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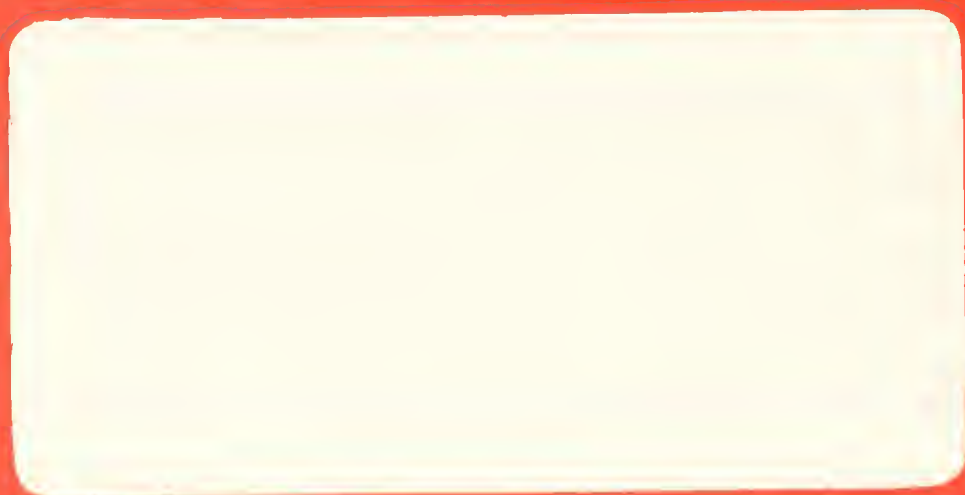
Faculty Working Papers

ADAPTABILITY OF THE AMERICAN, EUROPEAN,
AND JAPANESE MULTINATIONAL CORPORATIONS
IN DEVELOPING COUNTRIES

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Business Administration

#624

College of Commerce and Business Administration
University of Illinois at Urbana-Champaign



FACULTY WORKING PAPERS

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Summary:

The study on which this paper is based, examines the impact of some of the internal attributes of MNC's (e.g., ownership, size, level of technology used, etc.) on the MNC-host country relationships in six developing countries. This paper in particular examines the influences of the management orientations, strategies, and philosophies in coping with the changing environmental demands in the host countries.

The study was undertaken in one hundred and twenty-four multinational corporations (MNCs) (fifty-four American, forty-three European, and twenty-seven Japanese), operating in six developing countries: Brazil, India, Malaysia, Peru, Singapore, and Thailand.

The results show that the three types of MNCs are not only different in their orientations, but also differ in their basic investment strategies in dealing with the governments, employees, and other clientage groups in host countries, and in their modes of resolving conflicts in these countries.

Acknowledgment:

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Adaptability of the American, European, and Japanese Multinational Corporations in Developing Countries

INTRODUCTION

The purpose of this paper is to examine the management strategies, philosophies, and orientations of American, European, and Japanese multinational corporations (MNCs) in coping with the increasing demands of the host, particularly in the developing countries.

In recent years, MNCs have come under considerable scrutiny by both the home and host countries, as well as by the international bodies, such as the United Nations and the International Labor Organizations.

In their home countries, they have been criticized for exporting jobs, creating balance of payment problems, and making it difficult for the national government to implement foreign policies.

In the host countries, they have been attacked for exploiting labor, using monopolistic power to crush the local firms, being involved in "unethical" transfer pricing practices, and using leverage to gain favorable rates for large financial credits from local capital markets.

At the same time, they have been questioned by the host nations about their specific contributions to the socio-economic plans of the host countries. In more specific terms, many of the developing countries, in order to maximize their returns from foreign private investment, have enacted legislation which requires a majority local equity in foreign enterprises, higher proportion of local nationals in top positions, and increased exports and foreign exchange earnings and reduction of imports of raw material and spare parts.

Such demands from the host countries have to some extent constrained the MNCs to rationalize the world-wide productive capacity they seem to possess. For this purpose, MNCs, on their part, have made demands on the host countries to provide them with efficient infrastructural facilities, reduce bureaucratic controls and interference in corporate affairs, provide conducive labor legislations, and more flexible expansion policies.

COMPARATIVE FOCUS

Generally speaking, the host countries have attempted to apply uniform and non-discriminatory regulations on the multinational corporations originating from the different countries. That is, American, European, and Japanese multinationals, for example, are not being treated differently, policy-wise, by the host nations. However, in spite of apparent similarities of regulations and controls, MNCs from different countries have interpreted and responded to such regulations in different modes.

It was the purpose of this study, therefore, to examine the similarities and differences among American, European, and Japanese MNCs' strategies, philosophies, and orientations in coping with the controls and regulatory measures imposed on them by the host country. To examine such similarities and differences, we began at the beginning by asking questions concerning the nature of the conflicting issues and causes and consequences of the conflicts between the MNCs and the host governments and other publics in the host countries.*

*For the sake of brevity, henceforth we will refer to conflicts among the MNCs and the host governments and the other publics in the host countries as MNCs-environmental-unit conflict in the host country.

CONCEPTUAL SCHEME, RESEARCH SETTINGS, SAMPLE, AND METHOD

Initially, as shown in Figure 1, the research model postulated that the nature and intensity of the conflict between the MNCs and the environment units in the host country, may be a function of certain internal attributes of the MNCs (such as ownership, size, type of industry, years of operation in the host nation, level of capital investment, level of technology used, and pattern of equity holding in the subsidiary by the parent organization) and certain attributes of the host nations themselves (such as level of industrial and economic development, and socio-economic and political stability and diversity).

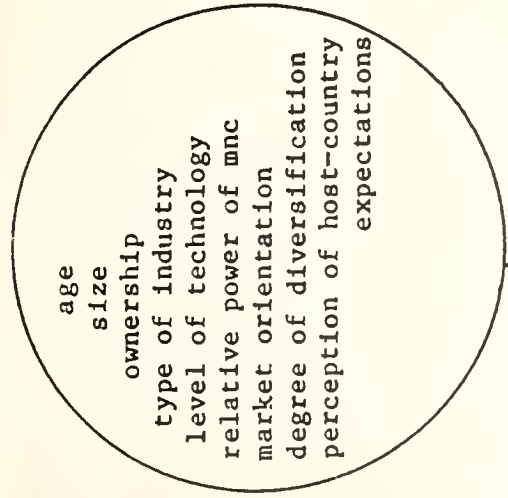
The research was conducted in six developing countries: Brazil, India, Malaysia, Peru, Singapore, and Thailand. Senior executives of 124 MNCs operating in those countries were interviewed with the aid of a semi-structured interview guide.

We also interviewed senior government officials, executives of the trade and professional associations, banking and investment companies concerned with foreign investment, and other knowledgeable persons in those countries to collect background information and to obtain the perspectives and viewpoints of those persons on the multinational activities in those countries.

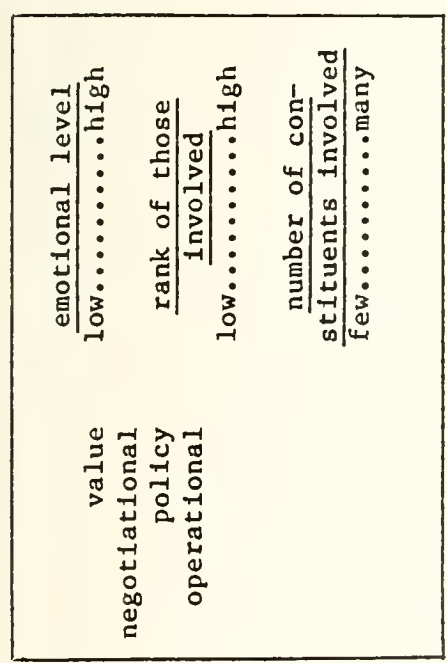
Thus far, our attempts have been concentrated on examining the impact of certain internal attributes of MNCs on MNC-host country relationships. An analysis of results of this aspect is reported elsewhere.* These results are briefly summarized below.

*See Anant R. Negandhi with B. R. Baliga Quest for Survival and Growth: A Comparative Study of American, European, and Japanese Multinationals (W. Germany) Athenaemum Verlag, 1979 and Praeger Publishers, New York, 1979.

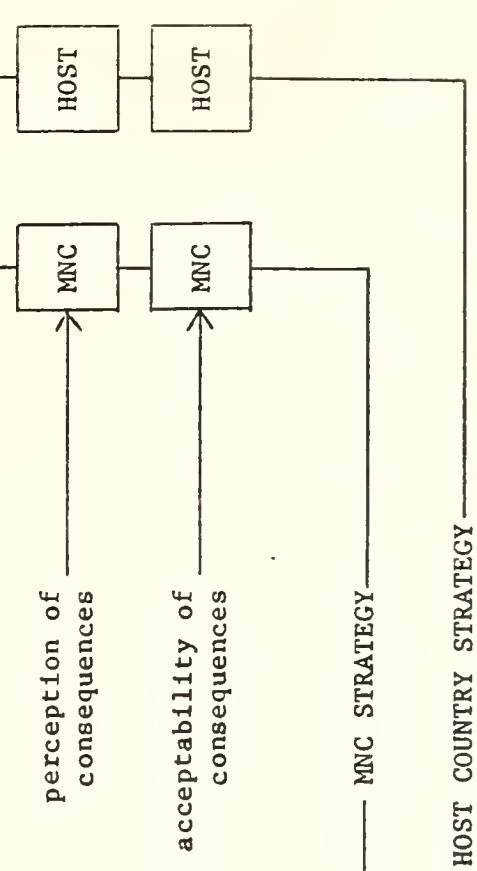
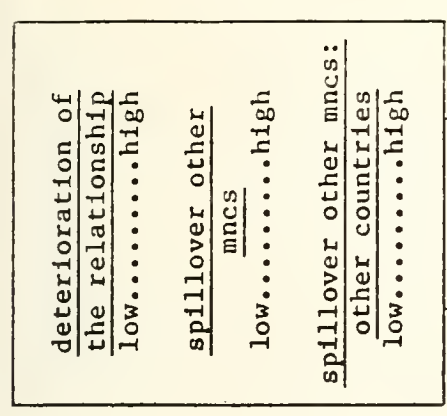
INTERNAL ATTRIBUTES OF MNC



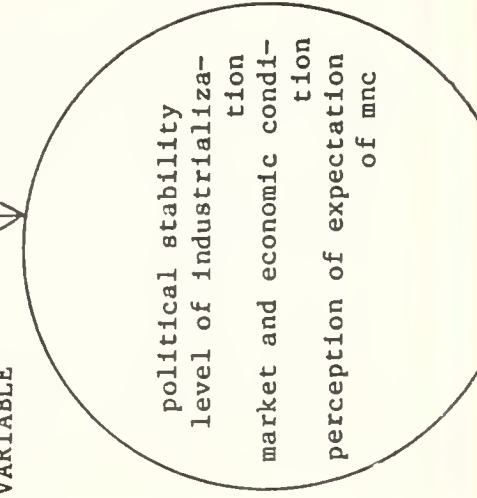
CONFLICT PATTERN



CONSEQUENCES



HOME-HOST COUNTRY RELATIONSHIP INTERACTING VARIABLE



THE CONCEPTUAL SCHEME

FIGURE 1

BRIEF SUMMARY OF RESULTS

1. American and European MNCs tend to have a larger number of interface conflicts in the host countries than the Japanese MNCs.
2. Japanese MNCs tend to have more operational problems than the European and American MNCs.
3. Wholly-owned and majority-owned subsidiaries tend to have more interface conflicts than the minority-owned subsidiaries.
4. Firms operating in a seller's market and a moderately competitive market, tend to have a large number of interface conflicts than those operating in competitive markets.
5. MNCs with larger expectation differences between themselves and the host governments face more interface conflicts than those with smaller expectation differences.
6. The type of industry, number of years in operation, size of employee force, level of capital investment, level of technology used, and extent of product diversification did not make significant impact on the MNC's host-country relationships.

As indicated earlier, the purpose of this paper is to analyze the impact of managerial strategies, philosophies, and orientations on the MNCs' host-country relationships. The following discussion on this aspect is based on the in-depth interviews with the senior executives of 124 MNCs (subsidiaries) and the governmental officials and other knowledgeable persons in those six countries studied.

MNC-MANAGEMENT ORIENTATIONS

As researchers, our bias was clearly in favor of quantifiable factors, but we were not blind to Oscar Wilde's observations that,

"A cynic is a man who knows the price of everything, and the value of nothing." (Nowotny, 1964)

Or to put it differently, as the thoughtful businessman Nowotny reminds us:

"We tend to put everything in life in quantifiable 'fact' and/or non-quantifiable 'value' terms. We have done so since the beginning of human history, and it is improbable that this dual way of looking at things will ever be replaced by a purely factual approach which eliminates all value judgments." (1964:101)

Nowotny goes on to say,

"Top executives, like all other people, will continue to base their decisions on so-called objective facts, on the one hand, and subjective values, commonly referred to as management or business philosophy, on the other hand...Value judgments will usually have priority over factual considerations in making vital business decisions." (1964:101)

During the last two decades or so, much has been written about differences in management orientations of managers from different countries. The U.S. managerial orientation, for example, has been characterized as aggressive, egalitarian, and conscious of human relations. In contrast, the European managerial orientation has been characterized as authoritarian, passive, and paternalistic (Nowotny, 1964). Finally, Japanese management, has been described as paternalistic, culture-bound, and secretive. (Yoshino, 1968)

Nowotny, among others, has argued that in terms of managerial philosophy, the American management is future-oriented, aggressive,

mobile, informal, quantity-conscious, and organization-minded, while European management is past- and present-oriented, values wisdom over vitality, stability over mobility, convention over informality, quality rather than quantity, and diversity over organization. (1964)

Although much cross-fertilization has taken place, not only between Americans and Europeans, but also between managers in developed and developing countries, our observations indicate that subtle but noticeable differences still exist between the three groups of multinationals under consideration--American, European, and Japanese. We found that these differences were quite evident in their management philosophy and approaches to dealing with host governments and other environmental units. They not only utilized different investment strategies, but also had different objectives in investing abroad. The host governments, on their part, also recognized differences in the actions and behavior of these multinationals. Some of these differences are elaborated on below.

COMPANY EFFICIENCY VERSUS SYSTEM EFFECTIVENESS

In general, the U.S. multinationals studied seem to be operating with a notion of efficiency which is different from that held by their European and Japanese counterparts. To American managers, the cardinal principle of efficiency was the profitable production of quality goods and services at a price the consumer could afford or was willing to pay. This notion was continually reinforced by the home office, which rewarded the subsidiary on the basis of its annual bottom-line performance. Thus, plant productivity, cost of goods purchased, and similar

financial indices became the main concerns of the overseas manager. The very legitimacy of overseas operations and their subsequent worth was seen in terms of operational efficiency.

In contrast, the Japanese and Europeans measured success or failure not so much in terms of the operational efficiency criteria used by American multinationals, but in terms of system effectiveness, i.e., the degree to which their organization was able to adapt to and cope with the stimuli (e.g., new control or regulatory mechanisms) emanating from the environment. In order to do so, they were often willing to sacrifice some short-term operational efficiency. Furthermore, the home-office often reinforced the policy of long-term effectiveness by stationing an expatriate manager in one country for substantial periods of time. His role was evaluated, not so much in terms of bottom-line profits, as in terms of the ability to cultivate and maintain a harmonious interaction with host-government officials and others in the environment. In contrast, most U.S. executives perceived such activities as a "waste of resources," contributing only to a decrease in efficiency and profitability. In fact, U.S. subsidiary managers were rarely asked by the parent organization to cultivate interface and boundary relationships.

With respect to the short-term profit orientation of American multinationals, the managing director of an American subsidiary, a local national, said:

"Americans are interested in taking out their investments in five years and are then willing to let the company decline and die... (They) develop a habit of walking out from a given market at the

slightest provocation. They are too temperamental and don't give a damn about understanding host countries' problems and aspirations. What they want is their fair return...their ability to get back their investments in five years, and then remit profits to the maximum extent possible."

A European executive in Southeast Asia expressed a similar viewpoint.

"Americans come here on a temporary basis and set up fly-by-night type of operations, and they disappear as fast as they come. We do not come with such intentions. Because of this American attitude, they (U.S. executives) get very annoyed when the government changes policies. We, too, do not like sudden changes in policies, but this is the name of the game and one should adapt to it." (See also Franko, 1976:225 for similar observations.)

We also observed that European and Japanese executives were given enough leeway and freedom to set their own targets in a given country, while U.S. subsidiary executives were programmed by their headquarters to produce, sell, and make profits at certain levels.

As the managing director of a large American petroleum company lamented,

"Those computer kids in New York, tell us what to do, when to eat, and when to travel. We have no freedom like the Japanese and Europeans...They must be paid half as much, but carry a lot of decision-making power."

Another characteristic displayed by U.S. executives was their misguided notion that they were doing the host nations a big favor by their very presence. If the host nations did not appreciate this fact,

they said they would be only too glad to leave, and gleefully watch the nation's downfall. The following quotations from our interviews provide further insights into the workings of the U.S. overseas executive's mind.

The managing director of a large American MNC in Malaysia, pounding his hand on the desk, said,

"We came here because they needed us. We can help them. This little country and her little people need help, but they must be reasonable, otherwise we will get out of here."

Commenting on the status of his own company, he said,

"We are number one in the world in the manufacturing of _____, and I want you to know, and the world to know about this fact, and I want you to tell this to everybody else."

In contrast, a European MNC's executive reflected,

"We came here to stay for a long time. We have been here a long time, and intend to stay unless ordered out by the host country. Of course, then we must go...We are, after all, their guests."

Franko, in his study of European multinational companies, underscored this highly-adaptable attitude of European MNCs in these words,

"The continental presence was more discreet...the flags of the home countries of continental enterprises did not connote ambitious or superpower capabilities of recipient countries."

(1976:222)

The Japanese multinationals' overall attitude toward host nations was even more conciliatory than that of the Americans and Europeans. The overall Japanese view was,

"We came here as guests, and our nation is small and needs natural resources, as well as foreign trade and investment to survive."

Japanese multinationals generally emphasized their role in contributing to the overall welfare of their host and home countries. They seem to believe that each and every one of them has a national responsibility to secure resources for Japan, to provide opportunities for small manufacturers from Japan to invest overseas, to sell their advanced technology, and to help host nations achieve their own socio-economic objectives. Of course, such a "collective" orientation, in contrast to the "individualistic" orientation of the U.S. executive, strongly reflects Japan's national heritage and religious beliefs.

(Kitagawa, 1976:21)

Whether such differences between Americans, Europeans, and Japanese are substantial or not, government officials and opinion leaders (press, academicians) in the countries studied, perceived the existence of such differences. A high-ranking government official in Singapore, a country very cordial to the United States, said,

"Americans are more jumpy, impulsive, and reactive, while Europeans are very conservative and go with a step-by-step approach in decision making...Europeans come here to stay, and Americans come on a short-term basis."

Not surprisingly, this attitude was apparent in the MNC's investment strategy, reaction to changes in host-government policies, and the selection and training of overseas managers. This is examined in greater detail in the following section.

ADAPTIVE VERSUS REACTIVE BEHAVIOR

Generally speaking, U.S. multinational executives perceived policy changes in host countries as a substantial threat to their operations. Their usual reaction to change was belligerent. Instead of negotiating discreetly, they preferred to over-react and ignore diplomacy. In the majority of cases, they failed to distinguish between an actual governmental policy change, and merely apparent shifts in the host government's attitude adopted only in order to placate political factions within a nation. In certain cases, U.S. MNCs precipitated policy changes through reacting prematurely to inconsequential statements made by the host government's representatives.

In contrast, the Japanese generally saw the source of their problems with host governments in actions taken by third parties...students, organized labor, consumer groups, and even American multinationals. During times of conflict, they assumed a very low profile and waited for the tension to dissipate.

European executives generally assumed a "philosophical" position on any issue that arose. They blamed neither the government (as Americans did), nor other publics (as the Japanese did). They were generally charitable to American MNCs facing specific problems with the host country. In brief, they preferred to stay on the sidelines, and were very willing to compromise. As a Swiss executive in Brazil explained,

"MNCs should operate within the framework of Eastern philosophies: no public debate, no press releases, no big announcements, no big fanfare, just do the job...(They should) follow the example of the Hindu Atma and get lost; lose identity into nothingness."

He went on to recommend,

"...a philosophy of harmony and cooperation instead of raising issues..., keeping a low profile, asking no questions, and working within host-government policies, and solving problems at a personal level, rather than at the public level."

Similarly, a European executive in Malaysia, referring to a sudden change in that country's investment policies (requiring that a fixed proportion of employees be "Bhumiputras") said,

"The government goals and objectives do change, and we must adapt to these changes. This is what international business is all about; we must constantly adapt to new circumstances, and nobody can say that the government has to keep its goals and policies the same for all time."

With reference to the same policy change, an American executive reacted by saying,

"The recent two acts are unconstitutional and amount to illegal takeover of foreign companies. (The government) is tyrannical, and no different from that in other developing countries...I will not advise my company to invest any more in Malaysia."

Such differences in MNC-behavior patterns and reactions were further revealed through examining the perceived intensity of conflicts, the consequences of conflicts, and the extent of the involvement of senior executives in these episodes.

Table 1 shows that of all the conflicts faced by American MNCs, 45 percent were described by their executives as very intense. On the

Table 1

Intensity of Conflict by Origin of Controlling Ownership of MNC

OWNERSHIP	INTENSITY OF CONFLICT		
	HIGH	MEDIUM	LOW
	N %	N %	N %
U.S.	10/45	17/41	7/14
EUROPEAN	13/40	12/34	9/26
JAPANESE	6/21	6/21	11/48

Source: Authors' interviews as reported in Negandhi-Baliga Quest for Survival and Growth, p. 47.

other hand, only 14 percent of conflicts were rated as less intensive by the U.S. executives. The European MNCs were not far behind: 40 percent of their conflicts were described as highly intensive. However, the Japanese MNCs noticeably played down the intensity of their conflicts in the host countries. Only 21 percent of their conflicts were evaluated as highly intensive.

The low-profile strategy adopted by the Europeans and Japanese had favorable payoffs in terms of the ultimate consequences of the conflicts. American MNCs had twice as many breakdowns in relationships than the Europeans, and three times more than the Japanese. Apparently, Europeans and Japanese prevented their conflicts from ending in dire consequences. (Franko, 1976; Boddewyn, et al., 1972; Heller, et al., 1975)

The Japanese MNCs' desire to maintain a low profile is further shown by the relative lack of direct involvement in any conflicts of their senior personnel. Approximately half of the U.S. and European MNCs' conflicts involved senior personnel, whereas in Japanese MNCs, junior- and middle-level executives took the heat. This strategy could be followed largely because of the fact (as shown in a latter section) that Japanese firms filled even lower-level managerial positions with Japanese expatriates.

MANAGERIAL ATTRIBUTES AND CONFLICT RESOLUTION

In their responses to our question, "What talents do you consider are most needed by the executive-personnel dealing with host governments?" all MNC-executives interviewed seemed pretty much in agreement. They all ranked inter-personal competence and influential contacts as

most desirable qualities. In addition, the Japanese MNCs placed major emphasis on the "political" and diplomatic skills of their executives.

The American, European, and Japanese executives, however, differed considerably in applying their resources to conflict resolution. The American approach, in most cases, was to place all their cards on the table, and to attempt to resolve their problems in public. They appeared to be under the impression that their interests would be best served through a general and open discussion of the issues involved. They tried to generate such a dialogue through press releases, and by pressuring government officials independently, through industry associations, or even through U.S. Embassies and Consulates.

A European executive in Brazil commented on this approach, and contrasted it with his own (European) approach, thus:

"The American way of bringing things out into the open...is stupid. What do they achieve? We do not understand the American way...The company should be careful not to raise any dialogue or do anything via debate...I would suggest complete secrecy and solving problems discreetly at the personal level."

Another European executive in Malaysia expressed similar thoughts:

"Americans get into conflict with government...this is the American way of life. They do not like governments to tell them what to do, and they get on right away (in debate) with the government officials and fight if the officials attempt to control them. This may be the life style in America, and they are used to this life style...and think it applies equally here (in host nations)."

The host-government officials also perceived Americans as aggressive and far too vocal. A Brazilian government official, for example, stated,

"Americans bring out everything in public...We do not understand it. It is okay philosophically, but washing dirty linen in public does not solve anything...We do not understand the American way."

In contrast, both European and Japanese executives were adept at keeping a low profile, and did their best not to raise questions in public. They preferred to work discreetly and make very subtle efforts to influence decision-makers. In times of stress, they (especially Japanese) did not hesitate to push their "big brothers" (U.S. MNCs) into the limelight, taking shelter in their shadows.

RESPONSES TO POLICY CHANGES

Substantial differences between the three groups of MNCs were clearly reflected in their responses to specific issues and policy changes that were being debated at the time our study was carried out. We examined three policy changes that were announced recently in three countries--Malaysia, India, and Peru--in order to illustrate these differences.

MALAYSIAN CASE

The Malaysian Government now requires all foreign corporations to increase equity holdings by nationals and also specifies proportions in which various ethnic groups are to be employed in an organization. The required percentages are: 30% Chinese, Indian, and those of other

national origins who are Malaysian citizens; 40% Bumiputras, who are considered to be the "true" Malaysians; and 30% foreigners (expatriates).

To implement this policy, the government has formed a ministerial-level committee, which has begun to issue letters of invitation to various foreign companies to appear before the committee and discuss their plans for compliance with the stated policy.

In response to the question, "What would you do if you get a letter of invitation from the committee?" the typical answer of Japanese MNCs was:

"We have already done so and implemented this policy of the government in terms of equity requirements, and will attempt to do the same with respect to the employment of the different national groups. Of course, this is somewhat difficult, and time-consuming, but the government understands our problems and is sympathetic."

The European response was:

"Fine! We have already made plans and look forward to discussing intelligently with the government officials; we are not scared or afraid; we will make every effort to implement this policy."

In commenting on the fairness of this Malaysian policy, a European expatriate manager echoed this reaction, saying:

"The government policy of Malayization is correct. And as a matter of fact, they are trying to tell us: 'look, MNCs, we like you and would very much like your operation here, but we have this problem of inequity which may create troubles and a potential revolution. This is not good for you or us...', we do not need

revolutions, but to avoid this, we must get down to work and remove this inequity; otherwise, neither you nor we will be here...(To us) this is a realistic situation, and we are prepared to work with the government."

In contrast, an American executive's reaction to the same policy was:

"These policies are political in nature and will and should not be implemented; but if they are, it will hurt the country and the inflow of foreign investment."

The American executive's response was to make a long-distance call to the vice-president of the international division of his company, and then fly home for detailed instructions. The majority of the American expatriate managers interviewed felt that the policy was unconstitutional, and that they would rather pull out than implement it.

In reality, however, neither the Japanese nor the European MNCs in Malaysia had made any serious efforts to increase the employment of "Bhumiputras" in the proportions desired by the government. American MNCs, on the other hand, had a higher proportion of locals on their employee rosters. As we will see in a later section, Europeans and Japanese have been relatively slow in placing local nationals in top-level positions, not only in Malaysia, but also in other developing countries.

Further, American MNCs have shown the greatest reluctance in complying with equity-dilution requirements, while the Europeans and Japanese have demonstrated a greater flexibility in doing so. (Franko, 1976). The American refusal to do so appears to have placed them in an

awkward position, which the host-government officials have variously attributed to "American stubbornness, inflexibility, imperialism, and indecisiveness."

THE INDIAN CASE

Analogous to the Malaysian case, the Government of India's Foreign Exchange Regulation Act (FERA) of 1973, requires that all foreign equity holdings be diluted to 40%, unless the firm is operating in the "priority sector" designated from time to time by the government, and/or the firm is exporting at least 65% of its production.

Here again, the typical response of European MNCs was to either increase their exports to the required amount, dilute their equity, and/or to increase investments in the "priority sectors." It was interesting to note, for example, that a well-established European tobacco company (a non-priority industry), sought the advice of an Indian consulting firm in order to find ways and means of investing its large accumulated capital in cement manufacturing. When we asked some American executives about this move by the European company, the majority of them felt that the company was "out of its mind." The Americans also felt that if they were to recommend to their home office investment in some unrelated but priority industry, they would be immediately fired or called home and demoted. They, accordingly, spoke more in terms of pulling out of India, or exerting pressure on the Indian Government through the U.S. State Department and other U.S. and international agencies.*

*Two recent cases of IBM and Coca Cola's withdrawals from India exemplify our above point.

THE PERUVIAN CASE

Similar reactions were observed in Peru with respect to the Andean Pact Regulations, particularly "Decision 24," which requires all foreign companies to become "mixed companies" with 51% local ownership within 15 years. (Council of the Americas, 1973) The typical European and Japanese response to this regulation was,

"We will do it when the time comes," or "We have already done so."

The Americans frequently talked about leaving or putting pressure on the Peruvian and other Andean Pact countries to change the Andean pact regulations.

DIFFERENCES IN INTERPRETATION

Our extensive interviews further confirmed the fact that the examples described above were not unique. A detailed analysis of the conflict-response patterns led us to believe that in interpreting government policies, the Japanese managers were inclined to follow what they called "political instructions" which were communicated orally by government officials or reported in the press, regardless of whether such instructions were spelled out in the policy framework or not. In contrast, the American tendency was to refer to the documentations of policies, and act accordingly. The usual reasoning of American MNCs seemed simple and straightforward. "If the governmental policies are favorable to our company's overall interests, we will come (forward to invest) and continue our operations; if they are not, we will not (come forward to invest) and pull out our existing investments." The actions of American petroleum companies in India and

Malaysia amply illustrate this attitude. In India, one company decided to withdraw its investment in petroleum refining and marketing operations when the Government of India began to implement its petroleum policy of increasing the market-share of the public-sector companies. In Malaysia, when the Government announced its interim royalty rate (7-1/2% of the total revenue) for oil exploration undertaken by foreign MNCs, an American MNC, which did not agree with the rate, decided to stop its drilling operation. This particular situation in Malaysia generated heated arguments between company and government officials, which also affected other multinationals. In response to a company's reaction to the Malaysian petroleum policy, Mr. Razaleigh, then the Chairman of the government-owned petroleum company, said,

"We are prepared to listen to reason, not threats...Petronas will (government-owned company) not submit to threats of pulling out "huge investments" from Malaysia...they must realize that the oil belongs to this country and our people, and we will not allow them to take all our wealth away."*

PREFERENCE FOR CLARITY IN THE GOVERNMENTS' POLICIES

Our interviews also revealed that the American MNCs found it difficult to operate with vague and diffuse policies. As the top executive of an American petroleum company in Singapore explained:

"What is important to us is not what the rules of the game are, but their consistency. We can operate under strict controls,

*New Strait Times (Malaysia), June 27, 1975.

or no controls at all...but what is terribly difficult is when you gear your approach to certain markets and, all of a sudden, more controls are slapped on overnight, or when you had a tightly controlled situation, and the controls are taken off."

Such preferences for clarity and consistency in policies are natural, and they do make life easier for the multinationals. However, uncertainties and changes are a fact of life, particularly in international business and by and large, American MNCs have reacted poorly to changes in their environment.

The Japanese, on the other hand, viewed unregulated situations as advantageous to them; lack of specific policies meant that no specific constraints had to be contended with. Whenever clarification was needed, they felt, it could be gained by talking to influential persons, government officials, bankers, and their own embassy's personnel.

To the Europeans, the existence of confused situations meant that the world is dynamic. They also felt that if certain policies were too restrictive currently, they would change in due course of time, and that one should be prepared to wait out such eventual changes.

Apparently, such insistence on clarity by the U.S. multinationals conveyed an impression of stubbornness and inflexibility to host-government officials, whose own socio-cultural background made them tolerant of vagueness.

PERSONNEL POLICIES

AMERICAN MNCs' PRACTICES

The personnel policies as well as the overall management system of American MNCs have been acclaimed as most advanced and sophisticated.

This was acknowledged not only by host-government officials, educators, and union leaders, but also by executives of the European and Japanese multinationals themselves.

American MNCs have been regarded as fair and equitable in dealing with their employees in terms of providing attractive wages and salaries, fringe benefits, training, and promotion opportunities. Because of such enlightened personnel policies, other industrial and commercial enterprises, including European and Japanese MNCs, have experienced difficulties in attracting and retaining high-level manpower in the developing countries.

American MNCs were also the first to deal with the widespread demand of the developing countries to localize management of foreign companies. In our earlier study of 56 U.S. subsidiaries in six developing countries (Negandhi, 1975), we found no more than two dozens expatriate American managers in these companies. In the present study, we noted the continuation of this trend in the declining use of expatriate managers by U.S. multinationals.

As shown in Table 2, the majority of the top-level executive positions in the U.S. subsidiaries were filled with local nationals. In fact, in our study we found only one company that did not have any national in a top-level position. In contrast, fifteen Japanese multinationals (78.9%) did not employ even one single national in the top-level management ranks. The Table indicates that European MNCs had localized their operations considerably more than the Japanese, though to a lesser extent than the American MNCs.

Table 2

Extent of Localization of Top-Level Management by MNCs

LOCALIZATION OF TOP-LEVEL MANAGEMENT	U.S.	MNC OWNERSHIP	
	(n = 44)	EUROPEAN (n = 33)	JAPANESE (n = 19)
	n/%	n/%	n/%
100	12/27.3	3/9.1	0/0
75-99	14/31.8	13/39.4	0/0
51-74	7/15.9	4/12.1	2/10.5
1-50	10/22.7	8/24.2	2/10.5
0	1/2.3	5/15.2	15/78.9

CHI SQUARE = 53.03

D.F. = 8

LEVEL OF SIGNIFICANCE = 0.01

Source: Authors' interviews.

Our study also indicates that Japanese multinationals are particularly likely to employ Japanese personnel, even low down the organizational ladder, despite the availability of skilled and competent personnel in the host country. It was not uncommon in Japanese multinationals to find that their first-line supervisors were Japanese nationals. Such practices contributed quite significantly to the operational-level problems with which the Japanese multinationals were plagued.

EUROPEAN MNCs' PRACTICES

In recent years, European MNCs have made considerable strides in catching up with the Americans with respect to their management systems and personnel policies. Although there are still subtle differences between the basic orientations, management philosophy and practices of American and European companies, the gap between the two with regard to their personnel policies for local employees, is fast narrowing. Especially, at the levels of unskilled and skilled workers, and supervisory and middle management, there are no great differences in wages, or in type of training and promotion opportunities available. However, as we will discuss later, at the higher technical and managerial levels, the American and European countries are still somewhat different.

JAPANESE MNCs' PRACTICES

Among the multinationals we studied, the Japanese seem to have the most severe problem with their employees. They experienced the greatest difficulty in attracting, retaining, and motivating employees at all levels. Generally, the Japanese MNCs followed two distinctive

modes in their personnel policies. The one was to practice the Japanese style of management. Here, they would attempt to introduce the Japanese practice of life-time employment and promotion on the basis of seniority, and demand complete employee loyalty to the company. The other mode was to treat the local employees in the same manner they were treated by domestically-owned companies. This resulted in maintenance of the status quo, and holding employees in low esteem as was the custom in many local enterprises and government agencies. However, because of rising expectations and a better understanding of the status of workers in other countries, these policies have resulted in low employee morale, productivity, and higher absenteeism and turnover rates. (Negandhi, 1973) Although the expatriate Japanese managers failed to see the causes of their problems, they did admit that they had serious manpower and personnel problems in their operations.

BACKGROUND AND CAREER PATTERNS

The American overseas manager is always on the move. Both occupational and inter-company mobility is a built-in feature of his working life. The usual tenure of a U.S. subsidiary manager in a given position was between three to five years. In our interviews, we found only a handful of American expatriates who had lived in a given country more than five years. Many of them were newcomers and were hoping that their assignments overseas would not be a manifestation of their having been demoted. Even those who had taken up their assignment less than a year ago expressed the desire that they soon be transferred home again.

In contrast, the European and Japanese managers thought of their overseas career as a long-term one. They felt that, basically, they were international executives, and had assumed their present positions to strive for long-term objectives, both for their companies and for themselves. A typical response of a Japanese expatriate manager to the question, "Where do you go next, and when?", was:

"I came here only five years ago, and it will depend upon that man (pointing to the picture of the president of his company), but I came here to stay."

The response of the European executive was the same as that of the Japanese, except that there was no picture to be pointed to. As one German manager in Malaysia explained,

"This is not quite heaven, but it is a good place to live and raise a family..."

Speaking on behalf of all other Europeans, he said:

"We are international executives, and we have, by choice, decided to pursue overseas careers and, unlike Americans, for us the question does not arise where to go next."

The U.S. is a very mobile nation, so an attitude towards an overseas assignment by the typical U.S. overseas manager like that described above is both realistic and understandable. But, the contrast between American, European, and Japanese attitudes toward and expectations in their career goals creates an unfavorable image of the American MNCs. Partly because of the short term of their assignments, American overseas managers are thought of by host officials as being 'second-rate' executives, not given much decision-making power by their headquarters.

European and Japanese expatriates, on the other hand, are regarded as influential and important persons, possessing high status within their companies. Whether such a situation was true or not, in the eyes of host-government officials and leading local businessmen, this was considered to be a fact. Frequently, government officials in developing countries have demanded that U.S. subsidiaries call in their vice-presidents or presidents for even minor discussions, thus implying that expatriate managers are not considered important enough in the management hierarchy, or lack sufficient influence or authority to make important decisions.

Significant differences were also observed in the background and training of U.S., European, and Japanese executives. As one would expect, a large majority of the expatriates interviewed were college graduates. However, the nature of their studies differed considerably. Approximately two-thirds of the American expatriates were either business and/or engineering majors. A large majority of Japanese expatriates specialized in international economics and social science. A larger number of the European managers, on the other hand, took their degree in the humanities and liberal arts.

With respect to the American overseas manager, more than a decade ago, we found, in another large-scale study, that over 50% of the graduates were business or engineering majors, with approximately 44% from the humanities and liberal arts. (Gonzalez and Negandhi, 1967) More recently, however, greater emphasis is being placed on business administration education. This is quite evident from the survey of Fortune's 500 chief executives. The study reports that "more than half of today's

top officers majored either in business or economics, and more than a quarter studied in graduate school." (Burk, 1967:176)

In contrast, earlier studies by Newcomer (1950) and Warner and Abegglen (1955), it was found that less than one-third were business graduates. The Fortune survey also reports an increasing trend toward legal and financial training among top executives. The survey states:

"The expanding size and complexity of corporate organizations, coupled with their continued expansion overseas, have increased the importance of financial planning and controls. And the growth of government regulation and obligations companies face under law has heightened the need for legal advice. The engineer and the production man have become...less important in management than the finance man and the lawyer." (Burk, 1967: 177)

Our interview, however, indicated that such a trend, while true for high-level corporate officials, has not yet penetrated to the level of managers of subsidiaries in the developing countries. The emphasis, here, is on the "nuts and bolts" part of the business like bottom-line profits, internal efficiency and productivity. As mentioned earlier, these executives do not devote sufficient time to interface relationships. (Boddewyn and Kapoor, 1972)

In contrast to such training received by American expatriate managers, European and Japanese managers, both in their formal education and in in-company training, are indoctrinated to be sensitive to the demands of the external environment. They are very much concerned with the 'positioning' of their organizations in such a way that they

do not "stick out like a sore thumb." (Franko, 1976:220-225) As we discussed earlier, their primary concern was to adapt to the socio-cultural environment while the American executives perceived themselves as 'change agents'. The Americans usually found the socio-economic and political environments in the developing countries hostile and not conducive to the private enterprise system.

THE AMERICAN DILEMMA

In spite of the proven superiority of American management practices, and despite the efforts to localize U.S. overseas operations, the personnel policies of the American MNCs are being increasingly criticized by their own employees and by government officials. The apparent slowness of European and Japanese MNCs in placing local nationals in responsible positions has, however, been overlooked by the host governments. Why so?

Host-government officials, as well as top-level local employees interviewed, felt that while American companies have responded to the desire of host governments for more local managers, they have merely followed the letter of the law and not the spirit. In localizing overseas operations, the critics contend, they have not only withheld decision-making powers from local nationals, but also from the remaining expatriate managers. It was also frequently pointed out to us by government officials that the quality of American expatriate managers was "inferior" to their European and Japanese counterparts. Common expressions of host government officials we talked to were:

- "Americans cannot make decisions..."
- "They are too inflexible..."
- "They do not have enough power..."

A most illustrative and striking example of such an evaluation on the part of host-government officials of American expatriates, was reflected in the public demand of a senior Malaysian governmental official that the president or vice-president of a company come from the United States to discuss some problems. Until that time, the official had declined to grant even a courtesy appointment to the subsidiary manager.

Simultaneously, the presence of a sizeable number of expatriates in the European and Japanese MNCs appears to have been conceived by the host countries in generally positive terms. They have been credited by the host government as possessing substantial decision-making power, and being more flexible in their attitudes than the Americans. They are also regarded as having closer ties with their headquarters, and even the ability to influence major decisions affecting subsidiary operations.

Thus, it seems to us that the localization of management by American MNCs has turned out to be a disadvantage for the U.S. companies. Some of the American expatriate managers interviewed felt that it was a mistake on the part of their companies to do so. As one American in Thailand said:

"We should not have done it in the first place, but now we do not know how to go back and bring more expatriate managers... European and Japanese are smart...they have not gone too far in this respect."

HEADQUARTER-SUBSIDIARY RELATIONSHIPS

In order to obtain a better understanding of the problems facing the executives of American subsidiaries, we attempted to explore various facets of headquarter-subsidiary relationships and their impact on MNC (subsidiary)-host-country relationships.

Interviews with American executives indicated that they felt strongly about their inability to participate in decision-making. Many of them admitted that they were little more than "peons" in terms of their head-office hierarchy, and that communication between them and the head offices' bosses were strictly formal and minimal in nature. At the same time, many of these executives complained a great deal about the excessive demands made by their head-offices for reports and data on subsidiary operations. They felt that these reports and data were for the entertainment of the "computer men" and, as one American executive in Thailand put it,

"For these whiz kids who are playing around with the figures but really don't know what to do with the data...[The] more you supply, [the] more they want...and my two (expatriate) assistants and I spend sixty percent of our time in generating reports and data, and I surely hope somebody is using them at least as toilet paper."

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

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

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

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

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

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

And, lastly, a returning American executive who had served for eight years in Malaysia summed up the problems of the U.S. subsidiary-home-office relationship. When asked about what report he would have to file on his return regarding his experience abroad, he responded:

"I am on my way to San Francisco on my next assignment...They did not call me to report at the head-office...If they want to know something about the operation which I started here, they would call me long-distance...Hell, they do not need me...they know it all!"

In contrast to such apparent tension and misgivings between the U.S. subsidiaries' managers and their head-offices, the European and Japanese managers felt very 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 they had considerable latitude in running their operations. In this respect, most of the American expatriate managers we interviewed felt that their role and duties were very narrowly defined; they were simply just another cog in the corporate machine.

The foregoing rather rosy picture of European and Japanese overseas managers does not necessarily mean that they did not experience any tension and conflict in dealing with their home-office personnel. Yoshino's study (1975), for example, shows the existence of tension and certain levels of conflict between the Japanese subsidiary and the home-office. He ascribes this tension to the unique decision-making system that the Japanese employ. This "bottom-up" decision-making system is known in Japan as the "Ringi" system. In underscoring the practical limitations of this system, Yoshino states:

"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, 1975:163)

In criticizing this type of decision-making system used in Japanese multinationals' overseas operations, Yoshino further states,

"Japanese management is a closed, local, exclusive, and highly culture-bound system, and the Ringi system epitomizes it... Compared with the Japanese, the American system is less culture-bound, has greater flexibility, and has a considerable degree of tolerance for heterogeneous elements." (1975:164-165)

Yoshino's description of the Japanese decision-making system is illuminating. However, in our opinion, he has failed to differentiate between the problems created at operation levels, and those at interface levels.

The Japanese do face a great number of operational problems; this may be due to their particular management orientation, including the Ringi system of decision-making. However, such an orientation has not created problems for them in dealing with the governmental officials in host countries. As indicated earlier, the officials interviewed by us felt that the Japanese managers were much more flexible and had more decision-making power than the Americans.

The American system of management was much more advanced, and also preferred by employees. But the lack of self-esteem of the managers,

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PHYSICAL CHEMISTRY
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LECTURE NOTES
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LECTURE I
THERMODYNAMICS
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LECTURE II
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coupled with their restricted decision-making power and a lack of adequate communication between the subsidiary and its home-office has caused a large number of interface problems for American MNCs.

The European multinationals overseas appear to be in the best position. Unlike the Japanese, they were not found to be experiencing major operational problems. Although their management system may not be as sophisticated as the American MNCs', they are not far behind. Our studies in a number of developing countries indicate that local people would generally rather work for American than European MNCs, owing to their higher wages, better training, and promotion opportunities. (Negandhi and Prasad, 1971, Chs: 7,8) However, once the qualified employees reach higher management positions in U.S. subsidiaries, they seem to be frustrated with their lack of decision-making power and the excessive reporting requirements of their home-offices. At this stage, the most able and qualified local employees in the American subsidiaries seek alternative opportunities, either in large local enterprises or in governmental agencies. However, there has not been a massive exodus.

In contrast, the European MNCs do not create initially such high expectations among their local employees, but they do promise better job security and a more stable career path. Local nationals do not appear to have as good a chance of reaching top positions in European operations, but at the lower positions they are made to feel important and wanted. Such a feeling of being "wanted" is lacking in the American subsidiaries.

There is little substantial difference between U.S. and European MNCs with regard to their interface conflicts. However, our interviews clearly showed that Europeans have learned to adapt better to changing circumstances. In fact, it would not be foolhardy to predict that European multinationals in the years to come, will experience less conflict than those from the U.S. (provided that present trends continue), since their flirtation with U.S. management practices seems to be on the wane. (Heller and Willat, 1975)

INVESTMENT POLICY AND STRATEGIES

The U.S., European, and Japanese multinationals all desire to have one hundred percent equity holding in their subsidiaries. However, Europeans and Japanese appear to have reconciled themselves (Franko, 1976:121-130) to the leverage possessed by host governments, and have more readily accepted majority or even minority (especially the Japanese) positions. American MNCs, however, have often made threats of divestiture in order to retain one hundred percent equity. Such an attitude has begun to hurt U.S. MNCs. Because of their insistence on one hundred percent equity, some host governments are bypassing them whenever large-scale projects have to be developed in the public sector.

Furthermore, U.S. MNCs appear to be reluctant to enter into fields in which they do not possess the necessary know-how. Acquisition of know-how through partnership with some other American firm is generally not pursued. There is a great concern with the notion of internal efficiency, expressed, for example, in a strong desire to build plants

that achieve economies of scale. In contrast to these American policies, the Japanese have an investment policy that is very flexible. If they had to, they would even settle for minority equity holding, or go into partnership with others, including Japanese trading companies, other Japanese investors, local investors, as well as governmental enterprises. Usually, Japanese overseas investment was undertaken by a large trading company, which coordinated its efforts with other firms (generally Japanese) possessing the requisite know-how. In a sense, Japanese trading companies serve as catalysts for Japanese manufacturing investment in Southeast Asia, as well as in Latin America.

Despite the frequency of minority equity holding, a significant proportion of Japanese firms nevertheless manage to retain management control through use of various sub-agreements with respect to raw materials, spare parts, disposal of the end-products, etc. The Japanese were also willing to spread their investment over diverse operations. In other words, their limited amount of capital investment was channeled into a number of activities, both to minimize risk, and to demonstrate the flexibility to the host country. When questioned by host governments about their contribution toward socio-economic development, they would point out the extensiveness of their involvement and investment, their impact on employment generation, and the variety of products they were manufacturing. In this way, they would stress their intense concern for the socio-economic development of the host country. However, when the multinationals came under fire, they would disappear from public view and take an extremely low profile, saying,

"We are not big...we are not multinationals...we have only small equity holdings, as required by host governments."

In our interviews, large trading companies like Mitsui, Marubeni, Mitsubishi, and others, doing business in the range of 250 to 400 million dollars per year in a given country, claimed that they were not multinationals, while much smaller American manufacturing companies with investments of less than \$50,000 would widely advertise their international stature. (Franko, 1976:218-219; Heller and Willat, 1975:219) To cite a typical example, a Japanese company operating in Thailand, with an investment of no more than one million dollars, managed to control four textile companies, three steel mills, one food company, one large trading company, and ten other companies with products ranging from tissue paper to metal fabrications. The sales volume of this firm was about 450 million (U.S.) dollars per year; and it claimed to provide employment for 10,000 locals. In the same country, a typical American investor would invest about one and a half million dollars in a single plant providing employment for approximately 300 to 400 employees. Nevertheless, the American company would maintain a high profile while the Japanese firm would be barely noticeable.

As indicated earlier, we found that the Japanese investor was willing to enter into areas in which his company currently lacked the know-how. In other words, the possession of a particular technique or product was not the criterion for overseas investment. In fact, it was the other way around. Japanese multinationals were generally very receptive to whatever the host government wanted to be done. When the

negotiating firm did not possess a technique, it would invite other Japanese or foreign investors to join. The Japanese also showed a willingness to enter into innovative terms of agreement. Such agreements might include provision of technology and know-how in return for long-term raw material supplies, or end-products for Japanese, European, and American markets.

The European mode of investment fits in between that of the U.S. and the Japanese. The European strategy was one of diversification. However, the Europeans generally preferred to retain a larger proportion of equity than did the Japanese, though their insistence on a one-hundred percent equity position was not as great as the Americans. Also, the Europeans were not necessarily against entering into joint ventures with host governments. (Franko, 1976:121-130)



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