

## The Functions of Regional Business Organizations: A Survey of Taiwanese IT Firms in Europe

**The aim of this study is to examine the strategic move of Information Technology (IT) original equipment manufacturers (OEMs) in a region. As the IT firms are increasingly regionally based, this paper examines the functions of regional organizations of newly developed IT firms from Taiwan. By adopting a qualitative method with case survey on selected cases – Taiwan’s Acer and Foxconn – in Europe, it is found that their regional organizations were continually shaped in order to efficiently perform their independent decision-making and coordination-integration functions. These main functions could be regarded as two dimensions applied to categorize regional organizations into a functional matrix.**

*Keywords: regional organization, functions, coordination and integration*

### INTRODUCTION

#### Research background

Multinational enterprises (MNEs) are getting more “regionally-based”, and their regional organizations are configured to lead, direct, coordinate and manage strategically the value-added activities of partner firms in a business network (Rugman and Verbeke 2002). MNEs need to efficiently manage subsidiaries in a region where strong pressure exists for both regional responsiveness and regional integration (e.g. Asakawa 2001). The regional offices are expected to exercise important administrative and/or headquarters-like functions (Mori 2002). The regional organizations are environmentally shaped with expectations to become more competitive ones (Hage and Finsterbusch 1987).

#### Research focus

This research will examine the main functions of Taiwan’s MNEs in Europe. First of all, theories related to organizational functionalism will be reviewed. Secondly, questions for inquiry will be drawn, and two Taiwan’s MNEs (Acer and Foxconn) in Europe<sup>1</sup> will be investigated. After that, findings will be summarized and hereby propositions are provided.

#### Firm’s cases in Europe

Taiwan’s multinational enterprises (MNEs) in European markets have been shaping their regional organizations. They are relatively new in the region, and are actively searching for an efficient mode for regional operations in the enlarged European market. What functions and mechanisms should be established in their regional organizations for enhancing their regional competitiveness remains an important management issue<sup>2</sup>.

## LITERATURE REVIEW

### **Functionalism: coordination, decision-making and controlling mechanisms**

Functionalism attempts to explain the relationship and mechanisms of different parts of the system to each other, and to the whole. These parts usually work together in an orderly manner, without great conflict. This approach has examined the issues of social order and organization integration. The different parts are usually in equilibrium, or moving toward equilibrium, with consensus rather than conflict governing the inter-relationships of the various parts (Adams and Sydie 2001).

If an organization is seen as a system and organic body, then the system should be either naturally or artificially coordinated in order to carry out all functions and the functions are either authorized or self-developed. Besides, the functions and their performance should be evaluated (Morgan 1980).

Organizational integration means that in an organization, social relationships, and interrelationships among units or groups are regulated. For integration, there are needs to coordinate, adjust, and regulate relationships among various actors or units within the system in order to keep the system functioning (Wallace and Wolf 1995).

### **Organizational configuration and mechanisms**

Bartlett and Ghoshal (1989) emphasize that the interrelationships between headquarters and subsidiaries could be defined to form different types such as multinational and transnational ones. The organizational configuration will be supported by different management mechanisms. Rugman and Verbeke (2002) further found that global strategy and organizational structure are not really the right trend. Instead, the regionalization strategy should be the preferable direction. Dekoning et al. (1997) took the cases of regional integration in Europe and found positive relationship between the degree of regionalization and performance.

Doz and Ghoshal (1994) emphasize that the solutions are dependent on organizational size as well. The functions and roles of subsidiaries should be clearly defined (Jarillo and Martnez 1990).

### **Regional investment**

The market and economic convergences were two major global trends in the 20th century. These trends could be observed in the form of unrestricted movements of investment capital. The emergence of regional integrations allows for the regional operations. Economic integration in Europe has not only deepened with the emergence of the Single European Market, but integration has also widened through the enlargement of the European Community. Firms have to make investment on the basis of satisfying regional market demands (Doremus 1988).

### **Regional marketing**

The emergence of regionalism and regional investment speed up the socio-cultural and economic exchange, which pushed firms to adopt the strategy of regionally differentiated marketing (Ellision 1970)

The EU has moved from the shallow integration of dismantling trade barriers to the deep integration of accepting common rules on environment, transport, and working conditions; common rules on competition, mergers, and financial transfers; and common laws in the domestic courts of member states. All of this convergence facilitates the regional marketing (Wallace 1995).

### **Contingency concepts**

In response to the newly regionalized environment, firms are adopting manufacturing practices such as just-in-time (JIT) and total quality management (TQC), which are required steps to improving manufacturing performance. The more critical are the fit between manufacturing practices and organizational design, structure and processes, and the fit between manufacturing and marketing as well.

The fit between the manufacturing practices, marketing and organizational structure is worth of further examination (e.g. Wilkinson and Oliver 1989, Young 1992). Lots of literature has discussed how management control should be designed to be consistent with organizational structure and context (e.g. Hopwood 1976, Otley 1980, Gordon and Narayanan 1984, Govindarajan 1984, Govindarajan and Gupta 1985).

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It is widely recognized that with globalization, integration and international competition, the business environment gets more and more complex, dynamic, turbulent, diverse, and uncertain. Organizations need to be more changeable and flexible and to gain more competitive advantage over its competitors.

Contingency theory has still its applicable significance on organizational development in uncertain environment because it always casts light on solving changing situations. In fact, the development process of strategy theory exactly reflects the changing business environment.

**Classic School.** Barnard (1953) advocated the construction of strategic factors, the research of business strategy management started with the consideration of environment. Chandler (1962) firstly analyzed the relationship between the environment, strategy and organizational structure, advocated known as 'structure following strategy'. Ansoff (1968) argued that strategy construction is a former planning process with control and awareness. Andrews (1971) advocated two stages model of making and implementing business strategy and well known SWOT analysis frame. The Classic School explored the effect on enterprise strategy of the exter-

nal environment prediction, the method of adapting to the environment and analysis technique. It focused on the planning process and methods.

**Structural School.** From 80s on, the marketing competition became more violent, firms must possess competitive advantage. So, the strategy theory moved its focus on analyzing the structure and gaining competitive advantage. Porter's 'five forces framework' and respective competition strategy is the most contributive one which is based on the paradigm 'structure-conduct-performance' of industrial organization economics, Porter (1980, 1985) put forward five forces theory for analyzing industries and competitors. To adapt to industrial and environmental characteristics, a business should adopt three basic strategies-overall cost leadership, differentiation, and focus. Porter (1985) argued that competitive advantage comes from the value creation for customers. He creatively put forward the term of 'value chain'-the value chain within an organization including primary activities and support activities.

The value system is the set of inter-organizational links and relationships which are necessary to create a product or service: supplier value chains, organization's value chain, channel value chains, customer value chains. The collective know-how in an organization on how to make all of this work is organizational knowledge which might give competitive advantage to some organizations over others. Therefore, in order to gain advantage over competitors and survival in turbulent environment, structure school underpins such analysis logic as 'analyzing industrial structure - making competition strategy - implement - gaining competitive advantage - achieving performance.

**Competence School.** Although Porter (1980, 1985) firstly pointed out how to analyze industrial competition forces and how to gain competitive advantage, which has

afforded significant guideline on enterprise competition toward turbulent environment, structure school has some limitations. For example, it mainly focused on the external factors while neglecting the internal ones of firms being regarded as 'black boxes'. So, since 80s, Hamel & Prahalad (1990), Hamel & Heene (1994) and Tampon (1998) et al emphasized the core competences of firms. They argued that core competences were activities or processes that critically underpinned an organization's competitive advantage. A core competence may be the basis on which new strategies are built and on which opportunities in new arenas can be created by breaking the established 'rule of the game'.

The Competence School focused on internal competences and collective learning took the view that competitive advantage comes from the internal organizational ability. So, it includes 'internal environment analysis – making competitive strategy – implementing the strategy – establishing and sustaining core competence – gaining competitive advantage – achieving performance'.

**Resource School.** At the same time when competence school tried to make up the limitation of structure school, it seemed that fell into another polar bottom – neglecting the external factors. From the mid 80s on, resource school emerged as the link between the structure school and the competence school forming Andrews Frame. Wernerfelt (1984) discussed the concept of resource-based strategies. It advocates that competitive advantage can be gained through the exploitation of resources and competences that competitors will find difficult to imitate. Hall (1992) argued intangible resources as being of strategic importance. Grant (1998) assessed the resource audit of an organization. Johnson & Scholes (2002) put forward the concepts of available resources, threshold resources, and unique resources.

They thought that strategic capability starts with resources. So, the resource school emphasizes the importance of

resources, competence and industrial analysis. It focused on 'industrial environment analysis and internal resources analysis – making competition strategies – implement – constructing core competence matching industrial environment – gaining competitive advantage – achieving performance.'

## **EXPLORE "CONTEXTUAL" THEORETICAL FACTORS DETERMINING THE PERFORMANCE OF REGIONAL DEVELOPMENT STRATEGY**

### **The framework**

From the analysis above we may see, that different stages of socio-economic development have different environment, which determines the respective competition strategies. With the more complex, dynamic and uncertain environment, strategic planning and management changes their theoretical contents and implications. This has been verified by the application of strategic management in the development of IT New Economy in recent years known as spawning new business models (Timmers 2000), where traditional 'value networks' are being reconfigured.

### **Relationship among constructs**

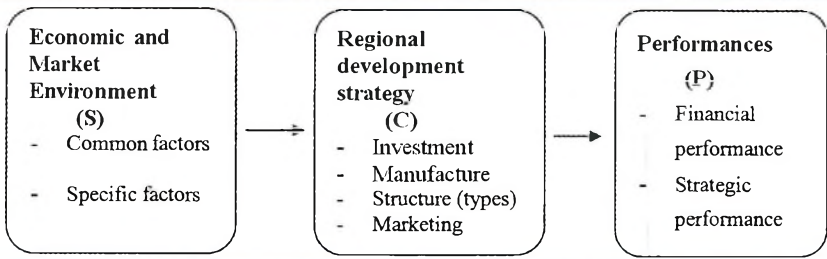
1. Defining the relationship between the three constructs and key factors in each of constructs. This includes the complexity and intensity of the environment factors, and environmental factors' relationship with organizational mechanisms; and organizational mechanism's relationships with performance.
2. Doing the case study based on the Taiwanese investments in Europe to explore the relationships.
3. Developing research propositions.

## **RESEARCH METHODOLOGY**

### **Research processes**

*Case survey:* Using the concepts and framework, this research will explore key factors from cases of Taiwan's investment in Central and East Europe. The main cases, which

Figure 1: Conceptual framework



*The construct of environment (structure):* It includes the key factors extracted from external and internal environment. The external factors are referred to as external environment since it is common to all firms. The specific factors are referred to the firm's specific factors, mostly the firm's resources and commitments.

*The construct of strategy (conduct):* It includes the firm's resource commitment in the ways of making investment in the region. The investment commitment will change its organizational structure (mechanism) and its strategy of marketing its products and services. It is assumed that once a firm determines to enter a regional market, it will have a concrete regional development strategy.

*The construct of performance:* It includes the short-term financial results like net profit and earning per share. The long-term performance will include so-called strategic performance like the partnership with market leaders in the region, customerized product development and total solution services for the region. For instance, Foxconn invested in Hungary for entering into a partnership with Nokia in order to maintain their joint market leadership in some regions.

are known to be pilot projects that will be chosen for a survey. There are 35 Taiwanese firms making IT products in Europe. The IT business mainly includes electrical appliances, personal computers, notebooks, mobile phones and parts. Information about the firms, which reported by Taiwan stock market during the period of 2000-2004, provides additional information about their financial performance, strategic orientation and foreign direct investment as well.

*Develop propositions and hypothesis for testing:* It is hoped that the results of case survey will be a solid basis in developing propositions and hypothesis for testing.

*Redesigning questionnaires for quantitative analysis:* The questionnaires will be designed to collect answers through

objective and subjective questioning. For instance, managers will be asked that the strategy is an ideal one or not; and managers will be asked if they are satisfied with the performance they achieved. This subjective assessment on performance will be linked to the regional development strategy the firms have been adopting for some years.

*Design the regression equation to test the relationship between regional development strategy and performance:* It is hypothesized that the positive relationship between the two should exist. As to the relationship between the environment and the strategy will not be tested in this research. The purpose is to be more focused on the relationship between regional development strategy and performance.

## Exploratory survey

For modeling the firm's regional development strategy, I will make some exploratory study, by doing cases on the regional development modes of multinational enterprises in electronics industry, and some selected Taiwanese firms in Central and Eastern European (CEE) countries. The first-staged case study will provide further information on the firm's regional configuration, and enable me to proceed with the quantitative survey. For fitting the specific portfolio of medium-sized firms, my future research would emphasize the regional development management for multinational and medium-sized firms from Taiwan. The case study and modeling in my future research will provide a framework and model of investment evaluations and operation management.

## THE CASE SURVEY

### The interviewees

*Sampled cases:* The two companies selected for investigation are Taiwan MNEs in Europe – Acer and Foxconn –, which are globally well known in the electronics sectors. Their annual sales in the past three years were reported about 40% from Europe. The first interviewee is Robin Wang who was the CEO of Acer in Europe responsible for the whole European market. He had been in the position for almost 8 years. The other interviewee is Joe Shen who has been the CEO of Foxconn in Europe for three years. Before the face-to-face interview, the two regional CEOs confirmed that they received the questionnaires and understood the questions. The interview was conducted two times for about two hours to each interviewee. The interview proceeded successfully and the same question sometimes was repeated to clarify the confusing point. This approach makes sure the data collected is reliable and valid.

### The Questionnaires:

1. Who will make key decisions in organizing *the structure part* of regional organizations in Europe?

2. How do you think about *an efficient regional organization* in Europe?
3. What kinds of *management mechanisms* are regarded as very important for the regional organizations to function well?
4. How do you mean the defined functions are *well performing*?
5. What are *the main differences in functions* in different business units of your European regional organizations?
6. Do the regional organizations have chances to *have their staff promoted* to the higher positions at the regional headquarters or home office headquarters?
7. Do the regional CEOs have a *position* at the corporate headquarters to participate in the decision process of formulating regional strategy?
8. How do you *coordinate* the business units in the region?
9. How do you *solve the conflicts* among business units in the region?

### Preliminary investigation results

*Decision-making power:* Concerning the decision on making up the organizational structure (question a.), both of the interviewees answered that they have some decision-making power for structuring regional organizations. Wang (Acer's CEO in Europe) pointed out that he had independent power in establishing the framework for regional integration for the marketing, sales and even production. Shen (Foxconn's CEO in Europe) said that basically CEO at home headquarters instructed how to build the structure of its regional organizations. However, as regional CEO, he could ask for resources to make the regional organizations more functional. Since Acer is a decentralized MNE, its regional CEO has more independent power in setting up the hard part of the organization including the choice of production location. On the other hand, Foxconn is a centralized MNE, so its regional CEO has limited power in setting up the structural part of the regional organization although the regional CEO has adequate power to get all resources to implement the defined functions.

*Organizational configuration:* Concerning the configuration of the regional organization in Europe (question b), Wang said ideally that the production for the whole European market is only located in one place for reaching economic scale so as to keep all Acer's products competitive in Europe. Regional marketing is placed in two to three places for maintaining a good response to the customers. It sales will be carried out by the subsidiaries in each country of the region to speed up the logistics time. For Foxconn, Shen said that two production places are better than only one place in order to facilitate different productions and re-structural transition, and easily to serve the main customers. Regional marketing should be in one place. Sales offices could be flexibly located in each country. As stated, ideal regional organizations in Europe for the two Taiwan's MNEs are imaged as ones with capacity of performing the functions, particularly in effective and flexible production, coordinated marketing and responsive selling service in the European market.

### **Organizational communication and coordination**

Concerning the successful operations of the ideal regional organizations (question c and d); both of the interviewees were very concerned the whole market environment changes, main customers' performance and necessary strategic positioning. They are required to communicate with headquarter for a better regional response to the changes. Wang emphasized that in order to do business in Europe successfully, it is very important to establish good relationship with home headquarter, sales and production subsidiaries through periodic meetings and daily communications. Shen pointed out that this multilateral communication and coordination were very costly and sometimes inefficient, through Internet communication with CEOs at home headquarters has been proved to be the most efficient way to make coordination network

efficient and solve the problems quickly. It illustrates that one of the most important functions of regional organizations is the efficient coordination and quick response to pan-European market needs. It also implies that the CEO of the regional headquarter is not satisfactory with their coordination work. This dissatisfaction seems to have been concerned with the organizational commitments to the European market and their real power as regional CEOs. On the other hand, the coordination work might be too complex for the regional CEO to handle it independently. It also reflects that the regional CEOs should be further empowered in order to carry out the complex regional coordination functions. It has also proved that the more complicated the regional market is, the more power the regional CEO needs to perform the functions.

### **Goal seeking functions**

Concerning the definition of the functional performance by regional organizations (question d and e), both of interviewees replied that carrying out the functions is not the main goal. The main goals to be achieved are lower defect rate (less than 1%) in production, keeping a closer partnership with global MNEs in marketing and increasing sales in new markets. The main problem is the measurement of the shared responsibility and performance among all regional organizations including representative offices, sales, and marketing and production subsidiaries. Although the functions of different regional organizations were well defined, it is not easy to measure their own performance. In the two companies, the representative offices are defined to be with less decision-making power and no coordination and integration power, the sales subsidiaries are with more decision-making, coordination and integration power. The regional headquarter is the most powerful unit in making corporate and functional decision and in coordination for production, marketing and financing. It demonstrates that there are different types

of regional organizations and functions. The performances are normally measured from two parts: one is clearly defined to be their self-work; the other part is shared with other units.

### **Coordination and integration**

Concerning the approaches of coordination among the business units and the conflict solutions (question f, g, h, and i.), the main coordination tasks were the contents of selling products and services, the date of production and delivery, and the price of the new products. The conflicts existed among these coordination tasks, particularly among the sales and production divisions. Through periodic meetings and daily communication, directors responsible for production and sales divisions could remove most of the conflicts. In addition, there are some special conflicts related to the new product, new market development strategy and global resources shift. These issues were generally solved through the regional management committee. When conflicts couldn't be coordinated among the Vice Presidents (VPs) in the regions, the VPs of the corporate headquarters would try to coordinate the matters. Concerning the motivation to the regional organization CEOs for a more cooperation in the system, both of interviewees emphasized that their companies have definite rules for promoting them and their local employees to a higher position. In addition, there are some other incentives like stock options in keeping regional team members closer to the companies. Incentives are offered as a package compared with other companies in the industrial sector. As to the promotion to a higher position at the home headquarters, sometimes it may not really be welcome by the staff in the regional organization due to tax, living environment and family reasons, etc. Apparently the established incentive mechanism may not be very effective in encouraging the regional managers and other staff to be cooperative. Besides, there is a given level on incentive in the market. The regional managers in particular have

opportunities to choose the better one if they want.

### **Survey results and propositions**

*The preliminary survey:* The preliminary survey results are summarized in Table 1. It shows that efficient regional organizations from functionalism's perspective are having different degrees in independent decision-making, and coordination-integration power for regional organizations to achieve their goals.

The regional organizations are mainly configured by independent decision-making power and coordination-integration power as summarized in Table 1, and the goals are clearly defined to be the regional integration and response. The configuration of regional organizations of the two companies could be framed as follows:

### **Propositions**

Based on the configuration of the regional organizations shown in Figure 2, and the explanations on the different functions as table 1, we developed the following research propositions.

**Proposition 1: The regional organizations could be categorized into different types of units by two main functions, i.e. independent decision-making power and coordination-integration power.**

The two main functions are applied to divide a virtual organic body of regional organizations into four generic organizational types. The aggregate with different parts are categorized and differently named with different functions. The offices and divisions located on the left side are with coordination and integration power than those located on the right side. The offices and divisions located on the upper part are with more independent decision-making power than those located on the lower part. These parts and subsystems are unlike and mutually dependent.

**Proposition 2: The more complicated markets the regional operations cover,**



Table 1: Implications from the questions and answers

Questions	Answers	Implications
Decision on building up the structural part of the regional organizations	With some power (Acer)  Only with limited power (Foxconn)	Decentralized regional organizations with more power in building up the main structure if the regional organization (Acer)  Centralized regional organizations with less power in building the main structure of the regional organizations (Foxconn)
The formation of regional organizations	A continual process of reaching different degrees in regionalization and integration for production, marketing, sales (Acer, Foxconn)	A hard process of searching for an optimal configuration in regional production, marketing and sales
c.d. Organizational communication and coordination	By maintaining good relationship and formal and informal communication with headquarter (Acer)  By applying internet and direct communication and coordination works better (Foxconn)	With need of increasing coordination power for regional CEOs in response to market complexity.
d.e. Goal-seeking functions	The goals are clearly defined, the problems are how to share the cost and performance among the units (Acer, Foxconn)	With strong need in establishing sharing formula for regional organizations
f.g.h.i. Coordination and integration	Different conflicts and issues are to be solved by different level of management (Acer, Foxconn).  Promotion and incentive are packaged and compared in the sector.	With strong need in establishing an more efficient coordination and integration mechanism  Incentive mechanism should be packaged and differentiated to meet individual's needs.

Table 2: Functions of regional organization

High  Decision-making power  Low	International division at home headquarter (II)	Regional headquarter (IV)
	Representative office (I)	Logistical and distribution offices (III)
	Low	High
	<b>Coordination and integration power</b>	

**the more coordination and integration functions regional organizations need.**

As the regional expansion of Taiwan's MNEs in Europe has been facing intensifying market competition, they are forced to improve their responsiveness of the regional services to the markets. Regional organizations have continuous demand for more decision-making power and coordination power to perform their functions.

**Proposition 3: The stronger commitment the regional organizations have made, the more coordination and integration the regional organizations need to communicate with the corporate headquarters.**

The two companies are very concerned with establishing an ideal organization configuration in the European market. For this purpose, the two companies strictly set up the goals for their regional organizations to achieve. It means that they have strong commitments to the development in the region. In order to shape the regional organizations and achieve their goals, regional organizations have to communicate extensively with corporate headquarter.

**Proposition 4: The more efficient the coordination and integration mechanism is, the more efficient the regional organizations are recognized to be.**

The survey shows that the regional organizations are mainly concerned with their efficient governance in coordination and integration. Regional organizations should be ideally evolved through the solutions of different problems and conflicts and through the sharing system on knowledge, cost and profit in the process of production, marketing and sales.

**CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH**

**Conclusions**

The result of the survey quite agrees with the organizational functionalism that stresses on the dependence of the various parts inside the system. The result also shows

that the framework of global integration and local response (Bartlett and Ghosahl, 1989) is very applicable to the explanations of the regional organizations. Another finding is that given the fact that Taiwan's MNEs are relatively small in size; they are still inclined to install an informal coordination mechanism for regional integration.

The surveys were made with experienced regional CEOs, and they were allowed to elaborate on the questions asked more than one times over the phone and face-to-face discussions. And they were encouraged to explain their beliefs, goals, resource needs and management challenges. This qualitative method of the survey was quite sufficient in obtaining their insights on organization functions. So it could be applied for investigating other Taiwan's regional organizations in Europe.

**Limitations and future research**

The study was limited to qualitative survey through semi-structured questionnaires mailed to two representing MNEs. The subsidiaries of the two companies across Europe were not investigated. In future research, other Taiwanese MNEs in Europe like Tatung, Quanta, DBTEL and BTC could be further investigated so that more detailed functions of regional organizations and their networking could be explored. And the types of efficient regional organizations contingent on environments could be further examined.

**NOTES**

- 1 Taiwan's MNEs in Europe – Acer and Foxconn – were selected for survey. These two Taiwan's MNEs are globally known and closely cooperating with IBM and HP in establishing the industrial value chain in electronics sector.
- 2 See "Taiwan's IT Firms Find Success in Europe", *Euroview*, Vol. 84. Available at World Wide Web <http://ecct.com.tw/>

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