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# Current Roles and Future Perspectives for CEE-Headquarters

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# CEE headquarters – An Austrian perspective

- CEE-HQ have played an important role in the „**going east**“ of Western multinationals since the fall of the Iron Curtain.
- Geographic/mental **proximity** to region, already existing **business relations** and **visionary managers** gave Austrian subsidiaries a head start.
- More than **200 CEE-HQ** (e.g., Henkel, Siemens, Canon, Rewe Int'l., Mondi, Banco do Brasil, Western Union) are located in Austria – about as many as in Czech Republic, Hungary, Slovakia and Poland together.
- A **CEE-HQ** is either a **spin-off** of an Austrian subsidiary, a **newly founded unit** or the result of a **takeover** of a firm with CEE presence (e.g., Brau Union > Heineken, Volksbanken Int'l. > Sberbank).

# Dynamics in CEE and internal developments drive discussion about role of CEE-HQ

New **constellations** lead to the question if the role of CEE headquarters is still the same or if changes in the regional management model have taken place.

## Dynamics in CEE

- 2008: End of a long boom phase
- CEE still suffers from this Great Recession
- CEE lost growth region status
- CEE is not perceived as „Eastern Bloc“ anymore

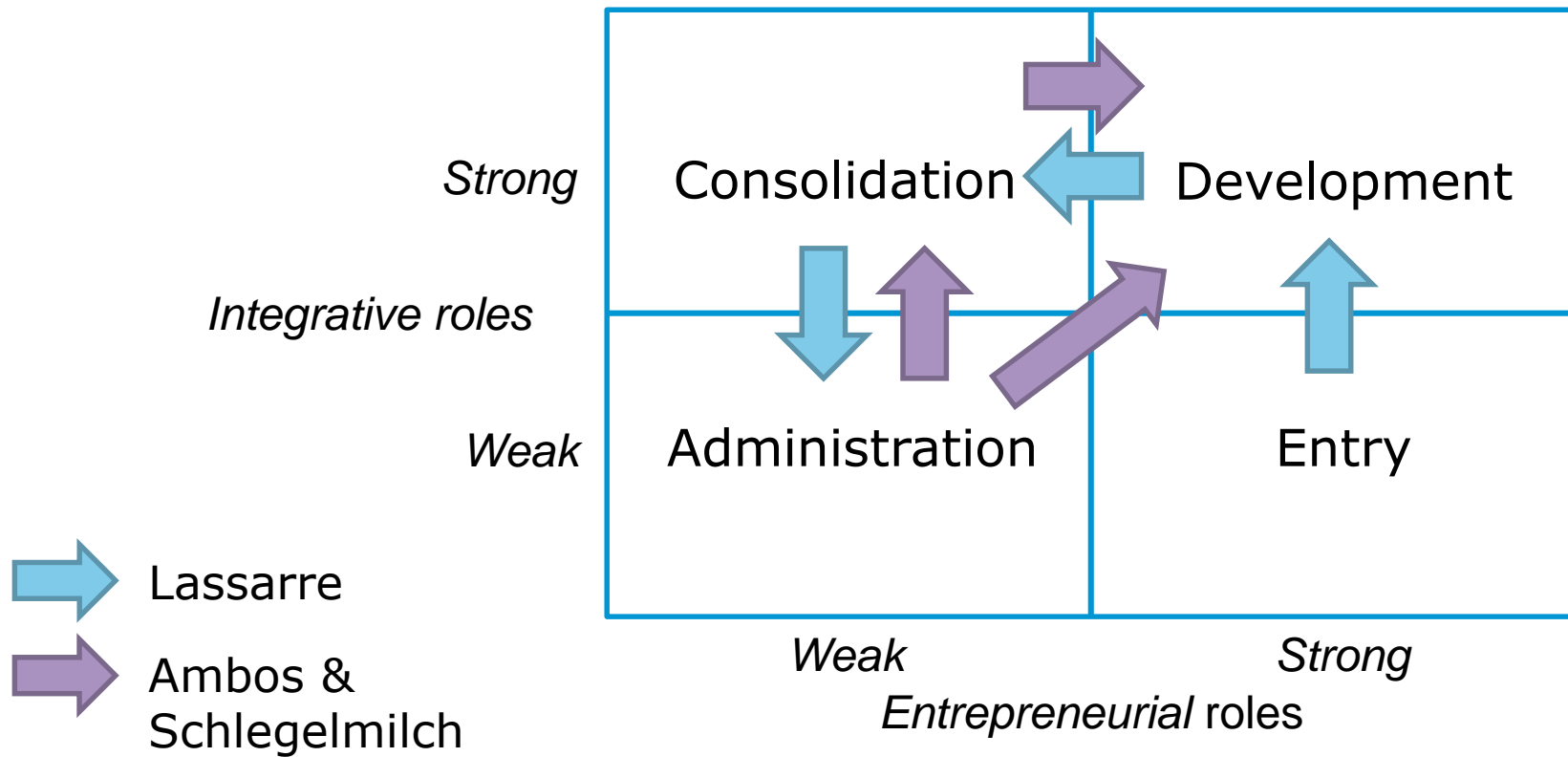
**Role of  
CEE-HQ  
?**

## Internal developments

- From expansion & building to running a regional group
- Better qualified local management
- More autonomous CEE subsidiaries
- Cost reduction
- Globalization
- Virtualization

# The life-cycle of regional HQ

Lasserre, 1996; Ambos & Schlegelmilch, 2010



# The life-cycle model of CEE-HQ

	Stage 1 Entry	Stage 2 Development	Stage 3 Consolidation	Stage 4 Administration
External	Start of economic transformation	Emergence of modern business infrastructure	Successful catching-up, growing middle class	Slowing growth, Similar market structures
Internal	<ul style="list-style-type: none"> <li>• Entry into CE</li> <li>• Building presence &amp; business</li> </ul>	<ul style="list-style-type: none"> <li>• Expansion into SEE/Eastern Europe</li> <li>• Growing business</li> </ul>	<ul style="list-style-type: none"> <li>• Most markets covered</li> <li>• Focus on integration &amp; coordination</li> </ul>	<ul style="list-style-type: none"> <li>• Some subs integrated in W-EU structure</li> <li>• Reduction of staff/CEE unit</li> </ul>
<i>Functions performed by CEE-HQ</i>				
Obligatory & Control	<b>F</b>	<b>F</b>	<b>F</b>	<b>F</b>
Value-cr.	<b>F</b>	<b>F</b>	<b>P</b>	<b>P-N</b>
Services	<b>F</b>	<b>F</b>	<b>P</b>	<b>P-N</b>

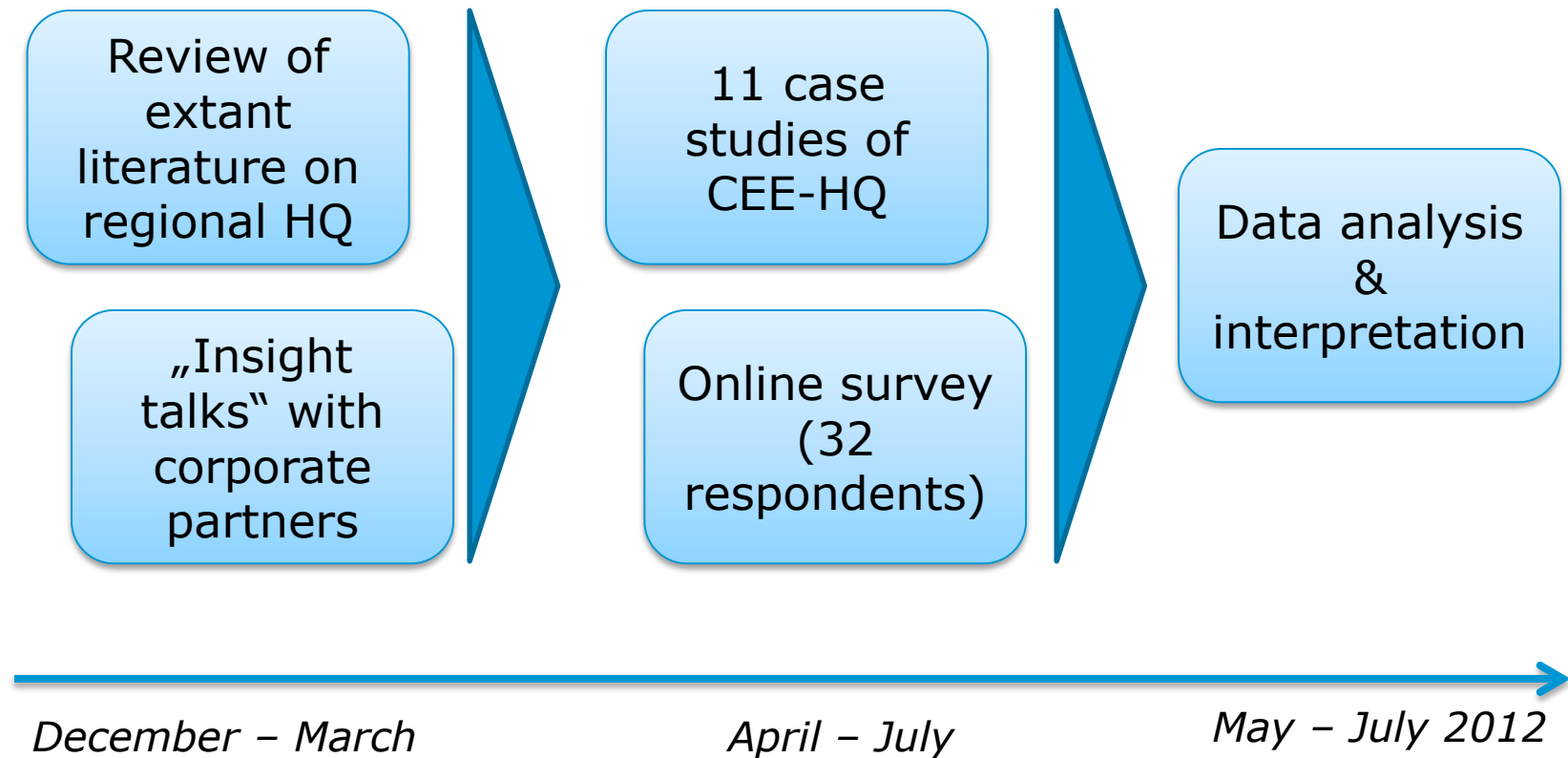
F = Full, P = Partly, N = None

# What is the current and future role of regional headquarters for CEE?

Our main research questions are:

- What are the main **characteristics** of regional headquarters for CEE in Austria?
- What is their **current role**?
  - What is the regional and functional scope of the mandate?
  - How is the CEE headquarters organized?
- Which **changes** in the role can we expect?
- How do CEE headquarters justify their existence and **add value** to the performance of the corporate group?
- What does the **future** hold for CEE-HQ?

# Research design

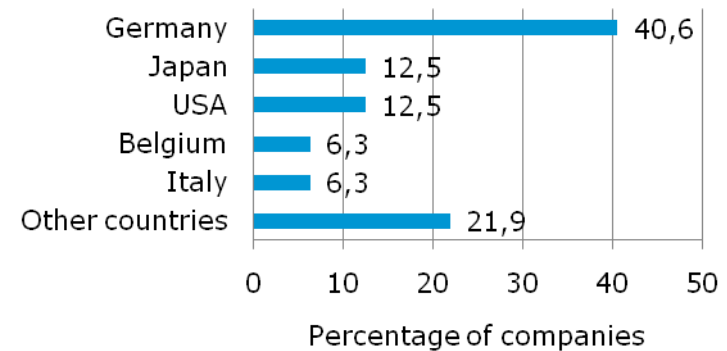


# 40% of CEE-HQ belong to German parents

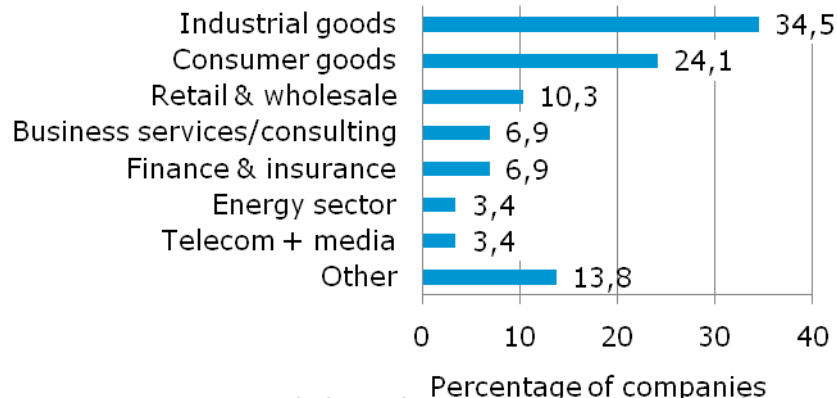
Characteristics of sample (online):

- Industrial goods and consumer goods are the dominant industries in this sample.
- A firm size of 11-50 employees, that is staff dedicated to RHQ tasks, is typical for a CEE-HQ.

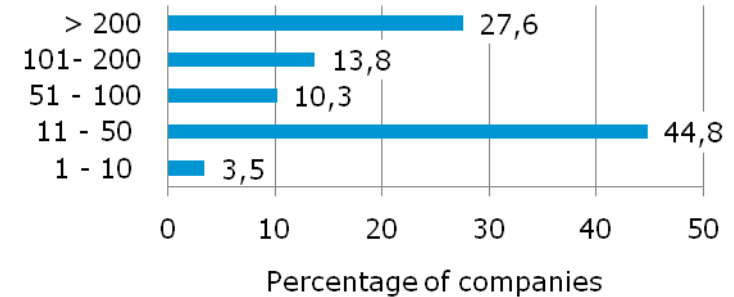
## Location of global headquarters



## Industry



## Number of employees in CEE headquarters



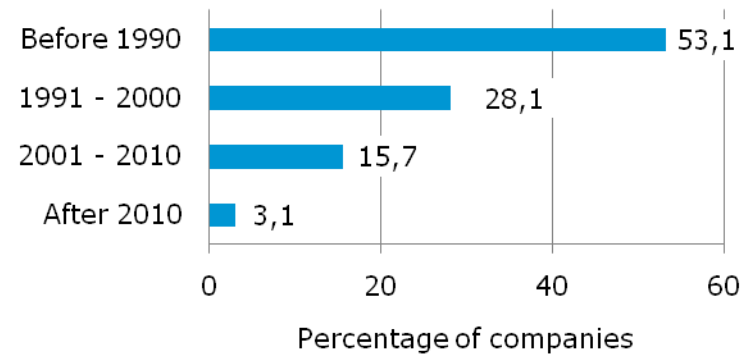


# Most CEE-HQ control more than 20 countries

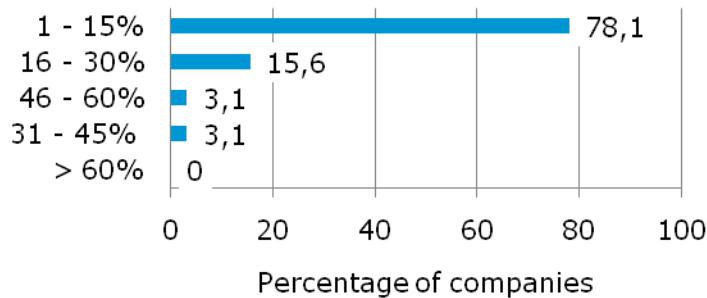
## Characteristics of sample (online):

- More than half of the companies entered CEE before 1990.
- For nearly 80% of the companies CEE sales represent up to 15% of corporate group sales.
- 28% of companies control only 1 – 5 national subsidiaries, while 38% control more than 20 country organizations.

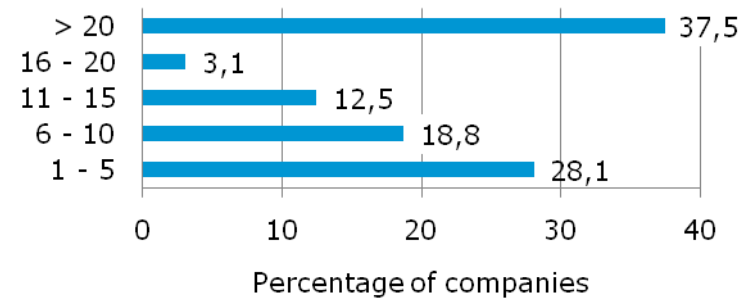
## Year of first entry into CEE



## Proportion of CEE sales to total group sales



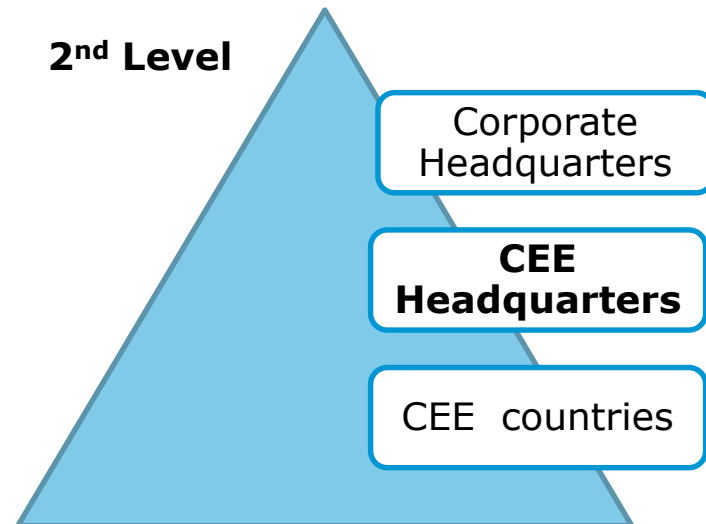
## Number of national subsidiaries controlled by CEE headquarters



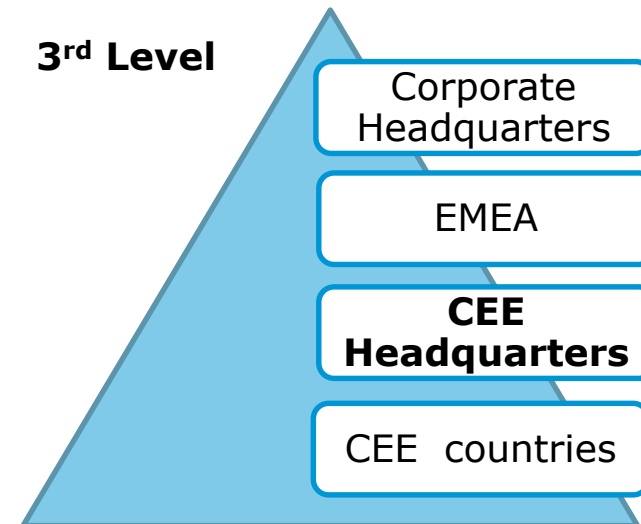
# CEE headquarters are typically located at 2<sup>nd</sup> or 3<sup>rd</sup> hierarchy level

A CEE-HQ is an organizational unit that acts as an **intermediary** between corporate/European headquarters and country operations in CEE and is located **in** or **next to the region**.

## European Companies

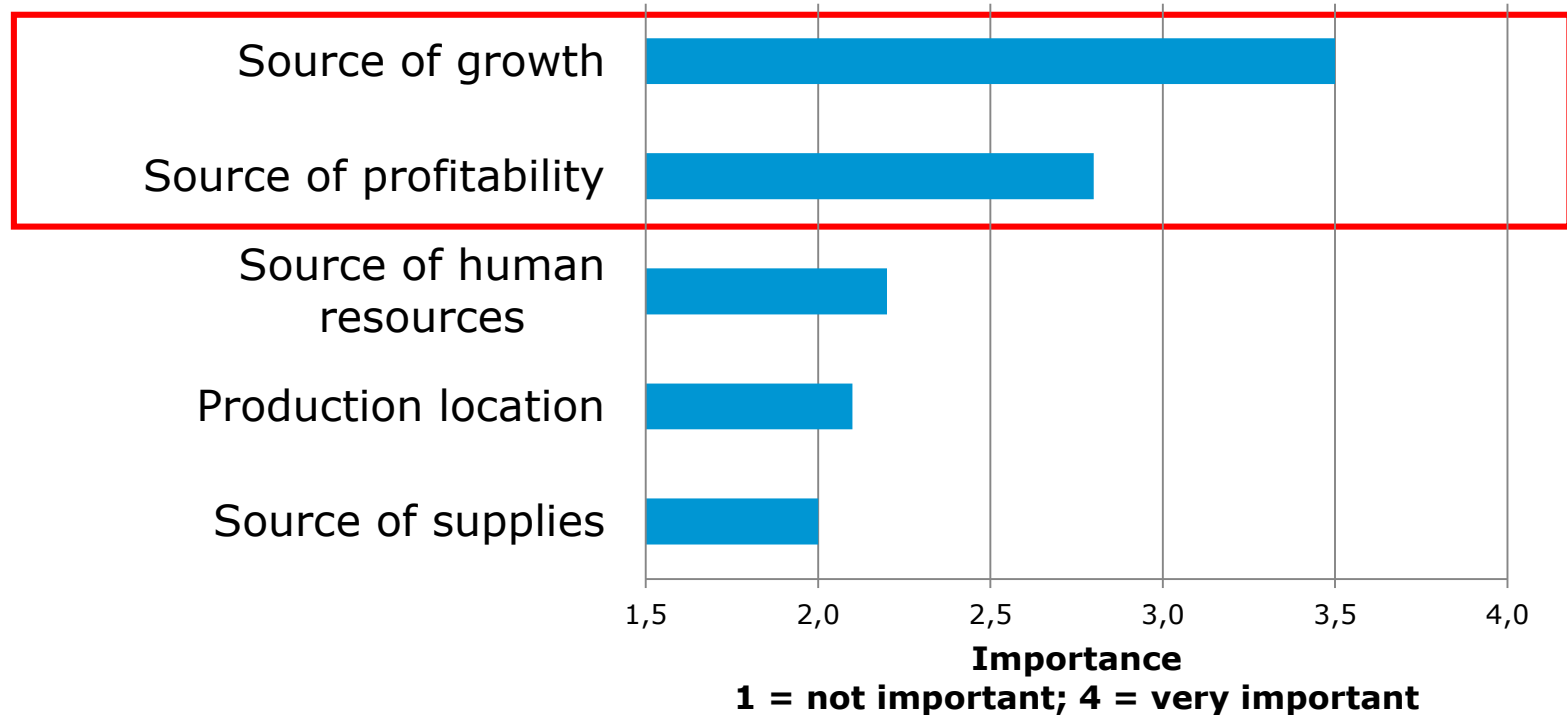


## Non-European Companies



# Growth is still the main motive for a presence in CEE

## What is CEE's role in corporate strategy? CEE is a .....



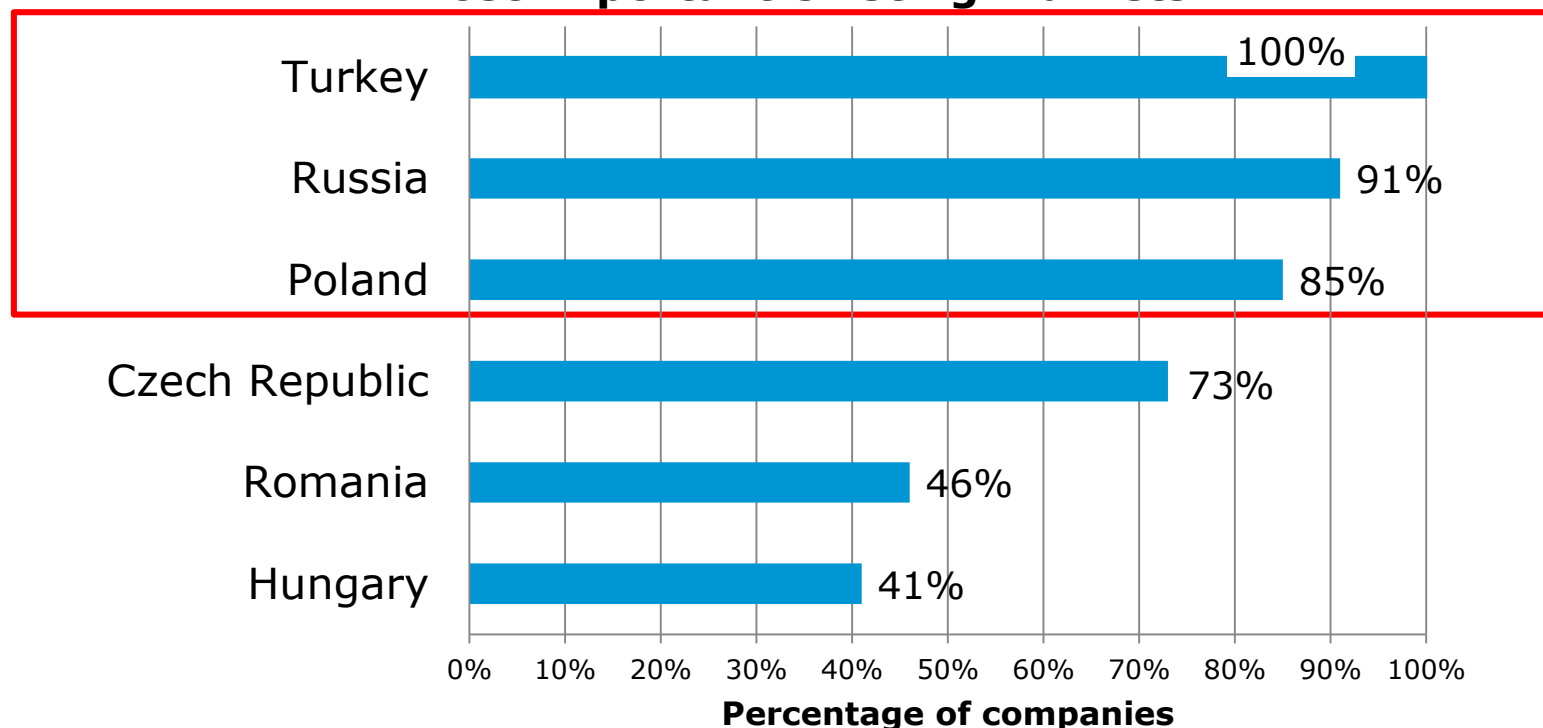
# Central and Southeast European countries are typically part of the regional mandate

In ..% of cases the following countries are covered by the mandate:



# Countries less frequently covered by a CEE mandate rank high in importance

## Most important existing markets



Online survey: „Which of the countries where you are present would you define as your most important markets?“

# Majority of CEE-HQ is still organized as “little replicas” of corporate HQ

Frequency	Organizational model	Description
<b>47%</b>	<b>The Fully-Fledged Regional Headquarters</b>	In this most comprehensive form your organization is the owner of the CEE-subidiaries, carries out strategic planning, coordination and management tasks in all key functions, provides central services and is an important manufacturing site for the region.
<b>37%</b>	<b>The Regional Management Model</b>	In addition to reporting tasks your organization is also engaged in operative tasks for the region such as coordination and steering of regional sales, key account management, marketing and human resources. You also carry out selected central support for the region (e.g. coordination of IT, staff training).
<b>16%</b>	<b>The Regional Reporting Unit</b>	Your organization is mainly responsible for planning, budgeting and reporting to corporate headquarters for the CEE region, or is assisting the CEE-subidiaries in fulfilling these tasks.

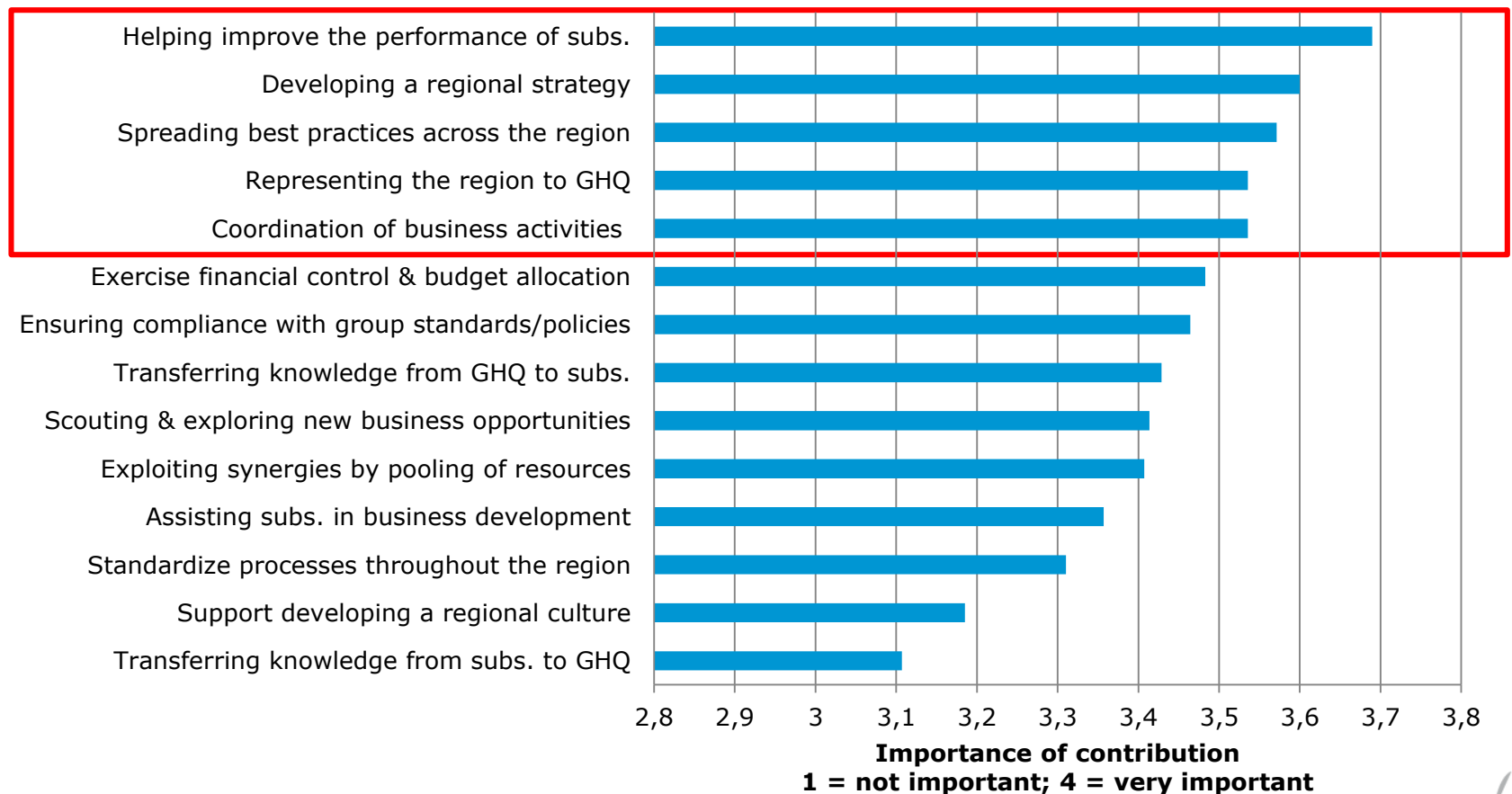
# Controlling & reporting, regional strategy development, marketing & sales planning and staff training are the main tasks

## Headquarters functions performed for CEE subsidiaries



# Performance management, regional strategy development & representing the region adds most value

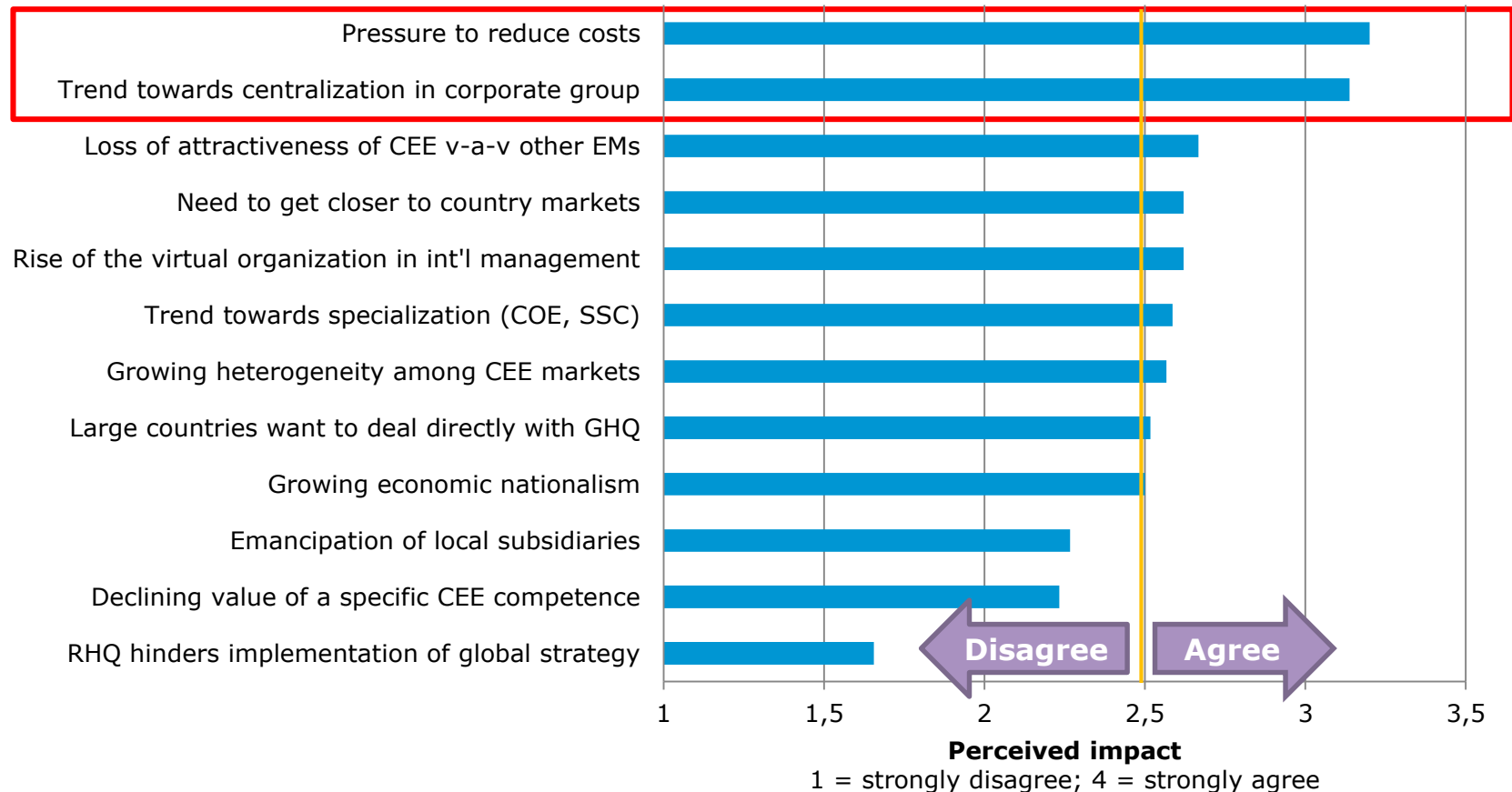
## Major contributions of RHQ to corporate group performance





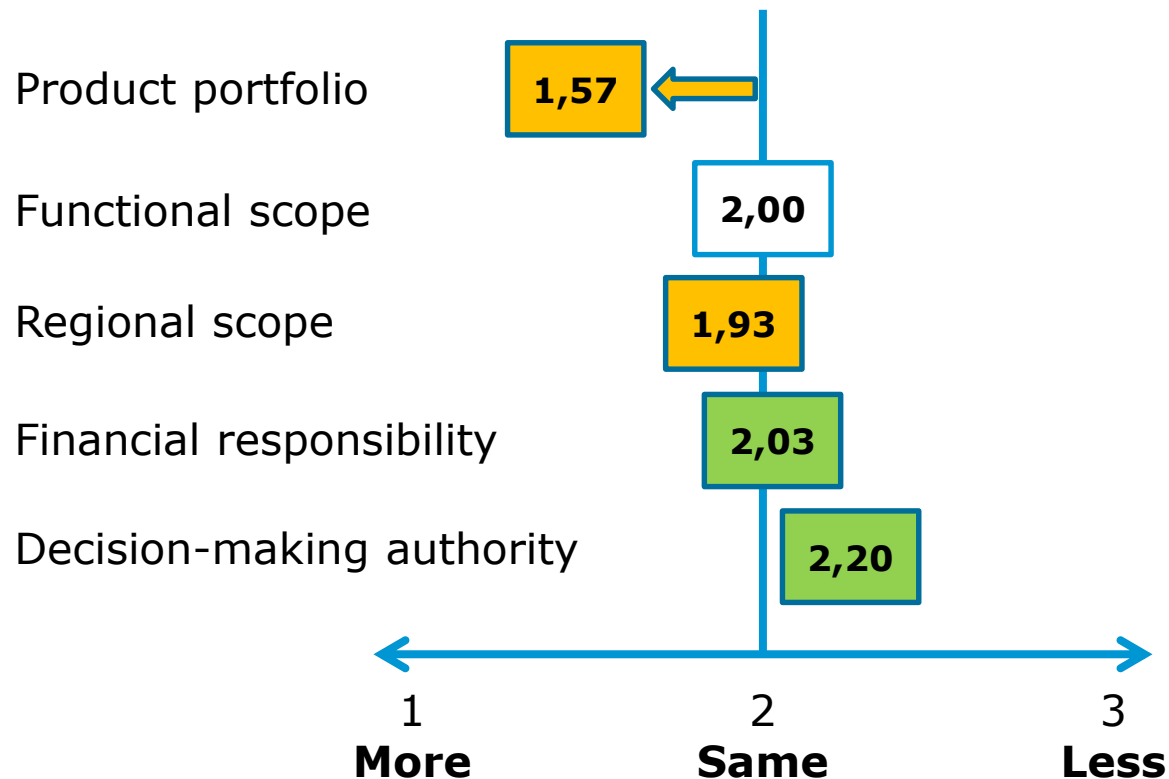
# CEE-HQ are faced with cost pressure and more centralization

## Impact of different forces on the organization of CEE activities



# Future brings more work but less decision-making authority

## Expected changes in the CEE mandate in next 3-5 years



# Balancing global vs. local views and complexity reduction justify existence

Bundling of regional know-how & best practices sharing

Transformation of global strategies to regional level

**Main arguments justifying the existence of CEE-HQ**

Complexity reduction for corporate HQ & representation of region in corporate HQ

Synergies through pooling of resources

Online survey/open-ended question: „What are, in your opinion, the main arguments justifying the existence of a CEE HQ today?“

# How do regional HQ located in CEE differ?

Szita, 2013

Identified 148 RHQ (HUN, SLK, CZ, POL) – 20 interviews

Compared to CEE-HQ located in Austria:

- RHQ in are **younger** (2001-05) – their establishment followed after market entry.
- **Fewer functions** are performed.
- More **Regional Reporting Units** and fewer fully-fledged RHQ can be found.
- They expect **positive changes** in their regional mandate in all dimensions.
- Pressure to **reduce costs** is most important influence.
- **Representing the region** and standardizing processes adds most value.

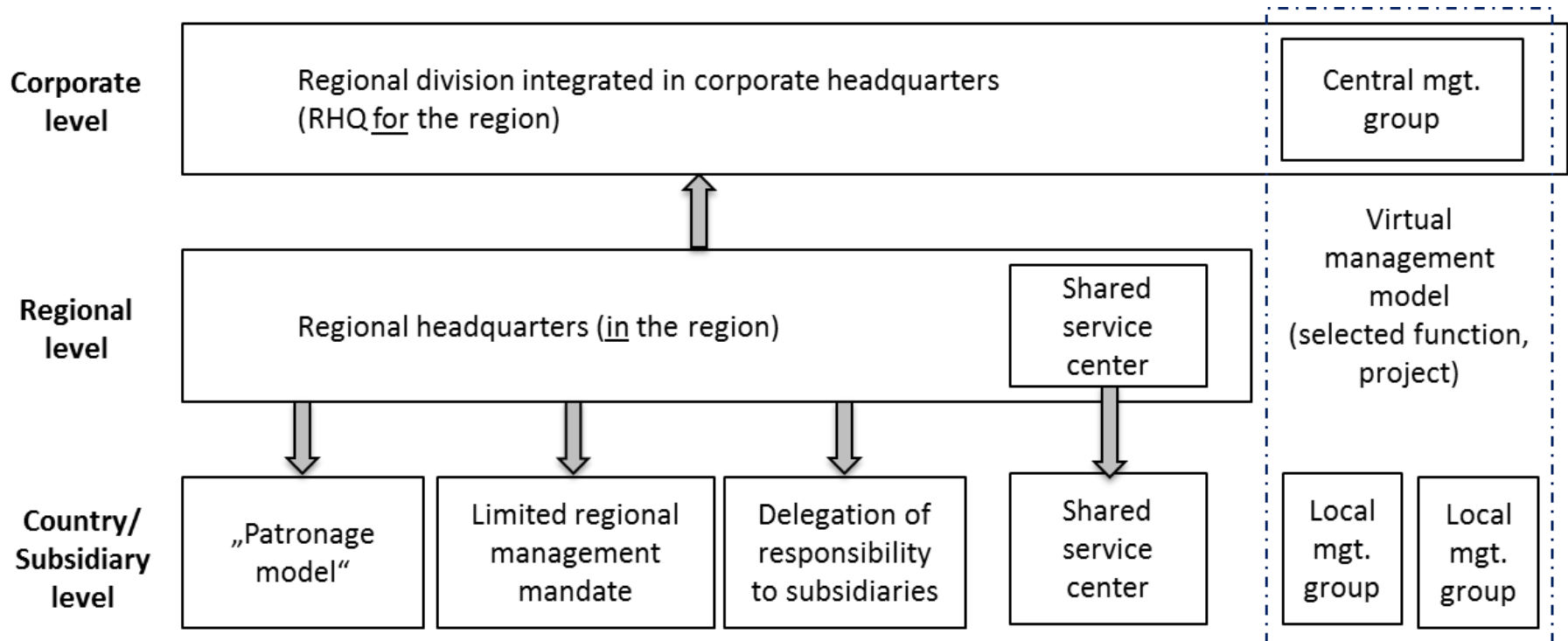
# CEE-HQ have not become obsolete – but they lost in importance

- Slower growth rates and **disillusion** with progress in CEE.
- Need to improve **efficiency** and **profitability** dominates management agenda and calls for optimization of regional structures.
- Mature CEE-HQ (may) **lose responsibility** and get **leaner** - see „miniature replicas“ in AT.
- CEE-HQ add most value by **integrative tasks** (coordination, strategy, representation) and assisting subsidiaries in performance improvement and business development.
- Most **changes** that happen are not mirrored in structure (e.g., decision-making process, responsibility).
- **CEE-HQ life-cycle model** cannot be fully confirmed for our sample.

# Future perspectives for CEE-HQ

- „Last line of defense“ are (a) **representing the region** at GHQ, (b) applying accumulated experience in **new markets** (CIS, Turkey, Middle East, North Africa) and (c) orchestrating a **regional network**.
- **Great Recession** of 2009 has damaged the role of CEE-HQ
- **Relative advantage** vis-à-vis alternative organizational models – and younger, leaner **RHQ in CEE**
- But the core question is the role of **regional management** in general – Regionalism vs. Globalism

# Alternative organizational solutions to regional headquarters





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