

Rise and fall of regional headquarters:

A longitudinal study

Perttu Kähäri (corresponding author)

Aalto University School of Economics

International Business, Lapuankatu 6, 00076 AALTO, Finland

perttu.kahari@aalto.fi

Tel: +358 40 774 8794, Fax: +358 9 431 38880

Rebecca Piekkari

Aalto University School of Economics

rebecca.piekkari@hse.fi

Wilhelm Barner-Rasmussen

HANKEN School of Economics

wilhelm.barner-rasmussen@hanken.fi

Iiris Hilvo

Aalto University School of Economics

iiris.hilvo@aalto.fi

Abstract: Most research on regional headquarters (RHQ) focuses on the establishment and role of RHQ capturing the early stages of its lifecycle. The present study, however, concentrates on the unbundling and dismantling of the RHQ as a temporal organizational unit. In 2010, we undertook a follow-up survey of the 375 RHQ originally identified in Finland in 1998. The purpose was to unravel the underlying reasons for why and how RHQ lose their mandate. Our findings show that by 2010, 93 foreign-owned subsidiaries had lost their regional mandate and another 39 had experienced a reduction in their regional responsibilities. Most of the RHQ terminated in Finland had had full management responsibility for selected countries but this responsibility had been transferred to another country in Europe by 2010. Our data suggest that RHQ dynamics can be explained by the business growth in the country the RHQ is responsible for, mergers and acquisitions, internal restructuring and reorganization in the MNC, as well as shifts in the geographical regions of the MNC structure.

Competitive paper

INTRODUCTION

The formation of regional economic blocks has produced relatively homogenous markets inviting multinational corporations (MNCs) to manage their operations regionally rather than globally. This has been accelerated by the difficulties in implementing global strategies, the need for maintaining a high level of flexibility and the physical and psychic distance between corporate headquarters and far-flung foreign operations (Enright 2005a, Lehrer and Asakawa 1999). Rugman and Verbeke (2004) found that a clear majority of the Fortune 500 firms operated regionally with an average of 80% of total sales being generated from their home region. In the light of their findings, they provocatively questioned the existence of globalization and labeled it a myth. Osegowitsch and Sammartino (2008) reassessed and retested their argument. They questioned the classification scheme used by Rugman and his co-authors and identified an increasing number of bi-regional and global firms. Nevertheless, Osegowitsch and Sammartino (2008: 192) confirm that “sales of a large share of firms are concentrated mostly in the home region”.

In response to geography being an important dimension of internationalization, MNCs have introduced regional headquarters (RHQ) as one possible solution to balance the pressures of global standardization and local adaptation (e.g., Paik and Sohn 2004, Rugman 2005). The nature and roles of RHQ have therefore repeatedly attracted research interest (e.g., Enright 2005b, Lasserre 1996). Still, important gaps in the understanding of RHQ remain. Firstly, due to the lack of large-sample research, the theoretical insights gained from existing case studies on the evolution of RHQ need to be further empirically verified. Furthermore, many

important contributions in the area (e.g., Lasserre 1996, Schütte 1996) are by now more than a decade old, and we do not know if and how recent changes in MNC organizational forms (see e.g., Doz, Santos and Williamson 2001, Buckley and Ghauri 2004, Pettigrew 2003) have influenced the prevalence and roles of RHQ. Finally, most research on RHQ is cross-sectional, leaving us with a limited understanding of why and how RHQ evolve over time. In the conclusions, Lehrer and Asakawa (1999: 283) propose that “[t]o understand the strategic dynamics of regional management in MNCs, it is necessary...to focus on...a longitudinal view”. In combination, these limitations of previous work in the area underline the need for large-sample longitudinal work that examines RHQ roles over time in terms of geographical, functional, and business responsibilities. More specifically, we build on the longitudinal data covering the period of 1998-2010 and provide insights into the ‘rise and fall’ of RHQ in Finland where the number of RHQ fell considerably after the all time high peak in mid- and late 1990s. Within the scope of this overarching aim, we pose the following research question: why and how do RHQ lose their responsibilities?

The paper is structured as follows. We first review previous definitions of RHQ and introduce different motives for establishing them. Thereafter, we proceed with a discussion on the changes in the types and tasks of RHQ during the latter stages of their lifecycle. Based on the literature review we outline the research gap and position the present study. This is followed by the research methodology which consists of a follow-up survey of 375 RHQs during 1998-2010 and related qualitative interview data. The longitudinal research design allows us to explain why and how RHQ lost their mandate, either partially or completely. In the concluding section we show that our findings do not only contribute to the discussion on RHQ dynamics but provide a deeper understanding of the changing role

of headquarters in MNCs more generally (Anderson and Holm 2010; Barner-Rasmussen, Piekkari, Scott-Kennel and Welch 2010; Barner-Rasmussen, Piekkari and Björkman 2007).

REVIEW OF THE LITERATURE ON REGIONAL HEADQUARTERS

We start by reviewing different definitions of the regional headquarters to gain a better understanding of how they have been conceptualized. Our review covers the entire lifecycle of RHQ, from its inception to discontinuation. However, we show that the literature is strongly weighted toward the early stages at the expense of the latter. We consequently position our empirical study in the final stages of the RHQ lifecycle to address this research gap.

Defining RHQ

Previous work on regional management shows that responsibilities between regional units vary. Yet, the terminology used in the field to capture these differences is not well established. Such labels as ‘regional headquarters’ (Lasserre 1996), ‘regional offices’ (Grosse 1981, Lehrer and Asakawa 1999) or regional ‘administrative centers’ (Lehrer and Asakawa 1999) appear to be used interchangeably in the literature making it difficult to compare research findings. For example, Lehrer and Asakawa (1999: 272) write that “the regional office can be expected to exercise an important administrative, headquarters-like function”. To reduce the ambiguity, Enright (2005b) proposes ‘regional management centers’ as an umbrella term which includes both regional headquarters and regional offices. He defines RHQ as a unit which has control over the operations of one or several subsidiaries or branch offices in their respective countries and “which does not need to make

frequent referrals to the overseas parent companies” (Enright 2005b: 84, see also Poon and Thompson 2003). The RHQ provide multinational corporations with a mid-way platform to reach the parallel goals of global standardization and local adaptation (e.g., Morrison, Ricks and Roth 1991, Paik and Sohn 2004). According to Schütte (1997, p. 441), the RHQ represents an intermediary level “to which authority is transferred to solve problems in the region which cannot be handled by the national units, and otherwise would have to be dealt with and acted upon by headquarters”. Thus, the RHQ occupies a strategic position in the MNC hierarchy and is more autonomous than the regional office which needs to frequently consult the top echelons of the organization (Enright 2005b).

Early work on regional headquarters made a clear distinction between ‘management responsibility’ and ‘functional responsibility’. Grosse (1981, p. 51) in his study of Latin American subsidiaries argued that ‘real regional headquarters’, which were in minority of his sample, had management responsibility for subsidiaries in their respective areas as opposed to only marketing responsibility, for example. Daniels (1986) investigated US-owned multinationals in Europe and also distinguished between management responsibility and uni- or multifunctional responsibility. In a recent survey of 1100 MNC managers in Asia-Pacific, Enright (2005a) provides a fine-grained classification of regional management centers ranging from full functional centers, coordination and support centers, marketing and customer service centers to peripheral centers. Compared to Grosse’s sample, the full functional centers were the most common ones in Enright’s study and the only ones involved in regional strategy formulation. They correspond to what Grosse (1981) called ‘real regional headquarters’ having a broad scope of responsibilities. In a definition that has since become widely accepted in the field, Schütte (1996) describes RHQ as units that are introduced to control and coordinate activities of one or more subsidiaries within a

geographical region. Overall, these definitions show that the RHQ responsibilities may range from one or several functions to the overall management responsibility for an entire geographical area.

Against this background, we define RHQ as a unit that has the responsibility and decision-making authority for one or several functions or for the entire business in a country or group of countries outside its local market. The RHQ role assigned by MNC top management and the regional responsibilities form part of the RHQ's normal business undertakings. It may be introduced as an additional layer of management or incorporated into an existing subsidiary (Lasserre 1996). In the following, we will take a closer look at why and how RHQ are established.

Establishment and responsibilities of RHQ

Piekkari, Nell and Ghauri (2010) identify two streams of research in the literature on regional management: contributions at the corporate and the unit level of the organization which they label 'macro' and 'micro' level research. They explain that the macro-level investigations focus on understanding when and why regional strategies and structures are used (e.g., Egelhoff 1988, Rugman 2005, Rugman and Verbeke 2004). Based on the information processing theory Egelhoff (1988) argues that RHQ are introduced to improve information flows between top management and the growing number of subsidiaries. This stream of research also provides detailed characteristics of global area structures or area divisions (e.g., Egelhoff 1988, Stopford and Wells 1972). Firms that operate under an area structure "divide the world into geographical areas, each with its own HQ" to support

regional management efforts (Egelhoff 1988: 3). Regional headquarters may also accompany other organisational structures such as the global product structure or matrix.

Research at the unit or ‘micro level’ has shed light on the inner workings and responsibilities of RHQ (Piekkari et al. 2010). Schütte (1997) has categorized regional headquarters into vertical, horizontal and virtual types. In companies using vertical RHQ, there is a clear line of control and command as local subsidiaries report to RHQ, which in turn reports to corporate headquarters. Also sub-regional headquarters may exist adding another layer in the regional hierarchy (Piekkari et al. 2010). In firms with horizontal RHQs, on the other hand, the RHQ has only a supporting and consulting role in relation to local subsidiaries, and in virtual arrangements regional responsibilities are delegated upwards to the corporate HQ or downwards to local subsidiaries. Schütte (1997) separates global RHQ from transnational and multi-domestic RHQs based on their connection to headquarters and their role in enhancing local responsiveness within the region. Morrison et al. (1991) have further pointed out that RHQ may be introduced to enhance career opportunities of local subsidiary personnel. Research conducted at the micro level has also identified alternative ways of managing regionally than the traditional RHQ such as informal and formal networking and pushing country managers into developing a regional view (e.g., Lasserre 1996, Lehrer and Asakawa 1999). Collectively, these approaches to regional management emphasise the importance of geography in managing foreign operations.

Unbundling and dismantling of the RHQ

The extant research on RHQ acknowledges that these units change over time and that their lifecycle is limited (see e.g., Enright 2005a, 2005b, Lasserre 1996, Piekkari et al. 2010).

Enright (2005a: 63), for example notes that “[r]egional management centers exist and persist only if they create value for the corporation” in terms of managing activities within the region and facilitating the relationship between the region and corporate headquarters. Lehrer and Asakawa’s (1999) study of the European operations in 19 MNCs provide supporting findings. These authors conclude that American and Japanese MNCs are disaggregating and ‘unbundling’ their European operations. In several MNCs that Lehrer and Asakawa studied, RHQ were squeezed as their business environments were characterized either by increasing competitive pressures for global integration or by the need for strong local adaptation. In practice, this took the form of downsizing the RHQ staff and shifting emphasis towards strategic business units. The American MNCs included in the study tended to delegate regional tasks to local subsidiaries while the Japanese MNCs were hesitant to grant RHQ any real authority in the first place. They empowered local subsidiaries to handle pan-European responsibilities for product categories and business lines (Lehrer and Asakawa 1999).

Based on a survey and informal interviews with managers at RHQ of Western MNCs in Asia Lasserre (1996) developed five distinct roles of RHQ: scouting, strategic stimulation, signaling commitment, coordination and pooling resources. He combined them into four profiles that change according to the RHQ lifecycle. Lasserre’s (1996) model is one of the few longitudinal approaches to RHQ. In the early stage of entering the region, according to Lasserre, the RHQ acts as an *initiator* of strategic coordination and support within the region. When developing regional operations, the RHQ is a *facilitator* of the regional momentum that stimulates strategic and operative coordination. In the consolidating stage of mature regional operations, the RHQ takes on the profile of a *coordinator* which concentrates on deriving synergies by centralizing key functions. None of the companies

Lasserre (1996) interviewed exhibited this stage in the life cycle. Finally, as a natural evolution the RHQ takes on the fourth profile, *the administrator*, when the MNC is well-established in the region and the operations do not need strong stimulation any more. In this stage, the responsibilities of the RHQ are limited to financial management, training, taxation, treasury and legal support. Lasserre (1996: 36) argues that the profile of an administrator “would be a prelude to the RHQ being wound down and finally withering away completely”. He suggests that the full responsibility for carrying out regional responsibilities would be taken over by the business units themselves when the company is well established in the region. In support Enright (2005a) argues that full functional centers eventually see some of their activities dispersed to other centers in the region. Nevertheless, most of Lasserre’s (1996) examples were from the early stages of the RHQ lifecycle.

A recent longitudinal case study of RHQ evolution in a Finnish MNC suggests that regional management can be conceptualized as a system including the RHQ (Piekkari et al. 2010). Within this system, some regional management centers may be abolished or merged with existing ones and their regional responsibilities may be divided between other centers in the region. During the 40-year period of analysis, Piekkari et al. (2010) show how the resources and status of regional headquarters shifted over time although the case company did not give up its matrix structure with geographical regions. Some regional coordination centers were dismantled and the RHQ for Northern Europe was merged with Central Europe. These changes took place in response to increased emphasis on global integration, economic downturn and common regional customers (Piekkari et al. 2010). Moreover, drawing on the information processing theory Piekkari et al. (2010) explain that when the information processing capacity of a particular regional management center did not meet the requirements, adjustments were made to the regional management system. However, instead

of achieving instant fit new structural changes or management mechanisms were introduced with a time lag. The above findings demonstrate the explanatory power of longitudinal studies in capturing the evolutionary dynamics of RHQ.

Positioning of the present study

Although frequent calls have been made in favour of longitudinal research (e.g., Lehrer and Asakawa 1999, Osegowitsch and Sammartino 2008), much of the earlier work is cross-sectional presenting categorizations of the roles that regional headquarters may occupy at a given point in time. Despite the exceptions presented above (see Lasserre 1996, Lehrer and Asakawa 1999, Piekkari et al. 2010), the evolution of RHQ, particularly the mature stages of the lifecycle, have attracted limited scholarly attention. Based on the literature review we expect RHQ to disappear in large numbers when they perform neither important coordinative nor entrepreneurial functions (Lasserre 1996). Over time, local subsidiaries become more mature and acquire substantial autonomy (Andersson and Forsgren 2000). Such an evolution is likely to make the RHQ redundant. The present study focuses on the loss of regional responsibilities and adds important empirical stability to previous findings from qualitative research.

METHODOLOGY

The present study provides a contextual explanation of why and how foreign-owned subsidiaries in Finland lost their regional responsibilities during 1998-2010. Finland is a small, open economy where foreign-owned firms play an important role. It is geographically close to several economies – notably Russia and the Baltic countries – that have experienced

extensive changes and fast growth. As we demonstrate below, this has had important implications for the roles and responsibilities of RHQ in Finland. In most RHQ we studied the scope of responsibility covered the Baltic countries as well as Russia. In other companies also countries from Eastern Europe were under the remit of the Finnish subsidiary. It should be noted that these subsidiaries were also responsible for the business in Finland and thus the RHQ status was attached to them alongside the local business responsibility (see Lasserre 1996 for a similar point). Overall, the geographical location of Finland yields quite pronounced RHQ-related dynamics that constitute a particularly informative context for our study.

Data – the RHQ population in Finland

In 1998 a total of 1144 foreign-owned subsidiaries were identified in Finland (Luostarinen 2000). Out of them, 375 had had a RHQ status at some point in time, forming the total population of our longitudinal study. Based on previous research (Luostarinen 2000) we know that until 1990 there were less than 50 RHQ units in Finland, while by the 1999 the figure had grown exponentially to 375 RHQ units. Thereafter, the number of existing RHQ has again declined, meaning that we follow the decrease of the population from its ‘peak’ to the current level of 131 RHQ units in 2010. The ‘rise and fall’ of RHQ in Finland can be explained by the strategically important geographical location of the country in the mid- and late 1990s. For many foreign-owned MNCs Finland was a gateway into the growing markets in Russia and the Baltic states. While these markets were attractive, their legal and institutional frameworks as well as infrastructure were still unstable and not sufficiently developed. Similar to Austria in Central Europe, Finland was considered a stable neighbouring country and thus an attractive location for establishing a RHQ.

The definition used to identify the 375 RHQ in 1998 was developed and refined in close collaboration with five regional managers of foreign-owned RHQ in Finland. The definition was set in such a way that the RHQ should fulfill two key criteria: 1) it should be mandated by the higher levels of the MNC organization (before or after the initiation of the activity) and 2) RHQ should have explicit decision making power over its mandated region. Some subsidiaries were omitted as they had taken the initiative to experiment with regional responsibilities without a top management mandate. Since the regional tasks did not form part of their mandated responsibilities they did not meet our definition of a RHQ.

In 2010, after more than a decade, we undertook a follow-up survey. Our research endeavor started by verifying the existence of these RHQ. Many companies had changed their names, merged, been acquired or shut down. Two firms could no longer be found at all, taking the sample down to 373 units, and an additional 149 cases were no longer relevant for us (e.g., they had transferred to local ownership) or were no longer operational in Finland. The research questionnaire was thus completed for 224 RHQ units, and in total we were able to follow up the current status of 362 RHQ from the original sample, which represents a completion rate of 97 %. It should be noted that we did not seek to find new RHQ, but follow up those ones that existed in 1999.

We approached this sample through a mixed method design combining survey data with related retrospective interviews (Hurmerinta-Peltomäki and Nummela 2004). In 2010 we carried out a follow-up survey, based on the questions from the original 1998 survey with added new questions about the development of RHQ and its changing role. The structured survey questions were carefully piloted and also tested in a prearranged telephone interview. Final adjustments were made to the questionnaire during the first 18 interviews with

representatives from RHQ. We conducted a total of 224 structured interviews by phone which also generated a considerable amount of related qualitative data. We usually first contacted the executive secretary, or the CEO for smaller companies. It was rather common that two company representatives answered our questions. Typically, assistants provided answers to basic research questions, and thereafter staff, communication or marketing managers, country managers, controllers or CEOs continued answering the more specific questions about RHQ and organizational changes. Since the original survey questions were in Finnish the follow-up survey was also conducted in Finnish which was the native tongue of the majority of the respondents and the researchers (a small number were native speakers of Swedish or other languages). Relevant passages of the qualitative data were translated into the reporting language English (see Welch and Piekkari 2006 for a discussion on language in qualitative interviewing).

Out of the total population of 375 RHQ, 39 (10%) had remained unchanged in terms of their responsibilities between 1998 and 2010. This suggests that in situations in which radical external changes do not take place, RHQ can remain stable for quite long periods of time. The remaining 90% experienced changes either in the Finnish subsidiary (29%) or in their RHQ responsibilities (58%). As Table 1 shows, of the 224 RHQ units, where we completed the interview questionnaire, 131 (58.5%) had retained their RHQ status throughout the period, and 93 (41.5%) had lost their regional responsibilities at some point during the period of analysis. In the present paper, we focus on the latter group that had lost their RHQ status and the subset of 39 RHQ units which had retained their regional responsibilities but they had become less significant over the 11 year period of investigation.

INSERT TABLE 1 HERE

Measures and data analysis

Our analyses focus on explanations for the full or partial loss of RHQ status during the studied period which form our dependent variables respectively. These were measured as variables that took the value of 1 if RHQ responsibilities had become less significant or had been completely lost. The data used in these analyses is illustrated in table 2. Among the reasons for losing responsibilities either fully or partially, there are relocations, terminations and other or unknown reasons.

INSERT TABLE 2 HERE

Based on our literature review, we expected a significant reduction in the number of RHQ at the end of the 11 year-period of analysis when they have stopped performing important coordinative or entrepreneurial functions. We accordingly used as independent variables several possible reasons for change (market growth and contraction, internal reorganizations in the MNC, acquisitions, new regional structure of the MNC, and unspecified other reasons). These were again measured as variables taking the value of 1 if e.g. market growth or contraction was indicated by the respondent as one reason for the shift in RHQ responsibilities. We also tested for the possible impact of hierarchical level where the decision to shift the RHQ responsibility had been made (locally in Finland, at the Scandinavian HQ, at the European HQ, or at the parent corporation), all measured as

dummy variables. MNC nationality was used as a control variable in the regression analyses we undertook on partial loss of RHQ status.

We conducted analyses on the total of 132 units that had either partially or fully lost their RHQ status throughout the studied period and separately for the 93 units that had completely lost this status. For the 132 units that had fully or partially lost their RHQ responsibilities, we ran an OLS regression analysis with the variables described above. These results are in Table 7. For the 93 units that had completely lost their RHQ status, we quantitatively and qualitatively explored both where the RHQ responsibilities had been moved, and examined the reasons for the change, the hierarchical level where the decision was made, and when the decision had been made. These results are presented within the text. We explicitly limited this analysis to units which had clearly lost RHQ responsibilities, thus excluding 26 units, whose RHQ responsibilities had decreased in some areas and increased in others, rendering the net effect unclear.

Prior to the data analysis we undertook several measures to improve the data quality. Due to the fact that three researchers undertook phone interviews, we discussed the main interview questions to ensure that similar answers were coded in the same way. Data from all interviews were compiled into a single database, covering the answers received to all questions. In addition to the newly collected data, we had access to the previously conducted survey including the answers to the open-ended questions which were used to triangulate and confirm the results of the analyses.

FINDINGS

In this section, we present a brief overview of the RHQ in our sample and compare the findings of the follow-up survey in 2010 with the original one conducted in 1998. Thereafter, we present two sets of results on RHQ losing responsibilities: 1) quantitative analysis on those that have experienced a complete loss of status and 2) regression analysis on those whose regional responsibilities have been lost fully or partially.

Overview of regional headquarters in Finland during 1998-2010

In the 1990s the geopolitical position of Finland in relation to its close neighbours in the south and the east was characterised by a new era. The collapse of the Soviet Union and the independence of the Baltic countries spurred foreign trade between Finland and its neighbours. Numerous Finnish companies expanded their activities to Russia, the Baltic countries and other new countries in the proximity (Luostarinen 2000). More importantly, seeing this development, also many foreign-owned MNCs which already had established local subsidiaries in Finland, followed suit. While the number of subsidiaries with RHQ status in Finland was 24 in 1985, the corresponding figure only 10 years later had grown more than ten-fold. By 1999 there were already 375 foreign subsidiaries which had at the time or had previously had a RHQ status, most often for the Baltic countries or Russia. The highest growth of RHQ was experienced between 1992-95 when a total of 182 RHQ were established in Finland (Luostarinen 2000). This rise of RHQ can be explained by Finland's geographical position as a gateway between the East and the West.

As a starting point, the following tables illustrate the types and tasks of RHQ in our sample. The geographical scope of responsibility of the 132 RHQ is shown in the table 3, together with the comparison to the situation in 1998. Most of the Finnish subsidiaries were responsible for the three Baltic countries, followed by Russia. Over the research period we have seen the biggest decrease in responsibilities in the same countries, but they still remain dominant among those 39 subsidiaries retaining some of the responsibilities. For example, in 1998 out of 132 RHQ 74 had Russia in their remit, decreasing to only 10 in 2010, now representing 26% of remaining RHQ. Other countries appear seldom.

INSERT TABLE 3 HERE

In Figure 1 we see the type of responsibilities the RHQ held in 1998. We can observe a clear distinction between two groups, namely those RHQ which only export goods to their mandated area and those with wider responsibilities, typically covering simultaneously business, administrative and reporting responsibilities. As the business responsibility typically means a profit and loss responsibility over the designated area, these RHQ typically have an overall management responsibility within their region.

INSERT FIGURE 1 HERE

Table 4 shows the origin of the parent companies of the Finnish subsidiaries, detailing out how many subsidiaries retained and lost their RHQ position during the 11 year period. Out of the sample of 132 RHQ, 75% had a European parent company and 22% were American. Germany, Sweden and the United States each represent about one fifth of the RHQ parents

in our sample of RHQ losing their responsibilities either fully or partially, but they are also the most common parent countries among those RHQ who still retain their responsibilities.

INSERT TABLE 4 HERE

Table 5 shows the breakdown of the industries among the 132 RHQ, using the NACE classification. The largest groups are wholesale and retail trade, and manufacturing. These are also the most common industries represented among those subsidiaries retaining their RHQ status.

INSERT TABLE 5 HERE

Subsidiaries losing their RHQ status completely

Among the 93 units that had completely lost their RHQ status, the majority had been relocated to other units within the MNC. Our findings from the survey show that 11 RHQ (12%) had been moved to Russia or the Baltics, 10 (11%) had been moved to Scandinavia, 20 (21%) had been moved to other locations (e.g. in Poland and Switzerland). 26 RHQs (28%) had been closed down in such a way that the units which previously reported to the Finnish RHQ now reported directly to the parent corporation or had become independent in other ways. In 14 cases the RHQ responsibilities had ended in unspecified other ways, and in 9 cases no clear response was provided.

In terms of when the RHQ position was lost, the distribution was relatively even when analysed by country of subsidiary location. The only evident peak in all countries was in 2008, as illustrated in Figure 2 below. This could be explained either by the sustained economic growth in the Baltic countries until 2008 or by the recession that set in during the second half of that year; however, it is not evident that macroeconomic conditions were the only underlying reasons for this. A minor peak in 2005 is probably due to the entry of the Baltic countries in the European Union in 2004.

INSERT FIGURE 2 HERE

As for the locus of decision-making, the dominant category was the parent corporation, where the decision to discontinue RHQ responsibilities had been made in 56 of 93 RHQ (60%). The decision was made in Finland in only 6 RHQ (12%), while in the remaining situations it was either a joint decision or made elsewhere in the regional hierarchy (e.g., at European headquarters).

There were various reasons why the RHQ status was entirely lost although the categories mentioned below are not mutually exclusive. In 15 RHQ the reason for losing the regional status was market growth, generally meaning that the business within the region had reached such a high volume that a new, more direct reporting line between the local subsidiary and headquarters was more appropriate. The Finnish subsidiary may have either lacked the means to provide further support for the growing business, or did not add value to the growing local organizations. From a local subsidiary perspective, this development could be labelled as “natural growth to independence”.

In only 6 RHQ the contracting market was mentioned as the reason for losing the regional status. Particularly the Baltic markets were hit by a major recession in 2008-09, but this development may have been too recent to show its full effect in the corporate decision making by the time of our follow-up survey in 2010.

Internal reorganizations and arrangements in the MNC were mentioned as the reason in 26 RHQ and acquisitions in 21 RHQ. Although such changes are not directly aimed at the RHQ-local subsidiary relationship they are likely to affect the status of the RHQ. In one MNC that we surveyed, the adoption of a matrix structure changed entirely the RHQ structure as a side effect. In one company the position of the Finnish subsidiary was affected as an outcome of a major acquisition. In another MNC, the shutdown of factories in Finland significantly affected the role of the Finnish subsidiary within the MNC.

The formation of a new geographical region in the MNC caused the loss of RHQ status in 20 companies. The foreign-owned MNCs may have regionalised their structures by shifting the responsibility for the business in the Baltics from Finland to the Eastern European region, for example. Some of these changes have occurred relatively recently and may reflect the emergence of Central and Eastern Europe as a region of equal importance and weight as Western Europe in the corporate portfolio. Finally, a total of 19 companies stated 'other reasons' for the loss of their RHQ position.

Regression analysis on the subsidiaries losing responsibilities fully or partially

In our sample of foreign-owned subsidiaries in Finland there were 132 subsidiaries which had lost their RHQ position either fully or partially. Our regression model exploring this

situation is significant at $p < 0.001$ and explains a large percentage of variation in the data ($F = 8.040$, $R^2 = 0.353$).

INSERT TABLE 6 HERE

Our data show that a reduction in RHQ responsibilities was significantly *more* likely if markets in the country the RHQ was responsible for had grown ($\beta = 0.247$, $p < 0.005$), or if the MNC had experienced internal reorganizations ($\beta = 0.308$, $p < 0.001$), or there had been an acquisition ($\beta = 0.187$, $p < 0.05$). Finally, other, unspecified reasons ($\beta = 0.230$, $p < 0.005$) could be behind the loss of regional responsibilities. The only variable for the location of decision-making that was significant ($\beta = 0.204$, $p < 0.05$) was when the decision was made in the parent MNC, suggesting that the decision on the termination of RHQ tends to be made at higher organizational levels.

Our interview data related to the structured survey conducted by phone generated various examples of how and why the responsibilities of RHQ had been reduced or lost over the years. For example, one foreign-owned MNC had introduced a matrix structure which affected the Finnish subsidiary and terminated its RHQ position. However, the ownership structure was left untouched with related financial responsibilities. In another company the Finnish subsidiary was originally responsible for Estonia and Russia. At the time of our data collection, the responsibility for Estonia remained intact, but Russia had been removed from the RHQ's geographical scope of responsibility. The Russian subsidiary now reported directly to headquarters.

In several MNCs, the Russian business had grown so large under the Finnish RHQ that it became necessary to remove it from the Finnish management responsibility. In one example, the increasing business in Russia justified the establishment of a local factory. Due to the large size of the investment, Russia was made a separate strategic business unit and the reporting line was changed directly to the corporate headquarters. In another European industrial corporation, the Finnish subsidiary occupied a RHQ position in relation to the Baltic countries, Ukraine and Kaliningrad area. The last two were terminated due to a divestment of an entire product division in 2006. In a large MNC an organizational restructuring had resulted in a shift of responsibilities and this was translated in a loss of responsibility for the Finnish subsidiary. Its geographical scope was reduced regarding the number of countries in Eastern Europe.

Table 7 below summarises the reasons why the RHQ status was lost, either fully or partially, in the 132 Finnish foreign-owned subsidiaries covered in our survey.

INSERT TABLE 7 HERE

DISCUSSION

Within the MNC organization, RHQ may during its lifecycle assume various roles and responsibilities over its allocated geographical region, such as strategic and financial control, specific functional (e.g. marketing, HR) responsibility, or a business area (product or service line) responsibility. However, the factors influencing these developments at the RHQ level have seldom been studied. A possible development in the lifecycle of a RHQ unit

is relocation (e.g. Lasserre 1996, Perry et al. 1998) which can simply mean transferring existing responsibilities and activities to a new geographical location, but which often involves also other changes and reflects shifts in the MNC strategy developments.

Based on the literature review we expected a considerable number of RHQ in our sample of foreign-owned subsidiaries in Finland to have disappeared during 1998-2010 (e.g., Lasserre 1996). These subsidiaries had been granted a RHQ status with full or partial responsibility for their activities, or responsibility for one or several functions in a particular geographical region. As a structural solution to meet the pressures of global standardization and local adaptation, RHQ are very dynamic. Our findings show that only 10% of the RHQ investigated remained unchanged during the period of analysis. However, unlike our expectations, no more than a third of the RHQ we studied (93 out of 375) had completely lost their regional status during the 11-year period. In the majority of these RHQ the regional responsibilities had been transferred to another unit, in other words the RHQ had been relocated within the MNC, mostly to another European country. Another 39 RHQ had retained their regional mandate but experienced a reduction in their responsibilities. This raised our curiosity: why and how have these RHQ lost their status or become less important in the region in terms of their responsibilities? Our study elucidates these dynamics and aims to put them in a long-term perspective.

While analyzing the dynamics of RHQ within our sample over the past decade, we identified four groups of reasons that explain the loss or reduction in the RHQ position: 1) business growth in the country the RHQ is responsible for, 2) acquisitions, 3) internal restructuring and reorganization, and 4) regionalization. Basically, the RHQ is a temporary

structural arrangement which exists for a limited period of time to fulfill a certain purpose, and once this purpose has been attained the RHQ may be dismantled.

Turning to the first category of reasons, the RHQ was introduced as an intermediate management layer when the local business grew too large to be managed directly by headquarters (see, also Lasserre 1996, Shutte 1997). Regional management solutions were particularly common in the service sector where fewer economies of scale exist. The local subsidiary may also outgrow its RHQ and move to report to a higher level in the organization, typically to corporate or divisional headquarters. A common situation in our data was a Russian subsidiary reporting to a Finnish subsidiary acting as a RHQ. In situations of strong local growth the added value of the Finnish RHQ was questioned and sometimes their role became redundant.

The second category of reasons stem from acquisitions or divestments which often have an impact on the RHQ status. For example, one foreign MNC withdrew a large part of its operations from Finland, thus making the RHQ position unsustainable. Other internal reorganizations may also change regional structures and these represent the third category in our analysis. Our findings show that over the last years many MNCs have globalized their organizations and the country subsidiary has lost its longstanding role as a key player within the corporation. Consequently, the MNC has been transformed into a collection of individuals reporting to various global heads. One important explanation to the loss of the RHQ status in Finland was that this unit acted as a temporary support organization, a 'gateway' to facilitate business activities with Russia and the Baltic countries and pave the way for subsequent business development by the MNC in those markets. Once this strategic goal had been achieved the Finnish RHQ was closed down and the local subsidiary in

Russia or Baltic countries tended to be managed by the European RHQ, the divisional or the corporate headquarters.

The fourth group of reasons was labeled 'regionalisation'. Rugman (2005) argues that regional business environments lead to parallel regionalization of MNC structures which directly affects the positions of RHQ. Our data suggest that Central and Eastern Europe are emerging as an equally important geographical region as Western Europe with the same weight in the corporate portfolio, thus shifting the RHQ away from Finland. We also have in our sample examples in which the subsidiaries in the Nordic region share an increasing amount of resources and form a relatively unified region, albeit often through non-structural mechanisms such as regional meetings and local subsidiary mandates (see, e.g., Lasserre 1996).

CONCLUSION

The present study investigates longitudinally why and how regional headquarters (RHQ) lose their regional mandate or experience a reduction in the scope of their regional responsibilities. In 2010, we undertook a follow-up survey of the 375 RHQ investigated in Finland in 1998. The original survey revealed that in the mid- and late 1990s a considerable number of foreign-owned MNCs granted a RHQ status to their subsidiaries in Finland to act as 'gateways' into emerging markets in Russia and the Baltic States. Since this peak of RHQ in Finland, their number has reduced, inviting us to explain the 'rise and fall' of RHQ in a small and open economy.

Earlier work does not only indicate that MNC strategy influences regional management structures (Egelhoff 1988; Rugman 2004, Stopford and Wells 1972) but also that changing regional management structures are an important component in the actual enactment of MNC strategies (Piekkari et al. 2010). Like division headquarters, RHQ play a key role in centralization versus decentralization in an MNC, due to their position between the corporate headquarters and the subsidiary; as such, the decision to create, maintain, shut down, or relocate a RHQ is at the same time an important decision on the degree of centralization. While for the corporate or divisional headquarters a new RHQ may represent an act of decentralization, the same from the subsidiary perspective may seem like a major act of centralization. Much of the literature on regional management is cross-sectional and the few lifecycle models that we were able to identify (see, e.g. Lasserre 1986) focus on the early rather than later stages of the RHQ evolution. Therefore, the present study aims to elucidate the unbundling and dissolution of RHQ.

In our sample of 375 RHQ in Finland, we divided the RHQ into uni- and multifunctional entities, the latter having full management responsibility for one or several subsidiaries or branches in the region. This is in line with earlier definitions of the RHQ (Grosse 1981, Daniels 1986). The evolutionary pattern is dynamic showing that towards the end of the lifecycle a third of the RHQ were terminated. The majority of them were owned by European MNCs suggesting that the corporate and the regional headquarters were located in the same region. From the corporate perspective, the RHQ may be perceived as not adding much value because the region is familiar to top management in terms of psychic distance (see, also Lasserre 1996 for a similar point). In a considerable number of RHQ (41 out of 93) the responsibility was transferred elsewhere within the MNC, yet mostly remaining in Europe. Finally, in 17% of RHQ (39 of 224) the regional responsibilities were reduced. It

may be that they were divided between other regional management centers (see Enright 2005b) or ‘unbundled’ to local subsidiaries (Lehrer and Asakawa 1999). The above findings provide empirical support for conceptualizing regional management as a system which shifts and adjusts as a response to changing top management requirements (Piekkari et al. 2010). Our findings also echo Avenell’s (1996) notion that RHQ functions do not have to be co-located. Like other types of HQ, also RHQ increasingly seem to become ‘virtual’ and mobile (Barner-Rasmussen et al. 2007) as well as temporal. In our sample, we see little evidence in favour of RHQ being used to enhance the career opportunities of local subsidiary personnel (Morrison et al. 1991); however it may be that Finland is not the most appropriate context, as the country is small and at best only a marginal source of potential management talent for most foreign MNCs. In our data set, we have examples in which the regional responsibilities of Finnish RHQ units, or individuals located in them, have been granted global responsibility for e.g. a specific product line.

The loss of RHQ responsibilities among foreign-owned subsidiaries in Finland does not mean that regional management is becoming less important. In their study of American and Japanese RHQ in Europe, Lehrer and Asakawa (1999: 280) note that the “importance of regional management... did not translate automatically into a large or powerful” RHQ. They also point out that “the phenomenon of regional management does not overlap very closely with that of regional headquarters in MNCs” (p. 280). The American and Japanese MNCs Lehrer and Asakawa studied used other ways to strengthen the regional dimension of their businesses than augmenting the staffing levels and authority of RHQ. This may partially explain why foreign-owned MNCs terminated some of their RHQ in Finland.

Another explanation can be found from public policy perspective. Compared to Austria, authorities in Finland have not promoted the country as an attractive location or 'hub' of RHQ to foreign MNCs. The gateway position, which existed at the time, was not turned into a competitive advantage of the nation. The lack of attention paid to RHQ by Finnish authorities could explain some of the relocation or shut-down decisions during 1998-2010.

Finally, as HQ and RHQ roles change over time, also HQ-RHQ relations are likely to change. In one sense, the evolution of RHQ roles and tasks that our study is uncovering is likely to reflect the perceived strategic needs of the parent MNCs we have studied, and will thus be influenced by industry-level factors such as the intensity of competition; however, RHQ roles may also change due to other factors, such as macro-economic development (e.g., the sudden increase in attractiveness of a particular market or cluster of markets) or even fashion, certain structural solutions being in vogue at a particular time. Finally, an interesting issue that needs to be further studied is the role of RHQ in strategy work in the modern MNC; are RHQ passive receivers and enactors of corporate strategies, or are they actors that participate in and actively help shape such strategies?

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TABLES AND FIGURES

Table 1. Summary of our sample

Status	RHQs	%
Research questionnaire completed	224	60 %
RHQ status retained	131	35 %
RHQ status lost	93	25 %
RHQ status lost already in 1998/99	30	8 %
Not possible to study separately due to ownership changes	35	9 %
Operations ended (in Finland)	52	14 %
Moved to Finnish ownership	21	6 %
Unwilling to answer or person not reached	13	3 %
Total	375	100 %

Table 2. Sample used in analysis

	Reason			Total
	RHQ Relocated	RHQ Terminated	Other reason/ unknown	
RHQ Partially lost	12*	11*	17	39
RHQ Fully lost	38	23	32	93
Total	50	34	49	132

* 1 RHQ with partially lost responsibilities both relocated and terminated

Table 3. Countries under the RHQ's geographical scope of responsibility in 1998 and 2010

	Responsibilities 1998	Responsibilities 1998, % of total	Remaining responsibilities 2010	Remaining responsibilities 2010, % of total	Change in %
Estonia	127	96 %	30	77 %	-19 %
Latvia	102	77 %	23	59 %	-18 %
Lithuania	96	73 %	22	56 %	-16 %
Russia	74	56 %	10	26 %	-30 %
Belarus	16	12 %	2	5 %	-7 %
Ukraine	21	16 %	3	8 %	-8 %
Poland	6	5 %	0	0 %	-5 %
Kazakstan	13	10 %	3	8 %	-2 %
Sweden	10	8 %	2	5 %	-2 %
Norway	10	8 %	2	5 %	-2 %
Denmark	7	5 %	1	3 %	-3 %
Other	N/A		4		
Total RHQ	132		39		

Table 4. RHQ parent company nationality

Country	RHQ status retained		RHQ status lost					
	RHQ status partially lost	RHQ status partially lost (%)	RHQ relocated	RHQ relocated (%)	RHQ terminated	RHQ terminated (%)	Other/ unknown reason	Other/ unknown reason (%)
Switzerland	1	8 %	5	38 %	1	8 %	1	8 %
Germany	10	28 %	5	14 %	7	19 %	6	17 %
Denmark	0	0 %	1	7 %	0	0 %	2	13 %
France	5	38 %	3	23 %	2	15 %	6	46 %
United	1	6 %	4	22 %	1	6 %	1	6 %
Japan	2	33 %	2	33 %	1	17 %	2	33 %
Netherlands	0	0 %	2	25 %	1	13 %	0	0 %
Norway	1	25 %	1	25 %	0	0 %	1	25 %
Sweden	3	7 %	5	11 %	8	18 %	7	16 %
USA	8	20 %	15	37 %	3	7 %	11	27 %
Other	6	38 %	6	38 %	8	50 %	12	75 %
Missing	2	22 %	1	11 %	2	22 %	0	0 %
	39		50		34		49	

Table 5. RHQ industry distribution

NACE Classification	Frequency	Percent
	2	1,5
MANUFACTURING	25	18,9
CONSTRUCTION	3	2,3
WHOLESALE AND RETAIL TRADE	78	59,1
TRANSPORTATION AND STORAGE	4	3,0
INFORMATION AND COMMUNICATION	5	3,8
FINANCIAL AND INSURANCE ACTIVITIES	1	,8
PROFESSIONAL, SCIENTIFIC AND TECHNICAL	10	7,6
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	3	2,3
OTHER SERVICE ACTIVITIES	1	,8
TOTAL	132	100,0

Table 6. Analysis on RHQ losing their responsibilities fully or partially

Summary	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
	0,5943	0,3531	0,3092	0,4087	2,0839
ANOVA Table	df	Sum of Squares	Mean Square	F-Ratio	Sig.
Regression	11,0000	14,7749	1,3432	8,0399	0,0000
Residual	162,0000	27,0642	0,1671		

Regression table	Unstandardized Coefficients		Standardized Coefficients	t-Value	Sig.	95,0% Confidence Interval for B					
	B	Std. Error	Beta			Lower Bound	Upper Bound				
(Constant)	0,2502	0,0532		4,7044	0,0000	0,1452	0,3553				
Market growth	0,3346	0,1065	0,2471	3,1406	0,0020	0,1242	0,5450				
Market contracting	0,2994	0,1530	0,1279	1,9571	0,0521	-	0,0027	0,6016			
Internal reorganisation	0,4003	0,1000	0,3084	4,0027	0,0001		0,2028	0,5978			
Acquisition	0,2612	0,1015	0,1868	2,5745	0,0109		0,0609	0,4615			
Parent MNC regionalization	0,1911	0,1017	0,1452	1,8796	0,0620	-	0,0097	0,3918			
Other or unknown	0,3335	0,1088	0,2304	3,0662	0,0025		0,1187	0,5483			
Decision made in Finland	-	0,0035	0,1104	-	0,0022	-	0,0313	0,9751	-	0,2214	0,2145
Decision made in European HQ		0,1696	0,1527		0,0842		1,1103	0,2685		0,1320	0,4712
Decision made in parent MNE		0,2005	0,0906		0,2041		2,2141	0,0282		0,0217	0,3794
Finnish subsidiary turnover (M €)	-	0,0002	0,0002	-	0,0858	-	1,1972	0,2330	-	0,0005	0,0001
Number of employees in Finland		0,0001	0,0001		0,0403		0,5597	0,5765	-	0,0001	0,0003

Table 7. Dynamics of RHQ status from 1998 to 2010

RHQ status 2010	Fully or partially lost			Total
Reason*	Terminated	Relocated	Other reason/ unknown	
Growth of business	14	11	1	26
Market contracting	1	0	7	8
Parent MNC reorganisation/ restructuring	10	17	6	32
Parent MNC regionalization	3	22	5	30
Acquisition	7	7	11	25
Other or unknown	3	12	8	23
Missing	0	0	7	7
Total	34	50	49	
*Multiple reasons for status change are possible				

Figure 1. RHQ responsibilities by type in 1998 (number of RHQ)

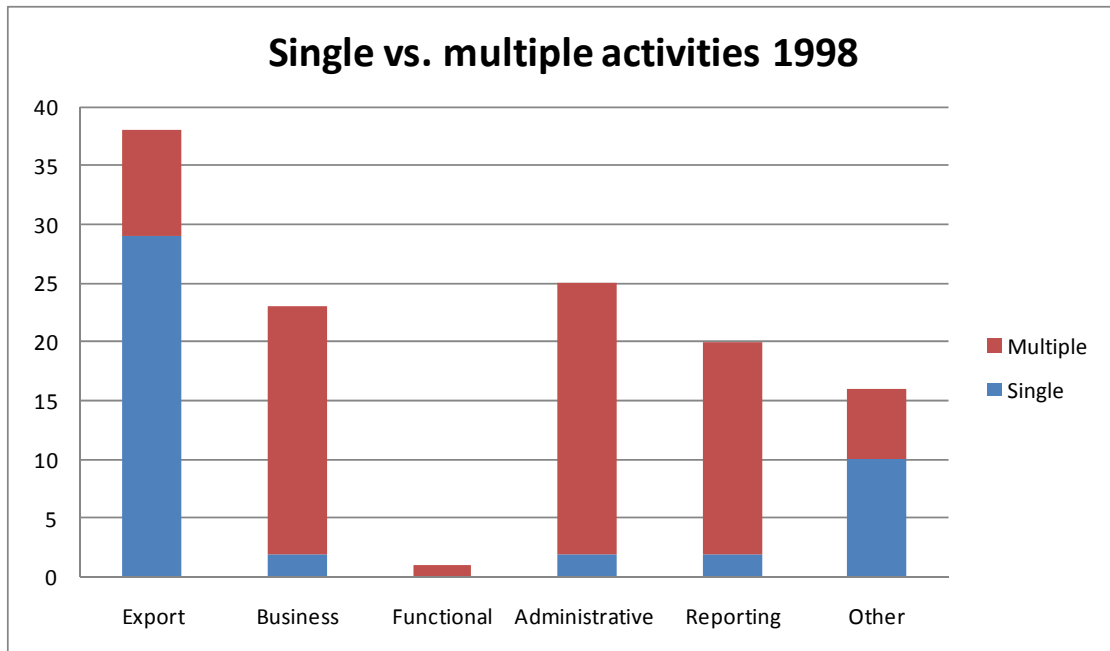


Figure 2. Year when RHQ status was lost for Baltic countries (Estonia, Latvia and Lithuania) and Russia (number of RHQ)

