

## Regional headquarters in China: Role in MNE knowledge transfer

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Published online: 8 May 2013  
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**Abstract** To improve control and coordination with operations in distant locations, multinational enterprises (MNEs) establish regional headquarters (RHQs). The number of RHQs in Shanghai registered with the Shanghai Municipal Commission of Commerce has increased from 154 in 2006 to more than 400 in 2012. Managing knowledge constitutes one of the major strategic advantages of an MNE, but little is known about RHQs and their role in MNE knowledge flows. Based on interviews with regional, subsidiary, and global managers, we explore knowledge flows involving the RHQ. Our data suggest that RHQs can have a role in inflows and outflows of knowledge, and that this involvement is influenced by RHQ management, structure, and position within the subsidiary network.

**Keywords** Regional headquarters · Knowledge transfer · MNE structure · Shanghai

The importance of knowledge in the development of strategy for the multinational enterprise (MNE) is highly acknowledged (Kogut & Zander, 1993; Lu, Tsang, & Peng, 2008; Rugman & Verbeke, 2001). Knowledge allows the MNE to engage in superior trading opportunities (Buckley & Carter, 2004: 372). To gain strategic advantages, the MNE needs to tap into knowledge that is increasingly dispersed (Asakawa & Lehrer, 2003; Doz, Santos, & Williamson, 2001), and cultivate knowledge initiatives from central as well as peripheral locations (Dicken, 2003). Knowledge may be embedded, meaning that its development is local, contextual, and social (Nobel, Birkinshaw, & Ridderstrale, 2002), necessitating a multi-embedded MNE

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(Meyer, Mudambi, & Narula, 2011) with units that adapt knowledge created in one context so that its value can be understood and appreciated by a receiver in another context. Dispersed MNE units have different formal mandates, influence, and competence, and their actions do not necessarily coincide with intentions of global headquarters (Forsgren, 2008), which makes transfer of knowledge within the MNE challenging. Previous studies have demonstrated that foreign R&D centers (Asakawa, 2001) and Centers of Excellence (Birkinshaw, 2000) affect knowledge transfer in the MNE. We suggest that another relevant unit may be the regional headquarters (RHQs). RHQs are “*organizational units concerned with and involved in the integration and coordination of activities of the MNC within a given geographical region, and representing the link between the region and the headquarters*” (Schutte, 1998: 105). Ambos and Schlegelmilch (2010) argued that the middle position of RHQs make them well positioned to transfer knowledge to and from headquarters and subsidiaries. Although the RHQ as a knowledge carrier is recognized in several studies (see for example Asakawa & Lehrer, 2003), the role of RHQs in MNE knowledge flows is to our knowledge not systematically studied. In this paper we explore whether and how RHQs facilitate knowledge transfer within the MNE.

A RHQ can be viewed as a formally recognized unit with headquarters functions set up to manage at least one subsidiary in a region (Enright, 2005b; Schutte, 1997). The RHQ is therefore a “*strategic mid-way house*” (Wai-Chung, Poon, & Perry, 2001: 165) or a “*replica of the corporate headquarters but on a regional scale*” (Ho, 1998: 181). U.S.-based MNEs started to decentralize their international activities and establish RHQs in the late 1960s (Grosse, 1981). Studies have reported on regional strategies (Elango, 2004; Morrison, Ricks, & Roth, 1991; Morrison & Roth, 1992; Schlie & Yip, 2000), on the use of RHQs by foreign companies in Europe (Ambos & Schlegelmilch, 2010; Daniels, 1986, 1987; Lehrer & Asakawa, 1999), and evolution of RHQs (Lasserre, 1996; Piekkari, Nell, & Ghauri, 2010). There is also a literature on RHQs in Asia (Enright, 2005a, b; Ho, 1998; Lasserre, 1996; Li, Yu, & Seetoo, 2010; Schutte, 1997; Wai-Chung et al., 2001). In fact, Enright (2005b) argued that most Western companies in Asia have at least one regional center in this region. As Asia is both geographically and culturally distant from Western HQs, the benefits of RHQs in this region are seen as particularly relevant.

We have interviewed RHQs of foreign companies in Shanghai, some of their subsidiaries and global headquarters. We define knowledge inflows as knowledge being transferred from an outside region sender to a regional receiver, whereas knowledge outflows concern transfers from the region. In our cases both senders and receivers are MNE units. Our informants agree that the rapid growth of China requires a strong focus on knowledge inflows as China needs advanced knowledge from more mature regions. Our data also demonstrate knowledge outflows. We therefore argue that RHQs may have important roles in the MNE knowledge transfer system as units that facilitate both inflows and outflows of knowledge to and from a region.

This study makes at least two contributions. First, we show empirically that RHQs have a role in MNE knowledge transfer, and offer in-depth insight into this role of the RHQ. This insight builds on and extends previous research by Asakawa and Lehrer (2003) and Birkinshaw (2001) as well as the roles and responsibilities of headquarters (Chandler, 1991; Foss, 1997) and RHQs (Daniels, 1986, 1987; Enright, 2005a, b;

Piekkari, Nell, & Ghauri, 2010; Shutte, 1997, 1998). Our findings show that the RHQ may not only facilitate knowledge transfer, but also identify and adapt knowledge from MNE units, and actively locate suitable receivers inside or outside the region. This implies that the RHQ plays a more active role than previously recognized.

Second, we maintain that the role RHQs have in MNE knowledge flows varies with their structure, location, and management. We argue that their effect on MNE knowledge streams is not merely given by a RHQ mandate, but is influenced by formal and informal relations. This insight relates to literature on MNE networks (Andersson, Forsgren, & Holm, 2001, 2002; Asakawa, 2001; Forsgren, 2008; Mudambi & Navarra, 2004), structure of the MNE (Stopford & Wells, 1972), headquarters attention (Ambos & Birkinshaw, 2010; Bouquet & Birkinshaw, 2008), as well as boundary spanner's motivation and ability (Minbaeva, Pedersen, Bjorkman, Fey, & Park, 2003; Schotter & Beamish, 2011; Van Wijk & Van den Bosch, 2001). We start with a brief overview of knowledge transfer before we present our empirical study and discuss our findings.

## Knowledge transfer

Simon (1991: 125) observed that all learning takes place within individual human heads. Through reflections individuals develop ideas that are shared with others in a process where learning becomes knowledge (Crossan, Lane, & White, 1999). Knowledge can develop at global HQs, in local subsidiaries, or in global teams or networks (Adenfelt & Lagerstrom, 2008). Knowledge can stay in the unit where it originates, but can also be transferred to another unit. MNEs depend on the sharing of knowledge across regions and subsidiaries to create value (Kim & Mauborgne, 1997). Knowledge transfer between MNE units is facilitated or constrained by a range of factors like common culture and norms, motivation, absorptive capacity, tacitness, and complexity (Gupta & Govindarajan, 2000; Kogut & Zander, 1996; Szulanski, Jensen, & Lee, 2003). At times knowledge initiation by one unit fails to be transferred to another unit due to time limitations, lack of interest, or missing structures that allow individuals to meet and share contextual knowledge (Husted & Michailova, 2002; Lunnan & Barth, 2003). Knowledge initiatives from one unit may also be prevented by corporate immune systems (Birkinshaw & Ridderstrale, 1999) and a commitment to status quo (Audia, Locke, & Smith, 2000), or being hindered by mobility barriers (Rugman & Verbeke, 2001). From a subsidiary perspective, sharing knowledge can have negative performance effects for that subsidiary (Mahnke, Pedersen, & Venzin, 2009). Managers follow simple heuristics to search for knowledge (Cyert & March, 1963), thus some subsidiaries send and receive little knowledge (Monteiro, Arvidsson, & Birkinshaw, 2008). Knowledge can be used to influence and improve the status and influence of a subsidiary (Husted & Michailova, 2002; Mudambi & Navarra, 2004).

This body of research states that knowledge in one MNE unit is not automatically shared with other units although the MNE overall increases its competitive advantages if best practices and innovations are shared across locations. MNE managers must actively influence the flow of knowledge for it to be shared. Birkinshaw (2001) argued that knowledge management entails three elements: improving knowledge

flows, building systems for sharing knowledge, and tapping into external knowledge sources. Asakawa and Lehrer (2003) suggested that RHQs may be particularly well positioned to improve knowledge flows within an MNE as they fill structural holes between global HQs and local subsidiaries and thereby act as “knowledge brokers.” In their paper they identify knowledge flows between the local, regional, and the global, but conclude that although some RHQs transfer knowledge, others focus solely on internal control and coordination, hence there is a need to study RHQ’s roles in a way that “*permits identification of their substantive role beyond formal titles and labels*” (Asakawa & Lehrer, 2003: 40). Next, we present our study where we look into whether and what substantive role RHQs play in the transfer of knowledge within the MNE.

## Methodology

To explore the role of RHQs in knowledge transfer, we need to understand what RHQs do and how their activities and responsibilities relate to other activities within the MNE. RHQs vary in terms of scope, structure, and responsibilities (Daniels, 1986; Enright, 2005a, b; Li et al., 2010; Piekari et al., 2010; Schutte, 1998), which calls for deep insight into each case before cross-comparisons can be made. Case studies are particularly relevant to induce theory from empirical data (Eisenhardt, 1989), offering rich explanations including variations due to context (Welch, Piekari, Plakoyiannaki, & Paavilainen-Mantymaki, 2011), as well as giving direct insight into the accounts of relevant participants (Ahlstrom, Young, Chan, & Bruton, 2004). To understand the RHQ’s role in MNE knowledge transfer, we depend on information from the RHQs themselves, their headquarters and subsidiaries to learn about knowledge senders and receivers. We also desire variation in terms of size and industries to try to grasp possible variations in knowledge management patterns. We interviewed five companies on RHQ and either HQ and/or subsidiary levels. All RHQs were located in Shanghai. Shanghai is seen as the business center in China, offering the best infrastructure and institutional support for foreign companies. In the five companies in our study we performed 36 interviews, 14 at RHQs level, 9 at HQs level, and 13 in subsidiaries. To broaden the information base we also include in our sample 10 interviews from 9 companies with regional managers from other MNEs. A total of 14 companies are thus represented in our sample, 7 from Europe, 4 from the US, 2 from Japan, and 1 from Taiwan. The companies represent chemical, retail, industrial, electrical power equipment, consumer products, automotive and service industries.

We entered the interview situation with an open mind concerning the scope of the region, and let the regional managers define their regional mandate. About half of the companies defined Asia as their region whereas others had responsibilities for subsidiaries only within China. Four companies had a two-layer regional structure, including both Asia and China. The RHQs managed between 3 and 18 subsidiaries. One exception is a retailer with more than 120 subsidiaries. Another exception is a car manufacturer with many different regional units, including manufacturing centers, R&D centers, sales subsidiaries, and JVs. This RHQ managed 57 units.

The RHQs in our sample follow two different structural models. Eight of the 14 RHQs had direct profit and loss responsibilities reporting to a division headquarters or directly to global headquarters. These units typically were responsible for all activities for one business division within China or Asia Pacific. Alternatively, the RHQ was a unit that managed all business activities for the MNE in China. The latter case was the situation for a Taiwanese and a Japanese firm. Except for these two companies, the “divisional” MNEs also had other divisions present in China, and these divisions would have separate RHQs, sometimes co-located. These units had profit and loss responsibilities for all value chain activities within the region.

Six RHQs had limited responsibilities, for instance only including human resource management (HRM), legal services, logistics, purchasing, and building services. These units provided services to several divisions within the region. Subsidiary management reported in a dotted line to the RHQ, and the regional management usually reported to a global service unit at global corporate headquarters. The first of these structures (8 RHQs) corresponds to a global product structure (Westney & Zaheer, 2001) or a regional business division structure, where the RHQ is a vertical unit within the hierarchy of the MNE (Schutte, 1997) whereas the second structure (6 RHQs) is a matrix unit in a multiple regional structure (Piekkari et al., 2010).

Little is known about the role RHQs play in knowledge transfer within the MNE. We therefore set out to explore (Ghauri & Gronhaug, 2002) and try to understand how and when the RHQs were involved in the transfer of knowledge. We developed an interview guide that covered the structure and scope of the RHQ, reporting lines, roles and responsibilities, knowledge initiatives and experiences of the RHQ manager. Concerning knowledge, we wanted the interviewees to express how they used knowledge, where the knowledge came from, and whether they transferred knowledge to other units in the MNE. We were also interested in the extent to which managers of the RHQ actively took part in the development of knowledge, and if so what their role was. All companies were visited on-site. The global HQ representatives were all nationals, and almost all the RHQ managers were expatriates, although not necessarily of the global HQs' nationality. Seven subsidiary managers were Chinese nationals, the rest expatriates. We promised our interviewees anonymity, and the company names are therefore disguised. Each interview lasted from 1.5 to 4 hours and was tape recorded. We transcribed the interviews verbatim. Then we isolated each knowledge transfer, identified senders and receivers, as well as the content of the transfer. Next we looked at the type of RHQ involved in each transfer, and searched for clues concerning RHQ characteristics that facilitated or prevented each transfer. From this process we started to get a picture of when knowledge was transferred and what this transfer was linked to.

## Emergent findings

Our interviews demonstrate several cases of knowledge transfer involving the RHQ. All companies in our sample gave at least one example where they had been involved in knowledge transfer, whereas some companies did more of

these activities. An indication of the involvement of each company is given in Table 1. Tacking back and forth between previous studies and our data, we decided to focus on three characteristics of each case: (1) The sender and receiver of knowledge, (2) the role of the RHQ, and (3) the type of knowledge presented.

*Sender and receiver* Asakawa and Lehrer (2003) only focused on knowledge outflows, but our respondents also gave many examples of knowledge inflows. One differentiating characteristic of this region compared to other regions is growth, and several respondents talked about significant implications of growth, such as a focus on recruitment and expansion. The other implication was the necessity of being present in the region, and the challenge of communicating the needs of this region to MNE units outside of the region.

We try to get people from headquarters and other units to come to China as often as possible. You have to be here to see what is going on, because I cannot well explain it. The growth is tremendous, and certainties from yesterday, may not be true today. *RHQ Manager (Company 10)*

The one distinctive feature about China is growth, growth, growth. This is unique compared to the rest of the world. *RHQ Manager (Company 3)*

The growth drove best practice knowledge inflows from other MNE units. Therefore, RHQ managers were more preoccupied with knowledge inflows.

*Role of the RHQ* In our interpretation of the involvement of the RHQ we distinguish situations where the RHQ was actively involved from those where the RHQ seemed to have a facilitation role. For example, some companies used words like “facilitate” and “open doors” describing initiatives from global headquarters that they spread further to subsidiaries, whereas others described how they actively “discovered” new practices that they structured, or “put a wrap around” to fit another context of the MNE. As we asked respondents to report cases where they were involved, they naturally reported successes rather than failures, which led to a bias in our sample.

*Type of knowledge presented* In addition to the intensity of knowledge transfer, we also noted variations in the type of knowledge mentioned. This could be technical knowledge, knowledge of HRM processes, knowledge of marketing or service, or more general managerial knowledge.

In our presentation of these findings we focus on the identification of types of incidents where the RHQ was involved in knowledge transfer, and their role in this transfer. We also indicate the extent to which the same examples were used across cases, although our design aims at identifying types of transfers rather than demonstrate how widespread these are across companies. In reporting these initiatives we are influenced by the model of Asakawa and Lehrer (2003) as we organize the examples of knowledge transfer and the roles of RHQs through type of senders, which in our cases were units outside the region (global HQs or other MNE units) or subsidiaries within the region.

**Table 1** Case companies

Companies	1 Electro	2 Car1	3 Service 1	4 Service2	5 Chemical	6 Car2	7 Car3
Number of interviews total	8	6	3	1.5	4	1	2
Interviews at RHQ	2	3	2	5	2	1	2
RHQ scope	China	Asia	Asia Pacific; China	Asia Pacific	Asia North; China	Asia Pacific; China	Asia Pacific; Africa; China
HQ location	Europe	Europe	Europe	Europe	Europe	US	US
RHQ size	120	145	10	50	90	51	600
RHQ structure	Matrix	Vertical	Vertical	Vertical	Matrix	Matrix	Vertical
Number of employees globally (in 1000)	100	25	8	1	19	28.5	283
Number of subsidiaries in region	18	3	13	3	6	57	6
Entry into China	1974	1998	1978	1990	1984	1994	1979
RHQ establishment	2001	2003	2000	2004	1999	2005	1999
Examples of knowledge transfer	HRM inflow, sales procedure, JV procedure	Customer procedure, Factory transfer	Product innovation, supplier procedure	Low cost work practices, marketing initiative	Customer procedure, HRM inflow, Technology transfer	Customer procedure, Technology transfer	Customer procedure, Product innovation

  

Companies	8 Car4	9 Retailer	10 Industrial1	11 Industrial2	12 Industrial3	13 Consumer1	14 Consumer2
Number of interviews total	1	1	1	1	1	1	1
Interviews at RHQ	1	1	1	1	1	1	1
RHQ scope	Mainland China	Mainland China	North Asia	Greater China	Greater China	Greater China	Mainland China
HQ location	Japan	Taiwan	Europe	US	US	Europe	Japan
RHQ size	160	1001	150	100	75	1200	80
RHQ structure	Vertical	Vertical	Vertical	Matrix	Matrix	Matrix	Vertical
Number of employees globally (in 1000)	16	100	8	20	29	163	25
Number of subsidiaries in region	7	125	3	5	11	6	8
Entry into China	1999	1997	1983	1985	2000	1986	1984
RHQ establishment	2005	2005	2000	2007	2001	2003	2003
Examples of knowledge transfer	HRM practices, Customer procedures	HRM practices	Product innovation, Training initiatives	Customer Procedures	Low cost technology, low cost product innovation	Customer process, Technology Innovation	HRM practices, Work processes

Some of our informants talked about the RHQ as a knowledge generator, but upon closer analysis, this knowledge was generated with information from, or together with subsidiaries in the region. We therefore discuss these examples together with subsidiary initiation.

### Knowledge inflows to the region

Several of the companies expressed that China was their main growth market, and it was important to bring in best practices from other parts of the organization to support developments in China. The RHQ introduced knowledge to the subsidiaries, and made sure that it was used according to global standards. One example of this type of knowledge transfer was HRM practices, for example routines for hiring, performance appraisal, and talent development. Previous studies from China have shown that HRM practices often are adapted to Chinese conditions (Li, Barner-Rasmussen, & Bjørkman, 2007; Lu & Bjørkman, 1997). Our findings show that the RHQ did many of these adaptations.

My job is to coordinate regional training initiatives based on global standards. Of course we need to adapt to local markets. Many things are different in Asia.  
*RHQ Manager (Company 1)*

This manager was located in the RHQ, reporting to the head of the RHQs, and his main tasks were to make sure that local subsidiaries complied with global HRM standards. He described this as a struggle because global managers thought that the procedures could be more or less implemented directly, whereas he saw that they had to be adapted. The results of his RHQ team's efforts were to offer training initiatives that were more concrete and more practical. This type of adaptation role by the RHQ in HRM issues were reported by other RHQs, particularly those organized in a matrix structure. Some HQ managers were aware that this adaptation was going on:

We realize that some global recruitment practices do not work in China, but the RHQ adapts these to Chinese conditions and makes them relevant for our units there. *HQ Manager, (Company 3)*

Two RHQs reported that they used global HRM procedures, but only superficially. These units (Companies 2 and 4) did not spend time adapting HRM procedures to fit global conditions. They simply made sure that they formally complied, without any local adaptation.

There are a lot of things going on at HQs, and they keep pushing forms on us that we see as limitedly relevant. We do what we have to do to report, but for the rest, HRM practices are local. *RHQ Manager (Company 2)*

One company explained how earlier attempts at direct implementation had failed:

Our company underestimated the role of local networks, and we thought we could follow procedures like we could in Japan. *Regional Manager (Company 14)*



The RHQ also had a specific role in transferring knowledge from HQs to subsidiaries concerning two other types of knowledge: Transfer of global standards on service quality and delivery, as well as best practice transfer. Compliance with global standards was especially important in two large service companies. For both of these it was crucial that a customer receive the same service wherever they meet the company in the world. For headquarters it was vital that these global procedures were followed, and the RHQ mandate was to oversee this:

The RHQ is our representative in the area. They know our global standards and make sure these are followed. For us it is crucial that our procedures are used properly and according to global standards. *HQ Manager (Company 3)*

From the RHQ's side, however, the procedures were not directly applicable in the new context.

We of course have a lot of corporate headlines. But then you always meet a lot of local issues, you meet the realities on the other hand. You have to find a good solution in each country. As a regional manager, I am the one that makes the final call (...when subsidiary managers want to localize too much, and global headquarters want to follow standard procedures). *RHQ Manager (Company 3)*

This regional manager talked about how he met with different practices when he visited subsidiaries in the region. An important job for him was to assist subsidiaries in finding good solutions that would work locally but also be acceptable to global HQs.

Company 4 was a latecomer to China. One subsidiary manager told us that to achieve growth he had to cut some corners, which led to heated discussions with the RHQ manager.

We have to respond to the market out there. As a latecomer we cannot pretend to follow the same instructions as in other regions, but of course our technical solutions are of the same quality. We therefore have to improvise some. It is OK for HQs if we make money, for now at least. *Subsidiary Manager (Company 4)*

Sometimes knowledge was also transferred from subsidiaries outside the region, and the RHQ facilitated this transfer. One company built a new manufacturing plant in the region, and this plant was directly modeled from a plant that was considered "best practice" in Denmark.

We designed the knowledge transfer process with the global HQ and the subsidiary in Denmark. The next time a plant is to be set up in this region, we will use the same process for knowledge transfer. *RHQ Manager (Company 2)*

RHQ managers helped the subsidiary design the plant and the transfer process including training of personnel. The idea was to copy the plant down to colors and set-up. Not all things worked the same:

In Denmark, we have a rotation system and more autonomy. We saw that when transferring the work processes to China, they did not work. Our people here like repetition, and we therefore changed the way we organized our production system to fit the requirements of local employees.

*RHQ Manager (Company 2)*

RHQ managers helped to adapt the knowledge embedded in the work processes to fit Chinese conditions, and served as a “storage” center of knowledge for the next manufacturing expansion.

Knowledge transfer from subsidiaries outside the region was facilitated through the RHQs. In one situation the aim of the knowledge inflow was to transfer marketing knowledge. This case shows that knowledge inflows may fail due to lack of attention from the RHQs. One successful marketing manager from Taiwan was recruited to help develop the subsidiary in Shanghai. He was given a good salary as well as an office and started working.

He was a successful manager, and we needed his knowledge. He saw us as a threat. The whole thing was a total failure. *RHQ Manager (Company 4)*

The subsidiary manager in Shanghai was a newcomer, and when he started his job, the process had already failed. He explained that:

The RHQ manager has his background from production and he is less knowledgeable in marketing. He therefore did not supervise, help or control the expert from Taiwan. The other marketing people here were unclear about the position of the expert, and the whole thing failed. *Subsidiary Manager (Company 4)*

### Knowledge outflows from the region

Through our interviews we also learned about several incidents in which the RHQ had identified and picked up knowledge, adapted it and presented it in regional and global meetings. Only a few of these were yet implemented by other MNE units outside the region. These knowledge outflows were rather described as initiatives that could potentially have an impact globally. There also seemed to be an agreement that knowledge outflows from the region would increase over time.

People that have not been in China, or only visited here, think that the technology and what we do here is inferior to Europe. I think this will change over time when they learn about the knowledge being developed here. *RHQ Manager (Company 10)*

Examples of knowledge outflows demonstrate variations in the engagement of the RHQ. Especially if the knowledge was very technical, or specific, the RHQ sometimes had a role as a facilitator, but was less active in adapting the knowledge. One example mentioned by several of our case firms was making products or procedures cheaper.

China is much more competitive, and we must develop faster and more efficient solutions. We have presented these to our RHQ, and they take them to other places in the MNE. *Subsidiary Manager (Company 1)*

In Europe and the US we build things to last for centuries. Chinese customers are less appreciative of this, and force us to rethink supplies and procedures. This thinking is also actually quite interesting to people also outside this region. *RHQ Manager (Company 12)*

We have some new appliance areas in China, and we think these will be useful in the rest of the company, so we discuss what to do with these with the RHQ manager. *Subsidiary Manager (Company 5)*

In these incidences, the RHQ manager was seen as helpful and important, but not in the driver's seat of knowledge development. The role was more about providing facilities and opening doors to other units within or outside of the region. RHQ managers involved in these initiatives used words like "being of assistance," "opening doors," and "making ourselves relevant" to the subsidiary initiatives. We therefore interpreted this role as more distant and "hands-off."

Related to the previous type of knowledge, several respondents talked about how Chinese customers were different and had to be handled in different ways.

In Europe everything is based on long time contracts, but here things are more uncertain and fragmented...we have created everything from scratch here, and you really need to understand how the market works...we support subsidiaries and meet with customers...I spend time on this and help develop these new procedures. *RHQ Manager (Company 2)*

In our company sales is localized, (so) it is the RHQ's responsibility to develop regional customer procedures. *RHQ Manager (Company 13)*

When the business is growing, there is a need to coordinate and optimize procedures. The RHQ's job is to do that. *RHQ Manager (Company 6)*

These quotes describe how knowledge about local markets is being developed in subsidiaries in the region, and that the RHQ collects, systematizes, and serves as a "best practice" unit for this type of knowledge.

Another example of the RHQ engaging in the development of knowledge from subsidiaries comes from Company 1, which has more than 20 joint ventures (JVs) in the region. When we visited the company, a subsidiary manager told us that he was about to establish a new JV, and in this process he drew on experiences embedded in the RHQ. He had decided, for example, that the JV should be established from scratch, because of previous poor experiences with brownfields. During the initiation phase of a JV, the RHQ helped, and intervened if problems occurred in the operational phase. In this way the RHQ was able to bring experiences from one JV to the next. The RHQ manager confirmed in a later interview that initiatives to document these experiences had started.

RHQ managers presented us with several knowledge initiatives that they had actively intervened in and then presented in global meetings. One RHQ manager described how knowledge outflows had initiated from a subsidiary.

We had one of our regular business review meetings, and one of the subsidiaries from Shenzhen told us how they had started training their sales teams. They no longer took out individuals, or focused on single professions, like managers, but trained the entire team, including the person taking the telephone. I was intrigued, because their presentation showed how the customer got one consistent message, and not many. I encouraged the subsidiary manager to improve the presentation and change it a bit (with my help), and then I took it to corporate. They also liked it, and now it has changed how we look at this type of training. *RHQ Manager (Company 10)*.

The role as someone who spots new initiatives and takes them further was also mentioned by others:

Our job as a regional manager is to make people aware that they are doing something different here, and they are being successful at it. *RHQ Manager (Company 7)*

Subsidiary managers come to us with good ideas. We give them support and structure the ideas for them. *RHQ Manager (Company 1)*

One regional manager told us that he perceived himself and his deputies as global knowledge carriers:

We hear about initiatives, wrap them, and take them to the appropriate global setting. *RHQ Manager (Company 3)*

He was aware, though, that not all the knowledge he identified was relevant outside the region. He estimated that maybe 60 % of the new initiatives he saw would only be useful locally while the rest could be interesting to other units both within and outside the region. He was clear, however, that to reach the global stage, he had to “put a wrap” around these initiatives and present them in an intriguing manner that was acceptable and had a good fit with relevant global policies. In the next section we will analyze our findings, and discuss how they fit with previous studies of RHQs and knowledge transfer within the MNE.

## **RHQs and MNE knowledge transfer**

We started out by asking whether RHQs play a role in MNE knowledge flows. Our findings suggest that RHQs may indeed have such a role, both as a unit that makes sense of global knowledge for local subsidiaries and as a unit that provides local knowledge to units within or outside the region. Although the type and intensity of RHQ involvement in our data varies, all our case company respondents gave examples of knowledge transfer. We know from previous studies that RHQ mandates and

focuses differ, hence we cannot expect all RHQs to have this role. If we look at previous literature, however, some characteristics of the RHQ underline why the RHQ may play a role in MNE knowledge transfer. These characteristics of the RHQ relate to its formal responsibilities, its local embeddedness, and its ties within the global organization.

We have previously defined a RHQ as a formally recognized unit with headquarters functions set up to manage at least one subsidiary in a region (Schutte, 1997). Headquarters activities include control and coordination, strategic planning, restructuring and setting an overall direction for the MNE (Chandler, 1991) as well as offering shared services and overall legal responsibility (Collis, Young, & Goold, 2007). A RHQ has the same responsibilities as global HQs but has been awarded these responsibilities on a regional scale (Lehrer & Asakawa, 1999; Schlie & Yip, 2000). By delegating authority to RHQs, global HQs take a “*leap of faith*” (Morrison et al., 1991) and offshore headquarters responsibilities from the home office to the region. The headquarters status assumes a role of overview, not only of local, but regional markets. This implies that the RHQ through its position can be seen as a knowledge hub (Ambos & Schlegelmilch, 2010) with a formal mandate to collect and transfer knowledge. Headquarters allocate mandates between subsidiaries, thus influence resource flows and subsidiary evolution (Birkinshaw & Hood, 1998). Egelhoff (2010: 248) pointed to the knowledge advantage of headquarters as they can “*gather and centralize at a single point, information from disparate parts of an organization, so that it can be comprehensively evaluated and understood.*” Another advantage is the hierarchy’s ability to move decision-making from where information originates to a higher point in the organization. Our findings support these ideas. One example is how a RHQ builds knowledge on how to manage JVs. Based on experiences from many JVs, the RHQ creates a comprehensive knowledge base that again can be shared by other units. Other examples include incidents where the RHQ takes knowledge from one subsidiary, “puts a wrap around it,” so that it may be understood and appreciated globally.

Asakawa and Lehrer (2003) argued that due to their closeness to local markets, RHQs are in a position to tap into knowledge from local and regional actors. RHQs can through their location become “insiders” and learn from relations to suppliers and customers (Ho, 1998). A location within a region allows RHQs to capture “nuances” of changes that are difficult to pick up from a distance (Wai-Chung et al., 2001), and they avoid time-zone differences, enabling more direct communication with subsidiaries (Elango, 2004). A growing literature suggests that regions differ (Collinson & Rugman, 2007; Ghemawat, 2005; Rugman & Verbeke, 2004) and that closeness to regional markets is vital (Porter, 1998). Research cited above supports the claim that RHQs can help subsidiaries in the identification of and access to relevant knowledge, and thereby improve the overall knowledge management process of the MNE. Our findings suggest that subsidiaries within this particular region have to adapt to the local context concerning price and quality. Taking products or procedures directly from Western settings does not work because local competition is fierce, and the high price due to the high quality is

impossible to maintain. As our data show, local subsidiaries have developed new technologies, products and customer procedures to fit local conditions. Our respondents also suggested to us that the knowledge developed concerning more cost efficient solutions could be useful for units in other regions. Several respondents told us how necessary it was to be located within the region to understand the local competition and the needs of the local markets. A RHQ will be formally close to global headquarters and will wherefore be able to understand the corporate “lingo.” As the RHQ is located within the region, it can understand the needs of subsidiaries. In this sense RHQs act as boundary spanners (Schotter & Beamish, 2011) that create trust between subsidiaries and global HQS, and make sense of ambiguous and uncertain information. Structural integration through formal governance mechanisms and lateral socialization mechanisms facilitate both inflows and outflows from MNE units horizontally and vertically (Gupta & Govindarajan, 2000). Normally, global HQs will design and implement global systems for knowledge sharing to ensure standardization benefits throughout the entire MNE. As our data show, RHQs may play an important role implementing, overseeing, and monitoring these systems. RHQs have lower spatial distances to subsidiaries, and if management is local, cultural distances are low (Daniels, 1987; Li et al., 2010). Lower distances reduce shirking (Foss, 1997) and ease communication which makes subsidiary–headquarters relations more efficient (Birkinshaw et al., 2006; Forsgren et al., 1995; Hennart, 1991). In this sense, RHQs can increase visibility and improve efficiency of knowledge sharing systems and procedures.

### Factors influencing RHQ’s role in knowledge transfer

In the previous section we established the RHQ as having a role in MNE knowledge transfer, and discussed characteristics that enabled this role. In this section we will look further into observed variations in this role, and discuss factors that may be linked to these variations.

First, we noted variations in the involvement of the RHQ. In the presentation of the data, we looked into situations where the RHQs took a passive role, then a facilitator’s role, simply transferring knowledge from one unit to the next without interfering with the content of knowledge. Further, we saw situations where the RHQ adapted or changed the knowledge before sending it off to the receiver. Concerning knowledge inflows, we saw how the RHQ simply helped subsidiaries “fill out forms” of HRM procedures. In this case they facilitated a knowledge inflow. As a contrast to this, we observed how RHQs adapted HRM procedures to fit with local conditions. In one case we saw how one RHQ manager had to act as a “judge” deciding how much local adaptation could be allowed in the subsidiaries. We also observed variation in the type of knowledge transfer, from HRM, technical, marketing, to general managerial knowledge. In the next section, we will look into the context of these variations. Based on our data, we suggest that the type of manager, type of RHQ and its network location are some factors that influence this variation.

### Personal characteristics of RHQ managers: Motivation and experience

In the interviews we observed how the personal interest and drive of the RHQ manager varied. For example, concerning the failed “best practice transfer of the marketing manager from Taiwan,” the RHQ manager was preoccupied with production, and not personally interested in marketing. The initiative received little support from him, and when conflicts surfaced, the transfer of knowledge was just terminated. The contrast is stark to the other best transfer example where the RHQ manager took a personal interest in the transfer and actively supported the transfer from a large, foreign subsidiary in Denmark. The initiative concerned his personal area of expertise, which was production, and success of the transfer was vital for the performance of the main subsidiary. Innovations in sales, training, and new products being initiated in subsidiaries were picked up by managers who had functional backgrounds, and who saw the relevance. We also had examples where the RHQ manager used his personal network to take a procedure globally, for instance, in the case with the service procedure in company 10. This particular RHQ manager knew how these procedures were handled at other places in the MNE, and was able to see the relevance of the innovation from Shenzhen (South China). He used the opportunities to present the knowledge to other MNE units, and through their support, the knowledge was transferred. We also saw examples where the RHQ manager was uninterested in transferring knowledge, for example in the case of the formal global HRM procedures, resulting in limited encouragement to use the full potential of the global HRM system. Expressions of dedication to the role of global knowledge transfer in RHQs can be illustrated:

I see myself as a global knowledge carrier, and I and my two deputies spot a lot of initiatives as we travel around. When I see something that is “WOW,” I get involved and I say, this looks really good, and then I bring it up. I put some management process around it, position it, and then maybe we can get somebody else to pick it up (... globally). *RHQ Manager (Company 3)*

When I see what they are doing around in the subsidiaries, I get excited and want this to be shared with others. I then get together a group if we need to develop it, and make room to present it at the next meeting. *RHQ Manager (Company 10)*

Our job in the region is to make people aware that—“hey, people are doing something different here, and they have been very successful, and it may be applied in other regions as well.” We want to adopt the “best practice” in all markets efficiently and appropriately. *RHQ Manager (Company 7)*

These examples demonstrate that RHQ managers may take an active role in stimulating, developing and transferring knowledge initiatives when these overlap with their personal expertise or knowledge. Further, the RHQ manager will get more involved when the knowledge initiative matches his own needs or experiences of needs he has witnessed in other MNE units.

Our data also suggest that RHQ managers may have different management styles, and that some styles invite more knowledge sharing. Some RHQ managers described themselves as “partners,” “facilitators,” and “consultants,” suggesting that certain behaviors fit better with this style:

You need to be able to talk to people. Personal communication in this job is important. You need to understand the stakes of each party. There is always a reason for the behavior of people—it may be a good or a bad reason. The more operational experience you have, the easier it is to understand their problems. And of course—the more global clients we have, the more these problems occur (balancing the global and local). It means that we have to solve a lot of problems as they occur. If it is a recurrent pattern, we may see that we need to build a structure around it, and find better ways for the future. ...I see myself as a facilitator—having discussions at HQ, with subsidiary managers individually or in meetings, and I try to influence and get support for the things we need in this region and bring up what I think is needed for HQ to know. In this sense the regional manager is a facilitator to get processes going. It is not an easy process. *RHQ manager (Company 3)*

Schutte (1997) suggested that experienced managers are better RHQ managers. Certainly, seasoned managers have more work experience and are likely to have better knowledge of the MNE organization. One of our interviewees (a younger RHQ manager) suggested that older managers in Asia were always met with high respect and little openness, whereas it was easier for him as a younger manager to get “help” and therefore more information about subsidiary operations. Clearly, both experience and personality are important characteristics of RHQ manager, whereas the effect of age and status seems to be more subtle.

The global HQ managers that we talked to stressed the importance of trust. They argued that the selection of a RHQ manager was important because he was the main MNE representative in the region carrying both symbolic and corporate culture responsibilities. It was also important to trust information given and received to and from the RHQ. New procedures and initiatives from global headquarters are often misunderstood and seen as wasteful by subsidiaries. RHQ managers may function as a bridge between global HQs and the local subsidiaries as they personally have experiences from global HQs and more likely can understand the reasoning behind the new initiative. They can therefore push and explain the initiative, thus motivating the adaptation by subsidiaries. A decision to hoard knowledge may be individual and based on bargaining power (Husted & Michailova, 2002). Harvesting knowledge from regional managers can therefore be compared to repatriation, where interpersonal trust is one of the core issues in knowledge transfer from former expatriates (Oddou, Osland, & Blakeley, 2009).

As the regional manager is in a middle position between local subsidiaries and the central HQ, it seems to us that a facilitator or mediator role is more useful than a strictly formal role (Schutte, 1998). This role requires other personal characteristics than a strong hierarchical leader, requiring transformational rather than transactional skills (Bass, 1990). Knowledge transfer depends



on ability and motivation (Minbaeva et al., 2003) and hinges on an understanding of core business challenges. The ability to synthesize and apply knowledge depends on the abilities of individual managers (Augier & Teece, 2009; Teigland & Wasko, 2009; Van Wijk & Van den Bosch, 2001). The regional manager often relates to culturally diverse and heterogeneous subsidiaries, and will therefore need team leadership skills such as envisioning, organizing, integrating and external spanning (Barry, 1991). Schotter and Beamish (2011) suggested that managers of subsidiaries can be seen as boundary spanners, having an important role transferring knowledge to and from the subsidiary. They argue that efficient boundary spanners are driven by other motivations than financial gains, but do this because they personally enjoy it and want to contribute. The variation in excitement and energy we saw in some RHQ managers when discussing certain knowledge initiatives suggests that personal motivations play an important role in the transfer of knowledge within the MNE. Schutte (1998) suggested that RHQ managers use non-hierarchical organization mechanisms and build networks across their regions. In a recent study, Patriotta, Castellano, and Wright (2012) call these managers “high-level intermediaries,” denoting managers that provide coordination across geographical and functional boundaries acting like knowledge filters and generating opportunities for knowledge transfer. Based on our analysis, we argue that the ability to be a boundary spanner or high-level intermediary depends on personal characteristics and leadership skills, past training and experiences, as well as the motivation of the RHQ managers. From our study we argue that all RHQ managers had the opportunity to take an active role in the transfer of knowledge, but the extent to which they took this role varied with their personal characteristics and experiences.

**Proposition 1** RHQs will be more actively involved in MNE knowledge transfer when the RHQ managers have high personal motivation as well as broad company experience and therefore can be active boundary spanners/high level intermediaries.

Role of structure: The design of the RHQ

Our RHQs were either matrix or vertical units, corresponding to those identified by Schutte (1997). A vertical unit typically has profit and loss responsibility, controlling and coordinating all subsidiaries in a division within a region. A matrix unit, on the other hand, has functional responsibility for some services, like HRM, legal, and sourcing, and renders these services to all MNE units within the region. Subsidiaries report to the RHQ in a dotted line.

Some knowledge initiatives were more clearly seen in matrix units whereas others were more typical of vertical RHQ units. For example, most of the HRM initiatives could be applied to Matrix RHQs, whereas the knowledge transfer cases concerning innovation from subsidiaries, or development of new procedures or technologies, most often came as examples in the vertical companies.

The matrix RHQ units in our sample had limited formal authority over the entire value chain (mainly focus on HRM and other shared services), but covered these for the entire region. As units located in China, they will be

the experts on China or Asia, and secure that knowledge from this region is transferred to other MNE units. They therefore have a broad spatial scope (entire region) to draw information from, but can develop these only within their area of expertise, which is limited. On the other hand, they can compare practices from units in different divisions, and will therefore be able to collect local practices across business divisions. The example (Company 1) of knowledge on JVs came in a matrix RHQ. The JVs were developed in different divisions within the company, but the management experiences were common across different products and markets as well as China specific. Hence, it was very valuable for the MNE that the RHQ had developed deep knowledge on this particular mode of collaboration. Developing customer procedures, an example from a vertical RHQ (Company 2), was done for this MNE's division in the automotive markets in China. The knowledge developed here was not shared with other divisions in China, but could potentially be shared with same division managers outside of China.

Matrix units had global arenas where they could present HRM initiatives, but had limited opportunities to present other types of knowledge to core decision makers in the MNE. One matrix RHQ manager had previously reported to the global CEO, but had now just been told to report to the global shared service manager. He now had opportunities to present only limited knowledge initiatives concerning shared services, but did not have access to global arenas where, for example, technical issues were discussed.

The organization structure places constraints on information sharing (Barkema & Vermeulen, 1998). Birkinshaw (2001: 14) maintained that *"a large part of knowledge management is simply about facilitating natural interactions among people."* Ideally those who possess and those who need knowledge should be grouped together by design (Foss & Pedersen, 2002). If the knowledge is explicit, it can be packaged and travels easily. Often, however, knowledge is tacit, culturally embedded and sticky, which means that transfer between MNE units is inert. The choice of divisions directs individual interactions and therefore knowledge transfer. The design school suggests that the choice of structure should match external uncertainty and complexity (Galbraith, 2000) and reflect the stage of internationalization of the firm (Stopford & Wells, 1972). A structure with many organizational divisions prevents knowledge sharing between these divisions although some knowledge sharing is encouraged through horizontal networks, teams or cross-divisional structures (Nobel & Birkinshaw, 1998). Such horizontal structures were present in some of our vertical RHQs in the form of country chairs or coordinators. These were typically project-based, and designed for certain initiatives, like planning of a joint business center, but less effective for operational integration over time. It was clear, however, that they could not fully mitigate the effects of the choice between matrix and vertical RHQ structures. An interesting anecdote that illustrates this comes from one of our case companies which allowed a unit from another division to establish a production line within its manufacturing unit. This was against the wishes of his division head, but he did it due to personal relations with the manager from the other division. More often than not, vertical RHQs representing different divisions seemed to be separated by thick walls. We argue that:

**Proposition 2** Vertical RHQs will more be involved in knowledge transfer that is more technical whereas matrix RHQs will be involved in knowledge transfer of support functions. Vertical units will present knowledge in business meetings, while matrix units in global shared service meetings. In technical areas matrix units can have a facilitating role. Matrix units are involved in knowledge flows that are more regionally embedded than vertical RHQs.

Location of the RHQ: Closeness to important and strong actors

When we analyzed the data we were struck by the fact that most of the knowledge initiatives from the region came from subsidiaries close to RHQs. Most of our respondents agreed that Shanghai was the most dynamic location within their region, and it made sense for the RHQ to be close to activities in Shanghai. Although all our interviewees traveled extensively, they agreed that being located in Shanghai meant more attention given to and more understanding of the subsidiaries close to Shanghai.

I travel frequently, but it is much easier to go to a meeting with a customer together with our subsidiary here than do the same for a subsidiary in Korea.  
*RHQ Manager (Company 3)*

We meet over lunch every day, which keeps me informed.  
*RHQ Manager (Company 1)*

The MNE can be seen as a network (Forsgren, 2008; Ghoshal & Bartlett, 1990) where the different subsidiaries and RHQs are nodes and their interaction is influenced by their linkages. Some RHQs were co-located with subsidiaries and R&D centers. Spatial distance impedes communication and creates opportunities for misunderstandings (Hennart, 1991).

We also saw that large or important subsidiaries gained more attention from RHQs. Although some important subsidiaries communicate directly with the global HQ of the MNE (Daniels, 1986; Forsgren et al., 1995), all subsidiaries in our sample had to communicate via the RHQs. The example of a new process from Company 10 came from a large and important subsidiary outside of Shanghai. This subsidiary was located close to an important partner, and had high visibility at the RHQ. When we discussed this with the RHQ manager, he mentioned that a subsidiary in India was a “bad conscience” as it received far less attention. The distance and size, however, as well as limited resources, did not make it possible to go there more often. These kinds of “periphery” subsidiaries were also mentioned by other companies, being in countries that were less important, small in size, or far away.

Previous research has suggested that headquarters are ignorant of what goes on in some subsidiaries (Holm, Johanson, & Thilenius, 1995; Monteiro et al., 2008). Subsidiaries that are strongly embedded in their local networks have higher bargaining power (Mudambi & Navarra, 2004), visibility and influence (Andersson et al., 2002). Gupta and Govindarajan (2000) discovered that knowledge outflows were higher when the subsidiary was larger in size and located more centrally. Ambos, Ambos, and Schlegelmilch (2006) saw that headquarters gained more knowledge from strategic subsidiaries. Wang, Tong, and Koh (2004) found that parents sent more knowledge to subsidiaries the richer their knowledge base, the

more competent the expatriates, and the more important these Chinese subsidiaries were. Based on this we argue:

**Proposition 3** RHQ will be more involved in knowledge flows to and from subsidiaries that are co-located or considered more important due to their size or strategy.

## Discussion

Many studies have focused on MNE knowledge transfer as one of the key strategic factors. Several studies have given insight into roles and responsibilities of the RHQ (Enright, 2005a, b; Morrison & Roth, 1992; Schutte, 1997, 1998) and argued that due to its hierarchical position and local embeddedness, the RHQ is a well positioned knowledge broker (Ambos & Schlegelmilch, 2010; Asakawa & Leher, 2003). This role has, however, been assumed but less systematically studied. The exception is Asakawa and Lehrer (2003) that have looked at knowledge outflows assisted by the RHQ. In their study they describe how knowledge in many large MNEs has become more regional than local, but provide limited insight into the characteristics of RHQs facilitating or preventing these knowledge flows. Our study contributes with rich accounts of RHQ involvement. We extend their research and show that RHQs not only have a role in knowledge outflows, but also in knowledge inflows. Moreover, we take one step further and identify characteristics of the RHQ that are related to knowledge transfer.

Our case companies all demonstrate some role of the RHQ in MNE knowledge transfer. They may do very little, and ignore knowledge transfer initiatives, like the best-practice transfer example from a subsidiary in Taiwan. They may facilitate and transfer knowledge, like HRM practices that are transferred “as is,” or they may change and adapt the initiatives before these are sent to a receiver.

In the example of the failed knowledge transfer mentioned above, the interest of the RHQ manager was in operation rather than marketing, therefore the RHQ took no role. Other respondents have shared stories of their personal engagements and interests. Consequently, we argue that experiences and interests of the RHQ manager matters. To be successful as a knowledge broker, the RHQ manager depends on access to a range of MNE units, and this access is founded on personal interests and ties to other MNE units. More research into motivation, careers, and leadership styles seems promising (Barry, 1991; Bass, 1990), including language skills, personal characteristics and career paths for these managers.<sup>1</sup> For MNEs, this implies a careful selection of managers, hiring, training and succession planning as well as guidance of their managerial styles.

The design of the RHQ, being vertical or a matrix, will impact the type of knowledge generated and transferred, as well as the efficiency of transfer in and out of the region. This finding concurs with an organization design perspective (Galbraith, 1973, 2000; Stopford & Wells, 1972). We suggest that formal structures shape responsibilities and communication. Formal mandates direct where RHQs look for knowledge, the type of knowledge, and who they present this knowledge to.

<sup>1</sup> We want to thank an anonymous reviewer for pointing out this issue to us.

Vertical RHQs integrate knowledge across value chain activities and present this knowledge to global division heads. Matrix RHQs, on the other hand, generate narrow functional knowledge, for example HRM insights. A RHQ may play different roles in an MNE, and this role and the concurrent design may change over time (Alfoldi et al., 2012; Lasserre, 1996; Piekkari et al., 2010). The variety of RHQ types, their roles and the implications of these warrant further research.

Furthermore, we argue that large, important, and co-located subsidiaries will get more attention from RHQs. Network researchers have found that headquarters lack knowledge of subsidiaries (Bouquet & Birkinshaw, 2008), and in some instances they “fall off the radar” (Holm et al., 1995). Knowledge presented by central actors is often received more favorably than knowledge given by actors seen as peripheral (Birkinshaw & Ridderstraale, 1999). These studies suggest that RHQs not only play a role as a knowledge broker due to their formal position in the MNE hierarchy. In addition, their involvement in knowledge transfer will depend on their influence over other MNE units, and the attention they give and are given from entities within the MNE. Their ability to generate and share knowledge is not only given to them through their status as RHQs, but also is affected by their network relations, positions in the network and influence over other network actors. Table 2 summarizes our findings.

**Table 2** Summary of emergent findings

RHQ characteristics involved	Mechanisms	Theoretical references
RHQ managers as brokers between HQs and subsidiaries <ul style="list-style-type: none"> <li>• Personal motivation</li> <li>• Experience</li> <li>• Personal networks</li> </ul>	RHQ managers transfer more knowledge when they are motivated and see this as their role. Their experience and personal networks influence content and direction of knowledge transfer.	RHQ's occupying middle positions (Schutte, 1997, 1998); Ability and motivation for knowledge transfer (Minbaeva et al., 2003); Boundary spanners and high level intermediaries (Schotter & Beamish, 2011; Patriotta et al., 2012).
RHQ structure <ul style="list-style-type: none"> <li>• Matrix (serving all regional divisions) vs.</li> <li>• Vertical (serving only one division)</li> </ul>	Structure influences type of knowledge transferred. Vertical units transfer technical knowledge and into global business arenas, whereas matrix units transfer a narrower set of knowledge, with stronger regional focus and into global service units.	RHQs have different structures (Schutte, 1997); Structure constrains and directs knowledge sharing (Barkema & Vermeulen, 1998; Galbraith, 2000; Novel & Birkinshaw, 1998).
RHQ location <ul style="list-style-type: none"> <li>• Closeness and distance between RHQ and subsidiaries</li> <li>• Size and importance of subsidiaries</li> </ul>	RHQs transfer more knowledge to and from subsidiaries that are located close by, that are important and visible.	Spatial distance impedes communication (Hennart, 1991); HQ's ignorance of subsidiaries located at a distance (Holm et al., 1995; Monteiro et al., 2008); More knowledge transferred from important subsidiaries (Wang et al., 2004).

## Conclusion

Western companies operating in Asia often establish RHQs due to the distance to global HQs and the specific demands due to speed of market growth that characterizes Asia (Schutte, 1997). In Shanghai, the number of MNEs' RHQs has been increasing.<sup>2</sup> Our study has shown that these units have an important role as knowledge brokers.

China almost is a region in itself (Schutte, 1997). China has been characterized by an exceptional growth that has created a specific need for investment, strategy direction, control and coordination. It is therefore not unexpected that companies from Europe and US choose to locate RHQs in China, and that the main focus of these RHQs has been on adapting global practices to local conditions. Our study also shows that subsidiaries in Asia are creating knowledge, particularly based on low cost (Zeng & Williamson, 2007), and over time it is likely that this knowledge is exported to MNE units in other regions, through RHQs or other units.

To managers, this study suggests that RHQs have an important role in facilitating and assisting knowledge initiatives between MNE units. RHQs, through their central position between subsidiaries and headquarters, have knowledge of needs throughout the MNE, and may adapt and change knowledge from one MNE unit to fit or be useful to other MNE units. As knowledge is a core competitive resource for many MNEs, selection and training of RHQ managers, as well as careful consideration of RHQ structure and location may affect the extent to which the RHQ managers are motivated and able to take on a role as knowledge generation and transfer units. Managerial implications from our study thus include selection of managers that are well positioned, experienced, and motivated, as well as making an informed choice balancing the trade-off between vertical and matrix structures. The location of the RHQ is also important because it affects which MNE units will have better access to the RHQ.

Our study is exploratory, aiming at identifying the knowledge broker role of the RHQ, but not mapping the full extent of it. Future research endeavors using quantitative designs may look into the extent and importance of the types of knowledge transfers identified in this study. Researchers have suggested that RHQs may be an extra layer of management (Lasserre, 1996) caring about their own bargaining power (Mudambi & Navarra, 2004). Our research design is biased towards the positive effects of RHQs on knowledge transfer. Knowledge distortions and power games are important areas for future studies.

Westney and Zaheer (2001) identify resistance from academics to study the organization of the MNE stemming from the difficulty of collecting data and the complexity of the multinational organization. Our study has tried to meet this concern. We argue that the increased focus on the regional level strategically warrants research also into the regional organization.

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<sup>2</sup> According to Shanghai Municipal Commission of Commerce, by the end of 2012, the number of foreign RHQs in Shanghai exceeds 400.

**Acknowledgments** We are grateful for the invaluable feedback from the editor, Professor Michael N Young, and the two anonymous reviewers which have sharpened our contributions. We would also like to thank all respondents for sharing their stories with us. The paper has been presented at the SMS and AOM, as well as workshops at BI Norwegian Business School and Temple University, and we would like to thank for all valuable comments. We especially thank Professor Ram Mudambi and Professor Sara McGaughey for their valuable insights. We also acknowledge the supports from National Natural Science Foundation of China (71102015), Ministry of Education of China (09YJA630025), Shanghai Philosophy and Social Science Project (2011BGL009), Shanghai Education Commission (12ZS001) and 985 Projects of Fudan University (2011RWSKQN007 & 2011SHKXZD006).

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