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# Reconceptualising Hierarchies: The Disaggregation and Dispersion of Headquarters in Multinational Corporations

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## Abstract:

In this paper, we provide an introduction to the Special Issue entitled “Divide and Rule? The Emergence and Implications of Increasingly Disaggregated and Dispersed Headquarters Activities in Contemporary Firms”. The purpose is two-fold. First, we propose a conceptualization of headquarters activities as a dynamic system in which activities can be distributed organizationally and spatially. We explicitly break with the dominant view of the prior research on “the headquarters” as a single, identifiable unit in one specific location. Second, building on the manuscripts accepted for publication in this Special Issue, we outline research implications and put forward an agenda for research on the emergence and continuous management of disaggregated and dispersed headquarters systems.

**Keywords:** Multinational corporation, headquarters, parenting, complexity, internationalization, agency theory, institutional theory, information processing theory, resource-based view

We launched this Special Issue in the *Journal of Management Studies* in recognition of the need to revisit what we know about the role and organization of headquarters in multinational corporations (MNCs). This recognition stemmed from the fact that most of the existing empirical and theoretical work has tended to employ a rather simplistic concept of headquarters and its activities (Zhou, 2014; Hoenen and Kostova, 2014). Frequently, corporate headquarters has been viewed as a single, identifiable unit at the apex of the organization, which is located in one place and has dyadic relationships with its subsidiaries (e.g., Bouquet and Birkinshaw, 2008; Ciabuschi et al., 2011; Monteiro et al., 2008; O'Donnell, 2000; Roth and O'Donnell, 1996). While using such a reductionist view of headquarters has been useful in generating valuable insights on headquarters–subsidiary relationships and on the role and functioning of headquarters, this view seems to increasingly clash with empirical observations. Recent research has shown that headquarters activities are often geographically dispersed and configured in increasingly complex ways (Goold and Campbell, 2002; Birkinshaw et al., 2006; Baaij et al. and Slangen, 2013; Zhou, 2014; Birkinshaw, et al., 2017; Decreton, Dellestrand, Kappen and Nell, 2017). For example, Desai (2009: 1284) notes that we are now witnessing firms that are “*Bermuda-incorporated, Paris-headquartered (...), listed on the NYSE [New York Stock Exchange] with US-style investor protections and disclosure rules, a chief information officer in Bangalore, a chief finance officer in Brussels and a chief operating officer in Beijing*”.

Hence, what seems to emerge is a reality in which not only regular value chain activities but also headquarters activities (Baaij and Slangen, 2013) are increasingly “*disaggregated*” (also referred to as “*fine-sliced*”) and “*dispersed*” along organizational and geographical boundaries (Contractor, Kumar, Kundu and Pedersen, 2010). For example, Desai (2009), Baaij and Slangen (2013), and Birkinshaw et al. (2006) provide interesting insights into how firms, such as General Electric (GE), HSBC, IBM, Lenovo, Nokia, and Royal Dutch Shell, have disaggregated and dispersed their financial, legal, and managerial headquarters activities across different locations. Current research, however, falls short of accounting for the implications of this new phenomenon, and numerous scholars have called for more research on multi-layered hierarchical structures and the roles of multiple (intermediary) headquarters

and their (re)location patterns (Benito, Lunnan and Tommassen, 2011; Hoenen and Kostova; 2014; Menz et al., 2015; Laamanen et al., 2012; Meyer and Benito, 2016; Zhou, 2014).

Overall, we believe that there is a need for a deeper understanding of the emergence, evolution, management, and consequences of organizationally disaggregated, geographically dispersed headquarters to further develop our current theorizing of organizations and (international) management. To meet this need, we call for further research on different types of headquarters configurations to challenge the assumptions and boundary conditions of existing theories in order to modify and extend them (Roth and Kostova, 2003). Moreover, although we frame our paper around MNCs, many of the themes discussed in this Special Issue on headquarters activities should also be applicable to domestically operating large multi-business firms.

This Special Issue Editorial has two primary objectives. First, we build on the abovementioned observations to deepen the understanding of headquarters in multi-business firms and to contribute to theoretical and empirical developments in this area. We put forward a conceptualization of the MNC headquarters as a dynamic system of parenting activities. Extending the work by Contractor et al. (2010) published in 2010 in the Special Issue on “Offshoring and Outsourcing” in the *Journal of Management Studies*, we suggest that, similar to regular value chain activities, headquarters activities can be analysed by their degree of organizational disaggregation and geographic dispersion. Second, we discuss some of the most interesting emerging themes in the context of disaggregated and dispersed headquarters and identify potential theoretical lenses through which they can potentially be studied. We showcase the contributions contained in the Special Issue and elaborate on their contributions, highlighting the way they move the field forward.

### **Conceptualizing MNC headquarters as dynamic systems**

While there is already an extensive body of research on headquarters (Williamson, 1996; Heenan, 1979; Chandler, 1991; Ferlie and Pettigrew, 1996; Foss, 1997; O’Donnell, 2000; Rugman and Verbeke,

2003; Collis, Young and Gould, 2007), in particular the organization and the role of headquarters seem to have attracted increasing scholarly attention in recent years (Menz, Kunisch and Collis, 2015; Egelhoff and Wolf, 2017). Furthermore, it has become axiomatic that headquarters continue to play an important role in large corporations. For instance, headquarters have been shown to influence business unit performance and innovation, cross-unit coordination, and the ways in which firms address and profit from the different institutional environments to which they are exposed (e.g., Goold and Campbell, 2002; Poppo, 2003; Makino, Isobe, and Chan, 2004; Martín and Eisenhardt, 2010; Mudambi, 2011; Dellestrand and Kappen, 2012; Parmigiani and Holloway, 2011; Nell and Ambos, 2013; Zhou, 2014). These studies have also shown that providing a clear definition of “headquarters” is evidently not a trivial undertaking. Meyer and Benito (2016: 158) state that “*pinning down exactly what HQ are, what they do, and who works there, is far from straightforward*”. In this paper, we are deliberately taking a broad approach, which allows for the application of many different perspectives and theories. We subsume corporate headquarters, regional headquarters, divisional headquarters, and other forms of intermediate headquarters, such as regional management mandates, into the definition of headquarters.

Similar to Birkinshaw et al. (2006), we adopt an activity-based definition of headquarters. We view headquarters activities as a combination of the entrepreneurial and administrative parenting activities (Chandler, 1991; Foss, 1997) with which the firm operates, irrespective of the organizational unit carrying out these activities. The administrative activities (sometimes also referred to as “supervisory activities”, e.g., in Zhou (2014)) concern coordination and control tasks, which help integrate diverse businesses and achieve economies of scale and scope. These tasks include the design of incentive systems, the monitoring of performance, and behavioural control. In the MNC context, the extant research has emphasized the headquarters’ task of coordinating subsidiaries by means of socialization strategies (e.g., Björkman et al., 2004; Ghoshal and Nohria, 1989; Nohria and Ghoshal, 1994) and the importance of differentiating between different control mechanisms across diverse subsidiaries (Nohria and Ghoshal, 1994; O’Donnell, 2000).

By contrast, the entrepreneurial activities of headquarters are related to “creating the positive” (e.g., Foss, 1997), such as the acquisition and development of additional resources and markets, which includes formulating and implementing corporate and business strategies, as well as synergy creation and the facilitation of intra-firm knowledge transfer. In particular, the transfer of skills and knowledge has received extensive attention. While corporate headquarters have traditionally been seen as the holders of important resources and capabilities that can be adopted and exploited by other units across locations (cf. Rugman and Verbeke, 2001), recent studies have increasingly focused on the role of headquarters in initiating and steering knowledge transfer between subsidiaries (Dhanaraj and Parkhe, 2006; Dellestrand and Kappen, 2012; Foss and Pedersen, 2004).

For the purposes of this Special Issue, we refer to the overall set of administrative and entrepreneurial headquarters activities, their interrelationships, and their spatial configurations as the “headquarters system”. Adopting a systems perspective of headquarters enables us to address two important issues. First, doing so highlights that the entire set of headquarters activities jointly define the hierarchical setup of the firm. That is, “parenting” manifests itself across various hierarchical levels of the firm, often including a substantial role for intermediary headquarters, which connect corporate headquarters to frontline subsidiaries (Goold and Campbell, 2002; Zhou, 2014; Hoenen and Kostova, 2014; Mahnke, Ambos, Nell and Hobdari, 2012). In this view, a narrow focus only on one part of the headquarters (e.g., solely the corporate headquarters) is not warranted, as the wider hierarchical context is not considered. This issue has been recognized, for example, in studies focusing on principal–agent relationships that are nested hierarchically (e.g., divisional headquarters are the principals of frontline subsidiaries but the agents of corporate headquarters) (Hoenen and Kostova, 2014) or those focusing on regional headquarters structures that connect the different levels of the organization (Piekkari et al., 2010).

Second, the systems perspective highlights the importance of interactions across the organizational units that take over different headquarters activities. For example, recent findings suggest that even after the creation of specific divisional headquarters – both administrative and entrepreneurial

– headquarters activities are often simultaneously carried out in the corporate and divisional headquarters (Paik and Sohn, 2004; Piekkari et al., 2010). For example, corporate executives can retain the responsibility for the division in the executive top management team. Similarly, Poppo (2003) shows how both corporate and divisional headquarters tend to become involved in different parenting activities when uncertainty is high.

Headquarters systems can be configured in many different ways. We introduce a framework to map and discuss some stylized configurations. Our framework, depicted in Figure 1, builds on and extends the value chain framework of Contractor et al. (2010), who argued that firms engage in “*micro-analysis and dissection of their value chain activities into finer slices than ever before*” (1419). Consequently, such “*disaggregation of the value chain enables companies to make finer allocation choices*” (Contractor et al., 2010: 1421), and the optimal balance of disaggregation and dispersion becomes a key issue for firms.

---- Insert Figure 1 here ----

We define the disaggregation of the headquarters system (the horizontal axis) as the organizational division of headquarters activities into smaller, separable activities. For example, rather than having one corporate headquarters only, the firm may decide to allocate headquarters activities to additional headquarters units, such as regional and divisional headquarters (Stopford and Wells, 1972; Wolf and Egelhoff, 2002; Mahnke, Ambos, Nell and Hobdari, 2012) or other intermediary regional supervisory units (Chakravarty et al., 2017). The vertical axis depicts the geographic dispersion of headquarters activities (Birkinshaw et al. 2006). Thus, after the disaggregation of headquarters activities to multiple different units, they can also be dispersed geographically based on where they should be optimally located (e.g., Lasserre, 1996; Enright, 2005; Chakravarty et al., 2017).

Smaller, single-business firms – even when operating internationally – often operate with headquarters setups corresponding to the lower left-hand corner of Figure 1, in which all headquarters activities are allocated to one classic (corporate) headquarters unit in a particular location, usually the

company's country of origin. This configuration tends to dominate the current research that commonly conceptualizes the headquarters as an organizational entity located at a particular location. For example, Bouquet and Birkinshaw (2008: 578) state that they “*operationalize the [HQ] concept as the corporate or global (rather than regional) set of executives*” for the sake of simplicity, despite acknowledging that “[*m*]any MNEs have distributed HQ operations”. Similarly, O’Donnell (2000) analyses the coordination and control mechanisms used by “*the headquarters*” for specific subsidiaries but does not discuss the possibility that some coordination and control tasks might also be carried out, for example, by regional or divisional headquarters. The lower left-hand corner also captures situations in which the entire headquarters unit has been relocated to another country (Laamanen et al., 2012). Despite recent highly visible cases in the media, this phenomenon is still relatively rare, as corporate headquarters tend to be relatively sticky (Baaij, van den Bosch, Volberda, 2004; Meyer and Benito, 2016).

The lower right-hand corner represents the case of disaggregated headquarters. Companies may choose to unbundle their headquarters activities to better handle the complexity that often arises when they become larger or more diversified over time. Instead of operating through one headquarters unit, headquarters activities are delegated across the organization. The disaggregation of these activities can help better match tasks with the capabilities needed to perform such tasks, improve monitoring, and enhance the motivation of different organizational units as they are given more power. For example, prior research has found that the distributing headquarters activities across corporate and divisional headquarters may help better organize the vertical and horizontal information-processing tasks in the firm and dedicate particular personnel to specific headquarters activities (Chandler, 1991; Wolf and Egelhoff, 2002; Stopford and Wells, 1972; Williamson, 1986).

The upper left-hand corner represents the case of dispersed headquarters. Even though a firm will formally have only one entity as its corporate headquarters, individuals or teams that are part of the headquarters can be located in different geographic locations. For example, Barner-Rasmussen et al. (2007) describe the Scandinavian bank Nordea, which formally operates only one headquarters, even though the headquarters staff are actually working in different Nordic countries. A fixed location for



corporate headquarters activities is not easily definable if, for example, the meetings are conducted on-line or rotated across different locations. For example, the executive management team of the elevator and escalator manufacturer Kone was spread over five countries on three continents (Baaij and Slangen, 2013).

Finally, the upper right-hand corner represents the case of both disaggregated and geographically dispersed headquarters, which is one of the most complex configurations that has only recently started attracting increasing attention in the headquarters literature (e.g., Benito et al., 2011; Birkinshaw et al., 2006; Desai, 2009; Baaij and Slangen, 2014; Baaij, Mom, van den Bosch and Volberda, 2015). These configurations are often characterized by several different intermediary headquarters on multiple organizational levels, and they tend to resemble networks than more organizational hierarchies. In addition to regional and functional headquarters, headquarters activities may also be allocated to local subsidiaries that become centres of excellence (e.g., Frost et al., 2002; Hedlund, 1986) or that receive a regional management mandate for a particular region.

The factors that drive firms to disaggregate and disperse their headquarters activities resemble the factors that generally drive firms to unbundle their value chain activities (Baaij, Mom, van den Bosch and Volberda, 2015; Menz et al. 2015), such as growth in the size, complexity and international scope of the firm (e.g., Forsgren et al., 1995). In addition, different push and pull factors are associated with different home and host country characteristics, such as the need for and availability of highly qualified human resources; customer proximity; the proximity of critical key stakeholders; geopolitical, regulatory, and economic considerations; and organizational factors relating to the optimal configuration of the responsibilities of the firm.

A key observation here is that the various drivers that affect the headquarters' location choices tend to affect some headquarters activities differently than others (e.g., Birkinshaw et al., 2006; Laamanen et al. 2012). While the demands of owners and investors tend to drive the choice of a location for the legal domicile, corporate investor relations activities, and the top management team, the decision

regarding where to locate the headquarters sales and marketing activities is likely to be more driven by where the company's main markets are, and the choice of a location for the R&D headquarters is likely to be driven by access to high-quality researchers and knowledge. As the headquarters configuration is then optimized to respond to these different pressures, different headquarters activities may have to be separated from one another and dispersed geographically.

Although the extant research has provided important insights into the emergence of some of these more complex headquarters configurations, anything beyond the lower left corner requires more scholarly attention. We have only a limited understanding of how companies evolve from one configuration to another, how the disaggregated and dispersed headquarters should be optimally managed, and what the performance implications of disaggregation and dispersion are. A good starting point is the example provided by Birkinshaw et al. (2017) in the recent Special Issue of the *Journal of Management Studies*: a company that moved from a traditional headquarters setup in the lower left-hand corner to a disaggregated and dispersed setup in the upper right-hand corner. In this Special Issue, we build on and extend this work and provide a research agenda for future.

## **Charting the Path Forward**

With few exceptions (e.g., Benito et al. 2011), prior research has focused predominantly on individual headquarters entities instead of taking a systems perspective. However, only a systems perspective can help us account for the complementarities and interdependencies between different elements of the headquarters set-up. For example, the same tasks that are simultaneously carried out by several headquarters units (e.g., corporate vs. divisional headquarters) run counter to the traditional M-form logic (Chandler, 1991; Verbeke and Kenworthy, 2008; Williamson 1975), commonly incur additional costs (Ambos et al., 2010; Nell et al., 2011; Ciabuschi et al., 2011; Poppo, 2003), and should thus be balanced with corresponding benefits enabled by the configuration of the system.

In general, the emergence, evolution, management and consequences of organizationally disaggregated and geographically dispersed headquarters should be further investigated to deepen our understanding of the role of headquarters in contemporary organizations. To do so, we need theories that lend themselves well to the study of systems of headquarters activities. While many theories would apply here, we focus on the four theories that we found most promising: (A) institutional theory, (B) theories of organization structures, information processing, and attention, (C) agency theory, and (D) theories of resources and capabilities. Below, we discuss these theories and focus on the four main themes of headquarters disaggregation and dispersion: (1) antecedents, (2) process, (3) management, and (4) outcomes.

## Institutional theory

Institutional theory has primarily been used to investigate how practices and behaviours are shaped by institutional environments and how the pressures for legitimacy and isomorphism relate to practice adoption (e.g., Kostova and Roth, 2002; Wright, Filatotchev, Hoskisson, and Peng, 2005; Xu and Shenkar, 2002; Yiu and Makino, 2002). For example, national institutional contexts vary in terms of how much they support particular activities, such as entrepreneurship, or how socially acceptable and common particular strategies and actions are (Rodriguez, Uhlenbruck, and Eden, 2005). Other scholars have looked inside the MNC, which they regard as an intra-organizational institutional field of its own, with its own pressures of legitimacy and isomorphism across units (Kostova, Roth, and Dacin, 2008; Nell, Puck and Heidenreich, 2015).

In the context of a disaggregated and dispersed headquarters systems, institutional theory provides a number of fruitful research avenues, many of which remain unexplored. One clear research opportunity would be to examine different headquarters units and their ways of addressing institutional duality, the combination of the internal and external pressures of legitimacy and isomorphism (Kostova and Roth, 2002; Holm, Decreton, Nell, and Klopff, 2016). Such analysis would ably complement previous

subsidiary-level studies and inform us about whether and how headquarters units or systems address institutional dualities differently than local subsidiaries do.

The disaggregation and dispersion of headquarters activities can also have an effect on the characteristics of the intra-organizational field itself, which is shaped by the cognitive structures, norms and values held by headquarters that materialize in the actions, guidelines, incentive systems, and expectations of headquarters employees. Headquarters and headquarters employees can be seen as powerful social agents that enact the intra-organizational field. However, due to disaggregation and dispersion, the individual elements of the headquarters system can be exposed to multiple, conflicting pressures, which can create problems associated with spatial, language, cultural, and organizational distances (Baaij and Slangen, 2013), inhibiting the formation of a coherent intra-organizational field (Kostova et al., 2008). Given its exposure to different institutional environments, the disaggregated and dispersed headquarters system has to address heterogeneous practices, norms, and interpretations. A potential avenue for future research would thus be to examine the mechanisms and practices that enable headquarters to make sense of its fragmented institutional environment and to develop its own field.

A fragmented and dispersed authority structure is likely to find reinforcing and disseminating a common set of corporate policies, cognitive structures, and norms more difficult (Kostova and Roth, 2002). For example, Brenner and Ambos (2012) found that socialization activities by headquarters can help create legitimacy among its subsidiaries, which, in turn, can be used by headquarters to effectively implement additional coordination mechanisms, such as output control. Thus, the geographic dispersion and complexity of the headquarters system can arguably hamper the internal legitimacy-creating process, which, in turn, can make the control and coordination of subsidiaries more difficult. Consequently, contrary to recent propositions by Kostova et al. (2008), subsidiaries may ultimately emphasize the pressures from external fields (e.g., their local host country context) rather than those from the weaker or less coherent MNC internal field because the external field exerts stronger and more coherent institutional pressures.

In addition, lower levels of coherence in the intra-organizational field of the MNC can also reinforce some organizational practices and behaviours. For example, the MNC internal organizational field is nurtured by a set of heterogeneous environments to which the individual headquarters units are exposed, which may institutionalize and reinforce a logic that stresses the benefits of diversity and heterogeneity. Moreover, the existence of a multitude of “home” locations in the headquarters system tends to decrease any single country’s influence on the norms and practices of headquarters’ managers. In this respect, potential research questions should include an analysis of which “home” country is ultimately shaping the beliefs and practices of the headquarters system or how the headquarters system is achieving external legitimacy across many different locations.

In addition, as discussed already to some extent by Baaij and Slangen (2013), the institutional distance between one specific subsidiary and the headquarters system cannot be boiled down to the distance between two locations. One potential area of research would thus be to analyse how to capture different institutional distances between a dispersed headquarters system and a focal subsidiary and to estimate the effect of these multiple institutional distances, for example, on legitimacy and isomorphic pressures. Another fruitful route would be to investigate how institutional distances between countries shape the choice of locations for the different activities of the headquarters system (e.g., Zhou, 2014).

Finally, institutional theory provides a fruitful theoretical lens through which to examine the decisions to change a headquarters location or to move some of the headquarters activities from one location to another. Based on prior research, lower taxation has been found to be one of the main reasons that firms decide to relocate their headquarters from one institutional context to another (Dischinger, Knoll, and Riedel, 2014; Laamanen et al., 2012). The paper by Slangen, Baaij and Valboni (in this issue) builds on this research. They investigate stock market reactions to announcements of firms’ intentions to relocate their registered seats. While focusing on a single headquarters unit, the authors contribute to our knowledge of the consequences of corporate headquarters relocation, particularly in relation to legitimacy losses.

## Theories of organization structures, information processing, and attention

*Contingency Theory*. Ever since Thompson (1967) and Lawrence and Lorsch (1967) introduced structural contingency theory, which was aimed at better accounting for the role of the environment in the design of organizations and to buffer the organization from unexpected consequences, the theory has provided the basis for thinking about many of the key principles of organizations. In addition to external contingencies, Thompson (1967) was also interested in how internal coordination costs relate to organizational design. By examining different types of interdependencies between the tasks that an organization has to perform, Thompson developed a number of propositions regarding how the organization should be structured to minimize internal transaction costs. Building on these contributions, structural contingency theory provides a sound theoretical basis for examining how environmental conditions affect the roles and interdependencies of different headquarters units in the headquarters system. It also speaks to the question of the extent to which contingency considerations matter when the decision is made to disaggregate and disperse headquarters activities.

Another potential direction for future research would be the study of the emergence and evolution of headquarters systems. For example, to what extent do environmental changes affect the disaggregation and dispersion of headquarters and how effective are changes in the configuration in preserving environmental fit? Moreover, a complex headquarters system might lend itself well to studies of whether and when environmental fit is more important than internal fit within the headquarters system. Furthermore, contingency theory may help answer the question of which activities in headquarters systems have to be organized in the same parts of the system, which activities in headquarters systems should be co-located, and which interdependencies are the most critical when considering the management of the headquarters system.

In terms of performance implications, it would be interesting to analyse the optimal degree of disaggregation and dispersion for headquarters performance (e.g., headquarters value added, Nell and Ambos, 2013). Relatedly, one could ask where different headquarters activities should be located in order to optimize the cohesion of the overall system while minimizing internal coordination and

transaction costs. The paper by Belberdos, Du, and Goerzen (in this issue) highlights how principles of organizational transaction costs can be applied to the study of location choices for some elements of the headquarters system (in their case, regional headquarters).

***Information Processing Theory.*** Whereas disaggregated and dispersed headquarters systems may be more effective in sensing opportunities or acquiring information, the processing of this information may require more effort than in simple headquarters configurations due to the fragmented structure, making the information processing theory an interesting lens through which to study the disaggregation and dispersion of headquarters.

The use of the information processing theory in the context of MNCs goes back to the pioneering work of Galbraith (1973) and Egelhoff (1982), who contributed to the development of the “information processing theory of the multinational enterprise” (Egelhoff, 1991). Similar to Dunn’s (2005) call for more attention paid to Galbraith’s work on MNCs, we call for further research on the effects of uncertainty on the structures of MNC headquarters systems using Galbraith’s organizational design principles. For example, what are the conditions under which information-processing demands can be expected to favour the co-location of different parts of the headquarters system rather than disaggregation and spatial dispersion?

Egelhoff built on Galbraith’s (1973; 1974) recognition of the importance of developing a fit between the information-processing requirements and information-processing capacities of organizations. Egelhoff’s (1991) central premise is that it is important to pay attention to the structural and process-related dimensions of information-processing tasks and to match them to the information-processing capacities of different types of MNCs. While Egelhoff was ultimately interested in the performance of MNCs, he argued that the theory could also be potentially useful for examining evolutionary change involving “*the maintenance of organizational fit during transition*” (Egelhoff, 1991: 366) or if a serious organizational information-processing misfit were to emerge.

Overall, there are many potential research avenues where information processing theory can be used in studying headquarters systems. First, future research could investigate how the disaggregation and dispersion of the individual elements of the headquarters system shape the information-processing capacity of the system. The geographic and contextual distance between the individual elements of the system presumably makes information processing within the system more difficult. However, a contextually diverse composition of the headquarters system yields a wider range of experiences and knowledge from different institutional environments, which could help counterbalance the negative effects by enhancing information processing in these domains.

Second, the literature has conceptualized the information-processing capacity of a firm as the sum of the information-processing capacities of its different units (e.g., Wolf and Egelhoff, 2002). For example, the information-processing capacity of product divisions can be enhanced by regional headquarters, which can provide strategic and tactical information-processing capacity with regard to specific regions. One potential research opportunity in this respect would be to examine whether and when different types of structural changes expand information-processing capacity and when the increase in coordination costs outweighs the added capacity. The paper by Schotter, Stallkamp and Pinkham (in this issue) takes one step in this direction by studying how Japanese MNCs add region-specific information-processing capacities in various forms in response to regional specificities. Further research would also be needed to examine the boundary conditions of different multilevel information-processing hierarchies (Galbraith, 1973) and the limits to additive complementarity.

*Attention-Based View.* Whereas contingency theory focuses on interdependencies and the importance of organizational fit, information processing theory focuses on the importance of matching information-processing requirements to information-processing capacities. However, neither of these two perspectives addresses how structures affect attentional focus and how changes in the structural distribution of attention can lead to different organizational outcomes (Ocasio, 1997, 2011; Joseph and Ocasio, 2012). The attention-based view does so by building on three interrelated key principles (Ocasio, 1997): (1) the decision makers' focus of attention affects what they do, (2) the focus of attention is



affected by the situational context, and (3) the situational context is affected by the firm's rules, resources, and structures. Accordingly, the configuration of the headquarters system affects the structural distribution of attention in organizations. Therefore, a change in the structure of the headquarters, for example, by moving one part of the headquarters system to another country or by changing the mandate of the regional headquarters will also affect the structural distribution of attention, which, in turn, can be expected to lead to different organizational outcomes.

However, how does this occur, and how do different changes in headquarters structures affect the focus of attention in the organization? While we already have research on the importance of the headquarters' focus of attention (Birkinshaw et al., 2007; Bouquet and Birkinshaw, 2011; Haq, Drogendijk and Blankenburg Holm, 2017), the effects of the headquarters' attention on subsidiary performance (Ambos and Birkinshaw, 2010), and the means by which subsidiaries attract the attention of the headquarters (Ambos et al., 2010; Bouquet and Birkinshaw, 2008), we do not know how changes in the configurations of the headquarters system affect the structural distribution of attention and the performance of the MNC.

Understanding the headquarters as a system of dispersed headquarters activities also has important implications for the attention-based view of headquarters–subsidiary relationships. The attention of “the headquarters” towards individual subsidiaries would have to be viewed from the perspective of a dispersed headquarters system's attention towards an individual subsidiary. This can represent substantial heterogeneity from the perspective of a subsidiary. It is unclear how having the attention of multiple headquarters entities simultaneously influences perceived control or organizational support at the level of individual subsidiaries (Ambos, and Andersson, and Birkinshaw 2010). Furthermore, Bouquet and Birkinshaw (2008) show that the geographic distance between headquarters and subsidiaries influences how much attention headquarters allocates to the subsidiary in question. Future research should investigate how the dispersion of the headquarters system would influence attention allocation, as it would introduce different distances to different headquarter units.

## Agency theory

From an agency theory perspective, the headquarters is usually considered a principal, whereas the subsidiary is regarded as an agent (e.g., O'Donnell, 2000; Roth and O'Donnell, 1996; Hoenen and Kostova, 2014; Kostova, Nell and Hoenen, 2016). Overall, headquarters–subsidiary relations provide a fruitful theoretical context for the use of agency theory because they are characterized by the delegation of decision making, on the one hand, and a strong need for control and coordination, on the other hand (Chang and Taylor, 1999; Nohria and Ghoshal, 1994; O'Donnell, 2000; Roth and O'Donnell, 1996).

Some of the central premises of agency theory include information asymmetry and goal incongruence between the principal and the agent, as well as behavioural assumptions of self-interest and rationality (Arrow, 1994; Eisenhardt, 1989; Jensen and Meckling, 1976; Kiser, 1999). These concepts have been used to explain both the agency problem and potential remedies to it (e.g., Chang and Taylor, 1999; Gencturk and Aulakh, 1995; Gong, 2003; O'Donnell, 2000).

When viewed from the perspective of agency theory, a disaggregated and dispersed headquarters system represents a system of multiple principals. This concept brings up interesting questions regarding the application of agency theory: How can the main agency constructs, such as information asymmetry, goal incongruence, and monitoring, be operationalized between subsidiaries and multiple principals? Moreover, situations in which the intermediate headquarters units might simultaneously be a principal (to the frontline subsidiary) and an agent (to the corporate headquarters unit) may represent an interesting area for further research (Hoenen and Kostova, 2014).

Disaggregated or dispersed headquarters introduce heterogeneity among principals because different distances (e.g., geographic, cultural, and institutional) separate the individual principals from one another. As a result, the consequences of information asymmetry and potential goal incongruences between the multiple principals represent an interesting topic for future research. Heterogeneity among principals is also likely to increase principal-to-principal conflicts (Dharwadkar, George, and Brandes, 2000; Filatotchev and Wright, 2011), “conflicting voices” (cf. Hoskisson, Hitt, Johnson, and Grossman,

2002), and goal misspecification (Hendry, 2002) towards frontline subsidiaries. Whereas the emergence and consequences of potential principal-to-principal conflicts due to the spatial separation of the principals is generally not well understood, a complex system of multiple principals might also require novel resolution mechanisms that differ from those used to address traditional principal–agent problems between headquarters and subsidiaries (Kostova et al. 2016). Thus, further research may be needed to better understand principal-to-principal issues in headquarters systems, the conditions in which they are (un)likely to arise, and the ways in which they can be effectively alleviated.

### Resource- and capabilities-based views

In the resource- and capabilities-based views, a firm is conceptualized as a bundle of resources and capabilities that are the basis for its performance (e.g., Barney, 1996; Kogut and Zander, 1993; Teece, 1977, 2014). The classic literature on MNCs has focused on the resources of the home country and, in turn, the resources of the headquarters. The opportunity to generate rents abroad from these homegrown resources has been found to be one of the drivers of the internationalization of the firm (e.g., Buckley and Casson, 1976; Hennart, 1982). Even today, top-down resource and knowledge flows from the headquarters to the subsidiaries are still considered highly important (Yang, Mudambi, and Meyer, 2008; Blomkvist, Kappen and Zander, 2017).

More recent research has provided insights into more decentralized, network-like forms of organizing. The literature on MNCs as dispersed networks (Ghoshal and Bartlett, 1990; Hedlund, 1986) highlights that many valuable resources are accessible, developed, and upgraded abroad (Rugman and Verbeke, 2001) and that these resources are location-bound to varying degrees. The literature has particularly emphasized the headquarters' role in orchestrating the dispersion of resources and facilitating reverse or lateral knowledge and resource flows across borders and affiliates (Ambos, Ambos and Schlegelmilch, 2006; Frost and Zhou, 2005; Yang, Mudambi and Meyer, 2008; Gupta and Govindarajan, 2000). The discussions in the MNC literature mirror those in the corporate strategy literature, where headquarters are seen entities that possess parenting capabilities, which they attempt to leverage across diverse businesses (Chandler, 1991; Goold, Campbell and Alexander, 1998). The

knowledge and parenting capabilities of headquarters are important in both streams of the literature, and there is an ongoing debate about whether headquarters possess the relevant knowledge to effectively perform their tasks vis-à-vis their affiliates (Ciabuschi et al., 2011; Nell and Ambos, 2013; Martín and Eisenhardt, 2010) and whether corporate headquarters can indeed build core competencies (Bowman and Helfat, 2001).

Viewing the disaggregation and dispersion of headquarters from the perspective of resources and capabilities raises interesting questions that can be explored in future research. For example, evidence has shown that the development and upgrading of capabilities is location-dependent (e.g., Almeida and Phene, 2004; Cantwell and Mudambi, 2005) and that the knowledge and capabilities of headquarters' managers are shaped by the local operating context (Adner and Helfat, 2003; Nell and Ambos, 2013). Thus, different elements of the headquarters system are likely to develop different, potentially location-bound capabilities. For example, a headquarters unit in London may benefit from the presence of the financial sector. Therefore, relocating finance-related headquarters activities to London may have a profound effect on the capabilities of the relocated headquarters unit. In addition, some firms experiment with temporary relocations. The CEO of Starwood Hotels and Resorts recently initiated a series of temporary relocations of the firm's top management team to China, Dubai, and India in order to upgrade the staff's insights into these markets and especially their customers and institutional contexts (Dubois, 2013). Understanding how such temporary strategies work would be an interesting topic area for future research.

Overall, the resource- and capabilities-based views enable us to examine how dispersed and disaggregated headquarters systems develop capabilities, how these capabilities relate to the locations of the respective headquarters units, and how such a dispersed capability base can be leveraged within the firm to achieve parenting advantages.

To summarize the discussion above, Table 1 lists the main research questions that we identified for each of the abovementioned theories, which are organized according to the four themes. This table provides our view of a potential research agenda for the future.

--- Insert Table I here ----

## **OVERVIEW OF THE ARTICLES OF THE SPECIAL ISSUE**

The objective of this Special Issue is to address an emerging phenomenon – the increasing prevalence of disaggregated and dispersed headquarters – to publish latest research on the topic, and to put forward a research agenda for the future. The five articles published in this Special Issue enhance our understanding of different aspects of this phenomenon by employing a diverse set of theoretical lenses and methods. Below, we briefly discuss some of the main insights emerging from these papers and how they contribute to the promising research avenues that we have depicted in Table 1.

The articles by Schotter et al., Alfoldi et al, and. Kähäri et al., (all in this issue) are related in that they focus on some of the key dynamics regarding the use of regional headquarters, regional management centers, and regional management mandates as part of the overall headquarters system. Collectively, they highlight three interesting aspects of the phenomenon. While Schotter et al. discuss the antecedents for the choice of the different forms of regional management centers, Alfoldi et al. focus on the sensemaking, co-construction, and power dynamics associated with the management of such regional management mandates, and Kähäri et al. show how the mandates can also be lost either fully or partially. Although the papers build on different theories, collectively they demonstrate well the dynamics associated with the different stages in the life-cycle of an intermediary headquarter unit.

Specifically, Schotter et al. study in their paper entitled “*MNE Headquarters Disaggregation: The Formation Antecedents of Regional Management Centers*” how MNCs gradually disaggregate and simultaneously disperse their region-bound headquarters activities in response to increasing regional complexity and within-region experience. In terms of the research agenda that we put forward, their main contribution could be seen to be within the scope of information processing theory and the antecedents and processes of disaggregation and dispersion. Using a longitudinal, near-full population dataset on Japanese firms, the authors show that MNCs seem to carefully choose the kind of regional structural arrangement that they will use in a particular regional context. In some cases, operating

subsidiaries are mandated with a regional coordination function, so-called regional management mandates (RMMs), while MNCs set up full regional headquarters (RHQ) in other cases. The paper demonstrates how headquarters activities evolve over time – both in terms of disaggregation and dispersion – and uses information processing theory as its main theoretical lens. The formation of a parenting function at intermediate geographic levels (Hoenen et al., 2014) is theorized to emerge as a solution to improve region-bound information processing horizontally between the subsidiaries in the region and vertically between the region and the corporate level. The authors go beyond the corporate focus of most previous information processing studies and show how region-specific conditions can shape the formation of structural arrangements in a focal region.

Alfoldi et al. examine in their paper entitled “*Firm Bosses or Helpful Neighbours? The Ambiguity and Co-construction of MNE Regional Management Mandates*”, the effects of the ambiguity of a subsidiary’s RMM on the sensemaking and sensegiving dynamics between the subsidiary with the RMM and other subsidiaries in the same region. Based on the longitudinal case study of Unilever, the authors show that an ambiguous mandate is subject to continuous sensemaking and co-construction dynamics by the subsidiaries in the region. Contrary to prior research, which has tended to argue that the creation of a RMM is a unilateral act, the paper finds that an ambiguous RMM is subject to continuous interpretation and re-interpretation. The authors use theories of sensemaking and sensegiving as their main theoretical frames and conclude that structuration theory may potentially complement them as a sensitizing device in the analysis of the continuous co-construction of power relations between the different subsidiaries. In terms of the research agenda that we put forward, the paper focuses mainly on the dynamics associated with management of the headquarters system. Furthermore, it shows that our list of promising theoretical lenses is not exhaustive but that structuration theory as well as theories of sensemaking and sensegiving can also advance our understanding of the field.

Finally, Kähäri et al. examine in their paper entitled “*Explaining mandate loss of regional headquarters: The difference between full and partial loss*” the dynamics underlying the loss of regional headquarters mandates that were allocated to Finish affiliates. Making use of unique data covering the 1998 to 2010 period, they distinguish between full and partial mandate losses. Based on their empirical

analysis, the authors find that the mandate loss is either driven by capability considerations or changes in the context in which the regional headquarters operates. These theoretical explanations correspond to research streams on institutions and capabilities as highlighted in our research agenda. Moreover, whereas prior research has tended to examine expansionary developments, such as the establishment of new regional headquarters, the authors' focus on the mandate loss makes an important novel contribution to the literature by showing that mandates are continuously managed.

The other two papers in this Special Issue are related to each other as they focus on the location choices of corporate or regional headquarters. In their paper entitled "*Disaggregating the Corporate Headquarters: Investor Reactions to Inversion Announcements*", Slangen et al. investigate the stock market reactions to announcements of firms' intentions to relocate their registered seats. The baseline contention is that inversions by firms that face higher US tax costs in repatriating income will be received more positively by investors, particularly if the inversion's destination country has no repatriation tax. This contention is subsequently reconciled with institutional theory, suggesting that by freeing themselves from the US repatriation taxes, inverting firms deprive the US government of tax revenues and will, in turn, likely lose legitimacy among US officials. Thus, while focusing on a single headquarters unit rather than the entire headquarters system, the authors contribute to our knowledge of the legitimacy consequences of changes in the location of the headquarters. Building on institutional theory, the costs related to losing legitimacy are argued to be higher for firms that are more dependent on the US government, causing the relationship between the US tax costs of repatriating income and investor reactions to inversions to be less positive for such firms. In terms of the research agenda that we put forward, this paper contributes to an improved understanding of the antecedents of headquarters configuration change from an institutional theory perspective.

Finally, Belberdos et al. address in their paper entitled "*Global Cities, Connectivity, and the Location Choice of MNC Regional Headquarters*", the choice of location for regional headquarters on the city level. Specifically, the authors investigate whether a regional headquarters location is driven by the characteristics of the city (its connectivity) and by its distance from the corporate headquarters and regional affiliates. To this end, the authors consider the interdependencies and distances within the

headquarters system. The paper contributes to an improved understanding of the antecedents of headquarters dispersion from points of view of contingency and information processing theories with a special focus on spatial transaction costs. It also complements the other papers in the Special Issue that are interested in the understanding of regional headquarters (Alfoldi et al., this issue and Kähäri et al., this issue).

Collectively, the papers published in this Special Issue highlight well different aspects of the research agenda that we put forward in Table 1. They cover the different stages of the headquarters disaggregation and dispersion process from antecedents to disaggregation and dispersion dynamics, management of the headquarters system and, to some extent, also outcomes, although there were no papers that would have addressed the performance outcomes on the overall headquarters system level. Afoldi et al. and Kähäri et al. addressed these well on the regional headquarters and subsidiary levels, but more research would be still needed also on the headquarters system level.

The papers cover all the theories that we identified with the exception of agency theory and show that also other theories, such as, theories of organizational sensemaking or spatial transaction costs, can provide important additional insights into the phenomenon. The papers also demonstrate well the importance of matching the research design to the processual nature of the phenomenon that is being observed. This is clearly visible in the fact that three of the papers (Afoldi et al., Kähäri et al., and Schotter et al.) had a longitudinal research design. Finally, the papers also demonstrate that it may be difficult to position one's paper in only one of the cells in our table. Most of the papers published in this special issue would seem to build on a combination of the theories and address multiple stages of the disaggregation and dispersion process.

## **Conclusion**

Over thirty years ago, Nohria and Ghoshal (1994), criticized the then prevailing literature on headquarters–subsidiary relations in MNCs for implying a “reductive fallacy”. They argued that “[m]ost



*scholars have failed to take account of the differences among the various subsidiaries within any multinational”* (Nohria and Ghoshal, 1994: 492). Since then, numerous contributions in management and international business research have addressed these differences at the subsidiary level and have significantly advanced our understanding of MNC governance and headquarters–subsidiary relations (e.g., Andersson et al., 2002; Birkinshaw and Hood, 1998; Cantwell and Mudambi, 2005; Frost, Birkinshaw, and Ensign, 2002; Gupta and Govindarajan, 2000; Roth and O’Donnell, 1996).

In this Special Issue Editorial, we suggest that we may again suffer from a reductive fallacy that impairs our understanding of the ways in which MNCs are managed. This time, however, we draw the reader’s attention to the headquarters. We argue that the conceptualization and operationalization of the headquarters as a single, clearly identifiable unit at the apex of the organization in a particular location may lead to a limited view of how MNCs are governed. We put forward a systems perspective to discuss different stylized configurations along the dimensions of organizational disaggregation and geographic dispersion and provide a view of the contemporary MNC. We not only conceive of different subsidiaries and subsidiary activities as an interdependent, geographically dispersed network (Ghoshal and Bartlett, 1990) but also view headquarters activities as a network of activities.

While the study of the optimal design of organizational structures has deep historical origins, a new surge of interest in studying organization structures has arisen in recent years. We hope that this Special Issue will lay the foundation for future research that will profit from richer conceptualizations of headquarters structures and activities. In addition to more accurately capturing and understanding the contemporary MNC headquarters, future research has the potential to improve and add to existing theory (Roth and Kostova, 2003). We hope that you enjoy reading the articles that we chose for the Special Issue!

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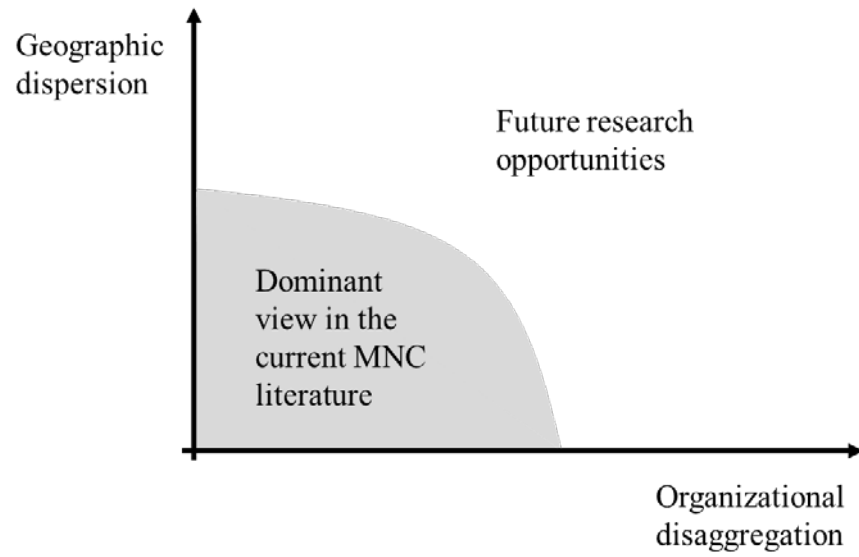
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**Figure 1: A framework for headquarters system configurations.**



**Table I: Potential research avenues considering a dispersed and disaggregated headquarters system**

	A) Institutional theory	B) Contingency theory	C) Theories of information processing and attention	D) Agency theory	E) Capabilities and resource-based views
1) Antecedents of the disaggregation and dispersion of headquarters	<ul style="list-style-type: none"> <li>How do different external institutional pressures affect headquarters disaggregation and dispersion?</li> </ul>	<ul style="list-style-type: none"> <li>Do environmental changes drive headquarters to change in order to preserve both their internal fit and the fit with the external environment?</li> <li>How does environmental uncertainty influence headquarters' configurations?</li> </ul>	<ul style="list-style-type: none"> <li>Is the disaggregation and dispersion of headquarters driven by the increasing ease of communicating within the organization?</li> <li>Do considerations of how to optimize the attention of headquarters to the whole organization drive changes in the headquarters system?</li> </ul>	<ul style="list-style-type: none"> <li>How do the agentic relationships of the different actors in a large company affect the disaggregation and dispersion of headquarters?</li> <li>How does the social and institutional context influence agency issues?</li> </ul>	<ul style="list-style-type: none"> <li>To what extent are the decisions to disaggregate or disperse headquarters driven by different capabilities or resource availability and access considerations?</li> </ul>
2) Process of the disaggregation and dispersion of headquarters	<ul style="list-style-type: none"> <li>How does increasing the dispersion and disaggregation of headquarters influence the emergence of the MNC internal field?</li> <li>How does this increase, in turn, influence the ways in which subsidiaries react to the MNC internal field?</li> </ul>	<ul style="list-style-type: none"> <li>To what extent do external and internal contingency considerations matter in the evolution of headquarters systems over time?</li> </ul>	<ul style="list-style-type: none"> <li>What are the changes in information-processing requirements when the headquarters system is disaggregating and dispersing?</li> <li>What are the attentional shifts that occur when the headquarters system starts changing?</li> </ul>	<ul style="list-style-type: none"> <li>How do principal-to-principal conflicts unfold when the headquarters system is dispersed?</li> <li>How can principal-to-principal conflicts be avoided when designing and operating a dispersed headquarters system?</li> </ul>	<ul style="list-style-type: none"> <li>How do capabilities emerge that allow for disaggregated and dispersed headquarters?</li> <li>How does the dispersion of headquarters co-evolve with capability development?</li> </ul>
3) Management of the disaggregation and dispersion of headquarters	<ul style="list-style-type: none"> <li>How should we understand institutional distance between the various elements of a dispersed headquarters system and a subsidiary?</li> <li>How do disaggregated and dispersed headquarters address the different, even conflicting, legitimacy pressures from multiple external stakeholders?</li> </ul>	<ul style="list-style-type: none"> <li>What are the activities of headquarters systems that have to be organized in the same parts of the system?</li> <li>What are the activities of headquarters systems that should be co-located?</li> <li>What are the most critical interdependencies that should be considered when managing the headquarters system?</li> <li>How can the different interdependencies be continuously monitored and managed?</li> </ul>	<ul style="list-style-type: none"> <li>How should the information flows between the different parts of the headquarters system be managed?</li> <li>How do disaggregation and dispersion affect the focus of attention of the overall headquarters system?</li> <li>How do disaggregation and dispersion affect the structural distribution of attention in the headquarters system and in the company?</li> </ul>	<ul style="list-style-type: none"> <li>How should we capture information asymmetry and goal incongruence between subsidiaries and different headquarters' principals?</li> <li>How do we capture coordination and control influences from a multitude of dispersed headquarters on subsidiaries?</li> <li>How are coordination and control modes influenced by the increased disaggregation and dispersion of headquarters?</li> </ul>	<ul style="list-style-type: none"> <li>What are the explicit parenting capabilities of headquarters systems?</li> <li>How are the parenting capabilities in the headquarters system leveraged across space?</li> <li>How are the complementarities of parenting capabilities across different headquarters locations affected?</li> <li>What issues arise in headquarters-to-headquarters resource flow situations?</li> </ul>
4) Outcomes of the disaggregation and dispersion of headquarters	<ul style="list-style-type: none"> <li>What is the effect of multiple institutional distances in the headquarters system on isomorphism and the adoption of new practices or on the practices used for coordination and control?</li> <li>How is external legitimacy of the MNC affected when there is no identifiable home?</li> </ul>	<ul style="list-style-type: none"> <li>How does the complexity of the headquarters system influence decision making and efficiency in the headquarters system as a whole (e.g., hidden costs)?</li> <li>What is the optimal degree of disaggregation and dispersion to enhance the headquarters system performance?</li> </ul>	<ul style="list-style-type: none"> <li>Do the benefits of disaggregated and dispersed headquarters structures outweigh the costs of additional information processing?</li> <li>Do the benefits of the better structural distribution of attention outweigh the costs of the potential fragmentation of organizational attention?</li> </ul>	<ul style="list-style-type: none"> <li>How does the level of complexity of the headquarters configuration as a differentiated system influence the agency problem?</li> <li>Does the geographic dispersion of the headquarters system lead to more pertinent and severe principal-to-principal conflicts or goal misspecification?</li> </ul>	<ul style="list-style-type: none"> <li>How is the complexity of the headquarters system influencing the parenting advantage?</li> <li>How is the dispersion and/or disaggregation of the headquarters system influencing parenting capabilities?</li> </ul>