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MULTINATIONAL CORPORATIONS AND HOST GOVERNMENTS' RELATIONSHIPS: A COMPARATIVE STUDY OF CONFLICT AND CONFLICTING ISSUES

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Summary:

The main purpose of this study was to examine analytically the conflicting issues and causes of conflict between MNCs and host governments and MNCs and other publics in the six countries (Brazil, India, Malaysia, Peru, Singapore, and Thailand).

Though the nature and intensity of conflict was conceptually the central focus of our study it was intended to serve as a springboard to examine broader intra- and inter-organizational practices and behavior of the multinationals. Data for this study were collected through interviews with senior executives of 124 MNCs and governmental officials and other knowledgeable persons in these six countries.

Analysis of the data indicates that the ownership or national origin of the MNC, the expectational differences between MNCs and host governments, and prevailing market conditions were related to the nature and intensity of conflict between the MNCs and the host governments. Surprisingly, the relative size, level of technology employed, level of diversification, period of operation in the host country and some other internal attributes of the MNCs examined were not found to be significantly related to conflict.

Multinational Corporations and Host Governments' Relationships:

A Comparative Study of Conflict and Conflicting Issues

The Settings: The Socio-Political Contexts

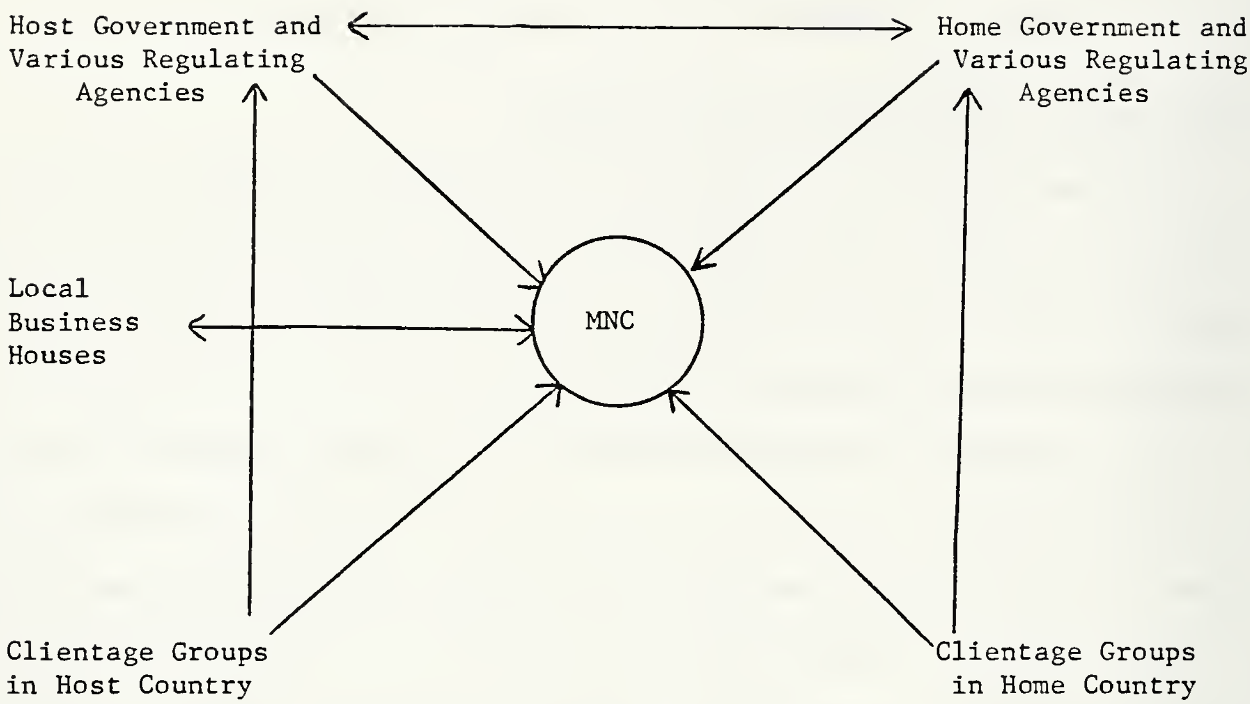
Increased attention recently has been focused on the impact of multinational corporations on the national economy, employment, balance of payments, security, national defense, foreign policies, national sovereignty, and social and economic development plans of the host countries.

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), 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.

Until recently, studies in the field of International Business and multinational corporations were concentrated either on macro-level implications of MNC-functioning (e.g., balance of payments [Business International, 1976], diffusion of new technologies [Behrman, 1976]), or analyzing in detail the functioning of some functional units of the organization such as marketing (Tepstra, 1967), finance (Polk et al., 1966), personnel (Gonzalez, Negandhi, 1968), etc. Very few systematic attempts have been made to analyze the

(Figure 1 about here)



(a) Employers Union
(b) Consumers
(c) Suppliers
(d) Distributors
(e) Stockholders

Figure 1 MNCs and their challengers

interaction between MNCs and host governments, and other publics in the host countries.

A number of assertions have been made by the academicians and businessmen alike, pinpointing some of the important causes of conflict between the MNCs and the host governments. It has been argued, for example, that the foreign private investor, besides being an "outside intruder," upsets the prevailing status quo in the host country for being:

(a) Larger in size and capital resources (Ball, 1967);

(b) More aggressive in its marketing strategies, and thereby establishing proportionately higher market shares, than the comparable local firms (Servan-Schreiber, 1968);

(c) More sophisticated in its management and technological systems (Servan-Schreiber, 1968);

(d) More efficient (Maisonrouge, 1974);

(e) More diversified, and hence more visible in the public eye (Franko, 1976).

Although such contentions intuitively sound reasonable and appealing, thus far, such observations have not been empirically verified. The study reported here attempts to do so.

Purpose of the Study

The main purpose of this study is to examine the conflicting issues and causes of conflicts between the MNCs and host governments and the various publics in the host countries. Attempts were made to explore the relationship between certain important attributes of the MNC and conflicts with the host government and various other publics.

Research Focus and Conceptual Scheme

Although the study utilized the so-called open-systems perspective pursued in organization and interorganization theory areas, the process itself is the reverse of the current thinking (Emery and Trist, 1969; Lawrence and 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 socio-economic system.

The Conceptual Model

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 developments, and market and economic conditions were conceived as important factors affecting MNC-host-country relationships. The initial model was developed on the basis of content analyses of (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 (Negandhi, Fry, and Fry, 1974), (b) the U.S. State Department study of 143 disputes of American firms operating overseas (U.S. State Department 1974). Figure 2 outlines the initial conceptual model.

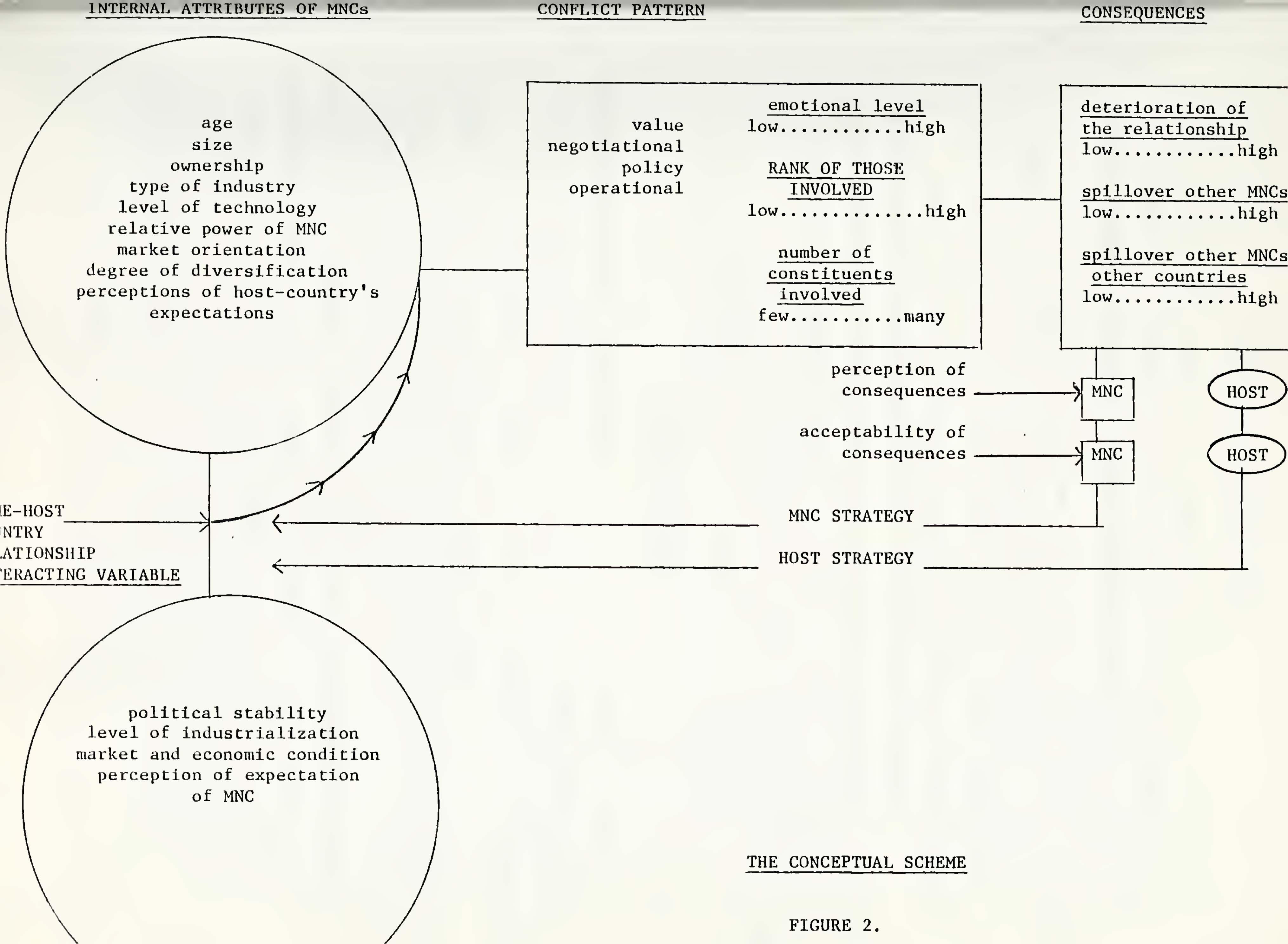
This paper explores the impact of some of the important internal attributes of MNCs on the MNC-host-country relationships. The relationships explored in this paper are shown in Figure 3.

Sample and Method

The research sample was drawn at random from various listings of U.S., European, and Japanese MNCs operating in six developing countries--Brazil, India, Malaysia, Peru, Singapore, and Thailand. These six countries were chosen to provide diversities in political structures, level of economic and industrial developments, and varied experience with foreign private investors.

Attempts were made to obtain comparable firms from each category of the MNC's ownership--American, European, and Japanese. A letter seeking their participation was sent out to each MNC drawn from the listings. A total of 124 firms agreed to participate in the study. Senior executives of these firms were interviewed through a structured interview guide prepared in advance (a copy of this is available from the senior author). Some of these interviews were tape-recorded and were later content-analyzed.

(Figures 2 and 3 about here)

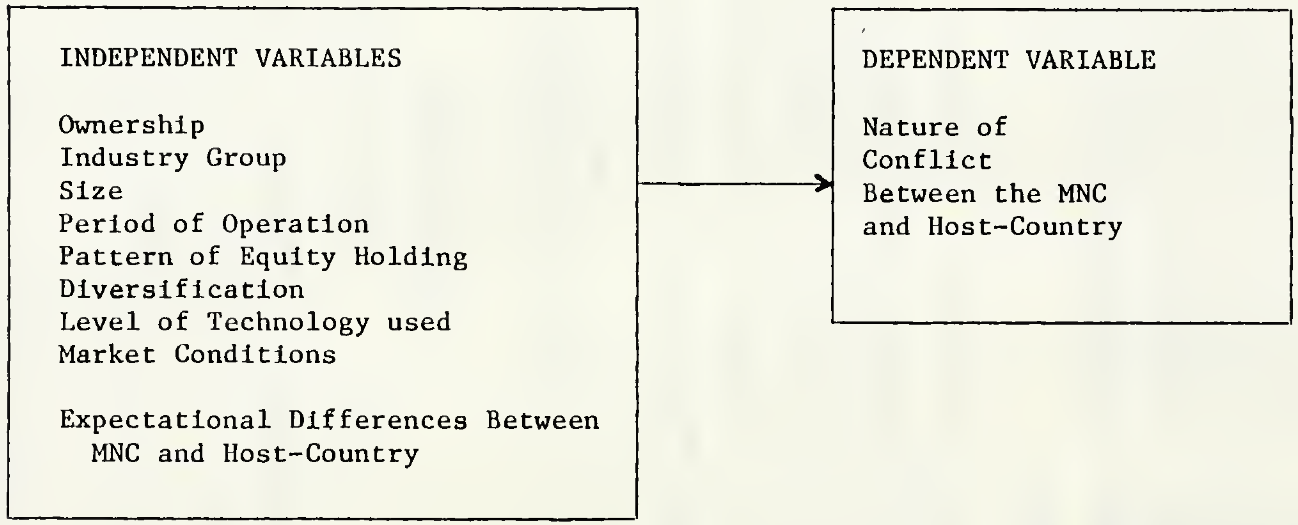


THE CONCEPTUAL SCHEME

FIGURE 2.

FIGURE 3

VARIABLES INVESTIGATED IN THIS PAPER



In addition, a number of government officials and officials of the Chambers of Commerce and other trade and professional organizations in those countries studied were also interviewed to collect both the background information on MNC-operations and their own perspectives on the various issues raised by MNCs' executives.

Table 1 provides a profile of the companies studied. The proportion of U.S., European, and Japanese MNCs represents approximately the relative proportion of the MNCs operating overseas.

Although serious attempts were made to obtain a representative sample of MNCs, no claims are being made concerning the generality of our results to <u>all MNCs</u> operating in <u>all the countries</u> in the world.

Table 1 About Here

Variables and Measures

Independent Variables

As shown in Figure 3, the MNC's ownership, size, industry group, period of subsidiary operations, pattern of equity held by the parent firm in an overseas subsidiary, level of diversification, level of technology used, the extent of expectational differences between MNCs and host governments were conceived as independent variables. The nature of conflict was considered as a dependent variabl

Dependent Variable (Conflict)

The nature of conflict was classified into four categories: (a) Value-level conflict; (b) Negotiational-level conflict; (c) Policy-level conflict; (d) Operational-level conflict. Operational definitions of the variables are given in Appendix 1.

Categorization in the above manner enabled us to discriminate between essentially <u>interface</u> and <u>intra-organizational</u> conflict. The <u>interface</u>

construct is used here to denote conflict and interactions with units in the aggregate and macro environments. The intra-organizational 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 intra-organizational conflict.

Each case of conflict was content-analyzed by the senior author and two additional associates on the basis of the operational definition of each type of conflict, given in Appendix A. Interrater concurrence was of the order of 0.95.

Research Results

Interviews in the 124 MNCs yielded 102 cases of conflict. Interestingly enough, of these, only two could be classified as "value-level" conflict. This finding indicates that there is an increasing tendency on the part of the parties involved to be pragmatic and business-like and to push other considerations into the background. As these two value-conflict cases would accentuate the observed differences, it was decided to omit them for purposes of statistical analysis.

Ownership and Conflict

Table 2 provides the relationship between the controlling ownership of the MNC and the level of MNC-environment-unit conflict.*

As is evident from the table, the U.S. MNCs have more interface conflicts, while Japanese MNCs have more operational-level conflicts. However, it is interesting to note that there are no significant differences between the

*For the purpose of brevity, we henceforth refer to MNC-host-government conflict and conflicts with various publics in the host-country as MNC-environment-unit conflict.

American and European corporations. In fact, the majority of the European MNCs also faced negotiational- 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, 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, for example, states that "...(Japanese managers) often neglect efforts to integrate...they often impose upon local employees preconceived notions of Japanese management, for example, those of permanent employment, seniority system, or the business philosophy of market share rather than profit improvement" (Kobayashi, 1976).

Table 2 about here

When the overall data was split by regions a slightly different picture emerged for Latin America and the Far East. The differences between the MNCs are not as significant in the Far East as they are in Latin America. For example, the Japanese multinationals experienced more interface problems in the Far Eastern countries, than they did in the Latin American countries; approximately one-half of the problems faced by them in the former region were at this level as against no interface problems in the latter region. The U.S. MNCs do seem to have more negotiational problems in the Latin American countries than European MNCs.

What are the factors that constitute these observed differences across the two regions? One possible clue is afforded by the relative time period of involvement of the Japanese, the Europeans, and the Americans in these two regions. Europeans and Japanese have been relatively "old hands" in the Far East, just as Americans have been in Latin America. It appears that relative newcomers would be less apt to get into interface (especially negotiational) conflicts as they had invested under more recent regulations, whereas the older MNCs have to confront with the host government's pressures to conform to the newer regulations which, in practically all cases, attenuate the privileges accorded earlier to the MNCs. However, as we will see in a latter section we were unable to sustain statistically such differences between the older and the newer firms in our sample.

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 3, wholly-owned and majority-owned corporations tend to have a significantly greater proportion of conflict if 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.

Table 3 about here

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. Table 3 shows that the extractive industries were involved in a larger number of interface conflicts than the industries producing non-durable 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 percent appeared at the interface level. The comparable figures for intermediate- and low-technology firms were 66 and 53 percent, 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.

MNC's 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.
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.

In attempting to understand the impact of the degree of product/service diversification on the MNC's environmental-unit relationships, we compared the nature of the conflicts experienced by the most diversified and the least diversified firms. Table 3 shows that 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.

It may be of interest to note that in our sample European MNCs were more diversified than the American MNCs.

Franko's (1976) study of Continental European MNCs confirms this trend. That is, he found that European MNCs are more diversified overseas than American MNCs. Our interviews with host-government officials indicated that, to an extent diversification by the MNCs is conceived as demonstrating their willingness to contribute to the host-countries' needs, rather than as a sign of their wishing to establish economic domination.

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 higher 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 (Stephenson, 1972). 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. As indicated in Table 3, level of investment and sales volume does 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.

Perceptual Size and Conflict

If an executive perceived that his corporation was relatively very big, possessing a significant amount of leverage, he would be prone to take a more aggressive stance, which in turn could increase the level of conflict. Our findings indicate that this association is not as strong as it is generally made out to be, though the larger corporations (as perceived by their executives) do tend to get proportionately into higher amounts of interface 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.*

*Details pertaining to operationalization of this variable are provided

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.

As one can see from Tables 4, 5, and 6, a wide gap exists 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.

Tables 4, 5 and 6 about here

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 world-wide 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.

Comparing Tables 4 and 5, one can see the extent of the differences between each other's expectations. For example, while the host countries have shown a strong concern over the displacement of local firms by foreign investors, and demanded the development of local resources, utilization of local supplies, increase in research and development activities, and local ownership (equity) in foreign enterprises, the MNCs seem to have perceived those demands by the host countries as mere empty rhetoric.

Our results, reported in these Tables, also show that the MNCs see their own importance in terms of providing capital and needed raw materials, and increasing the quality of goods and services in the host nations. However, such contributions by the MNCs were considered of little importance by the host nations. These differences in expectations between the MNCs and host countries are bound to create tensions and conflicts, and our results show a strong association between these two variables. In other words, as shown in Table 3, MNCs with larger expectational differences are more often involved in negotiational-level conflicts with the host governments than those with smaller expectational differences.

Our results also indicate that, relatively speaking, a greater number of U.S. MNCs have had larger expectational differences with the host countries than the European and Japanese MNCs (Franko, 1974, pp. 216-217).

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 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, p. 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 and Bell).

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 percent, 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 can invest (Safarian and Bell). 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 anti-trust 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.

Market Orientation of the Firm and Conflict

It is generally believed that MNCs manufacturing exclusively for exports, are likely to encounter fewer conflicts in the host countries than those whose products are sold within the host country. The investment regulations of many developing countries provide differential incentives for different types of MNCs, depending on the market orientation of the firm. India, for example, allows majority or up to 100 percent foreign equity holding to those firms that export 60 percent or more of their production. Similar regulations can be found in Mexico, Brazil, and the Andean Pact countries. Conversely, foreign investors manufacturing primarily for the local market are increasingly being denied 100 percent, or even majority foreign equity holding, as well as other privileges (priority imports, etc.) that are granted to export-oriented firms.

Unfortunately, the majority of the firms in our study primarily serviced local markets and, consequently, we are unable to shed much light on the differences or similarities in the kinds of problems faced by export and local-market oriented firms. The few MNCs in our sample that exported the bulk of their production did not differ from those manufacturing for local markets with respect to their conflicts in the host countries. But our sample of such firms was too small to advance any definite conclusions.

As shown in Table 3, the market conditions (degree of competitiveness) faced by the MNCs were significantly related to the nature of conflict. The firm facing seller's market and moderately competitive markets (signifying to some extent the kind of market domination) encountered a greater number of negotiational-level conflicts than those facing highly competitive markets.

Discussion and Implications of Results

The assertion that an MNC's attributes, such as size of capital investment, sophistication of technology, degree of diversification, period of operation, size of employee force, and sales volume would have a significant relationship with the level of conflict in the host country, fared poorly in our empirical findings. Ownership and pattern of equity holding indicated a substantial relationship with the level of conflict in the contingency-table analysis; the fact that expectational differences contributed very significantly to the variation in the dependent variable of conflict, presents some very importan implications for both the host governments and the multinational corporations. It was very evident from the data gathered in the field through in-depth interviews that both the host government's representatives and the MNC's chief executives had, at best, a most diffuse understanding of what they were expecting of each other. While most host governments viewed the entry of an MNC as "the panacea for all economic and social ills," the MNC's decision makers viewed their entry primarily in terms of, either, entry into a potentially large market or in terms of global rationalization of their operations. Any socio-economic benefits that accrued to the host were viewed as purely incidental to their main goals. In brief, it appears that the host government's expectations are at the total system/aggregate environmental level, whereas the MNC's expectations are concentrated at the subsystem's (firm's)/task environment level. So considered, the gap between expectations is quite evident. The problem is confounded by the fact that expectations generally remain unvoiced. We were repeatedly told by the host government's officials that "we expected more from the MNCs; we expected them to assist the local entrepreneurs, establish R & D facilities, introduce products relevant to our economy." When questioned whether they had made these expectations known specifically to the MNCs concerned, they were evasive. Most MNCs were aware of these expectations but chose to ignore them under the pretext that "we haven't been asked to do so." The only time they took note of the host country's demands was when the host governments passed regulations to meet their expectation. It seems ironic that such notice should be taken by the parties concerned only after the relationships have deteriorated. Clarity of expectations should go a long way toward reducing tension and conflict.

It was interesting to observe how the U.S., European, and Japanese multinationals handled their conflict. The differences in handling probably accounted for the significance of the relationship between the MNC's ownership and the conflict. A content analysis of field interviews indicated that most American MNCs' executives tended to view regulations imposed by the host governments with ideological overtones. As a result, they took a rather belligerent, outspoken stance, undeterred of any embarrassment to the parties involved. The net result of such a behavioral mode means that the conflict tends to escalate to the higher levels. In contrast, Europeans and Japanese--the Japanese especially--maintained a very low profile during periods of stress and conflict. The Japanese in particular displayed a strong propensity to underplay any conflict or regulations. Rather than go public like the Americans did, they adopted a very diplomatic stance and attempted to deal with their conflict through influencing the host government's officials. Also, the American MNCs' executives, after their initial flurry of activity against the imposition of regulations, settled down to follow regulation to the "legal perfection." In contrast, European and Japanese MNCs generally seemed to interpret quickly and accurately and therefore they acted more in accordance with the "spirit of the regulation."

The basic difference between the two extreme behavioral modes--the American and the Japanese--appears to be the multinational's orientation toward its environment. The American multinationals apparently desire to treat the macro and aggregate environments as parameters. Thus, policy changes are interpret in legalistic mode. In contrast, the Japanese management philosophy and their behavioral mode appear to lay maximum stress on adapting and acting discreetly on the aggregate and macro environment, and confining the conflict within the task environment. The European MNCs' mode currently seems to lie somewhere between these two extremes.

In conclusion, it may be noted that a number of questions pertaining to conflict still remain unanswered. This suggests that better predictors of conflict other than the set of internal attributes that we have considered probably exist. Variables such as the host country's degree of political and economic ideology of significant constituents, could be fruitful variables for future research. The firm's management orientation or philosophy and its strategy may also prove fruitful avenues for exploration.

APPENDIX A

OPERATIONALIZATION OF VARIABLES

Pattern of Equity

(a) An MNC-subsidiary was considered to be majority-owned if equity holding by parent exceeded 50%.

(b) An MNC-subsidiary was considered to be minority-owned if equity holding by parent was less than 50%.

II. Industry Groups

Industries were categorized into four groups:

(1) Extractive--comprising units in petroleum and mining,

(2) Chemical and pharmaceutical--comprising units in petrochemicals, drugs, synthetics, etc.,

(3) Consumer durables--comprising units in manufacturing, fabrication, auto, tires, etc.,

(4) Consumer nondurables--comprising units in agribusiness, cosmetics, textiles, etc.

III. Size

Companies were classified into four categories:

(a) Basis of their investment as follows:

Category 1. Greater than $3 million
Category 2. $2.99 million to $2 million
Category 3. $1.99 million to $500,000
Category 4. Less than $500,000

(b) Companies were classified into three categories on the basis of their sales volume:

Category 1. More than $5 million
Category 2. $4.99 million to $2 million
Category 3. Less than $2 million

(c) Companies were classified into four categories on the basis of their employee force:

Category 1. More than 1,000 employees
Category 2. 999 to 400 employees
Category 3. 399 to 100 employees
Category 4. Less than 100 employees

IV. Period of Operation

Companies were categorized into four groups:

Category 1. Operating for more than 15 years
Category 2. Operating between 6 and 14 years
Category 3. Operating less than 6 years.

V. Level of Technology Utilized

Executives were asked to rate the nature of technology utilized in their operations in relative terms in one of the following categories. They were asked to take into consideration the level of technological and industrial developments in a given country for rating technology utilized by the firm.

Category 1. Advanced/sophisticated technology
Category 2. Intermediate technology
Category 3. Low technology

VI. Level of Diversification

Companies were classified into:

Category 1. Highly diversified--if they offered more than five distinct products/services
Category 2. Intermediate diversification--if they offered between two and five distinct products/services

Category 3. Low diversification--if they offered less than two distinct products/services

VII. Market Power

On the basis of market share, a company was classified into:

(1) High dominance--market share exceeded 60%,

(2) Intermediate dominance--market share between 26 - 59%,

(3) Low dominance--market share less than 26%.

VIII. Market Conditions

A company was considered to be in:

(1) Seller's market if (low competition)

- there were few products competing as substitutes,
- all output of the firm could be easily absorbed by the market,
- the company had a substantial backlog of orders for extended periods of time.

(2) Moderately competitive market if

- some competing and substitute products were available,
- not too much difficulty was experienced in disposing of company products,
- the backlog of orders was minimal and did not extend for substantial periods of time.

(3) Highly competitive market if

- a large number of competing and substitute products existed,
- significant effort had to be made to sell company products,
- no backlog of orders existed and company had to make intense efforts to acquire orders

IX. Expectational Differences

(a) A number of host government representatives were asked to indicate the strength of their government's expectation. A nine-point Likert-type scale was used for this purpose.

1 2 5 9
Low High

The mean score of these executives' ratings was then computed.

(b) The score on the MNC-executives' evaluation of the strength of each host government's expectation was obtained.

(c) The absolute value of the difference between the executives' evaluation of strength of each expectation and host government's assessment of the same was then computed.

(d) The mean score for U.S., European, and Japanese MNCs was then computed.

(e) Expectational difference was categorized as:

1. Large, if score from C was in the range of 6-7.
2. Moderate, if score was in the range of 3-5.99.
3. Little or none, if score was in the range of 0-2.99.

Similar categories, as above, were employed to evaluate MNC-expectations toward the host government.

Dependent Variable: Conflict

The dependent variable--conflict--was categorized into four types on the basis of the following descriptions:

(a) Value Conflicts

These are conflicts that relate to the basic belief and value systems of a given society. The elements involved in such a conflict go far beyond the actual issues that trigger off the conflict. For instance, a U.S. multinational could perceive wage and price controls legislated by a host government as striking at the very roots of the ideology of free enterprise. Subsequent debate would then rest on the right to free enterprise versus the right to impose controls and not on the piece of legislation enacted per se. Intensity and emotionality are very high and generally a large number of constituents are involved.

(b) Negotiational Conflicts

These conflicts have their locus in perceptions of either the host government or the MNC that some basic terms of the contract of business have been violated. Such perceived violations are not necessarily restricted to written contractual obligations but also extend to implicit obligations and other violations of the 'spirit of the agreement'. Examples of such conflicts include those that arise out of the host government's claims that the MNC, at the time of entry, said it would help create a pool of skilled workers through company-sponsored vocational schools, but was now indulging in weaning away skilled personnel from local industries through promises of better pay. Such conflicts, in our analytical notion, are restricted to those that take place on a one-to-one basis, i.e., a specific company involved in a dispute with the host government's representatives around some issues. Intensity and emotionality are fairly high, though less than for value conflicts. The number of constituents involved are similarly less than those for value conflicts.

(c) Policy Conflict

These conflicts have their locus in policies laid out by host governments and the MNCs' disagreement on the issues involved. An example of such a conflict would be extremely reluctant compliance by multinational drug companies to, say, a drug price-control legislation enacted by the host governments. In contrast to negotiational-level conflicts which take place on a one-to-one basis, most policy-level conflicts arise out of issues that are non-company specific, but industry-specific. However, as indicated earlier, the price-control issue, if carried to its extreme, could become a value-level issue. Policy-level conflicts are of moderate intensity and emotionality, with a small number of constituents involved.

(d) Operational Conflict

These conflicts have their locus in differences between the MNCs and other units or organizations/persons with which they deal. Such groups include labor unions, stockholders, consumer rights' groups, etc. Examples of such conflicts would be strikes by employees, boycott of company product by consumer groups, etc. Such conflicts are of low intensity and emotionality and the number of constituents involved is very small.

TABLE 1

PROFILES OF THE COMPANIES STUDIED

CONTROLLING OWNERSHIP

American	= 54
European	= 43
Japanese	= 27

DIVERSIFICATION

More than 5 products	= 53
2 to 5 products	= 31
Less than 2 products	= 36
Not available	4

PATTERN OF EQUITY

Wholly-owned	= 65
Majority-owned	= 25
Minority-owned	= 24
Not available	10

EMPLOYMENT SIZE

More than 1000	= 51
999 - 400	= 23
399 - 100	= 31
Less than 100	= 11
Not available	8

SIZE OF CAPITAL INVESTMENT

\$4.99M - \$3M	= 64
\$2.99M = \$2M	= 14
\$1.99M - \$.5M	= 18
Less than \$.5M	= 9
Not available	19

PERIOD OF OPERATION

More than 15 yrs.	= 76
6 to 14 yrs.	= 35
Less than 6 yrs.	= 10
Not available	4

TABLE 2

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
	43/100	34/100	23/100

N = 100

CHI SQUARE = 14.1

DEGREES OF FREEDOM = 4

LEVEL OF SIGNIFICANCE = 0.0007

TABLE 3

INTERNAL ATTRIBUTES OF MNCs (SUBSIDIARY)

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	$p < .5315$

Table 3 (continued)

Company Attributes (N = 100)	Nature of Conflict			Level of Significance
	Negotiational	Policy	Operational	
	%	%	%	
<u>Period of Operation</u>				
more than 15 years	39	35	26	
6 to 14 years	39	35	26	
less than 6 years	0	50	50	$p < .4356$
<u>Degree of Diversi fication</u>				
high--more than 5 products	43	33	24	
intermediate-- 2 to 5 products	24	36	40	
low--less than 2 products	24	40	36	$p < .3349$
<u>Level of Technology</u>				
advanced technology	40	37	23	
intermediate technology	35	31	34	
low technology	20	33	47	$p < .4135$
<u>Type of Industry</u>				
extractive ind. (petroleum & mining)	70	20	10	
chemical & pharmaceutical	36	29	35	
auto, rubber tires, consumer durables	35	38	27	
consumer nondurable (soaps, foods)	11	50	39	$p < .10$

TABLE 4

MNCs' Executives-Perceptions of Host-Government Expectations

Host-Government Expectations	Percentage of Executives Who Perceived Expectations to be Strong
1. Not displace local investors	21
2. Develop local resources	41
3. Use local supplies	28
4. Increase local ownership	24
5. Create positive balance of payments	25
6. Introduce new R & D efforts	24
7. Place more nationals in executive positions	43
8. Provide useful technology	52
9. Increase employment	43
10. Not disturb socio-cultural values	20
11. Create lower prices	28
12. Increase worker participation in decision-making	9
13. Increase quality of goods	55
14. Increase competition	31
15. Increase economic stability	27
16. Increase variety of consumer goods	34
17. Stimulate desire for economic growth	33
18. Increase variety of services	40
19. Expand awareness of employment opportunities	15
20. Provide skilled manpower	29
21. Provide raw materials from outside	43
22. Upgrade wages	21
23. Provide capital inflow	47

TABLE 5

Mean Intensity of Host-Government Expectations

Host-Government Expectations	Mean Intensity
1. Not displace local investors	1.07
2. Develop local resources	1.11
3. Use local supplies	1.13
4. Increase local ownership	1.17
5. Create positive balance of payments	1.67
6. Introduce new R & D efforts	1.67
7. Place more nationals in executive positions	1.83
8. Provide useful technology	2.06
9. Increase employment	2.17
10. Not disturb socio-cultural values	2.17
11. Create lower prices	2.33
12. Increase worker participation in decision-making	2.83
13. Increase quality of goods	3.11
14. Increase competition	3.13
15. Increase economic stability	3.17
16. Increase variety of consumer goods	3.17
17. Stimulate desire for economic growth	3.33
18. Increase variety of services	3.60
19. Expand awareness of employment opportunities	3.83
20. Provide skilled manpower	4.83
21. Provide raw materials from outside	5.01
22. Upgrade wages	5.09
23. Provide capital inflow	5.17

1	7
v. strong	minimal

TABLE 6

Multinationals' Executives-Expectations of Host-Country Governments

Expectations	Percentage of MNCs' Executives Whose Expectations Were Very Strong
1. Provide infrastructure	55
2. Reduce bureaucratic controls	72
3. Not interfere with corporate affairs	73
4. Provide favorable labor legislation	50
5. Provide favorable business-government relationships	72
6. Provide more flexible expansion policies	62
7. Government not to exercise a high degree of control	49
8. Government not to insist on equity dilution	57
9. Government to to apply price controls	44
10. Governments to spell out clearly the terms and conditions for entry of foreign investors	68

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