

Regionalization in Central and Eastern Europe: A Discussion of Strategic and Organizational Aspects of Its Implementation

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Abstract

Our study shows that regionalization is a commonly used and effective management model for large multinational corporations (MNCs) in Central and Eastern Europe (CEE). From a strategic perspective the different environmental and market conditions in CEE require a certain degree of adaptation of global strategies for CEE to be successful. Cost savings from regional standardization and the pooling of resources are the main benefits resulting from regionalization. Regional headquarters (RHQs) are identified as adequate organizational model for the development and implementation of regional strategies. In the eyes of the regional management the advantages of RHQs outweigh by far certain drawbacks of this organizational model. A more comprehensive research design including all three involved parties – corporate, regional and local management – could be a next step to validate the findings of this explorative study.

Introduction

During the 1990s Western MNCs rushed into Central and Eastern Europe lured by the enormous market potential. Country markets were chosen as target markets by their economic attractiveness and political stability and, typically, the advanced countries in the transition process were entered first. Later on, a presence was established also in those countries that were lagging behind in the transition process. This process was then accelerated by the motivation to outmaneuver the main competitors by pre-emptive moves. At the beginning during the roll-out in the region the focus of the MNCs was on the single market and their business strategies were mainly driven by the local opportunities and risks. After having entered several of the countries of the CEE region and

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penetrated their markets, the regional view gained in importance. In the course of their „Going East“ MNCs have founded local subsidiaries in the reform states, set up warehouses and production sites, acquired production sites and brands from local competitors, so that finally a coherence in the business strategies for the region was often missing. The integration (and rationalization) of operations on a regional level does not only promise lower costs but also a higher effectiveness as local marketing strategies can be based on standardized regional product and promotion concepts and supported by pooled resources.

Of course, there is evidence that establishing a presence in the whole region was already part of globalization strategy of the large MNCs when they started to enter the region country by country and that a concept guided their expansion into the region (Schuh, Anderson & Houston, 1996). However, it is fair to assume that the scope and form of regionalization was not clear to the management of the MNCs when they expanded into the region. Assigning a high priority status in the global strategy to the emerging economies of CEE is not automatically corresponding with a regionalization concept. In addition, there has been always the alternative to continue with a multidomestic approach or to leapfrog directly to a global integration of CEE operations. Today, regionalization is a common element in the strategies and structures of Western MNCs in CEE and can be found to a different extent among the large MNCs operating in the region.

In our paper we attempt to examine the implementation of regionalization concepts in CEE. Our main interest is to find out why MNCs switch to a regional concept in CEE, to identify different forms of implemented concepts of regionalization, especially as different types of regional headquarters (RHQ), and to draw conclusions about the applicability and success of regionalization in CEE.

1. The Concept of Regionalization

1.1. Regionalization from a Strategic Perspective

In this paper, regionalization is understood as the grouping of countries along regional lines. Many multinational corporations organize their worldwide operations into regions, such as Western Europe, North America, Latin America or the Asia-Pacific region. Geographic proximity makes it easier to manage countries which are blocked together. In addition, nations in the same geographic region often share several common traits. These common traits can be found in a shared history, culture, similarities in language and membership in the same trade bloc. As foreign trade happens to a high degree between neighbouring countries, a more or less de-facto economic integration exists which favors business

relations within the regional group. However, geographic proximity does not automatically qualify for the formation of regional groups.

In business practice, pure organizational reasons are often used for the formation of regional groups. This may result in a heterogeneous cluster of countries which – although in geographic proximity – differ in terms of purchasing power, market development and structure as well as consumption levels and attitudes towards the product. From a strategic point of view, the homogeneity of the included countries that goes beyond geographical aspects allows to adapt the marketing strategy to these „regional segments“. Regionalization is then regarded as a middle course in the „localization – globalization“ continuum (Schuh, Mayrhofer & Ferenciková, 2001). In this context, localization, i. e. the adaptation of the productmix and the marketing approach to local market conditions, is associated with a higher degree of effectiveness, however, at the expense of higher costs and a higher complexity due to different national product lines and marketing programs. On the other hand, globalization implies a world market view which manifests in the identification of global market segments and the development of standardized products and marketing programs. The advantages of the global strategy lie in the utilization of economies of scale effects. When these cost advantages are transformed into lower priced products of good quality, they are supposed to offset the local appeal of nationally designed and produced products.

In addition to the discussion of standardization effects, regionalization also offers a solution to critical mass and economies of scope issues. Up-stream activities like production and logistics can be effectively organized on a regional level without sacrificing scale effects. Table 1 gives an overview of the positive effects of regionalization in marketing based on the study of Daniels (1987, p. 32).

In extensions of the original EPG-framework of Perlmutter, that describes different archetypes and stages in the international orientation of the top management of MNCs, Perlmutter and Heenan (1979) and Chakravarthy and Perlmutter (1985) added the regiocentric orientation as a separate step in the corporate development process. The authors argue that the regiocentric stage represents a transitional phase from the polycentric to the geocentric types. This basic international orientation is conceived as a strategic predisposition which strongly determines the mission, governance structure, strategy, organizational structure and culture of the MNC. Regiocentrism is together with geocentrism a relatively new profile among MNCs. Regiocentrism is a predisposition that tries to blend the interests of the parent with that of the subsidiaries at least on a limited regional basis and where a balance between viability and legitimacy at the regional level is strived for (Chakravarthy & Perlmutter, 1985). Regional strategies are conceptually similar to global strategies, they are only applied to a smaller set of countries.

Table 1

Assessment of Effects and Best Usage Situations of Regional Activities

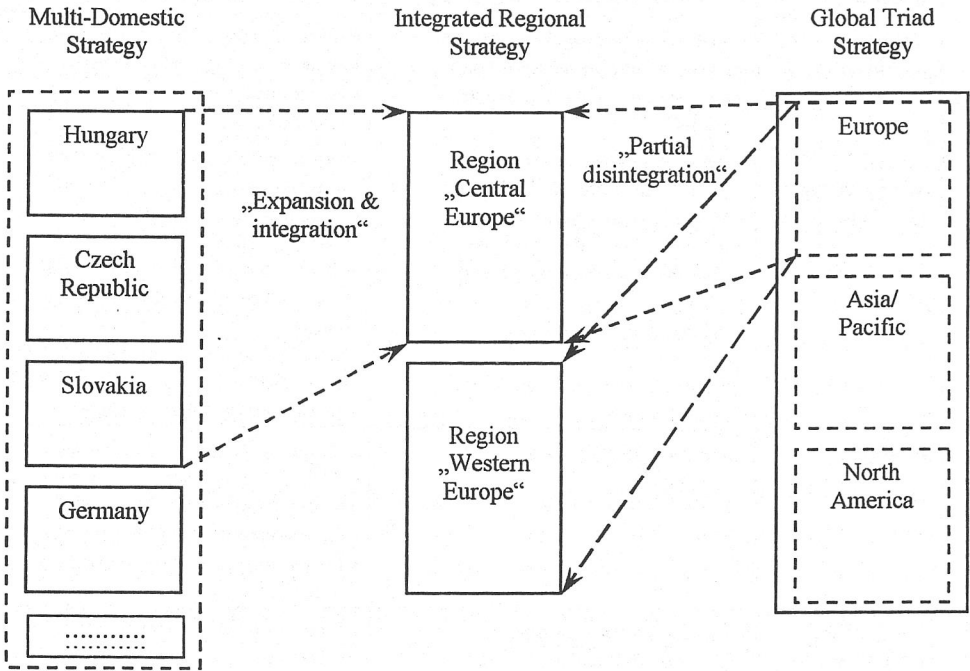
<i>Means</i>	<i>Positive effects on marketing</i>	<i>Best used when</i>
Pooling of resources	<ul style="list-style-type: none"> • Better sales and regulatory forecast • Lower product development cost • Increase the variety of products available 	<ul style="list-style-type: none"> • High interdependence within region • Product development costs high • History of dividing sales territory by country
Gaining synergy among operations	<ul style="list-style-type: none"> • Better external relations with government customers • Marketing concessions in one country to help sales elsewhere • Gain easier access to corporate clients • Retarding growth of large competitors • Preventing costly internal competition 	<ul style="list-style-type: none"> • Government sales are high portion of total sales • Sales to same customers in more than one country • One product group has success with client, other group wishes to make sales • Competition is from regional or global firms • Nearly homogeneous products
Standardisation	<ul style="list-style-type: none"> • Faster transference of successful campaigns • Lower priced products 	<ul style="list-style-type: none"> • Country characteristics are similar • Sales are not to government buyers • Scale of production will reduce prices substantially • Price is most important competitive weapon
Control of the strategic product thrust	<ul style="list-style-type: none"> • Balance between national and global product needs 	<ul style="list-style-type: none"> • Product life cycles vary among countries • Company's strength depends on introduction of new products

In particular, the underlying management principles are identical: • formulation of strategies that are regional integrative and national responsive at the same time • mutually negotiated goals between region and its subsidiaries • allocation of resources across national markets, guided by overall efficiency and effectiveness objectives • regional integration is sought in those areas where economies of scale and economies of scope can be reaped • focus on the development of integrated product and marketing programs for the whole region • development of regional people for the key positions within the region • redistribution of profits and cash flow within the region in order to support the overall market position in the region and in order to seize the most promising opportunities.

Regional strategies are common in those industries where differences in the institutional framework, in the consumer behavior and in the competitive setting exist (e. g. consumer goods, automobile, retailing, banking, construction). Rugman (2000) even contends that globalization is a myth and that the strategies of MNCs are mostly regional. Management of multinational activities happens primarily within the Triad regions of North America (NAFTA), Europe (EU) and Japan (Asia-Pacific).

Figure 1

Two Paths of Development Towards a Regional Strategy



There are two paths to regionalization (see Figure 1):

- Regionalization can be a further step in the internationalization process by which firms attempt to achieve a minimum efficient scale and to gain synergies among operations. This is typical after a phase of international expansion when the management tries to consolidate and rationalize its patchwork of operations and to integrate and coordinate business activities within a defined region.

- The partial disintegration of a global strategy can also lead to regionalization. The reason for this move is typically the desire to become more responsive to existing differences between regions, to overcome trade barriers, to be accepted as an „insider“ or may be due to optimal size at the level of manufacturing or logistics.

1.2. Regionalization from an Organizational Perspective

A regional organization of an MNC can improve the management and control of local business. Vertical problems can be solved in a more efficient way (through the intermediary role of regional organization) and the vertical coordination and control are extended.

For example, Jansson (1994) states that with regional organization an MNC can improve the local strategic capabilities, and simultaneously the local organization can increase its strengths, both on the local market and within the group. A regional organization can be a forerunner for the new multidimensional organization of an MNC that is based on achieving a balance between corporate, product division and local levels and on increase in horizontal coordination. A regional organization main function is to coordinate, hence, it can effortlessly extend this task to other product divisions.

By establishing a regional organization, both national responsiveness and the coordination of adoptions made to different countries within the region is supposed to increase. Through the development of regional strategies, the customer's demands could be met more effectively. A well-functioning regional organization should reduce both marketing and administrative distance between the home country and host countries.

Jansson (1994) outlines three levels of sales and marketing functions at a regional level:

- To control and co-ordinate sales in the region and also to serve that function either directly or indirectly in those countries, in which the MNC is without representation by sales companies.
- To participate in marketing and market intelligence activities.
- To provide the market companies with marketing support.

Important responsibilities of a regional organization are to provide technical support and, together with distributors, influence customers. As for the administrative role, the possibilities for controlling local activities from a regional CEE office are superior to the alternative to doing so from an West European-, US- or Asian-based head office. Regionally based control should improve and rush the decision process due to the shorter communication channels involved. A regional office can be a profit center and have the total responsibility for the MNC's business in the region. There can also be a service and marketing support center at such an office. Generally, different types of regional organization can be found (Jansson, 1994):

- A separate regional company controlling the market companies or distributors in the local markets.
- A separate regional office with a managing director for the region.
- Regional functions either organized with one of market companies for all of the market companies together or spread out among them.
- A single regional company that in a natural way has responsibility for the entire region.
- Regional functions being organized from the home base.

These types are listed in descending order of strength, from the strongest to the weakest. The two first forms are typical of large MNC with several market companies or dealers in the region, each representing several product companies. Through regional presence, local interests can be given particular weight in dealing with e.g. the product companies. By having regional functions, the organization is often put in an intermediate position between the product- and market companies. The last two forms are of more advisory types and the regional functions are regarded as more loosely organized.

Morrison & Roth (1992) found out that in organizing for regional effectiveness, a rationalization strategy requires the establishment of a strong regional organization. This typically involved a RHQ staff with full control over strategic decision-making and subsidiaries acting primarily as cost centers. In contrast to this tight control, it was found that a specialization strategy was best implemented through regional „coordination office“ with limited staff support, and corporate HQ's supervision of regional planning, budget approval and performance evaluation

1.3. Types of Regional Headquarters

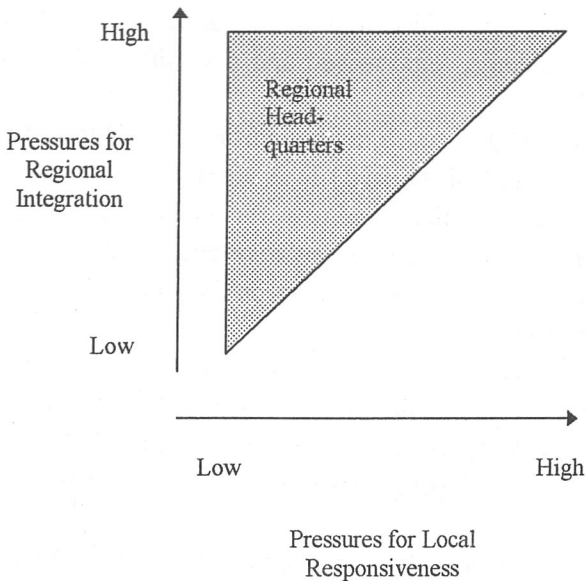
MNCs typically set up an RHQ when the region is too specific, too different from other parts of the world, or when it is becoming too complex, too large and too far away to be handled from corporate HQ. The difference in terms of economic development, legal and commercial frameworks was very often the reason why to set up special RHQ responsible for CEE. The establishment of an RHQ transfers authority to solve the problems in the region, which cannot be handled by the national units, and otherwise have to be dealt with and acted upon by HQ. The RHQ actively manages the integration and coordination of activities of the MNC within the region, and represents the link between the region and the corporate HQ – independently of its location.

Schütte (1997) argues that conceptually, the establishment of an RHQ is justified when the pressures on the MNC for integrating its operations in the region are greater than the pressure for local responsiveness (Figure 2).

Generally, RHQs have two main roles: strategy development and implementation; and integrative, administrative role. If an MNC should establish an RHQ, the benefits of regional integration must outweigh costs for setting up an additional organizational unit. These costs, and benefits, however, are often difficult to measure. In many cases, the decision is driven by strategies for the regions, which need to be implemented with the help and through the RHQ. Generally the RHQ should co-ordinate individual country programs, report and liaise with corporate HQ, and support business development in the region.

Figure 2

Integration-Responsiveness Grid for Regional Organization



According to Schütte (1997), the RHQ fosters integration through activities in functional areas across borders, yet play a negligible role in linking different product divisions in the region.

He found out that for less than two thirds in his sample of 30 MNCs, co-ordination of functional activities is an important task (the most prominent areas of co-ordination were marketing, Human Resource Marketing (HRM), manufacturing, and product adaptation and development). Many, but not all, RHQs act as suppliers of a whole range of services (in HRM, technical services, sourcing/ logistics, finance/tax, legal services, marketing). Very few RHQs tried to integrate the region by fostering and facilitating exchange between the different product divisions, thereby creating synergies.

Schütte (1997) outlines three different structures of RHQs: global, transnational and multidomestic. The global RHQ is characterized by a strong alliance of its staff with the corporate HQ. It is considered to be an extension of the corporate HQ, set up for the purpose of convenience and easier reach of the subsidiaries in the region. The global RHQ is streamlined and focused. It is an ideal solution in a situation where local subsidiaries or dealers have for a long time existed independently without much control and interest from corporate HQ. Global RHQ seems best suited to MNCs with a limited product portfolio and a corporate culture, which allows for the clear delineation of tasks within the organization.

The transnational RHQ poses a strong commitment towards corporate HQ and considers that the pressures for the globalization are legitimate. The transnational HQ must have an organizational structure allowing both the global and local forces to exert influence on decision-making at the regional level. This type of RHQ is suitable for large, experienced and diversified MNCs with mature regional managers.

The multidomestic RHQ operates in an environment different from the other parts of the world. The staff of the RHQ feels strongly committed to the region and is obliged to defend it against pressures for globalization originating from corporate HQ. The RHQ acts as a representative body of the operating units in the region and of their concerns. It is common in the situations when the regions are still considered peripheral.

The RHQ can generally manage its operations with the national units in three distinct ways (Schütte, 1997; Schuh, 1999): vertically, horizontally and virtually. The vertical model means that the relationship between the RHQ and local units is strictly hierarchical: the reporting lines drawn are clear and no room is left for ambiguity.

A horizontal model is principally driven by the will of the national units. The system operates on a consensus basis, with the authority of the RHQ dependant to some extent on the national units. The horizontal RHQ maintains the integrity of the national units; and unifies their activities for the common objective of the region.

A virtual RHQ relies on the inputs from national units: it is not a separate organizational unit. In the virtual RHQ, some local managers have taken over regional tasks in addition to their jobs in a given country.

One of the major points in the decision-making process is the choice of the location for a RHQ. Lassere & Schütte (1999) consider four criteria:

- geographic location (a central location is preferred),
- convenience and infrastructure (facilities and staff, supporting services, legal environment, conditions for expatriates: quality of life, schooling, language),
- costs – although cheaper location can have drawbacks in terms of convenience and infrastructure,
- proximity to business: regional organization may be located either where the main market opportunities lie, or where the business is vulnerable and needs support.

On top of that, the location is often influenced by the acquisition of a major manufacturing or service facility in one of the countries of the region. Another issue to be considered in CEE region is cultural and historical proximity to the most countries in the region.

1.4. Overview of Advantages and Disadvantages of Regional Headquarters (in Central and Eastern Europe)

In the following section we try to collect the arguments that speak for or against the use of a regional headquarters. We compare the RHQ with corporate HQ which are not located in the respective region as an alternative organizational model. The arguments are based on a review of the sparsely existing literature, our own experiences and are adapted by us to the situation in CEE (Dreifus, 1992; Schütte, 1997; Kutschker & Schmid, 2002):

Advantages of a RHQ:

- Rapid identification of opportunities: RHQs are faster and more effective in discovering local market opportunities and using them – besides formal information sources they can use informal information channels and effective lobbying what can be crucial in CEE.
- Fast reactions in the field: being closer to the field allows them to adjust quickly to the market situations, watch the latest trends in better-developed countries of the region, anticipate and get ready for the same development in the less-developed countries of the region.
- Discovering and using synergies among markets: RHQs can implementing marketing mix and processes standardization in case that the countries of the region are similar; they can also support and develop „local responsiveness“, for example, in case of acquired brands, and try to spread them to the other countries of the region.
- Cost advantage: marketing mix and process standardization allows them to manage the operations in the region more efficiently and to realize economies of scale.
- In selected industries, RHQs can develop connections to their key accounts on regional level what also leads to cost reduction (e. g. FMCG companies work with chains like Metro, Tesco on regional level).
- Information gathering: a RHQ is a central point for data collection. It is close enough to the market and at the same time can provide the function and infrastructure. It may also act as a clearing house for information between country operations and corporate headquarters.
- Central point of best practice sharing and organizing their implementation: given the similar nature of the countries under the RHQ umbrella, the best marketing, sales, human resource etc. practices could be shared and implemented across the countries.
- Functional support: RHQs can provide significant assistance for local subsidiaries in marketing, sales, distribution, finance, human resources etc. In the case of CEE this was crucial at the beginning of the 1990s, later we noticed the growing importance and need of coordination instead of direct support.

- Place for assignments of high-potentials from local countries in order to develop them, especially when corporate HQ is on the different continent or when there is a significant shortage of certain skills in the region.

Disadvantages of a RHQ:

- Complicated communications and distance from senior corporate management: the employees of local subsidiaries can feel to be cut off the original sources of information; another source of concern is prevailing local language in RHQ in case when corporate language is different.

- Additional cost layer: the RHQ's establishment results in increasing costs for both local and expatriate staff, equipment, buildings, communication, business trips etc. The effort to cut the costs is visible from the trend to locate RHQs in different cities than Vienna – Budapest is one example, but Prague and Warsaw are the other ones.

- Distance from senior management in the corporate HQ can impair or slow down the implementation of global strategies and management processes in the region. RHQs are naturally inclined to argue for regional solutions even when global solutions appear sensible and feasible.

- Subsidiaries complain about squeezing profits and using transfer prices through RHQs. Some cases were noticed when the RHQs agree on the business conditions that are not favorable for local subsidiaries (e. g. one MNC requires price reduction or favorable payment conditions from the other MNC, they reach agreement on a regional level, but local subsidiaries believe they could make a better deal on a local level and feel tied).

- When placed in one of the countries of the region, the exaggerated loyalty towards this country and uneven employees structure (given the lower mobility of the labor force in CEE) could appear, when placed outside of the region (the Vienna example in the CEE case), partial insulation from the region and „parental behavior“ can be noticed.

2. Regionalization in Central and Eastern Europe

2.1. Factors Favoring Regional Integration in Central and Eastern Europe

The idea to manage CEE as a region is not far fetched. Several examples show that it is a common pattern among MNCs who regard the region as a major area in their internationalization strategy (Schuh, Anderson & Houston, 1996; Schuh, 1999; Schuh, 2000). MNCs operating in the region soon found out that the reforming countries share several characteristics that allow them to cluster countries into homogeneous regional units. Relevant similarities from a business

perspective are geographic proximity, similar stages in the economic and market development, shared culture and common ways of doing business, inter-regional trade and institutional arrangements (Schuh, 2000; Kozminski & Yip, 2000):

- **Geographical proximity:** given the geographic proximity the management of a MNC has to expect market interdependencies that make an autonomous management more problematic. So you may find positive interdependencies that help to pool resources and to save costs in product development like homogeneous tastes, preferences and attitudes towards products. On the other hand a regional approach is required to cope with negative effects like cross-border shopping and parallel imports.

- **Transition process from a centrally planned to a market-based economy:** all reforming countries are trying to get rid of their systemic heritage, namely state socialism and the model of a centrally planned economy. By undergoing this transition, they all are faced with the same challenges. The MNCs on the other hand have to deal with the effects of this systemic change that are slow emergence of market institutions, underdeveloped legal systems, undercapitalized local customers and business partners and underdeveloped infrastructure.

- **Economic development and standard of living:** a similar standard of living and stage of economic development can be addressed with product concepts that are adapted to the existing (lower) purchasing power levels in the region. At the same time, coordinated and cooperative efforts between the subsidiaries and the RHQ contribute to the realization of regional concepts.

- **Stage of market development:** although Western firms hastened in the last decade to enter the markets of the region and to introduce the full range of products we are still confronted with an existing gap in product-market evolution between Western and Eastern Europe, in particular at the demand side, namely awareness, knowledge and usage of the new products. Not only products can be tailored for the region but also advertising and promotion campaigns.

- **Shared communist history and culture:** shared culture in a region is an important integrating factor. Although fraught with negative associations the common communist heritage is shaping consumer behavior which is reflected in the appreciation of the Western life style and consumption model. In the business area you find a heightened public's sensitivity to „national interests“ which are felt to be put in jeopardy by foreign businesses and MNCs. The important role of informal relations in business, a lack of accepted standards of business ethics, and corruption are further common aspects (although to a different extent).

- **Intra-regional trade:** CEFTA, the Central European Free Trade Association), was established to promote trade between the involved countries and to serve

as a training ground for the EU. The removal of tariffs and other trade barriers allowed businesses of its member states (Czech Republic, Slovakia, Hungary, Poland, Slovenia, Romania, Bulgaria) to trade industrial and agricultural goods in a huge regional free trade zone. Although CMEA, the Council for Mutual Economic Assistance, collapsed after the fall of the Iron Curtain and the reforming countries of Central Europe reoriented their foreign trade stronger to the West, in particular to the EU and Germany as biggest trade partner. However, these old trade relationships between the former communist countries are still existing in many sectors and domestic firms see them as natural export markets again (given the increased competition of Western MNCs in the home markets and major difficulties when trying to enter West European markets). Western MNCs make use of this trade relations via their local CEE subsidiaries which serve as „export platforms“ into former CMEA or COMECON states. The „small cross-border trade“ carried out by thousands of individual businesses is another factor that demands the attention of MNCs, in particular when their products are traded in „gray markets“.

2.2. Explorative Study of Regional Headquarters in Central and Eastern Europe

Since RHQs symbolize the organizational manifestation of regionalization concepts we contacted RHQs in our study. In Table 2 the summarized findings of an explorative study among RHQs located in Vienna and Budapest are presented. The study of the RHQs located in Austria was carried out in the year 2000 (Brandstetter, 2000), the Hungarian study in 2002 (Soos, 2002). The character of the studies was explorative, and followed the same research design. The purpose of the studies was to learn more about the establishment of the RHQ, its role in the multinational group, product and geographic scope as well as the profile of the mandate (functions, responsibilities). Normally, the general manager of the RHQs was contacted and the interviews followed a specified guideline addressing the research questions.

The main findings can be summarized as follows:

The RHQs located in Vienna (1987 – 1994) were established earlier than the ones in Budapest (1998 – 2000). This may be due to the fact that Austria is not part of the transitional economies of CEE and was and still is regarded as a springboard into this region. Given the rapid progress in the transition process, the development of a modern infrastructure and the stabilization of the political situation and economy in Hungary by the end of the 1990s, Hungary became more attractive for foreign MNCs as a location for a RHQ. In addition it offers the advantage to be directly situated in a reforming country of the region.

Table 2

Overview of Studied Regional Headquarters for Central and Eastern Europe

RHQ	Henkel CEE	Kraft Foods Int'l CEEMA	Siemens AG Österreich	Unilever Hungary	Michelin Hungary	Procter & Gamble Hungary
<i>Industry</i>	Detergents, adhesives, personal care & cosmetics	Coffee, confectionary, cheese	Automation & control, medical products, information & communications, transportation, power supplies	Foods (ice cream, frozen food, tea, soups), home & personal care	Tires for cars, trucks, earthmovers & air-planes	Health and beauty care, paper, laundry & cleaning products
<i>Established in</i>	1992	1987	1994	1999	1998	2000
<i>Location</i>	Vienna	Vienna	Vienna	Budapest	Budapest	Budapest
<i>Regional scope</i>	Aut, Bul, CzR, Cro, Yu, Hun, Rom, Svk, Slo, Pol, Baltics, UA	Bul, CzR, Pol, Cro, Yu, H, Rom, Svk, Slo, Baltics, UA, Ru, B-H.	Svk, Slo, Cro, B-H., Yu	Hun, Slo, Cro	Baltics, Pol, CzR, Svk, Hun, Slo, Cro, Rom, Bul, Ru & CIS	Hun, Slo, Cro, Svk, CzR
<i>Product scope</i>	All international & local/regional brands	Limited assortment but all major brands	All product lines of Siemens Group	All international & local/regional brands	Passenger car, 4 x 4 & light truck replacement tires	All major international & local/regional brands
<i>Major functions</i>	Establishment of local operations & development of regional strategy Central control & coordination of production & marketing Coordination of sales & distribution Cooperation in R&D with Corp. HQ Joint business planning with subsidiaries	Establishment of local operations and know-how transfer Development of regional strategy Central control of marketing, production, sales/distribution and finance Corp. HQ control F&E in „ core categories “	Planning of market entries in region Establishment of local operations Integration into corporate planning & management system Financial control of subsidiaries Coaching & support of fully-fledged subsidiaries	Ensuring that regional strategies plans are consistent with overall objectives Adaptation of products & advertising to local conditions, however, under achieving a high degree of standardization Coordination of production	Coordination of operations in 22 countries Control of marketing-mix and sales plans Support of subsidiaries in communications, human resources, quality management, logistics and financial affairs	Four business units with the full responsibility for marketing, sales and distribution in five abovementioned countries Financial, information technology, human resources function

Table 2 Continuation

<i>Advantages</i>	Optimal size Fast decisionmaking Corp. HQ communicates only with RHQ Pooling of resources	Closeness to -markets allows quick reaction and higher effectiveness of regional strategy Transfer of group know-how and exchange of know-how within region Standardization in production	Better adaptation to local market conditions	Reduced complexity Higher cost efficiency (standardization, local raw materials etc.)	Standardization effects in product and advertising Coordination of sales	Using synergies among the markets and managing more efficiently Decreasing costs (transferring knowledge from one market to the other one, communication campaigns and promotion savings, expatriates decrease)
<i>Disadvantages</i>	No specific disadvantages mentioned by RHQ	No specific disadvantages mentioned by RHQ	No specific disadvantages mentioned by RHQ	High costs at the beginning of reorganization Discussion of optimal standardization	When a problem arises too many communication channels are involved Conflicts between RHQ and subsidiaries Region to supervise is too large	Relocation costs for CEE employees coming to Budapest Threat of diversity erosion (it could change into Hungarian organization)

Main reasons for the establishment in those cities were besides the geographical and cultural closeness traditional relationships of the national subsidiaries in the region, existing exports and a certain minimum size of the operations in a country. In the Austrian cases the initiative of the local management also played a major role in the establishment of the RHQ. While at the beginning the national subsidiary was given additional responsibility for CEE, later on – when the business expanded – a separate legal unit was founded for the management of the CEE activities (e. g. Kraft Foods).

The regional scope of the mandate ranges from 3 (Unilever) to 22 countries (Michelin) in Central- and Eastern Europe. The product scope varies from limited product lines/brands to all products that are offered by the MNC worldwide, also including specific regional and local product lines.

Although the interviewees used different expressions when describing the scope of their regional management mandate, a consistent set of activities can be found. In the early phase, most of the attention was given to the setting up of local operations in the region. This included support, coaching and training of employees and transfer of management systems. Especially the integration into the corporate planning and controlling system is of importance. Financial control of the operations in the region is a main function of all RHQs. The development of a regional strategy is a kind of natural task for RHQs. Corporate headquarters and, of course, the local management is involved in this process (joint business planning with subsidiaries). As all examined MNCs have production sites in the region, the control and coordination of the production network is a key responsibility of the RHQs. The same applies to marketing strategies where global brand strategies are adapted to the region or are even autonomously developed for the regional and local brands. Coordination tasks gained in importance in recent years as the pioneer phase is over – at least in Central Europe where in most countries the MNCs are now present with 100 per cent-subsidiaries. Increasing sales volumes in the local markets, the transfer of additional tasks to the country organizations and a diminishing dependence from the RHQ with regard to know-how transfer and management support lead to a rising self-confidence of local management and presumably more arising conflicts between subsidiaries and regional headquarter.

The pros and cons of RHQs as seen by the interviewees reflect what we know from former studies and the literature. The closeness of the RHQ to the markets facilitates a higher responsiveness to local market conditions. Valuable experiences in the region like the learnings from the establishment of subsidiaries or the introduction of a regional product line can be collected and made available within the region again. Complexity is reduced at the corporate HQ level and

synergies can be used when investments are considered (in production sites, logistics centers, etc.). Disadvantages of RHQs were not mentioned by the Austrian interviewees, in Hungary the respondents were more frank when asked about them. The justification of the additional costs of the RHQ and conflicts between local and regional management are major concerns and we assume that the Austrian RHQs are also confronted with these issues. This bias in findings may be attributed to the research design where only representatives of the RHQ were interviewed but no opinions were collected from local management or corporate headquarters.

Conclusions

In our study we attempted to address three aspects of regionalization in CEE: first, the applicability of the regionalization concept to CEE, second, the organizational implementation of the regional strategy and, third, the lessons learned so far by MNCs using RHQs. In the relevant literature we found several arguments that supported the implementation of RHQs by MNCs operating extensively in the region: the gaps in the economic and market development between Western Europe and CEE, the very specific historical and systemic situation as well as the common transition from a centrally planned to a market-based economy that make the region sufficiently different to justify a grouping into a regional segment. Closely tied to the formulation of regional strategies is the establishment of regional headquarters. The RHQs represent the organizational counterpart: the management at the RHQ is responsible for the development of the regional strategy and its implementation with the local subsidiaries.

Our study of six RHQs shows that large, worldwide operating MNCs use RHQs to adapt to different regional market conditions and regard them as an efficient management model. In particular, producers of fast moving consumer goods like Henkel, P&G, Kraft Foods and Unilever embrace regional management models in order to adapt to different tastes and preferences of consumers, to deal more effectively with local distribution partners and to meet strong local competition. Since a pronounced localization would go too far in most of the small country markets (because the additional costs of local product development and advertising could never be covered by local sales), regionalization offers a golden middle course. Central regional control of production and marketing, the coordination of other business functions, and a close cooperation with corporate headquarters and the management of the local subsidiaries are the major current responsibilities of the RHQs. Support in the establishment of local operations and the arrangement of trainings for the local management and

employees are still a significant task although declining in importance compared to the early and mid 1990s. The RHQs are accountable for regional sales and profits and losses. This corresponds well with the decision making authority which is in most of the cases relatively high. However, it is clear that regional strategies have to comply with the global strategy or strategic guidelines and are the result of a discussion process between corporate HQ and RHQ. All RHQs stress the advantages of regionalization: faster decision making, better adaptation to local market conditions, cost savings from regional standardization and benefits from the pooling of resources and the know-how transfer within the group. Additional costs caused by the additional management layer and conflicts between local and regional management over the extent of the optimal standardization and regional transfer prices were mentioned as disadvantages.

Future research should try to validate the findings by adding the views of local management and corporate headquarters what would allow a more comprehensive view of the regionalization issue. Moreover, a dynamic view of the evolution of role, functions and decision-making authority could offer interesting insights. The likely accession of Central European countries to the European Union in 2004 is an external event who could have some implications for the definition of regional areas in MNCs. At the same time, local subsidiaries have become more independent from the inputs of the RHQ and rising sales volumes in the local markets foster the self-confidence of local management. In their further expansion to Eastern Europe, the ex-Soviet republics, MNCs will tap the managerial resources and know-how that are available in the Central European subsidiaries. It remains to be seen how this will influence existing regional organizational structures of MNCs in CEE.

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REGIONALIZÁCIA V STREDNEJ A VO VÝCHODNEJ EURÓPE: DISKUSIA O STRATEGICKÝCH A ORGANIZAČNÝCH ASPEKTOCH JEJ IMPLEMENTÁCIE

Soňa FERENČÍKOVÁ – Arnold SCHUH

Autori sa v predkladanej štúdií venujú trom aspektom regionalizácie v strednej a vo východnej Európe: možnosti jej aplikácie v tomto regióne, implementácii regionálnej stratégie a skúsenostiam transnacionálnych korporácií, ktoré si tu zriadili regionálne centrály.

V úvode autori venujú osobitnú pozornosť konceptu regionalizácie zo strategického i z organizačného hľadiska. V ďalšej časti článku analyzujú dôvody vzniku regionálnych centrál, ich typy a úlohy, pričom približujú základné výhody i nevýhody spojené s ich činnosťou. Po preskúmaní dostupnej literatúry presúvajú ťažisko pozornosti na región strednej a východnej Európy a na analýzu skúseností firiem, ktoré v ňom uplatňujú regionalizačnú stratégiu.

Za základné argumenty, ktoré podporujú regionalizáciu a zriaďovanie regionálnych centrál v strednej a vo východnej Európe, považujú rozdiely v ekonomickom vývoji v tejto

časti Európy v porovnaní so západnou Európou, ako aj špecifické historické, spoločenské, kultúrne, právne, politické a ekonomické črty regiónu. Organizačným odzrkadlením regionálnych stratégií sa stali regionálne centrály, ktoré sú zodpovedné za samotný rozvoj stratégií v strednej a vo východnej Európe, a následnú implementáciu v lokálnych dcérskych firmách a pobočkách.

Skúmanie šiestich regionálnych centrál ukázalo, že veľké transnacionálne firmy používajú regionálne centrály ako nástroj adaptácie na regionálne trhové podmienky, pričom ich považujú za efektívny model riadenia. Najmä producenti rýchloobrátkového spotrebného tovaru aplikujú regionálne modely riadenia, aby sa lepšie prispôbili odlišným preferenciám spotrebiteľov, efektívnejšie riadili miestnych distribučných partnerov a úspešnejšie súperili s miestnou konkurenciou. Pretože lokalizácia z ich pohľadu by bola premršteným prístupom (najmä vzhľadom na veľkosť národných trhov v strednej a vo východnej Európe a náklady na ňu) a globalizácia tiež nie je vhodným riešením vzhľadom na charakteristiky regiónu, regionalizácia je často pre ne zlatou strednou cestou.

Regionálne centrály sa najskôr zriaďovali vo Viedni, neskôr, koncom 90. rokov začínajú vznikať najmä v Budapešti. Dôvodom je geografická pozícia týchto dvoch miest, ich geografická i kultúrna blízkosť k viacerým okolitým tranzitívnym krajinám z pohľadu transnacionálnych korporácií, infraštruktúra, vybavenosť, dostupnosť, ako aj samotný objem operácií, či už v Rakúsku alebo v Maďarsku.

V súčasnosti k základným oblastiam, ktoré pokrývajú regionálne centrály, patria: regionálna kontrola produkcie a marketingu, koordinácia ďalších funkčných oblastí (informačné technológie, ľudské zdroje, zásobovanie, financie a dane a pod.) a úzka spolupráca s celosvetovými centrály, ako aj národnými pobočkami.

Regionálne centrály sú väčšinou „profit/loss“ centrá a majú tomu zodpovedajúcu rozhodovaciu právomoc. K prednostiam ich fungovania patrí rýchlejšie rozhodovanie, možnosť rýchlej reakcie na zmeny, lepšia adaptácia na miestne podmienky, úspory nákladov vyplývajúce z regionálnej štandardizácie, výhody zo spájania zdrojov a z transferu know-how v danej skupine. K nedostatkom ich fungovania možno zaradiť dodatočné náklady spojené so zriadením a s činnosťou tejto úrovne riadenia, konflikty medzi miestnym a regionálnym manažmentom, týkajúce sa najmä optimálnej štandardizácie, a z hľadiska hostiteľských krajín aj cenové transfery.

Budúci výskum je nevyhnutné zamerať na evolúciu úloh, funkcií a rozhodovacej právomoci regionálnych centrál, pričom je potrebné skúmať aj pohľad celosvetových radiacich centier i miestnych pobočiek na ich úlohu a pôsobenie. V budúcnosti bude regionálna organizácia operácií transnacionálnych korporácií ovplyvnená vstupom niektorých krajín regiónu do Európskej únie, ako aj ich predpokladanou ďalšou expanziou na trhoch krajín bývalého Sovietskeho zväzu.