Faculty Working Papers

EXTERNAL AND INTERNAL FUNCTIONING OF AMERICAN, GERMAN, AND JAPANESE MULTINATIONAL CORPORATIONS

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June 3, 1980

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Summary

Preliminary results of our comparative study of American, German, and Japanese multinational corporations and their subsidiaries, operating in a dozen or so countries, are analyzed. Results of this current study are compared with a previous study undertaken in six developing countries.

The nature of the problems encountered by the three sets of multinational companies in industrialized and developing countries, is explored. The role of headquarters and subsidiaries in decision-making, and the nature of the critical issues which occur between headquarters and subsidiaries is investigated.

Our analysis shows that although the nature and intensity of problems encountered by multinationals in developing and industrially developed countries differ, these differences seem to be narrowing.

Note

Paper prepared for presentation at the International Research Symposium: The Management of Headquarter-Subsidiary Relationships in Transnational Corporations. Institute of International Business, Stockholm School of Economics, Stockholm, Sweden, June 2-4, 1980.

Acknowledgment

This project, based on work begun in 1976, is being supported by the International Institute of Management (I.I.M.), Science Centre, West Berlin, and the International Business Institute of the Stockholm School of Economics, Sweden.

This paper is a part of the large-scale on-going study of American, British, German, Japanese and Swedish multinational corporations and their subsidiaries operating in a dozen or so countries. In all, some 200 companies were interviewed. The main purpose of our overall study was to examine:

> The strategies adopted with respect to transfer of technology, investment policies, manpower and personnel policies, product and marketing policies.
>
> Structuring of MNCs both at headquarter (HQ) and subsidiary (Sub) levels.
>
> Organizational processes such as mechanisms for controls and coordination, long-range planning and environmental scanning, personnel training, performance reviews, and feedback mechanisms utilized at headquarter and subsidiary levels.
>
> Decision-making and relative influences of HQs and Subs in major and minor decisions.
>
> The nature and intensity of conflicts in decision-making between HQs and Subs.
>
> HQ-Sub relationships and the nature and intensity of conflicts and conflicting issues between them, including the modes of resolutions and consequences of conflicts.
>
> The nature and intensity of conflicts and conflicting issues between MNCs and governments and other publics in both the home and the host countries (Negandhi and Baliga, 1979).

Purpose of This Paper

This paper examines selected aspects of external and internal practices of American, German, and Japanese headquarters and their subsidiaries' operations in the United States, United Kingdom, West Germany, France, Mexico, Spain, and Portugal. The data collected from some 120 companies are utilized in this paper. Specifically, the following external and internal management practices are being discussed:

(1) Nature of the external problems the American, German, and Japanese multinationals are facing in the countries studied.

(2) Nature of conflict and conflicting issues encountered by the three types of MNCs in those countries.

(3) Degree of decentralization or level of autonomy of the subsidiaries and implications for the functioning of the MNCs' system.

(4) Headquarter-subsidiary relationships and the nature of the critical issues and problem areas between them.

(5) Implication of internal practices on maintaining effective external relationships.

Prior to the analysis and discussion of the results of study, a word about the research methodology and design may be in order.

THE RESEARCH DESIGN

As mentioned earlier, the project was conceived in a comparative vein; we endeavored to study American, German, British, and Japanese multinationals and their subsidiaries. Our aim was to collect detailed information on many aspects on multinational operations at both headquarter and subsidiary levels. Subsidiaries of German, Japanese, and American multinationals operating in Europe (West Germany, United Kingdom, Spain, Portugal, Belgium, and the Netherlands), U.S.A., Mexico, Brazil, India, and Iran and their respective headquarters constituted the universe for the research reported in this paper. The universe was determined from investment directories and listings provided by chambers of commerce and manufacturing associations. Considerable efforts were made to ensure that the listings were as current as possible. The universe was restricted to firms that were engaged in some form of manufacturing activity. Hence, firms in travel, banking, and other service sectors were omitted from consideration. The chief executives of the firms were contacted. Letters detailing the nature of the research project with the request for a personal interview with the chief operating officers and/or representatives of the top management team were then mailed out.

At this juncture, it appears appropriate to make some remarks on the sample that was utilized in the analysis. Ideally, in order to have some confidence (statistically) in the results, the random sample needed to be large enough. Matchging was impossible as historical patterns of Japanese, German and American investments in Europe have been quite different, with Japanese multinationals being a more recent phenomenon. As there were considerable uncertainties about the cooperation that could be obtained from multinational corporations' executives, a conscious random sampling procedure was not adopted. It can, however, be asserted that the final sample that did result was a random sample in a sense that every firm in the universe had the same chance of participating or not participating in the study. However, in order to increase the generalizability and external validity of the study, considerable supplemental information was obtained both on the companies that had participated in the study and otherwise. Despite these efforts, the reader is cautioned to bear the limitations of the sample in mind when reading through the analyses and discussions.

Indepth interviews were then conducted with chief executive officers and/or top management representatives from all firms that had agreed to participate in the study. The interviews lasted about four to eight hours on an average and in most cases included luncheon and dinner sessions. These sessions proved to be extremely valuable as the executives tended to relax, and, in narrating episodes related to the organizational functioning, they revealed significant, though subtle, aspects of their

TABLE 1

PROFILE OF THE COMPANIES STUDIED

	Country of Origin		
	United States (N=34)	Germany (N=45)	Japan (N=41)
Type of Industry			
Heavy Engineering	12	14	2
Light Engineering	5	6	14
Chemical and Pharmaceutical	7	21	4
Electrical and Electronics	0	2	6
Automobile	6	2	2
Tires and Rubber Products	3	0	0
Foods	1	0	1
Mixed-Diversified Trading Companies with Manufacturing Investments	0	0	12
Ratio of Equity			
Wholly Owned	32	44	31
Majority Ownership	2	0	1
50-50 Ownership	0	1	5
Minority Ownership	0	0	4
Size: Number of Employees			
5000 and more	5	6	2
1001 to 4999	11	11	2
501 to 1000	4	9	4
201 to 500	4	4	9
101 to 200	3	8	3
100 or less	1	3	5
Information Inadequate		26	

operations. In those instances where organizational members other than the chief executives were present, consensus or majority responses were the ones utilized for analysis. Profiles of the companies studied are given in Table 1.

EXTERNAL PROBLEMS AND ISSUES: DEVELOPING COUNTRIES

It is generally recognized that the nature and intensity of issues (conflicts) between MNCs and developing countries are more pronounced than those between multinationals and the industrially developed countries. To provide a comparative perspective on the MNCs' relationships with the industrialized countries, we will examine some of the issues that have generated conflict in the developing countries, the nature of conflict, and the manner in which American, European, and Japanese multinationals have dealt with this conflict. Mikesell (1971, p. 30) has identified the following factors as having the potential of causing conflict between MNCs and host governments, particularly with respect to the mineral and petroleum industries:

> Division of total net revenues from operations between the foreign country and the host government.
>
> The control of export prices, output, and the other conditions affecting the level of total revenues.
>
> The domestic impact of foreign company operation.
>
> The percentage of foreign ownership.

Bergsten (1974, p. 152) has indicated that the differences between the domestic socio-economic objectives of the host government, and the objectives of the foreign investor, give rise to conflicts between these two parties. In more specific terms, he identifies the following issues over which conflicts and tensions are bound to arise:

Job quota requirements by the host government; quantitative and qualitative aspects.

Requirement for use of local inputs and parts in manufacturing.

Research and development activities.

Export requirements.

Market power of foreign investors; a demand for reduction in order to promote local enterprises.

External financing requirement.

Building up a high-technology enterprise.

Reduction of imports.

Ownership requirement: a reduction of foreign share, and an increase in local participation.

A U.S. State Department study analyzing the nature of conflict between American firms and host countries (predominantly "developing") indicated that of the 198 cases of conflict, approximately 68% were related to equity issues (see Table 2). A previous study in developing countries (Negandhi and Baliga, 1979) surfaced three conflict-ridden issues: equity, localization of managerial control, and transfer pricing (see Table 3). The study further indicated that American and European multinationals have had problems in effectively managing their interactions with the host governments' representatives and their agencies, whereas Japanese multinationals had problems dealing with labor, distributors, and local managers. In specific terms, the type of problems experienced by American and European multinationals centered around equity dilution, reduction in royalties, and technology and management know-how transfer, while Japanese MNCs were concerned about their relatively higher turnover rates, absenteeism, and low productivity of their employees.

TABLE 2

ISSUES CAUSING CONFLICT BETWEEN U.S. INVESTORS
AND THE HOST COUNTRIES

	60	61	62	63	64	65	66	67	68	69	70	71	Total
Equity	-	1	1	-	2	2	1	3	-	5	39	74	128
Participation	-	-	-	1	-	-	-	-	-	-	-	6	7
Pricing Policy	-	-	-	-	-	-	-	-	-	-	-	3	3
Controls by Government	-	1	1	2	12	-	-	-	1	2	6	25	50
Expansion of Exports	-	-	-	-	-	-	-	-	-	-	-	-	-
Interference with Host Economy	-	1	-	-	-	-	-	-	-	-	1	4	6
Interference with Socio-Cultural Norms	-	-	-	-	-	-	-	-	-	-	-	2	2
Interference by MNCs' Home Governments with Host Governments' Policies	-	-	-	-	-	-	-	-	-	-	-	1	1
Conflict with National Sovereignty	-	-	-	-	-	-	-	-	-	-	1	-	1
	-	3	2	3	14	2	1	3	1	7	47	115	198

Source: U.S. State Department: Disputes Involving U.S. Foreign Investment: July 1, 1971 through July 1, 1973, Bureau of Intelligence & Research, RECS-6, Washington, D.C., February 8, 1974.

TABLE 3

ISSUES CAUSING CONFLICT BETWEEN MNCs AND HOST COUNTRIES
(Interview Responses)

Causes of Conflict	Far East			Latin America			Both Areas			Total*
	U.S. MNCs	EUROPEAN MNCs	JAPANESE MNCs	U.S. MNCs	EUROPEAN MNCs	JAPANESE MNCs	U.S. MNCs	EUROPEAN MNCs	JAPANESE MNCs	
Equity Participation by Locals	13	14	0	0	0	1	13	14	1	28
Management Control in the Hands of Local Nationals	15	17	13	2	3	2	17	20	15	52
Control on Exchange	2	3	0	0	1	0	2	4	0	6
Control on Imports	3	0	1	0	1	0	3	1	1	5
Expansion of Exports	3	2	2	1	1	0	4	3	2	9
Transfer Pricing (Pricing Policies)	6	6	2	5	2	0	11	8	2	21
Use of Local Inputs	0	2	0	0	0	0	0	2	0	2
Interference by Host Government in Corporate Affairs	2	2	0	0	1	0	2	3	0	5
Contributions to Economic Plans of Host Nations	2	0	0	2	0	0	4	0	0	4
Interference with Socio-Cultural Norms	1	0	1	1	1	0	2	1	1	4
Interference with MNCs' Home Governments with Host Governments' Policies	1	0	0	1	0	0	2	0	0	2
Total	48	46	19	12	10	3	60	56	22	138
	Total 113			Total 25			Total 138			

* This total exceeds the conflict total utilized in the analysis as some of the conflict-types involved had more than one cause associated with them, i.e., a negotiational conflict, for example, could have resulted from demands for both equity reduction and localization of personnel.

Source: Interview data. Reproduced from Anant R. Negandhi and B. R. Baliga, Quest for Survival and Growth, pp. 15.

As it can be seen from Table 4, the industry-specific and the firm-specific factors were not significantly related to the nature and intensity of the conflicts between the multinationals and the host countries. Although the six countries in which research was undertaken are generally classified as "developing countries," the impact of country-specific factors on MNC-host-country conflicts was observable. Conflicts and problems encountered in India and Peru were more intense than those in Brazil, Singapore, Malaysia, and Thailand (for details, see Negandhi and Baliga, pp. 35-40).

NATURE OF EXTERNAL ISSUES BETWEEN MNCs AND INDUSTRIALIZED COUNTRIES

Although many of the industrialized countries are operating as "free and open markets" and are generally very congenial to foreign investors, lately, they too have begun to question the utility of unchecked foreign investments. In other words, the governmental decision-makers as well as other public groups (labor unions, consumer advocates, environmentalists, and so on) are discovering that national needs, ambitions and objectives can be at variance with the MNCs' objectives, goals, and strategies.

The range, nature, and intensity of these issues, of course, differ considerably from country to country, depending upon the prevailing political climate and economic conditions (unemployment, inflation, balance of payment position) and the level of industrial and economic development. For example, in a study of MNCs in developed countries, Fry (1977) reported that the issue of worker participation ("Mitbestimmung") was the one most prominent in West Germany, and the traditional issues such as providing new technology, employment, upgrading wages, and the developing local resources were considered secondary by the governmental officials.

TABLE 4

INTERNAL ATTRIBUTES OF MNCs (SUBSIDIARIES)
AND THE NATURE OF CONFLICT

Company Attributes (N = 100)	Nature of Conflict			Level of Significance
	Negotiational	Policy	Operational	
	%	%	%	
Equity holding				
wholly-owned	36	36	28	
majority-owned	38	27	35	
minority-owned	20	60	20	$p < .08$
Market Share				
more than 60%	40	35	25	
26-59%	33	42	25	
less than 26%	35	27	38	$p < .4704$
Degree of Competitiveness				
seller's market	70	30	0	
moderately competitive	46	37	17	
highly competitive	25	36	39	$p < .05$
Expectational Difference (between MNCs and host governments)				
large difference	54	28	18	
moderate difference	27	59	14	
little or no difference	21	28	51	$p < .003$
Number of Employees				
more than 1000	40	31	29	
999 to 400	40	40	20	
399 to 100	19	50	31	
less than 100	17	0	83	$p < .0421$
Size of Investment				
\$4.9-\$3 Million	43	31	26	
\$2.9-\$2 Million	33	42	25	
\$1.9-\$.5 Million	20	40	40	
less than \$500,000	60	40	0	$p < .5315$

Source: Authors' interviews.

In contrast, in Belgium the major issues pertaining to the multinational corporation's functioning were related to employment capabilities, potential effect on balance of payments position, research and development activities (lack of), development and utilization of local resources, and worker participation in management. Simultaneously, however, MNCs emphasized their importance in terms of increasing entrepreneurial spirit, providing new technology, and making consumer goods at lower prices. These differences in expectations between the government and the multinational corporations' priorities are clearly highlighted in Table 5.

Particularly, since the oil-crisis of 1973, most of the industrialized nations have experienced a downturn in their economic growth and prosperity, which in turn has created considerable hostility not only toward foreign multinationals but also among the opposing groups in a given society (management against labor, multinationals against foreign multinationals, and multinationals against their own sub-contractors). For example, faced with the declining sales of the U.S. automobiles all the three big U.S. auto companies (G.M., Ford, and Chrysler) has begun to denounce auto imports from Japan and European countries and asked the U.S. Congress and the President to help. At the same time, their own sub-contractors have publicly accused auto companies as "double talkers" by asserting that "it is not just imported cars, it's imported parts that is causing problems" (Wall Street Journal, pp. 1). The growing complaints about Detroit's policies of importing parts for domestically assembled cars have now reached Washington. Consequently, congressional proposals that were originally designed to limit imports of autos are being amended to place restriction on imported parts also (Wall Street Journal, pp. 1).

TABLE 5

EXPECTATION DIFFERENCES BETWEEN
MULTINATIONAL CORPORATIONS AND NATION-STATES

	Germany	
Impact	Government Wants More	Firms Give More
Worker Participation	X	
Increase Competition		X
Capital Inflows		X
Increase Skilled Employment		X
Create Entrepreneurial Spirit		X

	Belgium	
Impact	Government Wants More	Firms Give More
Increase General Employment	X	
Increase Skilled Employment	X	
Balance of Payment Effects	X	
Increase R & D Efforts	X	
Develop Local Resources	X	
Worker Participation	X	
Worker Awareness	X	
Increase Quality of Consumer Services	X	
Social & Cultural Values		X
Increase Entrepreneurial Spirit		X
Provide New Technology		X
Create Lower Prices		X

Source: David E. Fry. Multinational Corporations - Host Government Relationships: An Empirical Study of Behavioral Expectations. Unpublished D.B.A. dissertation, Kent State University, 1977.

Table 6 illustrates the nature of demands made by the multinational companies in West Germany, United Kingdom, Spain, Portugal, and France.

As can be seen from Table 6, economic stagnation, triggered by the oil crisis, has generated traditional economic demands even in the more industrialized nations of the world. However, except in the case of Spain and Portugal, the European countries in which field research was undertaken have not yet legislated these demands as has been done in the developing countries. Thus far these countries do not discriminate unduly in favor of domestic corporations over multinational corporations.

One thing appears clear: the less economically developed a country and/or more intensive the economic problems, the more demands are placed on multinational corporations and the more willing the country is to legislate these expectations.

Table 7 shows the nature of problems faced by the American, German, and Japanese MNCs in various industrialized countries. The labor force seems to be the source of almost half the problems faced by the multinationals. However, U.S. and German subsidiaries have, proportionately, more labor problems than Japanese companies. The underlying theme of labor-management problems is, however, quite different in the various countries. In Germany, for instance, industry-representatives were involved in challenging the constitutional validity of the "codetermination" laws and influencing the election of representatives who were against the codetermination laws. The U.S. multinational subsidiaries, owing to workforce-size stipulations in the law, were most susceptible to the laws. Given the confrontationary nature of management-labor relations in the United States, American multinationals initially had a difficult time accepting the collaborative philosophy.

TABLE 6

NATURE OF DEMANDS MADE ON MULTINATIONAL CORPORATIONS IN SELECTED INDUSTRIALIZED COUNTRIES*

	Germany N/%	U.K. N/%	Spain N/%	Portugal N/%	France N/%	Total
Technology Transfer	0/0.0	3/21.4	0/0.0	0/0.0	0/0.0	3/5.3
Exports	0/0.0	1/7.1	0/0.0	0/0.0	1/12.5	2/3.5
Employment	0/0.0	2/14.3	0/0.0	0/0.0	0/0.0	2/3.5
Economic Development	3/23.1	5/35.7	10/90.9	9/81.8	7/87.5	34/59.6
Ambivalent	1/7.7	0/0.0	0/0.0	0/0.0	0/0.0	1/1.8
No Specific Demands	9/69.2	3/21.4	1/9.1	2/2.18	0/0.0	15/26.3
	13/22.8	14/24.6	11/19.3	11/19.3	8/14.0	57/100

*Raw Chi Square = 43.19530 with 20 degrees of freedom. Significance = 0.0019.

Source: Interview data collected by the authors.

TABLE 7

MNC OWNERSHIP BY SOURCES OF PROBLEMS IN INDUSTRIALIZED COUNTRIES

	Host Government N/%	Labor N/%	Political Groupings N/%	Local Competitors N/%	Multiple Sources N/%	No Problems N/%	Regional Economic Grouping N/%	Total
U.S.	1/25.0	11/40.7	1/100.0	1/100.0	1/100.0	8/38.1	0/0.0	23/100
MNCs	1/4.3	11/47.8	1/4.3	1/4.3	1/4.3	8/34.8	0/0.0	
German	0/0.0	12/44.4	0/0.0	0/0.0	0/0.0	3/14.3	0/0.0	15/100
MNCs	0/0.0	12/80.0	0/0.0	0/0.0	0/0.0	3/20.0		
Japanese	3/75.0	4/14.8	0/0.0	0/0.0	0/0.0	10/47.6	2/100.0	19/100
MNCs	3/15.7	4/21.0	0/0.0	0/0.0	0/0.0	10/52.6	2/10.5	
Total	4/100	27/100	1/100	1/100	1/100	21/100	2/100	
	4/7.0	27/47.4	1/1.8	1/1.8	1/1.8	21/36.8	2/3.5	57/100

Outside Germany all multinationals, especially the larger U.S. and German multinationals, have been the targets of leftist ideology oriented labor unions. This has been particularly true of Spain and Portugal where rising nationalistic expectations have made the issue even more difficult to handle. Japanese multinationals appears to have avoided serious problems with labor, to some extent, by their small size and willingness to go into joint ventures with either government organizations or private entrepreneurs. This finding is interesting in the light of the fact that, despite being involved in joint ventures or minority holdings in the developing countries, Japanese organizations have had considerable problems with labor (Negandhi and Baliga, 1979). These problems stemmed mainly from historical factors and efforts made by Japanese to impose their management style. It appears that the Japanese multinationals have learned from their experience in the developing countries of Asia and South America, and have restricted the use of a Japanese management style (such as life-time employment, and demanding loyalty to the company) in the industrialized countries.

Japanese subsidiaries were involved, however, in conflicts with the EEC commission. Problems were centered around charges of "dumping" by Japanese organizations, despite the fact that the accused Japanese companies had manufacturing subsidiaries in EEC countries. The Japanese organizations responded by adopting a legalistic stance while simultaneously emphasizing their local manufacturing activities in efforts to make the "dumping" charge untenable.

INTERNAL FUNCTIONING OF MULTINATIONAL CORPORATIONS

In this section, we will examine selected aspects of internal practices of American, German, and Japanese multinational companies and explore the implmications of these practices on external relations. Specifically, we will discuss the results of the study concerning,

(a) Level of decentralization or the degree of subsidiary autonomy.

(b) Headquarter-subsidiary relationships and the nature of major problems encountered in these relationships.

Level of Decentralization

Centralization versus subsidiary autonomy is a perennial and conflicting situation faced by most multinational companies. Increasing competition in the world market requires some measure of rationalization of production and marketing processes at a global level, thus requiring a higher degree of centralization of decision-making at the headquarter and/or regional headquarter levels, while increasing demands are being made by the host as well as by the home countries of the multinationals. To assist them to solve their complex socio-economic problems, high degree of subsidiary autonomy is necessary.

To assess the relative influence of the headquarters and subsidiaries in decision-making, we examined the decision-making with respect to the following factors:

Borrowing from local banks
Use of cash flow by subsidiary
Extension of credit to major customers
Choosing public accountant
Introduction of new product for local market
Servicing of products sold
Use of local advertising agency
Expansion of production capacity

Maintenance of production facilities
Appointment of chief executive
Use of expatriate personnel
Layoff of operating personnel
Training programs for local employees

These decisions were then identified as either strategic or routine. An Overall Delegation Index was then computed with strategic decisions weighted three times as much as routine decisions. The weighting factor was chosen to reflect the approximate ratio of time span of feedback of strategic decisions to routine decisions. Table 8 presents the findings for the Overall Delegation Index and the extent of delegation provided to the subsidiary's management along with a set of decisions.

As it can be seen from the table, the Overall Delegation Index is fairly low in absolute terms. Despite the headquarters' acknowledgment of less than perfect understanding of the subsidiary's operation and its environment, the subsidiary influence on major decision-making is minimal.

Relatively speaking, Japanese subsidiaries seem to enjoy the most autonomy, and the U.S. subsidiaries the least. German subsidiaries are in between these two extremes. Our results are consistent with earlier studies by Franko (1976) and Dyas and Thanheiser (1976).

Particularly, the executives working for U.S. subsidiaries in Western Europe, displayed the same frustrations in controlling their own organizations as those working in developing countries. Listen, for example, to some of their concerns voiced in our study in the developing countries.

An American executive in Thailand, complaining about the excessive control and reporting needed by the U.S. headquarters, stated:

> For these whiz kids who are playing around with the figures but really don't know what to do with the data. . . . [The] more you supply, [the] more they

TABLE 8

COMPARISON OF DELEGATION IN THE VARIOUS AREAS FOR U.S., GERMAN, AND JAPANESE MNCs

	U.S. (N= 34)		German (N= 45)		U.S. (N= 34)		Japan (N= 41)		German (N= 45)		Japan (N= 41)	
	Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.
Overall Delegation Index	-1.68	4.33	0.14	3.72	-1.68	4.33	2.89#	3.38	0.14	3.72	2.89#	3.38
Local Personnel Decisions	2.40	1.46	2.85	1.24	2.40	1.46	3.51#	0.93	2.85	1.24	3.51*	0.93
Expatriate Personnel Decisions	-2.10	1.67	-2.49	1.60	-2.10	1.67	-0.65*	2.00	-2.49	1.60	-0.65#	2.00
Routine Production Decisions	-0.04	2.63	2.59#	1.43	-0.04	2.63	2.24#	1.84	2.59	1.43	2.24	1.84
Strategic Production Decisions	-1.78	2.21	-1.54	2.21	-1.78	2.21	0.07*	2.26	-1.54	2.21	0.07*	2.26
Routine Marketing Decisions	1.27	1.62	2.42#	1.19	1.27	1.62	2.85#	1.11	2.42	1.19	2.85	1.11
Strategic Marketing Decisions	-1.58	2.14	-0.83	2.42	-1.58	2.14	1.14#	2.35	-0.83	2.42	1.14#	2.42
Financial Decisions	0.30	2.00	1.61#	1.50	0.30	2.00	1.90#	1.00	1.61	1.50	1.90*	1.00

Key

-4	0	+4
max. HO influence	equal inf.	max. sub. influence

$p \leq 0.00$.

* $0.01 < p \leq 0.05$

> want . . . and my two (expatriate) assistants and I spend 60 percent of our time in generating reports and data, and I surely hope somebody is using them at least as toilet paper.

In a similar vein, another American expatriate, who had been posted to India after twenty-five years of service at the home office, said:

> Headquarters demand a lot of documentation from here . . . (but) as far as top brass is concerned, they seem to know very little about what is happening in these countries.

Explaining his relationship with the home office, he pointed out:

> We take home leave . . . take a weak off to go to our headquarters . . . socialize with the people we know, but communicate with nobody on substantial matters . . . I sometimes wonder whether the president or even the vice-president of our international division will recognize me . . . They simply do not care.

Yet another American executive in Thailand echoed his frustration, saying:

> I really question whether the top brass at the home office listen to what we say and report . . . I think they are not mature enough to know the conditions prevailing here. . . . We are just beating the durms, nobody cares to listen back home.

Japanese companies, on the other hand, seem to have mastered the so-called "Z" mode of operation in which organizational members are acculturated and socialized toward a common set of organizational and societal values (Ouchi and Jaeger, 1978). Given such orientation, headquarters are not concerned about losing their control in spite of higher autonomy afforded to the subsidiary operations. This is the most charitable explanation about the Japanese subsidiary's greater autonomy. The least chariable explanation may be that the Japanese headquarters simply have not learned how to control their subsidiaries and operate with a global concept.

In examining the similarities and differences in decision-making influences in various functional areas, we found no significant differences between U.S. and German MNCs with respect to the decisions concerning the local personnel. They were both relatively enjoying a greater autonomy in this regard, although Japanese subsidiaries, here too, were the most decentralized.

With regard to expatriate personnel, we noted that headquarters prefer to limit the delegation provided to the subsidiary-executives and this is not surprising. Edstrom and Galbraith (1977) have pointed out that expatriate personnel are significant links in the control mechanisms employed by the headquarters. Interestingly, even here, Japanese subsidiary-executives appear to exercise greater influence than either their American or German counterparts. This could reflect a willingness on the part of the headquarters' management to place greater reliance on the judgment of their representatives in the field. It could also reflect the fact that being relative newcomers to MNC-systems (Tsurumi, 1976) they have yet to develop a field-tested international executive group at the headquarters to control their subsidiary operations.

It is easy to understand the high frustration of U.S. subsidiary-executives when one looks at the delegation accorded to them on routine production decisions. They have the least authority of the three MNC-systems studied. Here it clearly reflects the need for rationalization and standardization of operations practiced by U.S. MNCs. The relatively larger size of U.S. operations may also contribute to this quest for efficiency.

The headquarter's influence increases considerably on strategic production decisions, though even here, the Japanese subsidiary's executives appear to have more influence. The delegation pertaining to operation and strategic marketing decisions followed a pattern similar to that for routine and strategic production decisions. A senior U.S.-subsidiary executive seems to have voiced the concern of many when he narrated the following episode:

> The opening of regional headquarters in Brussels has taken away much of our decision-making power and authority. Just recently we voiced strong objection to an advertising program that the regional headquarters was proposing to us in Britain. Our objections went unheeded and the advertising campaign turned out to be a disaster. We are also having problems recruiting managerial personnel because the job lacks any real challenge and decision-making authority.

The need to rationalize production on a global scale has generated additional pressure to the marketing operations.

This limited delegation of strategic marketing decision has posed problems for some Japanese firms operating in the United States. Sony, for example, could not react fast enough to competition surpassing some of Sony's higher quality products nor could they deal with erosion of retail price maintenance policies adquately.

From the above it appears that the headquarters' management is still relatively unwilling to recognize the differences of host-environmental conditions and their effects on the subsidiary's operations.

The delegation is also fairly limited on financial decisions. It is to be expected that in a multinational corporation system with numerous subsidiaries, finance would clearly be the language of management. However, practically all the subsidiaries studied had a functional form of organizational structure. The functional specialization leads to a lessening of the emphasis on financial management; for example, capital expenditure decisions get subsumed under decisions to expand production capacity, etc. The greater level of delegation in Japanese subsidiaries seems to be a function of size. Being much smaller than their American or German counterparts, the monetary sums involved in financial transactions are likely to be fairly small. An alternative explanation is suggested by the close relationship of Japanese organizations to Japanese banks (Caves and Uekusa, 1976). As a consequence of this close relationship between banks and headquarters, it is relatively easy to establish zones of authority (Burrage, 1972) within which the subsidiaries can function in a relatively autonomous manner.

We also examined the extent to which the various MNC-systems were formalized. Not surprisingly, there was a relatively high correlation between extent of delegation provided to the subisidary's management and the extent of formalization. U.S. MNCs were the most formalized. As we saw earlier, many U.S.-subsidiary executives interviewed felt hampered by this formalization, especially in the developing countries.

Critical Problems Between Headquarter and Subsidiary Operations

During the interviews with the senior executives of both headquarters and subsidiaries, we proble into some of the critical problems encountered in headquarter-subsidiary relationshps. Besides examining the nature and intensity of such focal issues between headquarters and subsidiaries, we also attempted to assess the relative influences of the headquarter and the subsidiary in resolving such issues.

Approximately one-half of the subsidiaries of the American, German, and Japanese multinational companies studied indicated that no serious problems existed in their relationships with the headquarters. Of the 48 critical issues narrated by the subsidiaries' executives, roughly one-third were concerning the lack of subsidiary's autonomy in dealing with the problems faced by them in the host countries; approximately one-fourth of these issues were concerning capital investment decisions. Table 9 shows the range of problems between headquarters and subsidiaries operations.

Comparatively, as we discussed earlier, Japanese subsidiaries enjoyed more autonomy in decision-making than those of the American and German multinationals and accordingly reported less frustrations in this regard. Overall, there were no significant differences between the American and German companies. The global rationalization of production and marketing processes being practiced by the American and German MNCs seem to have resulted in similar challenges and problems. The following examples represent the nature of issues between headquarters and subsidiaries.

1. The General Manager of an American subsidiary in Britain complained bitterly about the price for his exports being determined by the marketing manager at the European headquarter. Yet the subsidiary was responsible for meeting profit targets. This procedure led to a considerable degree of tension between the subsidiary and the European headquarter and the parent company has made no effort to resolve these differences.

2. An American multinational wanted to terminate the operations of its subsidiary in Sweden as the plant was very old and productivity was low. When the plans were made public there was a considerable amount

TABLE 9

NATURE OF CRITICAL ISSUES EXISTING BETWEEN THE HEADQUARTERS AND SUBSIDIARIES

Ownership of MNC	Capital Investment	Sales & Financial	Home Country Policies	Host Country Policies	Organizational Autonomy	No Issues	Total
	$N/q_0^1/q_0^2$	$N/q_0^1/q_0^2$	$N/q_0^1/q_0^2$	$N/q_0^1/q_0^2$	$N/q_0^1/q_0^2$	$N/q_0^1/q_0^2$	
U.S.	3/10.3/27.3	2/6.9/22.2	1/3.4/14.3	1/3.4/16.7	5/17.2/33.2	17/58.6/27.9	29
Germany	5/12.2/45.5	3/7.3/33.3	2/4.9/28.6	2/4.9/33.3	8/19.5/53.3	21/51.2/34.4	41
Japan	3/7.7/27.3	4/10.3/44.4	4/10.3/57.1	3/7.7/50.0	2/5.1/13.3	23/59.0/37.7	39
Column Total	11	9	7	6	15	61	109

q_0^1 refers to Row percentages

q_0^2 refers to Column percentages

Chi square = 6.35 10 D.f. Sig. 0.78

of concern. The Swedish government was very unhappy and started pressuring the local management to keep the plant viable. Ultimately, a compromise was reached to keep the subsidiary operations open for some time. The subsidiary's executives were not, however, sure about the next step headquarter may take.

3. The U.S. parent company fired the marketing manager of its German subsidiary as he was not able to stay and manage within a budgeted amount. The Controller at the headquarter felt that the demonstrated skills of the marketing manager and his sales performance were not adequate to offset his overrun on the budget. His firing was seen as setting an example to other subsidiary executivies to stay within budget at any cost. This incident had affected the morale of other senior executives.

4. The subsidiary of an American firm in France wanted to set up a profit sharing system with its employees. Headquarter was strongly opposed to such a move and asserted that they would rather divest than be a party to the new social policy. Despite insistent complaints by subsidiary management that the headquarter's personnel were insensitive to local issues, it refused to let the subsidiary negotiate the agreement. The net result was a series of strikes by the French subsidiary employees.

5. There was considerable argument between German headquarter and its Portugese subsidiary management about additional investment in a particular product line. The subsidiary had lost a considerable amount of money in the previous 15 years and the headquarter was very wary of additional investment. The subsidiary kept developing reports

that showed that the investment was very desirable. Headquarter kept countering with studies which showed the investment to be undesirable. This process continued for nearly two years and was ultimately resolved in the subsidiary's favor only after they had managed to build up a very vocal lobby in the parent company.

6. The management of a Japanese subsidiary in Australia had to pay their employees a percentage of their salary during a strike as per Australian law. Headquarters personnel could not understand why this was necessary and tried to pressure subsidiary management to stop these payments.

With respect to the relative influences of headquarters and subsidiaries in the resolution of issues, our interview data analyses indicated that in approximately one-half of the cases, headquarters handed down the final decisions, and in less than one-third of the cases subsidiaries' viewpoint prevailed. Among the three sets of subsidiaries, Japanese and German subsidiaries seem to have more influence in resolving issues.

SUMMARY AND IMPLICATIONS

In this paper, we analyzed the preliminary results of our comparative study of American, German, and Japanese multinational corporations and their subsidiaries operating in a dozen or so countries. We also compared the results of this current study with those of the previous study undertaken in the six developing countries.

More specifically, the topics examined were:

(1) Nature of problems encountered by the three sets of multinational companies in industrialized countries.

(2) Nature of problems and conflicts and conflicting issues between multinationals and host countries of developing nations.

(3) Decision-making and relative influences of headquarters and subsidiaries in strategic and routine decisions.

(4) The nature of critical issues and problems between headquarters and subsidiaries.

The analysis of data showed that although the nature and intensity of problems encountered by multinationals in developing and industrially developed countries are different somewhat at this point in time--the differences between developing and developed countries seem to be narrowing. Particularly since the 1973 oil crisis, industrially developed countries faced with the stagnant economic conditions, have begin to focus attention on the problems of unemployment, economic growth, energy shortages, unfavorable balance of trade and payments, environmental pollution, and declining growth in productivity. To recall, during the decades of the 1950s and 1960s and 1970s there were the very same problems, the developing countries were seeking solutions for and consequently had generated legislations to secure the optimal benefits from the foreign private investments in their countries.

Although the industrially developed countries have thus far constrained themselves in enacting limiting legislations against foreign private investments and multinational corporations, the public debates and discussions are moving closer to this end at a faster speed than one would have anticipated. For example, the recent establishment of the Foreign Investment Review Agency in Canada and their pronouncements of expected corporate behavior, as seen from Table 10, comes very close to what the develping countries have been demanding from foreign investors during the last two decades.

TABLE 10

CANADA'S 12 GOOD CORPORATE BEHAVIOR PRINCIPLES (AS THEY RELATE TO ALLEGED OBJECTIONALBE U.S. SUBSIDIARY POLICIES

Guiding Principle Summary	Alleged Objectionable Practice
1. Full realization of the company's growth and operating potential in Canada.	1. U.S.-based corporate planners institute expansion and cutback plans without regard for Canada's plan and aspirations.
2. Make Canadian subsidiary self-contained, vertically-integrated entity with total responsibility for at least one productive function.	2. The Canadian subsidiary is primarily an assembler of imported parts or distributor of goods produced elsewhere so operations can be easily shut down or transferred.
3. Maximum development of export markets from Canada.	3. Filling export orders to third-country markets from the U.S. country stocks earns credits for U.S. balance of payments rather than Canada's.
4. Extend processing of Canada's raw materials through maximum number of stages.	4. Have as few materials-processing stages as possible in Canada to minimize political leverage.
5. Equitable pricing policies for international and intracompany sales.	5. Negotiated or spurious prices by Canadian-U.S. subsidiaries are designed to get around Canadian income taxes.
6. Develop sources of supply in Canada.	6. Preference for United States or third-country sources for purposes of corporate convenience or political leverage.
7. Inclusion of R & D and product development.	7. The concentration of R & D and product design in the United States means Canada can never develop these capabilities.
8. Retain substantial earnings for growth.	8. Profits earned in Canada do not stay to finance Canadian expansion.
9. Appointment of Canadian officers and directors.	9. Use of U.S. officers and directors to prevent development of local outlook in planning and execution.
10. Equity participation by Canadian investing public.	10. Creation of wholly owned subsidiaries denies policy determination and earnings to Canadians.
11. Publication of financial reports.	11. Consolidation of Canadian operating results into parent company statement or failure to publish any relevant information.
12. Support of Canadian cultural and charitable institutions.	12. Failure locally to support such causes as the United Appeal where parent corporations give generously to comparable U.S. campaigns.

Source: David J. Ashton, "U.S. Investments in Canada: Will the Other Shoe Drop?" Worldwide P & I Planning, September-October (1968), p. 57.

More recently, in the United States, approximately one-half of the 50 states have introduced legislations to restrict foreign investments in agricultural lands. At a lesser end, sub-contractors of U.S. automobile companies, Swedish, Italian, U.S., French, and even German labor unions have begun to question the virtue of multinational investments and their general strategies of global rationalization.

On the other hand, our results concerning the internal structure and processes of multinational corporations show that the quest for global rationalization has caught on and the German MNCs are fact catching up with the U.S. MNCs in their pursuit of global reach, and the Japanese, although stumbling here and there, are not far behind. The centralization of decision-making is thus only a logical consequence of this quest. The needed autonomy of the subsidiaries to solve the specific socio-economic problems of the host countries is the victim.

Where do we go from here, is the question, for all of us to ponder, since we, academicians and businessmen alike, were the ones who not long ago had proclaimed the virtues of global rationalization.

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