

The Regional Headquarters System AS A Global Network

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1. Forward

Any corporation which is active on an international scale will have a management strategy which greatly varies depending on how the international market is laid out. However, a corporation which tends to stress the commonality of national and regional markets will adopt a unified strategy in which all authority for decision making is concentrated in the head office of the home country. In contrast to this, a corporation which stresses the unique characteristics of various markets will consider the scattered markets of the world in advocating the decentralization of authority by employing a localized strategy where the authority originally residing with the head office is entrusted as much as possible to the foreign subsidiaries. "Unification and localization", "centralized authority and decentralized authority" are issues which an enterprise considering an aware of international strategy must be aware of.

As the technology of communication and transport advances, and as people, money and things move across borders, the differences between markets tend to shrink. On the other hand, the rise in nationalism and the antagonism between religions tends to exaggerate the differences between regions. The result being, a corporation which looks at a global unified market must look at collectivizing local markets. How corporations are to balance the respective issues of "unification and localization", "centralized authority and decentralized authority" is even more important now than it previously was. Thus the issue becomes whether the enterprise will choose to advance;

- 1) through and comprehensive globalization,
- 2) complete localization, or
- 3) simultaneously both globalization and localization.

Which of the various policies is adopted depends upon how "the country specific advantages" of the relevant country match with the corporation's own "firm specific advantages"

As A.D. Chandler described in his book *Strategy and Structure*, "organization follows strategy". As foreign management strategy changes, so too is there a subsequent change in the corporate organization. Rather than considering the corporation's process of change as a process of evolution would be more rational to consider it as the natural consequence of the pursuit of an efficient strategy.

Recently the number of companies which have adopted the "regional headquarters office system" has been increasing among Japanese corporations. What type of foreign strategy do companies which employ the "regional headquarters system" have? Furthermore, what is the effectiveness and special quality of the "regional headquarters system"? Where are the limits in the "regional headquarters system"? The object of my thesis is to address these various issues.

2. Organization and Foreign Strategy

I utilize H.V. Polmuter's EPRG Profile to classify foreign strategies and consider the shapes of organizations which employ the corresponding strategies.

a) the ethnocentric strategy

All principal decision making is centralized at the home country's head office and the flow of commands directions and advice is one sided. Unification in the centralized home country is promoted.

b) the polycentric strategy

This stresses the uniqueness of local cultures and so promotes localization. It stresses the autonomy of the foreign subsidiary with decision making and the responsibility for daily operations left to the subsidiary. However, the head office reserves the right for decision making in the areas of Finance, Research and Development, and matters of general management.

c) regiocentric strategy

In order to alleviate the inefficiencies in localized planning for every market, similarities in politics, economics, culture and market needs allow regional markets to be considered as single units. By using the regiocentric system, the unification of regional units is planned while localization advances. Authority which normally resides at the head office in the home country is to a large extent transferred to the regional headquarters.

d) the geocentric strategy

The head office and foreign subsidiaries are organically unified; decision making takes place between both the head office and subsidiary. The corporation aims at the maximum efficiency by planning unification across borders within a range of activities as far as politics and law permit.

I will consider the above-mentioned types of strategy and their corresponding organizational forms as Model(E), Model(P), Model(R), and Model(G). The regional headquarters system being considered in this short thesis falls in the sphere of model(R). The unification of every region is planned with the regional head office as a core and the head office and foreign subsidiary being connected at a previous stage by a global network. Once more this promotes a localization which should react the unique needs of each region. While considering many special factors, one aims for the maximum efficiency of the whole organization. I will make this organizational form the model concept of the regional

headquarters.

Of course, this is not to say that all corporations which follow the regional headquarters model will conform to the organizational forms portrayed in model(R). The extent of integration may increase as may the extent of localization depending on each corporation's strategy. Next, let's try to consider the meaning of the multiple head office system as well as the function of the regional headquarters.

Table 1 Orientation of the Firm Under Different EPRG Profiles

ORIENTATION OF THE FIRM	EPRG PROFILE:			
	ETHNOCENTRIC	POLYCENTRIC	REGIOCENTRIC	GEOCENTRIC
1. MISSION	Profitability (viability)	Public acceptance (legitimacy)	Both profitability and public acceptance (viability and legitimacy)	
2. GOVERNANCE	Top down	Bottom up (each subsidiary decides upon local objectives)	Mutually negotiated between region and its subsidiaries	Mutually negotiated at all levels of the corporation
• Communication	Hierarchical, with headquarters giving high volume of orders, commands and advice	Little communication to and from headquarters and between subsidiaries	Both vertical and lateral communication within region	Both vertical and lateral communication within the company
• Allocation of resources	Investment opportunities decided at headquarters	Self-supporting subsidiaries, no cross-subsidies	Regions allocate resources, under guidelines from headquarters	World wide projects, allocation influenced by local and headquarters' managers
3. STRATEGY	Global integrative	National responsiveness	Regional integrative and national responsiveness	Global integrative and national responsiveness
4. STRUCTURE	Hierarchical product divisions	Hierarchical area divisions, with autonomous national units	Product and regional organizations tied through a matrix	A network of organizations, (including some stakeholders and competitor organizations)
5. CULTURE	Home country	Host country	Regional	Global

Source: Heenan and Perlmutter (1979)

Table 2 EPRG Profile In Different Functional Areas

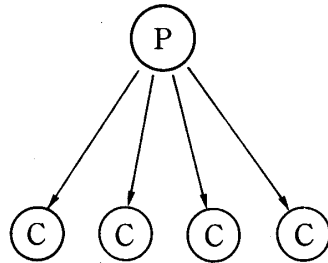
EPRG PROFILE:

FUNCTIONAL AREA	ETHNOCENTRIC	POLYCENTRIC	REGIOCENTRIC	GEOCENTRIC
TECHNOLOGY				
Production technology	Mass production	Batch production	Flexible manufacturing	Flexible manufacturing
MARKETING				
Product planning	Product development determined primarily by the needs of home country customers	Local product development based on local needs	Standardize within region, but not across	Global product, with local variations
Marketing mix decisions	Made at headquarters	Made in each country	Made regionally	Made jointly with mutual consultation
FINANCE				
Objective	Repatriation of profits to home country	Retention of profits in host country	Redistribution within region	Redistribution globally
Financing relations	Home country institutions	Host country institutions	Regional institutions	Other global institutions
PERSONNEL PRACTICES				
Perpetuation	People of home country developed for key positions everywhere in the world	People of local nationality developed for key positions in their own country	Regional people developed for key positions anywhere in the region	Best people everywhere in the world developed for key position everywhere in the world
Evaluation and control	Home standards applied for persons and performance	Determined locally	Determined regionally	Standards which are universal, weighted to suit local conditions

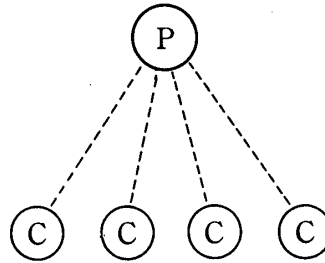
Source: Heenan & Perlmutter (1979)

Figure 1

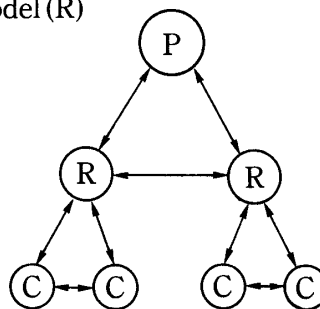
Model (E)



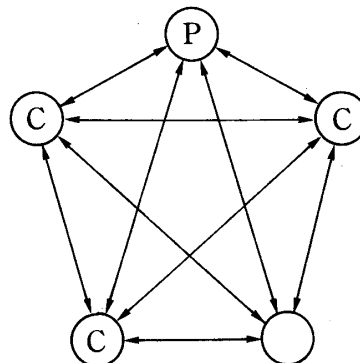
Model (P)



Model (R)



Model (G)



3. The Function of the Regional Headquarters

Regional headquarters are set up to coordinate the activities of subsidiaries which are scattered across the various place of the world. The role of the regional head office varies according to the main factors involved in their establishment. The following 2 points may be considered as main factors in the establishment of regional head office.

(a) A regional headquarters is established when one wants to correct a situation where a prompt reaction is impossible due to the concentration of various types of authority in the headquarters. Or it is impossible to precisely grasp local needs. Headquarters entrusts a regional headquarters with authority, and encourages the localization.

(b) A regional headquarters is established to increase the integration of the whole corporations when authority is dispersed by the autonomy of foreign subsidiaries. In other words, regional headquarters are set up to maintain a balance between the "dispersion and concentration" of authority.

Next, the regional headquarters are entrusted with authority from the main head-

quarters in home country. This function of regional headquarters differs depending on the extent of authority entrusted. The points listed below can be given as residing within the headquarters authority. 1) Setting the overall goals of the corporation, 2) overall policy decisions, 3) strategy decision (involving), 4) the setting of objectives in finance, 5) personnel for upper management, 6) basic research, 7) decisions involving merger and acquisition, and 8) changes in organization. The extent to which these various types of authority are entrusted with the regional headquarters will determine whether it will function in place of the headquarters or simply as a branch office.

The kinds of authority and responsibilities of a large number of American corporation's regional headquarters is generally as follows;

- a) The regional headquarters will have a responsibility for the business in the region under its jurisdiction. The regional headquarters will check budget plans and evaluate the performance and plans of each subsidiary according to the guidelines which the headquarters has set up. The ultimate responsibility for achieving objectives for a given area must be fulfilled by the regional headquarters' senior management.
- b) The regional headquarters must bear the responsibility for areas regarding, training, hiring, promotion, and the evolution of the managerial class subject to the subsidiary's area under jurisdiction.
- c) Decisions regarding financial strategy are carried out by the regional headquarters with regard to their own regional units, for long term strategy and business diversification. Therefore such actions require administrative responsibility on the part of the regional headquarters.

It is natural that there are various differences among American corporations; What's more, one tries to compare the above with the function of the Japanese corporation's regional headquarters these differences become all the more vivid.

4. The Japanese Corporation's Regional Headquarters

The Japanese corporation has progressed to internationalization by concentrating on exports. In order to support exports, foreign overseas subsidiary handling sales were established. Later, when the export of Japanese products became difficult due to export restrictions and the appreciation of the yen, foreign production sites will be established. The increasing criticism against "The Japan great exporter" starting in the late 80's worked all the more to hasten Japan's corporate globalization.

Establishing of foreign production points sites generally symbolized the second step in the globalization of Japan's corporation. However, in reality, the Japanese enterprise, among which its activities range from the support activities like procurements, technical developments, labor managements and personnel to distribution and the main part of manufacturing, is concentrated locally in Japan. Foreign sites have been set up to compensate for this. In the case of the Japanese corporation, the headquarters' control is too strong, so centralized authority is the problem. The despersion of power which is concen-

Table 3.

Corporation who has regional headquarters	25 (35.7%)
Corporation who is now planning to have regional headquarters	17 (24.3%)
Corporation who wishes to have regional headquarters in the future	11 (15.7%)

Source: Takahashi (1991)

Table 4. The Role of The Regional Headquarters (Japanese Corporation)

	present	future
holding company	9 (16.1%)	9 (9.3%)
staff function on a local finance, personnel, and advertisement	16 (28.6%)	29 (30.3%)
coordinate function on the sales, production, and R & D between subsidiaries	24 (42.8%)	36 (37.5%)
head office function integrating subsidiaries	7 (12.5%)	22 (22.9%)

Source: Takahashi (1991)

trated at the headquarters, and the coordination of the activities of its sales points and the allocation of production are the role of the regional headquarters of the Japanese corporation. The various functions of the regional headquarters of the Japanese corporation can be seen in Chapter 2. What one can say from this is that the Japanese corporation's regional headquarters maintains the function of coordinating the activities of the headquarters, and is limited to a staff function. It is rare for the regional headquarters to have responsibility for the business activities of the subsidiaries in the regional area of jurisdiction.

With the rapid advancement of communications technology, a network which consolidated the headquarters and foreign bases has been established. Nowadays, the headquarters, using an information network, can promptly grasp the needs of every area of the world. It is also possible that with this advanced information network, Japan's headquarters can relatively easily regulate and control foreign subsidiaries so that the entrusting of management responsibility for subsidiaries may not be necessary. Of course, it is necessary to connect the situation where all authority is now concentrated at the headquarters, but that alone is not reason enough to establish a regional headquarters to act as an intermediary between the headquarters and subsidiary. In the case of the Japanese corporation, it is probably the closest path to globalization for headquarters to coordinate and control its foreign subsidiaries by entrusting authority to the subsidiary and making a network between the subsidiary and the headquarters.

5. Conclusion-the Limites to the Regional Headquarters

In this short thesis, I have described how a corporation which employs a "regional" strategy will adopt a regional headquarters system. By unifying autonomous subsidiaries into regional units, the management efficiency of the whole enterprise is increased. I have also explained a regional headquarters system as the transitional stages which an organization goes through a "geocentric (global)" strategy.

A regional headquarters system is employed,

- 1) when subsidiaries have dispersed authority which is to be unified according to regional units and
- 2) when the headquarters' centralized authority is to be dispersed in order to promote localization.

These are the 2 cases which I have described. In the first case, instead of entrusting the authority of the head office in a regional office, it is rather the authority of the subsidiaries which is considered centralized in a regional head office. Case 2 tends to be more numerous when the Japanese corporation employs the multiple head office system.

When we try examining the regional headquarters system which Japanese corporations employ, we see that there are many cases in which the regional head office manages the subsidiaries and regulates the activities of the subsidiaries as well as their areas of jurisdiction so that there are many responsibilities which they don't actually had.

Responsibility for the management of the subsidiaries is held by the headquarters or headquarters' department. The regional headquarters fulfills a staff role with it in many cases regulating the subsidiaries within its given region. In case of Japanese corporation, subsidiaries are placed under the strict control of the headquarters, so it may be fair to say that adding a regional headquarters may not be necessary. Thus in order to promote localization it would probably be better to entrust the subsidiaries with authority rather than giving it to a regional headquarters.

Finally, I'd like to try to go into some of the problems concerning the regional headquarters system.

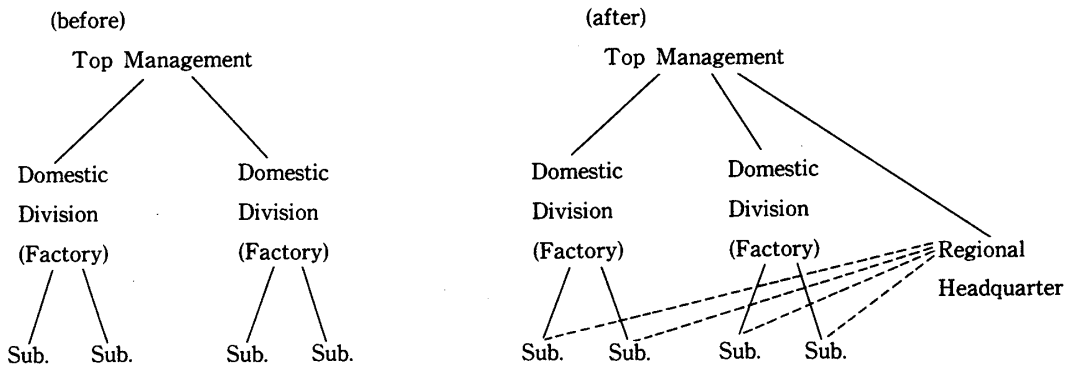
First of all, because the organizational levels between the headquarters subsidiary relationship and the headquarters -regional headquarters-subsidiary relationship are complicated, communication within the corporation itself may lack precision and accuracy. As a result of this it becomes difficult to insure the mobility of the organization.

Secondly, the line of command becomes confused. What, until now, was a line of command extending between the business department of the headquarters and the regional headquarters now becomes duplicated as a line of command is now also extended from the headquarters to the subsidiary. This system would be fine if the regional office's priorities commanded with those of the headquarters, however, where priorities differ conflicts are bound to occur.

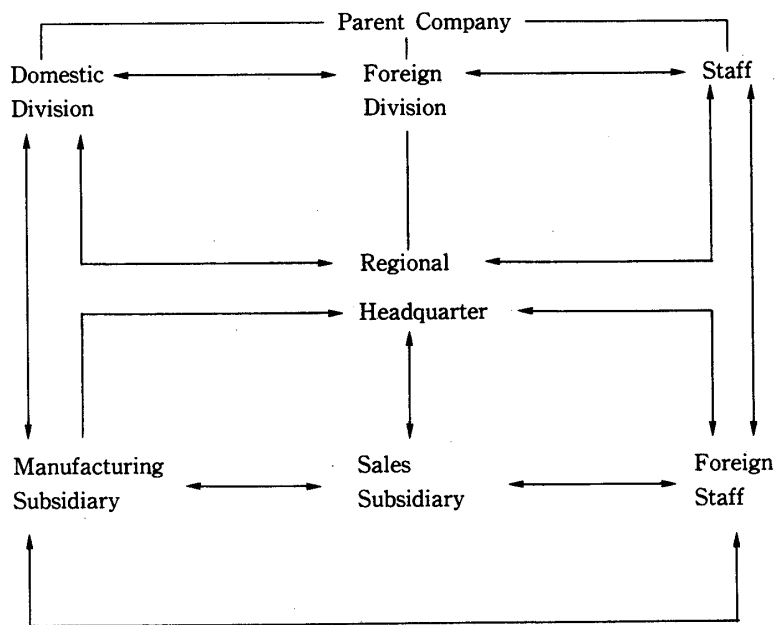
Thirdly, as organizational management increases so too does management cost. This is essentially very significant.

Figure 2. Regional Headquarter System of Japanese Corporation

Case 1. A company who introduces the regional headquarters system



Case 2. Relation between the regional headquarter and headquarter



The regional headquarters system is effective when authority is dispersed among subsidiaries and one wants to control subsidiaries by their unification. In that case, authority to control the subsidiaries must be given to the regional headquarters. However, when the headquarters of a Japanese firm already holds a powerful control over its subsidiaries, having a regional head office is like two roofs over the same house. In that case, it would be wise to limit the regional headquarters function to that of a staff role. In order to promote localization, rather than setting up a regional headquarters, the Japanese corporation will from now on use a communication network to entrust authority to the subsidiary directly. This, indeed, will make for the building of a global network between the parent company and subsidiary and between subsidiaries themselves.

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