

Reasoning a Use of Regional Headquarters in TNCs as Structural Instrument of Coordination

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Abstract

In our paper we analyze possible effects caused by a use of regional headquarters in transnational companies (henceforth: TNCs). We understand regional headquarters as an innovative structural coordination instrument being used to solve the problem of coordinating transnational business activities in an adequate and cost-efficient way. Although the use of regional headquarters seems to be quite common in business practice, the theory of business administration so far widely ignores this new practice-driven approach. Therefore, we try to overcome this shortfall by critically analyzing possible assets of utilizing regional headquarters both on a theoretical and praxeological base. Thereby we employ an eclectic approach. Our main intentions are to put regional headquarters in the perspective of business administration theory and to reason their existence by showing how their use can be beneficial for TNCs.

Key Words: *Organizational Structure, Regional Headquarters, Transnational Companies, Information-Cost Approach, Promoter Model, Global-Local-Dilemma*

1 TNC Activities in the Area of Conflict between Globalization and Localization

Before analyzing effects of utilizing regional headquarters as structural instrument of coordination in detail, we consider it necessary to highlight the main environmental aspects TNCs have to cope with and to clearly specify the unit of analysis as well as distinct research questions.

1.1 The Basic Problem

International division of labor is without question a success story. TNCs are aware of this fact and try to implement this insight by widely spreading their activities to benefit from local advantages and therefore following a general globalization trend. Drivers of this trend are the coalescence of international markets, the increase of international competition, and, deployed by these factors, intensified cost competition. Thus, TNCs are more and more forced to minimize their production costs to persist in this competition. Assuming a given product mix, the utilization of economies of scale and scope is one way to reduce average production costs (Kogut 1990). A possible realization of economies of scale and scope requires the production of a growing number of similar products and therefore normally goes along with global standardization. Global standardization comprises the challenge of adjusting versatile business activities in respect of one superior target. On the other hand, global standardization includes the risk of disregarding local particularities. This has to be considered by TNCs, because these peculiarities are of great importance (Porter 1986), especially when taking into account the emerging trend to individualization that nowadays characterizes most advanced industrial societies. Therefore, it is necessary for TNCs to deal with this development in an adequate way to assure the overall success.

The highlighted situation entails for TNCs the constraint to act in a traceable and consistent way. On this account it seems to be advisable to answer this requirement by adapting the organizational structure to the new situation (Kogut 1990). But how the new structure ideally has to be configured stays for the time being unclear because of the need for globalization and the coeval need for localization that are at odds with each other. According to the idea of globalization a centralistic structure would be the best choice (Pugh et al. 1968). The use of such a structure, which is characterized by the absence of administrative units that are e.g. responsible for certain regions, has two major effects that are contrary to each other: On the one hand the structure causes a perceptible reduction of the fixed operation costs which can be seen as a consequence of economizing administrative units operating on a regional level. On the other hand an increase of information costs can be detected. The increase results from the growing distance between the headquarters and the foreign subsidiaries which complicates it to collect relevant information in required quality. Therefore, the overall effect stays undetermined. Placing the idea of regionalization in the focus of interest, a decentralized organizational structure would be the best choice. The utilization of such a structure implies an extension of administrative units operating on a regional or even local level. The cost effect of this structuring procedure is twofold: On the one hand the fixed operation costs rise, on the other hand the information costs may decline because of the administrative units being closer to the respective markets. The overall effect stays again undetermined because of the described trade-off effect.

Following the argumentation presented above it is quite evident that TNCs have to manage a so-called '*glocal dilemma*'. Thereby TNCs are not really able to go for only one way (Bartlett and Ghoshal 1989). In fact, they have to consider the global and the local aspect (van Houten 1989) as well to be successful in the long run. The dilemma can be illustrated by using the meanwhile broadly accepted internationalization matrix (Macharzina 1993) although it has to

be mentioned that it mainly focuses on the strategic aspect and not that much on the structural aspect that is primarily relevant here. Nevertheless, this matrix is suitable to point out the character of the elementary difference and the coherence between the two aspects globalization and localization and can be used to show the necessity of adjusting the organizational structure according to these strategic demands.

- insert figure 1 about here -

Porter extends this matrix based on the value chain whose elements can be dispersed over several subsidiaries of the TNC or be centralized in one location (degree of configuration). Thereby the dispersed or centralized activities can be coordinated on a strong or weak level (degree of coordination). The resulting configuration/coordination matrix contains four strategies for TNCs to generate strategic competitive advantages (Porter 1986).

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In his remarks, Porter explicitly stresses the importance of structural conditions for realizing and exploiting strategic competitive advantages (Porter 1986). Hence, an organizational structure covering the glocal dilemma in an adequate way itself represents a competitive advantage.

1.2 Basic Understanding of Regional Headquarters

Regional headquarters are administrative units that are hierarchically integrated between the headquarters and the local subsidiaries and assume by order of the headquarters responsibility for activities of local subsidiaries on a regional, function-oriented, product-oriented or customer-oriented basis. A further typing does – except for the work of Enright (Enright 2005) – not take place. Enright differentiates between regional management centers, regional headquarters, regional offices, and local offices. He uses the term ‘*regional management center*’ as generic term for all kinds of administrative units acting region-oriented. Regional headquar-

ters possess in his understanding more autonomy than regional offices. Local offices are hierarchically situated below regional offices and take managerial responsibility for only one overseas branch. Although the useful contribution of Enright regarding the classification of regional headquarters has to be pointed out, his distinction between these particular types of administrative units does not bring further advancement relating to the coordinative effect being of special interest here.

Schütte (1996) stresses that regional headquarters conduct a strategic assignment and find themselves in conflict between global integration and local responsibility. He specifies his definition insofar as regional headquarters are the main tie between the foreign subsidiaries and the headquarters. Their major task consists of the integration and coordination of the activities of a TNC within a specific geographic region. Formation, legal status, and positioning of the regional headquarters are not of importance in this context (Schütte 1996).

The regional headquarters definition suggested by Schütte is a very broad one covering a great variety of organizational units. Although this may be helpful to understand the phenomenon in general, it complicates a precise analysis of regional headquarters. So Schütte explicitly points out that his definition of regional headquarters includes so-called ‘virtual regional headquarters’ (Schütte 1996) which is not in tune with the common understanding of organizational units. Nevertheless, Schütte focuses in his definition on the aspect of management responsibility and excludes administrative units solely founded for tax reasons that do not assume management responsibility from being regional headquarters.

According to Lasserre, regional headquarters are specific, region-oriented organizational units that take responsibility for the activities of a TNC within a certain region. They are at the same time located in this region (Lasserre 1996). In contrast to Schütte, Lasserre discusses the

location aspect in a traceable manner but misses to expose which specific activities are carried out by regional headquarters.

Yeung, Poon and Perry define regional headquarters as organizational units that hold power of decision and management responsibility for business operations of one or several local subsidiaries within a specific geographic region (Yeung, Poon, and Perry 2001). Administrative units that do not possess management responsibility are in their opinion no regional headquarters. Thus, they also stress the decision aspect but do not make a statement on the preferable geographic position of the regional headquarters.

Although the highlighted definitions seem to be partly useable, up to now no comprehensive definition of regional headquarters suitable for the present paper is available. Therefore, a new definition of regional headquarters building on previous research is required: We understand regional headquarters as organizational units that are hierarchically situated between the headquarters and the local subsidiaries. Regional headquarters possess management responsibility confined to a certain division and administrate a strategic executive function towards the hierarchically subordinated local subsidiaries. The primary purpose of regional headquarters consists in carrying out a coordinative and administrative function, aside they can also fulfil a market function.

1.3 Regional Headquarters as Specific Area of Research

Although organizational structures of TNCs are widely discussed in business administration theory (Hungenberg 2006; Yip and Madsen 1996; Macharzina and Oesterle 1995; Bühner 1993; Pausenberger 1993; Scholz 1993; Macharzina 1992; Bleicher 1991; Welge 1989; Egelhoff 1982; Albrecht 1970) only very few studies exist that at least marginally deal with the

integration of regional headquarters in the entire organizational structure of TNCs. Most of the studies only focus on the first and second hierarchical level and renounce to dwell on lower, but from a structural point of view for the management highly relevant hierarchical levels. They rather discuss pro's and con's of the use of particular classification criteria like function, region, product, and customer or a combination of two or three of them on the second hierarchical level. Therefore, these studies distinguish, based on the organizational treatment of international activities, differentiated and unidimensional or multidimensional integrated organizational structures and analyze their effectiveness from a headquarters respectively global viewpoint. One major purpose of these studies is to identify conditions for a reasonable use of the identified basic organizational structures in TNCs. Unfortunately, most of the authors more or less ignore the praxeological aspect.

It is rather needless to say that it is possible to translate some of these findings into organizational units integrated in the organizational structure of the TNC on a lower hierarchical level. These organizational units meet the criteria for being regional headquarters and are, defined by the hierarchical organizational structure, the first contacts for the local subsidiaries within the TNC and do at least to a certain extent take responsibility for the activities of one or more local subsidiaries. Hence the structuring of regional headquarters is primarily determined by local needs and the possibility to realize varying standardization advantages. Since different conditions gain importance in subdividing the regional headquarters compared to the structuring of the TNC on the second hierarchical level, pro's and con's of the use of the specific classification criteria on the regional headquarters level may also considerably differ. This cognizance forbids it to convey more than fragmental or basic knowledge generated by available studies dealing with designing the structuring of TNCs on the second hierarchical level on the structuring of regional headquarters. Already for this reason, regional headquarters are unique and have to be discussed separately. The shortfall in analyzing organizational struc-

tures that involve regional headquarters also becomes manifest in the fact that theoretical justifications for the benefit of regional headquarters are almost completely lacking. This leads as well to the exigency of a specific, solid, and comprehensive analysis of regional headquarters.

1.4 *Research Objectives*

The observed disregard of regional headquarters in current research marks a major shortcoming. Taking into account the practical relevance of regional headquarters, this deficit appears to be not acceptable. We aspire to overcome this research gap by focusing on capabilities of regional headquarters an employing an eclectic approach comprehending a theoretical as well as a practical perspective. Therefore, we try to justify the use of these organizational units by discussing possible effects caused by an utilization of regional headquarters in TNCs. We ground our remarks on the information cost approach as it is understood by Casson (1999 and 1998) and the promoter model and its increments tracing back to Gemünden and Walter (1995), Hauschildt and Chakrabarti (1988) as well as Witte (1988 and 1973). Especially the accomplished interpretation of the promoter model – originally meant to be a person-oriented mechanism to overcome resistance against changes – by using its implementation as a possible solution for covering coordinative demand between organizational units of TNCs describes a new and innovative approach for business administration research. Even though we base our argumentation on a solid theoretical background, we do also focus on selected aspects stemming more from business practice and influencing the advantageousness of a use of regional headquarters in TNCs. Based on this, we aim at identifying basic conditions affecting the advantage/disadvantage TNCs are able to generate by using regional headquarters in a coordinative function.

Our paper makes a contribution to business administration research in three ways: by focusing on regional headquarters we shed light on a phenomenon which seemingly is of enormous practical relevance but is not really imbibed by scholars doing research in this field so far. Moreover, our paper provides a solid and as far as we know widely new theoretically grounded access to the regional headquarters phenomenon. So we prepare the field for further (empirical) research on hard modes of structural coordination in TNCs in general and on regional headquarters as an innovative instrument of structural coordination in particular. Furthermore, we broaden the focus on regional headquarters by comprising aspects stemming from business practice in our thoughts.

2 Approaches to Constitute a Use of Regional Headquarters in TNCs

Having highlighted the general area of conflict regional headquarters are embedded in we now focus on particular aspects defining the use of these organizational subunits in TNCs. We approach this aspect from a theoretical as well as a practical point of view.

2.1 Main Theory-Based Arguments Supporting the Utilization of a Regional Headquarters-Structure in TNCs

Notwithstanding that an eclectic approach often faces commensurability problems, the complexity of the regional headquarters as a complex phenomenon necessitates such an approach. To delimit possible interference problems, we only include two theoretical approaches in our analysis, the information cost approach and the promoter model.

2.1.1 Chance of Reducing Information Costs and Improving Information Quality

It is widely undisputed that a successful and effective leadership of TNCs implies the availability of information on both the internal situation of the TNC and external factors influencing its options for action. For TNCs the relevant sources of information are – like their value creating activities – normally geographically widely spread. Therefore, it is essential for TNCs to employ an organizational structure that is suitable to optimize quantity and quality of required information considering the costs of information search, the costs of ensuring information quality, and the consequential costs caused by incorrect or missing information (Casson 1999). In the present case the relation between observation costs and communication costs and its implications for the configuration of the organizational structure of TNCs is of particular importance.

Observation costs are all costs that emerge from the information search carried out by the observer. *Communication costs* are the costs incurred by the information transfer between the

observer and the decision-maker being responsible for the terminal (strategic) decision within the TNC. The closer the observer is located to the information source, the lower are the observation costs. However, with growing distance between observer and decision-maker communication costs rise (Casson 1999). When estimating the overall information costs, simplified understood as sum of observation costs and communication costs, the non-linear alteration of observation costs and communication costs subject to the geographical distances of both decision-maker and observer (communication costs) and observer and source of information (observation costs) has to be considered. Hence, the information cost function is also a non-linear one.

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On this account, TNCs face the challenge to minimize information costs by optimal location of the observer. To reach this aim, certain conditions have to be taken into account when structuring the flow of information. First of all, problems concerning coding and decoding of information originate on the one hand in a certain amount of implicit information that normally has to be transferred and therefore has to be externalized. On the other hand, cultural differences between transmitter and receiver that cause differing values could lead to a misinterpretation of the received information. Both aspects could result in disproportionately growing information costs. Furthermore, the varying costs of the straight information transfer depending on the chosen medium and influencing the information costs have to be regarded (Casson 1999).

As for information quality, enhanced quality typically goes hand in hand with increasing information costs. Thus, TNCs aspire to implement an efficient organizational structure ensuring an optimal relation of information costs and information quality. It can be shown that ef-

fective coordination can lead to higher information quality by at the same time decreasing information costs.

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The information cost function LC_0EC_I describes the minimal information costs. By means of using an organizational structure as well as other coordinative methods providing in interaction best possible information supply, C_I could be reached while L is characterized by no information collection at all that causes an expected gross loss. Hence, TNCs need coordinative methods to reach information costs of at least C_0 to reach the break-even-point. Assuming a maximal degree of coordination (C_I), a gross profit of OG_I can be reached. Subtracting the accumulating information costs, a net profit of ON_I remains. Presuming suboptimal coordination, only a gross profit of OG^E but a higher net profit of ON^E could be achieved. Reason for this development is a – compared to the implemented degree of coordination – disproportionate reduction of information costs. According to Casson (Casson 1998), E describes the point where TNCs are able to maximize their net profit subject to information costs and coordinative efforts.

Therefore, TNCs have to design their organizational structure to resolve the trade-off between information costs and information quality in an adequate way. Corresponding to the information cost approach, for TNCs neither an entirely centralized organizational structure nor a completely decentralized organizational structure appears to be advantageous when simultaneously regarding information costs and information quality. Thereby, in particular an implementation of a regional headquarters structure could be helpful to overcome this discrepancy between centralization and decentralization. Regional headquarters hierarchically situated between head office and foreign subsidiaries could carry out an observer function related to the foreign subsidiaries as well as a – normally bilateral – transmitter function between these

different hierarchical levels. Following this, the main duties of regional headquarters are collecting information, conditioning information, harmonizing information, and transmitting information (Casson 1998; Aoki and Tachiki 1992). The exact positioning of the regional headquarters defines the accruing information costs consisting of observance and communication costs subject to the information quality being necessary. These costs are a criterion of efficiency when judging the cost effect of a use of regional headquarters.

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Assuming that regional headquarters are provided with substantial decision-making authority, a considerable reduction of communication and consequentially information costs can be achieved due to the fact that the transfer of information from regional headquarters to the head office considerably loses importance. Furthermore, it is thereby possible to enhance the TNCs reaction time related to environmental influences (Casson 1999; Casson 1998). As communication costs are nowadays – based on prospects stemming from a use of modern information technology – not that important for TNCs any more, it is from a cost-oriented as well as an information quality-oriented perspective advisable to locate regional headquarters preferably close to their area(s) of responsibility (Casson 1999) to gain a preferably high information quality. This is momentous as exact information alleviates the target-oriented coordination of TNC activities and therefore depletes coordination effort and coordination costs in general.

2.1.2 Avoiding Conflicts by Regional Headquarters Adopting a Process-Promoter Role

When analyzing structural coordination within TNCs, it is important to focus on the aspect of conflict since conflicts between organizational units usually hinder the coordination of TNC activities (Waddell and Sohal 1998; Maurer 1996; Rumelt 1995; Strebel 1994; Lawrence 1954). According to Witte who specifies the seminal work of Schumpeter conflicts within organizations typically result from change processes (Witte 1973; Schumpeter 1912). Witte

argues that these conflicts arise from two barriers: the barrier of ignorance and the barrier of unwillingness as well as administrative obstacles. Configuring a successful change process – and effectually resolving the occurring conflicts – comprises the overcoming of these barriers. The so-called promoter-model relies on this insight and aims at showing the typical development of the change process as well as displaying ways to overcome the described barriers. Three core theorems are characteristic of the promoter model as it is understood here (Hauschildt 1997; Hauschildt and Chakrabarti 1988; Witte 1988; Witte 1973):

(1) Correspondency Theorem

Each type of resistance can be overcome by a special energy: Hierarchical potential and power are used to break the barrier of unwillingness. Specific knowledge is to be adopted to negotiate the barrier of ignorance, communication capabilities are necessary to eliminate administrative barriers.

(2) Division of Labor Theorem

These types of energy are provided by different people. The power promoter contributes resources and hierarchical potential, the technology promoter expert knowledge, and the process promoter mainly acts as mediator between the two other promoters.

(3) Interaction Theorem

The identified promoters have to interact to overcome arising conflicts and to configure a successful change process.

Focussing on regional headquarters, the process promoter role seems to be of utmost importance. According to the promoter model, the main task of a process promoter is to resolve the administrative problems normally going along with change processes (Hauschildt 1997).

Therefore, it is necessary for him to be aware of the organizational structure. Furthermore, a great deal of diplomatic aptitude as well as substantial persuasive power is inevitable to carry out a process promoter role. Using his knowledge and his abilities (and not hierarchical power), the process promoter is able to discern to which extent organizational units and certain persons within the organization are affected by aspired organizational changes and to vindicate the necessity of these changes (Hauschildt 1997). Moreover, the process promoter operates as mediator between power promoter and technology promoter and primarily aims at improving the communication between these two promoters to ease the change process in general (Leonard-Barton 1995). However, according to the promoter model promoters are not appointed and there is no obligation for the different promoters to cooperate (Witte 1973).

The promoter model originally assigns the promoter roles to agents, although transferring these roles to organizational units seems to be possible and reasonable even though minor changes are necessary. For that last reason, literature up to now does not attempt to translate the promoter model to other contexts.

When translating the promoter model to an organizational context, the assumption that promoters take over their roles more or less by chance is misleading. In fact, promoter roles are explicitly allotted to certain organizational units. Thereby the role of the power promoter is taken over by the TNC head office because of its far-ranging hierarchy-based decision power not least originating from its strategic leadership role. The technology promoter role is normally carried out by a foreign subsidiary because of the fact that organizational units that belong to this (lower) hierarchical level are – compared to the head office – much more involved into the production of goods and services and therefore possess a lot more experience. Furthermore, the aspect of superior information quality available for foreign subsidiaries (due to their closeness to the market) may be of importance. The process promoter role has to be im-

puted to the regional headquarters. This seems to be reasonable because of the fact that the regional headquarters are already hierarchically situated between the head office and the foreign subsidiaries and therefore are in a way neutral and predestined for carrying out this coordination function. However, we should qualify the original assumption that process promoters do not rely on hierarchical power as well as functional authority in executing their function (Laudien 2009).

Furthermore, the transfer of the promoter model to TNC organization structures and in particular a utilization of regional headquarters in a process promoter role within a TNC structure does not only provide a potential to solve existing internal conflicts but may also be responsible for the development of new ones. One reason for this is that a use of regional headquarters as process promoter goes along with the head office taking over a power promoter role and a foreign subsidiary carrying out a technology promoter role. This implies according to the promoter model that the foreign subsidiary that executes the technology promoter role owns more and better information and knowledge as for the market as well as the organization. This leads to the problem that such an organizational unit may oppose to subordination under a newly established regional headquarters bordering its scope of decision-making (Benito, Grøgaard and Narula 2003; Paterson and Brock 2002; Aoki and Tachiki 1992). Therefore it may – at least when newly established – be difficult for regional headquarters to carry out an intermediate role between head office (power promoter) and foreign subsidiary (technology promoter) for their acceptance will normally be rather weak. But in the long run the degree of acceptance of the regional headquarters may grow within the TNC. Thus, it is most likely that a use of such organizational units will be beneficial for TNCs from a coordinative as well as cost-oriented point of view.

2.2 *Praxeological Arguments for a Regional Headquarters Structure in TNCs*

After examining the main theory-based arguments backing a use of regional headquarters as structural instrument of coordination within TNCs, it is expedient to have a look at the regional headquarters phenomenon from a more practice-oriented perspective. We focus on discussing the aspect of complexity and the aspect of cultural distance, two main aspects stemming from business practice with a sustainable potential to reason a use of regional headquarters in coordinative function in TNCs.

2.2.1 *Necessity for Handling Organizational Complexity*

It seems obvious that TNCs which operate in many different national markets have to face the problem of extensive organizational complexity when striving for parallel success in these markets. Organizational complexity mainly emerges from the number of organizational units existing and being involved in business processes carried out by the TNC as well as from the number and quality of interdependence relations between these units (Oelert 2003; Bronner 1992). The quantity of organizational units that are established within the TNC matters in this regard because of two aspects: On the one hand a growing number of organizational units normally enhances the horizontal span of control perceived as number of organizational units that are directly under control of the head office (Laux and Liermann 2003). This leads to increased organizational complexity. On the other hand a growth of internal organizational complexity in general is normally strictly related to an augmentation of organizational units within the TNC (Lotz 1987). Keeping in mind the substantial international division of labor in TNCs, it is furthermore most likely that interdependencies within TNCs are of higher or highest value (Wolf 2000) and are therefore quite complex which also contributes to a substantial increase of organizational complexity.

Subordinated to that, growing geographic and cultural distance between TNC subunits can also increase organizational complexity (Root 1994). There are two main reasons for that: First, geographic and cultural distance between organizational units complicates collecting market-related information for the TNC. Second, influencing foreign subsidiaries turns out to be much more complex for the head office in this case (Erramilli and Rao 1993; Davidson and McFetridge 1985; Fayerweather 1978; Kuin 1972).

Utilizing regional headquarters can be helpful to fix the problem of handling growing organizational complexity within TNCs. Based on the argumentation presented above it seems to be clearly traceable that implementing a regional headquarters structure within TNCs reduces the horizontal span of control the head office directly has to cope with. Although efforts to identify an ideal horizontal span of control have widely been given up nowadays (Laux and Liermann 2003; for attempts to define an ideal horizontal span of control see Hill, Fehlbach and Ullrich 1981 and Gutenberg 1962), it is undeniable that a reduction of the horizontal span of control may be advantageous for the TNC. However, using a regional headquarters structure simultaneously enhances the vertical span of control within the TNC. Furthermore, using regional headquarters normally extends interdependencies between TNCs organizational units. Therefore, a utilization of regional headquarters does not reduce organizational complexity. Far from that, establishing regional headquarters typically goes along with growing overall organizational complexity for a TNC. Nevertheless, a regional headquarters structure seems to facilitate the handling of organizational complexity because of the fact that complexity is transferred to lower hierarchical levels. This leads to the assumption that it is possible to generate and establish a TNC specific and compared to traditional hierarchical solutions superior mode of hierarchy by implementing a regional headquarters structure (Laudien 2009).

Furthermore, it is – subject to their positioning – feasible to reduce geographical distances between TNC organizational units by establishing regional headquarters. Although the overall distance between head office and foreign subsidiaries remains constant when implementing regional headquarters, it seems related to communication and information transfer within the TNC to be much easier to get over the distance in two steps than in one step. Thus, regional headquarters seem to improve the handling of geographical distances within TNCs. Going along with this, a use of regional headquarters may also improve the handling of cultural distance within the TNC because of the fact that regional headquarters are normally located much closer to the foreign subsidiaries than the head office and therefore are much better able to collect market-related as well as foreign subsidiary-related information and to identify relevant cultural divergences having to be taken into account by the TNC.

2.2.2 Necessity for Simultaneously Realizing Standardization and Differentiation Advantages

Referring to the ‘glocal dilemma’, it seems that neither establishing a totally centralized nor implementing a totally decentralized organizational structure would be the best choice for TNCs (Laudien 2009; Lasserre 1996).

Although worldwide standardization (for a specific explanation of standardization see Pugh et al. 1968) may provide the opportunity to realize extensive economies of scale and economies of scope by boosting the amount of (nearly) identical products or services being assembled by the TNC and therefore reducing the cost per unit (Lindstädt and Hauser 2004; Corsten 1998), such an approach widely ignores the existence of relevant regional differences and therefore constrains TNC’s business activities. Furthermore, expanded standardization lowers the flexibility of action for the TNC (Macharzina and Oesterle 2002; Wolf 1994).

In contrast to that, a differentiated proceeding provides the opportunity to consider regional – often culture-based – differences within the TNCs business activities and counteracts to an exaggerated equalization of task fulfilment. However, a differentiated proceeding entails an availability of knowledge regarding character and extent of relevant differences within the TNC. Furthermore, a differentiated proceeding widely obstructs the obtainment of economies of scale and economies of scope (Laudien 2009).

An organizational solution which can contribute to diminishing or even solving the organizational challenge caused by the need for a parallel consideration of standardization and differentiation advantages can be achieved by TNCs through establishing regional headquarters (Morrison, Ricks and Roth 1991). We argue that such a structure allows eases as for a standardization of business activities within a regional headquarters' area of responsibility and a differentiation of business activities between different regional headquarters areas of responsibility at the same time (Proff 2002).

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3 Limitations and Implications for Further Research

In this paper we focus on the – up to now widely not investigated – regional headquarters phenomenon and try to show main reasons justifying a utilization of regional headquarters in TNCs as structural coordination instrument from a theoretical as well as a more praxeological perspective. The last aspect is based on our conviction that research in the field of business administration in general should consider aspects stemming more from business practice.

Newness and complexity of our research topic induced us to employ a pure conceptual, eclectic approach although we are aware of the obvious and in literature often highlighted shortcomings of such a proceeding. Nevertheless, we are persuaded of the necessity of carrying out solid conceptual work when entering a new field of research to provide a sustainable basis for further (empirical) research and hope that our study considerably contributes to understanding the functionality of regional headquarters within TNC structures. Furthermore, it has to be mentioned that newness, complexity, and strategic relevance of the regional headquarters phenomenon complicate or even prevent at least meaningful quantitative empirical research on this topic. Maybe there would be a chance for qualitative empirical research (e.g. case studies) on this topic in the near future. This would open a chance to review our findings and would naturally be appreciated by us.

We also decided to focus our study only on aspects that are of major relevance due to existing literature knowing that many more both theory-based and practice-oriented arguments may gain importance analyzing the regional headquarters phenomenon. Since this does not alleviate the quality of our study but only gives space for further research on regional headquarters, it is not problematic in our point of view.

We are sure that up to now we only know very little about assets and drawbacks of regional headquarters structures. Our paper highlights this phenomenon which is presumably of enormous practical relevance. We provide as solid theoretical background for further research on this topic and extend the view on regional headquarters by introducing a praxeological perspective into this field of research. For the future we hope that the interesting regional headquarters phenomenon will gain greater advertence in business administration research.

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Figures

Figure 1: Internationalization Matrix (Kumar 1993)

Advantages of Globalization	<i>high</i>	global	transnational
	<i>low</i>	international	multinational
		<i>low</i>	<i>high</i>
		Advantages of Localization	

Figure 2: Configuration/Coordination Matrix (Porter 1986)

Coordination of Activities	<i>high</i>	high foreign investment with extensive coordination among subsidiaries	simple global strategy
	<i>low</i>	country-centered strategy by TNCs or domestic enterprises operating in only one country	export-based strategy with decentralized marketing
		<i>geographically dispersed</i>	<i>geographically concentrated</i>
		Configuration of Activities	

Figure 3: Relation between Observation Costs and Communication Costs (Own Illustration)

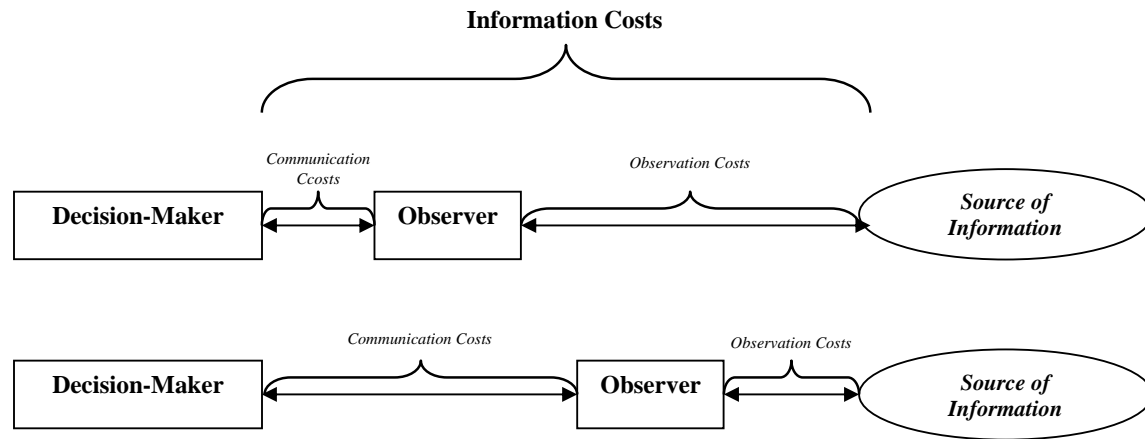


Figure 4: Relation between Coordination and Information Costs (Casson 1998)

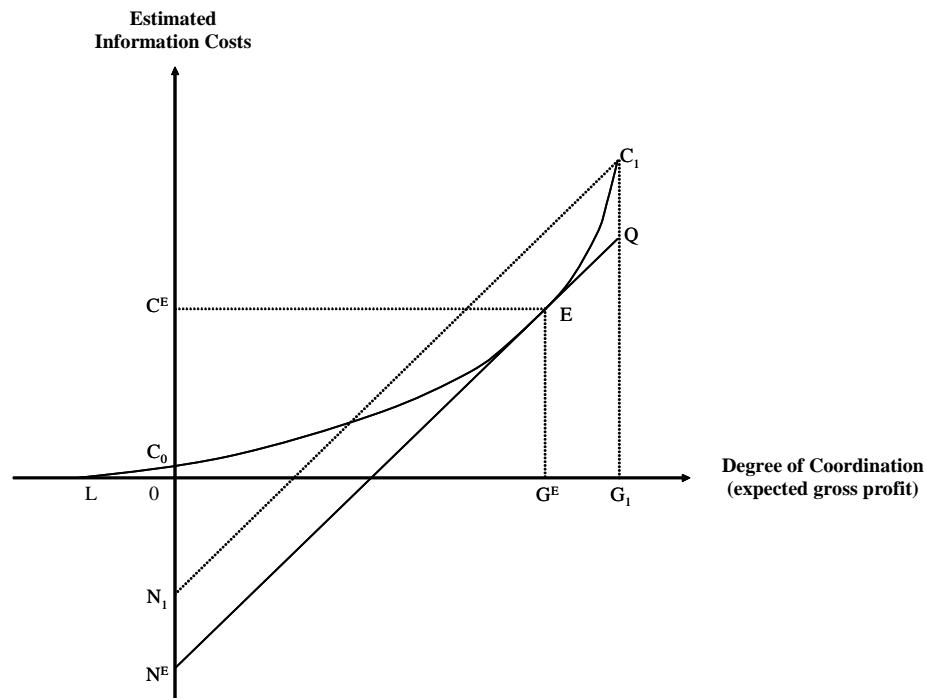


Figure 5: Main Tasks of Regional Headquarters (Own Illustration)

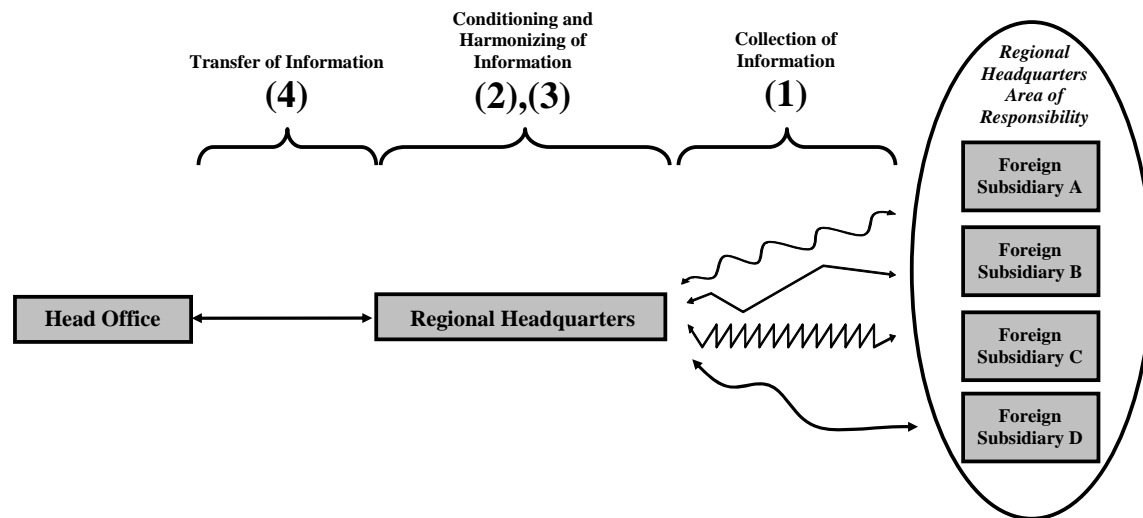


Figure 6: Regional Headquarters as Organizational Solution Coping with Parallel Standardization and Differentiation Needs (Own Illustration)

