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Interaction Between Multinational Corporations and Host Countries: Power, Conflict, and Democratization in Decision-Making

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Abstract

This paper, based on empirical research in 244 subsidiaries of American, European, and Japanese Multinational Companies, examines the trend towards the convergence in organizational practices and decision-making among three types of multinational corporations. The results show that the global rationalization drive is equally pursued by the American, German, and Japanese companies. And such practices are creating a higher level of centralization in decision-making, creating tension and conflict between the headquarters and subsidiaries and the multinational companies and the host countries.

INTERACTION BETWEEN MULTINATIONAL CORPORATIONS AND HOST COUNTRIES:
POWER, CONFLICT, AND DEMOCRATIZATION IN DECISION-MAKING

Conflicts are not made in heaven. They are basically a creation of human-beings. They permeate in all societies, wherever interpersonal and interorganizational interactions are involved. In a sense, they portray the existence of an age-old basic economic truth of limited means to achieve limitless ends in the socio-economic life. In this light, conflicts could be viewed as the basic disagreements between and among persons and/or institutions concerning the achievements of given goals and objectives and the application of means to achieve such goals. Conflicts also signify the existence of imbalances of power leverage among the interacting parties, persons, or organizations.

To a considerable extent, conflict and power are interrelated and inseparable phenomena. As Kahn has stated:

> "The implication of conflict...to power is inescapable. To say that A has the power to change B's behavior necessarily implies that A exerts some force in opposition to some or all of the previously existing forces on B. This is conflict; its extent and consequences depend, of course, on many factors--the nature, basis, and magnitude of the force which A exerts and of the forces which he is attempting to overcome in order to determine B's behavior" (Kahn, 1964:1).

MNC Nation-State Relations in Perspective

Increased attention recently has been focused on the impact of the multinational corporations on the national economy, employment, balance of payments, security, national defense, foreign policy, national sovereignty, and the social and economic development plans of the host countries.

This upsurge of concern for the impact of the MNCs can easily be seen from the numerous inquiries and investigations presently completed or underway. Such august bodies as the U.S. Senate Finance Committee (1973), the United Nations (1973, 1978), and many professional associations, such as the British-North-American Research Association, the National Industrial Conference Board, and a number of prestigious universities both here and abroad, have embarked upon issues relative to the impact of multinational corporations.

The issues raised and intensive dialogues on the subject have augmented the sensitivity of those outwardly involved. This has resulted in an optimistic outlook on the one hand and pessimistic overtones on the other hand (Kendall, 1974; Shaker, 1970). Figure 1 shows the various parties involved in questioning the impact of the MNCs.

The advocators argue that the MNCs are the most powerful engines of progress ever invented by man; they regard them as "harbinger of a true world economy" (Ball, 1968).

Critics, on the other hand, accuse the multinationals of exploiting local labor, charging high royalty payments for supplying obsolete or inappropriate technology, using monopolistic power to eliminate local entrepreneurs, and of interfering with the national sovereignty of the developing countries (Turner, 1971; Barnet and Muller, 1974).

In the industrialized countries, except for concern about their ethical behavior and attacks by organized labor for exporting jobs (Ruttenberg, 1972), the MNCs are conceived as either a positive force or a natural element.

However, since the 1973-oil crisis, the potentials and problems of the industrialized countries have shifted dramatically. Energy shortages and the ever increasing cost of oil, resulting in double-digit inflation, unemployment, and overall slowdown of industrial and economic activities have become a central issue in most nations around the world. At the same time, the developing countries, with the help of the oil-rich Arab countries, have increased their pressures on the industrialized developed countries to change fundamentally the existing international economic order.

With such fast-changing economic and political realities in the world, the multinationals, although facing declining sales, profits, and intensive competition, have remained silent agents. At the same time, to cope with these adverse economic situations, the MNCs' quest for achieving greater efficiency in their operations has been intensified. Global rationalization of production, financial, research, developmental, and marketing activities have been suggested for augmenting the operational efficiency of the multinationals (Vernon, 1977).

Although the global-rationalization concept and its accompanying global-level organizational structure form have been well articulated and selectively implemented (Stopford and Wells, 1972; Franko, 1976), the real attributes or components of this concept, as well as implications of the process of rationalization, have not been systematically explored or even questioned by many researchers. Specifically, answers to the following questions have not been well explored:

(1) To what extent does the rationalization process lead to a higher level of centralization in decision-making at the headquarters?

(2) What specific decisions are most likely to be centralized?

(3) What are the implications of such centralization in decision-making on headquarter-subsidiary relationships and on morale and motivation of the subsidiaries' managers?

(4) What are the implications of the rationalization process on the MNC-nation state's relationships?

The main purpose of this paper is to examine briefly the above questions.

Research Sources

The paper is based on two large-scale studies on multinational-nation-state relationships directed by the author during the period 1974 to 1982.[1] The first study was undertaken with 124 multinational companies (54 American, 43 European, and 27 Japanese) operating in six developing countries--Brazil, India, Malaysia, Peru, Singapore, and Thailand. The second study was conducted with 120 MNCs (34 American, 45 German, and 41 Japanese) operating in seven industrialized countries--Australia, Japan, Belgium, France, West Germany, United Kingdom, and the United States.

RESEARCH FOCUS AND CONCEPTUAL SCHEME

Although the study utilized the so-called open-system perspective pursued in organization and interorganization theory areas, the process itself is the reverse of the current thinking (Emery & Trist, 1969; Lawrence & Lorsch, 1969) in these areas. Briefly, an open-system approach highlights the impact of external environmental factors on the

internal attributes of an organization, while in this study, attempts were made to explore the impact of internal attributes of an organization (MNC) on the external relationships of the focal organization with the other units of the organization in a given socioeconomic system.

The model postulates that nature and intensity of conflict are a function of, among other things:

(a) The managerial style (for which U.S., European, and Japanese ownership of MNCs was substituted as a surrogate);

(b) industries in which MNCs were operating;

(c) size of the MNC's subsidiary (measured in terms of number of employees, capital investment, perception of the subsidiary's executive of the relative size of his firm in a given country);

(d) extent of diversification;

(e) relative market power of MNCs;

(f) age or years of the MNC's (subsidiary's) operation in the host country; and

(g) the expectation differences between MNC and host government toward each other.

On the host-country side, such attributes as relative political stability and extent of diversity among influential political parties in the country, level of economic and industrial development, and market and economic conditions, were conceived as important factors affecting MNC-host-country relationships. To develop a conceptual model we reviewed and analyze: (a) 119 cases of conflict between MNCs and host governments and other publics in the host countries as reported in academic and popular journals, articles, and books (Neganchi, Fry and Fry, 1974), and (b) the U.S. State Department study of 143 disputes of American firms operating overseas (U.S. State Department, 1974). Figure 2 given in the appendix outlines the initial conceptual model.

Dependent Variable (Conflict)

The nature of conflict was classified into four categories: (a) Value-level conflict; (b) negotiational-level conflict; (c) policy-level conflict; and (d) operational-level conflict. (For operational definitions see Negandhi-Baliga, 1979:17-18).

Categorization in the above manner enabled us to discriminate between essentially interface and intraorganizational conflict. The interface construct is used here to denote conflict and interactions with units in the aggregate and macro environments. The intraorganizational construct is used to denote conflict and interactions with units in the task environment. Thus, value, negotiational conflicts, and policy conflicts were considered to be interface conflicts, and the operational conflict to be an intraorganizational conflict.

FUNCTIONING OF THE MULTINATIONAL CORPORATIONS[2]

We will first examine the level of formalization of policies and practices, degree of centralization-decentralization, and the relative influence of the headquarters and the subsidiaries in decision-making. Then we will explore the impact of these factors on the headquarter-subsidiary relationships. As noted earlier, our aim of examining these elements was to assess the extent of the global rationalization strategies utilized by the three types of multinational corporations, namely the American, the German, and the Japanese.

In the next section, we will examine the implications of these practices on the relationships between the MNCs and the nation-states.

Level of Formalization

To assess the level of formalization in the American, German, and Japanese multinational companies, three aspects are examined:

(1) The subsidiaries' dependence on manuals, policies, and procedures supplied by the headquarters;

(2) utilization of these policies and procedures for decision-making; and

(3) the nature and the frequency of the reports required by the headquarters.

An overwhelmingly large number of the American subsidiaries (88%) relied on the headquarters' policies. Approximately one-third of the German subsidiaries did the same, while merely 12 percent of the Japanese subsidiaries utilized the policies supplied by their headquarters. Conversely, only 6 percent of the American, 48 percent of the German, and 66 percent of the Japanese subsidiaries indicated a very negligible influence on strategic and policy decisions affecting their operations.

A similar picture emerges when one examines the influence of the written policies and procedures (whether those supplied by the headquarters and/or modified by the subsidiaries) on actual strategic and policy-level decisions.

One can also evaluate the headquarters' relative influences on the subsidiaries' operations by examining the nature and frequency of the reports that were required from the subsidiaries' managers.

Almost all the American subsidiaries, and approximately two-thirds of the German and Japanese subsidiaries studied were required, by their respective headquarters, to provide up-to-date information on balance sheet, profit and loss figures, production output, market

share, cash and credit positions, inventory levels, and sales per product. The frequency of reporting was greater for the American (mostly monthly) than for the German and Japanese subsidiaries. The only items with which the subsidiaries were less bothered were the performance reviews of their personnel and the local socio-economic and political conditions. In other words, the stress is placed more on those aspects affecting the short-run financial picture of the company rather than on the factors affecting the firm's long-term survival and growth.

The analyses of the above three aspects of the formalization clearly indicate the increasing levels of formalization that are being introduced by the American multinational companies, while the German MNCs seem to be catching up with the Americans. The Japanese companies, however, are still relying on their informal network.

THE RELATIVE INFLUENCE ON DECISION-MAKING

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. On the other hand, to satisfy the increasing demands from the host as well as the home countries of the multinationals necessitates some measure of the subsidiary's autonomy on strategic decision-making.

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

Borrowing from local banks
Use of cash flow by the 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
Pricing decisions
Determining aggregate production schedules
Maintenance of production facilities
Appointment of chief executive
Use of expatriate personnel
Layoff of operating personnel
Training programs for local employees

Overall, our results indicate that the subsidiaries seem to have at least equal influence on decision-making. American subsidiaries possess the least autonomy and Japanese subsidiaries the most. The German subsidiaries are in between those two extremes.

However, the picture of the greater autonomy of the subsidiaries changes once we compare strategic versus routine decisions (see Appendix Table 3).

To probe further, we computed an overall delegation index by assigning different weights to strategic versus routine decisions. The strategic decisions were weighted three times higher than the routine decisions. The weighing factor was chosen to reflect the approximate ratio of time span of feedback of the strategic decisions compared to the routine decisions. Table 1 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.

TABLE 1

EXTENT TO WHICH SUBSIDIARIES DEPEND ON THE WRITTEN POLICIES FROM HEADQUARTERS

MNC-Ownership	Great Deal %	To Some Extent %	Very Little to Not at All %
American (N=33)	88	6	6
German (N=44)	32	20	48
Japanese (N=40)	12	22	66

As it can be seen from the table, the overall delegation index is fairly low in absolute terms. Despite the headquarters' acknowledgement of a less than perfect understanding of the subsidiary's operation and its environment, the subsidiary's influence on strategic decision-making is minimal.

Relatively speaking, the Japanese subsidiaries seem to enjoy the greatest autonomy and the U.S. subsidiaries the least. German subsidiaries are again in between these two extremes.

Policy and Process Controls

Organizational structure, formalization of policies, reporting requirements, and the centralized decision-making, with respect to the strategic business decisions are some of the important means through which the multinational companies implement their unification drive. To a great extent, such structural devices are simply proforma techniques utilized by an organization to achieve the desired ends. In addition, to implement the global strategies, multinational companies undertake corresponding changes in their policies, controls, and coordination of devices concerning:

Ownership of overseas subsidiaries

Sources and means of control and coordination

Technological transfer of policies

Intra-company sales and purchases

Strategic and long-range planning

Manpower and staffing policies

In other words, it is through these processes that the global structure and strategies are being implemented.

Ownership Policies

Although the ownership of foreign subsidiaries and controlling of these subsidiaries are conceptually two different aspects, the inter-relationships among them are very close and at times undistinguishable. As the firm expands its international business activities and accumulates certain expertise in conducting international business, a desire to integrate and unify its overseas units into a global system increases. To accomplish these objectives, besides restructuring the organization, the firm will move to increase its ownership share in the overseas subsidiaries.

In other words, as Stopford and Wells have found, in their study of 187 U.S. MNCs, "In most cases in which firms showed strong preference for wholly-owned subsidiaries, the issue of control appeared to be paramount" (1972:107). They go on to state that "certain strategies demanded tight central controls: others did not. ...Strategies that are generally extracted through a tightly controlled organization are also usually associated with a strong preference for wholly-owned subsidiaries" (1972:107). Overall, they found that the firms emphasizing marketing and advertising techniques, rationalization of production processes, and control over sources of raw materials tend to prefer wholly-owned subsidiaries.

This trend seems quite visible with respect to the American multinational companies. For example, the study undertaken in 1971 by Booz, Allen and Hamilton, a consulting firm, observed that approximately 60 percent of the new overseas subsidiaries established by the U.S. MNCs were wholly owned, another 8 to 9 percent were majority owned, and in

only 7 to 8 percent, the U.S. parent companies had minor equity interests (1971:9). In spite of increasing demands by the host countries, especially the developing nations, this trend of increased equity holding in overseas subsidiaries continues. As we will see below, even the European and Japanese multinational companies, which were more inclined to enter into joint ventures, now seem to prefer either wholly-owned or majority-owned subsidiaries.

Data collected in the mid-1960s by the Harvard Multinational Project Group indicates that some 63 percent of the subsidiaries of the large 187 U.S. multinational companies were wholly owned by the parent companies, an additional 14 percent of the parent companies had majority equity, and in only less than one-fourth of the subsidiaries, the U.S. MNCs had minority interests (Stopford-Wells, 1972:100). It is also interesting to note that there were no appreciable differences with respect to the levels of equity holdings by U.S. parent companies in overseas subsidiaries located in industrialized versus developing countries.

This trend of maintaining overall control on subsidiaries through the direct ownership has changed very little during 1966 to 1975. For example, of the total of 11,198 U.S. subsidiaries operating in foreign countries (as of Jan. 1976), some 7,741 (69 percent) were wholly owned, an additional 10 percent were majority owned, and only 10 percent of the U.S. parent companies were holding minority interest (Curhan et al, 1977:21).

Our Results

Although our study attempted to secure equal numbers of the wholly-owned and jointly-owned subsidiaries of American, German, and Japanese multinational companies, we were not able to find the required number of joint-venture subsidiaries in the various countries. Thus, of the 120 subsidiaries studied in the seven countries (Mexico, W. Germany, U.K., France, Spain, Portugal, and the U.S.), about 107 of them (89 percent) were wholly owned, while only 3 percent were minority owned. There were some minor differences among the three types of the multinational companies studied, namely, the Japanese companies still preferred joint ownership of their subsidiaries as compared to the American and German multinationals; but this preference, as discussed above, was on a decline.

To summarize, our own results as well as those reported by other researchers, clearly indicate the multinationals' preference for maintaining control through the ownership. And the drive for the unification and global rationalization is pushing even the German and Japanese multinational companies to acquire larger equity in their overseas subsidiaries. However, while carrying out the global rationalization plans, the headquarters have, by and large, remained ambivalent about their policies with respect to ownership. Our inquiry indicates that only one-fourth of the companies have had a specific policy of acquiring 100 percent ownership in their subsidiaries, the rest claimed a preference for joint ventures or were guided by the specific circumstances and demands made by the host countries.

Controlling Through Technology

For some time now, the technology transfer has become the focal issue, emotionally debated both in industrialized and developing countries. As Behrman and Fischer have rightly argued, "governments are becoming increasingly concerned with not just technology transfer but also with technology generation.....Transnational companies are, of course, the principal generators of technology in the private sector, being able to take advantage of the international markets for their particular expertise" (1980:xii).

Thus, the fact is that the multinational firms, especially the large, mature, and technologically advanced, having control over important commercial technologies, are likely to use this leverage to secure favorable terms from the host countries as well as from their partners in those countries. The MNCs, therefore, create dependency relationships with the host countries as well as their own subsidiaries. Technological know-how provides the power to control.

Among the three types of the multinational companies we studied, the American MNCs' foreign investments are more a function of their technological expertise, as explained in the so-called Product-Life-Cycle Theory advanced by Vernon (1971 and 1977), than the investments by the German and Japanese firms.

Although our interest in this study was not directed toward examining the role of technology in inducing foreign investments, we were mainly interested in knowing the use of the technological factor as a means of control. In this respect, the following four types of information were collected at the subsidiary-level:

(a) The level of sophisticated technology utilized by the subsidiaries

(b) Relative technology of the subsidiaries as compared to what was utilized by other firms in respective countries

(c) The extent of technological transfers from the headquarters to the subsidiaries, and from the subsidiaries to the headquarters

(d) Research and development activities undertaken by the subsidiaries.

Collectively, the results on these four aspects of technology clearly indicate a heavy reliance on the part of the overseas subsidiaries on their respective headquarters. The subsidiaries are not only initially borrowing technology from their headquarters, but they are also depending on them for new technological know-how from their research and developmental laboratories. In other words, very little R and D activities are being carried out at the subsidiaries' levels. Some 60, 80, and 78 percent of the American, German, and Japanese subsidiaries, respectively, did not spend significant amounts of money on this account. Among the three types of MNCs, a greater number of American MNCs have begun to decentralize their R and D activities (some 40 percent of the U.S. subsidiaries claimed to spend between 1 to 10 million U.S. dollars on such activities, as compared to 11 and 23 percent by the German and Japanese subsidiaries). When one considers the fact that the majority of the subsidiaries studied, were located in the highly industrialized countries, such as the United States, West Germany, United Kingdom, France, and Japan, this amount of expenditures on R and D does not look very impressive. Very few subsidiaries have matured enough to transfer technological know-how to

their headquarters. Here also, the American MNCs are the forerunners. Some 41 percent of their overseas subsidiaries are involved in the reverse flow of the technology. However, at the same time, overwhelmingly larger proportions of their subsidiaries (88 percent) secure their technologies from the headquarters.

As the multinationality of the firm increases, the technological transfer is likely to be stabilized and the reverse flow of technology may increase. Our results thus far show that the exports from the headquarters outnumbered the imports of technology by the headquarters from their own subsidiaries, indicating a considerable degree of dependency on the part of the subsidiaries on their home offices.

Intra-Company Purchases and Sales

Besides creating a technological dependency, the global rationalization drive by the MNCs may induce the firms to internalize their transactions both to minimize the competitive pressures and to achieve effective coordination of the global units of operations.

As Buckley and Casson's study indicates, the multinational firms attempt to grow by eliminating external markets of intermediate goods through internalizing those markets within the firm. They also found that the incentives to internalize the markets are strongest among the firms with high technology and research and developmental intensity (1976).

It has also been shown that the American multinational firms seem to have greater tendency to internalize their markets.

The United Nations' statistics show that some 23 percent of sales of the American affiliates were intra-company transactions (1978). Such intra-company dealings are higher in mining and petroleum industries than in the manufacturing sector, and area-wise, they are more significant for the affiliates located in developing countries than for those in the developed countries. On the other hand, European and Japanese multinational firms are known to be utilizing local inputs in greater proportions, both to satisfy the host governmental demands as well as to grant higher degrees of autonomy to their overseas subsidiaries. This is especially true for developing countries where such demands are most intensive.

Our results show a great deal of convergence in sourcing policies and practices of the three types of the multinational companies. Approximately two-thirds of the American, German, and Japanese subsidiaries purchased more than one-quarter of their requirements of raw materials, semi-finished, and finished goods from their respective parent organizations. However, at the same time, except for the American subsidiaries, very negligible trade exists among the subsidiaries and other affiliates of the parent company located in different countries.

Environmental Scanning and Strategic Long-Range Planning

Environmental scanning and strategic long-range planning are perhaps the most important integrating devices available to the multinational firms to achieve their global strategies. These two functions are conceived as the top-level executives' responsibilities and are

concerned with the development of fundamental goals and major policies, assessment of the corporate strengths and weaknesses as well as the external environments and the deployment of corporate resources to meet the stated objectives. If these goals and objectives are well articulated within the restraints of the environmental conditions and corporate resources, they in turn, become powerful tools of control and coordination of the global units. Our inquiry on this aspect was mainly directed toward examining the use of strategic planning and environmental scanning as a control device. To explore this aspect, we collected the following data from the MNCs' headquarters and their subsidiaries:

- Nature of environmental scanning undertaken by the headquarters and subsidiaries.
- Use made of the environmental scanning data.
- Role of the subsidiaries in generating information.
- Information feed-back system.
- Nature of long-range planning undertaken by the headquarters and subsidiaries.
- Involvement of the subsidiaries in long-range planning processes.

Our results show that the U.S. MNCs are the most active among the three types of MNCs' systems studied in utilizing the planning processes as integrating and controlling devices as discussed above. The majority of the U.S. companies not only undertakes long-range, strategic planning but also involves in scanning the environments in a systematic manner, although the factors examined in the environmental scanning are mainly related to the general economic environments and market conditions.

Many of these companies also claim a systematic use of environmental forecasting in their planning processes.

However, both the planning and the environmental scanning functions are, to a large extent, headquarter-oriented. More specifically, approximately one-third of the subsidiaries of American, German, and Japanese multinational companies undertake some sort of environmental scanning, while some 46, 33, and 18 percent of these subsidiaries, respectively, are involved in long-range planning. The centralization of these two functions is more clearly seen with respect to the communication patterns concerning the planning and environmental scanning processes between the subsidiaries and the respective headquarters. Among the American MNCs, the nature of communication concerning these two aspects is highly formalized, while the German and Japanese companies seem to be moving rapidly by following the American example. Moreover, these communications are transacted through instructions and imperatives rather than constructive exchanges of ideas and information. Approximately one-third of the subsidiaries surveyed felt that their viewpoints were utilized by the headquarters in formulating long-range goals and objectives.

To sum up, all the three types of MNCs are utilizing strategic long-range planning and environmental scanning as an integrating device to control and coordinate their global spanning activities. Moreover, these functions are largely headquarter-oriented, and the overseas subsidiaries seem to play a very marginal role in goals and target-settings even for their own individual operations.

There has been a considerable move on the part of the multinational companies to localize their foreign subsidiaries' operations and place local nationals in top positions. For example, in an earlier study undertaken by the senior author, which was referred above (Negandhi), there were no more than a dozen or so American nationals in 56 subsidiaries surveyed in the six developing countries. Also, in the 1974-76 study of 124 U.S., European, and Japanese multinational companies in developing countries (Negandhi-Baliga), we observed the continuation of this trend among the American MNCs. The majority of the top-level executive positions in the U.S. subsidiaries were filled with local nationals. In contrast, the majority of the Japanese MNCs (79%) did not employ even a single host-country national in the top-level management ranks. The German MNCs have localized their overseas operations more than the Japanese and less than the Americans.

The drive for global rationalization by the MNCs in industrialized countries seems to be changing the above pattern of localization.

Our inquiry concerning the manpower policies and practices for staffing of the subsidiaries' top positions, the number of foreign nationals represented in the corporate board, and the holding of top-level executive positions in the headquarters, all points toward an increasing trend of establishing controls through key personnel from the home offices. An overwhelming proportion of the three MNCs studied filled the key positions of their overseas subsidiaries through expatriates, although policy-wise, they were largely ambivalent in pursuing such policies. In the same vein, there were few foreign personnel represented in the corporate board and/or top management echelons at the headquarters.

Other researchers also have reported such trends in the multinationals' manpower policies and practices. For example, Galbraith and Edstrom (1976:289-310), in their study of four large European multinational companies, found that the managerial transfers from the home offices to the overseas subsidiaries were, to a large extent, motivated to control and coordinate the global strategies of these firms. Simmonds (1966:115-22) had indicated such ethnocentric trends among the U.S. multinationals as early as 1965.

IMPACT OF CENTRALIZATION ON HEADQUARTER-SUBSIDIARY RELATIONSHIPS

We realize that the inter-unit relationships are not always smooth and conflict-free in any organization. Besides the communication problems, there are perceptual, motivational, and cognitive differences among the persons working in different units of a given organization. And conflicts arising due to these differences are not necessarily dysfunctional. In fact, as the studies of Barker, Dembo and Levin (1941), Goldstein (1951), Allport (1953:107-109) and Rogers (1959:184-256), to name a few, indicate a certain amount of tension and frustration actually increases creativity, satisfaction, performance, and effectiveness of the individuals concerned. However, as Caplow (1953:3) has argued, the spontaneous and unregulated conflict is a direct threat to the organizational growth and existence. What is discussed below are the actual cases of deep-seated conflicts and frustrations as reported by the managers of the overseas subsidiaries which were seriously affecting their abilities to effectively manage their units of operations.

Critical Problems in Developing Countries

Our earlier studies (Negandhi-Baliga), conducted in the six developing countries, indicate a high intensity of conflict between the headquarters and subsidiaries of the American MNCs. Particularly, the subsidiaries' managers complained a great deal about their inabilities to meet the environmental demands of the host countries due to the centralized decision-making at the headquarters' level. A large majority of the executives interviewed in American subsidiaries (n = 54) felt that they were little more than "peons" in terms of their head-office hierarchy, and that communication between them and the headquarters' personnel was strictly orders and imperatives from the home offices.

In contrast to such apparent tensions and misgivings between the U.S. subsidiaries' managers and their head-offices, the European and the Japanese managers felt rather comfortable in their relationship with their head-offices. Although there was relatively much less formal reporting to be found in the European and Japanese MNCs, the overseas managers felt that they were involved in and informed about the major strategic decisions undertaken back home, and their own voices and viewpoints were seriously considered during the formulation of major policies affecting their operations. They also felt that they had considerable latitude in running their operations. In this respect, most of the American expatriate managers we interviewed felt that their roles and duties were narrowly defined; they were simply just another cog in the corporate machine.

Critical Problems in Industrialized Countries

In the industrialized countries, the scene of greater satisfaction on the part of the European and Japanese subsidiaries' managers has changed considerably. The global unification plans pursued by all the three types of MNCs--American, German, and Japanese--in these countries have brought about similar problems in their relationship with the respective headquarters.

As shown in Table 2, the capital investment and market- and product-related issues dominated the scene in all three types of multinational companies. More than one-third of the critical problems existing between the headquarters and the subsidiaries were related to these two aspects. Overall, the Japanese subsidiaries were less concerned about their decision-making authorities, while both for American and German subsidiaries this was a critical problem by itself. Who has the right and the power to make decisions concerning subsidiary-operations, was a highly debated and unsettled issue in the latter subsidiaries. On the other hand, the issues related to the personnel problems were more prevalent in the Japanese subsidiaries.

Although all the three types of MNCs have been utilizing home-country nationals to staff the key executive positions in their overseas subsidiary-operations, Japanese MNCs seemed to rely more heavily on expatriates to run their subsidiaries. The same was true in the developing countries, where they were more inclined to even fill the middle-management and technical-level positions in their overseas subsidiaries with expatriates. Such ethnocentric practices have resulted in serious tensions and conflicts, not only between expatriates and

TABLE 2

NATURE OF CRITICAL ISSUES BETWEEN HEADQUARTERS AND SUBSIDIARIES OF AMERICAN, GERMAN, AND JAPANESE MULTINATIONALS

NATURE OF CRITICAL ISSUES AND PROBLEMS	Nationality of Multinationals American	 German	 Japanese	 Total
Nature of Critical Issues Concerning:	(N=12) %	(N=20) %	(N=16) %	(N=48) %
Capital Investment	25	25	18	23
Marketing and Sales-Related Issues	17	15	25	19
Personnel Problems	8	10	25	15
Meeting Home and Host Countries' Demands	8	10	19	12
Issues Concerning Decision-Making Authorities	42	40	13	31
Total Percentage	100	100	100	100
Reoccurring of Critical Problems Between Headquarters and Subsidiaries	(N=8) %	(N=12) %	(N=6) %	(N=26) %
Financial Matters	50	50	33	45
Production and Product-Related Matters	50	33	17	33
Personnel-Related Issues	--	17	50	22
Total Percentage	100	100	100	100

local nationals in subsidiaries, but also between expatriate subsidiary personnel and the home-office executives. In other words, the excessive use of the personal mode of control which the Japanese companies traditionally have used to utilize the so-called "ringi" or "bottom-up" system of decision-making, has become a more serious bottleneck in managing the subsidiary-operations in West European countries and Australia. On the other hand, in the United States, Japanese subsidiaries seem to be receiving high marks on their management practices due to the current productivity problems encountered by the U.S. companies (Ouchi, 1981). Consequently, the myopic fad of utilizing Japanese practices to boost the American competitive position in the domestic and world markets seems to ignore the problems the Japanese companies themselves are facing. Yoshino, for example, underscored the practical limitations of such decision-making systems several years ago. He stated:

> "Japanese have extended the Ringi system of decision-making to international operations with virtually no alterations...(However) the extension of the Ringi system...has several immediate as well as long-range implications...First...it has created some practical difficulties for the management of foreign subsidiaries, because it is they who must, somehow, bridge the gap that is created by their physical operation and isolation from the parent company. This diverts their attention from the pressing needs of management of the local enterprise and is often a great source of frustration for them. Furthermore, the decision process can be extremely time-consuming when circumstances require rapid responses...[The] long-term implications of extending the Ringi system...are that it makes the participation of non-Japanese nationals in the decision-making process extremely difficult" (Yoshino:163).

Intensity of Critical Issues

To a large extent, the problems outlined above are not unique for the multinational companies. Any diversified large company with divisional product responsibilities may face similar capital investment, market and product related and personnel issues. However, domestically oriented firms may be able to cope with these issues more easily than the multinational companies due to relatively homogeneous environmental conditions under which they are operating. The multinational company, by its very nature, has to respond to the varied environmental and sociocultural conditions. And by so doing, the issues may indeed stifle its efficiency, drain the executives' energies, and even threaten its growth and survival.

To probe into the seriousness of such critical issues, we inquired about the climate of interactions between the headquarters' and the subsidiaries' personnel, level of executive personnel involved, and the time and cost of resolving the issues. We also attempted to assess the overall impact of such critical issues on the executive's morale and his motivation.

Our results indicate the seriousness of these critical problems existing between the headquarters and the subsidiaries. The climate of interactions was most tense in the U.S. MNCs, and the least tense in Japanese MNCs. German MNCs were in-between these two extremes. In all the three types of MNCs, the top-level executives were directly involved in these issues, and the large majority of the cases were not resolved in less than six months. These issues were generally brought up by the subsidiaries' personnel, and they were resolved in formal meetings called by the headquarters.

Besides the differences in the interpersonal-interaction climate, the American, German, and Japanese MNCs differ in the relative influences of headquarters versus subsidiaries in resolving the issues. The German and Japanese MNCs' subsudiaries have greater influence in resolving the issues than their counterpart Americans.

Notwithstanding such differences in American, German, and Japanese approaches, the critical issues arising due to the implementation of the global unification plans do drain off the executives' energies in all three types of MNCs. Moreover, such issues adversely affected the morale and motivation of the subsidiaries' managers.

MNCs-NATION-STATES' RELATIONSHIPS

Conflicts and Conflicting Issues in Developing Countries

From time to time certain conflicts between MNCs and host governments erupt in a spectacular manner, in the form of nationalization and expropriation of property. However, as Fayerweather (1966) has remarked, "More common and actually of greater overall importance are a multitude of lesser points of conflict...(such as) the share of capital and control a foreign company may hold in a local venture, the degree of regulation foreign governments exercise over foreign operations, and many other facets of overseas business."

Similarly, Mikesell (1971) has identified the following factors having the potential of causing conflict between MNCs and host governments, particularly with respect to the mineral and petroleum industries:

1. Division of total net revenues from operations between the foreign country and the host government.

2. The control of export prices, output, and the other conditions affecting the level of total revenues.

3. The domestic impact of foreign-company operations.

4. The percentage of foreign ownership.

Bergsten (1974) has suggested 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:

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

2. Requirement for use of local inputs and parts in manufacturing.

3. Research and development activities.

4. Export requirements.

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

6. External financing requirement.

7. Building up a high-technology enterprise.

8. Reduction of imports.

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

ur Results

Three issues, namely equity participation, desire to place management control in the hands of local nationals, and transfer pricing were most often mentioned. Other issues, such as utilization of local inputs, MNCs' interference with the host-country's socio-economic norms, etc., were not considered to be major problems.

A similar trend was also observed by the U.S. State Department in its analysis of conflicts between U.S. business firms and host governments during the period from 1960 through 1973. The State Department study indicates that of the 198 cases of conflicts, 128 were concerned with equity participation. Conflicts on such issues have been on the rise since 1969.

The MNCs' Attributes and Conflicts

As outlined in Figure 1, we attempted to examine the relationships between certain important attributes of the MNCs, such as ownership, equity holding in subsidiary, type of industry, nature of technology, size, etc., and the nature and intensity of conflicts between MNCs and host countries. In this section we will briefly summarize the overall results of this study. (For details, the reader is requested to refer to Negandhi-Baliga, 1979.)

Ownership and Conflict

The U.S. MNCs have had more interface conflicts, while Japanese MNCs have more operational-level conflicts. However, there were no significant differences between the American and European corporations. In fact, the majority of the European MNCs also faced negotional- and policy-level conflicts just like the U.S. MNCs, but merely a fraction of them were plagued with operational problems. In specific terms, the types of interface problems experienced by U.S. and European MNCs centered around the host governments' requirements for dilution of equity and management control, reduction or elimination of royalty payments for technology and know-how, transfer pricing

policies, etc. The operational problems faced by Japanese MNCs were: low morale and employee productivity, high turnover and absenteeism, and interpersonal conflicts between Japanese expatriate managers and locals. Such operational problems faced by the Japanese MNCs have been recognized for some time by a number of scholars (Kobayashi, 1976).

Equity and Conflict

One of the most significant types of the host country's demands, especially from the developing countries, is the concern for equity participation by the local nationals in the foreign enterprises. Such demands by the host countries seem to have resulted in conflicts of the MNCs with the governments. As shown in Table 6, wholly-owned and majority-owned corporations tend to have a significantly greater proportion of conflict as compared to MNCs with only a minority-equity stake. It is emphasized at this stage that minority-participation did not imply complete lack of conflict. Minority-owned companies still had to contend with other policy demands, such as proportionate employment of nationals, reduction in royalties, etc. This indicates that fulfilling one set of the host government's demands does not make the MNC immune to further other demands.

Industry and Conflict

It is commonly believed that the firms in the resource-based industries tend to get involved in higher levels of conflict than those in manufacturing and service. Our findings give some indications of this sort. The extractive industries were involved in a larger number

of interface conflicts than the industries producing nondurable goods. However, the results across the various industries were statistically insignificant.

Technology and Conflict

Of the 56 cases of conflict observed in technologically advanced firms, 77% appeared at the interface level. The comparable figures for intermediate- and low-technology firms were 66% and 53%, respectively. This could be attributed to the fact that the advanced firms were questioned about their leverage through the monopolistic powers, pricing policies, royalty payments, etc., while the low-technology firms came under scrutiny with respect to their usefulness (lack of usefulness) and contribution to the host countries' developments.

MNCs' Visibility and Degree of Diversification

The degree of visibility of the MNCs affects the views of citizens and government officials in the host countries positively or negatively. A firm may become visible for any one of the following reasons:

1. Extraordinary contributions to the host country;
2. use of specialized technologies;
3. generation of high employment;
4. payment of high wages, and provision of extensive employee training;
5. high level of conflict with the host-home governments;
6. international publicity (e.g., ITT episode in Chile; recent cases of bribes by Gulf, Lockheed Aircraft, etc.);
7. long period of operation in the host country; and
8. pervasiveness of end products in daily life.

The last factor, of course, reflects both the degree of diversification as well as the frequency of use of the end products. Such pervasiveness achieved through end-product use, is likely to catch the attention of governmental decision makers and local business competitors, evoking fears of economic domination. Similarly, highly diversified firms, such as ITT, may generate the same fears in the host countries.

The diversified MNCs were confronted with a larger number of negotiational conflicts in the host countries (almost twice as many as those not diversified). There were less differences between the most diversified and the least diversified firms as far as policy-level conflicts were concerned.

Period of Operation and Conflict

Frequent stories and newspaper headlines about firms such as United Fruit in Haiti, ITT in Chile and other Latin American countries, International Petroleum and Cerro de Pasco in Peru, to name a few, lead one to believe that older, well-established firms might have secured favorable concessions, and, consequently, attained significant bargaining power over host countries. Also, at times, their overt behavior suggests that they have not hesitated to use their powers against host countries. Critics have argued that it is the persistence of such behavior on the part of the established MNCs which causes high levels of conflict between them and the host countries (Bergsten, 1976). On the other hand, the newer firms presumably may be less prone to conflict as they have come under recent government regulations.

Our results show that, proportionally, the older firms faced more interface conflicts, while the newer ones were plagued with a larger

number of operational problems. However, these differences between the older and newer firms were not statistically significant.

Size and Conflict

It has been argued that MNCs operate on a theme of "bigger is better," and that bigness is viewed with hostility by the host governments. To test such a hypothesis, we explored the relationship between MNC-size and conflict. MNC-size was operationalized in terms of level of capital investment, sales volume, size of employee force, and the executive's perception of his company's size relative to other companies--foreign and local, in a given country. Level of investment and sales volume do not seem to be significantly associated with level of conflict. The number of employees seems to have some relationship with the level of conflict; corporations with a larger work force appeared to have a higher level of conflict. This might be due to the fact that with a large work force the interests of a larger constituency have to be borne in mind; and also, with host governments being sensitive to employment levels and labor demands, even small skirmishes with labor easily tend to be escalated into policy- and negotiational-level conflicts.

Expectational Differences and Conflict

Psychologists, political scientists, and other social scientists concerned with the study of human behavior, have argued for quite some time that actual or imaginary differences in expectations between two parties involved in an interaction are likely to result in a breakdown

of communication, and might generate tension and even conflict between them.

In order to examine whether differences in expectations between MNCs and host governments led to a breakdown in communication and generated tension and conflict, we drew up a list of a number of items in regard to which MNCs and host governments might have differing expectations (see Negandhi-Baliga, pp. 32-33).

Governmental policies, documents, newspaper reports, and other information gathered through personal interviews with the MNCs' executives and government officials in these countries, provided additional information about their expectations toward each other.

Our results show that a wide gap existed between the expectations of the MNCs and the host governments. Such breakdowns in understanding of each other have, indeed, created continuous tensions and conflicts in their relationships.

In more specific terms, many of the developing countries, in order to maximize their returns from foreign private investments, have enacted legislation which requires a majority local equity in foreign enterprises, higher proportion of local nationals in top positions, increase of exports and foreign exchange earnings, and reduction of imports of raw material and spare parts.

Such demands by the host countries have, to some extent, constrained the MNCs to rationalize their worldwide productive capacity. In order to achieve this goal, MNCs on their part have required that host countries provide them with efficient infrastructural facilities,

reduce bureaucratic controls and interference in corporate affairs, and provide favorable labor legislation and more flexible expansion policies.

Market Power and Conflict

One of the major concerns of the host nations about MNCs is that their local industries are being displaced by foreign-owned companies. There is also a genuine fear that the MNCs could become monopolistic powers, beyond the control of national governments. As Behrman has observed, "although the host country likes improvement of quality, reduction of prices, increases of wages, etc., resulting from foreign investment, it may not like to see its domestic enterprise pushed to the wall" (1974:44).

Thus, potentially monopolistic or oligopolistic market powers of the multinationals which could result in a virtual "takeover" of local enterprises are actively resisted, not only by the developing, but also the industrially developed nations. Countries such as Canada, France, West Germany, and the United Kingdom, have enacted regulations to discourage such behavior on the part of foreign investors. Even the United States, the champion of the free-enterprise system, has shown concern about the adverse impact of foreign investments on its domestic enterprises (Safarian & Bell, 1975).

Despite such widespread concern about the adverse impact of the multinationals' market domination in the host countries, our study did not indicate a significant relationship between the MNCs' market share and the nature of conflict in the host countries. Although a large proportion of the MNCs studied indicated that their market share was more than 25%, their problems were, in no case, different from those

faced by companies whose market share was minimal. In other words, it appeared that, regardless of market share, they were equally susceptible to similar issues and problems. Among the six countries we studied, only in Malaysia, and to some extent in Brazil, did the MNCs' market share have some impact on the type of problems experienced with the host government. However, the overall relationships between these two variables was less striking. But this lack of a relationship does not imply that the developing countries are unconcerned about issues of economic domination by the multinationals. Historical evidence seems to indicate that the host countries follow a three-phase pattern in sorting out this issue of MNC-domination. Initially, the host country makes an assessment of the impact of foreign direct investment on its economy. This is generally followed by the imposition of industry-wide controls of the type India, Malaysia, Peru, and Brazil have, in the recent past, imposed on their petroleum, mining, petrochemical, and pharmaceutical industries. In the final phase, host governments seek to attain direct control of the dominating MNCs in a particular industry through some form of ownership or managerial control. Some of the advanced industrial countries have already entered the final phase mentioned above. The U.S., Canada, and West Germany all impose restrictions on the kinds of industries in which foreign companies may invest (Hafarian & Bell, 1975). The U.S. government, for example, does not permit foreign investment in and control of its coastal shipping and nuclear-related industries. The U.S. Government also has not shown much hesitation in using antitrust legislation to prevent the formation of giant monopolies. On the other hand, the European countries and

Japan have either directly or indirectly supported growth or formation of giant domestic firms in order to combat the influence of the U.S. MNCs.

NATURE AND INTENSITY OF CONFLICTS BETWEEN MNCs AND INDUSTRIALIZED COUNTRIES

In the industrial countries, 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 companion study of MNCs in West Germany and Belgium, 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 of wages, and the developing local resources were considered secondary by the government officials.

In contrast, the Belgian Government was more concerned about the MNCs' impact on employment, balance of payment position, research and development activities, and development and utilization of local resources.

Our results indicate that the labor organizations constitute the major sources of the MNCs' headaches both in industrialized and semi-industrialized countries. If anything, this trend in labor-management

relationships is likely to worsen if the news headlines, such as the following, continue in the industrialized countries:

- Eastern Air employees were asked to accept a one-year's wage freeze next year (WSJ, Nov. 18, 1981:17).
- American Air will ask its 36,000 employees to accept a 5 percent pay-cut during 1982's first quarter and a wage freeze, possibly for the rest of the year (WSJ, Nov. 18, 1981:1).
- Unemployment in the EEC...has climbed to 9.4 million--a record 8.5 percent of the work force (Economist, 1981).

Relatively speaking, such problems are more pronounced in semi-industrialized countries and the German companies have the most problems, while the Japanese companies face fewer labor problems in the industrialized nations. The latter observation is in conformity with the recent discussions and spotlights the Japanese companies are receiving concerning their "humanized" approach to employees (Ouchi, 1981). As indicated earlier, in our previous study in developing countries, the Japanese companies were not very successful in managing their work force (Negandhi-Baliga). How long the Japanese companies will be able to maintain harmonious employee relations in industrialized countries, and to what extent such improved relations are a function of declining employment opportunities, is still an open question requiring further research.

The host government itself was the second most important source of problems the multinationals faced in industrialized and semi-industrialized countries. The specific problems encountered were concerning controls on foreign exchange, pricing, profits, and expansions. Approximately 50 percent of the multinational companies studied indicated that the government agencies in the host countries created

obstacles by enacting restrictive legislations and erecting unnecessary bureaucratic red tape. This is in line with our previous argument that higher levels of centralization in decision-making at the MNCs' headquarters, necessitated by their pursuit of the global rationalization process, will create greater tensions in the MNC-government relationships. With respect to the consequences of the MNCs' conflicts, approximately one-fourth of the companies interviewed indicated that such conflicts have seriously affected their operational efficiency and demoralized their subsidiaries' managers.

SUMMARY AND IMPLICATIONS

The paper analyzed the increasing trend toward centralization in decision-making in multinational companies originating from the U.S., West Germany, and Japan. In our earlier study in developing countries, it was observed that the European and Japanese companies were maintaining more organic-organizational structures. However, this situation has changed in recent years, particularly with respect to their subsidiaries operating in industrialized countries. Thus, the question should be asked whether or not the German and Japanese multinationals are flexible enough to turn the tide and maintain their organic structures, as they have been able to do in the developing countries, once the circumstances demand them to do so in the industrialized countries.

Even the American multinationals, champions of evolving progressive organizational structures for managing expanding international business (from export department to international division, regional structure, worldwide product setup, and the matrix system) have been warned about the swiftly changing environmental conditions in both the developed and the developing countries.

Declining or Stagnant Economic Growth in the Industrialized Countries

On the average, Canada, France, West Germany, Japan, the United States, and the United Kingdom experienced a drop in the growth of the GNP from about 3 percent in 1979 to 1 percent in 1980. The respective figures for other countries from 1979 to 1980 are: Japan, 6.0 to 4.75 percent; West Germany, 3 to 2 percent; Canada, 2.75 to 1.5 percent; and the United Kingdom, 0.5 to 2 percent. While the growth rates in major industrialized countries are declining, inflation continues to soar. Thus, the poorer the future outlook and the higher the inflation rates, the greater the protectionist forces that may be reinforced in the United States and other developed countries.

Declining Growth in Productivity and a Drop in Real Wages

During the last decade, the United States recorded the lowest rate of productivity growth of any major industrial nation. This lower growth rate, coupled with increasing demands by the labor unions for higher wages, will further increase the tension in labor-management relations. Under such circumstances, the U.S. Government will be compelled to exercise greater control over wages, prices, and imports, which in turn may seriously undermine the effectiveness of the global rationalization policies of the multinational companies.

Given such changing economic and political conditions, Business International predicts that the multinational corporations will have to create a responsive organizational structure that will be able to combine the centralization of strategies and policies with increasing decentralization of subsidiary-operations.

Whether the German and the Japanese companies, in their quest to adopt the American model of global rationalization, will be able to achieve a marriage between centralization of strategies and policies (as required by the global rationalization concept) and the needed decentralization or higher autonomy of the subsidiary operation is still an open question.

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Appendix

TABLE 2

NATURE AND FREQUENCY OF REPORTS FROM SUBSIDIARIES
TO HEADQUARTERS IN VARIOUS AREAS

Type of Report	American (N=33)				German (N=44)				Japanese (N=40)			
	Weekly	Monthly	Quarterly	Ad-hoc/ Yearly	Weekly	Monthly	Quarterly	Ad-hoc/ Yearly	Weekly	Monthly	Quarterly	Ad-hoc/ Yearly
	Percentage											
Balance Sheet		97	3	--	5	49	32	14	2	42	24	32
Profits and Loss Statements	6	91	3	--	--	49	35	16	--	42	32	26
Production Output	6	94	--	--	13	50	29	8	6	47	25	22
Market Share	3	70	24	3	2	48	29	21	3	31	33	33
Cash and Credit Statement	--	100	--	--	2	41	36	21	2	39	27	32
Inventory Levels	3	88	9	--	5	46	26	23	5	38	23	34
Sales per Product	3	88	9	--	2	37	26	35	5	44	19	32
Performance Review of Personnel	3	9	3	85	--	15	5	80	--	2	--	98
Report on Local Economic and Political Conditions	6	33	6	55	5	32	17	46	5	12	7	76

TABLE 1

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	1.57	-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. HQ influence	equal infl.	max. subs. influence

$^{\#}p \leq 0.001$

$^{*}p < 0.05$

TABLE 3

RELATIVE INFLUENCE OVER 15 DECISION AREAS:
SELECTED STRATEGIC DECISIONS

Item	Overall	U.S.	Japan	Germany	Sweden	U.K.
Appointment of CEO	-2.1	-3.0	-1.6	-3.0	- .4	-1.7
Expansion	- .8	-1.4	- .2	-1.2	- .5	- .2
New Products	- .2	-1.2	- .8	- .6	.4	.4
Mean	-1.3	-1.87	- .33	-1.6	- .17	- .50

Source: Authors' interviews

Negative score indicates higher influence by the headquarters, while positive score implies greater autonomy on the part of the overseas subsidiaries.

TABLE 4

CONFLICT VERSUS CONTROLLING OWNERSHIP OF MNC
(OVERALL)

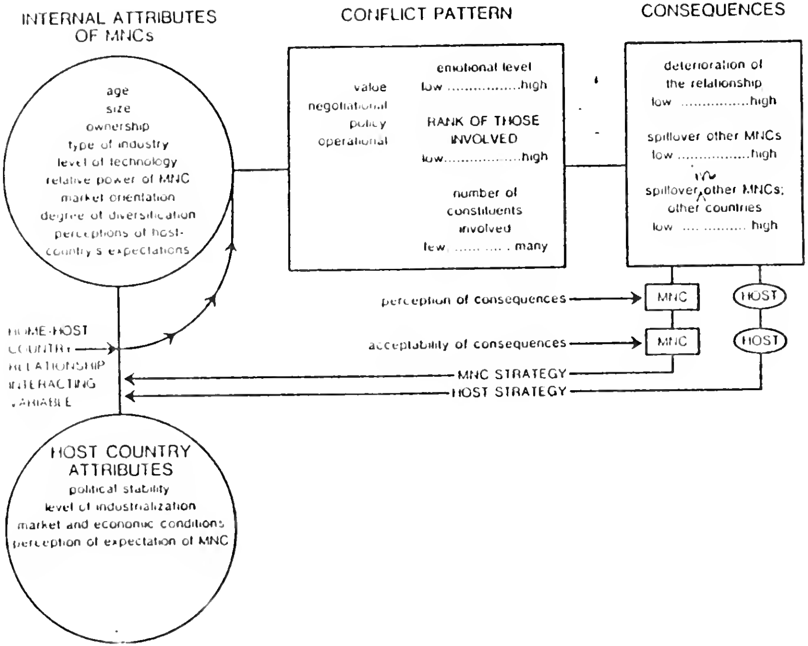
	U.S.		European		Japanese	
	N	%	N	%	N	%
Negotiational	17	39.5	13	38.2	5	21.7
Policy	16	37.2	15	44.1	4	17.4
Operational	10	23.3	6	17.6	14	60.9
Total	43	100	34	100	23	100

TABLE 5

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

Company attributes (N=100)	Nature of Conflict negotiational (%)	policy (%)	operational (%)	Level of significance
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
Expectation 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
Period of operation				
More than 15 years	39	35	26	
6 to 14 years	39	35	26	
Less than 6 years	0	50	50	p < .4356
Degree of diversification				
High--more than 5 products	43	33	24	
Intermediate--2 to 5 products	24	36	40	
Low--less than 2 products	24	40	36	p < .3349
Level of technology				
Advanced technology	40	37	23	
Intermediate technology	35	31	34	
Low technology	20	33	47	p < .4135
Type of industry				
Extractive industry (petroleum & mining)	70	20	10	
Chemical & pharmaceutical	36	29	35	
Auto, rubber tires, consumer durables	35	38	27	
Consumer nondurables (soaps, foods)	11	50	39	p < .10

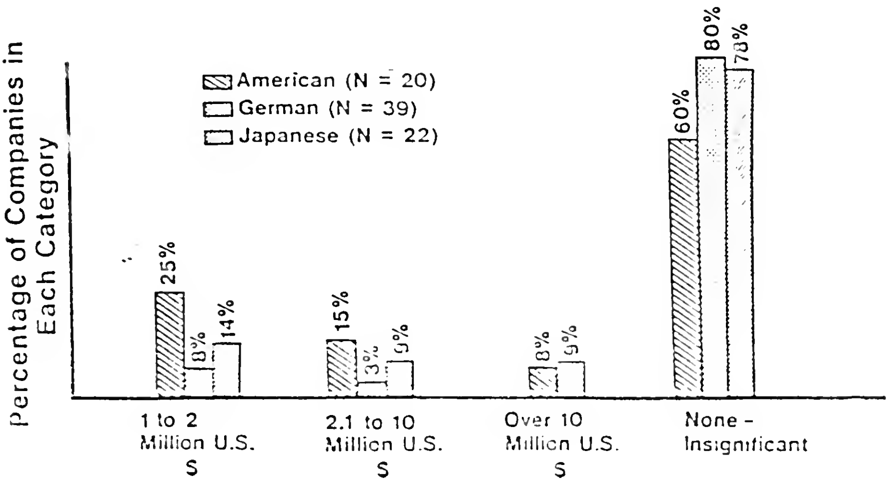
Figure 1



INTERNAL ATTRIBUTES OF MNCs
age
size
ownership
type of industry
level of technology
relative power of MNC
market orientation
degree of diversification
perceptions of host-country's expectations
CONFLICT PATTERN
value
negotiational
policy
operational
emotional level
low ....high
RANK OF THOSE INVOLVED
low................high
number of constituents involved
few .... many
CONSEQUENCES
deterioration of the relationship
low ....high
spillover other MNCs
low ....high
spillover other MNCs; other countries
low .... high
MNC
HOST
MNC
HOST
perception of consequences
acceptability of consequences
MNC STRATEGY
HOST STRATEGY
HOME-HOST COUNTRY RELATIONSHIP INTERACTING VARIABLE
HOST COUNTRY ATTRIBUTES
political stability
level of industrialization
market and economic conditions
perception of expectation of MNC

Figure 2

Research and Development Expenditures by the Subsidiaries



Source: Authors' interviews