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**HOW DO REGIONAL HEADQUARTERS  
INFLUENCE CORPORATE DECISIONS IN NETWORKED MNCs?**

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## HOW DO REGIONAL HEADQUARTERS INFLUENCE CORPORATE DECISIONS IN NETWORKED MNCs?

***Abstract.** In networked MNCs where knowledge and power are distributed, corporate strategy processes benefit from input arising from many different levels of the organization. Recently, the regional (i.e., supra-national) level has been emphasized as an important additional source of knowledge and input, and as a bridge between local subsidiaries and global corporate headquarters. This paper builds theory on the antecedents to regional headquarters' influence on corporate decisions (i.e., organizational, behavioral, and motivational). Based on a survey of regional headquarters in Europe and their relations with MNC headquarters, we provide empirical evidence that a regional headquarters' autonomy and signaling behavior have significant effects on its influence on corporate strategy. Furthermore, we find support for our hypothesis that the regional headquarters' charter moderates such bottom-up influence.*

## **1. Introduction**

Contemporary research depicts the MNC as a differentiated network (Andersson, Forsgren and Holm, 2007; Ghoshal and Nohria, 1989). Typically, power and knowledge in the networked MNC are distributed across a set of semi-autonomous units with some of these units assuming more important roles than others (e.g., Forsgren, Holm, and Johanson, 2005). Furthermore, recent research reinforces the notion that firms' operations are not randomly distributed geographically. More often than not, they are concentrated within one or two of the world's main regions (Rugman and Verbeke, 2001). As a corollary of this finding, regional headquarters (i.e., units purposefully established within the MNC to steer national subsidiaries within a region) have gained in significance. Ambos and Schlegelmilch (2010), for example, show that the number of European regional headquarters increased by 76% over the last decade alone. Research by Enright (2005a, 2005b) indicates that regional headquarters control valuable resources and participate in the creation of the MNC's competitive advantage in regional markets. This research points towards the increasing importance of regions and regional management within MNCs. However, the degree to which regional headquarters are able to leverage their mandate to gain corporate-wide influence and to steer the direction of the MNC as a whole is not well understood.

In this paper, we undertake an exploratory investigation of this issue by exploring the influence of regional headquarters on corporate decisions. The abilities of subsidiaries to gain influence within the firm and the ways in which they do so have been the focus of some recent, influential work (e.g., Mudambi and Navara, 2004). However, subsidiaries differ from regional headquarters in that subsidiaries primarily build their influence and power on critical resources or central network positions (Ambos and Schlegelmilch, 2007; Ambos et al., 2009; Astley and

Sachdeva, 1984). In order to effectively operate in unfamiliar environments and to compensate for potential knowledge disadvantages (Ambos and Mahnke, 2010), global headquarters often hand over significant headquarters' functions to regional headquarters through entrepreneurial charters (to develop new knowledge and business) and/or administrative charters (to distribute corporate knowledge to regional sub-units) (Birkinshaw and Pedersen, 2010). Thus, in contrast to subsidiaries, regional headquarters possess a *formal headquarters mandate* in their own right. This mandate shifts the relationship between global headquarters and regional headquarters from a simple parent-agent relationship to a more complex parent-parent/agent structure. New parenting activities (charters) have accompanied this form of parenthood.

The significance of regional influence on the MNC's overall corporate strategy, make the relationship between MNC headquarters and different types of regional headquarters' interesting to study. In the following sections, we attempt to shed light on these issues by means of an empirical investigation of a sample of European regional headquarters. For the purpose of this study, we define "influence" as "the impact that regional headquarters have on MNCs' corporate decisions". We build on a review of the extant literature to identify three key antecedents (organizational, behavioral, and motivational) to regional headquarters' corporate influence, and we investigate how a regional headquarters' dominant type of activity (e.g., entrepreneurial or administrative charter) moderates the relation between these three drivers and the level of influence.

Our paper is divided into three main sections. First, we describe the role and activities of headquarters in the networked MNC, and develop hypotheses to explain how and when regional headquarters gain influence in corporate decisions. Second, we introduce our data set and

methods. Third, we describe the findings of our study, and discuss their implications for management theory and practice.

## **2. Theory and Hypotheses**

Although MNC headquarters<sup>1</sup> often lack knowledge of local contexts (Asakawa, 2001; Holm et al., 1995), they are responsible for corporate strategy decisions that concern the overall fate of the MNC (Ambos and Mahnke, 2010; Egelhoff, 2010). The MNC's corporate advantage often rests on a combination of firm-, location-, and region-specific advantages (Rugman and Verbeke, 2001). In this respect, scholars have found that local knowledge is crucial to the development of corporate strategies that successfully link and exploit these advantages (Goold and Campbell, 1989). As a consequence, MNC headquarters seek to mobilize influence from local units when making decisions. Prior research has dealt with this issue from a top-down perspective, arguing that the real bottleneck in MNC corporate strategy lies in the allocation of the scarce attention of headquarters' managers to subordinated units (Ambos and Birkinshaw, 2010). The current paper suggests a complementary view: in the networked MNC, which requires the integration of the dispersed network of subunits in its decision-making procedures, MNC headquarters need to facilitate regional headquarters' bottom-up influence on corporate decisions. Otherwise, the MNC may become too multi-domestic and forego the benefits of integration.

### **2.1 Antecedents to Regional Headquarters' Influence**

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<sup>1</sup> In this paper, we use the terms "MNC headquarters" and "corporate headquarters" interchangeably to signify the global parent. We use the term "regional headquarters" whenever we refer to the specific roles, actions, etc., of the firms' regional offices.

For the purpose of this study, we define “influence” as “the impact that regional headquarters have on MNCs’ corporate decisions”. Such influence is important for several reasons. Unless regional headquarters provide strategic inputs to the MNC’s corporate strategy process (Burgelman, 1983), corporate strategy decisions will either suffer from ignorance (Mahnke, Venzin, and Zahra, 2007) or, at best, remain ineffective on a regional level (Ciabuschi, Martin, and Stahl, 2010). Consequently, in our conceptualization of regional influence, the focus is on *corporate decisions*.<sup>2</sup> Following Egelhoff (2010), we suggest that influence is largely a matter of shaping MNC headquarters’ information sets under conditions of uncertainty. As we argue in greater detail below, because regional headquarters assume different types of charters (e.g., entrepreneurial or administrative), their informational influence on corporate decisions may differ.

Regional influence on MNC headquarters’ decisions depend *inter alia* on three levers of influence: organizational structure, signaling behavior, and motivation. First, as MNC headquarters make corporate decisions while operating under conditions of distributed knowledge, a key task of headquarters’ managers is to *structure the organizational context* of information processing to mobilize local knowledge and enable bottom-up influence (Egelhoff, 2010). Second, regional headquarters may engage in *active signaling behavior* to exercise bottom-up influence from geographically disparate units in the strategy processes of multinational enterprises (Håkanson and Nobel, 2000, 2001; Yang, Mudambi, and Meyer, 2010). Third, *incentive alignment* between regional headquarters and MNC headquarters supports the influence of regional headquarters on corporate decisions (Mahnke, Pedersen, and Venzin, 2010).

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<sup>2</sup> Our conceptualization of influence is complementary to those conceptualizations found in prior MNC literature on influence. The extant literature generally focuses on lateral influence.

Taken together, the contemporary literature emphasizes structural, behavioral, and motivational aspects in structuring the organizational context of the networked MNC. While these three elements define the impact of several types of influential subsidiaries, we argue that the specific context of the parent-parent relationship sets this study of regional headquarters apart from other investigations. As outlined in the introduction, regional headquarters perform unique parental activities, which we refer to as the regional headquarters' entrepreneurial or administrative charters (Chandler, 1962, 1991; Lasserre, 1996). A regional headquarters' administrative charter entails the coordination of the MNC's activities across the individual markets, the exploitation of headquarters' knowledge, and the achievement of synergies by pooling resources and centralizing value-added activities. An entrepreneurial charter, in contrast, provides a regional headquarters with a mandate to scout out and explore new business opportunities, to initiate new ventures across the globe, and to stimulate and assist in understanding the changing nature of the MNC's business environment. Although regional headquarters may assume both charters, they will engage in the development of new knowledge and business to a lesser extent when they are primarily focused on exploiting existing competence.

Building on this perspective of parenting activities, we explore how antecedents to regional influence are moderated by the type of regional charters (e.g., entrepreneurial vs. administrative), as illustrated in our conceptual framework (Figure 1).

\*\*\* Insert Figure 1 about here \*\*\*

## **2.2 Hypothesis Development: Autonomy, Behavior, and Incentives**

In the following, we develop hypotheses on the direct and moderated impacts of autonomy (representing the structural aspect), signaling (representing the behavioral aspect), and incentive alignment (representing the motivational aspect) on the influence of regional headquarters on MNC decisions. More specifically, we suggest that the primary charter of a regional headquarters will co-determine its influence on the MNC's corporate decisions.

### **2.2.1. Organizational Structuring: The Direct and Moderated Impact of Autonomy**

To mobilize regional influence on corporate decisions, corporate headquarters may allocate decision rights to local units, in effect granting autonomy to regional headquarters in the MNC's organizational structure. In this regard, MNCs aim to allocate relevant knowledge and decision-making authority according to the allocation of global charters (Birkinshaw et al., 1998). For example, higher degrees of autonomy among regional headquarters have been found to be associated with knowledge exploration on behalf of the MNC (Ghoshal and Nohria, 1989; Gupta and Govindarajan, 1991). Associated decision rights concern, for example, knowledge gathering, sharing, and dissemination with regards to specific types of activities for which a regional headquarters assumes responsibility. However, as the autonomy of a regional headquarters may render activities context specific, the regional headquarters' influence on corporate parents' decisions can decrease (Andersson and Forsgren, 2000).

Empirical research has also demonstrated that a regional headquarters' contributory role (i.e., its contribution to the firm-specific advantage) is positively associated with its autonomy (Andersson and Forsgren, 1996; Birkinshaw, 1998). However, some authors report that regional headquarters face severe difficulties for in bringing locally developed ideas and strategic impetus to bear at the overall MNC level (e.g., Forsgren, 1997; Rugman and Verbeke, 2002). As a result,

autonomy might lead to the isolation of regional headquarters from the corporate context, thus diminishing regional influence on corporate decisions. Accordingly, we suggest:

***H1a:*** *Autonomy has a negative effect on regional headquarters' corporate influence.*

The negative effect of autonomy on regional headquarters' influence on corporate decisions may be co-determined by the regional headquarters' primary charter. To structure the organizational context, headquarters delegates decision rights. For example, it can assign global mandates to regional headquarters (Birkinshaw and Pedersen, 2010) in the form of entrepreneurial charters (to develop new knowledge and business) and/or administrative charters (to distribute headquarters knowledge to regional sub-units). When a regional headquarters' explorative activity exceeds its exploitative activities, autonomy can lead to the isolation of regional headquarters for several reasons. First, an increasing focus on exploring new business and knowledge can lead to a diminished focus on the connection to the overall context of the MNC (Piekkari et al., 2010). Second, and more specifically, as regional headquarters create increasingly context-specific, novel insight and business opportunities, a paradox of exploration arises (Forsgren, 1997): as the degree of valuable, localized competence increases, the ability of the regional headquarters to deploy such competence in other MNC units is diminished, largely because of a lack of oversight. Furthermore, the greater the focus on exploration, the lower the dependency of local units on the MNC headquarters (Mudambi and Navarra, 2004). As a consequence, we expect:

***H1b:*** *The negative effect of autonomy on regional headquarters' corporate influence becomes stronger (weaker) the greater the regional headquarters' entrepreneurial (administrative) orientation.*

### **2.2.2. Regional Headquarters Behavior: The Direct and Moderated Impacts of Signaling**

Regional headquarters may engage in *active signaling behavior* to exercise bottom-up influence from geographically disparate units in the strategy process of the multinational enterprises (Håkanson and Nobel, 2000, 2001; Yang, Mudambi, and Meyer, 2010). The recent MNC literature, for example, finds that reverse vertical knowledge flows make local competence useful at the headquarters level, where it is often exchanged for acknowledgement, recognition, and career prospects (Ambos, Ambos, and Schlegelmilch, 2006; Mahnke, Pedersen, and Venzin, 2005). However, effective knowledge transfer from regions to MNC headquarters is complicated. First, not all knowledge sharing warrants headquarters attention (Ambos, Andersson, and Birkinshaw, 2010). Second and equally important, the lower the intensity of a knowledge sharing from a regional headquarters, the lower the likelihood that the regional headquarters will gain influence on headquarters' decisions. As a consequence, it is disputable whether the transfer of knowledge to headquarters has a positive signaling effect per se. Thus, the ability to influence headquarters' strategy seems to be foremost dependent on the interaction with the strategic context. In other words, regional headquarters focused on exploration and the execution of clear entrepreneurial charters will be much more likely to influence corporate decision making than regional headquarters with mere administrative charters. Given this logic above, we propose:

*H2a: Signaling has a positive, direct effect on regional headquarters' corporate influence.*

The positive effect of a regional headquarters' signaling on its influence on corporate decisions may be co-determined by the primary charter held by the regional headquarters (e.g.,

entrepreneurial or administrative). When a regional headquarters' explorative activity exceeds its exploitative activity, its signaling potentially offers greater news value to MNC headquarters than the signaling of a regional headquarters that preliminarily engages in exploiting the MNC headquarters' knowledge. If headquarters' attention is captured by greater news value, the former regional headquarters' real influence in corporate strategy decisions will increase. Thus, we expect:

*H2b: The positive effect of signaling on regional headquarters' corporate influence becomes stronger (weaker) the greater the regional headquarters' entrepreneurial (administrative) orientation.*

### **2.2.3. Motivation of Regional Headquarters: The Direct and Moderated Effect of Incentive Alignment**

While regional influence is required to improve corporate headquarters' strategy decisions, why regional headquarters would exercise such influence when their incentives are not aligned with corporate units remains unclear. Given inter-regional competition for reputation and resources, a contributing unit's managers might fear that other units will exploit their influence and therefore limit their engagement accordingly (Foss and Mahnke, 2003; Mahnke, Pedersen, and Venzin, 2010; Mudambi and Navarra, 2004). In addition, it may not always be in the best interest of regional headquarters to use their influence unless their incentives compensate for the effort and costs incurred. As influence has associated costs, the willingness of local units to use their influence on the corporate level cannot be taken for granted (Mahnke, Venzin, and Pedersen, 2009). Moreover, if the regional headquarters is managed as a profit centre, a high

degree of influence can be detrimental to profit maximization within that unit given the costs associated with the development of such influence. Accordingly, financial incentives contribute to the alignment of interests between a regional headquarters and an MNC headquarters in a dual agency relation. Thus, we expect:

*H3a: Incentive alignment has a positive effect on regional headquarters' corporate influence*

Traditionally, MNCs have restricted regional headquarters to exploiting knowledge developed in corporate headquarters. However, MNCs have increasingly begun to give their regional headquarters entrepreneurial charters (e.g., Ambos and Mahnke, 2010). Furthermore, MNC headquarters may seek to encourage local influence through financial incentives, but large knowledge gaps between corporate and regional headquarters could reduce the effectiveness of financial controls and incentives (Holmström, 1979). Additional complications for incentive alignment may arise if the headquarters is in a state of “sheer ignorance” (Ciabuschi, Forsgren, and Martin, 2011), where headquarters' attempts at incentive alignment may have little positive effect or even detrimental effects on regional influence. Nonetheless, to the extent that the value of regional influence to headquarters decision making increases with the degree of exploration, compensation can act as a powerful incentive. Therefore, we suggest:

*H3b: The positive effect of incentive alignment on regional headquarters' corporate influence becomes stronger (weaker) the greater the regional headquarters' entrepreneurial (administrative) orientation.*

### **3. Method**

### **3.1. Empirical Setting**

We tested our hypotheses using data from 42 regional headquarters located in five European countries. Data collection was embedded within a larger project on the roles and functions of regional headquarters. We used unpublished lists of regional headquarters in the UK, Switzerland, the Netherlands, Germany, and Austria. These countries have been found to host large numbers of European regional headquarters (Ambos and Schlegelmilch, 2010). The compiled list of 803 regional offices served as our initial sample frame. However, upon further investigation, we found that 43% of these units did not act as regional headquarters according to our definition (a unit purposefully established to steer a set of national subsidiaries). Rather, they served as regional bridgeheads to their global headquarters or mere holding firms. As these units had no real headquarters functions and no reporting affiliates, we excluded them from our investigation.

A structured questionnaire was sent to the remaining units in May 2008. In total, 46 regional headquarters answered, which represents a response rate of 10.1%. The exclusion of responses with missing values led to a final sample size of 42 units. Given this small sample size, we took extra care in testing for differences between the regional headquarters in our sample and the non-responses. We found no substantial differences between the sample and the target population in terms of the age and size of the regional headquarters, where the latter was measured in terms of employees as well as total sales. Similarly, there were no indications of strong biases due to early or late responses. To this end, we are confident that our sample is representative of the population of regional headquarters in the sampled target countries.

This study focused on headquarters' senior managers, as the items included in the study required a broad knowledge of the regional operations and the regional headquarters'

relationship with the global parent. Over 50% of the respondents were from top management, including general managers, CEOs, CFOs, and senior vice presidents. 35% of the respondents were second-tier managers within functions such as marketing, finance, or corporate development (e.g., head of marketing, head of corporate development). The data also exhibit good variance across key demographic variables. Roughly 40% of the regional headquarters were less than ten years old, 30% were between ten and 20 years old, and 15% were more than 20 years old. For six regional headquarters, this information was unknown.

The number of employees varied, with 38% of all regional headquarters having a maximum of 50 employees, 20% having between 50 and 200 employees, and the remainder with more than 200 employees (missing values for about 33% of all regional headquarters). Most of the corporate headquarters were located in Europe (70%), followed by the US (25%) and Asia (5%). A little less than 50% of the regional headquarters had a country scope of up to five reporting units, 25% had five to ten units reporting, and 15% were assigned more than ten units (missing values for 12% of the sample). Finally, the data show good variance across industries. 40% of the sample was active in services and IT, 30% was active in a wide range of manufacturing industries, 13% worked in chemicals and pharmaceuticals, and the rest were involved in other industries, such as construction and utilities.

We used several ex-ante and ex-post mechanisms to limit common method bias problems (Chang, van Witteloostuijn, and Eden, 2010). First, the measurement of our dependent variable was included in the first part of the questionnaire (Podsakoff and Organ, 1986). Second, the questionnaire was quite long and contained a number of questions that were unrelated to this study between the independent variables and the dependent variable. This procedure is frequently used to decouple independent variables from dependent variables. We also conducted

a Harman's single-factor test, which indicated that all variables did not load on one factor. Furthermore, we protected respondent anonymity to avoid consistency motif and social desirability issues, and we improved our scale items after extensive pre-testing (Podsakoff, MacKenzie, Jeong-Yeon, and Podsakoff, 2003). Finally, there is evidence that strong common method bias is unlikely when testing complex models with interactions (Siemsen, Roth, and Oliveira, 2010). Thus, we are confident that common method bias is not a major concern in this study.

### 3.2. Measures

All measures for the dependent, independent, and control variables are based on the primary data collected through our survey. The measures of all constructs were developed based on an in-depth review of the literature. Furthermore, we extensively pre-tested the questionnaire with ten academics and practitioners.

The *dependent variable* in this paper is **regional headquarters' influence** on corporate strategy decisions (Ambos and Mahnke, 2010; Poppo, 2002). To evaluate influence, each respondent was asked to assess a set of six dimensions of influence on a five-point Likert-type scale ranging from 1 (no influence at all) to 5 (very high influence). The dimensions were regional headquarters' influence on: corporate marketing strategy, global product portfolio, global pricing strategy, corporate R&D, investments in corporate-wide production, and the setting of long-term corporate objectives. The responses were averaged to form the aggregated construct (Cronbach alpha = .906).

Our independent variables include the autonomy of regional headquarters, the degree of signaling between the regional headquarters and its parent, and the incentive schemes the parent has established to motivate the regional headquarters. Each of these variables is measured with Likert-type scales along several dimensions. **Regional headquarters' autonomy** is measured along 11 dimensions, including the power to: make decisions related to the continuation of a major existing product or product line, make decisions related to entry into new markets, formulate the regional headquarters' annual budget, switch to a new manufacturing process, and make decisions related to the subcontracting of large portions of manufacturing. Our variable is constructed as the average of these dimensions (Cronbach alpha = .889).

We follow prior research in that our measure of **signaling** captures important aspects of reverse flows from regional headquarters to corporate headquarters (Ambos, Ambos, and Schlegelmilch, 2006). The degree of regional headquarters' signaling is measured as the average propensity of a regional headquarters to exchange information, know-how, managerial expertise, technical expertise, and financial resources with corporate headquarters (Cronbach alpha = .842). High values for this variable indicate a strong propensity to engage in signaling behavior towards the MNC headquarters.

Finally, the **incentive** variable measures the degree to which parent companies continuously evaluate the results and outcomes of regional headquarters, establish detailed goal setting and budgeting systems, set specific performance goals for the regional headquarters, and measure regional headquarters' effectiveness through numerical records, such as financial ratios. Our measure of the extent of incentive alignment is constructed as the average of these dimensions (Cronbach alpha = .848).

Our **regional headquarters charter** variable captures the regional headquarters' primary charter orientation. We construct our variable in two steps. First, we distinguish between the entrepreneurial and administrative orientations of regional headquarters, which in previous literature have been assumed to be orthogonal (Gupta, Smith, and Shalley, 2006; Jansen et al., 2006; Lasserre, 1996). Thus, we build independent measures of administrative and entrepreneurial orientation. Entrepreneurial orientation is measured as the importance of the following regional headquarters activities: search for new business opportunities, initiation of new ventures, and entry into new markets (Cronbach alpha = .772), with high values indicating that the functions are important for the regional headquarters. Administrative orientation is measured as the average of the importance of the following activities: standardization of processes, improvement of local unit operations, the spreading of best practices across the region, and the exploitation of synergies across the region (Cronbach alpha = .771). In the second step, as recommended by Jansen et al. (2009), we combine both orientations into a single index using the subtraction method.<sup>3</sup>

To control for other possible impacts on regional headquarters' influence on corporate-wide decisions, the models includes the degree of **competitive intensity** of the region for which the regional headquarters is responsible. Competitive intensity is evaluated along the following six dimensions: fierceness of competition, frequency of price competition in the region, frequency of competitive moves by competitors, significance of changes in customers' preferences, difficulty of forecasting technological developments, and the number of new product ideas made possible by technological breakthroughs. The dimensions are measured on a

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<sup>3</sup> The subtraction method was chosen on theoretical grounds over multiplicative and additive methods.

Likert scale ranging from 1 (strong disagreement) to 5 (strong agreement). We average the responses across these dimensions to form our control variable (Cronbach alpha = .788).

#### 4. Analysis and Results

To test our hypotheses, we used hierarchical ordinary least squares (OLS) regression analysis. Prior to the analysis, we checked for the assumptions of linearity, normality of residuals,<sup>4</sup> the absence of multicollinearity, and undue outliers or influential cases. The plotting of standardized residuals against standardized values showed no major violations. Heteroscedasticity tests<sup>5</sup> were insignificant for all specifications. Similarly, variance inflation factors (VIF) were below 2 in all specifications. This, together with the low bivariate correlations (see Table 1), confirms that multicollinearity was not a problem. Table 1 contains descriptives and correlations of our constructs.<sup>6</sup>

**\*\*\* Insert Table 1 about here \*\*\***

Table 2 depicts the results of the regression analysis. Model 1 is the baseline model and tests the single effects of our variables when controlling for the competitive intensity of the regional environment. We then add the interaction term between entrepreneurial charter

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<sup>4</sup> Kurtosis and skewness tests of normality were both insignificant.

<sup>5</sup> We used the Breusch-Pagan/Cook-Weisberg test for heteroscedasticity.

<sup>6</sup> As our sample size is small, we emphasize that regressions can be run with a minimum ratio of observations to variables of 5:1 (Hair et al., 2006), which would mean that for Models 2-4, we would require  $6 * 5 = 30$  observations. We are clearly above that threshold. Furthermore, our small sample is critical in terms of statistical power (Hair et al., 2006). We therefore expect very low F-values and coefficients, which tend to be non-significant for our independent variables. We report one-tailed estimates in our results table and flag coefficients that are significant at  $p < .05$ . This is appropriate due to the directionality of our hypotheses. However, we risk increased Type I errors in which  $H_0$  is rejected even though it is true. We acknowledge this in our limitations and interpret our empirical testing solely as an empirical illustration of our theoretical framework rather than a rigorous test of our theory.

orientation and signaling in Model 2. Both variables were centered before calculating the interaction term. We thereafter replace this interaction term with the interaction between charter and regional headquarters autonomy (Model 3). Finally, we exchange that interaction term with the interaction term between charter and incentives (Model 4). We refrain from testing all interaction effects simultaneously due to the limited sample size and multicollinearity concerns.

Model 1 and 2 explain roughly 20% of the variation of our dependent variable. As expected, the only model that is significant is Model 3,<sup>7</sup> which is also the model that explains most of the variance of the dependent variable with an  $R^2$  of 27% (adjusted  $R^2 = .14$ ). Throughout all models, only two main effects are significant: the autonomy variable is negatively related and the signaling variable is positively related to regional headquarters' influence. Both effects remain stable across Models 2-4. This lends support to hypothesis H1a, which predicts that a regional headquarters' level of autonomous decision making is negatively related to its influence on corporate-level issues. Our results also support hypothesis H2a, where we assert that signaling has a positive effect on regional headquarters' influence. Hypothesis 3a, in which we predict that incentive alignment is positively associated with regional headquarters' influence, is not supported.

Regarding the interaction effects, hypotheses 2b and 3b are not supported. However, hypothesis 1b receives empirical support in our models, as the interaction term between autonomy and regional headquarters entrepreneurial charter orientation is negative and significant. Thus, the effect of regional headquarters' autonomy on corporate decision making depends on the primary charter orientation of the regional headquarters. When the charter variable is zero, i.e., when entrepreneurial and administrative activities are balanced, then the

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<sup>7</sup>  $F(6; 35) = 2.12, p = .076$ .

effect of autonomy on corporate decision making is negative (main effect as represented by the coefficient of -0.32 in Table 2). However, as shown in Figure 1, regional headquarters' autonomy has a negligible effect on its influence on corporate decision making in the context of a stronger administrative charter orientation (a low entrepreneurial charter orientation). When the regional headquarters is strongly oriented towards entrepreneurial functions, autonomy is strongly negatively associated with regional headquarters' influence. Figure 1 also shows that regional headquarters' influence is highest when those headquarters operate with an entrepreneurial charter while being integrated into a relatively centralized organization (when the regional headquarters' autonomy is low). Thus, regional headquarters with strong decision rights and a more entrepreneurial than administrative orientation are expected to have low levels of influence on corporate decision making.

**\*\*\* Insert Table 2 about here \*\*\***

**\*\*\* Insert Figure 2 about here \*\*\***

## **5. Discussion and Conclusion**

The key contribution of this paper is the development of a novel perspective on the antecedents of regional headquarters' influence on corporate strategy processes in the networked MNC. As in previous research on the networked MNC, we acknowledge the difficulties of bringing regional initiatives to bear on a corporate level, including complications related to knowledge sharing (Pedersen and Birkinshaw, 2010; Pedersen and Holm, 2000), rent-seeking by regional headquarters (Mudambi and Navarra, 2004), and the lack of headquarters' attention (Ambos, Andersson, and Birkinshaw, 2010; Bouquet and Birkinshaw, 2008). As an extension of

this line of thinking, we offer a new vertical conceptualization of regional influence. Specifically, our construct of influence, which focuses on bottom-up influence on corporate decisions, is clearly differentiated from other related constructs, such as “relative lateral dependence” (Ambos et al., 2010; O’Donnell, 2000). Prior empirical research has been largely restricted to lateral influence among subsidiaries (Ambos et al., 2010; Galunic and Birkinshaw, 2006), while scant attention has been paid to bottom-up influence (see, for example, Mudambi and Navarra, 2004). The specific nature of regional headquarters’ charters (i.e., as subunits within the MNC as well as headquarters in their own right) sets this study further apart from prior investigations and allows us to obtain insights into the ability of regional headquarters to impact the firm’s global strategy.

Beyond these general observations, there are a number of specific findings that warrant a more thorough discussion. Despite the constraints of the sample size, our statistical analysis reveals significant relations between organizational, behavioral, and motivational antecedents to regional headquarters’ influence on MNC corporate strategy. As expected, our results show that regional headquarters gain more influence if they send the appropriate signals to headquarters. Our results also indicate that this effect holds irrespective of the type of charter (entrepreneurial or administrative) held by the regional headquarters, suggesting that engaging in active signaling always pays off. Interestingly, our findings also reject the idea that motivational variables (incentive alignment in this case) make a difference in regional headquarters’ abilities to influence corporate decisions. This holds irrespective of whether the regional headquarters has an entrepreneurial or administrative charter.

Our most significant findings, however, relate to the interplay among autonomy, the regional headquarters’ charter, and the influence of the regional headquarters on corporate

decisions. Our results show that the ability to influence corporate decisions is largely unaffected by level of autonomy for regional headquarters that have a predominantly administrative charter. In contrast, the more entrepreneurial regional headquarters become, the more autonomy has a negative effect on the regional headquarters' ability to exercise influence. This finding is interesting from a managerial point of view. The lack of negative effects in cases of administrative charters suggest that corporate headquarters' managers have some leeway in structuring their relationships in these cases. At the same time, the overall low values of influence suggest that regional administrative headquarters need to look for other means (i.e., signaling) if they wish to influence the corporate course. Equally interesting is the case of regional headquarters with a predominantly entrepreneurial charter. While entrepreneurial activity and innovation often call for certain levels of autonomy within the firm (Ambos and Reitsperger, 2004; Asakawa, 2001), our results show that this freedom comes at a price – at least for regional headquarters. In this case, autonomy diminishes regional influence on the MNC's corporate decisions. Our results are in line with recent work of Piekkari et al. (2010), who show that the highly autonomous and entrepreneurial Asian headquarters of the Finnish firm Kone was suffering from relative isolation. Managers in MNCs are thus well advised to carefully monitor the level of autonomy granted to entrepreneurial headquarters in order to avoid these pitfalls. When an MNC's headquarters assign decision-making autonomy as well as a strong entrepreneurial orientation to a regional headquarters, it has to understand the consequence: these regions will be part of the MNC-wide network organization only to a limited extent. Furthermore, valuable insights from other regions will then hardly affect corporate decision making.

As with any study, several limitations must be kept in mind when evaluating our results. First and foremost, the small sample size means that our findings serve more as an empirical illustration than a rigorous empirical test of the proposed relationships. As such, our study should be understood as a first step in furthering our understanding of the drivers of regional headquarters' influence within the MNC. Further studies that encompass larger samples, and, as a consequence, allow for rigorous control of potential spurious effects are therefore needed. Similarly, as our research exclusively focuses on regional headquarters, we cannot comment on the strategies applied by local subsidiaries (either bypassing or enforcing regional headquarters' attempts to build regional influence). Consequently, further multi-level research that treats regional headquarters as a true mediator in the relationship could add significantly to our understanding of how influence is exercised within the MNC. Such efforts might also help to explore under which circumstances subsidiaries benefit from raising their voice directly and under which circumstances they benefit more from relying on the regional hub. Such multi-level studies may also analyze whether regional headquarters are, in fact, true boundary spanners between locally embedded subsidiaries and corporate headquarters that help to mitigate the "advantage paradox" of the MNC (see, for example, Forsgren, Holm, and Johanson, 2005).

**Table 1: Correlation Matrix**

Variables	1	2	3	4	5	6	7	8	9	VIF
1 RHQ influence	1.000									1.45
2 Competitive Intensity	0.176	1.000								1.56
3 Incentive Alignment (centered)	0.133	0.218	1.000							1.53
4 Signaling (centered)	0.272	0.443	0.053	1.000						1.74
5 Autonomy (centered)	-0.092	0.424	0.176	0.458	1.000					1.18
6 RHQ Charter (centered)	0.140	0.014	0.068	-0.067	-0.095	1.000				1.78
7 Charter x Signaling	0.151	0.174	0.241	0.137	-0.082	-0.058	1.000			1.50
8 Charter x Autonomy	-0.161	0.131	0.441	-0.083	0.036	0.347	0.109	1.000		2.45
9 Charter x Incentives	0.029	-0.033	-0.406	0.187	0.337	-0.034	-0.603	-0.311	1.000	1.65
Mean	2.869	3.223	0.000	0.000	0.000	0.000	-0.085	-0.089	0.056	
Standard deviation	0.986	0.821	0.859	1.328	0.971	0.983	1.189	0.857	0.994	

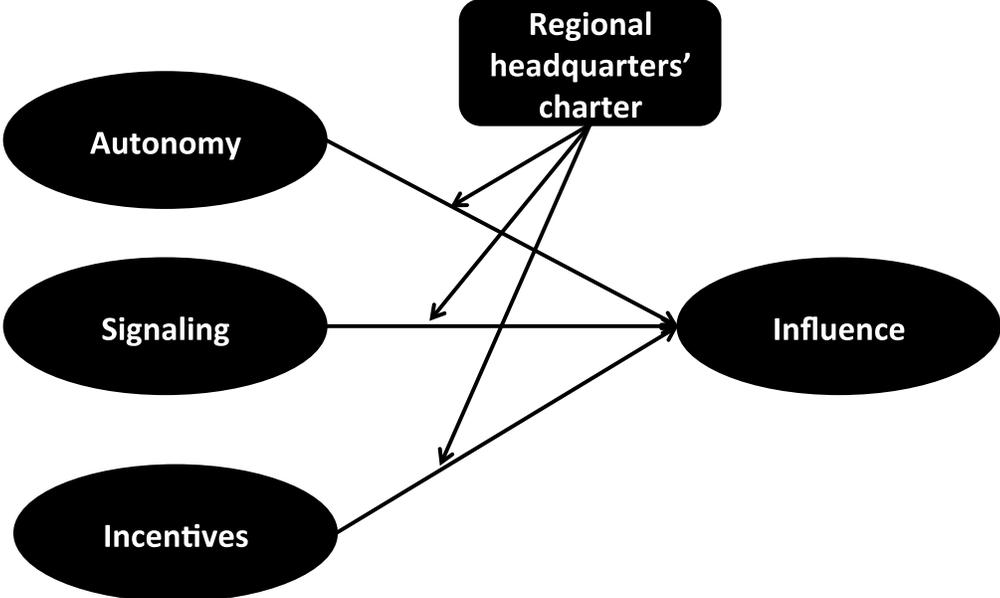
**Table 2: Regression Analysis**

	Model 1		Model 2		Model 3		Model 4	
Constant	2.41	(0.70) **	2.43	(0.72) **	2.26	(0.68) **	2.27	(0.71) **
Competitive Intensity	0.14	(0.21)	0.14	(0.22)	0.18	(0.21)	0.18	(0.22)
Incentive Alignment (centered)	0.16	(0.18)	0.15	(0.19)	0.31	(0.19)	0.26	(0.20)
Signaling (centered)	0.27	(0.13) *	0.27	(0.14) *	0.24	(0.13) *	0.26	(0.13) *
Autonomy (centered)	-0.33	(0.18) *	-0.32	(0.19) *	-0.32	(0.17) *	-0.42	(0.20) *
RHQ Charter (centered)	0.12	(0.15)	0.13	(0.16)	0.23	(0.16)	0.11	(0.15)
Charter x Signaling			0.03	(0.14)				
Charter x Autonomy					-0.39	(0.20) *		
Charter x Incentives							0.20	(0.19)
R <sup>2</sup>	.19		.19		.27		.21	
Adjusted R <sup>2</sup>	.07		.05		.14		.08	

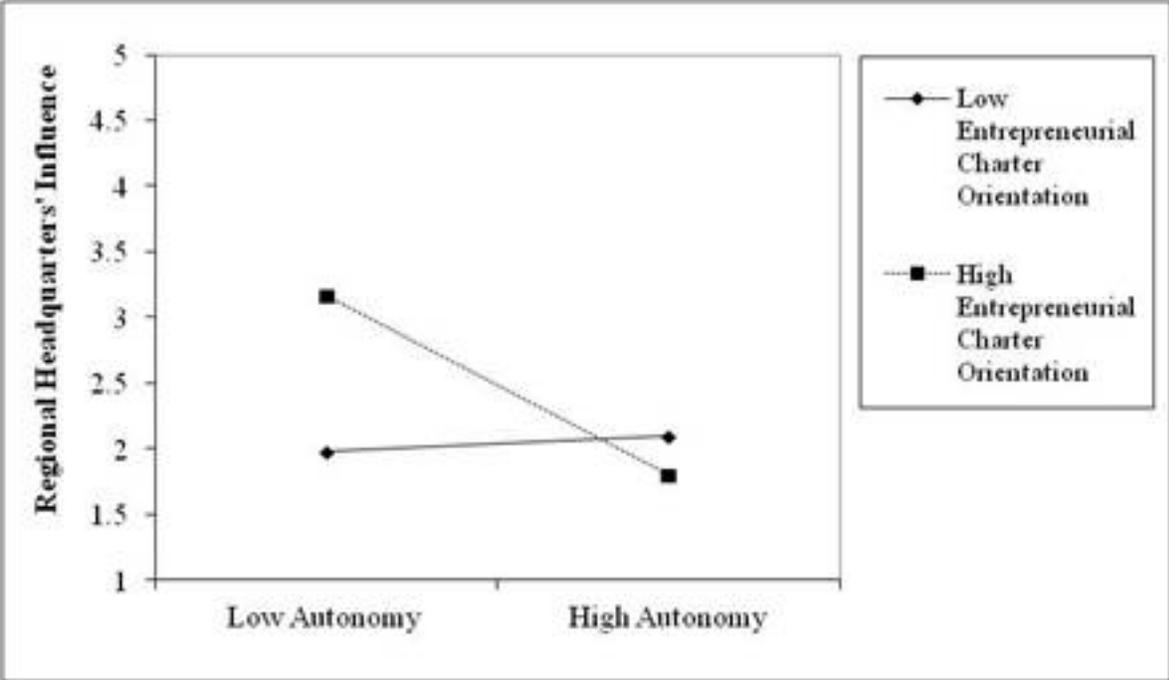
Unstandardized regression coefficients. Standard errors in parentheses.

\* p<.05; \*\* p<.01. One-tailed tests. N = 42 for all tests.

**Figure 1: Conceptual Model**



**Figure 2: Interaction Plot of Regional Headquarters' Charter and Level of Autonomy**



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