

DISCUSSION

DO REGIONAL HEADQUARTERS FOR CENTRAL AND EASTERN EUROPE HAVE A FUTURE?

After the fall of the Iron Curtain, foreign multinationals rapidly entered the reforming countries of Central and Eastern Europe (CEE). While at the beginning the head office or a chosen West European subsidiary was in charge of managing the initial entries, later on regional headquarters (RHQ) were established to strategically oversee the “going east” and coordinate the activities in the new markets. A RHQ acts as an agent for global headquarters and is located in or next to the assigned region. Vienna, as a gateway to Central and South-Eastern Europe, benefitted from its geographic proximity and close historical-cultural ties to the region. This location advantage and preexisting business relations with CEE countries gave Austrian subsidiaries a head start in the run for CEE mandates. Later on, CEE headquarters (CEE HQ) were also established in Prague, Budapest, Warsaw and Bratislava. Today, about 200 CEE HQs (e.g. Henkel CEE, Siemens, Canon, Mondi Europe, UniCredit) are located in Austria – more than in all other Central European countries together. In the last few years, the role of CEE HQs has been increasingly questioned. Several studies came to the conclusion that the typical set-up, namely the replica of the global headquarters on the regional level, is not appropriate anymore. Leaner, more specialized and virtual organizations will soon replace the existing model.

In our 2012 study at the Competence Center for CEE at WU Vienna, we picked up the topic again. We examined the current and future role of CEE HQs located in Austria. The role of a regional HQ is defined by the regional and functional scope of its mandate, its hierarchical position in the corporate group and organizational model. Forty-three firms participated either in our survey or were the subject of a more comprehensive case study. Most of the respondents belong to German, Japanese or US parents. About one-third of the firms steer 20 or more subsidiaries out of the CEE hub. They report either to global headquarters or to European/ EMEA headquarters. Central European and South-East European countries are mostly covered by the CEE mandate,

Turkey and Russia only in one-third of the cases. Nearly half of the interviewed CEE HQs are still organized as fully-fledged regional HQs, carrying out classic HQ functions and providing a broad set of supporting services to the organizational units in the region. Leaner organizational models, such as pure reporting units or regional coordinators with selected operational tasks, are rarer. Not surprisingly, CEE HQs mention as their main tasks classic headquarters functions such as controlling, budgeting & reporting, developing a regional strategy, marketing & sales planning and regional staff training. Moreover, they have to ensure compliance with group standards and policies. While guidance, control and coordination are important tasks, most of the value is added by assisting subsidiaries in improving their performance and exploiting their national market potential. Activities such as developing a regional strategy, spreading best practices across the region and representing the region to global HQ are seen as those activities that add most value and justify the existence of a regional HQ.

Turning to current trends, our research shows that CEE HQs are sailing rough waters today. Their role and organizational structure is shaped by several external and internal forces. CEE as a region was badly hit by the recent great recession in 2008-09 and is still suffering from the repercussions of this crisis. CEE HQs have been working hard to restore profitability in this crisis-torn business environment. Gone are GDP growth rates of above 5% and with them the image of a growth region; other emerging markets in Asia and Latin America are stealing CEE's show. Progress in information and communication technology has led to a broader application of virtual organization tools in multinational groups facilitating the management of geographically distant units in a cost-efficient way. Internally, continuous change has become the norm in multinational companies in the era of globalization. Organizational structures are constantly reassessed in terms of effectiveness and efficiency. No wonder that CEE HQs, after 10-15 years in existence, are

under close scrutiny. The pressure to reduce costs and the tendency towards centralization of decision-making at the top-level are stated as the forces with the strongest impact on CEE organizations today. Despite these difficult times, CEE HQ management doesn't expect dramatic changes in the CEE mandate in the near future. The biggest changes in the mandate are expected in the broadening of the product portfolio and in the reduction of the decision-making authority. With regard to the regional scope, CEE HQs are increasingly expanding into new country markets outside of CEE borders such as Turkey, the Middle East, CIS and North African countries where the accumulated experience of managing businesses in transitional markets can be utilized. The main arguments justifying the existence of CEE HQ can be clustered into four groups: (a) bundling of regional know-how and sharing of best practices; (b) transformation of global strategies to a regional level; (c) complexity reduction for global HQ and representation of the CEE region in corporate HQ; (d) synergies through pooling of resources. Any organizational review should focus on these advantages.

We cannot draw the conclusion from the study's findings that CEE HQs have become obsolete. The discussion of the role of CEE HQs is less about "stay or close" but more about finding optimal organizational arrangements. It is also about the role of regional management in a globally operating firm. Do we still need a strong regional perspective in an organizational matrix dominated by customer/industry

and product structures? How many regional levels do we need? Is a European level enough or do we need sub-regional clusters too (e.g. Central Europe, Adriatic, Russia + CIS)? Are direct reporting lines of national units to global headquarters the better alternative – also from the HQ management perspective? Optimal organizational designs depend on the context. In globalized high-tech markets, the regional perspective may play a smaller role than in the service, food, construction and retail sectors. For multinationals at the beginning of their expansion into CEE, a regional hub may be more helpful than in an established global company. When discussing regionalization, it is all about finding the right balance between global integration and local responsiveness. The regional HQ is the classic organizational solution to this challenge – but its implementation allows a lot of variations.

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