs which want to emphasise a given region strategically should not only establish an RHQ, but also ensure that the geographical dimension is adequately supported by HQ. This applies particularly to Japanese MNCs.

Based on the results of this study, further research on RHQs and related issues is proposed in order to gain better insights into the complexities of large organisations. A questionnaire could be sent to a much larger sample of MNCs to cross-check and validate certain findings. Alternatively, the sample could be broadened and rearranged in order to differentiate more clearly between external (or environmental) and internal (or firm) specific factors of influence.

Three approaches can help to clarify the interrelationships between the internal and external environments. First, holding constant the internal factors of influence, RHQs belonging to MNCs of a certain country of origin can be investigated in various regions of the world and the differences between these various regions analysed. By design any differences must derive from external factors of influence. Secondly, keeping constant the external environment, the

RHQs of MNCs of different origin in the same region, such as RHQs of Japanese and American MNCs in Europe, can be explored. Differences between them should then be determined by internal factors.

Unfortunately both approaches are difficult to realise. Few MNCs have set up comparable regional organisations in several regions of the world. Within the same region, MNCs of different origin will probably have a very different administrative heritage.<sup>8</sup> These constraints would have to be taken into account in the research design.

A longitudinal study of the RHQs of a smaller number of MNCs would not suffer the same disadvantages. Such an investigation would be particularly valuable in view of the contradictory findings of this and other studies regarding the life expectancy of RHQs [Lasserre 1996]. It could also provide deeper insights into the organisational responses of MNCs towards internal and external changes and their attempts to design an RHQ in such a way that it represents a fit between the need for internal consistency within the MNC and the opportunities and threats of the environment. Contingency theory would provide a suitable framework for such studies [Miller 1992].

Instead of exploring in greater depth questions concerning the RHQ, research could also bring the study of this particular organisational unit into the broader context of research on the globalisation of the firm and the difficulties firms have in implementing global strategies. The principal question to consider is whether regional strategies and regional organisational structures and systems are able to substitute or replace those introduced on a global platform, and thereby improve the performance of the MNC. This is apparently what managers working on regional matters believe. A perception survey by questionnaire carried out among the 30 MNCs in this study's sample after all interviews were completed revealed a very positive picture of the RHQs. They were perceived as useful and were expected to become more

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<sup>8</sup>Studies comparing long established American MNCs with relatively newly arrived Japanese MNCs in Europe suffer from this distortion.

powerful and more active in future. RHQs were therefore not seen as temporary phenomena, but necessary organisational units.

**Exhibit 1**

**Table 3.1: Regional Strategy Development**

<i>Main influence:</i>	RHQ with HQ consensus	RHQ with some HQ input	HQ and RHQ equally	HQ with some RHQ input	HQ with limited RHQ input
<i>Percentage of Japanese MNCs</i>	13	27	20	13	27
<i>Percentage of Western MNCs</i>	13	27	40	13	7
<i>Percentage of all MNCs</i>	13	27	30	13	17

n=30

**Table 3.2: New Business Initiatives**

<i>Initiative taken by:</i>	Mainly RHQ	HQ or RHQ or National Units	Mainly HQ
<i>Percentage of Japanese MNCs</i>	36	43	21
<i>Percentage of Western MNCs</i>	57	43	-
<i>Percentage of all MNCs</i>	43	43	14

n=21

**Table 3.3: Target Setting and Control**

<i>Responsibility:</i>	Targets and Control: RHQ	Targets: HQ + RHQ Control: RHQ	Targets and Control: RHQ + HQ
<i>Percentage of Japanese MNCs</i>	38	31	31
<i>Percentage of Western MNCs</i>	47	20	33
<i>Percentage of all MNCs</i>	43	25	32

n=28

Exhibit 2

Table 3.4: Staffing of RHQs

	Total Staff				Percentage of Expatriates		
	Small 1-10	Medium 11-25	Large 26-75	V. Large >75	< 33%	33 - 66%	> 66%
<i>Percentage of Japanese MNCs</i>	20	33	33	13	33	40	13+(13)
<i>Percentage of Western MNCs</i>	20	27	47	7	0	20	73+(7)
<i>Percentage of all MNCs</i>	20	30	40	10	17	30	43+(10)

n=30

\*The RHQs of Unilever, Kao and Shiseido are located at HQs. They are not staffed with expatriates in the sense described here, but rather with Western and Japanese HQ staff delegated to a headquarters unit called RHQ. They are shown in the table with bracketed figures.

Table 3.5: Reporting Line for the Head of an RHQ

<i>Head of RHQs:</i>	Is a Board Member and Reports to:		Not a Board Member and Reports to:	
	Board or CEO	Other Board Member	Board Member	One Level below Board
<i>Percentage of Japanese MNCs</i>	-	47	27	27
<i>Percentage of Western MNCs</i>	33	13	40	13
<i>Percentage of all MNCs</i>	17	30	33	20

n=30

Table 3.6: Commitment to the Region and/or HQ

<i>Head of RHQ considers himself:</i>	Mentor, Advocate, Supporter	Arbiter, Buffer	Controller, Enforcer, Coach
<i>Percentage of Japanese MNCs</i>	53	33	13
<i>Percentage of Western MNCs</i>	60	13	27
<i>Percentage of all MNCs</i>	57	23	20

n=30

Table 3.7: Reporting to the Head of the RHQ

<i>Who reports to the Head of the RHQ:</i>	All Units in the Region	Most Units in the Region	RHQ Staff Only
<i>Percentage of Japanese MNCs</i>	43	43	14
<i>Percentage of Western MNCs</i>	93	0	7
<i>Percentage of all MNCs</i>	69	21	10

n=29

Table 3.8: Linkages within the Region

<i>Linkages are considered:</i>	Strong, beneficial	Limited, less beneficial	Weak, less beneficial
<i>Percentage of Japanese MNCs</i>	40	27	33
<i>Percentage of Western MNCs</i>	13	60	27
<i>Percentage of all MNCs</i>	27	43	30

n=30

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