

The Role and Function of European Regional Headquarters  
in Japanese MNCs\*

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**Abstract**

Multinational Corporations (MNCs) that establish Regional Headquarters (RHQ) expect the RHQs to become a management centre in the region. In this paper, the author focuses on three expected roles, that of a decision-maker, a coordinator, and as a transferor of knowledge on local operations and markets to the MNC. An interview survey examines the existence and roles of RHQs, defines minimal conditions for being defined as a RHQ, and determines seven such companies to be RHQs. All seven RHQs can be described as coordinators. Some RHQs coordinate their subsidiaries by controlling the flow of parts/products. Other RHQs assign their managers two titles or positions for coordinating subsidiaries. From the point of the knowledge-based management, however, RHQs do not seem to work well. To sum up, the author claims that the function and role of RHQs as knowledge based management centres need to be bolstered.

Key words: Regional headquarters, Japanese, EU, headquarters-like function, coordinator, knowledge flow

**Introduction**

Since around 1990, Japanese Multinational Corporations (MNCs) have been establishing Regional Headquarters (RHQ) in North America, Europe and South Asia. Japanese MNCs expect such RHQs to carry out different roles, such as making decisions near the market, coordinating businesses in the region, developing new business, and so on. In other words, RHQs are expected to perform a headquarters-like function within the region (Lehrer and Asakawa 1999).

Studies over the last ten years have discussed many expected roles for RHQs theoretically, but not practically. In these same ten years many Japanese MNCs have

established RHQs in Europe. It seems that these RHQs have built up a position as European management centres at the same time that the unification of Europe has progressed. But while Japanese MNCs have ten years of experience in European regional management, in the field of international business it seems that the roles of RHQs have yet to be discussed deeply and remain ill-defined, within the framework of knowledge based management.

What is an RHQ? What are the roles of RHQs? How do RHQs play the role of knowledge transferors? This paper examines European RHQs of Japanese MNCs and further reconsiders their roles arguing for the need of addressing their knowledge-based management capabilities.

In the first section of this paper, existing studies of RHQs are surveyed. In the second section, some propositions are raised on the roles of RHQs and regional management. The next section details and explains the results yielded by an interview survey of 8 RHQs of Japanese MNCs. In the final section, the roles of RHQs of Japanese MNCs are discussed.

### **Definition of RHQ**

We begin by framing the problems according to the theoretical definition of RHQs.

The nature and roles of RHQs have been the object of extensive research within the international business literature, especially within Japan. How did they define the RHQs? Our review of the existing literature found that there are two types of roles. These are the Decision-maker (e.g. Takahashi 1991, 1998, Yasumuro 1992, Schütte 1997b) and the Integrator/coordinator roles (e.g. Dunning and Norman 1983, Aoki and Tachiki 1992, Kidd and Teramoto 1995, Lasserre 1996, Schütte 1997a, 1998, Lasserre and Schütte 1999).

The first function of an RHQ is therefore related to decision making. This means that an RHQ makes and implements decisions within a regional strategy, the same way the headquarters does for one region. Some of the previous research pointed out that, in order to make decisions, president of the RHQ needs to be a member of the board in the corporate home

office headquarters. Furthermore it has been showed that reporting lines from subsidiaries to the RHQ in the region are very important in implementing their decisions.

Another function we found is that of Integrator/Coordinator. It means that the RHQ usually integrates/coordinates activities of subsidiaries from a regional viewpoint. This function has a double-folded nature. One aspect is the integration/coordination function among business units in the region and another aspect is the integration/coordination function among global strategy of the corporate home office headquarters, the regional strategy, and the home country based strategy. Therefore, we define the RHQ as a subsidiary which functions as both a decision-maker and an integrator / coordinator for the region.

Figure 1 illustrates our definition. In this figure, the degree of power within decision-making in the region is taken on the vertical axis, and the scope of integration /coordination in the region is taken on the horizontal axis.

The degree of power in decision making in the region	strong	II Regional Offices which are controlled by an international division Divisional HQ	IV RHQs
	weak	I Liaison offices Holding companies Representative offices	III Financial companies Distribution centres Parts centres
		narrow	wide

The scope of integration and coordination in the region

Figure 1 Definition of RHQs

Cell I represents an organization where the degree of power in decision-making function is weak and the scope of integration/coordination function is narrow. It is merely an organization, which lacks an active function of consists of liaison offices, holding companies,

representative offices, etc.

Cell II indicates an organization where the degree of power in decision-making function is strong, but the scope of integration/coordination function is narrow. In this case, the organization is delegated limited power from the corporate home office headquarters. Therefore although they are authorized to make a decision, they can only play a limited role. Since they often do not have direct reporting lines from all of the regional subsidiaries in their region. Regional offices, which are controlled by an international division of the corporate home office headquarters, divisional headquarters and etc., are considered in Cell II.

Cell III is an organization where the degree of power in the decision-making function is weak, but the scope of integration/coordination function is wide. This organization do not have enough power to make decisions, so it can not integrate and coordinate completely, but its role is specialized to bring the biggest value in its region. Therefore, it has only a power for integration/coordination in a specific field. This cell includes financial companies, distribution centres, IPO, parts centres, etc.

Finally Cell IV typifies an organization where the degree of power in the decision-making function is strong and the scope of the integration/coordination function is wide. The organization in this cell is Regional Headquarters. To become such an RHQ, it is necessary that the president of RHQ be a member of the board in the Headquarters, RHQ have reporting lines from the subsidiaries in the region, and RHQ act as a coordinator of both the global strategy and the regional strategy, and among business units in the region.

Hence in consideration of our definition, the RHQ is a regionally oriented organization wherein the degree of power in the decision-making function is strong, and the scope of integration/coordination function is wide.

Our study sets a new definition of the RHQ by ascribing it a role that previous studies ignored in the context of subsidiary role model. For example, Roth and Morrison (1992) proposed the term 'Global Subsidiaries Mandate' to define the subsidiaries that work with headquarters to develop and implement their strategies. Similarly, Bartlett and Ghoshal (1989)

stress the role of the subsidiary in relation to the strategic importance of local environment and the level of local resources and capabilities. Jarillo and Martinez (1990) made the role of subsidiaries dependent its strategy. Birkinshaw and Morrison (1995) add the terms Local Implementer, Specialized Contributor and World Mandate to explain the RHQ's role. Holm and Pedersen (2000) suggest term the word 'Centre of Excellence' to indicate that subsidiaries have specific competence and that this competence can also be utilized within other parts of the MNE.

Therefore, the role that these studies assign to the RHQ uses only the dichotomy between global and local. On the contrary we think the studies of RHQ should focus on an organization for regional management as well. This is why we believe that there are some differences between the RHQ defined according to our model and the local subsidiaries defined by previous studies. The definition of the RHQ lies rather in the concept of the intermediary organization, that is, the RHQ is the organization interposed between global and local, and hence it should be viewed within the regional context. In other words, we view the RHQ as an organization with a regionally scope of management.

### **Propositions concerning the expecting roles of RHQs**

How does a regional organization come to be designated as a RHQ? In the previous section, we enforced the nature of the RHQ as a subsidiary with both the function of decision making and that of integration/coordination within the region. First of all, the distinction between the RHQ and general subsidiary calls for further explicit operative definitions.

We should start by considering the very character of headquarters. As mentioned before, some studies pointed out that a headquarters is the core of organization and a place where strategic decisions are made (Yasumuro 1992, Takahashi 1998). From this point of view, the decision making function becomes the grounds for defining the RHQ.

However, even if RHQ is defined as an organization for decision-making, still other

subsidiaries in the region might not carry out or implement these decisions unless RHQ holds substantial power (Blackwell, Child, and Hensley 1992). What do RHQs require in order to implement the decision? According to Yasumuro (1992), it requires that the CEO of the RHQ is a member of the board at corporate headquarters in order to wield power over subsidiaries. In other words, unless the CEO of the RHQs is a member of the board at corporate headquarters, the RHQs may not be able to ensure the right implementation of these decisions at subsidiary level (Mori 1998).

In addition to this, if RHQs carry out a role similar to that of headquarters, the CEO of the RHQ usually needs to work within the RHQ. Otherwise, it could be impossible to make proper decisions and to respond quickly to the local market.

At the same time, as we showed in the previous section, many studies mentioned that RHQs should have the role of a coordinator, which has a doubled nature: one is the coordination of business units within the region (e.g. Dunning and Norman 1983, Aoki and Tachiki 1992, Lasserre and Schütte 1999) and the other is a coordination between global integration and local responsiveness. (e.g. Yasumuro 1992, Morisson and Roth 1992, Lahrer and Asakawa 1999).

In general, RHQs tend to be established when MNCs need to efficiently manage many subsidiaries in the region. In this situation, RHQs are expected to coordinate production activities in the region as well as sales and marketing activities. RHQs are also expected to provide some staff services to support subsidiaries, and to reduce total costs. Since most subsidiaries in each country are small-to-medium sized firms, it is not worth each subsidiary having all staff functions, such as information systems, personnel function, and legal services. Rather, if such functions are carried out within RHQs, the result is improved efficiency reduced costs.

On the other hand, the coordination between global integration and local responsiveness is not to be overlooked either. There may be differences in market sensitivity and intent between headquarters and RHQs, which MNCs have to address properly. Lehrer & Asakawa (1999, p.272) mention that "where strong pressure exists for both regional

responsiveness and regional integration, the regional office can be expected to exercise an important administrative, headquarters-like function". Therefore RHQs are expected to be the coordinator between global integration and local responsiveness.

To further distinguish between RHQ and general subsidiaries, we make the following propositions:

Proposition 1: If the regional organization carries out both decision making function and the coordinator / integrator function, then the organization would be defined as RHQ.

Theoretically, RHQs are expected to transfer knowledge from local operations and markets to headquarters and other subsidiaries in MNCs. According to Ohmae (1985), Japan, the U.S. and Europe are a "womb" for the emergence of new knowledge, and MNCs need to be insiders in the area in order to identify and use the knowledge. To become an insider company, MNCs have to learn about extant knowledge and the local pattern of thinking (Ohmae 1985). In other words, an organization needs to be embedded in the market in order to learn and use the local market knowledge (Yasumuro 2000, Yasumuro and Nishii 2001). It is also necessary that the company live in and grasp in the market and the specific area (Imai ed. 1992). Mori (1993) pointed out that RHQs represent the right stage towards becoming an insider company. It means that RHQs hold the appropriate position to acquire regional knowledge.

Therefore, in order to accumulate the appropriate knowledge, the location of RHQs becomes crucial. This means that the common space sharing is vital in knowledge creation (Nonaka and Takeuchi 1995). Hence it is clear that MNCs must become sensitive to the location of their RHQs.

In addition to this, since RHQs are in a position to coordinate global integration and local responsiveness, RHQs act as a kind of interface to create as well as store knowledge as well as a storage of knowledge. According to Birkinshaw (2000), the subsidiaries of MNCs sit at the interface of three markets: the local market, the internal market, and the global market.

Therefore the interaction with local business counterparts leads to the increase of knowledge (Eriksson and Majkgård 2000). Although Birkinshaw is study focused only on subsidiaries, its findings seem to apply to RHQs as well. Therefore it can be said that RHQs play the role of the interface among different types of knowledge.

Proposition 2: Japanese MNCs become sensitive to the location of their RHQs in order that RHQ acquire embedded knowledge in the regional markets.

De Koning, Subramanian and Verdin (1999, p.8) mentioned that "without the depth and breadth offered by the region that leads to innovation, it would have been difficult for an individual national subsidiary to gain the equal voice and contribute to the MNC's competitive advantage in the time span it took the European operations to achieve this outcome." It means that subsidiaries do not have enough power to deliver their local voice to their headquarters and local area government. If RHQs make such proposals instead of or in addition to their subsidiaries, it may be more beneficial. From this point of view, the 'centres of excellence' approach based on subsidiaries (Holm and Pederson 2000) would not be appropriate for Japanese MNCs. However if regional based management is considered, RHQs would be regarded as a very important position for knowledge transfer to MNCs.

Proposition 3: Since the small size of subsidiaries acts as a limiting function delivering their voices to the headquarters, then RHQs should become the conveyor.

If the RHQs need to learn to use the regional and local knowledge within MNCs, local employees need to work within RHQs. If the Japanese expatriates are the only ones to implement the roles of the RHQ, their perspective might be biased, due to the tendency of rotating Japanese staff on a regular basis. Therefore, for the MNCs to be able to absorb the appropriate knowledge, it is necessary that RHQs have the system to promote local employees

from subsidiaries.

Proposition 4: If Japanese MNCs are sensitive absorbing the locally embedded knowledge, then some local employee should be promoted to RHQ from country based subsidiaries.

Furthermore, the synergy among RHQs also needs to be considered. De Koning, Subramanian and Verdin (1999) describe MNCs as the regional network MNC. According to them, since each subsidiary is too small to deliver their voice to headquarters, MNCs have to consider the regional management. In their model, HQ and RHQs seem to be almost equal partners, and this seems to encourage the interaction between a headquarters and RHQs. Mori (1993) argued that if the RHQ structure is understood as a heterarchy, it is possible to understand RHQs as key position in knowledge-based management. Therefore, it can be said that MNCs need an system to exchange knowledge between HQ and RHQs, and also among RHQs.

Proposition 5: Japanese MNCs should exchange the knowledge that one RHQ acquires regionally, between HQ and RHQs, and also among RHQs.

### **Samples of regional organizations of Japanese MNCs**

An interview survey of European regional organizations of Japanese MNCs was conducted from June to November 2000<sup>1</sup>. These regional organizations are located in the UK, Germany, the Netherlands and Belgium.

The regional organizations were chosen in the following way. First, subsidiaries with a

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<sup>1</sup> I would like to thank Professor Umeno (Kobe University of Commerce), who assisted me at the interview survey in the UK.

function of regional management according to the data book '*1999 Kaigai Kigyō Souran*' ("The list of foreign subsidiaries of Japanese MNCs in 1999", Toyo Keizai Shinpousha) were selected and were requested to participate in the survey. As a result, eleven firms (3 electronic companies, 3 car companies, 2 pharmaceutical companies, 1 other company and 2 general trading companies) were interviewed.

Each interview was conducted in the Japanese language and took about two hours. The persons responsible for regional management (mainly President of RHQ and/or Managing Director) were interviewed. The purpose of this interview survey was to identify the main operational functions of the European RHQs of Japanese MNCs through the answers to ten questions. These questions can be found in Appendix 1.

This paper makes use of eight valuable samples of European RHQs. Of the original eleven companies, one pharmaceutical company could not be used because permission for quotation could not be secured. Two general trade companies were excluded because they were out of this paper's focus on production companies. As a result, eight companies are used in the below analysis. Table 1 profiles these eight companies:

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Table 1  
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## **Findings**

As a result of this interview survey, we identified some interesting roles of RHQs. This section explains the results of the interview survey.

Question 1 concerned the level where regional strategy is decided. According to the interview survey, three of eight Companies answered that the board of directors in RHQs have decision-making power for regional strategy (Company A, C, and F). Company A makes decisions only for sales and marketing activities and Company F mainly for production activities. Four of eight companies discuss regional strategy within an Executive Committee (Company B, D, E, and G). And only one of eight companies has not made decisions for the region in the RHQ (Company H).

To carry out the role similar to that of a headquarters, what does the RHQ need? Some companies indicated the need for power to carry out this a headquarters. For example, Company A emphasized a so-called approval power, such as personnel management power, including designation of the subsidiary presidents, the review and approval power over subsidiary corporate plans and sales plans, and approval power in important management matters. Company C also mentioned the power of personnel management, as well as being a shareholder in subsidiaries and the power to make and implement strategic decisions. Company D claimed the power of personnel management and voting rights. Company F mentioned approval power over budgets, the power of personnel management in the region, and the power of allocation of resources in the region.

Question 3 is about the position of the RHQ's CEO in the corporate home office headquarters. The CEOs of six companies are executives or in higher positions in their headquarters (Company A, B, C, D, F, and G). Company E has no CEO position in their regional organization, and just 4 senior vice presidents. Instead, the chairman of the executive meeting in the Company E is a vice president at the corporate headquarters. Only the CEO of Company H holds no executive of higher position referred to at corporate headquarters.

Question 4 is about the working place of the CEO. According to this interview survey, all of the CEOs work mostly at the regional organization, except in the case of Company E. Company E has no position of CEO and the chairman of the executive meeting of regional organization usually works at the corporate headquarters. Instead, four senior vice presidents

usually work for the regional organization and are posted in the region.

Question 5 is about the coordination function of RHQs. According to this interview survey, different coordination functions in each company were observed.

Company A: In order to do business in Europe successfully, it is important to create good relationships between Company A, their sales subsidiaries and the production subsidiaries. Company A usually coordinates the relationships through some periodic meetings and their daily operations.

Company B: Company B built up a four-pronged interactive relationship between itself, its European business units (EBU), manufacturing operations, and country sales operations. First there is the business relationship between the EBU and the manufacturing operations. In other words, the manufacturing operations consider the EBU a customer. Next there is the sales activity. While Company B deals with European-wide sales activities following the emergence of some Pan-European distributors, country sales operations deal with their local markets, which play an important role as an interface with customers. The third point is the reporting line. Both the production country operations and sales country operations have reporting lines with each European Network Company for each product. Finally Company B supports all operations in Europe as a whole.

In addition to this, Company B gives some managers two positions. For example, the Chief Production Officer in Europe can at the same time be a factory manager in Hungary. On one hand he usually works at the factory for the operation in Hungary; on the other hand, he is also responsible for European-wide operations.

Company C: Since introducing a proprietary Company system<sup>2</sup> in 1997, a matrix organization has been built up around Company C organized by product and area. Although the aim of this reorganization is basically the reinforcement of business units, because of historical reasons the area divisions still have strong power. Therefore, Company C now has

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<sup>2</sup> Virtual company within a firm with more autonomy.

responsibility for regional management and coordinating business units in the region.

The top management in Europe is the board of Company C, composed of the president of Company C, the chiefs of each business unit, and the chiefs of three departments from headquarters in Japan: administration, corporate planning and production. They usually discuss business strategies in Europe.

Company D: The Executive Committee of Company D has the top management function in Europe. The committee members include the executives of sales, R&D, production and administration, as well as the European directors in charge of Public Affairs, Business Administration, Personnel, Information Systems, Motorcycles, Automobiles, Power Products and Parts. Some of these directors have a double position, e.g. the director of motorcycles is also the president of the production facility in Italy. Because of these double positions, they are able to discuss total regional management strategies in their management director's meetings.

Company E: From the year 2000, Company E has abolished the position of the president/CEO of the regional organization, and introduced a system relying on a quartet of four Senior Vice-Presidents (4SVP system) as is the case with the North America. The four Senior Vice-Presidents are in charge of sales & marketing, production & purchasing, R&D and administration respectively. The Vice-President in charge of overseas enterprises in the corporate headquarters is placed on top of the SVPs. The Regional Management Committee which discusses business operations in the region is composed of this Vice-President and the four SVPs.

Company F: Company F has departments of parts purchasing, production control, logistics, production technology, quality control, accounting, corporate planning, personnel, general affairs and so on. The function of parts purchasing is an especially important function. Instead of each factory purchasing parts by itself, Company F buys parts centrally to reduce costs. Company F thus seems to coordinate business units through the control of product/parts flow.

Company G: In the case of pharmaceutical business, the company is required to get

approval from each government in Europe for selling its products. As a result, on the one hand the products have a global character, but on the other hand product sales have an extremely local character. Therefore, Company G manages mainly sales and marketing in Europe, and thus has considerable autonomy. Company G makes about 90% of regional management decisions based on company rules set up for subsidiaries.

There are some meetings for regional integration. For example, Information Meetings in Company G are held to explain company policies to their employees, and Kick-off Meetings are held to explain their corporate plan to the subsidiaries. Furthermore, each subsidiary has to give a presentation at Company G to discuss their business plan. The subsidiaries share a common direction as a total European group through these meetings.

Company H: The top management is made up of the Management Committee for the Regional Group in Company H, under chairmanship of the president of Company H. In this committee, they discuss many different management matters of the regional group. However this is not a place for decision-making, but only for information exchange about regional matters. Though the major role of Company H as a RHQ was to integrate their business in the region and reduce operational costs, now the role is not as clear as before. After the initial purpose of setting-up throughout Europe was achieved, Company H has become just an organization to maintain activities already implemented.

Question 6 is also about the coordination function of RHQs, but it concerns the coordination between global integration and regional responsiveness. According to this interview survey, varied coordination functions in each RHQ were found.

Company A: According to Company A, there are conflicts between product divisions and sales units in deciding the contents, the date of the sales, and the price of new products. As Company A is divided into product divisions and area management divisions, the coordination between these divisions is made through periodic joint meetings and in daily operations.

Coordination between regional organizations is the responsibility of the director in charge of foreign direct investment at corporate home office headquarters.

In addition to this, Company A has a unique role. Company A gets information concerning regional markets across to headquarters and the product divisions, which encourages the headquarters and product divisions to develop new products. Company A makes guidelines for sales and marketing for the whole of Europe. Subsidiaries are managed under the regional strategy and within these guidelines. Also, as Company A comprehensively controls the sales support function, the subsidiaries' total costs are reduced.

Company B: To maintain a unified organization, Company B built up a reporting line to itself from all subsidiaries in Europe. In addition, in order to discuss the global strategy, the Chairman / CEO of Company B is the Group Company Officer at the corporate home office headquarters.

Company C: The corporate headquarters coordinates conflicts between the area divisions and business units. The meeting for solving these problems is composed of the president of the corporate headquarters, the chief of each business unit, and the president of each regional organization.

Company D: The executives of Company D participate in a strategic management meeting at the corporate headquarters, where conflicts between global strategies and regional strategies are coordinated.

Company E: When matters cannot be coordinated among the four Senior Vice-Presidents in the region, the Vice-President of the corporate headquarters who is Chairman of the Regional Management Committee tries to coordinate matters at the corporate home office headquarters level. On the one hand, the SVPs have regional responsibilities concerning sales & marketing, production & purchasing, R&D, and administration; on the other hand, the corporate functional department in the corporate headquarters has global responsibilities where they must look at the business from a global viewpoint. Therefore, there is a matrix relationship by area and function at the level of SVP in Company E. In this structure,

HQ expects effective performance by the constructive interplay of opposing forces among functions.

Company F: The CEO of Company F is a member of the board of directors at the corporate headquarters in Japan. He usually attends board meetings at the corporate headquarters where coordination between Japan and the regions is carried out. In the case of the car industry, because of the big scale of investment, business always needs to be discussed with the corporate headquarters. However some functions, such as parts purchasing, are carried out by Company F itself.

Company G: The CEO of Company G is also a corporate officer of the corporate headquarters, but he does not belong to the Managing Director's Committee at the corporate headquarters. The CEO of Company G reports directly to the president of the corporate headquarters, but on a practical level he usually exchanges a lot of information with the Corporate Planning Section of the International Division. Through this division, the European voice is delivered to related sections in the corporate headquarters. To make a global business plan, each year the top of three major subsidiary in USA and Europe gives a presentation at the corporate headquarters to influence global strategy.

Company H: Actually, the three business units under Company H report directly to the product divisions at the corporate headquarters; reporting from the business units to Company H is secondary. From the viewpoint of capital, Company H has the same rank as all subsidiaries. Therefore Company H does not have enough power to coordinate between global integration and regional responsiveness. Rather the coordination function takes place within the production divisions.

Question 7 is about developing new business in the region. In this interview survey, there are no findings concerning this matter. Although the different functions were shown in Table 1, it is difficult to find the function of developing new business. The only company that answered this question was Company A, which mentioned that they transfer regional

information concerning advanced technology, competitor activity and so on to both headquarters and product divisions; this will further then encourage the product divisions to develop new products.

Question 8 is about the location of the RHQs. According to this interview survey, most companies have no well-defined strategic reasons for RHQ location siting. They often mentioned that the location originally was the site of a sales subsidiary, or a logistics subsidiary. It seems that they simply depend on previous experience. Only one company (Company B) mentioned that they decided to locate the RHQs on the basis of prospects for the future.

Question 9 is about promotion of local employees to RHQ or the corporate headquarters. Seven of eight studied companies detailed the possibilities for promotion of local employees. Only two companies promote local employees to RHQ and the corporate headquarters (Company B and E). Another two companies have transferred local employees only within the region (Company A and C). Three companies just mentioned it as a future possibility (Company D, E, and G). The remaining firm has never thought about transferring local employees between countries (Company H).

Although most companies have a rule or system for transferring local employees, it only happens within the region. In this interview survey, many companies also mentioned the difficulties of transferring local employees between countries: points such as tax, social insurance, pension, and so on. In addition to this, they said that many employees would not wish to work abroad, or in Japan. In the worst case, due to reforming the headquarters organization, the possibilities of transferring local employees to headquarters have disappeared.

Question 10 is about interaction between RHQs. According to this interview survey, there was no systematic evidence of such interaction. Two of eight companies mentioned that they just have the opportunity to exchange regional experiences and best practices at headquarters level (Company A and E). One of the eight companies answered that they have exchanged experiences between headquarters and RHQ, but not between RHQs (Company D). Another company said that such interaction takes place only in the R&D department (Company

G). Others do not have any system for such exchange.

## **Discussion**

In this section, the roles of the RHQs are discussed on the basis of the five propositions.

Proposition 1 is about which regional organization should be regarded as RHQ. RHQ is defined as a subsidiary with both decision-making function and coordination / integration function in the region. The operative definitions refer to the power of implementing regional strategy, the position of the RHQ's CEO at the corporate headquarters in Japan, their main work place, and having a coordinate system. According to this interview survey, the CEOs of Company A, B, C, D, F, and G have a position high enough to implement their regional strategy, and usually work at the RHQ, unlike the CEOs in companies E and H.

In the case of Company E, although they originally had a CEO, the position of the CEO in the company disappeared with reform. Now they have four Senior Vice-Presidents system in the region as top management. The Vice-President in charge of overseas businesses at the corporate headquarters is placed on top of the senior vice presidents. He is Chairman of the Regional Management Committee, though he works at the corporate headquarters in Japan. The Regional Management Committee makes decision about most regional matters. Although Company E has no CEO, it can be seen that regional management in Company E still has strong decision-making power under the 4SVP system.

On the other hand, Company H itself mentioned that it does not have a Corporate Officer at the corporate headquarters in Japan, and it cannot make decisions for regional management.

Concerning the coordination function, some patterns were observed in this interview survey. Most companies coordinate their subsidiaries by using the regional management committee or the board of their RHQ. Directors and managers in the RHQ and the subsidiaries

participate in such committees, and they discuss regional strategy there. Notably, some managers in Company B and D have two positions simultaneously. It means that one position is for regional management and another position is for the local subsidiaries. From this point of view, one manager could have a double perspective as they always have to consider both regional and local issues. Since the conflicts between RHQ and subsidiaries could be reduced by utilizing the same person, it seems to be a unique and useful system.

Furthermore, Company F coordinates the activities of subsidiaries through purchasing parts for the production sites. This means that as long as the RHQ controls the flow of the parts/products, the RHQ also controls information flow and an important knowledge base. This may be superior to using a regional management committee, because the relationship is not simply the reporting of subsidiary activity, but also a business relationship. In fact, some RHQs coordinate the flow of products, and they can play a role as a coordinator.

Therefore, it readily can be said that Company A, B, C, D, E, F and G are RHQs as defined by this paper.

Proposition 2 referred the location of RHQ. In this survey, there were no well-defined reasons for choosing the location of the RHQ, except in the case of Company B. This seems to be problem: if a goal is to absorb appropriate knowledge to MNCs, MNCs should locate the RHQ at the place of knowledge accumulation. Why do they not think about this? The reason is hard to determine, because of lack of data. They might think that the RHQ is just a management or service organization, but we believe that Japanese MNCs should reconsider the location of RHQs on the basis of knowledge flow. Anyway, our findings indicated that Japanese MNCs are sensitive to RHQ's location with regard to entering the local embedded knowledge into MNCs.

Proposition 3 is about delivering RHQ's local voice to their corporate headquarters. According to this interview survey, most RHQs have a CEO who has a strong link to headquarters, such as membership on the head office board of directors, or has the possibility to attend corporate strategic meetings. They can discuss global strategy at headquarters, and contribute a regional and local voice. It can thus be seen that the coordination function between

global integration and regional responsiveness is carried out at headquarters.

While a number of previous studies expected RHQs to develop new businesses, it is difficult to find such a role in Table 1 for the companies surveyed. Why do the RHQ not develop and manage new businesses? One reason is that RHQs were established to manage existing subsidiaries efficiently, and the development of new business does not seem a primary purpose of RHQs. Another reason is that an RHQ is generally not a business unit, and therefore it is difficult for them to develop new business from logistic point of view. But where the mission of RHQs is to create value in the region, RHQs might start to play a leadership role in developing new business. Thus, we concluded that although delivering the local voices of regional subsidiaries to headquarters become the role that RHQs carried out successfully, it did not entail the development of new business in the region.

Proposition 4 is about promotion system for local employees in order to implement the locally embedded knowledge into MNCs. The possibility was found for transferring knowledge from local operations and markets to headquarters and other subsidiaries in MNCs. However in most RHQs this is done only via Japanese expatriates. On the one hand, these Japanese RHQs hold meetings that consider providing information for headquarters, but such meetings are generally attended only by Japanese expatriates; local employees have few chances to participate in regional strategic meetings. Inward and outward local transfer of knowledge is limited. In addition to this, the findings of this showed that there is little chance for local employees to be promoted to RHQ. Thus, we found that Japanese MNCs do not have a system of promoting local employee.

Proposition 5 is related to the interaction between the headquarters and the RHQ on one hand, and among RHQs on the other hand, in consideration of the heterarchy theory. According to the interview survey, Japanese MNCs have never encouraged synergy between RHQs. Why? As mentioned above, RHQs were established to manage the region's subsidiaries, and the RHQs become a sort of regionally-oriented organization. It seems not to have been considered that synergy might be encouraged between RHQs. Japan, the U.S. and the EU could

give birth to new knowledge by encouraging such synergy. If Japanese MNCs better consider the possible benefits of knowledge-based management, they should create better knowledge flow between RHQs. Therefore, we found that to a certain extent Japanese MNCs exchange local knowledge between the corporate headquarters but they have no proper system for exchanging local / regional knowledge between RHQs.

## **Conclusion**

This survey indicates that there are 7 RHQs in Europe according to proposition 1. Furthermore, 7 out of 8 regional organizations are defined as RHQ, but these are not all the RHQs in Europe. Although the RHQs of major Japanese MNCs are included in the list, many companies in the service sector, such as the general trading companies, are excluded. This subject deserves further attention in the future.

Proposition 3 proved to be valid, but proposition 2, 4, and 5 were unacceptable. The findings show that RHQs of Japanese MNC play the role of delivering the local voice, and that they act as intermediates among subsidiaries. Rather, it can be said that Japanese MNCs have not recognized advantages that derived from knowledge-based management of RHQs. To sum up, Japanese MNCs should better consider the possibilities of transferring knowledge through RHQs, and in light of such potential, reconsider their expectations for RHQs.

At present, the EU integration process is fast progressing. An enormous single market is emerging, and also a base of regional knowledge based on the EU. In this situation, Japanese MNCs have to build-in organizational frameworks to identify and collect and make use of knowledge. RHQ seems to be a solution. In other words, RHQ might function as a knowledge coordinator. For RHQ to become the knowledge coordinator, nodal point location is important. If the RHQ is outside of the flow of knowledge, Japanese MNCs have to rebuild the RHQ structure.

Finally, a subject of future study is mentioned.

It was discovered in this interview survey that one RHQ is considering closing down. Some Japanese general trading companies are also going to close down their regional headquarters, but without abolishing the regional function. This means that some subsidiaries will carry out the role of headquarters instead of that of the RHQs. Can subsidiaries carry out such headquarters-like functions and fulfill the role of knowledge coordinator? This is an issue that deserves further study.

Also, it remains unclear what kind of knowledge should and might be exchanged through a RHQ. The substance of such knowledge and potential leverage needs to be better defined.

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Appendix 1:

Question 1: Which organization in your company has the most power to make and implement regional strategy?

Question 2: What kind of power do you think the RHQ needs in order to carry out its role as a headquarters?

Question 3: Does the CEO of your regional organization have a position of executive or above at main corporate headquarters?

Question 4: Where does the CEO usually work?

Question 5: How does your regional organization coordinate business units in the region? Or how does your regional organization solve conflicts between business units in the region?

Question 6: How does your regional organization coordinate between global integration and local responsiveness? Or how does your regional organization solve conflict between your headquarters/product divisions and RHQs?

Question 7: Does your regional organization manage new business in the region, which is not covered by existing product divisions? If so, how?

Question 8: Why did your organization choose the present location for the RHQ?

Question 9: Is there any possibility for your local employees to get promoted to the RHQ and corporate home office headquarters?

Question 10: Does your regional organization have any system to exchange your regional voice and best practices with other RHQs?

**Table 1. Regional Organizations of Japanese MNCs in Europe**

Company (location)	Year of establishment	Capital	Scope of management	Number of employees (Japanese)	Number of subsidiaries under control	Main function
<Electronics industry>						
Company A (U.K.)	1988	15.4 billion pounds	Europe, the Baltic states	84 (36)	Sales 15 Sales support 2 Finance 1	Corporate planning, public relations, management support, human resources, marketing information system, production support, legal activities environment, knowledge resources, R&D, training
Company B (Germany)	1986	2 million DM	Europe	About 200 (about 10%)	Sales 19 Production 11 R&D 8	All support functions for European operation
Company C (Belgium)	1989	34.4 million Euro	Europe, Russia, Turkey, North Africa	190 (35)	Sales 7, production 4	Headquarters function for production, sales, finance and others
<Car industry>						
Company D (U.K.)	1989	272 million pounds	Europe, the Middle East, Africa	About 400 (30)	Sales 21, production 7, sales and production 4, R&D 3, others 12	Coordination function and total strategic function in the region
Company E (the Netherlands)	1989	12.54 million DG	Europe except Far East Europe	591 (45)	Production 3, sales and others 35	Corporate planning, integration, planning control, strategic development, re-invoicing, etc.
Company F (Belgium)	1998	945 million euro	Factories in UK, France, and Poland	240 (45)	Production 3	Parts purchasing, production control, logistics, production technology, quality control, accounting, corporate planning, personnel, general affairs, etc.
<Pharmaceutical industry>						
Company G (Germany)	1991	4 million DM	Europe	180 (9)	Sales 5, some branches	Business development, corporate administration, R&D, sales & marketing, medical information
<Other>						
Company H (U.K.)	1990	1.5 million pounds	Europe, the Middle East, Africa	35 (18)	Affiliated companies 29, production 25, plants & offices 64	Integration of information systems, promotion of benchmark activities, integration and closing down of some business sites, all comprehensive negotiations, promotion of local communication

Source: Interview survey