



Beyond RHQs

Unbundling RHQ Functions And Transforming into Connected-Hub-Based Organization

Summary

Rapid growth of the emerging countries has made the world markets increasingly multipolar, which, in turn, has made many Japanese corporations shore up their regional headquarters.

Regional headquarters have been adopted as effective solutions to the various issues caused by the traditional, homeland-centric management model, namely shortage of management resources, limits of governance, inefficient business operations, slow decision-making, and a lack of understanding about local markets.

Regional headquarters have six major functions: 1) Regional management, 2) regional governance, 3) shared services, 4) know-how transfer, 5) synergy realization, and 6) business development.

Regional management refers to the exercise of integration and coordination to operate businesses within the region. Regional governance supports the execution of regional strategies through the administration of management resources (people, goods, money and information). Shared services refer to the consolidation of back-office operations within the region and the provision thereof as shared services. Know-how transfer drives the global deployment of the know-how accumulated by the head office as well as the sharing of the local know-how both within the region and across the regions. Synergy realization encourages companies with multiple business divisions to unleash synergy between the various businesses within the region. And business development means promoting alliances with and M&As of promising business partners within the region.

In today's world market two conflicting forces, namely individualization and integration, are at work. Individualization is required in order to respect each country's identity and characteristics, and adapt to local needs. Meanwhile, integration is required in order to pursue the economies of scale that go beyond national borders and regions, and effectively utilize management resources.

Regional headquarters to date have accommodated tensions between integration and individualization on a regional level in accordance with the governance dictated by the head office (regional optimization). However, in order to compete successfully in today's world market, managing tensions between integration and individualization on a global level, not a regional level, has become essential (global optimization).

Not surprisingly, the key factor for success is evolving from regional optimization to global optimization; with the regional headquarters required to change and adapt. In terms of the six major functions, regional management will require integration and coordination from a global perspective; regional governance will need to promote regional standardization; shared services will need to maximize the economies of scale; know-how transfer will need to promote the sharing of local know-how across the regions; synergy realization will require the involvement of the business divisions and the management of the PDCA cycle; and business development will need to accumulate organizational capabilities and build an organization capable of making rapid decisions and taking quick actions.

Note that companies do not necessarily need to think inside the box of regional headquarters to solve these issues pertaining to the six functions. Select the best alternative whether it is the execution of functions by a management committee at a regional level, the decentralized execution of functions by existing local entities, or the execution of functions by a specialist organization that goes beyond regional borders.

Therefore, as far as functions are concerned, it is no longer necessary to establish regional headquarters in order to execute functions required by each region.

There are three points which need to be considered to achieve global optimization. First of all, we must decide which functions should be centralized and which functions should be decentralized. Secondly, if the execution of a function is to be decentralized, then the optimum unit for performing the function must be determined. And thirdly, we will need to decide where the base of performing functions should be located. The criteria for deciding these factors should be what would be best for leveraging the company's strengths and winning in the world market.

Obviously the global control tower functions (strategy formulation and resource allocation) need to be performed in a concentrated manner. However, whether other functions should be performed in a concentrated or a decentralized manner depends on certain prerequisites (e.g. standardization of knowledge and processes) and thus a careful evaluation of these prerequisites needs to be made.

When functions are to be decentralized, the optimum unit for its performance may differ from the "region" (subcontinent) overseen by the regional headquarters. For example, markets may not be geographically adjacent but may expand beyond a particular "region." Additionally, common languages and time zones are crucial to operations and units based on these factors may not necessarily coincide with the "region."

The location of the base should provide the greatest competitive edge when carrying out the functions. In specific terms, factors such as the ease of doing business, business costs, access to talents and access to priority markets need to be weighed.

The next generation global organization that lies beyond regional headquarters can only be envisioned after your company carefully explores the above three points (concentration and decentralization, the unit for decentralization, and location). If we were to take the liberty to project our vision of this framework, it would be a “connected-hub-based organization” where global hubs, which execute functions globally and in a concentrated manner, and decentralized hubs, which carry out functions in a decentralized manner through various units, are highly networked. In such a framework, the “region” (subcontinent) under the traditional regional headquarters would merely become one out of a variety of units.

In order to win in the world market, global optimization must be realized. And in order to realize global optimization, the functions of regional headquarters must first be unbundled and transformed into a “connected-hub-based organization.” This is the message that we would like to underline in our report.

The full version of this report is provided only in Japanese.

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