

This is the **Accepted Version** of a paper Presented at the  
Academy of International Business Southeast Asia Regional  
Conference:

Ma, Xufei, LI, Donghong, and Wang, Pengji (2012) *What determines the establishment of Chinese multinational enterprises' Asia regional headquarters?*  
Proceedings of the Academy of International Business Southeast Asia Regional  
(AIBSEAR) Conference . 2012 Academy of International Business Southeast  
Asia Regional (AIBSEAR) Conference , 6-8 December 2012, Xiamen, China ,  
pp. 1-37.

# **What Determines the Establishment of Chinese Multinational Enterprises' Asia Regional Headquarters?**

## **Abstract**

Although regionalization has gained interests from many scholars, little research has been done to examine why MNEs set up regional headquarters out of their home country but within their home region. We develop a theoretical framework to examine the determinants of Chinese MNEs' Asia regional headquarters (ARHQs).

We argue that the establishment of ARHQs is a logical choice based on Chinese MNEs' strategic intent of regional strategy. We differentiate two regional strategies: investing-regionalization with efficiency improvement as the strategic intent and trading-regionalization with legitimacy gaining as the strategic intent.

Based on survey responses from 226 Chinese MNEs, we find that investing-regionalization in Asia would promote MNEs to build ARHQs, while MNEs would set up ARHQs when they have high trading-regionalization outside of Asia. In addition, we find that home-base regional integration and MNEs' international management capability will not only directly impact the establishment of ARHQs, but also moderate the relationship between trading-regionalization outside of Asia and the establishment of ARHQs.

**Keywords:** Regional strategy, Regional headquarters, Chinese MNEs

# **What Determines the Establishment of Chinese Multinational Enterprises' Asia Regional Headquarters?**

## **Introduction**

How multinational enterprises (MNEs) manage their foreign operations is a fundamental question in strategy research (Rumelt, Schendel, and Teece, 1994), and also a focal point of international business (Peng, 2004). Extensive literature has focused on the strategy and structure of MNEs to manage their subsidiaries (Schütte, 1997; Rugman, 2008). Previous research suggested that due to semi-globalization, i.e., the co-existence of market globalization and market barriers (Ghemawat, 2003), more and more MNEs are adopting a regional strategy (Heinecke, 2011), which is an intermediary between globalization and localization, and helps MNEs to achieve global integration and local responsiveness simultaneously. A regional strategy drives the need for MNEs to establish regional headquarters (RHQs) to integrate regional operations and to leverage firm specific assets (Enright, 2005a, 2005b; Lasserre, 1996; Rugman and Verbeke, 2005).

Theoretically, although much has been written on the RHQs of MNEs, most of the research looked into MNEs setting up RHQs in distant regions. They examined how these RHQs help address the distant management problems such as unfamiliarity with culture and institutional systems, as well as liability to regional foreignness (e.g., Ghemawat, 2003; Rugman and Verbeke, 2003), and thus facilitate the deployment of firm specific assets (FSAs, such as technology, tacit knowledge, brand, operation, etc) beyond the bounded location (Rugman and Verbeke, 2005). Yet little attention has been paid to the RHQs in home region. Such a theoretical skew towards distant RHQs is against the business practice. Rugman and Oh (2012) pointed out that the home region is most important for firms as “the great majority of the world’s 500 largest firms concentrate their activities within their home region of the triad”. Accordingly, some of them establish regional headquarter in their home region other than the corporate headquarter in their home country. For example, some Japanese MNEs established second headquarters out of Japan in Asia-Pacific area. Given that

geographical distance is not considered as a major problem for MNEs' deploying FSAs in the home region (Yeung et al., 2001), what explains the establishment of home RHQs would become an interesting puzzle.

Empirically, the previous research focuses on the regional strategies of MNEs from developed countries, such as US, Europe and Japan (Schütte, 1997; Birkinshaw, et al., 2006; Benito et al., 2011). However, there is good evidence that MNEs from emerging economies such as China, are increasingly setting up foreign headquarters in their home regions. For example, other than having their corporate headquarter in their home country mainland China, Bank of China established its Asian headquarter in Hong Kong in 2001; TCL set up Asian headquarter in Singapore in 2007; Haier set up its Asian headquarter in Japan in 2012. However, little effort has been made to investigate the regional strategy and RHQs of these emerging market MNEs. With different strategic intents triggered by different institutional context from those in developed countries, the motivations and determinants of the emerging MNEs' establishing home region headquarters are worth detecting.

In this study, focusing on the MNEs from China, we try to fill up the above two gaps by investigating the research question: "What determines the Chinese MNE's establishment of Asian Regional Headquarters (ARHQs)?" We first argue that the establishment of an ARHQ is a logical choice based on the firm's strategic intent of regionalization. We divide strategic intent of regionalization into two types, i.e., investing-regionalization and trading-regionalization, and explore their different impacts on building an ARHQ. Then, we investigate the contingent aspects of the relationship between regionalization intent and the establishment of an ARHQ. More specifically, we examine how Chinese MNEs' home-base regional integration and international management capability affect their ARHQ decision.

This paper has several contributions to theory and practice. First, it advances the understanding on the motivation and strategic intent of RHQs in home region. Second, by focusing on Chinese MNEs, it explicitly shifts the research focus of RHQs from "developed-country firms coming in from outside the region" to "emerging-market firms going out from inside of the region". Third, as the roles of home country and home region have been more valued by recent research (Rugman, 2005; Banalieva and Santoro, 2009), we contribute to extant literature by building a bridge between home-base regional integration and MNEs' establishment of home region

headquarters and clarifying the strategic role of home base in the process of MNEs' internationalization. The study also has important implications for policy makers and multinational managers.

In the next several sections, we firstly provide a literature review on the motivation, definition and functions of RHQs, based on which we identify the research gap and propose the conceptual framework. Then we develop hypotheses to illustrate the conceptual model, followed by the discussion of methodology and results. We conclude the paper by identifying the contribution, practical implication and limitations.

## **Theory Background and Conceptual Framework**

### **Regionalization and Regional Headquarters**

According to Ghemawat (2003), what must be grasped is a business reality that lies in between “one (insular) country” and “one (integrated) world”. He proposed the concept of semi-globalization as a complicated stage of incomplete market integration. In semi-globalization stage, integration of markets has increased dramatically, but still falls far behind the perfect level; market barriers at borders are still high, but not high enough to make countries completely independent of each other. Given this incomplete market integration, firms' international corporate strategies are different from their strategies for competing merely in a single location. Neither the barriers at borders nor the links among markets can be neglected.

In response to semi-globalization markets, regions have become the base for firm's strategic decisions and business activities. Recent development in economic geography identified the emergence of triad regions in world economy as North America, Western Europe and Asia-Pacific (Beaverstock, Smith and Taylor, 1999; Levy, 1995; Poon, 1997; Rugman, 2005). As a response to the emergence of triad-region economic structure, researchers argued that regionalization, rather than globalization, is a more appropriate description of the worldwide investment and trade patterns (Enright, 2005a, 2005b; Rugman, 2005; Yeung, Poon, and Perry, 2001).

Regionalization refers to the strategy that MNEs take to embed themselves in regional markets (Yeung et al., 2001). It is a solution to the tension between global integration and local responsiveness (Bartlett and Ghoshal 1989; Yeung et al., 2001).

With a strategy at regional level, on the one hand, the big world is broken down to parts as regions; on the other hand, many independent countries with proximity in location are aggregated to a whole. MNEs can thus realize aggregation advantages within the region by deploying firm specific assets (FSAs) such as technology, knowledge, distribution, operational process, brand, and reputation (Rugman, 1981; Rugman, 2005), through standardizing products/services and grouping processes of development and production (Ghemawat, 2007: 60).

To manage the regionalization strategy, MNEs typically establish regional headquarters (RHQs). In the literature, there are two versions of definition for RHQs: a narrower one refers only to RHQs, and a broader one includes both RHQs and regional offices (ROs) (Enright, 2005b). Because there is no functional difference between RHQs and ROs, we adopt the broader definition of RHQs. We define an RHQ as an office that has managerial control over offices in the region on behalf of its parent company located oversea. On the one hand, an RHQ has autonomy from the corporate headquarter and reports to the corporate headquarter; on the other hand, an RHQ has control power over other subsidiaries' product-/service-related, geographic, and functional activities in the region (Enright, 2005b).

A few studies have been focusing on the roles RHQs play. By investigating the MNEs from developed countries who set up their RHQs in other triad regions, those studies mainly argued that the transferability of MNEs' FSAs declines with distance (Rugman, 2005). This is particularly the case when MNEs expand into other distant triad regions because they will face unfamiliarity with culture and institutional systems, as well as liability to regional foreignness (e.g., Ghemawat, 2003; Rugman and Verbeke, 2003). As a response, they set up regional headquarters close to their host countries to acquire the equivalent knowledge in the external market, and to incorporate the market needs to their FSAs as an adaptive response to host location requirements. Based on the argument, those studies identified two categories of roles that RHQs can play in facilitating the deployment of FSAs. One category highlights RHQs as the functional units to help improve the *efficiency and effectiveness* of deploying FSAs in the regional or international arena. Within this category, RHQs may function as entrepreneurial, or value creating, initiating, with emphasis on seeking new opportunities to exploit the FSAs, and determining and carrying out corporate strategies (Chandler, 1991; Lasserre, 1996). A second function of RHQs

within this category is administrative or loss-preventive, with focus on monitoring and effectively coordinating, facilitating the use of organizational capabilities (FSAs) (Chandler, 1991; Lasserre, 1996). The other category highlights the *institutional benefits* associated with RHQs. Birkinshaw, et al. (2006) argued that business unit headquarters may move abroad for symbolic value, namely, by locating the headquarter abroad, MNC is positioning itself as a global player within its industry. It suggests that organizations will often adopt the practices of other players within their ‘institutional field’ as a means of establishing their legitimacy (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). Such a move is not necessarily efficient in terms of its direct effect on performance, but the social legitimacy it provides can prove beneficial to long-term survival and growth.

Those studies give important insight on the roles and motivation of MNEs’ establishment of RHQs. However, these research findings are not adequate in explaining the behavior of MNEs setting up regional headquarters outside of their home countries but within their home region, where the problems associated with geographical distance and unfamiliarity with the region no longer exist. Unfortunately, there is extremely scarce research examining RHQs established in MNEs’ home regions. The only empirical finding was reported by Enright (2005). Enright (2005) showed the RHQs established by Western MNEs and Japanese MNEs in Asia-Pacific region differ in their functional activities, with the former addressing distance problems and functioning more relevant to coordinating and strategic planning, while the latter serving as a second home region headquarter and functioning more as a business unit and a closer interface to customers. His research gives us some clues that the establishment of RHQs in home regions might be driven by different sets of motivations.

The limited research on RHQs in home regions could also be attributed to that most of prior studies focused on MNEs from developed countries, who have relatively few oversea RHQs in their home triad regions. The situation is quite different for MNEs originating from China. One trend that can be observed is that more and more Chinese MNEs are setting up RHQs in nearby countries within Asia, named as home region. For example, TCL, Chun Lan Group, Minerals South-East Asia Corporation Pte Ltd, Feiyue Group have set up ARHQs in Singapore. Haier has set up its Asian headquarter in Japan. Hence, it is interesting to explore the motivation and

determinants of Chinese MNEs' establishment of ARHQs and to extend our understanding about regionalization strategy of MNEs from emerging economies such as China.

### **Theory Background: Strategy-structure Framework**

According to Chandler's strategy-structure framework (1962), organizational structure follows the growth and change of firm's strategies. Strategy is defined as "the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals". Caves (1980) considered the selection of organizational structure as the process of choosing arrangements that maximize the value of the firm's chosen strategy, given the fixed assets that warrant that strategic choice. In the field of geography diversity, Rugman (2012) pointed out that it is necessary for MNEs to design complex organization structure which is best to be tested in the nearby markets as deepening involvement in foreign markets.

Following the above logic, the establishment of RHQs is an organizational structure adaption as the result of regional strategy. Hence, we believe that Chinese MNEs build ARHQs to follow and carry out their regionalization strategy, which is an early step towards globalization. With different regionalization strategy chosen, the FSA portfolios to be deployed differ in their transferability and thus generate different strategic intents to establish ARHQs. Moreover, the establishment of ARHQs is also constrained by the external environment and internal capability as both of them have some influence on MNEs' incentive and capacity of transferring FSAs across countries or regions. Based on the logic, we build a conceptual model to explore the determinants of establishment of ARHQs (see Figure 1).

-----  
Insert Figure 1 about Here  
-----

## **HYPOTHESES**

### **Internal Strategic Intents to Regionalization**

As semi-globalization emerges, regions have become the centers of firm's business activities (Rugman, 2003; Enright, 2005a; Rugman and Verbeke, 2008). MNEs work on adaptation and standardization of their FSAs within regions (Rugman

and Verbeke, 2004; Rugman and Verbeke, 2008). Since knowledge barriers in culture, language and institutions are usually lower in countries that are closer to the home country (Makino and Delios, 1996; Orr and Scott, 2008), the FSAs are usually conferred high value by the customers, suppliers, investors, governments and other stakeholders in the home regions (Rugman, 2005). Hence, the home region is the most important citadel for MNEs during oversea expansion. Chinese MNEs typically first employ regional strategy in their home region before fully engaged in globalization. With the increasing degree of regionalization, the establishment of an RHQ in home area is a logical choice for the Chinese MNEs.

Traditionally, regional strategy is measured and defined by a high foreign sales concentration within some regions (Rugman and Verbeke, 2004). Regional strategy is simplified as the dependence on the region in terms of revenue source. However, MNEs may employ different strategies to achieve high regional sales. Generally accepted, foreign trade and foreign direct investment (FDI) are two basic modes of internationalization (Dunning et al., 2007). Foreign trade is a simple and primary international mode which doesn't need complex management skills and activities, but market barriers at borders universally exist in globe scope (Ghemawat, 2003). FDI, in contrast, stays at the other end. With the goal of controlling the operations and pursuing lasting interests in the host countries, FDI is more involved in operational activities in host countries, and thus exposed to more risks and management complexities. Hence, MNEs need to commit more resources, gain market expertise and have professional management capabilities to run complex international operations. For MNEs who aim at deploying FSAs in regional market, they can implement regionalization strategy by either engaging in regional foreign trade or engaging in regional foreign direct investments. Therefore, in this study, we divide regional strategies into two types: investing-regionalization and trading-regionalization. The former means a firm embeds itself in one region through FDI. The later refers to a firm embeds itself in one region through trading activities.

With regional strategy implemented in two different ways, the strategy intents also vary. With regards to investing-regionalization, as markets in a region become more and more homogenous due to economic integration and the MNE's foreign investments are mostly located in Asia, Chinese MNEs have the incentive to establish ARHQs as the center to adapt and standardize the FSAs through subsidiaries within

the region. MNEs' FSAs may be difficult and costly to be deployed in cross-border subsidiaries due to three reasons. 1), there are tacit components of FSAs that are transferred in FDI operations (Lo, Mahoney, and Tan, 2010). For example, technology, process and management skills are always important components to be transferred in FDIs but part of them is non-codifiable (Nonaka and Takeuchi, 1995; Szulanski, 1996) or suffers from causal ambiguity (Barney, 1991); 2), FSAs to be transferred to FDIs in other countries are also embedded into MNE's organization (Lo et al, 2010), i.e., the organizational routines, cultures, policies, procedures, and process are developed by the MNE's parent company and thus may not be applicable to new entities in other countries; 3), FSAs to be transferred through FDIs are embedded in home country (Lo et al, 2010), i.e., the product features, functions, technology, procedures are designed to address home country's concern. Accordingly, the benefits attached with the products and the brands are valued by the customers, suppliers or other stakeholders in home country, but not necessarily by those in other countries. Due to these reasons, MNEs implementing investing-regionalization strategy are more likely to establish ARHQs 1). to facilitate the acquisition and integration of regional information and resources, thus equipping the subsidiaries with greater capability to adapt FSAs to the region; 2), to monitor the deployment of FSAs, and to reduce management and coordination cost associated with the deployment among its subsidiaries in Asia (Enright, 2005b); 3), to serve as a springboard for Chinese MNEs to explore new opportunities of exploiting FSAs in the home region and other two triad regions (Luo and Tung, 2007). There are many examples which can illustrate the above points quite well. For example, TCL set up the ARHQ in Singapore in 2007, through which it coordinates the operations in two subsidiaries in Indonesia, one subsidiary in Thailand and one subsidiary in Vietnam. TCL also uses the ARHQ in Singapore as a springboard to expand to middle-East, Africa, and Russian markets. Haier officially announced its plans to establish its Asian headquarters in Osaka, and two R&D centers in Tokyo and Kyoto in 2012. The move aimed at overseeing the innovation-oriented R&D, manufacturing, and marketing across the East Asian and South East Asian market, learning technological innovation and design from Japan where a mature home appliances market exists, as well as growing its international market. Following the logic, Chinese MNEs are more likely to set up ARHQs when they have more investing-regionalization.

*Hypothesis 1:* The higher the degree of a Chinese MNE's investing-regionalization in Asia, the more likely it will establish an ARHQ.

Compared to FDI, trade is a simpler transaction with lower transaction cost and management complexity. If MNEs deploy their FSAs in the home region through engaging in trade, they simply export goods through arm's length market, with very little tacit knowledge involved. With similar cultural, institutional and economic environment as its home country, consumers in the home region are more willing to confer high value to the MNEs' FSAs. Therefore, FSAs can be transferred at a relatively low cost in its home region. The need to build an ARHQ to manage and integrate home region's trade is relatively slim.

In contrast, deployment of FSAs across different triad regions through trading faces more challenges. Although tacit knowledge and organizational embeddedness are not the concerns, formal and informal marketing barriers exist when the cultural, institutional and economic environments differ a lot across triad regions (Ghemawat, 2003; Rugman and Verbeke, 2003). On the one hand, trade barriers universally exist in most of countries, especially from the countries with some political frictions (Poon, 1997). In history, there are a number of cases about the Chinese products being sued for dumping, or being subject to import prohibition or restriction due to that they are judged as not being able to meet specific standards, most of which are from the countries in other triads. Therefore, traders in other triad countries are usually more hesitating in doing business with the Chinese MNEs. On the other hand, consumers in other triad regions are dominated by the stereotype that products made by Chinese MNEs are following different standards and offering different sets of benefits. Such informal trade barriers also devalue the FSAs of Chinese MNEs, making transferring FSAs more challenging.

Hence, Chinese MNEs with high trade activities outside of Asia has the motivation to set up ARHQs in their home region for a symbolic value (Birkinshaw et al., 2006). By setting up an ARHQ, an MNE attaches strategic importance to its business activities in the greater Asia area. It demonstrates internally to the product division and externally to local governments, general public, shareholders, financial community and international trading partners that the company is committed to the

region. It thus signals that it is no longer constrained by norms, standard and expectations of its home-country (Zaheer, 1995). Rather, it is adopting an international standard which is usually held in the ARHQ in such trading practice areas as quality, pricing, safety, environment protection, etc. Hence, as an Asia firm, it is easier to bypass some formal and informal marketing barriers when exporting to other two triads, as well as involving other triad regions' traders into their business. Hence, we propose hypothesis 2:

*Hypothesis 2:* The higher the degree of a Chinese MNE's trading-regionalization out of Asia, the more likely it will establish an ARHQ.

### **External Condition: Home-Base Regional Integration**

The establishment of RHQs is a structural adaption for regionalization strategy. However, whether Chinese MNEs would set up ARHQs also depends on other factors, such as external environment and internal capability.

One of the most important external factors is the regional integration level in MNEs' home base, i.e., the place where the MNE is growing up and the top management center is located. Regional integration in this study focuses more on economic perspective. It refers to the process by which states within a particular region increase their level of interaction with regard to economic issues. A higher level of regional integration is essentially associated with more exchanging and sharing of tangible business activities and intangible resources such as information and knowledge, as well as a higher level of resource-dependence of local firms on foreign firms (Xia, 2010). The large amount of exchanging and sharing has two implications on MNEs' decision about establishing ARHQs.

First, from a resource dependence perspective, with a higher level of regional integration in Chinese MNEs' home base, the Chinese MNEs and their domestic counterparts are exposed to a larger volume of resource exchange with other Asian companies along the value chain, which increases Chinese MNEs' and domestic Chinese firms' dependence on foreign countries to exploit differences in national resource advantages (Malnight, 1996) and thus operational uncertainty (Pfeffer, 1972; Xia, 2010). To alleviate the operational uncertainty caused by resource dependence, Chinese MNEs expand their operations into other Asian countries to internalize their

supply chain in order to achieve more autonomy and freedom (Pfeffer, 1972). Such a move will give advantage to MNEs over the domestic firms and necessitates the establishment of ARHQs to coordinate more cross-border operations within the region.

On the other hand, from a resource-based view, with a higher level of regional integration in MNEs' home base, the MNEs' capability to set up ARHQs will be enhanced. A common mechanism for a transfer of knowledge is the mobility of individuals and the trade or transfer of goods, which, in one way or another, carry production-related knowledge with them (e.g. Matusik and Hill, 1998). By sharing the knowledge through the trade, on the one hand, MNEs' headquarters get more chances to access business information, and to screen potential opportunities of deploying their FSAs. On the other hand, the MNEs can expose themselves to the traders, suppliers, consumers, investors, and other stakeholders from other countries in the home region, thus positively influencing their confidence, attitudes and purchase intentions (Agarwal et al., 2002). With trust and reputation strengthened, the deployment of FSAs in an extended area is more feasible.

Given that the establishment of ARHQs requires resource commitment from the corporate headquarter and support from the local partners, the corporate headquarter will be more confident and capable of establishing an ARHQ if its home base is integrated into the region to a greater extent. Hence, we propose hypothesis 3:

*Hypothesis 3:* There is a positive relationship between a Chinese MNE's home-base regional integration in Asia and establishment of an ARHQ.

### **Internal Condition: MNEs' International Management Capability**

Regional strategy is implemented to create value through exploiting, coordinating and managing the tangible and intangible resources in different host countries within the region. However, resources are not productive on their own. To convert the resources into values, a firm not only needs to have static organizational capabilities (operational routines) to assemble and manage these bundles of resources, but also requires dynamic capabilities to learn, absorb, integrate, and reconfigure internal and external competences to adapt to rapidly changing environment (Teece, Pisano, and Shuen, 1997). Consistent with this capability view, Siripaisalpipat and

Hoshino (2000) differentiated FSAs into transaction specific assets and international management capability. The former refers to the specialized technology or knowledge, and specific know-how accumulated by the MNEs. The later refers to the capability of learning in the new environment, as well as managing and adapting the transaction specific assets to the new environment. They highlighted the importance of international management capability for MNEs to deploy the transaction specific assets in a larger geographic scope.

Following the above logic, we define international management capability as the static capabilities to manage and coordinate foreign subsidiaries, and the dynamic capabilities to acquire and absorb strategic resources from oversea market, including advanced technology, talents, and market information, and to adapt and integrate in international operation. We argue MNEs' international management capabilities will influence the regional strategy and the establishment of ARHQ in two ways.

International management capability firstly serves as a force to promote MNEs to adjust their organizational structure for greater level of adaptation and integration. For most Chinese MNEs, they are in the primary stage of internationalization, i.e. they are emerging in regional markets especially in the Asia-Pacific region instead of global markets (Rugman and Li, 2007). If a Chinese MNE has better capability in managing oversea markets, it will be possible to expand towards more countries and build more subsidiaries in Asia. According to the strategy-structure framework, the MNE will adjust its structure through building an ARHQ to adapt its expanding strategy.

International management capability also serves as the prerequisite for Chinese MNEs to establish and operate ARHQ successfully. As previous research shows, RHQ as an office that has managerial control over offices in the region on behalf of its parent company located overseas, is used to deploy MNEs' FSAs through assuming several responsibilities. To assume the responsibilities, the matching capabilities are needed. For example, to effectively play the administrative role (Chandler, 1991), an ARHQ must be equipped with capability in monitoring, evaluating, controlling and managing subsidiaries. To effectively play the entrepreneurial role to initiate new value creation opportunities (Chandler, 1991), as well as to acquire strategic resources (Luo and Tung, 2007), an ARHQ must be capable enough to screen, learn and absorb advanced technology and market knowledge, and to adapt it to foreign cultural and institutional environment. International management capabilities in the corporate

headquarter can be leveraged to ARHQs and guarantee the feasibility of establishing and operating ARHQs. Hence, we propose the following hypothesis:

*Hypothesis 4:* There is a positive relationship between a Chinese MNE's international management capability and the establishment of an ARHQ.

### **Moderating Effect: Home-Base Regional Integration**

From a contingency perspective based on the strategy-structure framework, recent researchers found that the fit among strategy, external environment, internal management capability and other contingencies with organization structure can produce higher performance (Chandler, 1962; Donaldson, 1987, 2001; Hamilton and Shergill, 1992). In the next two sets of hypotheses, we argue whether Chinese MNEs would set up ARHQs following their regionalization move is further contingent on external environment and internal capability.

For investing-regionalization, FDIs are implemented to deploy tacit, organization-embedded and environment-embedded FSAs across countries within the home region. The regional integration of home base would reinforce the positive relationship between Chinese MNEs' investing-regionalization and the establishment of ARHQ. When MNEs' home base has a high regional integration level in Asia, the corporate headquarter in home base can access more business information in Asian market and form more connections with partners, from both the supply side and the demand side. The corporate headquarter can screen more opportunities to deploy FSAs with a larger scale. Such opportunities will be leveraged through MNEs' subsidiaries in Asian countries. MNEs' subsidiaries have to process a larger amount of orders and enhance their interface with local customers, suppliers, investors, local governments and other stakeholders. The significance of Asian regional market will be reinforced and the management complexity will be aggravated. Therefore, Chinese MNEs have more incentive to establish ARHQs to signal their strategic commitment and coordinate the operation. Hence, we propose hypotheses 5a:

*Hypothesis 5a:* Home-base regional integration in Asia will strengthen the positive relationship between the degree of a Chinese MNE's investing-regionalization in Asia and the establishment of ARHQ.

For the Chinese MNEs adopting trading-regionalization strategy, the establishment of ARHQ is to send a symbol to show their foreign commitment and to bypass the formal and informal marketing barriers in other triad regions. The relationship between Chinese MNEs' trading-regionalization out of Asia and the establishment of ARHQ will be moderated by MNEs' home-base regional integration in Asia. As the home base has a higher level of regional integration, MNEs will be exposed to more trading opportunities and foreign partners, both from within their own triad and out of their triad. These MNEs will have more incentive to speed up their deployment of FSAs in other triad regions. The necessity to signal their foreign commitment and adoption of new international norms is strengthened. They are thus more likely to establish ARHQs as a springboard for global expansion. Hence, we propose hypothesis 5b:

*Hypothesis 5b:* Home-base regional integration in Asia will strengthen the positive relationship between the degree of a Chinese MNE's trading-regionalization out of Asia and the establishment of ARHQ.

### **Moderating Effect: MNEs' International Management Capability**

The establishment of ARHQ is an organization structure response for the regional strategy implementation. This relationship would be moderated by MNEs' international management capability.

In the case of Chinese MNEs with investing-regionalization strategy, as they have been involved in higher level of investing-regionalization in Asia, the strategic position of Asian operation will be more predominant, compared to that in other triad regions. At the same time, efficient and effective deployment of FSAs is more challenging as Chinese MNEs need to access and process more strategy information, to allocate, absorb and integrate more strategy resources, and to coordinate operation among more foreign subsidiaries. All of these functions can only be implemented smoothly when an ARHQ is established. When a Chinese MNE has better international management capability, it will be more aware of the efficiency implication and the importance to integrate the regional subsidiaries' operation and management. Therefore, better international management capability will push a

Chinese MNE to set up an ARHQ to coordinate the investing regionalization strategy. On the other hand, a Chinese MNE's corporate headquarter with better international management capability can coordinate and manage the oversea subsidiaries on its own, thus making establishing ARHQ unnecessary. However, we argue that FSAs involved in operating FDIs have low transferability. Moreover, the management complexity and cost will increase substantially when FSAs are to be deployed in more subsidiaries. Hence, the possibility that a Chinese MNE only use its corporate headquarter in home country to manage the subsidiaries is relatively low. We thus predict the positive moderating effect of international management capability will outweigh the negative moderating effect. A Chinese MNE is more likely to build an ARHQ to implement its regional strategy when it is equipped with better international management capability. We propose hypothesis 6a:

*Hypothesis 6a:* A Chinese MNE's international management capability will strengthen the positive relationship between the degree of its investing-regionalization in Asia and the establishment of ARHQ.

For the Chinese MNEs adopting trading-regionalization strategy, they are engaged in foreign market with a simple and primary form, i.e., trade, which can be coordinated through market mechanism with low transaction cost. Complex managerial skills and coordinating abilities is not a must. In most of the cases, the only challenge of transferring the FSAs is to escape the formal and informal marketing barriers and to do some minor adaptation. When a Chinese MNE's headquarter has high international management capability, it can adapt to the foreign environment, establish positive reputation among trading partners and escape the barriers at a low cost. There is less necessity for it to make extra resource commitment in building an ARHQ, even when the Chinese MNE targets on other triad regions. Instead, a Chinese MNE with better international management capability is more likely to directly manage its trading in other two triads, without setting up an ARHQ. Hence, we propose hypothesis 6b:

*Hypothesis 6b:* A Chinese MNE's international management capability will weaken the positive relationship between the degree of its trading-regionalization out of Asia

and the establishment of ARHQ.

## **Method**

### **Sampling and Data Collection**

We collected data through survey methodology in 2011. We sent the questionnaires to CEOs and senior managers who were directly involved in internationalization projects in the Chinese MNEs. The sample came from sixteen provinces and municipalities with the greatest outflow of FDI in 2011 (Beijing, Shanghai, Zhejiang, Guangdong, Jiangsu, Shandong, Henan, Fujian, Hubei and so on). The sampling had a high representativeness and big scope since it crossed the east, middle and west of China, and involved 69 prefecture-level cities. Those provinces and prefecture-level cities almost covered all the developed economic zones and most regions of China. Our study didn't limit the sample in manufacturing sector. Instead, it included 9 industries and 46 sub-industries in order to reflect the real situation of ARHQ establishment.

Hoskisson et al. (2000) suggested that in emerging economies, collaboration with local researchers and local government provided a key way to obtain reliable and valid information, and face-to-face interviews generated more valid information. Therefore, we cooperated with local government institutions and researchers to conduct the survey using on-site, personal interviews.

Before data collection, first, an English version of the questionnaire was prepared, and then translated into Chinese by two researchers of this project who were adept in both languages. To ensure conceptual equivalence, the Chinese version was translated back into English by two independent translators. Any conflicts were discussed by the researchers and translators until they reached agreement (Hoskisson et al., 2000).

Then, we did a pilot study in Chinese with 15 senior managers who were ever in charge with international business. The pilot results supported our attempt to continue larger-scale survey. Lastly, a survey was conducted on 350 randomly selected firms, with 333 questionnaires being collected. After dropping the samples with missing value or the firms which were not MNEs, 226 usable questionnaires were used for the analysis in this study, with a valid rate of 64.57%.

To overcome possible common method bias, we collected information from

different sources. Specifically, we obtained the measures of international management capability, domestic performance, international experience, and technological capability from the key informants with 7 point Likert scales from the survey. The measures about investing- and trading- regionalization and Asia regional headquarter were calculated based on the survey data. We calculated the regional integration level of home base on the basis of secondary data from the China Statistical Yearbook (2011). The data about firm's ownership type and the other control variables (i.e., firm age, size, and industry) came from archival data provided in the business directory. Then, we conducted Harman's one-factor test with all the measurement items in a factor analysis without rotation and achieved a solution that accounts for 66.30 percent of the total variance; the first factor accounts for 16.62 percent. Because a dominant, single factor did not emerge, common method bias was unlikely to be a concern in our data (Podsakoff and Organ, 1986).

The potential respondent bias was assessed by comparing key demographic variables, including number of employees, total asset, and annual profits, of our sample firms with those of the population of all Chinese firms in the same industry, all the means of which were obtained from the *China Statistics Yearbook 2011*. Insignificant mean differences demonstrated representativeness of the sample.

## **Variables and Measurement**

### *Dependent Variable*

*ARHQ*. We followed the measurements of previous RHQ studies (Enright, 2005a, 2005b; Ma and Delios, 2010). We asked the respondents whether their firms had built a regional headquarter in Asia. If yes, the value of ARHQ was 1, or else 0. However, since the Chinese MNEs were in the early stage of internationalization, there were not too many firms having ARHQs. Hence, we further asked the firms without ARHQs whether they would build an ARHQ in three years. If they answered yes, the value of ARHQ was changed into 1, or else 0. We combined two types of answers, i.e., having built an ARHQ and intending to build an ARHQ, into one variable.

### *Independent Variables*

*Investing- and trading- regionalization*. As defined above, regionalization refers to the strategy that MNEs take to embed themselves in regional markets. Traditionally, regionalization was measured by the ratio of regional sales to foreign sales (Rugman and Verbeke, 2004). In this study, we divided regionalization into two

types, i.e., investing-regionalization and trading-regionalization. The former means the extent of MNEs' FDI in some region to realize the regionalization, while the latter refers to the extent of MNEs' trading with some region to realize regionalization. Following Rugman and Verbeke's logic, we proxied investing-regionalization in Asia as the ratio of the number of overseas subsidiaries in Asia to the total number of overseas subsidiaries. The greater the investing regionalization ratio is, the higher level of the MNE is embedded in its home region in terms of FDIs. We measured the trading-regionalization out of Asia using the export intensity out of Asia, that is, the ratio of the export out of Asia to the total export. The greater the trading-regionalization out of Asia is, the lower level the MNE is embedded in its home region in terms of trading.

*Regional integration of home base.* This variable was defined by the volume of economic transactions a MNE's home-base with other countries within the same region, which reflects the extent of which a MNE's home base economy is influenced by other countries in the region. We followed the previous studies to use regional trade to total trade as the measure of each city's favorability to economic integration (Barrera and Haas, 1969; Kegley and Howell, 1975). We calculated this variable by the ratio of a city's trading with Asia to total trading amount in considering both import and export. The import and export information for each city was obtained from China Statistics Yearbook in each province and city (2011 year).

*International management capability.* To effectively manage the regional strategy to adapt to the ever-changing international environment, international management capabilities have to include both static routines and dynamic capabilities (Teece et al, 1997). Hence, we measured the international management capability with a variable combined by three items in Likert scale, which consist of "we have capability to manage overseas subsidiaries" to measure the static capability, "we have capability to adapt the foreign cultural distance during overseas operation" and "we have capability to learn and absorb foreign advanced technology during overseas operation" to measure the dynamic capability (1=totally disagree, 7= totally agree). As they were perceptual scale, we tested their construct reliability and validity. EFA was used to test the validity. The factor loadings of three items were 0.94, 0.94 and 0.93, which contributed 88% variance. The Cronbach  $\alpha$  was 0.93, far higher than 0.7

as benchmark.

### ***Control Variables***

We included several control variables in our model that might also alter the results. *Firm's size* was measured by the natural log of total sales of a firm. *Firm's age* was measured as natural log of the number of years since establishment. We also controlled *ownership type* by dummy variable via state-owned firm to be 1 and private-owned firm to be 0. We controlled the *industry effect* by 8 dummy variables which represented 9 industries in China. Because there were differences existing between Chinese littoral and non-littoral provinces and cities, we controlled firm's *home location* with one dummy variable via littoral to be 1 or else 0. In detail, littoral regions included Guandong, Shandong, Jiangsu, Zhejiang, Hebei, Fujian, and Guangxi provinces, and littoral cities included Shanghai, Tianjin and Beijing.

We also controlled *management oversea background* using a dummy variable to reflect whether a firm's entrepreneur was an oversea returnee (1=yes, 0=no). In order to eliminate the effect of domestic performance variance, we controlled the *performance* measured by a combined variable with six items (compared to domestic competitors, whether the firm was content with sales, sales growth rate, market share, growth of market share, margins and growth of margins; 1= totally dissatisfied, 7=totally satisfied). Based on prior studies, *international experience* and *technological capability* might impact regional headquarter establishment. We controlled *international experience* and *technological capability* by asking the firms to assess the extent of firm lacking international experience and the extent of firm's products and technology lacking competitiveness with 7-point scales (1=totally disagree, 7=total agree). In addition, *total export intensity* and *total foreign oversea subsidiaries* were controlled to eliminate the impact of the difference in internationalization level.

### **Analytic Techniques**

The means, standard deviations, and correlations of the variables included in our analysis were presented in Table 1. The variance inflation factors for the regression models did not exceed 10, indicating no serious problems with multicollinearity (Neter et al., 1990). Since our dependent variable was a dummy variable with the value of 1 or 0, Probit model was feasible to test our model. To mitigate the potential threat of heterokedascity, we estimated the Probit regressions using Huber-White's

robust standard error (White, 1980). STATA 9.0 was used in this study.

-----  
Insert Table 1 about Here  
-----

## Hypothesis Testing and Results

In our model, to mitigate the potential threat of multicollinearity, we mean centered all independent variables before creating interaction terms. We used five models to test our hypotheses. All models reported in Table 2 were significant as gauged by the model chi-square ( $\chi^2$ ) statistics. We built the models incrementally, from the baseline (Model 1) to the addition of independent variables and moderators step by step. The changes in model  $\chi^2$  were significant ( $p < 0.001$ ), marking the improvement in overall model fit by the addition of the respective variables in each model. We reported the results in *model 5* in which all of the concerned variables had been included.

-----  
Insert Table 2 about Here  
-----

Hypothesis 1 predicted a positive effect of investing-regionalization in Asia on the establishment of ARHQ. As shown in model 5 in table 2, a MNE's investing-regionalization in Asia was positively related with the establishment of ARHQ ( $\beta = 0.452$ ,  $p < 0.001$ ). Hypothesis 1 was supported. For hypothesis 2, we assumed trading-regionalization out of Asia will positively impact the establishment of ARHQ. Results showed that a MNE's trading-regionalization out of Asia showed a positive relation with the establishment of ARHQ ( $\beta = 0.180$ ,  $p < 0.1$ ). Hypothesis 2 was supported at a marginal level. Hypothesis 3 predicted a positive relationship between home-base regional integration and the establishment of ARHQ. Results showed that home-base regional integration had a positive effect on the MNE's establishment of ARHQ ( $\beta = 0.275$ ,  $p < 0.05$ ). Hypothesis 3 was supported by data at the 0.05 level. Hypothesis 4 posited that a MNE's international management capability will positively influence the establishment of ARHQ. We found the regression coefficient was positively significant ( $\beta = 0.328$ ,  $p < 0.01$ ). Hypothesis 4

was supported by data at 0.01 level.

For the moderating effects, we proposed four hypotheses. H5a and H5b respectively predicted the home-base regional integration will moderate the relationship between investing-regionalization in Asia and establishment of ARHQ, and the relationship between trading-regionalization out of Asia and establishment of ARHQ. As shown in model 5 in table2, the interaction between the home-base regional integration in Asia and investing-regionalization in Asia did not show a significant effect on the establishment of ARHQ ( $\beta = 0.109$ ,  $p > 0.1$ ). The hypothesis 5a was not supported by data. The interaction between the home-base regional integration in Asia and trading-regionalization out of Asia had a positively significant effect on the establishment of ARHQ ( $\beta = 0.449$ ,  $p < 0.001$ ). The hypothesis 5b was supported by data at 0.001 level.

H6a and H6b assumed that the international management capability will moderate the relationship between investing-regionalization in Asia and establishment of ARHQ, and the relationship between trading-regionalization out of Asia and establishment of ARHQ. As table 2 showed (model 5), we found that the interaction between the international management capability and investing-regionalization in Asia had an insignificant effect on the establishment of ARHQ ( $\beta = 0.110$ ,  $p > 0.1$ ). The hypothesis 6a was not supported by data. However, the interaction between the international management capability and trading-regionalization out of Asia had a negatively significant effect on the establishment of ARHQ ( $\beta = -0.188$ ,  $p < 0.1$ ). The hypothesis 6b was thus supported by data at marginal level.

To further probe the findings on significant moderating effects, we plotted the results in Figures 2 and 3. To create the figures, all of the variables in Model 5 in Table 2 except trading-regionalization, home-base regional integration and international management capability were constrained to their mean values. Trading-regionalization took values ranging from three standard deviations below or above the means. We also set the low levels of the moderating variables (i.e., home-base regional integration and international management capability) as one standardized deviation below their mean scores and the high levels as one standard deviation above the means. In figures 2 and 3, we depicted the effect of trading-regionalization out of Asia on establishment of ARHQ for low and high levels of home-base regional integration and international management capability

respectively.

-----  
Insert Figure 2 about Here  
-----

-----  
Insert Figure 3 about Here  
-----

## **Discussion**

Although many studies focused on the phenomenon of regionalization and emergence of RHQs, most of them were looking at the phenomenon from developed economy perspective. Motivations and strategy of regionalization for MNE from China, a large emerging market, was under-studied. Furthermore, previous research believed that MNEs from outside Asia set up ARHQs due to the difficulty of distant management. However, the reason for why Chinese MNEs establish RHQs in home region has not been adequately explored yet. In this study, we address the Chinese MNEs' regional strategy and the ARHQs as the first step towards internationalization, and propose that Chinese MNEs' motivation to set up ARHQs is derived from their regionalization intents.

First, we identify two types of regional strategies, i.e., investing-regionalization and trading-regionalization as the top determinant for the establishment of ARHQ. Previous research only highlighted that MNEs would build an RHQ to implement regionalization strategy so that FSAs can be deployed in the regional scope (e.g., Rugman and Verbeke, 2004; Rugman and Verbeke, 2008). However, they didn't distinguish the differences between the investing and trading regionalization strategies. Through our empirical tests, we find investing-regionalization in Asia would promote Chinese MNEs to build ARHQs, while Chinese MNEs would set up ARHQs when they have high trading-regionalization outside of Asia. Under the two regionalization strategies, there are different strategic intents to build ARHQ. For the investing-regionalization strategy, the FSAs to be deployed are more tacit, embedded in the MNEs' parent company and home countries. It is more challenging to transfer, manage, coordinate and exploit the FSAs in other countries even in the same triad

region. Hence, ARHQ is established to facilitate the adaptation, coordination and exploration of FSAs and to improve the effectiveness/efficiency of MNEs' regional integration and management. In the case of MNEs' trading-regionalization strategy, what's interesting is that we find Chinese MNEs build an RHQ in home region not for implementing trading-regionalization in the same region but for outside world beyond the home region. Such results are reasonable because the FSAs to be transferred only suffer from environment embeddedness. FSAs can gain more value in home region due to that MNEs' home country share similar culture, institution, and economic systems with other countries in the same region. Therefore, the deployment of FSAs can be facilitated through arm's length market with little coordination effort by the MNEs. However, MNEs will incur more cost and resistance when they exploit FSAs in other triad regions, because the stakeholders under different cultural, institutional and economic systems will devalue the FSAs. Hence, MNEs have more incentive to establish ARHQs to signal their foreign commitment and build up their legitimacy in the global market (Birkinshaw et al, 2006). Such legitimacy allows MNEs to bypass or alleviate the formal and informal marketing barriers in other triad regions. This conclusion further confirms Luo and Tung's (2007) springboard view that Chinese MNEs explore the global market through building an RHQ in Asia first as a springboard.

Second, in addition to the strategic intents, there are some external and internal conditions that would influence the MNEs' strategy decisions. We further find that home-base regional integration and international management capability both encourage Chinese MNEs to build ARHQs. Home-base regional integration reflects the economic impact of one region on the home base and home base's industries. Greater regional integration in the home base will enhance MNEs' incentive to exploit their FSAs in their home region and their capability to operate ARHQs. International management capability is the static and dynamic capability of MNEs to manage, coordinate, adapt and integrate the FSAs in their subsidiaries in one region. Better international management capability promotes MNEs to expand their expansion in the region and guarantee the successful operation of ARHQs.

Third, according to strategy-structure contingency framework, we also argue that the relationships between investing- and trading-regionalization and ARHQ decision are contingent on the home-base regional integration and MNEs' international

management capability. Interestingly, our results have not supported the prediction that home-base regional integration and MNE's international management capability will push Chinese MNEs with more investing-regionalization to build ARHQs. Such results could be attributed to that when ARHQs are driven by the urgency to coordinate complex operational activities, the strategic intent of improving efficiency and effectiveness dominates all other contingency factors. However, we find there are significant moderating effects between trading-regionalization out of Asia and home-base regional integration, and between trading-regionalization out of Asia and MNEs' international management capability on the establishment of ARHQ. Such results suggest if ARHQs are established for legitimacy building or symbolism concern as in the case of trading driven ARHQs, the decision is subject to the resource available internally and externally. Specifically, when the Chinese MNEs' home base enjoys greater regional integration, they are exposed to more information and opportunities, as well as are able to build more connections and better reputation within the region. They will have more confidence and ambition to build an ARHQ as a springboard or platform to leverage their FSAs through trading with other regions. Therefore, home-base regional integration will promote the establishment of ARHQs driven by trading-regionalization out of Asia. However, MNE's international management capability will handicap the establishment of ARHQ driven by trading-regionalization out of Asia. Because trading-regionalization is an early and simple international form and not much international management effort is needed to realize the foreign trade. When the corporate headquarter has such competence to manage the off-home region trading, the urgency to build up ARHQ is alleviated. MNEs would not commit extra resources to such ARHQs simply for symbolism reason.

## **Implications**

Our study is theoretically important to scholars from different disciplines such as international business and economic geography. First, we shift the research focus of RHQs to adopt a viewpoint from MNEs from emerging markets, and explore the reasons for the presence of nearby RHQs in the region where the corporate headquarters locate. Chinese MNEs build ARHQs in home region for different

strategic intents, compared with the MNEs from developed country. By dividing the regional strategies into two types: investing-regionalization and trading-regionalization, we find investing-regionalization in Asia would promote MNEs to build ARHQs to enhance effectiveness/efficiency in managing subsidiaries and deploying FSAs, while MNEs would set up ARHQs to gain legitimacy in the global arena and to bypass marketing barriers when it has a high trading-regionalization outside of Asia. Our findings advance the existing literature by dividing regional strategy into two types, and showing their different impacts on establishing an ARHQ.

Second, we examine the contingency factors of the establishment of ARHQs including both external environment and internal capability. On one hand, as the roles of home country and home region have been more valued by researchers recently (e.g., Rugman, 2005; Banalieva and Santoro, 2009), we contribute to extant literature by building a bridge between home-base regional integration and MNEs' establishment of ARHQs and clarifying the strategic role of home base in the process of MNEs' internationalization. On the other hand, the two conditions of the establishment of ARHQ are also the supplements for extant literature about the determinants of RHQ.

Third, we enrich extant literature by proposing and confirming empirically the relationship between trading-regionalization outside Asia and the establishment of ARHQ. Previous research identified the platform role of ARHQs to serve as managerial centers for Western multinational firms, and to facilitate their expansion into the region (e.g., Birkinshaw et al., 2006). Our study suggests ARHQs play a different role for Chinese MNEs' trading regionalization, i.e., ARHQs attach more legitimacy for the Chinese MNEs in the global market. Our results also suggest home-base regional integration will strengthen while MNEs' international management capability will handicap the relationship between trading-regionalization outside Asia and the establishment of ARHQ. Through these findings, we further confirm the springboard role of ARHQs to facilitate within-region Chinese MNEs to conduct regionalization towards globalization.

Our findings also provide some important managerial implications. First, Chinese MNEs must be aware of the strategy importance of building ARHQs. If Chinese MNEs have high investing-regionalization in Asia or high trading-regionalization outside of Asia, they can consider building an ARHQ as

springboard towards globalization. Second, MNEs should value the regional integration of their home base and their international management capability. For example, Haier is a firm based in Qingdao. In Qingdao, there are large volume of foreign transactions with Asia countries, especially Japan and Korea. Such high regional integration has facilitated Haier to have built an ARHQ in Japan in 2012. Third, this study offers some insights for the public policy makers of Asian cities. On the one hand, our results imply that to encourage domestic firms' "going global" strategy, Asian cities can speed up and deepen their regional integration level, through which they can expand the location bound of domestic firms' FSAs to a regional scope. On the other hand, to seek new source of economic growth, Asian cities can upgrade their institution and economic infrastructure to meet the international standard. Thus, they can become a "second home base" for MNEs for their further globalization.

### **Limitation and Future Research Orientation**

Our findings should be interpreted with some cautions. First, our study considers Asian region as a whole home region for Chinese MNEs without distinguishing the differences among the Asian countries. There may be different strategy intents for Chinese MNEs choose Hong Kong or Djakarta as the location of ARHQ. Future research should deeply explore the strategy motivations of the establishment of ARHQs in different sub-regions, Asian countries or cities. Second, our measurements of international management capability, international experience and technological capability were obtained from the perception of MNEs' CEOs or senior managers, which may not coincide with reality. The measures of investing-regionalization and trading-regionalization of MNEs and home-base regional integration were relatively objective. Hence, there are still some unavoidable measure biases in this study. Third, our study is cross-sectional, which limits the test of the causal inferences and dynamic evolution of the establishment of ARHQs and regionalization strategy. For example, during the process of regional strategy implementation, there would be some time for MNEs to adjust the organization structure. Hence, future studies may consider using longitudinal data to examine the dynamics of or evolution between regional strategy and the establishment of ARHQ.

## **Conclusion**

As the emergence of regionalization, building an RHQ is becoming an important strategy decision in order to integrate the operations in one region. We outline a model to examine the determinants of Chinese MNEs' building Asia regional headquarters. We argue that Chinese MNEs use regionalization as their first step towards globalization, and the establishment of ARHQ is a strategic choice following regionalization strategy. In particular, we find investing-regionalization in Asia would promote MNEs to build ARHQs, while MNEs would set up ARHQs when they have high trading-regionalization outside of Asia (i.e., low trading-regionalization within Asia). Home-base regional integration and MNEs' international management capability will directly influence the establishment of ARHQs, and also moderate the relationship between trading-regionalization outside of Asia and the establishment of ARHQs.

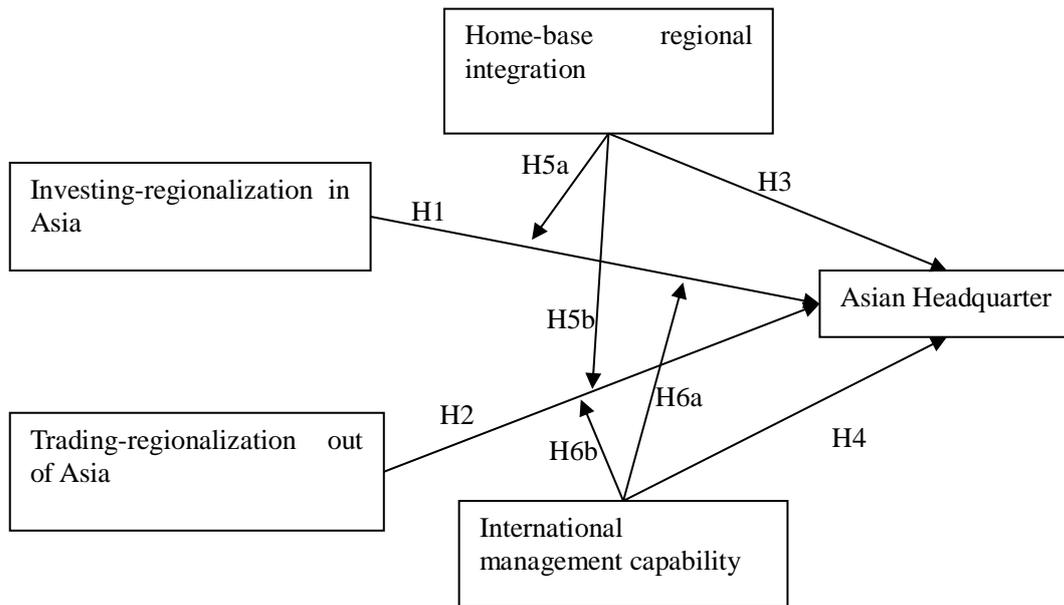
## References

- Agarwal, J., Malhotra, N. & Wu, T. (2002). Does NAFTA influence Mexico's product image? A theoretical framework and an empirical investigation in two countries, *Management International Review* 42(4): 441-471.
- Banalieva, E., Santoro, M. (2009). Local, regional, or global? Geographic orientation and relative financial performance of emerging market multinational enterprises. *European Management Journal*. 27(5): 344-355.
- Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1): 99-120.
- Barrera, M & Haas, E.B., (1969). The Operationalization of Some Variables Related to Regional Integration: A Research Note. *International Organization*, 23(1): 150-160
- Bartlett, C., & Ghoshal, S. (1989). *Managing across Borders*. Boston, MA: Harvard Business School Press.
- Beaverstock, J., Smith, R. & Taylor, P. (1999) A roster of world cities, *Cities*, 16 (6): 445-458
- Birkinshaw, J. (2001). Strategy and management in MNE subsidiaries. In A. Rugman, & T. Brewer (Eds), *The Oxford Handbook of International Business*. USA: Oxford University Press.
- Birkinshaw, J., Braunerhjelm, P., Holm, U., & Terjesen, S. (2006). Why do some corporations relocate their headquarters overseas? *Strategic Management Journal*, 27(7): 681-700.
- Caves, R. E. (1980). *Industrial Organization, Corporate Strategy and Structure*. *Journal of Economic Literature*, 18(1): 64-92
- Chandler, A. (1962). *Strategy and Structure*. Cambridge, Ma.: MIT Press.
- Chandler, A. (1991). The functions of the HQ unit in the multibusiness firm. *Strategic Management Journal*, 12(8): 31-50.
- Cohen, R. B. (1981). The new international division of labor, multinational corporations, and urban hierarchy. In M. Dear, & A. J. Scott (Eds.), *Urbanization and Urban Planning in Capitalist Society*: 287-315. London and New York: Methuen.
- Dicken, P., & Kirkpatrick, C. (1991). Services-led development in ASEAN: Transnational regional headquarters in Singapore. *The Pacific Review*, 4:174-184.
- Donaldson, L., (1987), Strategy and structural adjustment to regain fit and performance: In defence of contingency theory. *Journal of Management Studies* 24 (1): 1-24.
- Donaldson, L., (2001), *The Contingency Theory of Organizations*, Sage, Thousand Oaks.
- Dunning JH, Pak YS, Beldona S. (2007). Foreign ownership strategies of UK and US international franchisors: an exploratory application of Dunning's envelope paradigm. *International Business Review*, 16: 531-548.
- Dunning, J. H. (1993). *Multinational Enterprises and the Global Economy*. Wokingham: Addison-Wesley.
- Dunning, J. H. (1998). Location and the multinational enterprise: A neglected factor? *Journal of International Business Studies*, 29(1): 45-66.
- Enright, M. (2005a). Regional management in the Asia-Pacific. *Management International Review*, 45(Special Issue): 57-80.
- Enright, M. (2005b). The roles of regional management centers. *Management International Review*, 45(Special Issue): 81-100.
- Enright, M., & Scott, E. E. (2000). The RHQ question. *Business Asia*, 32(25): 1-4.
- Friedman, J. (1986). *The world city hypothesis*. *Development and Change*, 17: 69-83.
- Fukuyama, F. (1995). *Trust: The Social Virtues and the Creation of Prosperity*. New York: Free Press.
- Ghemawat, P. (2003). Semiglobalization and international business strategy. *Journal of International Business Studies*, 34: 138-152.
- Ghemawat, P. (2007). *Redefining Global Strategy: Crossing Borders in A World Where Differences Still Matter*. Harvard Business Press
- Hall, P. (1966). *The World Cities*. London: Heinemann.
- Hamilton, R.T., & Shergill, G.S., (1992). The relationship between strategy-structure fit and financial performance in New Zealand: Evidence of generality and validity with enhanced controls. *Journal of Management Studies*, 29: 95-113.
- Heinecke, P. (2011). Success factors of regional strategies for multinational corporations-appropriate degree of management autonomy and product adaptation. *Contributions to Management Science*.

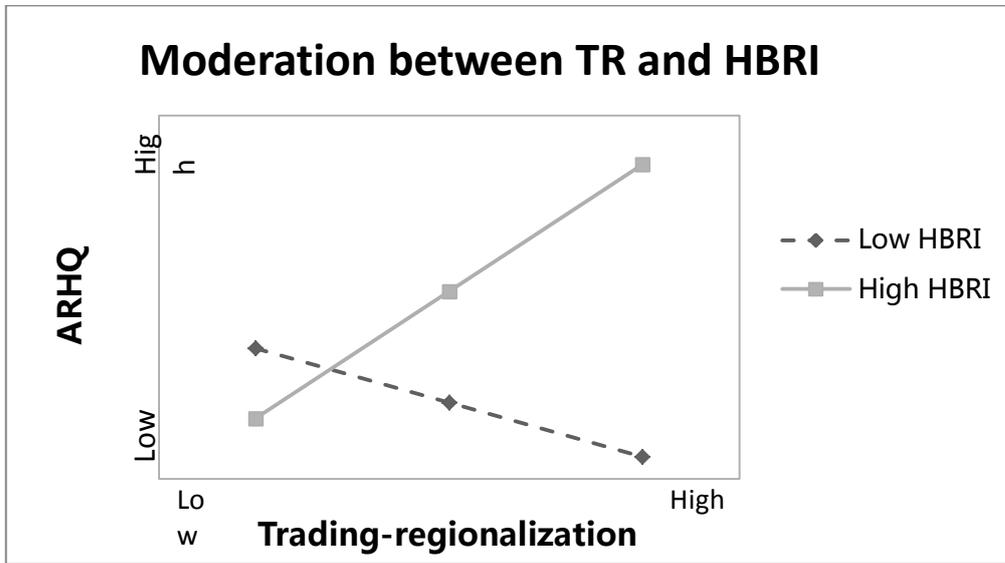
- Hoskisson, R.E., Eden, L., Lau, C.M. & Wright, M. (2000). Strategy in emerging economies, *Academy of Management Journal* 43(3): 249–267. Orr & Scott, 2008
- Hymer, S. H. (1972). The internationalization of capital. *The Journal of Economic Issues*, 6(1): 91-111.
- Johanson, J., & Vahlne, J. E. (1977). The internationalization process of the firm: A model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies*, 8: 23-32.
- Kegley, C.W.Jr, & Howell, L.D.Jr. (1975). The Dimensionality of Regional Integration: Construct Validation in the Southeast Asian Context. *International Organization*, Vol. 29, No. 4 (Autumn, 1975), pp. 997-1020
- Kotabe, M., & Czinkota, M. R. (1992). State government promotion of manufacturing reports: A gap analysis. *Journal of International Business Studies*, 23(4): 637-658.
- Krugman, P. (1991). Increasing returns and economic geography. *Journal of Political Economy*, 99(3): 483-499.
- Lasserre, P. (1996). Regional headquarters: The spearhead for Asia Pacific markets. *Long Range Planning*, 29: 30–37.
- Levy, B. (1995). Globalization and regionalization: Toward the shaping of a tripolar world economy? *The International Executive*, 37: 349–371.
- Lo, FY., Mahoney, JT., & Tan, D, (2010). *The Relationship between Location–Bound Advantages and International Strategy: An Empirical Investigation*. [http://www.business.illinois.edu/Working\\_Papers/papers/10–0103.pdf](http://www.business.illinois.edu/Working_Papers/papers/10–0103.pdf)
- Lu, J., & Ma, X. (2008). The contingent value of local partners' business group affiliation. *Academy of Management Journal*, 51(2):295-314.
- Luo, Y., & Tung, R. L. (2007). International expansion of emerging market enterprises: A springboard perspective. *Journal of International Business Studies*, 38(4): 481-498.
- Ma, X. & Delios, A. (2010), Host-country Headquarters and an MNE's Subsequent Within-country Diversifications . *Journal of International Business*. 41: 517-525
- Makino, S., & Delios, A. (1996). Local knowledge transfer and performance implications for alliance formation in Asia. *Journal of International Business Studies*, 27(5): 905-927.
- Malnigh, T. W. (1996). The Transition from Decentralized to Network-Based MNC Structures: An Evolutionary Perspective, *Journal of International Business Studies*, 27:1, pp. 43-66.
- Matusik S. F. & Hill C. W. L. (1998). The utilization of contingent work, knowledge creation, and competitive advantage, *Academy of Management Review* 23, 680–697.
- Neter, J., Wasserman, W. & Kutner, M. H. (1990). *Applied Statistical Models*, 3rd. ed. Irwin.
- Nonaka, I., & Takeuchi, H. (1995). *The Knowledge-Creating Company*. New York, NY: Oxford University Press.
- North, D. (1990). *Institutions, Institutional change, and Economic Performance*. New York: Norton.
- Peng, M. W. (2003). Institutional transitions and strategic choices. *Academy of Management Review*, 28: 275-296.
- Peng, M. W. (2004). Identifying the big question in international business research. *Journal of International Business Studies*, 352 (2): 99-109.
- Peng, M. W., Lee, S., & Wang, D. (2005). What determines the scope of the firm over time? A focus on institutional relatedness. *Academy of Management Review*, 30: 622-233.
- Perry, M. (1992). Promoting corporate control in Singapore. *Regional Studies*, 26: 289– 294.
- Pfeffer, J. (1972). Merger as a response to organizational interdependence. *Administrative Science Quarterly*, 17(3), 382–394.
- Pfeffer, J., & Salancik, G. (1978). *The External Control of Organizations*. New York: Harper & Row.
- Podsakoff, P. M., & Organ, D. W. (1986). Self reports in organizational leader reward and punishment behavior and research: problems and prospects. *Journal of Management*, 12(4): 531 – 544
- Poon, J. (1997). The cosmopolitanization of trade regions: global trends and implications, 1965–1990. *Economic Geography*, 73: 390– 404.
- Porter, M. E. (1998). Clusters and the new economics of competition. *Harvard Business Review*, 98: 77- 91.
- Reed, H. (1981). *The Preeminence of International Financial Centers*. New York: Praeger.
- Rugman, A.M. (1981). *Inside the Multinationals*. Columbia University Press, New York.
- Rugman, A. M., (2003). The regional solution: Triad strategies for multinationals, *Business Horizons*, Elsevier, 46(6): 3-5.
- Rugman, A. M. (2005). *The Regional Multinationals*. Cambridge, UK: Cambridge University Press.

- Rugman, A.M. (2012) Success Factors of Regional Strategies for Multinational Corporations: Appropriate Degrees of Management Autonomy and Product Adaptation, *Multinational Business Review*, 20(3)
- Rugman, A. M. & Li, J, (2007). Will China's Multinationals Succeed Globally or Regionally?, *European Management Journal*, 25(5):333-343.
- Rugman, A.M. & Verbeke, A. (2003). The World Trade Organization, Multinational Enterprises, and the Civil Society, in M. Fratianni, P. Savona and J. Kirton (eds.) *Sustaining Global Growth and Development*, Ashgate: Aldershot, pp. 81-97.
- Rugman, A.M. & Verbeke, A. (2008). A New Perspective on the Regional and Global Strategies of Multinational Services Firms. *Management International Review*.48: 397-411.
- Rugman, A.M., & Verbeke, A. (2004). A Perspective on Regional and Global Strategies of Multinational Enterprises. *Journal of International Business Studies*, 35(1): 3-18
- Rugman, A. M. and Oh, C. H. (2012) Why the home region matters: location and regional multinationals. *British Journal of Management*. doi: 10.1111/j.1467-8551.2012.00817.x
- Rumelt, R., Schendel, D., & Teece, D. (1994). *Fundamental Issues in Strategy*. Boston: Harvard Business School Press.
- Sassen, S. (2001). *The global city: New York*, London, Tokyo. New Jersey: Princeton University Press.
- Schütte, H. (1997). Strategy and organization: Challenges for European MNCs in Asia. *European Management Journal*, 15(4): 436-445.
- Scott, W. R. (1995). *Institutions and Organizations*. Thousand Oaks, CA: Sage.
- Singh, K., & Delios, A. (2005). *Strategy for Success in Asia*. Singapore: John Wiley & Sons Inc.
- Siripaisalpipat, P & Hoshino, Y. (2000). Firm-specific advantages, entry modes, and performance of Japanese FDI in Thailand. *Japan and the World Economy*. 12: 33-48 .
- Szulanski, G. (1996). Exploring internal stickiness: Impediments to the transfer of best practice within the firm. *Strategic Management Journal*, 17(Winter): 27-43.
- Teece, D.J, Pisano, G, & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal*, Vol. 18:7, 509–533
- White, H. (1980). A Heteroskedasticity-Consistent Covariance Matrix Estimator and a Direct Test for Heteroskedasticity, *Econometrica*, 48, 817–38.
- Xia,J. (2010). Resource Dependence and Cross-border Constraint-absorption A Study of Market Entry Strategies. *Management International Review*. 50:155–183
- Yeung, H., Poon, J., & Perry, M. (2001). Towards a regional strategy: The role of regional headquarters of foreign firms in Singapore. *Urban Studies*, 38 (1): 157-183.
- Zaheer, S. (1995). Overcoming the liability of foreignness. *Academy of Management Journal*, 18: 439–464

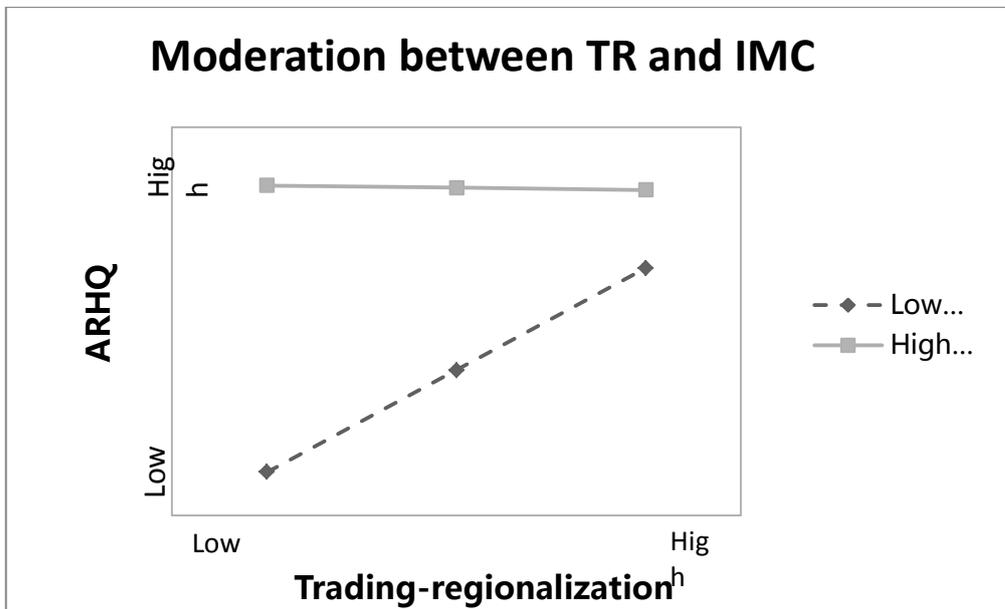
**Fig. 1:** The conceptual model



**Fig. 2: Moderating Effects of Trading-regionalization (TR) and Home-base Regional Integration (HBRI)**



**Fig. 3: Moderating Effects of Trading-regionalization (TR) and International Management Capability (IMC)**



**Table 1: Mean, S.D. and Correlations**

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1 Age	1.00															
2 Ownership	0.31*	1.00														
3 Littoral	-0.01	-0.10	1.00													
4 TMT Background	-0.09	-0.09	-0.09	1.00												
5 Manufacture	0.01	-0.13	0.00	-0.03	1.00											
6 Ln(sales)	0.38*	0.29*	0.20*	-0.11	0.10	1.00										
7 Performance	0.13	0.15	0.05	0.01	0.00	0.20*	1.00									
8 International Experience	0.02	0.08	-0.05	-0.14	0.08	0.08	0.07	1.00								
9 Tech. Capability	-0.01	-0.05	-0.05	-0.03	-0.10	-0.11	-0.01	0.39*	1.00							
10 Total export	-0.21	-0.24	0.08	0.07	0.00	-0.34	-0.25	-0.16	0.06	1.00						
11 Total Foreign branches	0.22*	0.18*	0.10	-0.06	0.01	0.29*	0.05	-0.13	-0.07	0.02	1.00					
12 Investing-regionalization(IR)	0.14	-0.03	0.03	-0.12	0.09	0.09	0.11	0.09	0.12	-0.15	0.01	1.00				
13 Trading-regionalization (TR)	-0.03	0.03	0.03	0.06	-0.05	-0.03	0.07	-0.06	-0.04	-0.08	0.01	-0.19	1.00			
14 International Management Capability (IMC)	0.04	0.12	0.10	0.03	0.01	0.16	0.40*	-0.04	-0.02	-0.03	0.16	0.07	-0.07	1.00		
15 Home Base Regional Integration (HBRI)	-0.05	-0.23	0.38*	-0.13	0.09	-0.02	-0.01	-0.02	-0.05	0.05	-0.16	0.04	0.11	0.09	1.00	
16 ARHQ	0.09	0.05	-0.02	0.04	0.24*	0.15	0.04	-0.07	-0.14	-0.03	0.14	0.25*	0.04	0.19*	0.09	1.00
Mean	17.56	0.23	0.72	0.08	0.36	10.60	4.42	4.48	4.14	0.44	2.82	0.45	0.62	5.01	0.48	0.36
S.D.	14.49	0.42	0.45	0.28	0.48	2.61	1.18	1.22	1.17	0.36	7.68	0.45	0.35	1.22	0.15	0.48

N=226 firms

\*p&lt; 0.01.

**Table 2** Probit model for headquarters in Asia

Headquarter	model1	model2	model3	model4	model5
	Control	Independents	HBRI's moderation	IMC's moderation	Full model
Constant	-1.246 (0.610)	-1.331 (0.598)	-1.450** (0.618)	-1.373** (0.603)	-1.450** (0.618)
Ln(Age)	0.090 (0.144)	0.004 (0.150)	0.073 (0.154)	0.002 (0.152)	0.076 (0.158)
Ownership	0.038 (0.252)	0.229 (0.269)	0.243 (0.270)	0.288 (0.282)	0.328 (0.283)
Littoral	-0.244 (0.205)	-0.451* (0.252)	-0.472* (0.250)	-0.492** (0.246)	-0.544** (0.251)
TMT_F	0.265 (0.321)	0.527 (0.351)	0.518 (0.354)	0.544 (0.352)	0.535 (0.355)
Ln( sales)	0.060 (0.043)	0.067 (0.047)	0.066 (0.048)	0.066 (0.047)	0.061 (0.049)
Total export	0.003 (0.003)	0.004 (0.003)	0.006* (0.003)	0.004 (0.003)	0.006* (0.003)
Performance	0.008 (0.095)	-0.133 (0.112)	-0.113 (0.115)	-0.142 (0.112)	-0.121 (0.114)
International Experience	-0.028 (0.104)	-0.003 (0.111)	-0.005 (0.113)	-0.021 (0.112)	-0.027 (0.116)
Tech. Capability	-0.116 (0.107)	-0.183* (0.102)	-0.203** (0.101)	-0.183* (0.102)	-0.215** (0.101)
Total Foreign Branches	0.013 (0.016)	0.014 (0.014)	0.014 (0.014)	0.014 (0.014)	0.014 (0.014)
<i>Independents</i>					
Investing-regionalization(IR)		0.463*** (0.099)	0.436*** (0.101)	0.476*** (0.100)	0.452*** (0.103)
Trading-regionalization(TR)		0.093 (0.102)	0.148 (0.110)	0.100 (0.100)	0.180* (0.106)
Home base regional integration (HBRI)		0.155 (0.126)	0.270** (0.134)	0.150 (0.127)	0.275** (0.133)
International Management Capability(IMC)		0.293** (0.121)	0.318** (0.125)	0.297*** (0.113)	0.329*** (0.116)
<i>Moderations</i>					
HBRI × IR			0.118 (0.123)		0.109 (0.123)
HBRI × TR			0.412*** (0.114)		0.449*** (0.111)
IMC × IR				0.112 (0.102)	0.110 (0.107)
IMC × TR				-0.088 (0.106)	-0.188* (0.109)
Log likelihood	-133.339	-117.353	-111.307	-116.349	-109.280
Pseudo R <sup>2</sup>	0.089	0.199	0.240	0.205	0.254
P	0.142	0.000	0.000	0.000	0.000
LR $\chi^2$	22.03(16)	54.51(20)	62.56(22)	58.09(22)	71.43(24)
Change in $\chi^2$ (1)		26.300***	37.700***	30.000***	44.530***
Change in $\chi^2$ (2)			13.040***	1.880	17.290***
Change in $\chi^2$ (3)					17.290***
Change in $\chi^2$ (4)					16.290***

\*\*\*. Correlation is significant at the 0.01 level (2-tailed), \*\*. Correlation is significant at the 0.05 level (2-tailed), \*. Correlation is significant at the 0.1 level (2-tailed). N=226.