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The Effects of the Multinational Corporations'
Quest for Global Rationalization

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The Effects of the Multinational Corporations'
Quest for Global Rationalization

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Abstract

This paper, based on empirical research in 120 subsidiaries of American, German and Japanese Multinational Companies, examines the trend towards the convergence in organizational practices and decision-making among three types of the multinational corporations. The results show that the global rationalization drive is equally pursued by the American, German and the Japanese countries. And such practices are likely to create more tensions and conflicts between the multinationals and nation-states.

THE MULTINATIONAL CORPORATIONS' QUEST FOR THE GLOBAL RATIONALIZATION AND MNCs-NATION STATES' RELATIONSHIPS

The multinational corporations' quest for the global reach has led them to rationalize and unify their production, financial, research and developmental, and marketing activities. To facilitate such unification in strategies and policies, the American multinational corporation (MNC) has changed its organizational structure for managing international business from a mere export department to international division, to multinational structure with area and/or product concentration, to matrix organizational form, and eventually to a transnational enterprise structure.¹

A similar trend, with respect to the European and Japanese multinational corporations, has been predicted by Franko² and Yoshino.³

Although the global rationalization concept has been advocated and is being implemented, the real attributes, such as the nature of decision-making, levels of centralization-decentralization in specific areas, the relative influence of headquarters and overseas subsidiaries and the resulting effectiveness or tensions in their relationships, and the impact on the MNC-nation states' relationships have not been explored systematically by many researchers.

The purpose of this paper is to examine some of the components of the global rationalization processes that are being adopted by the American, German, and Japanese multinational companies. More specifically, the following elements are examined in more detail:

- (1) Levels of formalization of policies and practices.
- (2) Degree of centralization-decentralization and the relative influence of the headquarters and subsidiaries in decision-making.

- (3) Headquarter-subsidiary relationships and the nature of the critical issues and problem area between them.
- (4) Nature of the external problems encountered by the three types of multinationals in the countries studied.
- (5) Implications of global rationalization processes on internal efficiency and the maintenance of effective external relationships with the host countries.

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

THE RESEARCH METHODOLOGY AND SAMPLE

The project was conceived in a comparative vein; we endeavored to study American, German, British, Japanese, and Swedish multinationals and their subsidiaries. Our aim was to collect detailed information on many aspects of multinational operations at both headquarter and subsidiary levels. Subsidiaries of one hundred fifty-eight American, British, German, Japanese, and Swedish multinationals operating in Europe (West Germany, United Kingdom, Spain, Portugal, Belgium, and the Netherlands), U.S.A., Mexico, Brazil, India, Iran, and their respective 39 headquarters were studied. Our sample was restricted to firms that were engaged in some form of manufacturing activity. Hence, firms in travel, banking, and other service sectors were omitted from consideration. Firms studied were selected from various investment directories and listings provided by the chambers of commerce, governmental agencies, and trade associations.

It is appropriate to make some remarks on the type of sample that was utilized in the analysis. Ideally, in order to have some confidence (statistically) in the results, the sample needs to be drawn randomly and large enough. Matching was impossible as the historical patterns of American, British, German, Japanese, and Swedish investments have

been quite different, with Japanese multinationals being a more recent phenomenon. Accordingly, a conscious, random sampling procedure was not feasible. However, every firm in the universe was given the same chance of participating or not participating in the study. In order to increase the generalization and external validity of the study, considerable supplemental information was obtained concerning the multinational corporations' activities in those countries. Despite these efforts, the reader is cautioned to bear the limitations of the sample in mind when reading through the analyses and discussions.

Indepth interviews were conducted with chief executive officers and other managerial personnel from all firms that had agreed to participate in the study. A semi-structured interview guide was utilized to conduct the interviews. Each interview lasted about four to eight hours on an average; and in most cases included luncheon and dinner sessions. These sessions proved to be extremely valuable as the executives tended to relax, and, in narrating episodes related to the organizational functioning, they revealed significant, though subtle, aspects of their operations.

This paper analyzes the results of the study conducted with 120 subsidiaries of American, German, and Japanese multinational corporations. The characteristics of these companies are given in Table 1.

INTERNAL FUNCTIONING OF THE MULTINATIONAL CORPORATIONS

We will first examine the level of formalization of policies and practices, degree of centralization-decentralization, and the relative influence of the headquarters and the subsidiaries in decision-making, the headquarter-subsidiary relationships, and the nature of the critical problems between them. As noted earlier, our aim of examining these

TABLE 1

PROFILE OF THE COMPANIES STUDIED

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

elements was to assess the extent of the global rationalization strategies utilized by the three types of multinational corporations, namely the American, the German, and the Japanese.

In the next section, we will examine the implications of these practices on the effectiveness of the firm at both the internal and the external levels.

Level of Formalization

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

- (1) The subsidiaries' dependence on manuals, policies, and procedures supplied by the headquarters;
- (2) utilization of these policies and procedures for decision-making; and
- (3) the nature and the frequency of reportings required by the headquarters.

Table 2 shows the extent to which the subsidiaries of the American, the German, and the Japanese multinational companies depended upon the written policies of the headquarters. An overwhelmingly large number of the American subsidiaries (88%) relied on the headquarters' policies. Approximately one-third of the German subsidiaries did the same, while merely 12 percent of the Japanese subsidiaries utilized the policies supplied by their headquarters. Conversely, only 6 percent of the American, 48 percent of the German, and 66 percent of the Japanese subsidiaries indicated a very negligible influence on strategic and policy decisions affecting their operations.

A similar picture emerges when we examine the influence of the written policies and procedures (whether those supplied by the head-

TABLE 2

EXTENT TO WHICH SUBSIDIARIES DEPEND ON THE
WRITTEN POLICIES FROM HEADQUARTERS

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

Level of Significance .0001
Number of missing observations 3
Total number of observations 120

quarters and/or modified by the subsidiaries) on actual strategic and policy-level decisions (see Table 3).

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

As it can be seen from Table 4, almost all the American subsidiaries, and approximately two-thirds of the German and Japanese subsidiaries studied were required, by their respective headquarters, to provide up-to-date information on balance sheet, profit and loss figures, production output, market share, cash and credit positions, inventory levels, and sales per product. The frequency of reporting was greater for the American (mostly monthly) than for the German and the Japanese subsidiaries.

It is revealing to note from this table that the only items with which the subsidiaries were less bothered were the performance reviews of their personnel and the local socio-economic and political conditions. In other words, the stress is placed more on those aspects affecting the short-run financial picture of the company rather than on the factors affecting the firm's long-term survival and growth.

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

TABLE 3

EXTENT TO WHICH SUBSIDIARIES DEPEND ON MANUALS, POLICIES,
AND PROCEDURES FOR STRATEGIC AND POLICY-LEVEL DECISIONS

| MNC-Ownership | Great Deal % | To Some Extent % | Very Little to Not at All % |
|-----------------|-----------------|------------------------|-----------------------------------|
| American (N=33) | 88 | 3 | 9 |
| German (N=44) | 32 | 16 | 52 |
| Japanese (N=40) | 10 | 32 | 58 |

Level of Significance .0001
 Number of missing observations 3
 Total number of observations 120

TABLE 4

NATURE AND FREQUENCY OF REPORTING BY THE SUBSIDIARIES
TO THE HEADQUARTERS IN VARIOUS AREAS

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

THE RELATIVE INFLUENCE ON DECISION-MAKING

Centralization versus subsidiary autonomy is a perennial and conflicting situation faced by most multinational companies. Increasing competition in the world market requires some measure of rationalization of production and marketing processes at a global level, thus requiring a higher degree of centralization of decision-making at the headquarter and/or regional headquarter levels. On the other hand, to satisfy the increasing demands from the host as well as the home countries of the multinationals necessitates some measure of the subsidiary's autonomy on strategic decision-making.

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

- Borrowing from local banks
- Use of cash flow by the subsidiary
- Extension of credit to major customers
- Choosing public accountant
- Introduction of new product for local market
- Servicing of products sold
- Use of local advertising agency
- Expansion of production capacity
- Pricing decisions
- Determining aggregate production schedules
- Maintenance of production facilities
- Appointment of chief executive
- Use of expatriate personnel
- Layoff of operating personnel
- Training programs for local employees

Tables 5 and 6 provide the raw score and difference in means between the subsidiary's and the headquarter's influences on decision-making with respect to the 15 items referred above. Overall, the subsidiaries seem to have at least equal influence on decision-making. Here again, as it can be seen from the tables, American subsidiaries possess the least autonomy and Japanese subsidiaries the most. The German subsidiaries are in between those two extremes.

TABLE 5

THE RELATIVE INFLUENCE OF SUBSIDIARY
IN DECISION-MAKING*

| <u>Item</u> | <u>Mean Scores</u> | | |
|--|--------------------|-------|---------|
| | U.S. | Japan | Germany |
| Personnel Training Program for your subsidiary | 3.8 | 4.6 | 4.5 |
| Layoffs of Operating Personnel | 4.4 | 4.9 | 4.4 |
| Use of Expatriate Personnel from Headquarters | 2.7 | 3.6 | 2.4 |
| Appointment of Chief Executive of your subsidiary | 1.5 | 2.8 | 1.7 |
| Maintenance of Production Facilities at subsidiary | 3.3 | 4.3 | 4.8 |
| Determining Aggregate Production Schedule | 3.2 | 4.2 | 4.3 |
| Expansion of your production capacity | 2.5 | 3.5 | 2.7 |
| Use of local advertising agency | 3.9 | 4.7 | 4.5 |
| Servicing of products sold | 4.4 | 4.7 | 4.7 |
| Pricing on products sold on your local market | 3.0 | 4.5 | 4.0 |
| Introduction of a new product on your local market | 2.6 | 4.1 | 3.1 |
| Choice of public accountant | 2.7 | 4.6 | 4.4 |
| Extension of your credit to one of your major customers | 3.7 | 4.5 | 4.3 |
| Use of cash flow in your subsidiary | 3.2 | 4.2 | 3.4 |
| Your borrowing from local banks or financial institutions | 3.2 | 3.6 | 3.4 |
| Average (means) | 3.21 | 4.19 | 3.77 |

*The responses were pre-coded from "1" for "Very Little or No Influence" to "5" for "Very High Influence".

Source: Authors' interviews

TABLE 6

RELATIVE INFLUENCE OVER 15 DECISION AREAS:
MEAN SCORE DIFFERENCES*

| Item | Differences in Means | | |
|-------------------------|----------------------|-------|---------|
| | U.S. | Japan | Germany |
| Personnel training... | 1.1 | 3.1 | 2.4 |
| Layoffs... | 2.6 | 3.3 | 2.7 |
| Expatriates... | -.7 | .2 | -1.7 |
| Appointment of CEO... | -3.0 | -1.6 | -3.0 |
| Maintenance... | .1 | 1.8 | 2.4 |
| Production Schedule... | -.1 | 1.2 | 1.9 |
| Expansion | -1.4 | -.2 | -1.2 |
| Advertising... | 1.4 | 2.7 | 2.7 |
| Servicing... | 2.5 | 2.9 | 3.1 |
| Pricing... | -.5 | 1.9 | 1.3 |
| New Products... | -1.2 | .8 | -.6 |
| Choice of CPA... | -.5 | 1.8 | 2.4 |
| Credit to Customers... | 1.2 | 2.4 | 2.5 |
| Use of Cash Flow... | .1 | 1.7 | .3 |
| Borrowing from Banks... | .1 | .5 | .1 |
| Average (means) | .11 | 1.50 | 1.02 |

*The figures in the Table represent the differences in means between the rated subsidiary and HQ influence for each of the decision items, the means taken over the companies in the identified country category. A positive number implies a relatively greater influence on the part of the subsidiary, while a negative number indicates greater HQ influence.

Source: Authors' interviews

However, the picture of the greater autonomy of the subsidiaries changes once we compared the strategic versus routine decisions. As shown in Table 7, the relative influence score turns negative for the strategic decisions for all the three types of subsidiaries.

To probe further, we computed an overall delegation index by assigning different weights to strategic versus routine decisions. The strategic decisions were weighed three times as much as the routine decisions. The weighing factor was chosen to reflect the approximate ratio of time span of feedback of strategic decisions compared to routine decisions. Table 8 presents the findings for the overall delegation index and the extent of delegation provided to the subsidiary's management along with a set of decisions.

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

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

Critical Problems Between Headquarter- and Subsidiary-Operations

During interviews with the senior executives of both headquarters and subsidiaries, we probed into some of the critical problems encountered in headquarter-subsidiary relationships. Besides examining the nature and intensity of such focal issues between headquarters and subsidiaries, we

TABLE 7

RELATIVE INFLUENCE OVER 15 DECISION AREAS:
SELECTED STRATEGIC DECISIONS

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

Source: Authors' interviews

TABLE 8

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

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

p < 0.001

* p < 0.05

Key

-4 0 +4

| | | |
|-------------------|------------|---------------------|
| max. HQ influence | equal inf. | max. sub. influence |
|-------------------|------------|---------------------|

also attempted to assess the relative influence of the headquarter and the subsidiary in resolving the issues.

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

With respect to the relative influences of headquarters and subsidiaries on resolving issues, our results indicated that in approximately one-half of the cases, headquarters handed down the final decisions, and in less than one-third of the cases subsidiaries' viewpoint prevailed. Among the three types of subsidiaries studied, the German and Japanese subsidiaries seem to have greater influences in resolving issues.

Impact of the Firm's and the Country's Specific Factors
on Decision-Making and Consequences of Autonomy

Both in organization theory and international business areas it has been shown that the firm's specific factors, such as size, technology, type of industry as well as the country's specific factors, such as levels of industrial and economic development, market and other economic conditions prevailing in a given country, the level of government control on industry, etc., may affect not only the centralization-decentralization decisions, but also the impact of these decisions on the firm's efficiency.⁴

TABLE 9

NATURE OF CRITICAL ISSUES EXISTING BETWEEN HEADQUARTERS AND SUBSIDIARIES

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

$\frac{1}{q_0}$ refers to Row percentages

$\frac{2}{q_0}$ refers to Column percentages

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

Source: Authors' interviews

At the present time my colleagues collaborating in this project and I are further analyzing our composite data to examine the effects of these factors on the subsidiary's autonomy and the consequences of autonomy on the firm's efficiency.

Our preliminary analysis suggests the following trends:*

- (1) Higher interdependence between the headquarter and the subsidiary, as evidenced through a large amount of inter-company transfer of technology, raw material, semi-finished and finished goods leads to a lower level of subsidiary-autonomy.
- (2) Subsidiaries located in the developing countries tend to have somewhat lower autonomy.
- (3) Subsidiaries operating in competitive markets tend to have higher autonomy.
- (4) Size of the subsidiary does not affect the level of autonomy.
- (5) The nature of product-lines has very marginal effect on the subsidiary's autonomy.
- (6) The subsidiary-autonomy has some effect, but not a very significant one, on the firm's profits, growth, and other performance criteria. Tightly controlled subsidiaries are relatively better performers, financially, than the autonomous subsidiaries. However, a higher subsidiary's autonomy has a more positive impact on the host country's acceptance of its operation, thereby improving its eventual growth and survival potential.

The last finding thus provides a support to the advocates of the global-rationalization and unification processes of the multinational corporations. However, at the same time, it raises an intriguing question about the utility of such centralization processes under rapidly

*The summary results are drawn from Johnny K. Johansson, et al.'s twin papers "Autonomy of Subsidiaries in Multinational Corporations" to appear in Lars Otterbeck (editor): The Management of Headquarter-Subsidiary Relationships in Transnational Corporations. (Reading, Mass.: Addison-Wesley), forthcoming.

changing socio-economic and political conditions in industrialized as well as in developing countries. To explore this question further, we will first examine the changing conditions in the industrialized countries and then discuss the implications of such changes on multinational corporations' strategies, policies and structure.

Fast Changing Conditions in Industrialized Countries

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

The range, nature, and intensity of these issues, of course, differ considerably from country to country, depending upon the prevailing political climate and economic conditions (unemployment, inflation, balance of payment position) and the level of industrial and economic development. For example, in a study of MNCs in developed countries, Fry⁵ reported that the issue of worker-participation ("Mitbestimmung") was most prominent in West Germany, and the traditional issues, such as providing new technology, employment, upgrading wages, and the developing local resources were considered secondary by the governmental officials.

In contrast, in Belgium the major issues pertaining to the multinational corporation's activities were related to employment capabilities,

potential effect on balance of payments position, research and development activities (lack of), development and utilization of local resources, and worker participation in management. Simultaneously, however, MNCs emphasized their importance in terms of increasing the entrepreneurial spirit, providing new technology, and making consumer goods at lower prices. These differences in expectations between the government and the multinational corporations' priorities are clearly highlighted in Table 10.

Particularly, since the oil crisis of 1973, most of the industrialized nations have experienced a downturn in their economic growth and prosperity, which in turn has created considerable hostility not only toward foreign multinationals but also among the opposing groups in a given society (management against labor, domestic multinationals against foreign multinationals, and multinationals against their own sub-contractors). For example, faced with the declining sales of the U.S. automobiles, all the three big U.S. auto companies (G.M., Ford, and Chrysler) have begun to denounce auto imports from Japan and European countries and asked the U.S. Congress and the President to help. At the same time, their own sub-contractors have publicly accused auto companies as "double talkers" by asserting that "it is not just imported cars, it's imported parts that is causing problems."⁶ The growing complaints over Detroit's policies of importing parts for domestically assembled cars have now reached Washington. Consequently, congressional proposals that were originally designed to limit imports of autos are being amended to place restriction on imported parts also.⁷

TABLE 10

EXPECTATION DIFFERENCES BETWEEN
MULTINATIONAL CORPORATIONS AND NATION-STATES

| <u>Impact</u> | <u>Germany</u> | |
|------------------------------|------------------------------|------------------------|
| | <u>Government Wants More</u> | <u>Firms Give More</u> |
| Worker Participation | X | |
| Increase Competition | | X |
| Capital Inflows | | X |
| Increase Skilled Employment | | X |
| Great Entrepreneurial Spirit | | X |

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

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

The results of our own large-scale study reported in Table 11, illustrate the nature of demands made by the multinational companies in West Germany, United Kingdom, Spain, Portugal, and France.

As can be seen from this table, economic stagnation, triggered by the oil crisis, has generated traditional economic demands even in the more industrialized nations of the world. However, except in the case of Spain and Portugal, the European countries, in which this field research was undertaken, have not yet legislated these demands.

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

Table 12 shows the nature of problems faced by the American, German, and Japanese MNCs in various industrialized countries. The labor force seems to be the source of almost half the problems faced by the multinationals. However, U.S. and German subsidiaries have, proportionately, more labor problems than Japanese companies. The underlying theme of labor-management problems is, however, quite different in the various countries. In Germany, for instance, industry-representatives were involved in challenging the constitutional validity of the "codetermination" laws, and influencing the election of representatives who were against the codetermination laws. The U.S. multinational subsidiaries, owing to workforce-size stipulations in the law, were most susceptible to the laws. Given the confrontatory nature of management-labor relations in the United States, American multinationals initially had a difficult time accepting the collaborative philosophy.

TABLE 11

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

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

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

Source: Interview data collected by the authors.

TABLE 12

PROBLEMS FACED BY THE MULTINATIONALS IN INDUSTRIALIZED COUNTRIES

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

Outside Germany all multinationals, especially the larger U.S. and German multinationals, have been the targets of leftist-ideology-oriented labor unions. This has been particularly true of Spain and Portugal where rising nationalistic expectations have made the issue even more difficult to handle. Japanese multinationals appear to have avoided serious problems with labor, to some extent, by their smaller size and their willingness to go into joint ventures with either government organizations or private entrepreneurs. This finding is interesting in the light of the fact that, despite being involved in joint ventures or minority holdings in the developing countries, Japanese organizations have had considerable problems with labor.⁸ These problems stemmed mainly from historical factors and efforts made by Japanese to impose their management style. It appears that the Japanese multinationals have learned from their experience in the developing countries of Asia and South America, and have restricted the use of a Japanese management style (such as life-time employment, and demanding loyalty to the company) in the industrialized countries.

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

As noted earlier, although the industrially-developed countries have, thus far, constrained themselves in enacting limiting legislations against

foreign private investments and multinational corporations, the public debates and discussions are moving closer to this end at a faster speed than one would have anticipated. For example, the recent establishment of the Foreign Investment Review Agency in Canada⁹ and their pronouncements of expected corporate behavior, as seen from Table 13, comes very close to what the developing countries have been demanding from foreign investors during the last two decades.

Turning to the United States, as the unemployment and inflation continue to undermine the people's confidence in national economic conditions, the legislators both at the state and national levels have begun to introduce legislations to curb the activities of foreign investors and multinational companies. For example, in the last few years, approximately one-half of the 50 states in the United States have introduced legislations to restrict foreign investments in agricultural lands. At a lesser end, as mentioned earlier, the sub-contractors of U.S. automobile companies as well as the labor unions have begun to question the virtue of multinational investments and their general strategies of global rationalization.

Our results of the study, on the other hand, clearly show the increasing trend toward global rationalization and centralization in decision-making. Thus, the question one needs to ask is whether the German and Japanese multinationals are flexible enough to turn the tide and maintain their flexible structures and responses, as they have been able to do in the developing countries, once the circumstances demand them to do so in the industrialized countries?

TABLE 13

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

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

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

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

Business International,¹⁰ a reputed consulting firm in international business, recently identified some of the major economic and political changes which will affect the need for changes in present organizational forms utilized by American and other multinational companies.

Declining or Stagnant Economic Growth in Industrialized Countries

On the average, Canada, France, West Germany, Japan, the United States, and the United Kingdom, will experience their real growth in GNP drop from about three percent in 1979, to one percent in 1980. The U.S. GNP growth may drop from two percent in 1979, to 1.25 percent in 1980; Japan from six percent in 1979, to 4.75 percent; West Germany from three percent to two percent; Canada from 2.75 percent to 1.5 percent; and the United Kingdom from 0.5 percent to a two percent decline.¹¹ While the growth rates in major industrialized countries are declining, the inflation continues to soar. Thus, the poorer future outlook, and the higher inflation rates, are likely to reinforce protectionist forces in the United States and other developed countries.¹²

Given such changing economic and political conditions, Business International warns that the multinational corporations will have to go back to the drawing boards and create a responsive organizational

structure which could combine the centralization of strategies and policies with increasing decentralization of subsidiary operations.¹³

Whether the German and the Japanese companies, in their quest for adopting the American model of the global rationalization will be able to achieve a marriage between the centralization of strategies and policies (as required by the global rationalization concept) and the needed decentralization or higher autonomy of the subsidiary operations, is an open question awaiting the attention of the academic scholars as we move into the 1980s.

FOOTNOTES

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11. Ibid.
12. Ibid.
13. Ibid.

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