

## Organizational Strategy for European Operations and the Role of the Regional Headquarters (RHQ)

-A case study from the IT industry-

NEC Europe

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### <Abstract>

With the progress of globalization, and as the world's second largest market, Europe is a strategically important area for many companies. The characteristics of the European market, however, are very different from other major markets such as Japan and the US, and require a different management approach.

This paper uses a case study to identify some of the main issues faced by European operations, before revisiting previous research on international business organization design and cross-cultural management to review and analyze the transformation process of the company in question around organization structure and cultural synergy creation.

### <Key words>

Organization design, regional headquarters (RHQ), global matrix, cross-cultural management, cultural synergy creation

## 1. Introduction

Europe is a key strategic market for global business expansion. The region has one quarter of the world's GDP, and is its second largest market after the US. However, Europe is also very different from other major markets such as Japan and the US because the region consists of over 40 countries with different cultures, languages and business practices.

To succeed in the European market, companies face the challenge of adapting to the

multi-country environment by developing an effective and efficient regional organization structure. Companies also need to manage local staff with diverse cultures and values. This requirement will become even more significant in future as many IT companies shift their main business area from hardware products to software and services which require them to utilize the knowledge and skills of local staff to meet local customer needs effectively.

This paper seeks to review and analyse an effective European organization structure and management strategy. It uses as a case study NEC, a Japanese multinational IT company, tracing its development over the last 30 years to identify the major issues in organization design and management strategy and the role of the regional headquarters (RHQ) as a regional center for strategic initiatives.

Regarding organization design, this paper refers to the International structural stages model by Stopford & Wells (1972). This is a classic fundamental study of the organization structure of 187 large US based companies operating worldwide, showing the relationship between strategy and organization structure at each stage.

In the area of cross-cultural management, Adler (2008) carried out comprehensive research into organizational behaviour in cross-cultural environments. This paper refers to Adler's framework for cultural synergy creation through leveraging cultural diversity.

Previous research provides a solid theoretical framework for both international organization design and cross-cultural management. On the other hand, there have not been many studies focusing on the European market, nor on concrete application of the framework and analysis of strategic initiatives and actions at a company level.

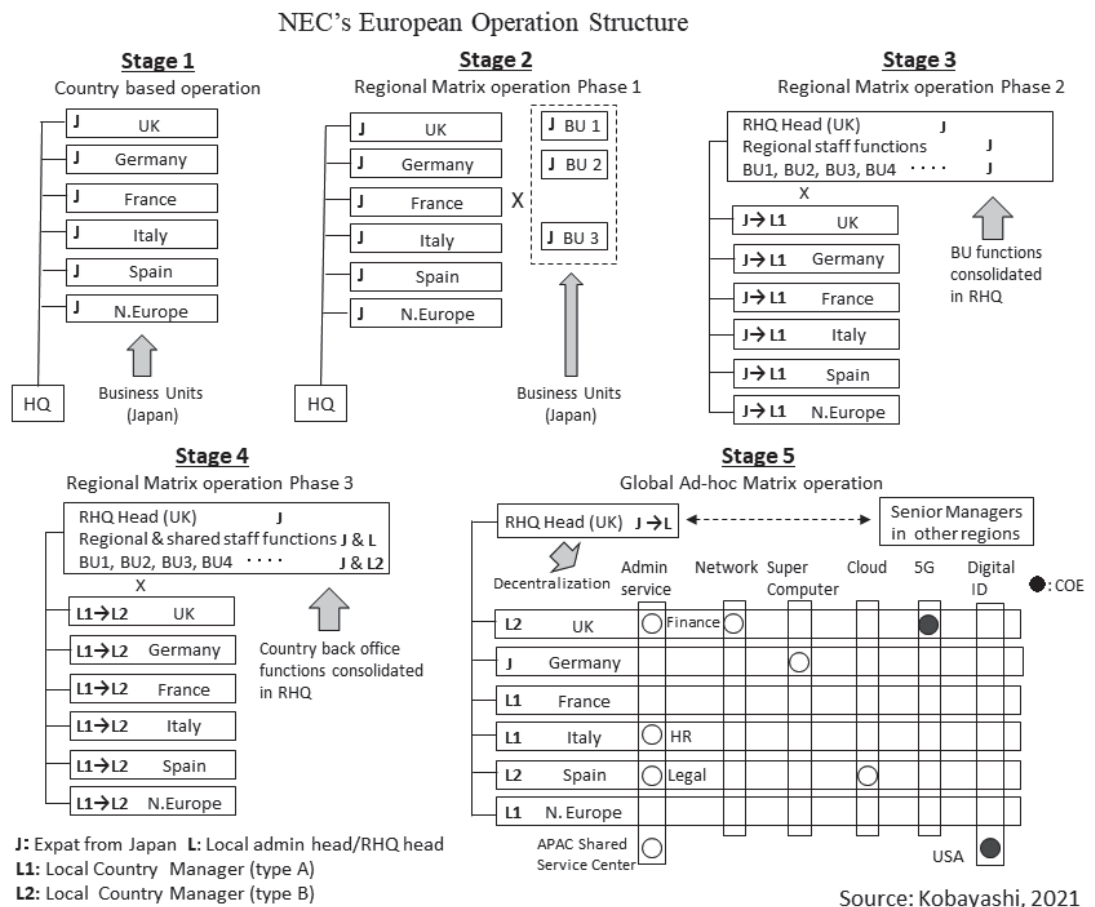
## **2. History of NEC's European operation**

NEC is a Japanese multinational IT company, headquartered in Tokyo. Its annual sales are \$28Bil and it has five regional headquarters in North America, Europe, APAC, LATAM and Greater China with over 200 consolidated overseas subsidiaries.<sup>1</sup>.

The company started its European business in the 1970s by exporting IT products such

as fax machines, printers, and mobile phones from Japan. With the fall of the Berlin Wall, the emergence and expansion of a unified EU market, the introduction of Euro, and intensifying global competition in the market, the regional operation has evolved with the changing business environment and its strategy and management structure have changed at each stage. Figure 1 shows NEC's European operation structure at each of the five stages of its development.<sup>2</sup>

Figure 1:



The stages of development were as follows.

### Stage 1 (Country based operation)

In the 1980s with rapidly increasing sales of IT products, NEC's business strategy changed from export to establishing local subsidiaries. In general, if export sales exceeded

a certain threshold in a country, the company sent an expat from HQ to set up a local entity and manage country operations as a country manager. During this period, the International Sales Division at HQ played a major role in facilitating and coordinating communication between European subsidiaries and business units in Japan.

#### Stage 2 (Regional matrix operation phase 1)

Around the 1990s, business units also started sending expats to Europe. The company needed to adapt to European market needs more quickly and maximize regional sales by executing regional, rather than country-by-country, product and marketing strategies. For example, with the introduction of GSM, all mobile phones in the region used the same technical standard while Japan and the US used different standards. During this period, as both business unit heads and country heads were Japanese, the company did not have many cross-cultural issues.

#### Stage 3 (Regional matrix operation phase 2)

In the mid 1990s, EU market integration was rapidly progressing with free movement of goods, capital, and people in the region. Against this emerging trend of a large unified European market, corporate HQ decided to set up a European regional HQ in the UK and sent a senior member of personnel to head the RHQ. All regional admin (Finance, Planning, PR, HR, Legal, IT, Purchasing) and business unit heads were co-located in the RHQ office. As one of the major reasons for establishing the RHQ was to become “an insider”, NEC promoted the localization of its regional operation. The RHQ head assigned local staff to head its European subsidiaries (shown in Figure 1 as “L1: local country manager (type A)”). Meanwhile, business unit heads and regional admin heads were still all Japanese expats during this period.

The RHQ head conducted a monthly face to face meeting where all country, business unit and admin heads got together to exchange management information and discuss regional strategy. This helped to build team spirit among key managers as well as nurturing a pan-European organizational culture. At this time, most of the local country heads were promoted internally. In many cases they used to be the finance heads of their country operations, and were therefore keen to ensure financial stability. Also, as they already worked for NEC, they

shared the same corporate culture and norms. As a result, the company did not see much cultural conflict during this period.

#### Stage 4 (Regional matrix operation phase 3)

Around the mid 2000s, with the rapid growth of the European IT market, the company started facing intensifying competition including from Korean and Chinese companies (e.g. Samsung and Huawei). In addition, public customers introduced online e-Auctions as a new purchasing scheme which accelerated price competition in the market. As a countermeasure, the RHQ head decided to push localization even further. NEC recruited country managers from major competitors to enhance its selling power in each country (shown as “L2: local country manager (type B)”) in Figure 1. Business unit and admin head positions were also localized whenever possible, and the RHQ head initiated centralization of local admin functions such as HR and Legal to reduce overall indirect costs.

During this period, NEC was shifting its business focus from the B2C to the B2B segment to avoid severe price competition in the consumer markets. To grow in the B2B market, NEC needed to enhance its local market knowledge and strategic initiatives in each market, and with new country heads from international IT companies, NEC developed and executed more aggressive sales strategies. On the other hand, as the country heads increasingly made their presence felt and their voices heard, disputes arose as country heads tried to maximize their own countries’ interests while the business unit and admin heads aimed to maximize regional interests. To resolve the situation, the RHQ head assigned some of the more vocal country heads the additional role of business unit head to give them enhanced responsibility and a pan-European mission.

#### Stage 5 (Current operation structure)

Stage 5 of Figure 1 shows the current organization structure. Global competition in the IT industry continued to intensify in the 2010s, and to survive in the market corporate HQ began to change its strategic focus from regional to global efficiency & effectiveness. In addition, the advance of IT technology such as web conferencing and cloud applications made collaboration across different regions (e.g. the US, APAC) much easier. Against this background, an ad-hoc global matrix structure has emerged that involves close collaboration

within and beyond the European region.

The new organization structure has seen the gradual decentralization of RHQ functions. The main focus of the RHQ has begun to shift from daily operation management to areas such as regional strategy development and financial control, shared services including regional governance, new business development, and coordination between regional and global business strategy. This case study supports Mori's (2014) findings on the increasing strategic role of the European RHQ of Japanese MNEs.

In this stage, business unit functions formerly centralized in the RHQ have begun moving to the most effective locations. Business unit heads work from the country where they have local resources to meet European customer needs more effectively. Moreover, global centers of excellence (COE) have been added to the matrix. For instance, NEC is working with the UK government on a 5G network trial program and has therefore set up a COE for 5G in the UK. In the area of digital ID solutions using biometric technology, corporate HQ appointed the US subsidiary as a global COE. HQ now encourages the utilization of corporate resources across different regions globally, and it expects the RHQ to play a facilitating role within the increasingly globally interconnected operation network.

### **3. Analysis and consideration**

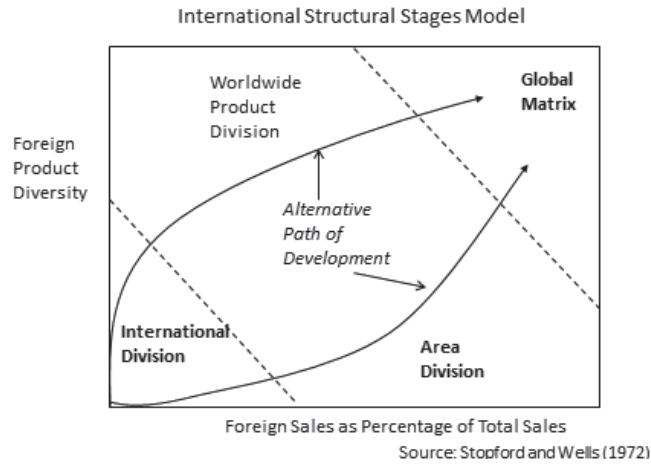
This section aims to identify and analyse the major common issues in organization design and management strategy for European operations, and the role of the RHQ as a regional center of strategic initiatives by revisiting previous research on international business organization design and cross-cultural management.

#### **1) Organization structure**

This case study nicely corresponds to Stopford & Wells' International structural stages model (1972), shown in Figure 2. NEC started its European business in its early period of foreign expansion, when both overseas sales and the diversity of products sold abroad were limited, by establishing an International Sales Division at HQ. Then, with the rapid increase of sales and the emergence of a unified EU market, NEC moved to the "area" structure around the mid 1990s by establishing a RHQ in the UK to manage country subsidiaries

and business units. The model indicates that companies that expand their sales without significantly increasing foreign product diversity typically adopt an area structure. NEC's experience fits with this hypothesis: its major products remained a limited range of consumer IT products.

Figure 2



One of the major challenges in Europe is how to manage the complexity and cost of a regional operation that is divided between over 40 countries. In this regard, the regional matrix organization of country subsidiaries and business units managed by a RHQ has been an effective organization design, and NEC's regional matrix organization has evolved from phase 1 through 3 with increasing delegation to local managers.

According to the International structural stages model, when both foreign sales and product diversity increase, companies move to the final stage: a global matrix. NEC's case indicates that the emergence of a global ad-hoc matrix structure of country and business units/COEs can be an on-going transformation process from regional to global matrix. This case study suggests that a global matrix does not need to be a formal matrix structure, but can be "virtual" and grow on an ad-hoc basis.

The characteristics of NEC's global ad-hoc matrix also correspond to the Transnational organization model (Bartlett & Ghoshal, 1989). In this model, a company's assets and capabilities are decentralized and inter-dependent, and each overseas unit contributes to its global operation in a differentiated manner, while knowledge is developed jointly by HQ and

overseas units and shared globally.

In the current stage of this global ad-hoc matrix, the RHQ’s role remains important to enhance both the efficiency and effectiveness of the regional operation. In this case study, the RHQ drove each step of the organizational transformation to strengthen sales capabilities and enhance cost efficiency in the region. Monaghan & Tippmann (2018) reviewed entrepreneurial SaaS (Software as a Service) companies and identified rapid multinationalization recipe heuristics for organization structures as follows.

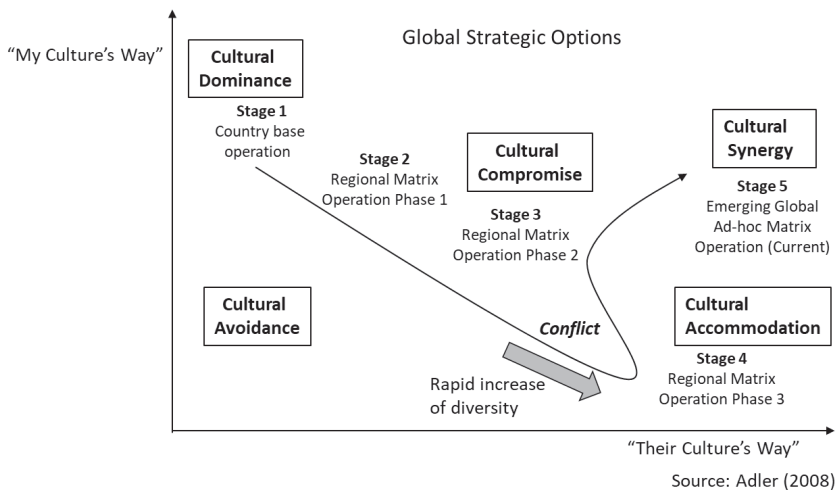
- 1) Build hub-satellite operation (RHQ with strategic decision-making authority and smaller subsidiaries, primarily to host sales activities, to advance a regional strategy)
- 2) Invest in RHQ for centralization of value chain function and to create economies of scale.

This finding supports NEC’s organization design of RHQ and country subsidiaries. However, this case study also suggests that while establishing a RHQ is an effective strategy, its functions can be geographically decentralized within or outside of the region for better efficiency and effectiveness.

2) Cross-cultural synergy creation

Figure 3 shows Adler’s framework of managers’ five basic options to approach a multicultural situation, overlaid with NEC’s cultural management approach at each of the stages of its evolution.

Figure 3





In stages 1 and 2, a cultural dominance approach based on Japanese culture was used as key managers in the European operation were all Japanese.

After stage 3, the management team had more cultural diversity, but as the local country managers were promoted internally, they shared the same corporate culture and norms. Therefore, a cultural compromise approach was often used during this period: Japanese and local managers compromised in order to work more successfully together.

In stage 4, NEC actively recruited senior managers such as country managers as well as business unit and admin heads from outside the company. At this stage, all country managers, and 70% of the RHQ admin heads were non-Japanese and 80% of them were non-British. For example, the RHQ-based heads of HR and Legal were Italian and Spanish respectively. Locally hired managers brought with them different corporate and national cultures and norms as well as new knowledge and skills.

Initially a cultural accommodation approach was adopted to absorb and leverage their knowledge and experience, but this often created conflict with Japanese managers and corporate HQ. The new managers had their own success stories and management styles from previous jobs and insisted NEC should follow “their way”. The RHQ, on the other hand, had to balance the interests of individual countries and the whole European region.

During this period of rapid increase of cultural diversity and resulting internal conflict, managers initially used a cultural compromise approach, but then both Japanese and local managers started finding that if they accepted and respected each other’s different views and listened to learn from each other, they could often synthesize each other’s view to come up with a better solution. From then on, the organization’s culture began to change toward a cultural synergy approach. In the current stage 5, managers do not argue whether the Japanese or the local way is better or how they should compromise, but proactively discuss how to find new ways of doing things more effectively and efficiently.

Throughout these five stages of transformation, the RHQ has played a critical role as a strategic center to create cultural synergy. For example, the RHQ head drove the recruitment

of senior managers from outside the company and chaired monthly face to face regional meetings to share ideas and information among key managers to enhance the performance of the European operation as well as to nurture a new pan-European organizational culture that promotes cultural synergy creation. In addition, the RHQ HR team introduced a new performance appraisal system consisting of a matrix of work performance and corporate value score. If an employee's behavior does not reflect or goes against NEC core values, which include being open minded, respecting others and collaborating beyond organizational boundaries, their overall performance score will be lower. This has helped to nurture a shared mindset which promotes cultural synergy creation.

Hutzschenreuter & Matt (2017) analysed the roles of experimental direct & indirect learning and knowledge stock accumulation in the internationalization process of the firm, and mentioned that a RHQ can offer a relatively easy way of accumulating knowledge stocks in the region. In NEC case's, this framework suggests that country managers, business and admin heads recruited from outside the company contributed to knowledge transfer from the external network to the RHQ as a locus of strategic decision making and implementation.

#### **4. Conclusion**

This paper has reviewed and confirmed that the transformation process of NEC's European operation from regional matrix to global ad-hoc matrix fits well with the International structural stages model (Stopford & Wells, 1972), and has presented, through this case study, a more concrete image of a global matrix.

With regards to organizational culture, the case study indicates the importance of building an organizational capability to create cultural synergy among increasingly diverse staff to improve performance, as well as of the strategic role played by the RHQ in achieving this goal.

Market needs and the competitive environment are constantly changing, and international IT companies need to continuously balance global business strategy and local market adaptation to succeed in the market. This analysis is based on a case study of one IT company and more cases should be reviewed to enhance the external validity of the relevant

analytical frameworks. In addition, newly emerging factors including the impact of Brexit and new technologies such as cloud, AI, and DX, as well as the influence of “new normal” requirements should be reviewed and assessed.

Finally, as more IT companies enter the European market as part of their international business expansion, the significance of European operation design and management strategy will become an important topic from an academic viewpoint.

Note: The company used for this case study continues to transform its business portfolio, organization structure and management strategy. In this respect, this case study is for academic research purposes only and should not be used for any other purpose.

#### <Endnotes>

- <sup>1</sup> NEC Annual Report <https://www.nec.com/en/global/ir/library/annual/index.html>
- <sup>2</sup> The author has worked at NEC's European RHQ for over 20 years as General Manager of Corporate Planning and Business Development, and has had ample opportunity to observe its European operations.

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## 欧州事業組織戦略と地域統括本社の役割 —IT 企業の事例研究—

NEC Europe

小林規一

### <要旨>

経済活動のグローバル化が進む中で、北米に次ぐ世界第2位の市場規模を持つ欧州は多くの企業にとって戦略的に重要な市場といえる。他方、日本や米国などとは大きく異なる地域特性を持つ欧州市場での成功には違った経営アプローチが必要とされている。

本稿ではIT企業のケーススタディを使い欧州で事業展開する上での主要な課題を明らかにすると同時に、対象企業の欧州事業組織及びマネジメント戦略の変化過程を国際事業組織設計及び異文化マネジメント分野での先行研究の枠組みを使い分析した。尚、本ケーススタディにおいては、組織構造及び文化的シナジー創造の両面で地域統括本社 (RHQ) の役割を軸にした事例分析を行った。

### <キーワード>

組織設計    地域統括本社 (RHQ)    グローバル・マトリックス    異文化マネジメント  
ト    文化的シナジー創造