How Do Transnational Corporations Glocalize through Regional Headquarters in China?
A case study of transnational corporations’ regional headquarters in Shanghai

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Abstract
In the past ten years, TNCs enlarged their FDIs and transformed their strategies in China under the contest of global economic integration and the emerging of China. This paper tries to find out the direction of TNCs’ strategic transformation and link the relationship between the strategic transformation and RHQs agglomeration in China. Based on the case study focusing on the TNCs RHQs in Shanghai, this paper argues that the orientation of strategic transformation of TNCs in China is glocalization rather than simple localization, and RHQs are the organizational arrangement as the strategy implementer to serve both of the Chinese domestic market and the global market.

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I. Introduction

After the Reform and Opening since 1979, especially after the WTO access in the end of 2001, the attractiveness and importance of China to transnational corporations (TNCs) has been increasing. China has kept the position as one of the top destination of foreign direct investments (FDIs) in the world.

In the past ten years, not only the quantity of FDIs increased, but also the quality of FDIs changed slightly. FDIs flowed into services industries increased. Besides these changing trend of FDIs in macro level, TNCs strategies also transformed in a large scale in micro level. In the early years, TNCs invested to set up lots of manufacturing facilities. However, TNCs invested on non-manufacturing facilities. With the increasing competition among many kinds of players in China, TNCs transformed their strategies in order to meet the local requirements. Accordingly, product localization became a strategy fashion for a period in China. However, as only product localization is not enough to win the competition, localization in multiple dimensions, including research and development (R&D), human resource management, procurement, manufacturing, marketing, has been implemented. Therefore there happened a trend of value-chain localization. Besides manufacturing facilities, other institutions to support manufacturing were also established respectively. This kind of localization trend requires restructuring of the organization. On the standing of the head quarter (HQ) of a TNC that manage manufacturing-oriented subsidiaries in China directly, the problem of management efficiency happened. Therefore many TNCs set up their regional headquarters (RQHs) in order to manage the local subsidiaries efficiently. RQHs establishment became a new fashion in the past ten years. And there seem to be a continuous trend of this fashion.

Although strategic transformation of TNCs in China has been studied through many kinds of perspectives, such as on M&A (Hufeng, 2003), wholly-owned enterprise converting (Chu, 2007), and localization in China has been discussed a lot in medias for a decade, there is few academic studies on it except some case studies on TNCs’ localizations focusing on marketing (Yang and Song, 2004), on R&D. Above this, there are scarce studies on TNCs’ RHQs in China although there is a boom of RHQs establishment in China.

RQH establishment where R&D centers are treated as the core has been argued as an arrangement for localization in previous literatures. However, as a RQH plays the middle bridge between a HQ and local subsidiaries in China, and the task of a RQH is not only to serve for the business in the host country China itself, but also serve to the business in a large scope, such as a region including several economies, or even the globe, a RQH could not be treated simply as an organization arrangement for the localization strategy. Obviously, the role of RHQs have been underestimated. In fact, as the strategic position of China in the global business has been emerging a lot, a RQH of a TNC in China is serving in both of the local and global dimensions. Besides the localization strategy, it also serves for the globalization strategy of a TNC. Then questions should be raised as follows: What’s orientation of strategic transformation of TNCs in China? How do TNCs implement their strategies under the contest of both of world economic globalization and the emerging of China?

Confronting the integration of China economy with the world and the increasing trend of RHQs establishment in China, it is necessary to approach the TNCs strategic transformation and RHQs fashion through a glocalization perspective.
The purpose of this paper is to find out the relationship between glocalization strategy and RHQs fashion in China, especially how TNCs glocalize thorough their RHQs in China. In order to approach the inside process of the interaction between TNCs’ strategic transformation and organization restructuring, this paper conducts study through case studies as limitation on data collection. A theoretical framework on glocalization and RQH is set up in the next session. In order to get a clear glance of the background of the strategic transformation of TNCs in China, dynamics of business environment for TNCs is investigated in the third session. Fourthly, glocalization-oriented strategic transformation and RHQs boom in China are researched. In the fifth session presents multiple case studies, including Alcaltel, IBM, Unilever, GE. The last session discuss and conclude the paper.

II. Literature review and Theoretical framework

2.1 Corporate strategy and organization

Organization reflects and serves corporate strategy. According to Chandler (1962), the format of corporate organization changes depending on corporate business and strategy.

Depending on the stage of internationalization, a company may select one of the following up formats for its organization: export-oriented structure, independent subsidiary structure, international division structure, and global united structure. With diversification of the business scale, product lines and regions and changing of the competition environment, a company may change its organization respectively.

While a company expands in the global scope, a global united structure is necessary. Function-oriented, product-oriented, region-oriented organizations may be selected respectively according to the company’s size, strategy and scope. Whatever to be established, it is a vertical organization where headquarter is decision making body in the top, and sub-level headquarters follow as the bridge between headquarter and subsidiaries, and subsidiaries all over the world act as the implementers of the decisions.

With increasing of business in three dimensions of function, product and region, matrix structure is even developed in order to meet the requirements of business development. However, with increasing decision making cost and bureaucratism, this kind of ideal structure can not be implemented in the real world. Therefore, integrated network structure becomes popular where the core unit becomes sub-level decision making center after the head quarter. As the sub-level core unit coordinate resources allocation and business activities in a large scope within specific region, this kind of sub-level decision making center is also treated as a regional headquarter comparing to the top headquarter.

2.2 Glocalization

According to the number of host countries and business linkages each other, when a company conducts its international business, it may implement one of the four strategies: international strategy, multinational strategy, transnational strategy and global strategy. Whatever to choose, a company have to consider the country scope and target market at the same time. Therefore, both of globalization and localization strategies are popular in the global market
although they are reverse each other.

Under the hypostasis of market homogeneity, globalization has been accepted by large TNCs as one of the main strategy in order to cover a large scope of the countries and supply standard product. With global allocation of resources, the competitive advantage came from scale effect. As headquarter is the decision making center where the power concentrated in it, subsidiaries could not response quickly to individual market.

Therefore, localization strategy became a business fashion. Localization is based on the hypothesis of market heterogeneity where a company has to satisfy separately. Localization strategy can help a company to meet specific requirements, however, the strategy will lead to a lower synergy effect in the global scope as it have commit more resources respectively to individual market.

Under the context with economic globalization and emerging local requirement in the world, a large TNC has to balance between the globalization and localization in order to realize the scale economic effect with low cost and meet the requirement in specific market as well. Therefore, the strategy mixture named as glocalization emerged.

Glocalization is a combination of the words globalization and localization. The term was invented in order to emphasize that the globalization of a product is more likely to succeed when it is adapted specifically to each locality or culture it is marketed. Under the glocalization strategy, a company would design products or services to benefit a local market and global market at the same time.

The term first appeared in the late 1980s and developed from Japanese business practices. The term comes from the Japanese word *dochakuka*, which means global localization. Originally referring to a way of adapting farming techniques to local conditions, dochakuka evolved into a marketing strategy when Japanese businessmen adopted it in the 1980s. Independently the need arose in the late 1980 to bridge local-regional-national-global in environmental research and management. The term was popularized in the English-speaking world by the British sociologist Roland Robertson in the 1990s. According Roland Robertson, glocalization describes the tempering effects of local conditions an global pressures. Robertson argued at the conference on Globalization and Indigenous culture in 1997 that glocalization means the simultaneity --- the co-presence of both universalizing and particularizing tendencies. Glocalization become an important expression as a business jargon in the world.

2.3 Regional Headquarters

A headquarter normally includes the leader of strategic business unit (SBU) and staffs as well as all functions to manage the strategic business unit and operational activities. A RQH is a regional subsidiary of a TNC where it play the role of decision making at the top of a regional unit, including all activities of various SBU, taking full responsibility for overall profitability and success of this regional unit. By function, a RQH may perform as a complex decision making center with at least one of the professional functions including sourcing, manufacturing, finance, settlement, R&D, operation, public relation, marketing, human resource management, etc.

The scope of the region that a RHQ take responsibility to is flexible depending on corporate strategy and regional importance, therefore, the region may be sub-national level, national level, or international level.
As a regional organization of a TNC, an RQH not only plays as the bridge between HQ and subsidiaries in the region, but also interacts with other RQHs. Therefore, RHQs play critical role of in the global network of a TNC. When a TNC implements glocalization strategy in individual market, specific RQH will play important role. In global level, an RQH is an implementer of globalization strategy while it formulates localization strategies in the specific region in local level.

Basic function of an RQH is to promote the utilization of various resources (such as human resources, capital, technology, managerial skills and know-how) in the region and improve the efficiency of decision making of a TNC. On one hand, as a regional decision making center, a TNC formulate regional strategy through each RQH and set up regional network in order to promote resources flows in the region. On the other hand, regional networks are linked into inter regional network in order to realize the high efficiency of resources utilization in the global level.

Generally, TNCs consider the following six impact factors for a RQH’s location choice in a specific host country: political environment, infrastructure, location condition, policy and institutional environment, level of modern service industry, human resources environment. As the core management organization of a TNC for its global business, stable political environment is the most important factor. As a RQH is a decision-making center for a TNC, efficient telecommunication and other modern services infrastructure are necessary after the stable political environment. If a RQH allocates a central area, it is easy and efficient for it to coordinate the business of subsidiaries in surrounding area, therefore, the location is third factor. Then, institutional environment with low entry access, free currency and trade regime, high efficient administration system is favorite for a RQH’s establishment. The fifth factor is the level of modern service industries’ agglomeration. A RQH prefers to be established in a central business district in order share the external effect of the district where is a cluster of the professional service organizations. The sixth factor is human resource supply. As the core function of a RQH is to promote the integration and innovation of the resources, a city that can supply high qualified talent is preferable for a TNC to set up its RQH.

**III. Dynamics of business environment in China**

Business environment is the overall climate created by external forces within which an enterprise operates. On the standing of corporate managers business environment refers to those uncontrollable factors that an enterprise confronts, where market (buyers), competitors and policies (regulators) are critical. Therefore we investigate the dynamics of business environment in China focusing on these three environment factors in the past ten years.

**3.1 Market**

Under the context of global financial crisis and emerging of China, China has sifted slightly from “the factory of the world” to “the market of the world” since 2002, especially since 2008. With increasing GDP per capita of the total population, especially the increasing purchasing power of the middle class, the consumption contents of Chinese consumers has changed a lot. Quality and value oriented consumption is becoming a main stream.

In recent years, the Chinese consumer market is quickly growing more segmented and mature, with an increasing number of consumers looking for high quality products—and willing to pay a
premium for them. Investigation conducted by the American Chamber in Shanghai forecast that China will become the second largest in the world by 2015—just behind the United States—with ample purchasing power to buy 14 percent of the world’s products (AmCham Shanghai, 2012). In Tier-1 and Tier-2 cities, an increasing number of consumers are seeking greater value, quality and integrity in the products they purchase. In smaller but rapidly expanding Tier 3 and Tier 4 cities (such as Ningbo, Wuxi and Dongguan, as well as rural areas) price consciousness still rules, but the choice of available products has dramatically increased. This is providing consumers with a greater range of purchasing options than ever before, and is creating an increasingly competitive environment for companies.

With this kind of changing, Chinese companies and TNCs no longer see the consumer marketplace through different lenses. This has made virtually every aspect of the Chinese consumer market much more competitive. In such a rapidly changing and complex market, it is impossible for a company to be good at everything, but distinct capabilities are paramount to success in the Chinese consumer market.

3.2 Industrial Competition
The huge market size, liberalized FDI regime, improving infrastructure, enormous population and rapid increase in consumption in China have attracted lots of foreign direct investments (FDIs) from TNCs. In the early 20 years (1979-1999), China has become the second largest destination of FDIs in the world and the largest one among the developing countries. There happened a new round FDIs boom in China since 2002. With domestic market’s further opening, many TNCs enlarged their FDIs in China and China became the largest host country for FDIs with over USD 52.7 billions in 2002. In the past 10 years, with the increasing of FDIs, China has kept its position as one of the top destinations of FDIs in the world. The annual utilized FDI was over USD 110 billion in 2011. In early half of 2012, the utilized FDI in China is USD 59.1 billion as the largest destination of the world (where it is USD 57.4 billion in USA).

At same time, competitiveness of Chinese indigenous firms has increased a lot.

With huge FDIs’ inflow into China, China became “the factory of the world” (Jim, 2001) that reflects the over production capacity and fierce competition. As a part of global market with increasing competition, China is treated as one of the most difficult markets to operate.

Overcapacity in many industries leads to increasing competition. Companies in overcapacity industries suffer from low profits and lack sufficient cash for R&D projects, leading to less innovation. After 2002, China’s heavy industrial economy experienced an extraordinary boom. The overall ratio of gross industrial output almost doubled to 160% of GDP between 2003 and 2008 (European Chamber, 2011)

As more and more consumers in China seek value and are prepared to pay more for products and services that they believe to have greater quality, safety and utility, and China offers tremendous opportunity, TNCs continue to face an intensely competitive and challenging competitive environment here.

3.3 FDI Regulation
Since 2002, the regulations related to FDIs focused on FDI quality improvement and RHQs’ attraction.
In order to improve the quality rather than quantity for FDIs’ utilization and guide the FDIs inflows direction in China, the central government issued *Foreign Investment Industrial Guidance Catalogue* firstly in 1995 and revised in 1997, where the projects were classified into four groups according to the industrial development strategies, namely as encouraged, permitted, restricted and prohibited respectively. Since 2002, the catalogue has been updated three times, published in 2002, 2007 and 2011 separately. The current version (2011) took into effect on 30 January 2012. Basically, the catalogue shows new direction for FDI in order to improve the quality with encouraging more FDI in new- and high-tech industries, advanced manufacturing, energy-conservation and environmental protection industries, and modern service industries. Notable changes in the new version includes: expanding the sectors that are opened to foreign investment and relaxed restrictions; encouraging foreign investment in service sectors, high-end manufacturing sectors, and high tech enterprises; expanding the "encouraged" categories and reducing "restricted" and "prohibited" categories.

Under the catalogue issued by the central government, local governments formulated their specific catalogues according to the local development strategies.

In order to attract high-value-added FDI projects, local governments in coastal area made more efforts to improve the total business environment for management rather than simple investment environment for manufacturing that has ever been the main purpose before 2002. Accordingly, local governments formulated series of measures focusing on the RHQs’ establishment and industrial transfer, especially metropolitans like Beijing, Shanghai, Nanjing, Guangzhou, Shenzhen.

With support of central government, three industrial transfer centers were established in Shanghai, Kunshan and Guangzhou respectively since 2008 through which low value-added manufacturing projects were encouraged to transfer to inland provinces from coastal provinces.

In order to attract TNCs RHQs, Beijing issued the first measure in China in 1999 through two documents’ publishing, *Notice of Encouragement on TNCs RHQs Establishment in Beijing and Identification Measures on TNCs RHQs Establishment in Beijing*, where more beneficiary policies were authorized to RHQs than manufacturing facilities.

On 18 April 2000, MOFEC issued *Notice on Foreign R&D Center Establishment*. MOFEC issued *Temporary Regulation on Foreign Investment Company Establishment* in April 1995 to guide the holding companies’ establishment in China. After that, through four time revision, Ministry of Commerce issued *Regulation on Foreign Investment Company Establishment* in June 2003, and then revised three time in February and November 2004 and May 2006 respectively.

In the 2004 version of the *Regulation on Foreign Investment Company Establishment*, RHQ was mentioned firstly. In the following revision of November 2004 and May 2006, articles on RHQ increased and obstacles for RHQs establishment were reduced (Zhang, 2007).

Recent five years (2008-2012), local governments in coastal area tried to attract RHQs through preferential policies. For example, on 29th June 2009, eight Beijing municipal government departments, published measures jointly for the implementation of several regulations to encourage TNCs to set up their RHQs in Beijing. TNCs that set up RHQs in Beijing will enjoy a series of preferential policies.

IV. TNCs’ Glocalization and Agglomeration of RHQs in China
4.1 TNCs’ Glocalization in China

In the early twenty 20 years, TNCs preferred to established manufacturing bases in coastal regions, and imported raw materials and export mainly. The export-oriented processing FDI was the main body.

However, after WTO access in end 2001, with domestic markets further opening and integration with the global market, many TNCs preferred to explore the domestic markets and serve global market at same time through the value chain’s glocalization, therefore glocalization strategy became popular.

After the global financial crisis in 2008, TNCs competed to expand in the domestic market. The past five years have underscored China’s resilience and dynamism. Its economy has been booming against a backdrop of global stagnation. The business environment in China, in particular, has been changing fast, with new regulatory policies and a rising cost of operate business affecting the playing field for TNCs. Therefore, insider strategy became popular.

Under the insider strategy, TNCs established a large number of investment projects in numerous locations using various entry modes. Foreign investors have evolved into strategic or dominant players.

Dominant strategies used by strategic insiders have shifted from parent integration to national integration, from production relocation to value chain localization; from competence transfer to competence building; from competition to coopetition; from repetition to adaptive diversification; from alliance building to restructuring.

Another similar strategy called as “2nd home strategy” is also implemented by TNCs. TNCs hoping to succeed in China can’t treat it as an interesting side bet any longer; they need to take China as seriously as they do their home market. With this strategy, they should answer the questions: How import is China for my business? How to treat China and utilize the “China factor” in the global strategy?

At same time, for nearly a decade, the Asia-Pacific region has consistently outperformed other major regions in terms of economic and consumer demand growth rates. The region's growing attractiveness has led to a noticeable increase in its relative importance to TNCs. Therefore, after 2000, many TNCs set up their Asia-Pacific RHQs in Asia. As China has emerged as one of the largest economies and the largest emerging market in the world, many TNCs have made efforts to integrate their business in China and the world.

4.2 Agglomeration of RHQs in China

Alcatel of France is the first TNC to set up RHQ in China in 2001. By 2003, TNCs has established over 170 HQs in China, including 5 Asia-PacificHQs(Alcatel, Kodak),over 10 Great China HQs(Johnson and Johnson, Microsoft), the rest are China HQs. By 2008, TNCs RHQs allocated in 18 cities, where 325 in China,257 in Beijing, 22in Guangzhou,22 in Shenzhen, 20 in Tianjin, 6 in Suzhou, 3 in Qingdao, 2 in Dalian, Wuxi,Xiamen, Yantai respectively, and 1 in Changzhou, Chengdu, Nanjing, Nantong, Ningbo, Zhongshan, Zhuhai respectively.

Beijing is one the most attractive location in China for TNCs to set up RHQs. By May 2011, there are 82 RHQs, 183 investment companies and 353 R&D centers in Beijing. 41 TNCs of Fortune 500 established their RHQs in Beijing that made Beijing the 2nd RHQs agglomeration
capital in the world (after Tokyo). In Beijing, the number of TNCs RHQs jumped from 24 in July 2003 to 124 in November 2012.

Jiangsu is one of the most attractive provinces in China for TNCs’ RHQs. By the end of August 2012, there are around 200 TNCs HQs were established in Jiangsu, including RHQ 39, 46 functional HQs, such as IBM integrated management service center in Suzhou Industrial park, in which 43 RHQs in Nanjing (11 holding companies, 13 non-holding company RHQs, 19 functional HQs), which is half of the total in Jiangsu Province.

4.3 Agglomeration of TNCs’ RHQs in Shanghai

1) Agglomeration Process

Since 1990, with the shift of developed countries’ manufacturing toward China, it can be found that more and more TNC have come to investment in Shanghai. At the end of 2001, there are already up to 250 of Fortune’s top 500 firms in the city. In addition, in 2002, several large-scale TNCs begin marching to Shanghai for establishing RHQs. Until July 2002, Shanghai government has released < The Interim Provisions of TNC RHQ Encourage-Establishment in Shanghai >. Follow by September 2002, eight of TNC have been approved to locate their RHQ in the city by Shanghai government. There are Alcatel, Emerson Electrics, Suntory, Mitsubishi, Exxon Mobil, Fuji Film, Delphi Automotive Systems, and Honeywell.

In the period of 2002-2006 after China’s WTO access, number of TNCs RHQs in Shanghai has been strongly increase due to service sector growth and investment-attraction policy. At the end of 2006, Shanghai has accumulatively attracted TNC RHQs up to 500 ones. These can be divided to: 154 RHQs, 150 investment companies, 196 R&D centers. More specifically, 14 of investment ones are determined by China ministry of commerce as national-rank RHQ, nearly half of whole country at the time.

In the period of 2007-2011, China have witness another level of market opening up. Especially in 2008 that US engaged financial crisis, It can be found that China market still be the source of continually growth with its consumption potential. This obviously attracted more TNC to invest in the city. Therefore, the trend that TNC establishing RHQ in Shanghai has been clear since then.

By the end of 2007 (first year after 5-year of post WTO access), 593 TNCs RHQs have been established in Shanghai. This made Shanghai number one of TNC RHQs’ destination in mainland China. In this number, there are 184 of RHQs, 165 of investment companies, and 244 of R&D centers. Among them, 16 of investment ones are in national-ranking list (approved by China ministry of commerce), nearly a half of country. Moreover, 56 of Fortune’s top 500 firms have located their RHQ in Shanghai, which count as nearly 1/3 of all TNC RHQ in the city. Nonetheless, three of them are top 10 in Fortune’s top 500 (Exxon Mobil, British Petroleum, and General Motor). Additionally, GE, BASF, Unilever, Bosch et al global leading firms too found their RHQ in Shanghai. Till 2011 end, Shanghai have gathered 927 of TNC RHQs (up to 100 of enterprise RHQs and functional HQs, 17 of top 500 private enterprise HQs, and 300 of listed company HQs). In all of that, 15% are at least Asia-Pacific-ranking. So, it can be inferred that, more and more TNC will try to upgrade their China HQ to be Asia-Pacific rank one, or else, global rank.

In September 2012, it have been confirmed that 23 batches of TNC RHQs were located in
Shanghai, which count as 393 RHQs, 259 investment companies, 349 R&D centers. Nearly 60 of this number have already established their own Asia-Pacific or Asia RHQ. Until 2012 end, the statistics of investment ones raised to 265, while RHQs are at 403 (see table 1).

Table 1: TNCs RHQs in Shanghai

<table>
<thead>
<tr>
<th>Year</th>
<th>Regional HQ Newly-Identified</th>
<th>Regional HQ Accumulated</th>
<th>Holding Company Newly-Identified</th>
<th>Holding Company Accumulated</th>
<th>R&amp;D Center Newly-Identified</th>
<th>R&amp;D Center Accumulated</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>16</td>
<td>16</td>
<td>10</td>
<td>74</td>
<td>24</td>
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</tr>
<tr>
<td>2003</td>
<td>40</td>
<td>56</td>
<td>12</td>
<td>86</td>
<td>22</td>
<td>96</td>
</tr>
<tr>
<td>2004</td>
<td>30</td>
<td>86</td>
<td>19</td>
<td>105</td>
<td>34</td>
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<td>178</td>
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<td>2009</td>
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<td>260</td>
<td>13</td>
<td>191</td>
<td>30</td>
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<td>2010</td>
<td>45</td>
<td>305</td>
<td>22</td>
<td>213</td>
<td>15</td>
<td>319</td>
</tr>
<tr>
<td>2011</td>
<td>48</td>
<td>353</td>
<td>27</td>
<td>240</td>
<td>15</td>
<td>334</td>
</tr>
<tr>
<td>2012.9</td>
<td>40</td>
<td>393</td>
<td>19</td>
<td>259</td>
<td>15</td>
<td>349</td>
</tr>
</tbody>
</table>

Source: Shanghai Commerce Committee

2) Distribution of TNCs’ RHQs

Industrial Distribution: TNC RHQ in Shanghai mainly transaction in manufacturing and servicing. Till December 2010, there are 232 of manufacturing HQs which count as 76.1% of total, while the rest of 23.9% served as service HQs.

Regional Distribution: From all TNC RHQ registered in Shanghai, mostly are registered to Pudong New District, while other districts too grew with obviously sight. In 2007, Shanghai Economic Promotion Center have firstly assured 16 of RHQs as “HQ Economic” bases. The action took major part of companies in the area of Lujiazui Finacial and Trade Zone, Huaihai Road Building Area HQ, Xujiahui Building Area HQ, West Nanjing Road MNC HQ, Zhangjiang High-Tech Park, Baoshan’s Steel HQ Base, Songjiang’s Heavy Industry Teritory and HQ Park.

From this all territories, the batch of Lujiazui-Huaihai Road/Nanjing Road/Jing’an Temple-Xujiahui-Hongqiao, or “Golden Corridor” are accumulated as 70% of the city economy. In addition, tertiary production from this corridor zone is counted as a half of a city service sector, only Lujiazui Finacial and Trade Zone’s GDP alone are 1/3 of Pudong New District.

In December 2010, Pudong New District has accumulately attracted around 150 of TNC RHQs, 49.2% of Shanghai totally. Other districts like Xuhui, Changning, Luwan, Huangpu, and Jing’an et al center are attracting, but seem to be a minor source. And Pudong’s Zhangjiang and Jinqiao, Minhang’s Zizhu, and Changning’s Linkong et al areas will later catch up the tide.

From the view of economic geography, RHQ location integration has existed(except traditional zone; Lujiazui, Xujiahui, Central Huaihai Road). Firstly, Changfeng Eco-Gathering Zone, and Dalian Road’s international HQs are dramatically rise. Secondly, Zhangjiang, Jinqiao,
Caohéjing Development Zone, and other productive service zones have been integrated into specific industry HQ zones. Thirdly, Expo Park Area also attracting domestic firms (Baosteel Group, National Grid, China Commercial Aircraft), along with multinational and private ones. Lastly, Hongqiao Business Zone too is being swiftly constructed for TNC HQ preparation.

Considering RHQ radiation from mainland, outbound-market occupy continually rise. At the end of 2010, the proportion between mainlands RHQ toward total TNC RHQ are at 56.1%, while considering greater China ones as 13.7%, and Asia-Pacific ones as 22%. So in 2006-2010, Shanghai has attracted around $105,000 million investment contracts from outside. With 90% of them aim to invest in other provinces, especially Yangzte River Delta Zone.

Functional Categories: the so called “TNC RHQ” in <Provisions of TNC RHQ Encourage-Establishment in Shanghai> can be defined as: an organization that outbound register in Shanghai to invest or authorized by its parent company, response for management and service in up-to-one country region. It can be wholly-owned investment company or administrative company. At the same time, it possesses independent legal personality condition. Meanwhile, the investment TNC RHQ is found for direct investment task. While administrative TNC RHQ, is found for managing, R&D, funding, purchasing, sales, logistics, and other supportive tasks.

So Shanghai TNC RHQs can be divided into 2 main categories; administrative ones and investment ones. Survey of 2010 found that 55% of investment RHQs got no R&D transaction itself, half of their R&D are operated by others.

To adjust to Shanghai investment and operational environment, more and more TNC have expanded their functional potent which is not just restricted to investment. They have added activities on policy-deciding, purchasing, marketing, funding, researching etc. It also found that more TNCs continually upgrade their area HQ ranking, shifting China HQ into Asia-Pacific or even global HQ. The samples can be found in several companies. First one, IBM, set its own emerging economies HQ in Shanghai to handle 150 of emerging markets. Second one, Bayer, reallocated global HQ of material science in Shanghai. And the last one, Phillips, shifted the divisions of air and water purification along with kitchen-site global HQ into Shanghai. By September 2012, we found 95% of Shanghai RHQs possess at least 2 tasks of functions, for example investment-deciding, funding-management, R&D-service, and purchasing-marketing etc. From all of this, administrative RHQs exceed investment one at the number of 53%.

Some TNCs even let its Shanghai HQ to handle a task globally, for example: Robot division of ABB company, or material-science division of Bayer. With some cases, General Motor has set its inter-operation HQ in Shanghai after 2009 financial crisis. While IBM too, has set its emerging market HQ in Shanghai, handling up to 150 economies. Lastly, most recently established HQs of some TNCs are response for the task of “transformation”, such as those of Astrazeneca, Ford Motor, IKEA, McDonald.

3) Location advantages of Shanghai for TNCs RHQs

(1) Economic Environment

As the largest business hub and designated financial centre, Shanghai is situated between the densely populated and industrialized Eastern coastal provinces Jiangsu and Zhejiang, which feature highly developed economies and mass export business activity. Shanghai offers optimal sourcing, manufacturing and market access for multinational companies in various industries.
TNCs state that having their headquarters in Shanghai also provides them with significantly better access to clients and distribution channels in mainland China. Many companies also value the fact that having their regional headquarters in mainland China brings them closer to Chinese consumers and lets them better understand their preferences. This has become an increasingly relevant competitive advantage in China's growing domestic consumer products market, where companies face fierce competition from local brands catering to local tastes and preferences.

Besides this, Shanghai also allows companies to better access local and international talent. This advantage has become increasingly important over the past years, as competition for skilled and experienced professionals has grown fiercer. Shanghai, with its international, metropolitan appeal, is highly attractive today to well-educated young professionals both from China and abroad, thus making it one of the top labour markets in Asia Pacific.

The growing local economy, the proximity to clients and markets as well as the potential of market access stand out as the city's most valuable advantages compared to non-mainland China locations.

(2) Institutional Environment Improvement

TNC RHQs are agglomerating in Shanghai. Besides global industrial transfer trends and Chinese market factors, improving institutional environment is another attractive factor of the business environment.

After the Opening of Shanghai Pudong in 1990, the process has led to centers establishments: that of inter-economy, finance, trade, and transport. In this background, foreign investment utilizing, RHQ establishment, and RHQ development became Shanghai important transition approach. With the turning point in 2002, the city enforcing more preferential policies, gradually improve attracting environment. Several preferential measures are implemented in 2002-2012, divided into 4 stages: first, interim provision (July 2007), second, improved provision (July 2008), third, revised provision (December 2011), and fourth, completing provision (November 2012).

Stage 1: Interim Provision of July 2007. Under the support of ministry of commerce, 20th July 2002, Shanghai government has announced The Interim Provisions of TNC RHQ Encourage-Establishment in Shanghai (later state as Interim Provision). This made Shanghai a pilot city to start up TNC concept in China. Half year later, Shanghai Economic and Trade Commission then declared Interim Provision Implement Details, this have made provision better organized on implement. More than that, Shanghai Pudong New District government too proclaimed Pudong New District Interim Provisions. So, under this new policy, Shanghai TNC, especially in Pudong New District will benefit from such conditions, including taxing, account registry, funding, outbound convenience etc. Not so long in 2003, Shanghai government has even written down “business cost cut” terms into Shanghai Government Working Report, so that the city will be more incentive place. Until April 2006, city government has settled the office of “Shanghai Economic Promotion Center HQ” dealing with city economy boost. Lastly, in 2007, the promotion center has printed out the “HQ Economy Map” to certified “HQ Economy” base aid for 16 TNCs.

Stage 2: Improved Provision of July 2008. In 7th July 2008, Shanghai government has announced The Provisions of TNC RHQ Encourage-Establishment in Shanghai to promote HQ economy gathering. The sentiment has raised efficiency in such ways: accessing threshold, approval process, operational optimization, investment environment, business cost, human
resource pool, account registry, and landing policy.

**State 3: Revised Provision of December 2011.** In the Transition period 2012-2015, attracting TNC RHQ has been raised priority by Shanghai government again. Meanwhile, vigorously promoting foreign funds and openness is the key to succeed “innovative and transitional development”. So, in 19th December 2011, the revised version of provision has come up. This has supported the tasks and expansions of TNC at terms of entity’s business, functional extend, and potential enhancement.

**Stage 4: Provision of November 2012 that encourage RHQ upgrading.** For continually optimize Shanghai economy environment, the provision has to be revised. In this newer version, funding, custom clearance, and staff flow were modified. In 11th October 2012, Shanghai government, in cooperate with Development and Reform Commission have issued new policies, such as *Interim Implement Suggestions on Provisions of TNC RHQ Encourage-Establishment in Shanghai* and *Suggestions on The Interim Provisions of Foreign Investor’s R&D Center Encourage-Establishment in Shanghai*. This has made TNC RHQ holistically “upgraded” : supporting internal equity reorganized, and raising possibility for HQ ranks to get higher level. More than that, some specify supportive details were included either, such as operate aid subsidy, disposable subsidy, foreign exchange managing and offshore lending etc.

V. **Cases of TNCs RHQs in Shanghai**

With emerging of China as “the factory of the world” and transformation to “the market of the world”, TNCs have transformed their strategies in the Chinese market, where global integration strategy or glocalization is the main stream. As investigated in the above session, TNCs have established many kinds of RHQs or upgraded their existing HQs in Shanghai to implement the strategy in order to serve both of the Chinese domestic market and global market. Hereafter we study two typical cases to approach this situation in details. Alcatel is the earliest TNC to set up RHQ in China and IBM is most outstanding one that even set up its global HQ in Shanghai to serve 140 emerging markets.

**5.1 Alcatel**

Alcatel is the company merged from CIT Alcatel and TIT in 1987, after then, the full name is “Alcatel Alstom”. Getting through such historical wave and tide, now the company is one of the world biggest telecom makers. The production line covers with varieties, network system, mobile telecom, wireless transmission, and cable etc.

In order to raise competitiveness in the Pan Asia-Pacific markets where USA, Japan and China as the core, Alcatel and have merged with Lucent on November 30, 2006, named Alcatel-Lucent. Alcatel-Lucent is a leader in mobile, fixed, IP and optics technologies, and a pioneer in applications and services.

1) **Entry and expansion in China**

Alcatel has come to China rather early in 1984, with the name of Shanghai Bell Co, Ltd. The strategy at the time was obtaining market with technology”. However, in the first 3 years, Alcatel faced with some struggles. First, it really need a time for European technology to fit in this land. And another, due small scale production, so average cost was high, making it lacked of
competitiveness. Yet, after company pass through hard time in 1989, the product of switch “S1240” has made the record for company until 1998.

2) Strategic Transformation in China

Although Shanghai Bell was doing well in specific production during a time, later the company fell down as early. The reason was easy, leader in this market has to possess the “core technology”, and the company was not. So since 90s, the company begin to lose its position to domestic competitors like Huawei, ZTE.

In the situation of SOEs reform in China in 2003, Shanghai Bell too stepping up by cooperation with Alcatel Group (French) to reform itself. In 28th May 2002, Shanghai Bell together with 3 companies (Shanghai Telephone Enterprises, Alcatel Investment(China) Co, Ltd(ACI), and Shanghai Bell Alcatel Mobile Company(SBAMC)), have merged into Shanghai Bell Alcatel Co, Ltd(ASB), the firm under title of foreign investment enterprises.

3) RHQ Establishment in Shanghai

In 2000, Alcatel has finish setting Asia-Pacific HQ at Shanghai. Then two years later, “research and innovation center” established, along with “technology fund”. In the term of social coordinate, ASB also got cooperation in human resource training. In this project, ASB has cooperated with school of management from Norway and Fudan University in Shanghai. Moreover, the company also saw the priority in using modern technology for managing; e-Management Center has been set up in Shanghai. Then in 2006, ASB has merged with Lucent Science &Technology Company, and then Asia-Pacific HQ of Alcatel Lucent in Shanghai was established. In this time, Alcatel Lucent has possessed 31 branch companies around China; with end-to-end production line cover various telecom markets. And these all high performance cannot happen, if there was no resource sharing with Alcatel Group.

Today, Alcatel is ready for the world target. ASB might just do things for China in the old day, but it has already been able to satisfy the global now. Because after China entered WTO, the product naturally get to world scale. Lastly, ASB too as other company want to shift up in the supply chain. It now is trying to shift form device supplier to solution supplier. With the abundance of production line and R&D potential, the way to light is getting near.

It can be said that ASB has a high potential use in its 2 sorts of resource. The first one is worldwide sharing resource that the company own with its partners. With this factor, the company can share the process and knowledge with partners in global experiment tank. The second one is innovative knowledge that the company acquired from cooperation with other firms, for example 3G and OSP service in worldwide.

Worthy to mention, ASB was succeed in the way of transformation from technology inducer to technology provider. Meanwhile, the products are not just satisfy China market but a worldwide. At present, ASB is already the biggest manufacturing base of Alcatel Group, handling the service to different global parts.

5.2 IBM

1) Entry and Expansion in China

1911, IBM was found in United States. Being the biggest info-technology and solution
provider, the company activities cover 160 countries around the world. In early time at 1936, IBM has come to set the first China representative office in Shanghai. But with the process of time being, it has to pull out in 1949, however, return in 1979. From two decades of experience, IBM has become the trustworthy partner to China territories in both government and academic fields. The customers are all around, making the company handle as dominant in China market share.

IBM progression in China can be concluded into 3 stages:

Stage 1: Exploratory and Learning Stage (1979-1988)

In this stage, the company main priority was learning-by-selling. In 1979 IBM returned to China as a pioneer introducing computer and information technology concepts. In this initial stage, its business model was easy, each office just handle its own city sales. China was not the core in IBM’s global strategy.

Stage 2: Strategic Investment and Growth Stage (1989-1999)

Since 1992, China market and investment environment in IT field began to be more positive than ever before. This time, IBM has chosen China as an important area for its strategy and decided to invest directly. In 1992, IBM China Co, Ltd. was found in Beijing, then branches in Guangzhou and Shanghai were set up separately. Consider the prosper future for IT hardware in China (especially, personal computer: PC), the company established a jointed venture in Shenzhen with Chinese firm, the Great Wall Computer Group, to manufacture notebook PC ThinkPad in 1994.

Stage 3: Expansion and Stage (2000-present)

After the fight-for-steady, IBM has seek way to expand business: setting up more 14 branches in this stage. 220 experience centers were set up in 62 cities in 2003. Moreover, IBM China implemented “Blue Wing Plan” and expanded into Tier-2 cities and Tier-3 cities in 2004. In addition, IBM later brought an e-commerce and on-demand strategies in order to cooperate with finance, telecommunication, manufacturing, logistic sectors in China and improve their information technology level. In this stage, the company became main technology provider for core enterprises in China. At present, IBM China has possessed 31 branches, 10 joint ventures or wholly-owned enterprises by direct investment, and around 160 service centers.

2) Strategic Transformation in China

In China, IBM formulated a strategy “Strategic Investment and-Technology Localization”. The purpose was aiming to be customer’s best partner. Moreover, it also aims to service SMEs and government authorities with the best attitude.

Under this strategy, IBM China tried to transform from a product supplier into software and service supplier. In global level, IBM has started the transformation early. Ratio of service revenue to the total has risen from 27% in 1993 to 41% in 2001 and 48% in 2004. In early 2005, IBM sold out its PC business unit to Chinese PC giant, Lenovo. However, ratio of hardware revenue to the total in China was still 70%, where software and service was only 30%. In the hardware sector of China, the advantage of IBM was not very obvious, therefore IBM decided to transform.

Since 2004, IBM has fully upgrade capacity in China software and service, so that it can keep up with its global strategy. To accomplish this, IBM restructured its 5 software unit according to Chinese demand in important sectors, and set up IBM China Software Development Center as one of the top 5 laboratories in the world. The objective is to fulfill “On Demand” service to customer. The result is impressive, because the IBM China software and service in 2004 has
grown 35%: 5 times to its global average.

3) Great China Headquarter Shift to Beijing for Localization

In 1995, local competitor Lenovo has started the lower pricing strategy in China. The result was that some expensive brands were expelled (like AST). So in this situation, IBM has decided to make a change. This led to the move of its Great China Headquarter in Hong Kong to Beijing, so that PC market can be more exploited.

After the HQ moving to Beijing, the company has devised the market of Great China into five divisions: North China, Eastern China, South China, Hong Kong, and Taiwan. Then obvious result occurred: less internal friction.

Moreover, IBM China also decided using multidimensional organization structure to operate business. Say, it now has used various categories for business plan, such as production line, business unit, and territory division. This has made a big leap for IBM into high-end market.

So, from here, we can see the company has developed and expanded operational tasks through time. It has transformed its business model from a simple one into a complex one: with diversification of business in R&D, marketing, and investment etc, through which business could be localized more than ever before. Below are some IBM China progressions:

In 1995, IBM China R&D Center in Beijing was established by wholly-owned investment in order to research for domestic market and global market.

In 1999, IBM China Software Development Center was established, which was the biggest one in China.

In 2005, IBM Institute of Business Value (IBV) was established as a “think tank”. Then 2 cutting-edge system agencies were either found.

In 2006, China Investment Capital was fund by IBM jointly with Lehman Brother(LEH) by 50% to 50% of the investment in order to invest to Chinese firms.

In 2009, IBM Global Railway Innovative Center and IBM China Analysis-Decision Innovative Center were established.

In 2010, Attaining Shanghai World Expo as a senior sponsor in “Computer System and Integration Information Service field”

4) RHQ Establishment in Shanghai for Glocalization

In 2007, IBM implemented a strategic transformation to a global integrated firm. The plan can be concluded into 3 approaches: adding globalization into value concept, integrating management and operation, and optimizing customer value through global resources integration. Worthy to mention, the process will lead to resource liberalization and reconfiguration. In addition, under this change, all new approaches (manufacturing, distribution, and human resources management) have been brought up to IBM China. This means, each activities will be shifted to a high comparative capacity ones, say, R&D are shifted to abundant HR countries.

Under this strategic transformation, China obviously turned into the important hub for IBM. The hub functions can be divided into 3 forms: innovation hub, service-operation hub, and software-customer hub. Therefore, since 2007, IBM has continuously turn China HQ into global service center. The purpose is relying mainland force on driving global growth: obviously seen by shifting such global management to China. Before this, considering low production cost in China, IBM has already moved global PC manufacturing base to Shenzhen.
IBM upgraded its management functions in China through the following three steps:

**Step 1: IBM Shanghai Asia-Pacific HQ Establishment**

In September 2006, seeing the priority of Asia-Pacific market plus China abundant resource, IBM has added another Asia-Pacific HQ from Tokyo to Shanghai. This made IBM possess 2 Asia-Pacific HQs at the same time, Tokyo Japan and Shanghai China.

**Step 2: Shifting Global Sourcing HQ from New York to Shenzhen**

In October 2006, IBM has shifted its Global Sourcing HQ from New York to Shenzhen. This is the first time for IBM to move its global-level HQ to other countries out of the U.S.A. Now Shenzhen Global Sourcing HQ has the important missions: upgrading internal sourcing capability, training sourcing talents, and discovering more supplier phases.

**Step 3: Shanghai Emerging Markets HQ Establishment**

In 2008, IBM has divided its global market into two types: mature markets and emerging markets. Since that time, IBM Emerging Markets HQ was set up at Shanghai, while mature market HQ was kept continuously in New York. With the duty, IBM Shanghai Emerging Markets HQ has to handle 147 emerging economies.

Shanghai has already become one of the important functional centers in the world for IBM. At present, there are many IBM strategic centers in Shanghai: IBM China Parts and Components Logistic Center serving for the Great China region, IBM Shanghai Software Manufacturing Center as one of the top three of IBM in the world, IBM China Sourcing Center as one of the top three of IBM in the world, IBM Global Service Shanghai Executive Center serving application systems for clients in USA, Europe and Asia.

**VI. Analysis and Conclusion**

Confronting the increasing FDIs and trend of TNCs' strategic transformation in China, this paper tries to find out the direction of this trend and link the relationship between strategic transformation and RHQs agglomeration in China. Based on the case study focusing on the TNCs RHQs in Shanghai, this paper proposes that the orientation of strategic transformation of TNCs in China is glocalization rather than simple localization, and RHQs are the organizational arrangement to implement the strategy under the context of global economic integration and the emerging of China.

After the WTO access of China in end 2001, especially after the world financial crisis in 2008, TNCs have transformed their strategies focusing on emerging markets, where TNCs committed more resources than ever before to innovate for the emerging markets. In this process, TNCs HQs tried to restructure organizations into less hierarchy ones to improve decision making efficiency. At same time, as TNCs have entered China through investment on subsidiaries in China by end of 1990s, in order to integrate their resources and follow the fast changing business environment in China, RHQs emerged as efficient decision-making centers rather than HQs. TNCs RHQs’ agglomeration in China is a result of the interaction between market attractiveness of host country China and strategic transformation of TNCs.

With increasing consumption demand, consumption fashion bridge between China and the world, manufacturing facilities in YRD, well-established distribution infrastructure, abundant human resources, Shanghai possesses the attractive business environment for TNCs to set up RHQs or upgrade RHQs’ functions. Shanghai has become one of the important strategic points in
TNCs’ global strategy and industrial chain. The attractive location advantage of Shanghai is one of the impact factors for TNCs to set up their RHQs there. The function of the RHQs in Shanghai is serving for both of Chinese domestic market and the world market. As the economic center of China, headquartering in Shanghai can help TNCs integrate their businesses in China and other emerging markets in Asia-Pacific region. TNCs are implementing glocalization strategies through RHQs in Shanghai.

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