THE CO-EVOLUTION OF CHARTERS, CAPABILITIES AND STRUCTURES IN THE INTERNATIONALIZATION PROCESS

ABSTRACT

The paper investigates the co-evolution of organizational structures, charters and capabilities during the internationalization process of a large banking network in CEE. While prior literature has provided deep insights on how organizational charters are gained, we focus on the phenomenon of charters loss and the subsequent (mis)alignment of the unit's capabilities. Our study reveals some novel and interesting findings for scholars and practitioners alike. First, informing subsidiary managers, we add to the established theories on power and strategic fit by linking both theories and providing a dynamic perspective on alignment. Second, and particularly relevant for headquarters managers, we shed light onto how organizational structures evolve, and how the mere threat of a potential mismatch in structures can reinforce organizational capabilities.

INTRODUCTION

"The last 10 years have been like a rollercoaster: growth, mergers, new markets. The whole bank was constantly redefining what we do and why." (Middle Manager, UniCredit Group, Vienna Office) In fast-changing market environments such as the CEE region, multinational organizations tend to experience perpetual mergers, acquisitions and corporate restructuring. As a consequence, roles and responsibilities of individual units within the organization are constantly redefined. Managers operating in this environment are invariably confronted with new tasks, novel reporting lines as well as changing internal power positions. Recognizing that a unit's ability to add-value to the organization is a function of its charter and its capabilities, we refer to redefinitions of the unit's roles and responsibilities as "charter change" (Birkinshaw and Hood, 1998; Galunic and Eisenhardt, 1996).

Prior academic literature has provided anecdotal evidence on such charter changes (e.g. Galunic and Eisenhardt, 1996; Birkinshaw, 1996; 1997) and argued that there is a need for in-depth clinical studies taking account of both intra-organizational and external context. Birkinshaw and Hood (1998) contest that charter change, which may be either subsidiary-driven or parent-driven, is the result of an accumulation or depletion of capabilities over time. But it is likely that units experience phases of *misalignment* between their charter and their capabilities. Patterns of misalignment between organizational roles and capabilities are especially common during the emergence of new structures and changing power positions. While it has long been argued that misalignment provides sources of tensions and has repercussions on performance (e.g. Burns and Stalker, 1961; Lawrence and Lorsch, 1967; Woodward, 1965), recent studies have also acknowledged that misalignment may be a vital driver for change (Tushman and Romanelli, 1985; Nickerson and Zenger, 2002; Ambos and Birkinshaw, 2007). Thus, the co-evolution of organizational charters, capabilities and the consequences for managers are not well understood. While there is some research focusing on charter gains and enhancement of a unit's position (e.g. Rugman and Verbeke, 2001; Birkinshaw et al., 1998) the consequences of charter losses have attracted virtually no attention. In particular, whether units that may lose their charter could use their capabilities to maintain a sustainable position in the organization has largely remained in the dark.

Our paper addresses this salient question by investigating how the role of a corporate unit in a banking network is shaped during the internationalization process through internal and external changes. By drawing on an in-depth case study of one of the largest banking networks operating in CEE, we observed and tracked the structural developments of the organization, the unit's unfolding charter changes as well as the evolution of its capabilities over several years. To this end, our paper provides fresh insights into the co-evolution of organizational structures, charters and capabilities in a rapidly changing business environment.

The paper is structured as follows: First, we set the scene by presenting the context of our study, namely the banking industry in the CEE region after almost two decades of rapid internationalization. Second, we outline our research methodology and the rationale for the case study selection. This is followed by a description of the case from the vantage of the Vienna Office. Next, we analyze the structural changes of the banking network and the capability development during the same period. In the final discussion, our results are embedded in the literature through the provision of two different theoretical perspectives on the case.

BANKING IN CEE

Although much of the CEE region has been characterized by relatively high levels of uncertainty and volatility, for some two decades, the area has provided one of the most fertile grounds for international expansions for many industries. This also holds for the banking industry, where many companies have rapidly expanded into the CEE region. But our knowledge about the value created through these expansion processes remains scarce, as it is not well understood how these newly-formed organizations can best adapt their structures to the challenges of the CEE environment. For one, banks internationalizing from a highly developed home market are facing a region characterized by very different market conditions (e.g. a CEE asset growth rate of 10% versus 4.4% in the Euro area (European Banker, 2005)). Moreover, the region is all but homogeneous. Countries are characterized by extremely heterogeneous market conditions, substantial differences in market-maturity, and very diverse regulatory requirements. Such regional dynamics in terms of market development and political risk render this environment difficult to manage (Enright, 2004).

To portray the current competitive situation in the CEE markets[1], we summarized the market positions of the region's six leading banks in terms of assets: UniCredit, Erste Bank, Raiffeisen International, KBC, Societé Generale, and OTP (CEE Banking Sector Report, 2006).

********** insert Table 1 about here **********

As shown in Table 1, all companies built a significant presence in CEE during the last few years. However, the banks seem to pursue very different strategies to address the challenges

[1] In the paper we include 13 countries in our definition of CEE: Belarus, Bosnia, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Russia, Romania, Serbia, Slovakia, Slovenia and Ukraine.

mentioned above. For example, Raiffeisen Zentralbank has spun-off its CEE operations (Raiffeisen International) as a holding company in 2005, and has now adopted a divisional structure. The group maintains an exceptionally large branch network and local operations have a relatively high degree of independence to structure their business. Societé Generale has, overall, established a divisional structure but operates an underlying area structure in retail banking. Recently, the French bank has undertaken efforts to centralize its governance model further in order to provide more standardized products for the region.

Interestingly, the diverse approaches of the banks to managing their CEE operations stand against traditional theory in international business, which suggests that different patterns of internationalization lead to two specific organizational responses (e.g. Stopford and Wells, 1972): area structures vs. functional/divisional structures. It has been argued that area structures are well suited to explore local knowledge and integrate it, whereas divisional structures are better suited to exploit knowledge on a global basis. More recently, scholars have also recommended the creation of network structures or heterarchies (Bartlett and Ghoshal, 1989; Hedlund, 1994; Doz et al., 2001) to manage the integration-responsiveness dilemma (for a comprehensive review in the European context see also Whittington and Mayer, 2000, pp. 40-87). But neither of these models seems to be applicable to our empirical context. Banks' expansion process into CEE has often led to complex organizational structures that appear to be results of historic accidents and organizational legacies rather than reflections of a specific organizational rationale. Recent discussions about reorganization in most of these banks indicate the need to consolidate their organizational architecture and try to align it with the organizational units' underlying competences (Li, 2005; Haiss et al., 2007).

METHODOLOGY

Case Selection and Method

Due to the need to explore organizational processes and tensions in depth, we focus our research on the evolution of what is today the UniCredit group in the CEE region and the ongoing reshaping of its organizational structures. This case provides an excellent example for an organizational patchwork which has grown organically as well as through mergers and acquisitions. Indeed, UniCredit's recent acquisition of HVB represents one of the most prominent examples of the expected consolidation process in the European banking industry (Deloitte, Touche, Tohmatsu, 2005). Moreover, there are three important reasons that render this case of particular interest: First, the acquired UniCredit group currently manages the largest portfolio of CEE banking operations in terms of assets. Second, the group has been formed through several mergers and takeovers during the last ten years and has therefore gone through a number of changes in its strategy and structure, which makes it particularly interesting for our investigation. Third, it provides an excellent example of the evolution of a corporate center.

Given the exploratory nature of our study and our desire to understand the dynamic interplay of organizational capabilities and formal structures, we choose an inductive research design (Eisenhardt, 1989; Yin, 1994). We adopted a longitudinal case-method in order to recognize patterns among constructs (Eisenhardt and Graebner, 2007), such as how changing formal structures and charters shape and even reinforce organizational capability development over time. Three data sources were used as a basis for our analysis: semi-structured interviews, follow-up e-mails and phone-calls and archival data including internal reports as well as other strategic documents to track the expansion and organizational restructuring of the banking group from the year 2000 to 2007. The semi-structured interviews included a series of open-ended questions that allowed the informant to explore issues on charter and change in depth. In order to gather multiple and diverse perspectives on the focal phenomena, we drew on numerous organizational actors at different hierarchical levels belonging to a variety of organizational units, including headquarters, regional headquarters and subsidiaries. This approach allowed us to crosscheck information and identify perception gaps and potential tensions between different units. The longitudinal nature of the data collection also helped mitigating retrospective sense-making and impression management, and allowed us to track cause and effect (Leonard-Barton, 1990). Furthermore, we triangulated interviewee data with company reports, internal surveys and organizational charts. To enhance objectivity and validity, we also used multiple independent researchers for data collection and tracked and analyzed the development of the Vienna Office and the UniCredit group from multiple angles.

Data Analysis Approach

We used qualitative content analysis to examine our rich data set (Miles and Huberman, 1984; Yin, 1984). Following our research question, we focused on the role of the Vienna-Office, as the managerial center responsible for the CEE region. To investigate the evolution of the Vienna-Office due to structural changes as well as changes in their strategic capabilities, we initially compiled a document capturing the corporate history from the unit's perspective. The important milestones used in this analysis were the merger of BA-CA and HVB in 2000 and the merger of this group with UniCredit in 2005. As each of these three phases was characterized by major shifts in organizational structures and responsibilities, we first focused on these preeminent changes. Next, we examined the different perceptions of these changes from the organizational center as well as from the periphery. This is particularly important, since these multiple perspectives reveal potentially politically-motivated and power-driven agendas behind a single point of view.

THE CASE OF THE VIENNA OFFICE

When the leading Austrian Banks, Bank Austria (BA) and Creditanstalt (CA), merged in 1997, two rather different corporate cultures met. In addition to being associated with politically opposing parties, BA carried a “savings-bank image”, whereas CA was known for the “blue-blooded elitism” dating back to its history as a state-owned bank (Shereff, 1998). Both banks were active in the CEE region but pursued diverse strategies. Since its first entry in Hungary in 1990, BA focused on a small number of branches in strategic positions which were targeted at commercial clients. CA had already taken the first step eastwards in 1975, opening a representative office in Hungary during the Communist regime. Through its early expansion in Hungary (1990), Poland (1991), Czech Republic (1991) and Slovakia (1994), the bank was able to secure some first mover advantages. To avoid clashes of corporate culture or the necessity of personnel cuts in case of a take-over, CA’s preferred mode of entry was Greenfield subsidiaries. Even though the initial focus was on commercial clients, the retail business soon developed as a vital part of its operations and helped to ensure an inflow of funds in a situation of expensive refinancing from capital markets. After the formation of BA-CA in 1997, their international subsidiaries were combined under a single roof in a holding company to foster consistent appearance. This made the BA-CA network the second largest foreign bank operating in CEE (after the Dutch ING Bank).

In 2000, the German HypoVereinsbank (HVB) took over BA-CA. HVB itself had emerged during the 1990s from a portfolio of various banks (e.g. Bayerische Vereinsbank, Vereins- und Westbank, Bayerische Hypotheken und Wechselbank) and consisted of three business fields: CEE franchise; Germany and Austria; Corporate and Markets (the corporate and investment banking arm). The bank's expansion strategy into new regions with new products and services required a constant growth of infrastructure, both at home as well as in foreign markets. Since the mid-1990s, the biggest network of new subsidiaries had been built up in CEE. The international presence and exposure of the HVB group outside its core markets (geographically and functionally) was driven by the "product-champion" and the "key account" concept. A particularly important milestone in the development of HVB was the merger with BA-CA in 2000, as the latter contributed a large CEE portfolio. In 2001, the responsibility for HVB's CEE holdings was transferred to BA-CA. Since this merger, the newly created group was steered through what we would call a "mixed governance model" - neither a clear functional nor an area structure - as the group was managed as two regions (Austria and CEE as well as Germany) and one division (Corporate and Markets). Internally, the two regions were again organized into divisional structures for retail and corporate. The inherited governance mode of the CEE region was underpinned by the so-called "Agreement of the Regions," through which BA-CA was granted control over all banking business for the CEE region. The Baltics, Russia and Ukraine remained with HVB. For the Vienna Office, this implied responsibility over a large number of new subsidiaries, which had to be coordinated and integrated into their existing CEE operations.

Since 2005, both HVB and BA-CA have been part of UniCredit, which had built its own network of subsidiaries in CEE for several years. The roots of the UniCredit Group go back to the 1998 merger of Credito Italiano Group and Rolo Banca. A number of regional savings banks joined thereafter. In 1999, UniCredit started its expansions into the CEE region through a number of acquisitions. Today, the UniCredit Group serves 24 million customers with 65.000 employees in over 3.000 branches in 17 countries in the CEE region (see Figure 1). Within this new UniCredit Group, the Vienna-based BA-CA acts as a hub in the region and is responsible for the CEE operations. To this end, the Vienna Office manages the largest banking network in CEE (in terms of assets). In Unicredit's present organizational chart (see Figure 2), CEE remains the only area structure (except for Poland[2]) while all others are organized into divisional categories, such as Retail, Private Banking, Corporate and SME, etc.

********** insert Figure 1 & 2 about here **********

FINDINGS

Shaping Structures

During the last decade, the growth in the newly created UniCredit Group has been achieved via two routes: organic growth (e.g. HVB Czech Republic; HVB Hungary) as well as acquisitions (e.g. Unicredit Poland). Naturally, this had led to a patchwork of units with different administrative heritage, different strategies of operations, and different brands. Although the UniCredit management team had invested considerable efforts into strategic planning and reorganization in the course of the mergers, a key concern appears to have been the allocation of markets to satisfy smaller partners (such as BA-CA) rather than an integrative governance model. This is perceived to be a problem, since several interviewees questioned and challenged the existent organizational structures. One interviewee, a country manager in CEE, commented: "*The governance models are typically derived by a combination of historical accidents and the culture of the markets proximate to the original parent*". While we would expect a similar phenomenon

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[2] Due to regulatory compliance issues as well as its sheer size, the Polish market operations report directly to the Italian headquarters.

to be present in almost all rapidly internationalizing banks, the problem is viewed as more severe in UniCredit's case than in others. He explained: "*We have the challenge of building a governance model from our current position, which may not be ideal as we have the goal of producing a bank that integrates mass market domestic retail products – at the one extreme – with full service investment banking products at the other, based upon the historical accident of our existing framework - unlike, say, Citibank or RZB. In other words, UCI's position is different and more complex.*" Our case interviews revealed that the current perception of the governance structures is relatively consistent across different markets and functions. Due to the numerous alterations in the organizational architecture during the last years, the formal position as well as the assigned tasks and responsibilities of several organizational units had changed. This is probably best reflected in the evolution of the Vienna-Office within the UniCredit group.

In order to shed more light on the evolution of this unit, we first analyzed the change in organizational structure during each phase of development and the role of the Vienna-Office as the managerial center of the CEE region. The Vienna-Office had served as a "traditional" headquarters of BA-CA during Phase I, until 2000. The years 2000-2005 represent Phase II, where the Vienna-Office formally served as a regional headquarters and was responsible for the entire CEE network except for Russia, the Baltic countries and Ukraine. In Phase III, after 2005, the banking network was incorporated into the UniCredit Group. However, the Vienna office kept responsibility of the CEE markets, which were organized as an area division. Table 2 provides an overview over different phases of the development.

********** insert Table 2 about here **********

With regard to the organization model, which provides the intra-organizational context for our focal unit, there is a trend from an area towards a divisional structure during the three phases. The area structure was clearly the dominant form of organization during the first phase, where the – by international standards – relatively small Austrian bank decided to explore opportunities in the emerging CEE market. A specific characteristic of BA-CA was expansion through organic growth (while other banks expanded through acquisitions). One interviewee in the Vienna Office explained: "*[o]ur original philosophy was to grow organically, which allowed us to have standardized systems in all our subsidiaries. […] that gives us more control. […] its easier to have some common quality standards by establishing Greenfields than by acquisitions.*" Given the accelerated pace of market entry, however, BA-CA later also acquired firms. One executive explained: "*Founding 100 branches in a country are a matter of three to four years. Acquiring an existing bank allowed us to get 400 branches at once.*" Parallel to the expansion in CEE, the Vienna-Office developed its role as an international headquarters and established an area management structure to manage the CEE markets.

Within the larger HVB/BA-CA network, the historically embedded area structure was still dominant, while HVB headquarters tried to introduce stronger divisions. These were present on the organizational chart, but in reality area structures were still dominant. In the words of an executive: "*Our dominant logic is still the area division although we show a matrix in our charts*". While the banking group still expanded – primarily through acquisition – it faced considerable challenges integrating the CEE network of HVB and BA-CA. One German manager reported: "*The shift of responsibility from a Munich-based bank to a Vienna-based RHQ [Regional Headquarters] led to a loss in profile from the perspective of the German "Mittelstand" or SME clients and a lack of access to the CEE banking network….HVB did not* *properly mange incentives to channel business to CEE subsidiaries and vice-versa."* According to an internal survey, this development severely affected customer perceptions. The branding dissonance of HypoVereinsbank (in Germany) versus HVB Group (in CEE) confused customers and led to low brand recognition, so that the group was no longer perceived to be a leading bank in CEE. As customer intimacy is a key success factor in banking, this was perceived as a major problem. Another challenge was the lack of a consistent profit sharing model between divisions and regions, which made it particularly difficult to exploit an international client base. In sum, the group suffered from a lack of area management competence, as the Regional Headquarters in Vienna were granted control of the CEE subsidiaries, but was not responsible for the overall strategic orientation of the group.

In the reorganization process following the merger, UniCredit has established a clear divisional structure - with one exception: the CEE area. The expansion efforts are currently limited, as the prime challenge is the integration of HVB/BA-CA branches in the countries. If at all, expansion is facilitated through acquisitions. The major task of the Vienna-Office, which signs responsible for CEE, is to manage the disposition of resources (including funding the local operations), deal with supra-national political and regulatory considerations and set appropriate strategies for the markets (e.g. with respect to customer acquisition and the defense of customer relationships). As such, the Vienna-Office has been assigned a specific role, namely to foster the development of managerial talent, skills, innovations and insights in order to ensure that they are fully deployed across the region and deliver the strategy in the optimal way. A senior HR manager based at UniCredit Banca d'Impresa in Verona explained: *"An area structure, such as the CEE structure, is useful for less mature markets. However, mature does not necessarily refer* *to the market development but the fluidity of the structures that are emerging in the banking environment."*

Shaping Capabilities

During all three phases, the Vienna Office remained in charge of almost the entire CEE region, although it went through a series of formal charter losses. Analyzing the unit's primary competences, we found that it has developed some vital and idiosyncratic capabilities over time. In the following, we will describe the development of these capabilities during the three phases (see also Table 2 for a summary).

In Phase I, after the merger of BA and CA, the main challenge was to align the different market expansion strategies of the two players. This proved particularly difficult as both banks had been "local players" before and none of them had significant experience in managing international operations. Thus, the vital task of the Vienna headquarters was to establish an encompassing governance structure. In their efforts to standardize structures, processes and IT-systems, managers were continuously confronted with the markets' diverse regulatory backgrounds as well as the different market maturities, which created enormous difficulties for the risk management in the region as well as the decision which products to offer. "*Reporting or modern management structures did not exist in CEE"*, one manager in the Vienna-Office explained. They had to start by building reporting lines and basic management mechanisms and also established management trainings to transfer managerial knowledge to the subsidiaries. While it was evident that the foreign banks had to "educate" customers in CEE, it was difficult to judge which products would be adopted in the near future. Thus, it was the task of the Vienna Office to *"[…] harmonize the product development for the CEE region. We make sure that we* *achieve synergies by ensuring some standardization and by supporting the single subsidiaries in their product development."*

During Phase II, the Vienna-Office had to cope with the integration of its own operations with HVB's subsidiaries. Although their role as a regional headquarters was defined in the "Agreement of the Regions," it was a challenge to legitimize this role in the extended group. The larger number of units as well as the increasing competition in the CEE markets required the Vienna-Office to respond to mounting pressures for cross-market coordination. As standardization approaches were difficult to implement due to the market heterogeneity, the Vienna-Office started to intensify knowledge transfer within the group, which would allow the subsidiary managers to participate in the choice of products and processes while still maintaining common systems in the background. As one manager told us: *"We make sure that we achieve synergies by ensuring some standardization and by supporting the single subsidiaries in their product development."* Another major undertaking of the Vienna-Office was to quickly implement a lean and standardized back-office structure throughout the region, which is still considered to be an important basis for the group's success (for similar findings in a Spanish bank, see also Parada et al, 2006). This implied a fast roll-out of standardized IT and reporting systems into the newly acquired subsidiaries, which varied widely in terms of their maturity. *"We do our utmost to implement IT-based reporting systems as fast as possible."* Knowledge transfer was also facilitated by sending out expatriates to new offices or by training subsidiary personnel at the headquarters premises. In particular, management at the Vienna-Office developed the competence to integrate less developed markets and give them more freedom as they mature in order to provide potential for group-wide learning from the local context. Rather than assigning static roles and exercising a stable degree of control, the markets are integrated and let loose on a dynamic level according to their degree of development. This also allows less developed markets to follow role models of further developed ones. Through expanding their coordination mechanisms and successfully developing markets, the Vienna-Office became a true knowledge hub. "*Our primary task is to create synergies and know-how transfer within the group*", an executive put the competence of the Vienna-Office in a nutshell. As such, the Vienna Office does not only ensure vertical transfer of knowledge to subsidiaries, but also fosters horizontal best practice exchange between the subsidiaries in the region. An area manager explained: "*[w]hen I'm confronted with a specific problem from a subsidiary in Slovenia […] I tell them to contact their peers in the Czech Republic which are facing similar problems […] that way it's most efficient and they learn from each other*." Mutual learning also takes place in a more institutionalized fashion by rotating people between different subsidiaries.

During Phase III, the gradual consolidation in the CEE banking market forced the group into a more and more efficiency-seeking management orientation. This increasingly exposed the CEE area structure (within UniCredit's divisional structure) and prompted the Vienna-Office to reemphasize its competence and role as a knowledge broker: *"We have been operating the region since 1989 […] that's a lot of experience and knowledge you generate in some 20 years of operating in CEE" "Each new acquisition adds to our learning experience […] we don't claim to know everything, but we know that we need to learn and pass on our knowledge"*. Thus, by facilitating knowledge transfer, network building, integration and control, and risk management, the Vienna office combines a unique set of competences which allows the UniCredit group to tap into the growth potential of the CEE region. A member of the Managing Board of BA-CA told one of the authors: *"It is much easier to organize knowledge exchange when everything is centralized [in the area management structure]."* This value-adding function is also recognized by UniCredit's top management, who explained: "*[…] such region-wide network structures require some central coordination from a regional hub*."

Loosing Charters - Gaining Capabilities

Our analysis of the Vienna Office's charters as well as its capabilities in the overall context of the UniCredit group in CEE shows an interesting pattern: While the formal charter of the unit decreased from headquarters, to regional headquarters to area managers and may, in fact, be further challenged by increased divisional power, the specific capabilities of the unit have increased (see Table 2). Evidence from the case shows that, in Phase I, the bank's efforts to focus on a consistent strategy and to build an integrative governance structure have driven the development of key capabilities, such as transfers of managerial knowledge, standardization of processes and product harmonization. Having been "downgraded" to a regional headquarters in Phase II, the Vienna-Office faced the challenge of managing an extended portfolio of subsidiaries as well as to legitimize its role within the group. Interestingly, this misalignment did not lead to the deployment of capabilities (as suggested by Birkinshaw and Hood's framework, 1998), but to an even more intense focus on capability development, presumably to compensate and legitimize its position. During this phase, the unit built further competences in horizontal knowledge transfer, IT-infrastructure and process management, and management training. Similarly, in Phase III, the Vienna-Office successfully negotiated an area management role due to its competence in CEE. Despite the eminent threat of being divisionalized – and thus aligned with the overall corporate structure - the Vienna-Office built further capabilities in the area of best practice transfer, expert status and CRM competence.

From our case study is also became evident that the Vienna Office does not fulfill a traditional area management function. Instead of separating different markets and creating customized offers and processes, it established interdependencies between markets. The office’s core competence is managing subsidiaries in different stages of their life-cycle as well as providing knowledge to the subsidiaries or linking subsidiaries with each other to exchange knowledge. As such, the Vienna Office fulfils a relay function (see also Asakawa and Lehrer, 2003), which enables it to match local knowledge to global applications within the MNC. While Asakawa and Lehrer (2003) found this pattern in regional offices that were preoccupied with innovation and focused only on the management of the innovation cycle, our findings highlight that a relay role is also applicable in the wider context of market development and management.

This empirical evidence confronts us with two theoretical puzzles: First, according to the literature on subsidiary evolution (e.g. Birkinshaw and Hood, 1998), the charter should reflect the unit’s capabilities. However, our case presents increasing misalignment between the unit’s charter and its capabilities. Second, drawing on mainstream research on strategy and structure, we would expect that the misalignment would only be a temporary phenomenon and that capabilities and charters align to reach a state of equilibrium (e.g. Tushman and Romanelli, 1985, Doty et al., 1993; Miller, 1986). But we observe a strengthening of the unit’s capabilities. We will return to these points in the following discussion section.

DISCUSSION

How come that a former headquarters, then regional headquarters and maybe soon merely regional office managed to stay in charge for an entire region despite of its charter losses through multiple mergers and takeovers? By analyzing the changes in the charter and capabilities of the

Vienna-Office, our study provides some novel perspectives on the management of units that have lost or fear to lose charters. Moreover, it also offers a new vista to headquarters managers concerned with aligning the organizational architecture with the corporate strategy. For unit managers, we suggest insights that are rooted in the emergent stream of literature on (subsidiary) evolution (Birkinshaw and Hood, 1998; Asakawa, 2001), whereas the perception of headquarters managers may be enriched by the debate on aligning structures, strategies and capabilities within MNCs (Zajac et al., 2000; Sabherwal et al., 2001; Nickerson and Zenger, 2002). We will present each perspective in turn.

Maintaining Capabilities and Power Positions – Implications for Unit Managers

Following the subsidiary evolution literature, we framed our study around the charter losses and capability changes of the Vienna-Office. Contemporary theory in this field does not seem to explain the divergent development of charters and capabilities. Adopting the theoretical lens on intra-organizational power may help us to shed more light on the co-evolution of the Vienna-Office's charter and capabilities. Scholars concerned with intra-organizational power have identified three distinct sources of subunit power (Astley and Sachdeva, 1984; Ambos and Schlegelmilch, 2007): power based on formal authority, power based on the possession of critical resources (resource dependence), and power stemming from a central position within the workflow organization (network centrality). A unit's charter, defined as the elements of the business for which the subsidiary signs responsible (Galunic and Eisenhardt, 1996), can be defined a formal authority in Astley and Sachdeva's terminology. We identified charter losses in Phase II and Phase III, meaning that the formal role authority of the Vienna office was gradually diminishing. What is interesting to note, though, is that the Vienna Office successfully managed to transfer the loss of formal authority into a different kind of subunit power. This primarily stems from its superior resources (namely its scarce and valuable knowledge of the region) and later also distinct knowledge from connecting individual markets through functioning as a knowledge broker (Burt, 1992). This power shift can be illustrated in Figure 3, where curve A denotes the power and influence of the unit due to formally assigned authority, and curve B and C signify the power drawn from resource dependencies and network centrality, respectively. Subscribing to this view, it is easy to see how a unit can maintain its influence even without a clearly assigned charter if it is able to build up resource dependencies or a central network position to the level of X.

********** insert Figure 3 about here **********

Within this framework, it is interesting to predict whether the Vienna Office can maintain this role in a formal organizational structure that is more and more dominated by divisions. Or, in other words, are the power gains stemming from isocratic knowledge about the region and the emergent role as a broker of knowledge among dispersed group members sustainable? Isolating CEE as an area function is clearly a transitional model, which allows the banking network to maintain its excellence in this area – at least until the CEE markets are further developed. Thus, it is likely that the Vienna-Office may be soon be deprived of its area management role. The question remains whether this office can survive as a corporate center which maintains and deploys its capabilities without a formal structural mantle. According to Astley and Sachdeva (1984), this should be more likely for peripheral units building on unique resources rather than units building on power from a broker role, as the central position of the latter almost by default requires a formal mandate. Thus, it is more likely that a unit without formal authority is able to maintain power on the basis of resource dependence. In our case, this would mean that the

Vienna-Office is well advised to continue building its capabilities – and eventually look for new markets to apply them. The irony of this case is that knowledge development and increasing experience of the CEE subsidiaries reduces their dependence on the Vienna-Office. Thus, two strategies provide viable options for the office: either seek new markets (e.g. when expanding further East) where it can again apply its competences, or strive for a new formal role in the group to base its power upon authority.

Aligning Capabilities and Structures – Implications for Headquarters Managers

From the perspective of headquarters managers, there is also a lesson to be learned from our case. Specifically, we address how organizational structures may be shaped. The concept of dynamic fit proved useful in this context, as it underpins that strategic change is only beneficial when it increases fit with multiple relevant organizational contingencies (Zajac et al., 2000). Hence, depriving the Vienna office of its CEE authority and its role as a knowledge hub simply for the sake of having one streamlined group-wide divisional structure can be detrimental to the group, since it implies giving up on some unique capabilities and resources. Given that the Vienna-Office accumulated a distinctive competency in market development and acts as a knowledge broker for the CEE area, it was indeed more beneficial for the group (in Phase II after the merger with HVB) to achieve organizational alignment by building on and integrating these specific competencies (Selznick, 1948; 1957) within its structures. In that sense, structural alignment can be seen as an emergent, evolutionary process instead of a straightforward, singular, revolutionary change (Jarvenpaa and Ives, 1993; Sabherwal et al., 2001). Although mergers and acquisitions often lead to a misalignment in structures and strategies, an attempt to achieve strategic fit by excessive change can be sub-optimal (Zajac et al., 2000) and even reinforce existing capabilities of mismatched units, as Phase III of our case-study illustrates. The increasing resource and network power of the Vienna-Office after being taken over by Unicredit is a vivid example of how organizational units that are (threatened to be) frozen in suboptimal (misaligned) structures can – at least temporarily – reinstate their functions informally by reinforcing and strengthening their unique capabilities within the group. Thus, ironically, the structural mismatch paired with the rampant threat of becoming redundant amplified organizational learning and led to the reinforcement of capabilities. In sum, misalignment between charters and capabilities may shape and even reinforce capabilities and thus increase the power of organizational units.

LIMITATIONS AND CONCLUSION

Following a call by Birkinshaw and Hood (1998) to shed more light onto the contingencies of charter changes, we focused on the evolution of the Vienna-Office within a large banking network. Grounded on the findings from a longitudinal case study, we showed how an actual or impending loss of charter of an organizational unit can spark and reinforce the development of unique capabilities. Our study revealed some novel and interesting findings for scholars and practitioners alike with regard to charter capability alignment as well as power: First, we add to the established theories on power and strategic fit by linking both theories and providing a dynamic perspective on alignment. Second, we shed light onto how organizational structures evolve, and how the mere threat of a potential mismatch in structures can reinforce organizational capabilities. In many respects, the challenges of the UniCredit banking group mirror that of other companies where many MNC units might share a similar fate (i.e. charter loss). However, as with all research using a single case study approach, the generalizability of our findings can be called into question. The evolution of our focal unit is bound to its intra-organizational context of a growing banking group as well as to the contingencies of a fast-moving and turbulent market environment in CEE. Despite this particular context, we have observed similar roles of (regional) management centers in other organizations, which provide additional evidence for the existence of a recurring underlying pattern. However, as charter changes and possible misalignments between charters and capabilities are only observable over time and also often disguised by a different structural mantle, more longitudinal in-depth studies need to be conducted in order to reveal their specificities.

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Table 1: Overview of the Largest CEE Banks in Terms of Assets Under Management

	UniCredit	**Erste Bank**	**Raiffeisen International**	**KBC**	**Societé Generale**	**OTP**
Home Market	Italy	Austria	Austria	Belgium	France	Hungary
Entry in CEE	1989	1997	1990	1998	1999	2001
No. of Countries Entered in CEE	12	7	13	5	7	6 (excl.Hungary)
Number of Branches in CEE	2373	1668	2629	820	1080	1187
Assets Under Management in CEE	72.4 bn EUR	48.7 bn EUR	41.7 bn EUR	38.5 bn EUR	30.0 bn EUR	23.5 bn EUR
Primary Mode of Expansion	Mixed	Acquisition	Greenfield	Acquisition	Mixed	Acquisition
Current Organizational Structure	Divisional (with CEE as area structure)	Matrix	Divisional	Area	Divisional	Divisional

Figure 1: UniCredit's CEE Presence (www.unicreditgroup.eu)

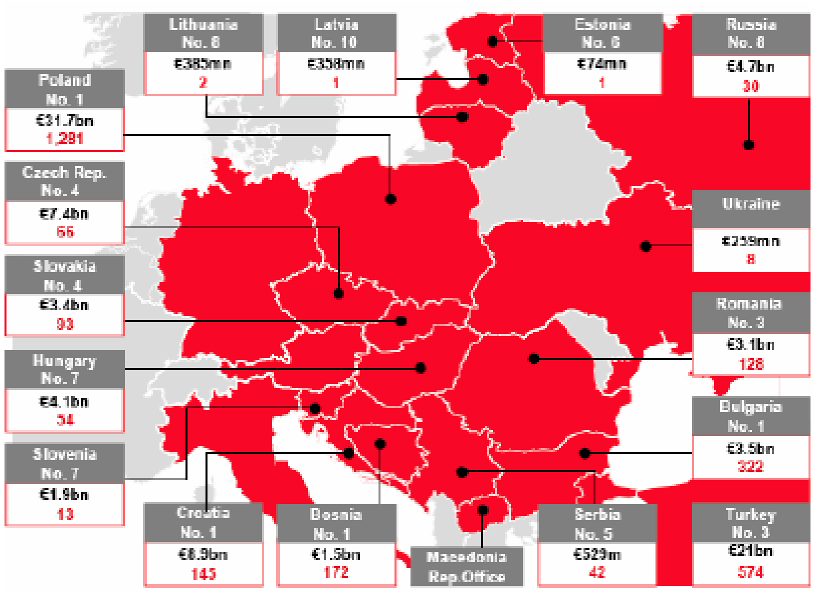

Figure 2: Organizational Chart of UniCredit Group 2007 (www.unicreditgroup.eu)

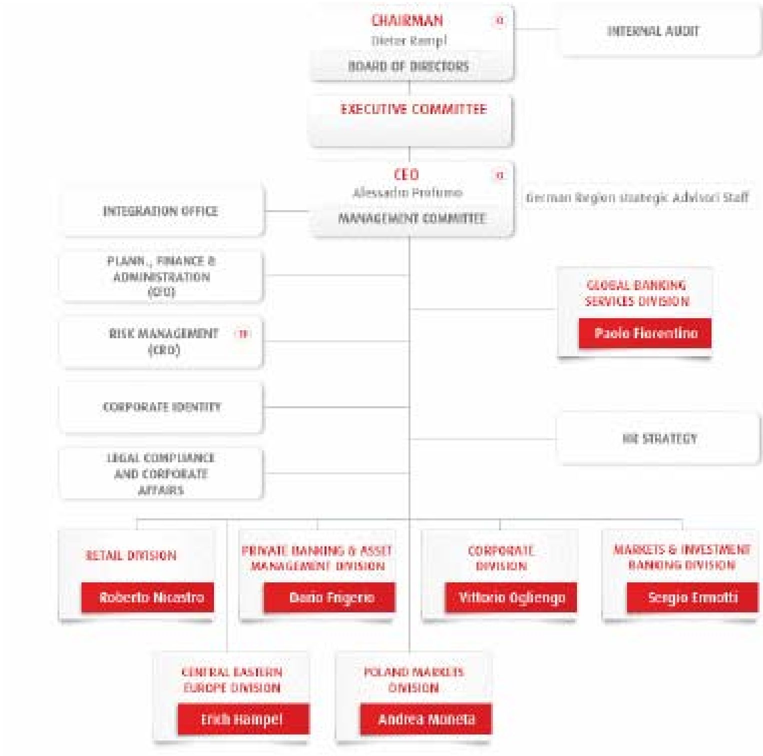

Table 2: Phases of Development

	Phase I BA-CA	Phase II HVB / BA-CA	Phase III UniCredit Group
Formal Position (Charter)	Headquarters	Regional HQ	Area Manager (formally called Central Eastern Europe Division)
Organizational Structure	Area Structure	Area structure dominant; attempts to introduce stronger divisions failed	Moving towards divisional structures within the CEE area
Environment	First mover environment; establish trust in banking; educate customers	Rapid growth; increasing intl. and national competition	Slowing growth; gradual consolidation
Mode of Expansion	First organic then acquisitions	Acquisition; problems in integrating CEE network of HVB and BA-CA.	Ongoing integration of BA-CA and HVB plus integration of UCI units in CEE
Span of Control	CEE	CEE except Russia, Baltics and Ukraine	CEE except Poland (CEE as an area division)
Key Capability Development during the Phase	-Transferring managerial knowledge - Standardization of processes -Product harmonization	- Horizontal knowledge transfer - IT-infrastructure and process management - Management training	- Best practice transfer - Expert status -CRM competence
Sources of Capability Development	Efforts for standardization vs. local needs	Increased market mandate, need to integrate HVB units	Role of the Vienna-Office in view of growing importance of functions
Misalignment between Charter and Capabilities	"Local player" with two different expansion strategies	"Regional HQ" faces integration problems of different units, unclear responsibilities between BA-CA and HVB	"Outsider" in the corporate structure, fading formal power position
Reaction (reinforcing capabilities)	Learning to coordinate markets with different characteristics; Establish governance structure	Knowledge broker role; life-cycle management approach due to large no of markets	Emphasis of competences to legitimize power

Figure 3: Maintaining a Unit's Power