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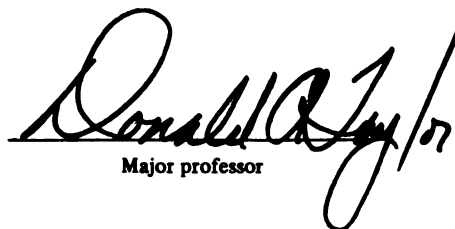
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TO SUBSIDIARY PERFORMANCE

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THE LOCUS OF DECISION MAKING IN MULTINATIONAL  
CORPORATIONS AND ITS RELATIONSHIP  
TO SUBSIDIARY PERFORMANCE

By

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## ABSTRACT

### THE LOCUS OF DECISION MAKING IN MULTINATIONAL CORPORATIONS AND ITS RELATIONSHIP TO SUBSIDIARY PERFORMANCE

By

Donna G. Goehle

This dissertation focuses on the locus of decision making characterizing multinational firms and their subsidiaries and its relationship to subsidiary performance. A conceptual model was developed which drew from the existing research in organization theory, comparative management, and international business which assisted in the delineation of the relevant variables and suggested the nature of their relationship to the locus of decision making. The conceptual model incorporated certain corporate and subsidiary factors considered an influence on the determination of the locus of decision making. Corporate factors included product line or industry, size and complexity of international operations, organization structure, availability of managerial talent, and corporate philosophy. Subsidiary characteristics included subsidiary age and size, availability of local managerial talent, geographic distance from headquarters and other affiliated units, and subsidiary environmental characteristics.

The locus of decision making was measured by the level of participation the headquarters and subsidiary management had in decision making for twenty-nine decisions, representing six functional areas. Levels of participation for headquarters and subsidiary managers were measured for each decision based on responses to a five-point scale of decision process categories which indicated varying levels of headquarters and subsidiary participation. The sample included ten U.S. multinational corporations representing five industries: pharmaceuticals, tire and rubber, automobiles, capital equipment, and food processing. Each firm maintained a wholly owned subsidiary in France, Brazil, and the United Kingdom. Data for each corporation were obtained through in-depth interviews with thirty-two headquarters executives.

Two measures of the locus of decision making were reported. Decision process values were used to develop a centralization index for companies, industries, functions, and national environments. Substantial differences in the level of centralization for firms, industries, functions, and environments were present, indicating the expected differences in the locus of decision making. Also, the level of headquarters participation was reported as high, medium, or low. Substantial differences within and across functions, industries, and national environments were again visible.

The terms "integration" and "differentiation" were determined to be better descriptors of the locus of decision making than the overall centralization index. Finance and research and development were high in integration and low in differentiation for all industries

and countries. Marketing was relatively high in both integration and differentiation. Personnel, purchasing, and production exhibited lower levels of integration and relatively high levels of differentiation.

Differences between environments were also apparent. Based on the centralization index, France was somewhat higher than the United Kingdom; however, the two countries were almost identical in overall participation patterns across functions. Brazil had the lowest centralization index and analysis revealed that subsidiaries in Brazil had fewer headquarters-imposed decisions in all functional areas.

Centralization indices for each subsidiary were combined with performance data classifying each as high, medium, or low in performance. The findings indicate there was no relationship between the overall level of centralization for the subsidiary and its performance. Consequently, it appears that high-performing subsidiaries will be characterized as having the appropriate levels of differentiation and integration within and across functions rather than an absolute level of centralization or decentralization.

The findings suggest corporations have uniform corporate policies for all subsidiary units. The major influence in determining these policies appears to be the nature of the product line or industry. For optimization of corporate and subsidiary performance, these policies should reflect levels of integration and differentiation appropriate for the firm, the subsidiary environments, and the

functions themselves. Differences in implementation of these policies on a subsidiary-to-subsidiary basis appear to be relatively minor and reflect the influence of one or more of the variables examined and reported in this study.

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## CHAPTER I

### INTRODUCTION: SIGNIFICANCE AND BACKGROUND OF THE PROBLEM

The emergence and rapid growth of international business activities during the past twenty years has brought with it challenges to governmental and business leaders as well as academicians and individuals interested in understanding the current scope of multinational enterprises and activities. Until the 1950s, there were few firms which considered themselves active participants in markets outside their own national boundaries; however, today, rather than treating international business as an afterthought, many companies are beginning to consider themselves truly transnational or multinational in philosophy and practice. Although some European and American firms have been engaged in multinational operations for more than half a century, the wide-scale evolution of multinational firms is essentially a contemporary phenomenon.<sup>1</sup>

The multinational firm has been distinguished from its predecessors primarily by its attempts to integrate and control its international operations through applying a global perspective to strategic marketing, manufacturing, and research activities. Perlmutter described this evolutionary process as one in which a firm moves from primarily an ethnocentric view of international business operations to

a polycentric approach and eventually to a geocentric or global basis for planning, coordinating, and controlling the activities of the international enterprise.<sup>2</sup> As the corporation moves toward the geocentric stage, the company adopts a corporate philosophy of operating as though there were a world market which can be serviced with products obtained from one of several locations and by one of several techniques: exporting, licensing, and investments in local manufacturing. Thus, the corporation becomes truly multinational when it considers single national markets as less significant than the world market in influencing the strategic decisions of the enterprise.<sup>3</sup> Therefore, the multinational corporation attempts to gain its own objectives with little regard to separate national interests.<sup>4</sup>

#### Public Policy Implications

Given the magnitude of foreign direct investments by companies headquartered in numerous countries and their increased attempts to coordinate corporate activities on a global basis, there has been a corresponding increase in public and private attempts to evaluate the economic, political, and social power these organizations have and the ways in which they may exercise this influence over individual countries and in the international economic and political sphere. Host country concerns regarding the activities of multinational companies operating within their boundaries include such things as: exploitation of natural resources, local labor, and consumers; failure to share technology with local affiliates; negative impacts on balance of payments position; influence over national political issues and



processes, use of bribery and questionable payments; introduction of foreign cultural values and habits; and other corporate activities which may run counter to national interests. Some criticisms of multinationals are salient; however, there has been a tendency toward blanket indictments of all multinationals which have not been verified by empirical studies.

Until very recently, most of the criticisms of multinational corporations have been directed at their nondomestic activities. Nevertheless, there are numerous concerns being raised by residents and organizations within the countries in which the multinationals are incorporated. Some of the major criticisms directed at U.S.-based multinationals include the following: International investments represent investments that should remain at home to provide jobs for U.S. workers; sales of high-technology equipment and processes reduce the competitive position of the U.S. internationally; corporate international monetary activities have worked counter to the best interests of the country; sales of certain products to the Soviet Union and China do not coincide with our defense interests; and subsidiaries frequently engage in activities which are illegal under U.S. statutes. Some of these concerns have been refuted by recent studies, particularly in the area of the effect of foreign investment on U.S. employment; however, it is highly likely that these will be continuing concerns and additional issues will be raised as public and private groups and individuals pursue studies of multinational corporations and their activities.

Many of the concerns of the host governments, particularly of the less developed countries, regarding the multinational firm have been channeled through the United Nations and various other regional organizations. In 1974, the United Nations established the United Nations Centre on Transnational Corporations. The Centre has been charged with authorizing and conducting studies which will shed light on the dimensions of multinational business activities as well as their effects on economic development, technology transfer, cultural values, and political developments.<sup>5</sup> A related purpose of the Centre is to assist in drafting a code of conduct which would apply to multinational corporations.<sup>6</sup> Although some initial efforts have been made in each of the previously mentioned areas, the scope of the Centre's mandate is so wide and the availability of existing data and research so meager that it appears it will be some time before descriptive information will be available to international and national public policy makers.

While many countries--particularly the developing nations--are actively supporting the United Nations' efforts to shed light on the operations of multinationals, they have, for a number of years, implemented regulations aimed at controlling the activities of the foreign-based companies doing business within their boundaries. Some of the regulations which affect foreign direct investors include such things as: required local participation in ownership and/or control of the local firm, financial restrictions on remittance of profits to the parent company, provisions ensuring timely transfer of technology to the local operation and/or location of research and development

facilities locally, and other special provisions relating to foreign-controlled companies.

Some countries feel that these restrictions and regulations are not adequate in ensuring acceptable corporate behavior by foreign-domiciled corporations and have either implemented stronger controls or are contemplating major changes in statutes relating to foreign direct investment. A recent example of this trend is the passage of the Canadian Foreign Investment Review Act of 1973 and the subsequent establishment of the Foreign Investment Review Agency. "This Agency has the power to examine proposed takeovers of Canadian businesses by non-residents or by non-resident controlled corporations and to advise the Cabinet as to whether the acquisitions would be of significant benefit to Canada."<sup>7</sup> If the firm is unable to demonstrate that the acquisition would provide such "significant benefits," the Cabinet would disallow the transaction. It is important to note that provisions of the Foreign Investment Review Act apply only to "transactions involving the shifting of effective 'control' of a business carried on in Canada (either by a Canadian or a foreigner) to a foreign-controlled firm or person."<sup>8</sup>

The underlying rationale for these regulations involves the assumption that Canadian-controlled or owned enterprises will be more responsive to Canadian national industrial and economic interests and policies. Although it seems logical to assume that an owner or manager of a company who is a citizen of the country in which the enterprise is located will respond more frequently and favorably to national interests, it is important to recognize that this assertion has not

been empirically verified. The interests of multinational firms and national governments frequently coincide; therefore, very few industrialized countries have blocked the entry of foreign investments. On the other hand, it is also apparent that substantial differences in the interests of firms and host governments are also likely to occur. These differences can be partially attributed to the different constituencies through which a multinational firm and a national government attempt to realize their objectives. Given the internal and external constraints affecting both governments and corporations, they are often forced to compromise in attaining a relationship which is somewhat less than either of them would prefer.<sup>9</sup>

When corporate interests and those of the host country conflict, they are usually manifested through the local subsidiary. It might be very likely that the local subsidiary management finds itself in agreement with national policies and in conflict with those of the parent company. For example, the subsidiary manager may be supporting the expansion of domestic activity through research and exporting when the parent company is less than enthusiastic about such activities. On the other hand, it is possible that the subsidiary management may find itself in conflict with the interests of both headquarters and the host government. Furthermore, it seems reasonable to assume that the managers of any firm--whether they are local nationals or foreigners--will consider the merit of business decision through the applying of similar evaluative criteria.

In reviewing the current relationship between national governments and multinational corporations and their subsidiary

organizations, it appears that governments have become increasingly concerned with ownership and control of those subsidiary operations and their potential for generating benefits as well as negative influences. Since there is not international agreement on the means of dealing with this dilemma, governments will have to continue for some time at adopting national restrictions and/or regulations designed at balancing their needs for greater domestic control over their economies as well as their desire to obtain the benefits accrued through allowing foreign direct investment in those economies. In the process of developing appropriate legislation to deal with these issues, governments will need to obtain information on the way in which multinational organizations control their subsidiary operations, including the degree of centralization of decision-making authority in formulating multinational corporate policy as well as in operating decisions. At the present time, there is very little empirical data on which these countries can draw in the framing of public policy designed to effect a balance between corporate and national interests. Therefore, one of the central contributions of this study is the information regarding the role of the subsidiary manager vis-à-vis corporate headquarters in those decisions which affect the subsidiary operations and performance.

#### Managerial Implications

The pattern of development characterizing the international business activities of most multinational corporations has been described as a process of "creeping incrementalism" rather than strategic

choice.<sup>10</sup> Several authors have described the internationalization process of the firm's business interests as beginning with a primary emphasis on exporting and a movement through a series of stages to the establishment of foreign subsidiary operations. As corporations have increased their involvement in world markets through substantial commitments of personnel, materials, and capital, they have encountered new challenges to effective enterprise management. The elements characterizing the domestic market environment are now multiplied by as many markets in which the firm conducts its business as well as by the types of activities undertaken. In many of these national environments, multinational corporations are facing increased governmental pressures to respond to local economic and social issues. Increased competition for global market share and a growing appreciation of the potential for synergistic benefits of multinational operations have caused multinational managers to adopt global strategies and global planning as a substitute for the former treatment of international activities as a sort of "portfolio of diverse and separate country companies tied together by a network of ad hoc relationships."<sup>11</sup>

The adoption of global approaches to strategic planning and operating activities adds a new dimension to the managerial tasks associated with those activities as well as to the organization structure in which those tasks must be accomplished. In contrast to the firm which operates in one national market, the multinational enterprise operates in a number of countries, each of which is characterized by a unique set of environmental characteristics which pose

opportunities and challenges to management. In addition, the management task is made more difficult due to the fact that subsidiary operations are frequently separated by large distances not only from headquarters but from each other. Consequently, the integrative task faced by multinational managers interested in realizing the synergistic effects of their global operations and investments is extremely complex.

As the firm develops a greater commitment to developing a unified global perspective for all phases of the corporation, there is usually a need to develop an integrated global organizational structure to accommodate exporting, licensing, manufacturing, marketing, research, and human resource activities being undertaken in large numbers of countries.<sup>12</sup> Since the previous organizational structure is often no longer adequate in providing the means by which coordination and control can be achieved, companies tend to restructure the organization as their foreign involvement deepens and the importance of international operations becomes more critical to the successful operation of the firm.<sup>13</sup>

The typical pattern of organizational development characterizing the American multinational firm was described by Stopford and Wells in Managing the Multinational Enterprise, which represents some of the findings of the Harvard Multinational Enterprise Project in which they participated. Their findings indicated that the general pattern of evolution for the multinational corporation (at least in the American-based multinationals) is characterized by successive movements through the autonomous subsidiary stage to an international

division structure, and then to a global structure based on product, geography, or a matrix of product and geography.<sup>14</sup> According to the authors, international divisions were the typical structural form for most multinationals in the early 1960s; however, by the mid-1960s a large number of multinationals had either abandoned or were in the process of moving toward one of the global structures.<sup>15</sup>

While the information on multinational organization structure in publications by Stopford and Fouraker,<sup>16</sup> Lombard,<sup>17</sup> Dance,<sup>18</sup> Schoolhammer,<sup>19</sup> and Behrman<sup>20</sup> is perhaps useful to multinational top management in their attempts to design organizational structures compatible with complex activities and environments, they provide relatively little information on the centralization/decentralization of authority between subsidiary units and headquarters which are present regardless of the type of organizational structure selected. A 1968 Conference Board Report indicated that senior-level executives felt that one of the most pressing problems being faced by their corporations was the need for top management to pay more attention to the integration of international and domestic sides of their business into a unified organization.<sup>21</sup> Organizational issues of particular concern to these executives included such things as: (1) organizing for international operations, (2) communication with foreign affiliates, (3) control of foreign affiliates, and (4) integrating foreign operations with domestic.<sup>22</sup> While many of these firms may have since adopted global organizational structures which would likely have some impact on the issues raised in this study, it is apparent that the question of how much authority corporate headquarters personnel should



retain and how much they should assign to subsidiaries and affiliates has not been completely resolved by multinational enterprises.<sup>23</sup>

Some companies, such as Massey Ferguson, have opted for a decentralized management structure while other companies have adopted a more centralized approach to assigning authority and responsibility at headquarters.<sup>24</sup> Among the factors which play a role in determining the degree of centralization characterizing a particular firm are such things as: size of firm, constraints on top-level management abilities and time, profitability and age of specific subsidiaries, local national environments, diversity of the product line nationally and internationally, and the degree of diversity and integration of international operations.<sup>25</sup> It is likely that the degree of centralization of decision making within any corporation will vary with respect to functional areas as well as within the overall corporation at different times.

Particular subsidiaries may, by virtue of their age, size, and local managerial talent available, exercise greater power in the decision-making process than other subsidiary organizations. An implicit assumption of the decentralized decision-making structure is that the subsidiary organization can respond more quickly and effectively to local environmental demands.<sup>26</sup> In addition to the supposed greater flexibility of the decentralized structure, other advantages may include such things as higher motivation for subsidiary managers, improved local management talent in planning and operations, the encouragement of greater initiative and creativity, creation of a

local image, and a more favorable attitude by local government leaders.<sup>27</sup>

More centralized organizations also have some advantages over the decentralized forms. The ability to obtain economies of scale in marketing, production, research, and other activities as well as the ability to avoid duplication of functional and operating activities are two of the most frequently cited advantages of the centralized structure. Shortages of capable local managerial personnel may also make such structures necessary. In their attempts to integrate international operations, many of the well-known multinationals are moving toward greater centralization of authority and responsibility.<sup>28</sup>

"The centralization of authority is prompted by the desire to maximize the benefits of multinational operations for the company as a whole, rather than to maximize the profit performance of individual subsidiaries."<sup>29</sup>

Since the type of overall organization structure selected by the multinational company--international, product, geographic, or matrix--will have a direct bearing on the patterns of allocating authority, responsibility, decision-making participation, and channels and content of communications activities, management must consider the degree to which the tradeoffs between centralization and decentralization will affect subsidiary performance as well as overall corporate performance. In addition, given the increased concern of national governments to obtain greater control over their industrial and economic sectors, it appears that the corporate moves toward greater

centralization may be on a direct collision course with the policy initiatives of various national groups.

In view of these opposing moves by business and governments, there is a need to provide information on the nature of the relationship between headquarters and the subsidiary as well as on the effects of that association for the performance of the subsidiary and the way in which that performance affects the local environment positively or negatively. More specifically, managers must decide how much centralization is necessary and/or desirable and what the effects of that decision will be on the performance of the subsidiary as well as for the corporation as a whole. By the same token, governmental moves to regulate multinational corporations through requiring greater "local control" may or may not lead to improvements in the performance of the local subsidiary.

In reviewing the discussion thus far, it is apparent that nations are faced with a variety of public policy alternatives which can be utilized in protecting their national interests vis-à-vis those of the multinational corporation. Senior-level managers are interested in developing organizational forms and policies which provide for optimal corporate effectiveness and economic efficiencies on a global basis. Both groups require certain types of information regarding the range of options available to them and the positive and negative effects that the choice of any of the alternatives may generate. Although a number of researchers have examined various aspects of multinational organizations and the way in which they are organized in conducting their operations, there is almost no information

available on the effect of these policies and practices on subsidiary performance. Therefore, one of the central objectives of this dissertation is to describe and evaluate the effects on subsidiary performance of differing degrees of latitude allowed subsidiaries in setting policy and in operations.

### Major Research Question

While increasing numbers of academicians have selected various aspects of multinational business organizations as areas of study, relatively few have focused their efforts on studying the nature of the relationship between headquarters and the wholly owned subsidiary. Those studies which have been published tend to focus on subsidiary operations within a single country or geographic area or within one industry. Many of these studies do not differentiate between the wholly owned subsidiary and other affiliate organizations such as joint ventures and branch sales offices in their descriptions of the participation of the local affiliates in the decision-making process. Furthermore, evaluations of the effect of the degree of subsidiary or affiliate decision-making participation on sub-unit performance are almost nonexistent. Given the fact that the first major descriptive study of U.S. multinational organizational structures by Stopford and Wells was not published until 1972 and Lawrence Franko's detailed study of European multinationals appeared only in 1976, one can easily see why there have been so few integrative studies concerned with the tasks of managing global structures and their effects on the performance of sub-units as well as the organization as a whole.<sup>30</sup> While

there have been substantial numbers of articles and books published which deal with managing international business operations, there is little empirical support for many of the findings.

Because many corporations have now reached a level of international activity and investment which poses new challenges to management in planning and operating global organizations, there is a need to find information which can be useful in designing organizational structures and in anticipating the likely effects of operating under any particular set of policies and procedures. The desirability of and potential for synergistic benefits in planning and operating multinational organizations is well publicized in the international business literature; however, the pull toward decentralization generated by heterogeneous environments and their unique contingencies is equally well documented. Thus, as Henry Bodinet so aptly stated it, "The optimal balance between centralization and decentralization is difficult to achieve because the two forces are driving the multinational simultaneously in both directions."<sup>31</sup> Moreover, this balance is also very unstable since there will be continual changes in international environments, technologies, competitive situations within industries, and within firms themselves as they grow.<sup>32</sup> "Consequently, the optimal trade-off and the best solutions for implementing them are likely to change."<sup>33</sup> Therefore, most multinational firms will find themselves in positions of having to work out the means of dealing with these conflicting pressures on a recurring basis; and at present, there is little information available by which they can guide their efforts.

In light of this problem, the central research question addressed by this dissertation was:

#### Major Research Question

What is the nature of the relationship between subsidiary performance and the centralization/decentralization of decision making?

The issue of centralization or decentralization was viewed primarily as an authority question which can be expressed in terms of the decision-making authority the subsidiary has in the following areas: finance, manufacturing, marketing, personnel, purchasing, and research and development. In order to provide information by which the major research question can be answered, the focus of the dissertation centered on three major research areas:

#### Major Research Areas

1. To describe by function, industry, and country area the degree of centralization or decentralization of decision-making authority.
2. To explain how the characteristics of the firm, the subsidiary, and the subsidiary environment affect the degree of centralization or decentralization of decision-making authority.
3. To explain the nature of the relationship between the degree of centralization or decentralization and subsidiary performance.

#### Limitations

As with any research undertaking, there are several limitations to this particular study which should be noted at this time. First of all, the study was limited to ten companies representing five industries. Obviously, it would be desirable to include more companies

and industries; however, financial considerations as well as the need to obtain cooperation from top-level executives for detailed interviews effectively constrained the researcher to a smaller number of companies.

A second limitation was the fact that the data which were collected reflected the situation as it existed within companies at one point in time. Although a longitudinal study of the centralization/decentralization policies and practices for corporations would be of value, this research effort was concerned with describing current relationships and their effects on subsidiary performance in the short term.

Third, it is possible that subsidiary managers and headquarters personnel differ in their perceptions of the degree of decision-making authority that rests with each individual or level of the organization. However, this research is primarily concerned with the identification and description of established policies and procedures currently in operation which indicate the parameters of decision-making authority, rather than an attempt to ascertain perceptions of specific individuals.

A further limitation of the study was the fact that measures and comparisons of subsidiary performance were limited to overall performance measures. Although the sample firms were willing to provide index measures of financial and market performance for each subsidiary, the methods they used in determining these values varied substantially from company to company. Therefore, overall performance

measures rather than specific financial or marketing measures were utilized in the analysis.

Fifth, this dissertation was limited to wholly owned subsidiaries of U.S.-based corporations. There were three major reasons for selecting wholly owned subsidiaries rather than including other affiliate organizations. First, wholly owned subsidiaries should generally offer greater opportunities for centralization than other investment linkages. Second, since alternative market linkages exhibit such a different array of legal and ownership patterns and managerial characteristics, comparability across firms and industries would be exceptionally difficult. And third, numerous articles have suggested that increasing numbers of multinational organizations are seeking to limit their international expansion plans to wholly owned subsidiaries whenever possible so that greater control over foreign operations can be maintained.

A final limitation was the fact that not all of the possible decision-making situations faced by a subsidiary or headquarters could be included in evaluating the degree of centralization or decentralization in the process. This study included only those major categories of decision making which traditionally fall within each of the functional areas and are representative of the range of decision situations faced by all firms. For example, major marketing decisions would include the major categories of product strategy, pricing, promotion, and distribution. Since decisions on the alternative strategies have to be decided by all firms, the dissertation research focused on where--subsidiary or headquarters--these decisions are



made. Similarly, major policy and operating decisions in the other functional areas were specified and compared across firms and industries.

### Organization

This dissertation is organized in five basic parts. The sections which follow this introductory chapter include the following: Literature Review, Conceptual Framework and Methodology, Locus of Decision Making Findings, and Summary and Conclusions of the Study.

Footnotes--Chapter I

<sup>1</sup>S. B. Prasad and Y. Krishna Shetty, An Introduction to Multi-national Management (Englewood Cliffs, N.J.: Prentice-Hall, 1976), p. 1.

<sup>2</sup>Howard Perlmutter, "The Tortuous Evolution of the Multi-national Corporation," Columbia Journal of World Business (January-February 1969).

<sup>3</sup>Jack N. Berhman, National Interests and the Multinational Enterprise (Englewood Cliffs, N.J.: Prentice-Hall, 1970), p. 4.

<sup>4</sup>Ibid.

<sup>5</sup>United Nations Department of Economic and Social Affairs, The Impact of Multinational Corporations on Development and on International Relations (New York: United Nations, 1974).

<sup>6</sup>Ibid.

<sup>7</sup>A. E. Safarian and Joel Bell, "Issues Raised by National Control of the Multinational Corporation," Columbia Journal of World Business (December 1973): 8.

<sup>8</sup>Ibid.

<sup>9</sup>Ibid., p. 12.

<sup>10</sup>Stefan H. Robock and Kenneth Simmonds, International Business and Multinational Enterprises (Homewood, Ill.: Richard D. Irwin, Inc., 1973), p. 403.

<sup>11</sup>Ibid.

<sup>12</sup>Prasad and Shetty, An Introduction to Multinational Management, p. 85.

<sup>13</sup>Ibid.

<sup>14</sup>John M. Stopford and Louis T. Wells, Jr., Managing the Multinational Enterprise (New York: Basic Books, Inc., 1972), p. 28.

<sup>15</sup>Ibid., p. 25.

<sup>16</sup>Lawrence E. Fouraker and John M. Stopford, "Organizing a World-Wide Business," Administrative Science Quarterly 13 (January 1968): 47-64.

<sup>17</sup>Andrew J. Lombard, Jr., "How European Companies Organize Their International Operations," European Business (July 1969): 37-48.

<sup>18</sup>W. D. Dance, "An Evolving Structure for Multinational Operations," Columbia Journal of World Business (November-December 1969): 25-30.

<sup>19</sup>Hans Schollhammer, "Organizational Structure of Multinational Corporations," Academy of Management Journal (September 1971).

<sup>20</sup>Jack N. Berhman, Some Patterns in the Rise of Multinational Enterprise (Englewood Cliffs, N.J.: Prentice-Hall, 1970).

<sup>21</sup>National Industrial Conference Board, The Problems Facing International Management (New York: National Industrial Conference Board, 1968), p. 1.

<sup>22</sup>Ibid., p. 2.

<sup>23</sup>Prasad and Shetty, An Introduction to Multinational Management, p. 99.

<sup>24</sup>Ibid., p. 100.

<sup>25</sup>Ibid.

<sup>26</sup>Ibid.

<sup>27</sup>Ibid.

<sup>28</sup>Ibid., p. 101.

<sup>29</sup>Ibid.

<sup>30</sup>John M. Stopford and Louis T. Wells, Jr., Managing the Multinational Enterprise (New York: Basic Books, 1972); Lawrence G. Franko, The European Multinationals (Stamford, Conn.: Greylock Publishers, 1976).

<sup>31</sup>Henri Bodinet, "Multinational Decentralization: Doomed if You Do, Doomed if You Don't," European Business 41 (Summer 1974): 280.

<sup>32</sup>Ibid.

<sup>33</sup>Ibid.

## CHAPTER II

### LITERATURE REVIEW

In order to gain a better understanding of the means by which multinational corporations have organized themselves and allocated decision-making authority between headquarters personnel and subsidiary units, the literature review focuses initially on describing the issues involved in a company's decision to adopt either a centralized or decentralized policy with regard to the allocation of decision-making authority to subsidiary operations. In addition, since the major research objective of this dissertation was to describe and analyze the nature of the relationship between subsidiary performance and the degree of centralization or decentralization of decision-making authority, the literature review has been organized in a manner which allows each of the primary variables in this relationship to be examined. First, corporate characteristics which seem to affect the headquarters/subsidiary relationship are identified and evaluated. Second, subsidiary characteristics which also appear to affect the nature of this relationship are considered. Finally, those publications dealing with subsidiary performance are reviewed and discussed.

The conceptual model presented at the conclusion of the literature review is based on the findings reported in the major

international business publications dealing with the centralization/decentralization issue as well as on selected studies in organizational theory which are related to the topic and have not as yet been empirically evaluated in international settings.

#### Locus of Decision Making in Multinational Companies

While the term "multinational corporation" has become popularized in recent years, there are varying definitions of what is meant by this type of enterprise. Some authors have recently begun using the term "transnational enterprise" to refer to those companies which have substantial international business operations and investments. Since there is no one accepted definition of what constitutes a "multinational corporation" or "multinational enterprise," for purposes of this study, the author followed the lead of a number of other authors in including under the rubric "those large firms that have subsidiaries in a number of countries and that, at least to some extent, attempt to coordinate and control those units in accordance with a common strategy."<sup>1</sup> Although there are many large and well-known multinational corporations whose headquarters are located outside of the United States, this dissertation was limited to U.S.-based multinationals operating within five industry groups and their wholly owned foreign subsidiaries. Wholly owned subsidiaries are defined as those in which the parent company owns 95 percent of the subsidiary stock.<sup>2</sup>

As a corporation's international investment commitment grows, top management is faced with new challenges and opportunities not encountered by enterprises engaged in purely domestic business. "The

multinational firm must cope with geographically dispersed operations, personnel from many cultures, diverse political and economic environments, and divergent trends in different countries."<sup>3</sup> At the same time, it becomes more and more difficult for top management to make all of the decisions regarding international operations at the top. Consequently, one of the major challenges faced by multinational firms is in determining how much authority should be retained by corporate executives and how much should be assigned to subsidiaries and other affiliate organizations.

To some degree, the particular type of organizational structure adopted by the firm will influence the locus of decision making or the degree of centralization or decentralization of authority required or desired by an individual firm.<sup>4</sup> Decentralization can be interpreted as "the extent to which authority and responsibility are delegated by headquarters management to divisions and subsidiaries operating worldwide."<sup>5</sup> The delegation of authority has to do with such things as "the right to decide, implement, coordinate, and control,"<sup>6</sup> whereas responsibility "relates to accountability for producing results and achieving goals."<sup>7</sup>

As it is defined here, the concept of authority indicates that the individual has the "right" to do certain things based on the way in which the organizational chart, job descriptions, and policy manuals indicate the formal power and authority relationships which "ought to be" in complex organizations.<sup>8</sup> Filey, House, and Kerr--among others--contended that there may be substantial deviations in practice from what the formal organizational structure indicates are

the authority relationships between superiors and subordinates.<sup>9</sup> They maintained that one must make a distinction between power, authority, and influence, and that these three concepts are fundamental in understanding the nature and functioning of complex organizations. In their view, "power refers to the ability of an individual or a group to get some other individual or group to change in some manner."<sup>10</sup> According to French and Raven, there are five bases of power: (1) reward power, (2) coercive power, (3) legitimate power, (4) referent power, and (5) expert power.<sup>11</sup>

The relationship between the concepts of power and authority was described as: "If power is the ability to act, authority is the right to act. It is legitimate power, vested in a particular person or position and accepted as appropriate and recognized as legitimate not only by the power wielder but also by those over whom it is wielded."<sup>12</sup> On the other hand, influence can be interpreted as "any behavior on the part of an individual which alters the behavior, attitudes, feelings, and so on of another."<sup>13</sup>

Since this dissertation is concerned with describing and evaluating the effects of the degree of centralization of authority in decision making, it is important to recognize the way in which these three concepts can be of assistance in describing that relationship. According to Filey, House, and Kerr:

We can say that whenever a power relationship exists, an influence relationship is also present; whenever an authority relationship exists, both power and influence are present; influence, however, may be present where neither power or authority exist.<sup>14</sup>

Because the formal organization structure--as expressed in organization charts, job descriptions, and policy manuals--indicates what the disposition of power and authority in an organization is designed to be rather than necessarily what it is, it is desirable to look at both written procedures and policies as well as obtain information from the individuals directly concerned with the implementation of those guidelines, which in this case are the subsidiary managers and the headquarters personnel.

In order to describe the nature of the relationship between the subsidiary and the headquarters unit, it is necessary to obtain some measures of the degree of autonomy--interpreted as the power, authority, and/or influence--that rests with the subsidiary manager of a wholly owned subsidiary and that is exercised on the decision-making process. The means by which centralization can be expressed within a multinational corporation include both operating decisions and planning decisions.<sup>15</sup> Some authors have attempted to describe the nature of the decision-making process and the role subsidiary personnel play in that process through measuring the amount of participation the subsidiary is allowed in making decisions in each of the functional areas, while others have concentrated on one specific functional area. A review of these studies and their findings follows.

One of the first descriptive studies on the role of subsidiary management vis-à-vis headquarters personnel in making marketing decisions was by Aylmer in 1970.<sup>16</sup> Although Buzzell<sup>17</sup> and Keegan<sup>18</sup> had both suggested that standardization of certain marketing policies and strategies was desirable and feasible in certain situations,



Aylmer was interested in evaluating the way in which the authority relationship between headquarters and subsidiaries might affect the ability of the firm to standardize any or all elements of its marketing mix internationally.<sup>19</sup> The two primary objectives of Aylmer's study were to: (1) determine the extent of local management's autonomy for marketing decisions, and (2) identify certain internal forces which appeared to have some influence in leading the firm to adopt its particular patterns for the location of authority.<sup>20</sup> The sample consisted of nine U.S.-based firms classified as producers of consumer durable goods with manufacturing investments in Western Europe.<sup>21</sup>

In order to ascertain the degree of subsidiary autonomy in marketing decisions, Aylmer conducted interviews with fifty managers in the U.S. and in Europe. The degree of local autonomy in making marketing decisions was described for decisions concerning product design, advertising approach, retail price, and distribution.<sup>22</sup> Interview responses were then ordered in regard to whether the local management (1) retained primary authority; (2) shared this authority with other organizational levels such as the regional office or headquarters; or (3) whether primary authority rested elsewhere so that, in effect, the decision was imposed on local management.<sup>23</sup>

Based on this study, Aylmer concluded that local management generally played a vital role in the development of marketing programs, and that local managers experienced different degrees of autonomy.<sup>24</sup> According to Aylmer, "Local management was primarily responsible for 86 percent of the advertising decisions, 74 percent

of the pricing decisions, and 61 percent of the channel decisions."<sup>25</sup> In his view, local management was primarily responsible for the task of developing a viable local marketing strategy, and only rarely did higher organizational levels become involved in the design of overall marketing programs.<sup>26</sup> Nevertheless, he did observe that in 55 percent of the cases, the product design decision was imposed on the subsidiary from headquarters.<sup>27</sup> He concluded that the degree of autonomy in decision making will vary by the type of strategic marketing decision being made.

Other variables which appeared to exert an influence on the degree of autonomy being exercised by the local subsidiary were linked to forces operating within the individual multinational firms as well as environmental influences. For example, he found that the two most important intra-firm factors relating to subsidiary autonomy were: (1) the relative importance of the firm's international operations, and (2) the relative importance of the local affiliate's position within the firm.<sup>28</sup> His findings suggest that as the importance of international operations increases relative to domestic operations, there is greater participation by top management in the decision-making process. In addition, the major subsidiary managers were observed as having shared authority with headquarters management in developing key marketing decisions more often than did those managing the less important affiliates.<sup>29</sup> In Aylmer's words,

At the smaller affiliates, higher level management more often imposed decisions upon local management; this was true for 28 product designs and six price and advertising decisions. At the larger affiliates, such high level involvement more often

took the form of authority shared with local management, as happened for 11 product designs, 16 pricing decisions, and 22 channel decisions.<sup>30</sup>

In terms of the influence of the environment in determining the location of authority between subsidiary and headquarters managers, Aylmer observed that certain decisions in the marketing mix were standardized more often across countries than were other decisions and these patterns were more pronounced for some products.<sup>31</sup> According to Aylmer, firms competing in the same national markets within the same product categories exhibited differences in the location of decisional authority. In his opinion, these differences were attributable to forces at work within the firm.<sup>32</sup>

Other authors have also dealt with the topic of centralization of authority in the multinational firm, and many of their findings tend to support those of Aylmer as well as suggest other views of the centralization issue. Stopford and Wells' publication, arising out of the Harvard Multinational Enterprise Project and mentioned earlier, focused primarily on the relationship between organizational structure, strategy, and centralization for multinational firms.<sup>33</sup> Although their findings are discussed in more detail later in the literature review, it might be mentioned at this point that they seemed to feel that the structure of a multinational enterprise could be associated with its strategy. In their view, certain strategies require tight control, while others do not.<sup>34</sup> Their findings indicated that similar strategies require tight central controls while others do not; therefore, the companies that select strategies which require centralized control will exhibit strong preferences for wholly

owned subsidiaries rather than other linkage alternatives.<sup>35</sup> In addition, they maintained that as more and more firms increase their international operations, they will experiment with new organization structures which, regardless of their form, will likely be characterized by attempts to exercise greater control over their subsidiaries.<sup>36</sup>

While Stopford and Wells were primarily interested in the overall relationship between strategy, structure, and control of all affiliate organizations--joint venture, wholly owned subsidiaries, licensees, and others--of U.S.-based multinationals, other authors have limited the scope of their research to the reported relationships currently characterizing multinational decision making within specific functional areas. A recent study by Pohlman, Ang, and Ali reported the results of their survey of managers of U.S.-based corporations. In this study, they sent 200 letters and questionnaires to the officer in charge of foreign operations whenever possible and to the president of the corporation in other instances.<sup>37</sup> Based on the 35 responses they received, they reported that subsidiaries were given the most control over day-to-day operations, purchasing, production, and marketing.<sup>38</sup> The least control by subsidiary managers was in the area of new investments.<sup>39</sup> Those areas in which authority was shared, which they referred to as a "medium level of autonomy," included technological and product specifications and personnel policies.<sup>40</sup>

Using categories of high, medium, and low to indicate the degree of control exercised by the subsidiary manager, they concluded

that "in all areas except that of new investments, subsidiaries are given a medium to high degree of control; this is especially important in the areas of personnel policy and technological and product specification."<sup>41</sup> They did not, however, indicate whether there are differences in the amount of control exercised by different subsidiary managers within the same company. From the way in which the study was presented, it appears that headquarters personnel were forced to describe their corporate policy in the aggregate rather than to indicate whatever differences may exist across countries or in regard to particular subsidiary operations. If, as Aylmer suggested, the degree of centralization of marketing decisions varies according to the decision area being considered as well as by the subsidiary characteristics of environment and size, the Pohlman, Ang, and Ali study represents something more akin to a corporate philosophy toward control in general, rather than what might be actually followed in dealing with a specific subsidiary or decision.

A recent study by Ulrich Wiechmann of the headquarters-subsidiary relationship in the consumer packaged goods industry tended to support both Aylmer and Pohlman, Ang, and Ali's contention that the degree of centralization of authority in the decision-making process will vary depending on the functional area being considered.<sup>42</sup> Although Wiechmann was primarily interested in evaluating the degree of headquarters direction that characterizes marketing decision making, he briefly discussed the differences he observed within companies when functional areas were compared.

By categorizing the degree of headquarters direction as being high, medium, or low, Weichmann found that of the functional areas being considered--finance, manufacturing, research and development, purchasing, marketing, and personnel--finance was the functional area which the majority of executives felt was controlled rigidly from headquarters.<sup>43</sup> The representatives of the twenty-seven companies participating in the study also indicated that decisions regarding research and development were also highly centralized.<sup>44</sup> Of all the functional areas, purchasing was the most decentralized with nineteen of twenty-seven firms reporting low degrees of headquarters direction.<sup>45</sup> "Two aspects of the manufacturing process--product specifications and product quality--tend to receive a great deal of headquarters direction in most of the sampled companies."<sup>46</sup>

When companies were classified on the basis of headquarters involvement in personnel decisions, the majority of firms showed a high or moderate degree of involvement by headquarters.<sup>47</sup> According to Wiechmann, virtually all of the companies exert a strong influence from headquarters on the hiring and firing of key subsidiary executives. However, the nature and the degree of headquarters involvement varies from company to company.<sup>48</sup> "Typically, headquarters management selects the subsidiary's general manager and reserves at least veto power over all decisions concerning executives who report directly to the general manager, such as the marketing manager and the financial manager."<sup>49</sup> Below these levels, Wiechmann indicated that the headquarters involvement in the selection and dismissal of personnel is sporadic and only advisory in nature.<sup>50</sup>

When Wiechmann considered the headquarters direction in marketing, he found that almost half of the sampled firms reported a high degree of headquarters direction in decision making. Another third of the respondents reported a moderate degree of headquarters direction.<sup>51</sup> He also suggested that there was a trend toward greater headquarters involvement in marketing decision making and that this trend was being met with apprehension and objections at the subsidiary level in several firms.<sup>52</sup> Wiechmann attributed this trend, at least in part, to the growing awareness among sampled firms of the need and the opportunity for global or regional planning rather than country-by-country planning.

One aspect of Wiechmann's findings pertinent to this study was the fact that there was considerable variability in the degree of headquarters direction exhibited in each of the functional areas for firms operating in the same industry. For example, although marketing was characterized as having a high degree of headquarters involvement by twelve of the twenty-seven firms and a moderate degree of direction by eight of the firms, there were six firms which indicated that headquarters exercised a low degree of control over marketing decisions.<sup>53</sup> Furthermore, manufacturing also exhibited substantial variation in that eleven of the firms indicated they had a high degree of involvement, while seven and eight firms indicated they had moderate and low degrees of headquarters direction, respectively.<sup>54</sup> Personnel was another area in which substantial numbers of firms appeared in all three categories.

In an attempt to account for these differences in the degree of headquarters direction exhibited by the firms in the sample, Wiechmann suggested that three factors appeared to influence the degree of centralization employed by any particular company. These influences are:

(1) Corporate factors such as strategy, organizational structure and process, and management philosophy; (2) Subsidiary factors such as size of the subsidiary, nationality of the subsidiary manager, organization, and profitability; and (3) Market factors such as economic, social, and legal conditions, the nature of competition, and the availability of advertising media.<sup>55</sup>

In his view, these factors influence the amount and type of headquarters direction desired and/or feasible as well as the integrative mechanisms by which that control can be implemented.<sup>56</sup> While each of these factors is considered important in influencing the degree of headquarters participation in subsidiary operations and decision making, Wiechmann only considered corporate factors in detail.<sup>57</sup>

At this juncture a brief summarization of this section of the literature seems appropriate. First of all, it is apparent that the locus of decision making in the multinational corporation varies across companies, functional areas, and individual subsidiaries. A number of factors appear to influence the degree to which headquarters personnel, in the home office or at the regional level, participate in the coordination and control of subsidiary activities. On the whole, there is some indication that many multinationals are moving in the direction of increased centralization of authority.

There are several areas in which the preceding studies exhibit weaknesses which limit their usefulness to international



business scholars and managers. First of all, there seems to be no clear-cut definition of what is meant by centralization or decentralization. Some authors have viewed the subsidiary-headquarters relationship as essentially one that can be described by the degree of participation in decision making allowed subsidiary personnel in one or more functional areas. Furthermore, there is no distinction made as to the type of decision that is being considered or whether it is a major or a minor decision. In addition, some authors have used the terms "authority" and "direction" as a means of describing the decision-making process and/or the degree of headquarters control over the subsidiary. In summary, it appears that many of the important concepts and relationships regarding the control and coordination aspects of a multinational firm have not been clearly described, defined, nor measured in most of the works discussed thus far. Consequently, this section of the literature review will examine the nature of the decision-making process as it relates to the coordination and control activities of the firm.

McFarland suggested that there is a distinction between authority and decision making. In his view, authority is the central mechanism through which the executive's decision-making activities take place.<sup>58</sup> There are four basic types of authority in an organization--line, staff, functional, and committee.<sup>59</sup> Since there is an appropriate authority-type or combination of types for each task, function, or grouping of other activities, it is the manager's job to decide the way in which he will determine the range of possible kinds and amounts of authority. He described the nature of the

relationship between line authority and the decision-making process as follows:

Line authority is the basic and fundamental authority in an organization. It is the ultimate authority to command, act, or decide in matters affecting others. It is the authority which sanctions, approves, directly or indirectly, the activities which take place in the organization. It is the authority to channel and direct the responses of others and to require them to conform to decisions, plans, policies, systems, procedures, and goals. It is the heart of the relationship between an employee and his supervisor.

It is desirable to draw a distinction between the right to decide and the right to command. Line authority is not merely the right to decide but rather is the right to command. The right to command is more inclusive than that of deciding.<sup>60</sup>

Thus, the line "authority" delegated to a subsidiary manager therefore encompasses more than the right to make particular decisions or to participate in the decision-making process of the firm at different levels.

Two other concepts--responsibility and accountability are very closely related to the concept of authority and should be briefly considered at this point. McFarland used the term "administrative responsibility" to refer to the duties and activities assigned to a position or to an executive.<sup>61</sup> In his view, the allocation of authority and responsibilities within an organization is intertwined with the organizational structure. The responsibilities that are delegated to the manager involve the managerial processes of decision making, planning, controlling, coordinating, and leading.<sup>62</sup> The manager, therefore, assumes managerial responsibilities for the successful achievement of these activities rather than for specific tasks. "Accountability refers to the fact that each person who is given authority and responsibility must recognize that the

executive above him will judge the quality of his performance."<sup>63</sup> In this view, the individual implicitly accepts responsibility and accountability when he accepts authority. According to McFarland, "The delegator of authority has the task of evaluating the performance of his subordinates. To require that they submit their performance for review and evaluation is to hold them accountable for results."

Since we are primarily concerned with the delegation of authority to subsidiary managers--and the attendant responsibilities and accountability that delegation implies--it is important to consider what is meant by the term "decentralization of authority."

The way in which McFarland defined this concept is as follows:

Decentralization of authority may be defined as a situation in which ultimate authority to command and ultimate responsibility for results is localized as far down in the organization as efficient management of the organization permits. It is carried out by creating, under a central organization, a number of autonomous units with mandates to operate as independent units. These units are often called profit centers.<sup>65</sup>

The principle advantages of decentralization of authority relate to decision-making. The larger the company the more urgent is the need for decentralization, since increased size increases the number and difficulty of decisions demanded of top management. In addition to size, further complexity of decision-making is introduced if there are wide variations in the number and nature of products made, services sold, and markets served. In large corporations, having these characteristics, it becomes imperative to get decisions made promptly, in a timely manner, and without undue delay which centralization would involve.<sup>66</sup>

Consequently, decentralization of authority would involve delegation of authority, responsibility, and accountability to lower levels of the organization. Decision-making authority would be one aspect of

the authority that is delegated to the subsidiary manager and that is directly tied to the degree of decentralization of authority chosen by a particular multinational firm.

Because decision making is viewed by many as being an important part of the process of managing, a brief description of this concept and its interrelationship with decentralization of authority would be useful. "A decision is an act of choice wherein an executive forms a conclusion about what must and must not be done in a given situation; and represents a course of behavior chosen from a number of possible alternatives."<sup>67</sup> Managerial decision-making behavior takes many forms; therefore, a means of classifying types of decisions is essential.

One means of classifying decisions is whether they are basic or routine. "Basic decisions involve (1) long-range commitments of relative permanence or duration, (2) large investments or expenditures of funds, and (3) a degree of importance such that a mistake would seriously jeopardize the welfare of the business."<sup>68</sup> Basic decisions would include such things as: plant location, product/market commitments, some make or buy decisions, and policy decisions. "Routine decisions are those which require relatively little deliberation or which are made repetitively. They tend to have only minor effects on the welfare of the business."<sup>69</sup> Thus, procedures can usually be established for making large numbers of these decisions. Basic and routine decisions can be thought of as occupying the ends of a continuum. Generally, routine decisions characterize most of the decisions made in business.<sup>70</sup>

Another way of classifying decisions, similar to the one just discussed, is based on whether the decisions are programmed or non-programmed.<sup>71</sup> Simon described decisions as being programmed to the extent that they are repetitive and routine and to the extent that definite, systematic procedures have been devised so that each one does not have to be treated as a unique case each time it arises. Decisions are unprogrammed, or basic, to the extent that they are novel, unstructured, and consequential.<sup>72</sup> Most of the studies relating to the concept of centralization have not distinguished between the types or categories of decisions that are being utilized in measuring the degree of participation of subsidiary management, and one would assume that some consideration of these distinctions would be useful in assessing the degree of authority the subsidiary manager exercises in certain situations and across functional areas.

One means of describing the decision-making authority experienced by a subsidiary manager would be to consider what the width of his particular "zone of discretion" happens to be in regard to the way it is defined through policies and procedures outlining the latitude allowed in making programmed or basic decisions as well as in nonprogrammed or routine decision making. What decisions constitute programmed decisions for one manager or company may be only routine decisions for another manager or company. Selznick used this concept of "zone of discretion" in suggesting that the manager must make decisions based on alternatives located within the discretionary bounds applied by the organization and interpreted by him.<sup>73</sup> The width of the particular discretionary zone in which a manager makes

decisions is affected by factors which are rooted in the corporation itself as well as by environmental factors surrounding the particular subsidiary organization. In this dissertation these influences have been classified as corporate and subsidiary characteristics. We will now turn to a discussion of how the international business literature has dealt with the influence of corporate characteristics on the degree of centralization of authority exhibited by a particular firm.

### Corporate Characteristics

Those corporate characteristics which appear to have a major influence on the degree of headquarters centralization employed by a multinational firm include the following: (1) corporate organizational structure; (2) nature of the product line or industry; (3) size, complexity, and experience in international operations; (4) availability of managerial talent at the headquarters level or regional level; and (5) overall corporate philosophy. While these do not encompass all of the internal factors which could possibly affect the degree of centralization exhibited by a particular corporation, they do represent areas which most of the international business literature supports as being significant influences on the allocation of authority between subsidiaries and their respective "parent" companies.

The organization structure of the multinational firm can be viewed as the design by which the enterprise is administered. The design of the organization deals with the way in which the relationships

of authority, responsibility, communications, and control are intertwined to ensure the achievement of the basic goals and objectives of the company. Stopford and Wells--building on Chandler's definitive work on strategy and structure--maintained that the organization design of a company has three major aspects: "first, the authority and responsibility of each executive; second, the kinds of information that flow among lines of communication among executives; and third, the procedures established for channeling and processing information."<sup>74</sup> The organization design also sets up the structure for decision making within the company.<sup>75</sup>

Multinational organizations are characterized as having two distinct but interwoven structures--the legal or statutory and the managerial. The statutory organization is designed in accordance with various legal regulations and in light of tax and cash flow considerations and therefore, usually bears little correspondence to the design and functioning of the managerial structure.<sup>76</sup> Because this study is primarily concerned with managerial practice, with the exception that each of the subsidiaries must be wholly owned, the legal structure of the firm will not be otherwise considered.

In designing the organization structure for the multinational firm, management is faced with the need to adapt to the plurality and diversity of numerous national environments as well as to provide coordination and control over the enterprise as a whole. The particular form which the multinational organization takes may involve considerable allocation of authority to local subsidiary managers, which we can refer to as decentralization or a decentralized approach.

On the other hand, top management may find it necessary and/or desirable to adopt a structure which reserves much more of the authority within the headquarters or regional centers than in each of the subsidiaries. In addition, companies may choose to centralize some functional activities, as has often been the case in financial matters, and decentralize others. Since this dissertation is concerned with describing and evaluating the degree of centralization exercised by different firms, and the organization structure indicates the means by which the authority, responsibility, decision making, and communications relationships are structured, a brief discussion of the types of organizational structures utilized by multinational corporations follows.

In designing its organizational structure, a multinational company must consider three basic components--functional, product, and geographic--and decide how they are to be dealt with in the organization structure of the firm. Line and staff relationships and responsibilities among these components must also be determined. Some of the functional elements which must be considered are: marketing, finance, production, personnel, research and development, and others. Product components include such things as how to best design, adapt, produce, distribute, sell, promote, and service product lines. The geographic elements are comprised of a detailed knowledge of national and regional environments and how to best undertake the company's business in them.<sup>77</sup>

The particular way in which these components are combined can vary widely among multinational firms, especially when one



considers the many slight variations each company may develop in accommodating special market needs, corporate politics, and other factors. Nevertheless, at a general level, it is possible to identify particular types of organizational structures and to fit companies into one of the basic forms. As the company's international commitment grows or as the number and diversity of international operations and products increases, company organization structures also change to accommodate these pressures.

Chandler, in his study of U.S. corporations, found that different organizational forms result from different types of growth which are the result of companies pursuing different strategies. In his view, when the company adopts a strategy of expanding volume, entering new geographic areas, diversifying the product line, or moving toward vertical integration, there are structural changes which are necessary in order to marshall the resources of the firm toward achievement of any of these strategies.<sup>78</sup> He also argued that unless this growth is accompanied by structural adjustments, economic inefficiency will result. "Unless new structures are developed to meet new administrative needs which result from the expansion of the firm's activities into new areas, functions, or product lines, the technological, financial, and personnel economies of growth and size cannot be realized."<sup>79</sup>

Stopford and Wells' study of the multinational organization structure built on the domestic findings of Chandler and utilized a classification scheme similar to Chandler's in describing the developmental process of multinational organization structures. They

suggested that there are three basic structures which characterize the organization as the firm grows or expands. In a Stage 1 structure, the firm is usually small enough to be managed by a single individual, most frequently the owner and founder. Due to the small size of the company, there is almost no delegation of managerial tasks or activities. If the entrepreneur is successful and the company grows, eventually he can no longer cope with the increased volume of demands on his time.<sup>80</sup>

The Stage 2 structure evolves when the company begins to establish functional departments such as finance, sales, and production. The company officers in each functional area usually report directly to the president. "At the point of transition, the firm is generally small and producing only a single product or a single line of closely related products, and the spread of operations may not have reached even national dimensions."<sup>81</sup> The Stage 2 structure is capable of accommodating substantial growth; however, much of this growth is achieved by producing more of the product in the same national market.<sup>82</sup>

According to Stopford and Wells, the major elements of the Stage 2 structure are the functional departments and the office of the president. "Each department is responsible for one specialized part of the firm's activities, and each is composed of subunits that are even more specialized."<sup>83</sup> While all of the departmental heads have the responsibility of administering their own units, their activities are coordinated by the office of the president.

The Stage 3 structure represents a fundamental change in the activities of the organization and arises out of the need to coordinate

and control the activities associated with product or geographic diversification. The Stage 3 structure is often referred to as a divisionalized structure in which various divisions become profit centers. The functional hierarchy of the Stage 2 and 3 structures is similar; however, in the Stage 3 structure, finance is frequently moved from the divisional hierarchy and is administered in the central office. Another difference between the Stage 2 and Stage 3 structure is that the president of the organization spends more time on determining strategy and less on the day-to-day operations and supervision of the various functional departments. Another important difference between the second and third stages is that the primary boundaries of the activities of each division are based on product differences rather than the functional differences characterizing the Stage 2 structure.<sup>82</sup>

While international expansion is accompanied by similar structural changes in the company, there are some differences between the changes that accompany international expansion and those that arise out of mere product diversification. Entry into foreign markets does not lead directly into the development of a Stage 3 structure. Instead, firms generally go through an initial period in which all of their new subsidiaries are tied to the parent firm by loose financial links and the structure resembles a holding company.<sup>83</sup> During this phase of international expansion, the subsidiaries are relatively autonomous in their operations and do not represent a substantial portion of the company's business.

The second phase of international expansion is characterized by the grouping of these operations into an international division. "The international division is typically considered an independent part of the enterprise and not subject to the same strategic planning that guides the domestic activities."<sup>84</sup> Eventually, the international division is replaced by a third-phase structure which may take the form of a product, region, or a combination of products and markets which provide for strategic planning on a consistent and global basis. In this third-phase structure, the foreign activities are more closely integrated with the rest of the structure.<sup>85</sup>

Perlmutter described a similar process of organizational change or evolution. In his view, the firm begins with an ethnocentric approach to managing the international activities, which implies the application of home country standards in guiding and evaluating subsidiary operations. The second phase is termed polycentric. In the second phase, the company operates much as a holding company and emphasizes the autonomy of the various subsidiaries while requiring only that the subsidiary obtain a favorable return on investment or other standard measures. The final stage of the evolutionary process is referred to as geocentric in that the corporation adopts a global outlook in evaluating opportunities and attempts to optimize the allocation of corporate resources on a worldwide basis.<sup>86</sup>

The relationship of the multinational organization structure to the product line of the firm was described by Stopford and Wells. They held that the degree of product diversity experienced by the

firm in international markets will influence whether the firm is characterized by a Stage 2 or Stage 3 structure. When new product lines are introduced, internationally, organizational problems emerge which are not adequately dealt with by an international division. In their view, "Just as product diversification at home is associated with the move from a centralized Stage 2 structure to a decentralized Stage 3 structure, so product diversification abroad is associated with the move from an international division to a global structure."<sup>87</sup>

Whether product diversification occurs in related product areas or in unrelated product areas will also have an effect on the means by which the company manages this diversification. To quote Stopford and Wells:

A recent study has shown that firms with a diversified line of related products tend to build elaborate procedures and large staff groups to control interactions among the divisions. The autonomy of the divisional managers is constrained. When diversification takes place in unrelated products, however, divisional autonomy remains high, central staff groups are small, and financial controls are limited.

In cases of diversification into closely related products, firms are faced with the problem of deciding whether the differences between the products are more important than the similarities. For the reasons discussed in Chapter 2, a Stage 3 structure tends to be more appropriate than a Stage 2 structure when the differences are judged to be more important than the similarities. Though many considerations are involved when a firm makes its choice of organizational structure, one of these is the degree of product differentiation in the firm.<sup>88</sup>

Stopford and Wells used the Standard Industrial Classification (SIC) Code to measure the degree of product diversity characterizing a particular firm and found that companies producing products in more than one two-digit SIC code tended to have Stage 3 structures,

while those producing within one two-digit category generally had Stage 2 structures.<sup>89</sup> In addition to providing one measure of product diversification, the SIC code tends to group together products which reflect similarities in markets and production characteristics. In some instances, the categories are also defined on the basis of the raw materials used.<sup>90</sup> In evaluating the level of diversity in foreign markets, they found that international diversification tended to lag somewhat behind U.S. diversification moves and that in no case did a firm in their sample have more product diversity in international than in domestic markets.<sup>91</sup>

Most of the companies utilizing a product structure were characterized by loose control of subsidiary units. Few of these companies found a need for strong area coordination. However, once a product structure was in place, it did not mean that the company would not make changes in its structure over time to accommodate change. "As products age, the technology matures, marketing becomes the critical function, and the potential benefits from area coordination increase."<sup>92</sup> In response to these influences, the organization will often change its structure to include regional committees or coordinating units. However, in 1966, at the time of the study, very few firms with worldwide product structures had moved in the direction of greater regional coordination. At that time, they had not as yet reached the point where regional coordination would outweigh the costs of diluting their single-minded concentration on product coordination.<sup>93</sup>

Some firms have moved toward global organization structures without diversifying their product line. These firms have generally adopted area or geographic structures. The area structure is characterized by a concentrated effort on the development of skills in the production and marketing of a narrow line of products in a large number of markets.<sup>94</sup> The pattern of development for companies organized on an area basis is as follows: "First, an international division is attached to a domestic Stage 2 structure; second, regional groups are formed within the international division; and third, a number of divisions, each responsible for one geographical area of the firm's worldwide market, are established."<sup>95</sup> In this type of structure, the general managers of each of the area divisions share the same positions in the organizational hierarchy and report directly to the president. According to Stopford and Wells, the firms utilizing a geographic structure did not diversify their product lines internationally and were the exception rather than the rule. Companies with area structures tend to remain concentrated in a single industry. Because most of the firms with area structures were also marketing mature products, which have their own managerial requirements, the firms were primarily interested in obtaining the benefits associated with regional coordination.

Typically, an area structure will evolve when the international division of the company becomes so large that it threatens to become the largest division of the firm. "Most of the firms that adopted area divisions did so when their international divisions were threatening to equal the size of their largest domestic

divisions." Consequently, the mere size of international business activity does not account for a shift from an international division to a global one; rather, it is the size of the international division in comparison to the size of the domestic divisions of the company. Stopford and Wells also found that firms which had adopted area structures were no more diversified geographically than other firms with different types of structure.

According to Stopford and Wells, the companies that tend to adopt area structures are highly marketing-oriented firms which often are involved in marketing and managing mature products. Marketing becomes the principal competitive weapon for these companies since the production processes are standardized and are probably available to local firms. Usually, however, the marketing techniques of the parent firm must be adapted to the local market conditions. Initially, the subsidiary is allowed considerable freedom in making these adaptations; however, once several subsidiaries have become successfully established there are increased pressures for standardization, especially in the elements of the marketing mix. This is particularly the case in areas where subsidiaries are operating in geographic areas sharing similar consumer tastes and preferences in close proximity.<sup>97</sup>

Mechanisms for providing adequate coordination of marketing on a regional basis can be developed fairly readily within area divisions and within regional units of an international division. Only occasionally, are there requirements for coordinating the marketing efforts across the boundaries of area divisions.<sup>98</sup>

However, some firms have also attempted to lower their manufacturing costs by having various plants specialize in production of certain



parts or products. Attempts to standardize or "rationalize" production on a worldwide basis lift many of the policy decisions above the level of the subsidiary manager to higher levels in the organization. A manager at the regional or headquarters level must make the decision as to which country will produce which products, what transfer prices will be used, and what markets will be allocated to which subsidiaries.

Product-organized companies have not generally attempted to "rationalize" production on a global basis, although many of the area-structured companies have.<sup>99</sup> Those firms with area structures which have attempted to integrate or rationalize production have generally concentrated on production within each area region.<sup>100</sup> "Where global rationalization of production has been achieved, firms face the problems of coordinating product flows across divisional boundaries, and these conflicts can not be contained within low-level units of the structure as they can when the rationalization is regional."<sup>101</sup> Consequently, it appears that regional managers will have more authority in coordinating production and marketing for their subsidiary units when the company has adopted the goal of rationalized production on a regional basis. Subsidiary autonomy in marketing and production would also appear to be greater in companies which have not sought limited geographic or a global integration of these functions.

Some multinational enterprises have found that neither a product nor geographic structure is an entirely satisfactory means of organization. Many companies, organized on a product basis, would like to obtain some regional or area coordination at lower

levels of the organization. Likewise, in area structures, there may be some benefits associated with greater coordination of products. In response to these needs, a number of companies have established coordinating committees responsible for coordinating interdivisional transactions. Some product committees have been established in firms with area structures and area committees have been created to assist in coordination of international activities in product-structured companies. These committees can be either formal groups or informal gatherings of executives; but, nevertheless, they seem to have been relatively successful in achieving greater coordination and integration than would be possible without them.<sup>102</sup>

Some firms, not wishing to sacrifice area considerations for product concerns and vice versa, have designed organizational structures involving shared responsibilities across divisions and multiple reporting relationships. These structures have generally been referred to as matrix or grid structures. In these new structures, the subsidiary manager usually reports to more than one divisional headquarters; and area and product divisions share the responsibility for subsidiary profitability.<sup>103</sup> The underlying rationale for developing a grid structure for the company is a recognition by top management that differences in products and areas are of roughly equal importance to the company, and are considerably more important than functional differences.

While some firms, such as ITT and Dow, have moved toward adopting grid structures, many managers are reluctant to abandon their other global structures. One of the major reasons for their

reluctance is the fact that the area and product structures employ the principle of unity of command, whereas the grid structures involve primarily shared responsibility.<sup>104</sup> Because grid structures are relatively recent in their application to organizing multinational operations, it is difficult to convince top managers that such a structure would be preferable to the one they currently employ.<sup>105</sup>

Stopford and Wells did not discuss the nature of the subsidiary/headquarters relationship in matrix structures in any detail; however, they suggested that subsidiary managers may experience conflicting demands being made by their area and product supervisors. Other authors have suggested that some of the problems for the subsidiary manager in a grid structure are rooted in the fact that the subsidiary manager no longer has a clearly defined line of accountability for the performance of his sub-unit. If additional headquarters or high-level divisional control accompanies the shift to a grid structure, the subsidiary manager may no longer have the necessary authority to take actions locally which he feels will most favorably affect the profitability and/or growth of the subsidiary unit.

At this point, a brief summary of the literature relating to the influence of corporate characteristics on the degree of centralization employed by multinational firms is appropriate. Based on Stopford and Wells' work, it is evident that the degree of product diversity and the size of international operations relative to domestic operations will influence the particular organization structure adopted by the firm. In 1973, the international division

structure was the dominant form of organization for the majority of multinational companies, despite the fact that a number of companies have already moved toward adoption of one of the following global structures--functional, product, geographic, and matrix or grid.<sup>106</sup>

When a company does adopt a global structure, there are certain variables which influence the choice of a particular structure.

Robock and Simmonds described these influences in the following:

Where there is little product diversity, and where the success of the firm is not heavily dependent on diverse trends in different geographical markets, a functional structure can be effective. Where there is a limited product line, great similarity in end-user markets and in marketing techniques and distribution channels, but where area expertise plays a major role, a regional, or geographic, structure operates well. In such cases, it is less costly to duplicate product and functional expertise than area expertise. Where product lines are diverse, have a high-technology component, serve different end-user markets, and where production and sourcing can be advantageously rationalized on a worldwide basis, the product structure for organization has major advantages. The product structure facilitates the transfer of technology and sales support from producing divisions to international operations and can accelerate growth by forcing domestic divisions to become more aware of the markets and potentials of foreign areas.<sup>106</sup>

Of the global organization structures, the matrix, or grid, structure and the functional structure are least commonly adopted by U.S. multinationals.<sup>107</sup>

Two corporate characteristics, the availability and expertise of executive personnel at headquarters and the managerial philosophy of the corporation, have not as yet been discussed; however, both of these factors exert considerable influence on the degree of centralization that is desirable and/or feasible for a multinational enterprise. As the size and complexity of international operations increase, it becomes more and more difficult for management personnel

in headquarters to be involved in every aspect of the affiliate operations. In some companies, regional or area centers have been established to aid in coordinating and controlling activities within geographic areas. In some cases, these regional centers are primarily communications links between adjacent subsidiaries or between area affiliates and the headquarters. In other cases, the regional center represents a formal link in the organizational hierarchy and may or may not exert considerable control over the affiliates operating within its jurisdiction. Brooke and Remmers, among others, have suggested that the creation of a regional center may either increase or decrease the amount of autonomy experienced by a subsidiary manager. In their view, it depends on how the company headquarters views the regional center.<sup>108</sup>

Managerial traits and management philosophies are another variable influencing the degree of centralization employed by the firm. According to Robock and Simmonds, "Some managements are bold and willing to make frequent organizational changes. Others are cautious and make changes only when absolutely necessary."<sup>109</sup> In their view, the European preference for more centralization over international activities encourages the adoption of functional structures in which a few key executives maintain considerable control over the totality of operations. U.S. firms, on the other hand, appear to favor structures which encourage greater decentralization of decision making, while formal control devices like the profit center concept allow them to maintain more coordination and control within the geographic or product division structure.<sup>110</sup> Brooke and

Remmers found that although many American headquarters personnel ranked their firms as being decentralized, in reality they were quite centralized.<sup>111</sup> Because of improvements in communications and the increased utilization of more sophisticated planning, budgeting, and programming techniques, companies are able to gain more complete integration of their international and domestic activities. As a result, "authority over more and more matters is moved upwards, whether this is justified or not."<sup>112</sup> Consequently, although headquarters managers may maintain a philosophy favoring decentralization, "a decentralizing ideology masks a centralizing reality."<sup>113</sup>

Another aspect of a firm's management philosophy is reflected in its orientation to foreign people, ideas and resources in headquarters and subsidiaries, and in host and home environments. Perlmutter described three basic types of management philosophies as being ethnocentric, polycentric, and geocentric. The ethnocentric orientation would be home-country oriented and the polycentric host-country oriented. The geocentric would imply a world-oriented managerial philosophy.<sup>114</sup> One would expect that the degree of centralization would be greatest with the ethnocentric orientation and least with the polycentric. The geocentric philosophy would encourage a worldwide approach in both headquarters and subsidiaries and would be characterized as adaptive to local conditions and environments as well as integrative in optimizing the allocation of corporate human and material resources.

The preceding discussion has reviewed some of the major corporate characteristics which exert an influence on the nature of the relationship between headquarters and their subsidiaries. Since subsidiary characteristics have also been shown to have an influence on this relationship, the following section of the literature review focuses on the major subsidiary variables which influence this relationship.

#### Subsidiary Characteristics

The degree of decision-making latitude allowed a subsidiary has been shown to be influenced by the following subsidiary characteristics: (1) subsidiary age and size, (2) availability and qualifications of local management, (3) geographic distance from headquarters or other affiliated sub-units, (4) subsidiary environmental characteristics, and (5) degree of certainty or uncertainty in the subsidiary environment. This section of the literature review considers each of these variables as they relate to the amount of authority held by the subsidiary.

Several authors have suggested that subsidiaries which are older will be allowed more latitude in decision-making authority than will new subsidiaries. Stopford and Wells cited one particular corporation in supporting this contention. "In the Armstrong Cork Company, for example, well established subsidiaries are allowed considerably more flexibility in short-term financial management than are the new subsidiaries."<sup>115</sup> However, they seemed to feel that this supposed greater authority or autonomy is more apparent than

real. In their view, such latitude is possible only because the manager is known to be conditioned to predictable patterns of behavior that are in line with the policies of the firm.<sup>116</sup> Given this description, it is difficult to determine whether or not the subsidiary is given greater autonomy because of its age or stability or because of the experience of the local manager. In any case, they did suggest that some subsidiaries appear to have more autonomy than others, but they did not cite any empirical evidence as to the variables which might account for these differences.

Robock and Simmonds also considered age factors which might account for differences in subsidiary autonomy among subsidiaries of the same company. According to them, "Among the factors that determine the degree of centralization or decentralization are the age, size, and profitability of a specific subsidiary. Large, long established and profitable subsidiaries are likely to have the maximum degree of autonomy."<sup>117</sup> Enid Lovell, in a 1969 Conference Board Study, similarly observed that subsidiaries within the same company will have either lesser or greater degrees of autonomy depending on their age, size, and level of profitability.<sup>118</sup>

While a number of authors have cited age and profitability as determinants of the degree of autonomy granted a particular subsidiary, it appears that most of these assertions have not been substantiated with empirical evidence. Furthermore, most of these authors have treated autonomy as a dependent variable influenced by size, age, and profitability; however, without empirical support, it seems equally likely that profitability may be a function of the



degree of autonomy granted to the subsidiary management. Consequently, one of the major objectives of this dissertation was to explore the nature of the relationships between autonomy, age and size, and performance.

With respect to subsidiary size, several authors have suggested that the larger subsidiaries will be allowed greater participation in decision making than will smaller subsidiaries. Aylmer maintained that the size of the local subsidiary--measured by the local affiliate sales as a percentage of total corporate sales--influences the nature of the working relationship between headquarters and the subsidiary unit. According to Aylmer, the frequency of higher level involvement in making local marketing decisions was similar for the two categories of affiliates he identified--those with less than 1.5 percent of total corporate sales and those with more than 1.5 percent of total corporate sales.<sup>119</sup> Interestingly, he observed that although the frequency of higher level involvement was similar for both groups, the type of involvement varied by category. "At the smaller affiliates, higher level management more often imposed decisions upon local management; this was true for twenty-eight product decisions and for six price and advertising decisions."<sup>120</sup> For the larger affiliates he observed, "such higher level involvement more often took the form of authority shared with local management, as happened for eleven product designs, sixteen pricing decisions, and twenty-two channel decisions."<sup>121</sup>

Aylmer's work suggests that as the subsidiary becomes larger vis-à-vis total corporate sales, the subsidiary is given greater

participation in marketing decision making; however, he did not test whether or not the subsidiary is given greater autonomy in decision making in other functional areas as it increases in size. Based on Aylmer's work, it seems reasonable to assume that similar shifts in decision-making authority or participation may occur in other functional areas as the subsidiary increases in size. On the other hand, some authors suggest that companies may exercise much tighter control over financial issues than others. In addition, because Aylmer limited his study to examining the Western European operations of nine U.S. corporations producing consumer nondurables, it is impossible to determine intra- and inter-industry similarities and differences. Therefore, this dissertation will consider the degree to which subsidiary autonomy may vary across functional areas, across industries, and between subsidiaries of differing sizes within the same company.

While there have been a number of references to the influence of size, profitability, and age on subsidiary autonomy, the nature of this relationship is not clear. Based on the discussion of these three variables in the literature, it would seem logical to assume that when a subsidiary is first established, management may find it necessary and/or desirable to maintain tighter control over the operation until the subsidiary is operating profitably and with a certain degree of stability. Once the operation has reached this point, it seems likely that additional monitoring by headquarters may evolve. Thus, a curvilinear relationship could perhaps better describe the degree of headquarters involvement in subsidiary

management as the subsidiary ages and its total sales increase. By considering age or size alone, which many authors have, the possibility of such a relationship existing is not taken into consideration in the research design nor in the analysis.

Another factor cited by the general international business literature as influencing the degree of subsidiary autonomy is the capability and qualifications of local management. Robock and Simmonds suggested that the degree of centralization or decentralization allowed a subsidiary will depend on the amount of confidence placed in the subsidiary management.<sup>122</sup> Stopford and Wells also suggested that the amount of control maintained over subsidiary operations will vary with the local manager's level of experience. "A firm may judge that control by exception is appropriate for a seasoned international manager with an outstanding track record, whereas close control is required for less experienced managers."<sup>123</sup> If one assumes that the more veteran or seasoned managers are selected to head the major subsidiary operations of the company, the additional participation large subsidiary managers enjoy--as cited by Aylmer--may, in fact, be attributed to their level of experience within the company or to their international experience rather than to subsidiary size as Aylmer suggested. Unfortunately, neither of these authors defined what was meant by "experience." It could mean length of service with the company or in international operations, industry experience, country experience, functional experience, and/or the levels of responsibility held in one or more subsidiaries or in corporate operations over time.

Brooke and Remmers also considered the influence of the local manager in determining the degree of headquarters control that may be maintained over subsidiary operations. In their view, the confidence that head office executives have in a subsidiary manager will influence the type of relationship that subsidiary manager has with headquarters. According to them:

The latter (subsidiary managers) will be kept in a close relationship until their performance improves, but this relationship may block the improvement. When they are given more initiative, this may lead to the making of mistakes which will give ample justification to those at the head office who argue against decentralization anyway--the corporate hawks, as they might be called. Further, these mistakes, if they do not lead to new procedures removing local discretion from the local managers, may well lead to the development of further central services which will effectively reduce the autonomy of the subsidiary.<sup>124</sup>

One factor which was not considered by any of the authors surveyed was nationality of the subsidiary manager as it might relate to the degree of autonomy in operating or strategic planning authority. If the subsidiary manager has had a long tenure with the international or domestic divisions of a company, especially if these have included personal contact with headquarters personnel, these associations may lead to a higher level of trust or informal communications between the manager and the headquarters personnel. In the case of a local national, such informal links with the home office may not as yet have been established; therefore, the degree of confidence in the manager's ability may be less than for the expatriate manager. In addition, the local national may have had less experience with the company when length of service and home-country experiences are

considered. If there are differences in the degree of authority given a local manager and that allowed an expatriate or third-country national, countries may be frustrated in their attempts to gain more local control over subsidiary operations through public policy directives requiring hiring of local nationals.

The third category of subsidiary variables exerting an influence on the degree of centralization or decentralization employed by a particular firm with respect to subsidiary management includes the geographic distance of the subsidiary from headquarters, regional centers, or other affiliated sub-units. Because so many authors examining the centralization/decentralization topic area have focused their inquiry on a limited geographic area--such as Western Europe--it has not as yet been established that geographic distance of the sub-unit may play a role in determining the degree of autonomy that unit enjoys. Intuitively, it would seem that subsidiary operations located in geographically proximate locations such as Mexico and Canada might find a much greater degree of contact with headquarters personnel in all functional areas. Given the ease of transportation, communication, and the facility with which inspection or consulting visits can be made in these countries, it would be reasonable to expect that management might be able to be more involved in the day-to-day operations of these affiliates more than in those located substantial distances away. On the other hand, the further away that the subsidiary is located, the greater may be headquarters' interest in maintaining control of subsidiary operations through more rigid policy and operating guidelines.

It is also possible that geographic location may also interact with age, size, and profitability variables in that extremely large subsidiaries located in distant parts of the globe may be characterized as having more interaction with headquarters in decision making than would relatively small, isolated subsidiary operations not considered as critical to the overall operations of the firm. While none of the authors surveyed considered geographic variables in any detail, Stopford and Wells suggested that geographic variables may be important in influencing the degree of centralization desired when national markets are adjacent and the necessity of coordinating of national marketing strategies must be achieved. According to them:

Once several of them (subsidiaries) have been successfully established, however, there are pressures to reduce the autonomy of each marketing-oriented subsidiary, especially if they are located in areas that share common consumer preferences. As more and more people become internationally conscious, there are pressures for standardizing brand names and images. In Europe, particularly, where large sectors of the population are constantly being exposed to cross-border advertising on television and radio and in magazines, the demands for standardization among national markets are becoming stronger.<sup>125</sup>

Although corporate response to these demands has not necessarily involved a headquarters centralization of marketing effort, many firms have found that regional coordination can provide a means of controlling product quality, ensuring consistency in promotion and pricing, and in some cases provide savings through the standardization of marketing elements. In addition to providing increased coordination and control, regional or headquarters involvement in the marketing efforts of subsidiaries can result in substantial cost

savings for some companies. Stopford and Wells cited the following as a case in point:

For example, the European operations of Cheeseborough-Pond's at one time retained over fifty separate agencies, running dozens of different campaigns. When the firm established a European headquarters it found it could coordinate advertising policy more effectively than was possible before. The European division has reduced the number of agencies to six and standardized many of the campaigns.<sup>126</sup>

Stopford and Wells also suggested there are certain advantages in coordinating other elements of the marketing effort, as is illustrated by the following:

There are situations where advantages may be gained by coordinating other parts of the overall marketing effort for consumer products. One large food-processing firm, for example, considers that it could reduce costs considerably by developing one standard package for the prepared soup brand it sells in Europe. Such a move would have the added advantage of reducing the consumer confusion that has resulted from the use of eleven different packages in the various national markets. A few firms have even gone to the extent of standardizing advertising on a worldwide basis. Pepsi-Cola sells exactly the same product in all its numerous national markets and uses the same advertising and promotional themes in all of them. The transfer of marketing programs from one country to another is important in other marketing-oriented firms, though some adaptation to local conditions occurs.<sup>127</sup>

Not only consumer but also industrial goods suppliers find that it is often desirable and/or necessary to coordinate marketing efforts on a regional basis. Given the fact that many buyers of industrial products and supplies are sub-units of large international firms, these buyers are often able to demand and receive standardized products, prices, and service commitments from various subsidiaries.<sup>128</sup> Therefore, one would expect that subsidiaries of industrial products manufacturers may have less autonomy in marketing decision making

than would subsidiaries of other companies not facing stronger purchaser demands for uniformity in terms of sale and service.

Although most authors have not elected to study the influence of geographic location on the degree of autonomy experienced by subsidiaries within the same company, it would seem that there are greater opportunities for headquarters direction or control when regional centers or coordinating units are established to deal with the operations of certain areas. Even if a formal regional administrative unit is not established, the opportunities for informal communication and coordination would seem enhanced by the existence of a large number of subsidiaries within a single country or area region. Likewise, the more isolated the subsidiary--interpreted as the distance from headquarters or from other affiliated sub-units--the greater are the problems associated with maintaining headquarters involvement in managing operations of the subsidiary. On the other hand, it is possible that the greater the distance from headquarters to other operations, the greater will be the formal and informal controls that are established to oversee the subsidiary operations.

Geographic location may also influence the degree of autonomy governing subsidiary management in production decisions. Companies interested in achieving economies and synergistic effects in production sourcing decisions may choose to rationalize production on a regional or international basis. One would expect that those companies attempting to coordinate production and sourcing decisions on either a regional or global basis would require more centralized approaches to coordinating production decisions. This would be



particularly true of companies relying on numerous subsidiary operations for supplying of component parts and equipment that are brought together in the final assembly of the company's products. Integrated production and sourcing strategies generate corresponding needs for coordination and control of component or product quality, logistical planning, cost control, and sourcing decisions. Companies which have not elected to rationalize production on a limited or global scale would appear to require much less centralization of authority for production decisions within subsidiary operations.

A fourth variable considered an influence on the amount of authority in decision making the subsidiary has is the nature of the environment surrounding the subsidiary. In recent years, the literature in business administration in general, and organization theory in particular, has begun to reflect a growing interest in viewing organizations and their behavior as a product of the interplay of intraorganizational and environmental factors. A number of organizational theorists have attempted to describe the nature of the relationship between the organization and its environment. Among these are Selznick,<sup>129</sup> Burns and Stalker,<sup>130</sup> Woodward,<sup>131</sup> Hall,<sup>132</sup> J. D. Thompson,<sup>133</sup> Perrow,<sup>134</sup> and Lawrence and Lorsch.<sup>135</sup> The general line of reasoning pursued by these authors incorporates the view that there is not an "ideal" form of organization universally applicable to all types of organizations.

While all of these authors consider the nature of the relationship between the organization and the environment as an influence on the ability of the organization to survive, optimize performance,

and/or grow, all of them have focused on studying or describing organizations and their sub-units (i.e., departments) located within a single national environment. In this approach, the sub-units and the organization as a whole are surrounded by a single national environment and its particular political, legal, economic, cultural, competitive, technological and geographic components. While each of these dimensions may exert pressures or opportunities differentially across intraorganizational units, the organization as a whole still faces one environment. In multinational corporations, however, the sub-units (i.e., subsidiaries) are located within different national environments which may bear little resemblance to each other or to the environment of the country in which the parent company is located.

Lawrence and Lorsch suggested that one should not think in terms of a single environment characterizing the milieu in which an organization functions. They argued that the organization orders itself into three basic subsystems--sales, production, and research and development--and that each of these subsystems is viewed as coping with its own relevant "subenvironments."<sup>136</sup> The relevant subenvironments for each of these sub-units are the market subenvironment, the technical-economic subenvironment, and the scientific subenvironment.<sup>137</sup> In their view, each of these subenvironments can range from highly dynamic to extremely stable conditions; therefore, a single, global view of the organization environment may obscure important differences within each environmental sub-sector and the differential pressures or opportunities faced by each of the relevant

subsystems or sub-units of the organization. Their conceptual approach is summarized as follows:

The importance of the concepts of differentiation and integration to the analytic scheme developed here can best be indicated by the definition of the primary unit of analysis in this study--the organizational system. An Organization is defined as a system of interrelated behaviors of people who are performing a task that has been differentiated into several distinct subsystems, each subsystem performing a portion of the task, and the efforts of each being integrated to achieve effective performance of the system. Differentiation is defined as a state of segmentation of the organizational system into subsystems, each of which tends to develop particular attributes in relation to the requirements posed by its relevant external environment. Differentiation, as used here, includes the behavioral attributes of members of organizational subsystems; this represents a break with the classical definition of the term as simply the formal division of labor. Integration is defined as the process of achieving unity of effort among the various subsystems in the accomplishment of the organization's task. Task is defined as a complete input-transformation-output cycle involving at least the design, production, and distribution of some goods or services. By these definitions, the boundaries of organizations will not always coincide with their legal boundaries; some institutions, such as large corporations, encompass a number of organizations by our definition; while others, such as certain subcontractors, do not constitute a single complete organization.

It is helpful to look first at the relation between the development of specialized attributes of subsystems and the task of each subsystem in coping with the relevant segment of the external environment.<sup>138</sup>

While Lawrence and Lorsch did recognize that subsystems within an organization may face varying subenvironments, they did not really address themselves to the problem of the multinational firm which must integrate worldwide operations of subsidiaries, joint ventures, licensees, etc., as well as the various functional activities performed within each sub-unit. Because the subsidiaries and other corporate affiliates are usually linked to the parent company

by a number of formalized and informal policies and practices, the various subsidiaries can not necessarily be isolated from each other on the basis of the subsidiary environment alone. Generally, domestic studies of organizations and their environments have concentrated on the ability of a single organization unit to structure its activities and allocate resources in response to certain environmental pressures. These organizations are viewed as having the power or authority to make these determinations based on management's assessment of organizational goals, company resources, and environmental constraints and contingencies. In the case of the subsidiary, the organizational unit is usually constrained in a variety of ways by the managerial and ownership ties that exist between the subsidiary and corporate headquarters. Therefore, the necessity and/or desirability of responding to unique configurations of local environmental conditions is not totally within the subsidiary management's power.

Lawrence and Lorsch, recognizing the complexity of modern corporations, suggested that "some institutions, such as large corporations, encompass a number of organizations by our definition."<sup>139</sup> However, it is not clear how they distinguished between the large corporations they chose to exclude from their definition and those they intended to include. This is especially significant since the corporations they utilized as members of their sample of six chemical-processing firms were assumed to be single corporate entities and yet "complex" organizations. In their words, "the study was designed to examine a fairly wide-ranging set of variables on a comparative basis in a set of complex organizations."<sup>140</sup> While they maintained

that "the six organizations were operating in the same environment" and that the only attempts to characterize this environment were restricted to the requirements of the three subenvironments faced by all firms--the market subenvironment, the technical-economic subenvironment, and the scientific subenvironment--it is not clear whether the six firms were all limited to domestic operations and to production and marketing within a single SIC code classification.

If it is necessary for the organizational units being studied to exhibit a certain degree of homogeneity, it is important to delineate the means by which the organizational units are defined as well as the criteria used in making that determination. Otherwise, similarities and differences between organizations may be attributed to other factors not accounted for in the analysis. In the case of the Lawrence and Lorsch study, the authors suggested that some corporations are composed of a number of organizations; therefore, the implication is that each organizational unit should be examined individually rather than focusing on the corporation as a whole. From a research perspective, this approach suggests two basic problems. First, one must be able to determine when a corporation is so complex as to dictate a unit-by-unit analysis rather than a more global approach which would encompass the organization as a whole, and they suggested no guidelines to be utilized in making this decision. Second, even if one selects one or more sub-units within the organization as the focus of the analysis (i.e., a division), there is still no recognition given of the fact that the sub-unit is indeed a part

of a larger organization which must have some influence on the policies, procedures, and practices characterizing the unit being analyzed.

Their approach does not totally reflect the realities of multinational corporations which have subsidiaries located in different environments and linked to the parent offices by informal and formal channels. In these companies, the task of management is to manage the total firm as well as the activities of each of the sub-units. This is particularly significant when one realizes that some firms have much tighter controls over sub-unit operations than do others. Lawrence and Lorsch's approach implicitly assumes that the organizational units within the corporation (i.e., divisions or subsidiaries) can be isolated from the organization as a whole and that each of these organizations has almost total freedom of action to initiate and respond to its immediate environment. As indicated earlier in the literature review, the central problem facing many multinational corporations which recognize the differences in subsidiary environments is the determination of the degree of autonomy that should be extended subsidiary organizations in their operations and planning.

Although most of the publications of the organization theorists do not address themselves to the complex environmental configurations faced by multinational corporations, it does not mean that some of their concepts and findings can not be appropriately applied in studying international organizations; however, it is important to recognize their limitations in international applications and the

necessity of fitting their hypotheses to these situations. With this in mind, we can now consider some of the hypotheses advanced by Lawrence and Lorsch and their findings which may have some application in studying the subsidiary organization and its environment as well as the headquarters/subsidiary relationship.

One dimension of the subsidiary/headquarters relationship that illustrates the amount of control exerted by headquarters or its regional unit over the subsidiary is the degree to which procedures and policies are formalized and communicated to the subsidiaries for guiding their operations. As previously mentioned, Brooke and Remmers referred to this growing practice by multinationals as "a centralizing reality masking a decentralizing policy." In their study, Lawrence and Lorsch used the term "structure" to describe "those aspects of behavior in organizations subject to pre-existing programs and controls."<sup>141</sup> They hypothesized that "the greater the certainty of the relevant subenvironment, the more formalized the structure of the subsystem."<sup>142</sup> While they were dealing with domestic corporations as the unit of analysis and the various departments or functional groupings existing within those organizations as the subsystem units, it is possible to generalize to the international level by suggesting that the more certain the subsidiary environment(s), the more formalized the structure of the subsidiary/headquarters relationship. In support of their hypothesis, they cited the findings of a number of organizational researchers:

Leavitt, as well as other researchers working with experimental groups, found that groups working on relatively simple and certain tasks tend to perform the task better when the

groups had more structure (i.e. pre-planned and limited communication nets), whereas groups working on uncertain, more complex tasks tended to perform better with less structured communication nets. In field studies, Burns and Stalker found that organizations that were profitably coping with uncertain, changing environments had a low degree of formalized structure ("organic"), instead of formalized structure ("mechanistic") environments. Woodward also found a relationship between the nature of the task and the structure of the organization. More significantly, she found that the more profitable organizations tended to adopt structures consistent with the requirements of their technological environments. Similarly, Hall found that departments with routine tasks tended to have a higher degree of bureaucracy (structure) than departments with less certain tasks. These findings suggested that subsystems in any organization could be expected to develop different degrees of structure in relation to the certainty of their environment.<sup>143</sup>

In attempting to measure the certainty of the environment, Lawrence and Lorsch interviewed top executives in each of the organizations and "concluded that the certainty of these environments could be measured by: (1) the rate of change in environmental conditions, (2) the certainty of information at a given time about environmental conditions, and (3) the time span of definitive feedback from the environment."<sup>144</sup> The following dimensions were used to measure the structure of the subsystem: "the span of supervisory control, number of levels to a supervisor shared with other subsystems, the specificity of review of subsystem performance, and the emphasis on formal rules and procedures."<sup>145</sup> Data concerning these characteristics were gathered from company manuals, organization charts, and interviews with subsystem managers. According to Lawrence and Lorsch, the most important finding was that subsystems within each organization did tend to rank from low to high structure in relation to the certainty of the environment.<sup>146</sup>



In evaluating their findings, some weaknesses in their measurement instruments have been suggested. Tosi, Aldag, and Storey, in an attempt to replicate the Lawrence and Lorsch environmental uncertainty measure, found that the instrument used to generate subscale environmental uncertainty measures was methodologically inadequate.<sup>147</sup> They suggested that "if the items are measures of uncertainty, the subscale reliabilities are too low to be treated as measures of different environments, for example, marketing, production, and research."<sup>148</sup> Although they suggested that Lawrence and Lorsch might reconstruct their analysis using environmental uncertainty in a more global fashion, they pointed out that their findings would seem to indicate that this is not particularly desirable in light of the negative correlations they found between the scale and the present volatility measures they used.<sup>149</sup> Most of the comparative management models define environment in a much broader fashion than is usually the case in the empirical studies of the organization researchers. The comparative management models tend to include the following general characteristics as elements of the subsidiary environment: economic, social, cultural, legal, political, competitive, technological, and geographic. The relevancy of these models to this research project will be reviewed at some length later in the literature review.

Lawrence and Lorsch proposed a number of hypotheses regarding the nature of the relationship between the organization and its environment which suggested additional ways of viewing the subsidiary-headquarters relationship. They hypothesized that "the time

orientations of subsystem members will vary directly with the modal time required to get definitive feedback from the relevant subenvironment."<sup>150</sup> In measuring the time orientations of subsystem members, they asked individuals within each of the different units to allocate the percentage of their time spent on activities which would affect the organization's profits within specific time periods: "less than one month, one month to one year, and one year to five years."<sup>151</sup> They found that the time orientations of the individual subsystem members were related to the time span of definitive feedback from the relevant subenvironment. For example, they found that "sales and production subsystems tended to have the shortest time orientations, consistent with the shorter time span of definitive feedback in the market and technical subenvironments."<sup>152</sup>

Lawrence and Lorsch were also interested in examining the possible influence of the subenvironment on the goal orientation of the subsystem members. They hypothesized that the members of a subsystem will develop a primary concern with the goals of coping with their particular subenvironment.<sup>153</sup> While it would appear to be intuitively apparent that production managers would be more concerned with production equipment and the actions of suppliers, they were interested in obtaining some measures of the degree of differentiation characterizing the organizations under study. In their view, the more differentiated the subsystems within an organization, the more difficult will be the task of integrating their activities.

Recognizing that subsystems within an organization must respond to the unique configurations of their subenvironments at the

same time that the organization as a whole must provide a means for integrating their activities, Lawrence and Lorsch were interested in determining how organizations successfully accommodated these seemingly contradictory forces. They hypothesized that:

Overall performance in coping with the external environment will be related to there being a degree of differentiation among subsystems consistent with the requirements of their relevant subenvironments and a degree of integration consistent with requirements of the total environment.<sup>154</sup>

In their view, various formal and informal integrative devices are being created by corporations to obtain the coordination and control necessary for assuring overall organizational performance. Therefore, they further suggested that "when the environment requires both a high degree of subsystem differentiation and a high degree of integration, integrative devices will tend to emerge."<sup>155</sup>

In applying these characteristics to the subsidiary-headquarters relationship, we could say that the subsidiaries may require a high degree of differentiation in order to operate successfully in their relevant subenvironments. And, overall corporate performance will be related to there being a degree of differentiation within those subsystems consistent with the demands of their particular national environments as well as a level of integration consistent with the requirements of the corporation's total environment. Furthermore, when these corporations are characterized as requiring a high degree of integration, integrative devices will tend to emerge. The integrative devices may be of the form of regional offices mentioned earlier in the literature review, or they may be informal or formal gatherings of subsidiary managers, or increased

applications of procedural guidelines and more frequent reporting of various types of operating data.

In reporting their findings, they found that the "more highly differentiated pairs of subsystems were encountering more difficulty in achieving integration than the less highly differentiated pairs."<sup>156</sup> In addition, they found that only the sum of the differences in orientations and differences in formalized structure between subsystems was related to the ability to achieve effective integration. One differentiation measure, taken alone, would not provide a consistent prediction of integrative effectiveness.

In examining the nature of the relationship between the degree of integration and differentiation and performance, Lawrence and Lorsch predicted that organizations that were both highly differentiated and highly integrated would be more effective than the less effective organizations. Realizing the difficulties encountered in attempting to measure performance as well as the reluctance of sample members to reveal specific financial information, they were only able to obtain index values which they used as an indication of performance. Based on these measures, they divided the organizations into three performance categories: high (I and II), medium (III and IV), and low (V and VI). Their results are reported as follows:

The two high-performing organizations had both the high differentiation and high integration demanded by this environment. The two medium-performing organizations (III and IV) were not achieving the required degree of differentiation or integration. Although organization IV had achieved high differentiation it had relatively low integration, it had

the second lowest degree of differentiation. Organization IV, one of the two low performers, had both the lowest degree of differentiation and the lowest degree of integration. The other low-performing organization (V) was achieving relatively high differentiation, but had very low integration.<sup>157</sup>

They also found that integrative devices did emerge in the organizations they were studying, which confirmed their hypothesis. Since not all of the integrative subsystems or integrators were as effective in achieving integration among the various subsystems, they attempted to determine some of the characteristics which may influence the ability to obtain integration. Drawing on earlier works by Blau and Scott,<sup>158</sup> they decided to examine whether the more effective integrators were individuals whose influence was based primarily on their technical or professional competence rather than on their positional authority in the organizational hierarchy. They found that the integrators in the high-performing organizations (I and II) were seen as having influence based more on their professional expertise than the integrators in the less effective organizations. In those organizations, the integrators were seen as having "influence stemming from their positions, either because of the formal authority of their position or because of their close proximity to top management."<sup>159</sup> In the case of a multinational corporation, the characteristics of an effective integrator might be previous experience in international operations generally, specific country experiences, and/or technical knowledge.

One other aspect of effective integration studied by Lawrence and Lorsch was the nature of the decision-making process and the ability of various levels within the subsystem to exert an influence

on that process. In their view, the organizations which were able to achieve the most effective integration would be those in which interdepartmental conflicts would be resolved at the level in each subsystem where the most knowledge about subenvironmental conditions was available. They felt that better integration would be achieved if the persons who had the knowledge to make decisions also had sufficient influence to do so. In measuring influence in each subsystem, they asked managers to respond for their subsystems on a five-point scale ranging from "little or no influence" to "a very great deal of influence." They then analyzed these data to determine whether the levels where influence was concentrated were also the same levels at which the required knowledge was present. While they found considerable variability among the less effective organizations on these measures, they did find that "organization I, which achieved the highest integration, met this condition completely; organizations II, III, and IV met it partially, and organizations V and VI, with the lowest degree of integration, met it the least."<sup>160</sup>

One of the most frequent complaints raised by subsidiary managers, when faced with increased centralization of decision making, is that the individuals who are making the decisions do not understand the peculiar nature of the subsidiary environment. On the other hand, headquarters personnel interested in obtaining economies in marketing or production or finance argue that these economies can only be achieved if certain decisions or strategies are centralized or raised above the subsidiary level. Unfortunately, there have been no empirical studies in the international area which examine the

relationship between the level of decision making within an organization, or within functional areas, and the performance or effectiveness of that organization. While some authors have attempted to describe the degree of subsidiary or affiliate participation in certain decision-making contexts, they have not related their findings to performance measures.

As indicated earlier, there are a number of weaknesses in the Lawrence and Lorsch study. In addition to the impreciseness of their definitions and in the instruments they used to measure environmental uncertainty, it should be noted that they were limited to examining six firms within the U.S. Nevertheless, in many respects, many of their concepts and hypotheses seem to be very useful in viewing multinational corporate organizations. It would appear that the large number of distinct subenvironments in which multinationals maintain subsidiary operations would require an even greater degree of differentiation than may be true of the subsystems of purely domestic corporations. Furthermore, the task of achieving integration of these subsidiary and affiliate organizations would appear to be much more complex than that encountered domestically.

While many of the authors cited earlier did not use the terms differentiation and integration, their observations tend to support Lawrence and Lorsch's conceptual approach. For example, Perlmutter's view of international companies passing through the ethnocentric, polycentric, and geocentric philosophies seems to fit quite well. The ethnocentric firm is highly integrated, but not differentiated in that home country standards and policies prevail and

accompany high degrees of centralization of decision making. The polycentric approach, recognizing the uniqueness of each subsidiary environment, allows for almost no integration of sub-units and encourages high degrees of differentiation through decentralized decision making. The geocentric firm, on the other hand, represents a model of the corporation that is characterized by high degrees of both integration and differentiation. In his view, the geocentric firm is also the most effective in that it is able to obtain synergy and optimal overall performance. Each of the other two results in suboptimization of corporate performance.

Brooke and Remmers, among others, have reported that multinational corporations appear to be moving toward greater degrees of centralization in coordination and control of subsidiary activities and operations. Again, while they did not utilize Lawrence and Lorsch's terminology, they did appear to be observing an increase in the degree of integration brought about by the creation of formal and informal integrative units and procedures. They, like many other researchers, seemed to assume that because the organizations are becoming more integrated, they are naturally becoming less differentiated. However, they did not apply measures of differentiation similar to those suggested by Lawrence and Lorsch's work. Because of this, the current international business literature seems to run counter to Lawrence and Lorsch's observation that, in some environments, high-performing organizations are characterized by increased levels of both differentiation and integration.



Lawrence and Lorsch's observation that subsystems, in order to be effective, must be able to respond to the relevant dimensions of their subenvironments is particularly critical for the multinational firm. In their study, they used functional departments within a single company as the subsystem units of analysis. While it is important for the marketing department within a particular firm to be able to respond effectively to the demands of its relevant subenvironments, Lawrence and Lorsch did not measure the performance of the sub-unit, but rather focused on the organization's performance. Each department then contributes to the ability of the firm to achieve certain performance levels. If we take the subsidiary as the subsystem unit of comparison, we find that the ability of each of the functional departments within that subsidiary to respond to its relevant subenvironments will be directly dependent on the nature of the relationship between the subsidiary and the corporation as a whole. Consequently, the profitability of the subsidiary is influenced not only by its environment, but also by its relationship to headquarters.

In contrast to the functional units used by Lawrence and Lorsch, there are measures of profitability which may be relatively easily determined for subsidiaries; therefore, measures of subsystem performance as well as overall corporate performance can be obtained to illustrate organizational effectiveness at both levels under varying conditions of differentiation and integration. In addition, subsystems, or subsidiaries, can be compared to each other on these performance measures to determine whether some subsidiary environments may require a greater degree of autonomy or increased

participation in decision making than others in order to perform effectively in their subenvironments. In the case of a purely domestic firm, the marketing functions of the firm must be carried out within a single environment. In the multinational firm, the marketing functions must still be performed; however, a number of subenvironments now exert an influence on the activities associated with that functional area. Consequently, there may be a need for differentiation and integration within functional areas as well as among subsidiary units. Each functional area--production, marketing, finance, etc.--may require more or less differentiation and integration than others for successful performance to occur within the subsidiary as well as for the corporation as a whole.

The conceptual models of organizations developed in the field of comparative management are much more general than those utilized in the current organization behavior literature. They tend to view the environment in more global terms and do not have a strong empirical base of support. The number of variables they include is very large and the ability to test any one of these models is still beyond the limited resources, both financially and data processing wise, that are available for international business research. Nevertheless, they do provide a useful conceptual framework for purposes of this study and suggest a means of applying some of the organization behavior concepts in an international business setting. Therefore, we will now turn to an examination of the major comparative management models which have been developed and their applicability to this particular research study.

Generally, the conceptual and research models developed in the field of comparative management tend to fall into two major categories. The first group--characterized by the Farmer and Richman,<sup>161</sup> Neghandi and Estafsen,<sup>162</sup> and the Estafsen<sup>163</sup>--represent attempts to develop conceptual frameworks which illustrate the nature of the relationship between subsidiaries, their environments, and the performance of the subsidiary. The second level is represented by the more specific case study or field research that attempts to actually identify, measure, and evaluate the environmental variables affecting or influencing individual or organizational behavior. Studies representing this type of approach would include Triandis,<sup>164</sup> Whitehill,<sup>165</sup> William, Whyte, and Green,<sup>166</sup> and Haire, Ghiselli, and Porter.<sup>167</sup> Both approaches have placed considerable emphasis on viewing business organizations and individuals within the context of a larger environmental system, or nation, which is characterized by certain educational, economic, political, and social conditions; however, the conceptual models cited earlier fit the objectives of this research more closely than do the latter more specific studies. Consequently, the literature review is limited to a brief exposition of these models, the variables which they incorporate, and their applicability to this research endeavor.

Before discussing and evaluating these comparative management frameworks, some of the general requirements of a model should be considered. The purpose of a model is to describe, explain, and predict the performance of a system. "To be most useful, the model should explain and predict the behavior of the individual components of a

system."<sup>168</sup> All three of these conceptual models attempt to provide an overall view of the relationship between business organizations and their environments. If an accurate picture of that relationship is obtained through empirically testing the components of the model, the findings should provide some guidelines for multinational managers to employ in their decision-making processes. Most of these models have not as yet been empirically tested; therefore, this research project represents an opportunity to evaluate some of the components of these approaches.

The Farmer and Richman model, developed in 1964, represents one of the first attempts to explain the nature of the relationship between subsidiary performance and the national environment in which the subsidiary is located. Their model suggests that there is an external and an internal environment for business enterprises, and that "the external (or macromanagement) environment influences the activities and effectiveness of the internal environment."<sup>169</sup> The external environment is comprised of economic, legal-political, sociological, and educational characteristics which serve as aggregate variables affecting the degree of managerial effectiveness achieved by the firm.<sup>170</sup> In their view, the environmental characteristics serve as constraints on the ability of management to implement certain practices and ultimately serve as a constraint on the level of performance attainable by the subsidiary unit.

Although there are a number of limitations inherent in the model developed by Farmer and Richman, particularly in their lack of precision in definitions, it should be noted that prior to the

development of this model there had been very little offered in addition to Harbison and Myer's early efforts at viewing comparative management systems.<sup>171</sup> The Farmer and Richman model, in suggesting that the individual manager can assign weights to the various elements of an environment, offers some possibilities of describing, comparing, and responding to different national environments that did not previously exist. While there is no doubt that the measurement process they describe involves considerable subjective evaluation on the part of individual managers, their model presents a comprehensive inventory of elements comprising each of the various environmental categories which the individual can follow in systematically identifying the important dimensions for that company and/or country as well as a tool for highlighting which of those elements may be most critical to the successful operation of the organization.

In their view, the external environmental constraints will differ across countries and will influence the ways in which the firm responds through altering its internal managerial processes to fit with the relevant environmental characteristics. Unless this "fit" is obtained, the firm will be less effective than other firms operating in the same environment. Although they recognize the many constraints that the local national environment will pose for business organizations, they do not consider the corresponding need for integration or coordination of subsidiary or affiliate operations by the multinational firm; therefore, their model does not really address the problem of how the multinational firm can deal effectively with

these frequently opposing forces. In terms of this study, the major contribution of the Farmer-Richman model is its exhaustive listing and description of the environmental variables faced by the sub-units of multinational firms and the various ways in which these characteristics may affect certain managerial processes, and ultimately, the performance of the organization.

Neghandi and Estafsen, in an attempt to improve on what they considered weaknesses of the Farmer-Richman model, presented another means of viewing the relationship between subsidiary performance, the headquarters role, and the subsidiary environment. Although they utilized the same environmental categories developed by Farmer and Richman, they extended the focus of their inquiry to include an assessment of the effect of corporate philosophy on sub-unit performance. They suggested that by looking at the managerial philosophy and management practices of organizations operating within the same environment, we will be able to determine the internal variables related to successful enterprise performance as well as those that are environmentally positioned.<sup>172</sup> In illustrating their approach, they suggested that we compare a U.S.-based firm, its subsidiary, and an Indian firm having the same technical expertise. The Indian firm would differ from the subsidiary only in terms of managerial philosophy which is transmitted to the subsidiary by virtue of its relationship to the parent company. It is therefore assumed that the parent and the subsidiary organization share the same philosophy but may vary in managerial process. Thus, through holding constant the environment of the subsidiary and the local firm, it should be

possible to determine the degree to which managerial philosophy influences the effectiveness of the subsidiary vis-à-vis the local firm.

In this model, Neghandi and Estafsen were attempting to identify those elements of managerial philosophy which can conceivably affect managerial process or effectiveness and which can be transferred cross-culturally.<sup>173</sup> They recognized that much of the previous literature had viewed managerial philosophy as a product of a particular culture or environment, and therefore implied that our attention ought to be directed toward evaluating the impact of either philosophy or environment on managerial process and effectiveness. Once this relationship is determined, through the use of their model, we should be able to assess which variables ought to be modified by management as well as the direction this modification should take.

They defined the elements comprising each of the important variables they used--philosophy, process, and effectiveness. However, they applied rather specific definitions to both process and effectiveness but left philosophy at a rather high level of generalization. For example, managerial philosophy includes such factors as: "the company's relationship with state, local, and federal governments; the company's relationship with employees; the company's attitude towards the consumer; the company's involvement with the community; and the company's relationship with suppliers and distributors."<sup>174</sup> When these categories are compared to the more specific measures used in evaluating the other two variables, one of

the primary weaknesses of the model becomes obvious. There is often sufficient information available regarding the measures of effectiveness for the management of the firm, such as: net profit, percentage increases in sales or profits, market share increase or decrease, return on investment, and other generally accepted evaluations of corporate effectiveness. In essence, they are using managerial philosophy as a residual variable and attributing to it any observed differences and similarities between the U.S. subsidiary and the local firm.

In comparing the Farmer-Richman and Neghandi-Estafsen models, it appears that there is a primary difference in the two approaches. The causal factors affecting enterprise performance in the Farmer-Richman model are the constraints imposed by the external environment and the ability of the firm to respond to those constraints through altering the internal managerial process of the firm. On the other hand, Neghandi and Estafsen view managerial philosophy as the primary factor influencing firm effectiveness. However, according to Estafsen,

Neither approach considers that their respective causal variables act directly on firm performance. Both visualize causal variables as acting on intermediate variables. These in turn interact with and modify the management process of the firm, thereby leading to changes in the effectiveness of the firm.<sup>175</sup>

These comments, made by Estafsen in his 1973 publication, The Systems Transfer Characteristics of Firms in Spain, reflect his interpretation of the two models.



It should be noted that there seems to be some disagreement in the interpretation of the Neghandi-Estafsen model by the two authors. Estafsen presented this interpretation of the two models in 1973, whereas, in 1971, Neghandi and Prasad presented a much more complex set of variables than Estafsen seemed to include in his interpretation of the Neghandi-Estafsen model.<sup>176</sup> Since Neghandi and Prasad did not indicate otherwise, it is assumed that they modified the original Neghandi-Estafsen model to include additional concepts. In this model, they differentiated between managerial effectiveness and enterprise effectiveness. Managerial effectiveness was thought of in terms of measures of employee morale, worker turnover and absenteeism, ability of the organization to attract and retain high-level managerial manpower, and the organizational ability to adapt to changing external conditions.<sup>177</sup> In terms of organizational effectiveness, Neghandi and Prasad faced some difficulties in obtaining performance measures such as profit, market share, earnings-price ratios of stock, etc., and therefore chose not to deal with them in their study.

Recognizing some of the weaknesses inherent in operationalizing the Farmer-Richman and Neghandi-Estafsen models, Estafsen developed a model which was focused primarily on the internal rather than the external environment of the firm. Estafsen identified the following as the critical variables in his conceptual approach: external environmental variables, system-transfer characteristics, and performance.<sup>178</sup> In his view, the external environmental characteristics will establish an upper limit for firm performance and

interact with the particular system-transfer characteristics of the firm to determine firm performance. He defined system-transfer characteristics as "those which show how its management process interacts with the individuals or institutions that form the external environment of the firm."<sup>179</sup> The various activities undertaken in the management of the firm will result in the transfer of men, money, materials, and information at various facets along the firm's boundary with its environment. The critical elements of the external environment include: government, competitors, labor market, suppliers, consumers, stockholders, and other institutions.

In Estafsen's view, it is possible to measure certain dimensions along each of the critical interfaces between the firm and its environment which will describe the nature of the systems-transfer process for various firms. Once this process has been measured and described, the findings can be related to performance measures. It is assumed that through holding environmental conditions constant for paired foreign and domestic firms, observed differences in performance will be attributable to differences in the systems-transfer characteristics of these firms in relating to the same environment. It should be noted that Estafsen did not really deal with the means by which the headquarters policies and procedures may influence the particular managerial processes characterizing the subsidiary unit.

Of particular interest to this study is his attempt to relate the external environment and the systems-transfer characteristics of the organization to firm performance. He hypothesized that the most successful firms would be those which had developed internal

managerial processes which best fit with the particular characteristics of the national environment. In addition, those firms which were most successful would exhibit similarities in their systems-transfer characteristics. Initially, he attempted to obtain current and longitudinal measures of performance. Among the measures he included in the conceptual model were the following: total sales, return on sales, net and gross profit, return on investment and return on assets, and fluctuations and trends in the preceding values.<sup>180</sup>

Finding that only a few of the firms in his pilot study of twelve were willing to provide such information, he was forced to limit his measures to data that the companies would be willing to provide. Using 1963 as a base year, he asked each of the companies to indicate their sales and profits for the 1963 to 1967 period using one index for sales and another for profits. While some companies were still reluctant, eventually indices of performance in both categories were obtained for all firms in the sample, which allowed for some comparison of the trends of the median values in the two indices for American and Spanish firms. Because the firms in the sample limited their cooperation to providing a much more restricted amount of performance information than was originally desired, Estafsen was not able to relate the systems-transfer characteristics of each group with its performance in a statistically significant way.

Other authors have experienced similar difficulties in obtaining specific performance measures for members of their samples.

Since companies do not typically make such information generally available for domestic sub-units and greater political and national sensitivities may exist in foreign environments, it does not seem likely that future efforts to obtain specific figures on profits, sales, and return on investment will be any more successful than they have in the past. Consequently, it would appear that when a number of different firms are included in the sample, researchers will be limited to obtaining some type of performance indicator which may not be as empirically desirable as other measures. Nevertheless, for research to proceed in this area, it is evident that some kinds of comparisons must be made and that researchers will have to balance their desire for obtaining certain types and forms of data with management's needs for confidentiality.

Footnotes--Chapter II

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<sup>4</sup>S. Benjamin Prasad and Y. Krishna Shetty, An Introduction to Multinational Management (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1976), p. 99.

<sup>5</sup>Ibid.

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<sup>8</sup>Allen C. Filey, Robert J. House, and Steven Kerr, Managerial Process and Organization Behavior (Glenview, Ill.: Scott, Foresman, and Company, 1976), p. 94.

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<sup>35</sup>Ibid.

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<sup>41</sup>Ibid.

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<sup>44</sup>Ibid., p. 16.

<sup>45</sup>Ibid.

<sup>46</sup>Ibid.

<sup>47</sup>Ibid.

<sup>48</sup>Ibid., p. 17.

<sup>49</sup>Ibid.

<sup>50</sup>Ibid.

<sup>51</sup>Ibid., p. 18.

<sup>52</sup>Ibid.

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<sup>54</sup>Ibid.

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<sup>56</sup>Ibid., p. 7.

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<sup>62</sup>Ibid.

<sup>63</sup>Ibid., p. 289.

<sup>64</sup>Ibid.

<sup>65</sup>Ibid., p. 315.

<sup>66</sup>Ibid., p. 316.

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### CHAPTER III

#### CONCEPTUAL FRAMEWORK, METHODOLOGY, AND SAMPLE COMPOSITION

The preceding chapter outlined in some detail the various issues surrounding the relationship between multinational corporations and their subsidiary units, particularly in the allocation of decision-making authority between headquarters and the subsidiary. The following discussion highlights the major research objectives in the design of this dissertation and establishes a conceptual framework incorporating the major concepts and findings cited in the literature review. A discussion of the methodology employed and the characteristics of the sample firms concludes the chapter.

The major research question being addressed in this dissertation is what is the nature of the relationship between subsidiary performance and the degree of centralization or decentralization of decision-making authority between the subsidiary and headquarters. In order to reach this objective, three basic research areas were identified and served as the basis for directing the research design of this dissertation.

#### Conceptual Framework

First, it was necessary to describe the policies and practices used by multinational firms in different industries as they

relate to the degree of subsidiary autonomy in decision making being experienced by subsidiaries located in various parts of the world. Although some authors have examined the nature of the subsidiary/headquarters relationship, for the most part these studies have been limited to either one geographic area (i.e., subsidiary operations in Western Europe), to one functional area (i.e., participation in marketing or advertising decisions), or to one product category (i.e., consumer nondurables). Therefore, a central purpose of this dissertation was to examine and describe subsidiary decision-making authority across industries, countries, and functional areas. Once this information was generated, it was then possible to identify similarities and differences among companies, industries, national environments, and functional areas. Given the design of previous studies, such comparisons were not possible, which limited the ability to generalize their findings to other situations and settings.

A second major objective of this dissertation was to explain how the corporation, the individual subsidiary, and its environment affect the degree of centralization or decentralization of authority in decision making. The major functional areas in which decision making was examined included: marketing, finance, production, research and development, personnel, and purchasing. In reviewing the international business literature, it became apparent that differences between multinationals in the degree of centralization characterizing their headquarters/subsidiary relations could be attributed to corporate characteristics and subsidiary characteristics.

The corporate characteristics which were identified as having an effect on the degree of centralization they may employ with respect to all foreign operations or to any particular subsidiary included: (1) nature of the product line, (2) overall managerial philosophy, (3) size and diversity of international operations, (4) availability of top-level international management talent, and (5) corporate organizational structure. Although there may be other influences, these appeared to be the major intra-firm determinants of the level of centralization or decentralization characterizing multinational firms and their subsidiary units.

The literature review revealed that certain subsidiary characteristics also influenced the locus of decision making. These factors included the following: (1) size of the subsidiary in relation to total corporate sales or to international sales, (2) availability and qualifications of subsidiary management, (3) geographic distance from headquarters and/or other affiliated sub-units, (4) environmental characteristics surrounding the subsidiary (i.e., political, economic, cultural, and competitive elements), and (5) degree of certainty or uncertainty in the environment as a whole as well as within each sector. Again, there may be other elements which could influence the degree of autonomy allowed the subsidiary organization; however, the preceding categories seem to encompass most of the major variables cited in the international business literature as exerting pressures for greater centralization or decentralization in decision making within multinational firms.



Since the literature review outlined the specific ways in which the corporate and subsidiary characteristics influenced the centralization/decentralization relationship, only a brief discussion of the nature of the relationship is given here. It was evident that multinational corporations differ in the degree of centralization they desire, find feasible, and/or find necessary. Consequently, it is possible that differences in the degree of centralization followed by firms competing within the same industry in a single country may exist. Some firms find it desirable to exercise much tighter control from headquarters than others. In addition, subsidiaries of the same company may have different degrees of autonomy in decision making due to the influences of one or more of the subsidiary characteristics. Furthermore, there may be differences in the degree of centralization exhibited by decision making across functional areas.

Consequently, this dissertation was designed to determine how corporate and subsidiary characteristics affect the opportunity for and/or the desirability of varying degrees of centralization. It was hypothesized that corporate and subsidiary characteristics interact in determining the degree of autonomy exercised by the subsidiary in each of the functional areas. Because companies may exercise greater centralization in some functional areas (i.e., research and development) than in others, it was important to determine if there was any pattern that might exist across industries, countries, and/or functions.

The third research objective of this dissertation was to explain the nature of the relationship between the degree of centralization or decentralization of decision making and subsidiary performance. If there was no difference between subsidiaries in their performance when varying levels of centralization were employed, multinational corporations would have much more flexibility in designing their organizational structures and the attendant policies and procedures that accompany them. The cost savings accrued in the ability to standardize products or advertisements, to mention only one area in which savings can be realized through standardization, are well established in the international business literature. However, the actual effects of centralization or decentralization on subsidiary performance have not previously received much attention in the literature. If decentralized policies are linked to better subsidiary performance, multinational executives can more accurately evaluate the trade-offs between the benefits of centralization gained at the headquarters level and the costs incurred at the subsidiary level. In addition, centralization of certain functions within specific environments or across environments may be critical to subsidiary or corporate performance. Additional information regarding these so-called "critical" functional elements would be extremely helpful to managers in designing their international planning and control system.

Figure 1 illustrates the conceptual model underlying this research effort. It was hypothesized that corporate and subsidiary factors interact to determine the locus of decision making within a

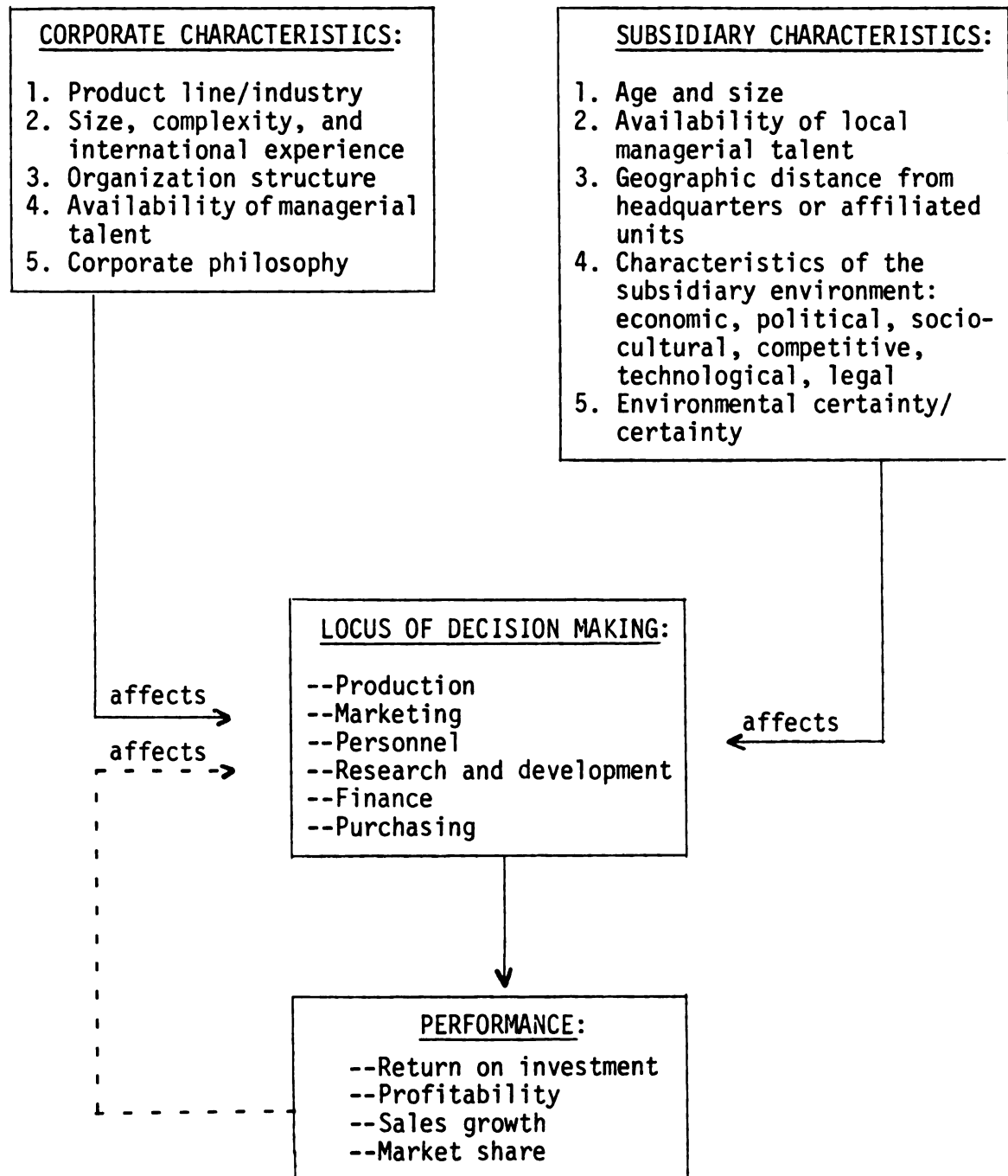


Figure 1.--Conceptual model.

subsidiary operation. The locus of decision making, in turn, may influence the performance of the subsidiary unit. Above average or below average performance may further alter the locus of decision making. Differences in the locus of decision making may also be present when the locus of decision making for each functional area is determined.

The locus of decision making is a measure of the authority the subsidiary manager has in making decisions regarding his subsidiary organization. Some authors have focused on where, headquarters or at the subsidiary, certain decisions are made. In order to gain additional insight into the actual decision-making process, and hence, more accurately determine the locus of decision making and its relationship to subsidiary management authority, a set of decision process categories was established to accommodate those objectives. The following categories serve as descriptors and measures of the locus of decision making:

#### DECISION-MAKING PROCESS

##### Decision Process 1

The subsidiary manager generates alternative solutions and makes the decision himself.

##### Decision Process 2

The subsidiary manager generates alternative solutions, makes the decision, and submits the decision to his superior for approval.

##### Decision Process 3

Headquarters and subsidiary managers share the problem and collectively generate alternatives. Together you generate and evaluate alternatives and attempt to reach consensus on a solution. The solution that has the support of both the subsidiary manager and the headquarters manager will be implemented.

#### Decision Process 4

Headquarters personnel generate alternative solutions and submit these to the subsidiary manager for his ideas and suggestions. Headquarters personnel then make the decision.

#### Decision Process 5

Headquarters personnel generate alternative solutions, make the decision, and inform subsidiary management of the decision.

The development of these decision process categories was the product of interviews with a number of international executives prior to the actual field research. In their view, the use of descriptive statements describing the process by which subsidiary and headquarters managers interacted in decisions regarding a specific subsidiary were more complete, and hence more accurate, depictions of the locus of decision making than the three categories (headquarters, joint, or subsidiary) used in previous studies. Consequently, the decision process categories served as the basis for measurement of the locus of decision making in this study.

### Methodology

In order to meet the research objectives of this study, illustrated in the preceding conceptual model, certain data needs emerged. First of all, it was necessary to obtain information regarding each of the corporate characteristics which had been shown to exert an influence on the locus of decision making. Information regarding the subsidiary and its environment was also required. In addition, some measure of the degree and type of participation by the subsidiary in decision making within each functional area was assessed. Finally, information regarding subsidiary performance was

obtained so that its relationship to subsidiary participation in the decision-making process could be ascertained.

Based on the stated research objectives of this study and the framework presented in the conceptual model, certain specific data needs were identified:

### Data Needs

#### Corporate Characteristics: Data Needs

##### 1. Product Line and Industry Classification

- a. Major domestic and international product lines expressed by two-digit SIC code classification
- b. Degree of product diversity expressed as the percentage of domestic and foreign sales accounted for by each two-digit SIC category.
- c. Characteristics of the production technology employed in the U.S. and abroad

##### 2. Size, Complexity, and International Experience

- a. Total corporate assets, sales, and profits
- b. Foreign assets, sales, and profits as a percentage of corporate aggregates in each
- c. Number and types of foreign affiliate units.
- d. Number of countries in which foreign affiliates are located

##### 3. Corporate Organization Structure

- a. Type of structure in use at the time of the study: export division, international division, product, geographic, matrix, functional, or market
- b. Identification of individuals having line authority relationships over subsidiary and foreign operations and location within the corporate structure, including headquarters and regional personnel.

##### 4. Availability of Managerial Talent

- a. Number of individual senior-level executives with primary international responsibility

- b. Scope of responsibility for individual international managers expressed in terms of geographic areas, number of subordinates, and/or numbers and sizes of affiliate units with direct reporting relationships with the individual
- c. Individual assessments by senior-level international headquarters personnel of their corporate characteristics in this area.

## 5. Corporate Philosophy

Individual assessments by senior-level international headquarters personnel of their corporate international philosophy as being polycentric, geocentric, or ethnocentric.

## Subsidiary Characteristics: Data Needs

### 1. Subsidiary Age and Size

- a. Date of establishment of sample member subsidiaries compared to other corporate subsidiaries and to each other.
- b. Size of sample member subsidiaries expressed in sales and assets compared to other subsidiary units, to each other, and in relation to total foreign sales and assets and total corporate sales and assets.

### 2. Availability and Qualifications of Local Management

- a. Information from subsidiary managers on the following dimensions: length of international, company, country, and subsidiary management experience; nationality; and assessment of the availability of managerial talent locally.
- b. Information from headquarters representatives on: perceived ease of obtaining local management in sample member countries; availability of personnel for overseas subsidiary management positions; and the degree to which decision-making authority varies, if at all, across subsidiaries based on subsidiary management characteristics.

### 3. Geographic Distance From Headquarters or Other Affiliated Units

- a. Determination of geographic distance of sample member subsidiaries from headquarters and regional units.

- b. Information from headquarters representatives regarding the influence of geographic location on subsidiary participation in decision making.

#### 4. Subsidiary Environmental Characteristics

- a. Information from headquarters and subsidiary personnel on certain aspects of the economic, social-cultural, political, legal, technological, and competitive elements of the environments in which the sample member subsidiaries operate.
- b. Information from headquarters and subsidiary personnel on the perceived importance of and influence of environmental characteristics in determining the locus of decision making for subsidiary units in general and among sample member subsidiaries in particular.

#### 5. Environmental Certainty and Uncertainty

- a. Information from headquarters and sample member subsidiary personnel on their perception of the degree of certainty or uncertainty characterizing the particular national environments in which the sample subsidiaries operate and more specifically, whether certain elements of the environment seem to be characterized by greater uncertainty than others
- b. In addition to obtaining measures of the degree of uncertainty exhibited by each national environment from headquarters and subsidiary personnel, their assessment of the possible influences of environmental uncertainty on the location of decision-making authority was ascertained.

### Subsidiary Performance: Data Needs

#### 1. Measures of Performance

- a. Information from headquarters personnel describing the means by which the corporation measured the performance of subsidiary units.
- b. Information from headquarters personnel regarding sample member subsidiary performance expressed as an overall performance index and contrasted to the performance of other subsidiaries not included in the sample.



## 2. Locus of Decision Making and Performance

- a. Assessments of headquarters and subsidiary personnel of the decision-making process characterizing subsidiaries in general and these firms' subsidiaries in particular.
- b. Information from headquarters personnel and sample member subsidiary managers on their assessment of whether there is a relationship between subsidiary performance and the locus of decision making generally, or within functional areas.
- c. Information from subsidiary managers on their perception of whether or not the performance of their subsidiary unit had been favorably or adversely affected by the level of centralization with respect to their subsidiary operations in general, or within specific functional areas.

### Research Design

This study's research objectives required information which would illustrate the policies and procedures being utilized by corporations in determining the location of decision-making authority between headquarters and their subsidiary units. The nature of the relationship between the location of decision-making authority and subsidiary performance required that information regarding performance measures and outcomes was also available. The previous section of the methodology identified the specific data needs that were generated by these objectives and indicated some of the sources of information that were utilized in fulfilling these needs.

The research effort outlined here involved primarily survey research techniques which utilized personal interviews with corporate headquarters representatives and a self-administered mail questionnaire completed by selected subsidiary managers. Since this study

was designed to explore the nature of the relationships between the variables presented in the conceptual model, it was imperative that the research design allow for functional, industry, and country comparisons. The following discussion presents the major elements of the research methodology employed in the study.

### Sample Selection

The sampling techniques which were utilized in this study were nonprobability or researcher controlled. There were a number of factors which necessitated this choice. First, given the nature of the research design, it was necessary to generate information which would allow for comparisons within companies, industries, functions, and national environments. Consequently, each sample firm was required to have a subsidiary operation in each of the three national environments that were selected and the subsidiary must have been wholly owned. This effectively reduced the number of companies that could be considered as potential members of the sample. In addition, because of the time that was required on the part of headquarters personnel in the interview process, it was necessary to locate companies which were willing to commit top-level executive time to participating in the project. Given the budgetary constraints within which this research was conducted, it was necessary to limit the sample of companies to those that were primarily Michigan or Midwest based. Selection of industry groups, while designed to generate considerable variability in production and marketing characteristics, were also selected on the basis of geographic proximity

and earlier indications from some companies that they would be willing to participate.

Based on these considerations, the actual selection of sample member firms was obtained in the following manner. Annual reports and Moody's Industrial Manual provided information regarding the number and location of subsidiary operations for companies in each of five selected industries: pharmaceuticals, tire and rubber, food processing, automobiles, and heavy equipment. Information was also obtained on the percentage of equity held in each subsidiary. Members of the sample were required to maintain wholly owned subsidiary operations in the following three countries: France, United Kingdom, and Brazil. As a result of this selection process, fifteen firms and forty-five of their subsidiaries were identified as potential members of the research sample.

A letter explaining the study and soliciting the cooperation of the firms was mailed to the chief international executive officer of each of the fifteen companies identified as potential members of the sample. (See Appendix for letter soliciting corporate participation.) Within the following two-week period, each executive was contacted by telephone so that interview times could be scheduled. The actual selection process resulted in securing the cooperation of twelve of the original fifteen companies. Of the three companies that were not included in the final sample, one chose not to participate and two were disqualified because they no longer met the qualifying criteria of the study.

The ten firms comprising the final sample represented all five of the original industries selected for analysis. Two firms per industry were included so that industry comparisons could be made. Because the participating firms were assured anonymity in any reporting of the results of the study, the names of the participating multinationals are not reported here. However, for purposes of sample verification and comparisons within and across industries, the following classification method for members of the sample was developed.

Industry 1: Pharmaceuticals  
Firm 1.1  
Firm 1.2

Industry 2: Automobiles  
Firm 2.1  
Firm 2.2

Industry 3: Tire and Rubber  
Firm 3.1  
Firm 3.2

Industry 4: Capital Equipment  
Firm 4.1  
Firm 4.2

Industry 5: Food Processing  
Firm 5.1  
Firm 5.2

In addition to the interviews with the headquarters personnel, each of the subsidiary managers in the French, Brazilian, and British subsidiaries was requested to complete a self-administered questionnaire sent to them by the individual interviewed at headquarters. Only eight of the corporations were willing to have their subsidiary managers participate and forwarded the questionnaires to them. Of the twenty-four subsidiary questionnaires, ten were returned.

Completed questionnaires from all three subsidiaries were only received from firms 2.1 and 3.2. Follow-up letters and telephone calls were made to the participating corporations, asking for the return of the other subsidiary questionnaires; however, no additional questionnaires were received. Consequently, given the small return and the quality of the data obtained in the headquarters interviews, the subsidiary results were not considered a major part of the findings nor of the analysis.

#### Interviewing Procedure

Arrangements for the interviews were established in telephone calls to the chief international executive officers following their receipt of the letter of solicitation. As indicated earlier, in all cases it was requested that the interviews be conducted with the individual or individuals most knowledgeable about the decision-making process characterizing the headquarters/subsidiary relationship for the subsidiaries located in France, Brazil, and the United Kingdom. Many individuals said that they and their companies normally did not participate in studies; however, they were very interested in this particular study and indicated that they were very interested in participating.

Their level of interest and cooperation was evidenced by the fact that although approximately one-and-a-half-hour interviews were requested, the actual interviews lasted much longer. The shortest interview lasted three and one-half hours and the longest eight hours. The average length of the interviews was four hours. A total

of thirty-two interviews were conducted in corporate offices between March and June, 1978. The data collection was facilitated by use of an interview guide. (See Appendix for headquarters data-collection instrument.) Because of the length of the interviews and the willingness of the participants to share information, it was not only possible to obtain their responses to the questions contained in the interview guide but also to probe for additional information which gave added insight to the researcher in studying headquarters/subsidiary relations. Some of these observations were particularly helpful in viewing the relationship of subsidiary performance to the locus of decision making and are presented later in this chapter.

Due to the fact that a number of people from each company usually were available for interviews and were willing to spend considerable time in discussing and clarifying their perceptions of the headquarters/subsidiary relationship, it is likely that the data and information generated in these interviews accurately reflects the nature of the decision-making processes characterizing the sample firms and their subsidiaries. Therefore, the headquarters responses figure most predominantly in the findings and analysis.

#### Sample Composition: Corporate Characteristics

Since the literature review indicated that certain corporate characteristics may be of some influence in determining the locus of decision making between headquarters and subsidiary organizations, it was necessary to consider the characteristics of the firms comprising the sample on the dimensions of size, international business

volume, major product line, length of international experience, headquarters philosophy, and availability of headquarters' managerial talent. The following tables and discussion highlight the major characteristics of the sample firms on each of these dimensions.

### Size and International Experience

Because it was desired to obtain a mixture of firms of different sizes and industry groups, the sample composition reflects these objectives. Five industries are represented and the annual sales volumes ranged from \$500 million to \$37 billion. While all have had considerable experience in international activities for a period of years, the number of subsidiaries they have and their worldwide employment levels varied substantially. Table 1 illustrates the composition of the sample with respect to sales volume, total assets, and worldwide employment.

In addition to the absolute size of the sample corporations, some measures of the size of international business activity relative to domestic operations were obtained. Since the level of international activity was suggested in the literature review as possibly influencing the locus of decision making, respondents were asked to provide information on the percentage of total corporate sales, assets, and profits accounted for by international activities. Table 2 depicts the level of international involvement of sample firms.

All of the firms in the sample had substantial international business operations and obtained at least 25 percent of their total

Table 1.--Sample firms: size characteristics.

| Industry and Firm             | 1977 Sales Volume<br>(in Billions) | 1977<br>Worldwide<br>Employment | 1977<br>Total Assets<br>(in Billions) |
|-------------------------------|------------------------------------|---------------------------------|---------------------------------------|
| Industry 1: Pharmaceuticals   |                                    |                                 |                                       |
| Firm 1.1                      | \$ 1.1                             | 11,400                          | \$ 1.0                                |
| Firm 1.2                      | .5                                 | 5,300                           | NA                                    |
| Industry 2: Automobiles       |                                    |                                 |                                       |
| Firm 2.1                      | 37.0                               | 479,000                         | 19.2                                  |
| Firm 2.2                      | 16.7                               | 250,000                         | 7.6                                   |
| Industry 3: Tire and Rubber   |                                    |                                 |                                       |
| Firm 3.1                      | 6.6                                | 152,000                         | 4.7                                   |
| Firm 3.2                      | 4.4                                | 55,000                          | 3.4                                   |
| Industry 4: Capital Equipment |                                    |                                 |                                       |
| Firm 4.1                      | 1.3                                | 23,000                          | .92                                   |
| Firm 4.2                      | 2.1                                | 45,000                          | 1.5                                   |
| Industry 5: Food Processing   |                                    |                                 |                                       |
| Firm 5.1                      | 1.5                                | 20,000                          | .84                                   |
| Firm 5.2                      | 4.9                                | 48,000                          | 2.3                                   |



Table 2.--International operations of sample firms (1977).

| Industry and Firm             | Percentage of Corporate Totals Accounted for<br>by Foreign Operations |               |              |
|-------------------------------|-----------------------------------------------------------------------|---------------|--------------|
|                               | Total Sales                                                           | Total Profits | Total Assets |
| Industry 1: Pharmaceuticals   |                                                                       |               |              |
| Firm 1.1                      | 40                                                                    | 40            | 2            |
| Firm 1.2                      | NA                                                                    | NA            | NA           |
| Industry 2: Automobiles       |                                                                       |               |              |
| Firm 2.1                      | 29                                                                    | 42            | 33           |
| Firm 2.2                      | 46                                                                    | loss          | 37           |
| Industry 3: Tire and Rubber   |                                                                       |               |              |
| Firm 3.1                      | 30                                                                    | 30            | 15           |
| Firm 3.2                      | 33                                                                    | 24            | 33           |
| Industry 4: Capital Equipment |                                                                       |               |              |
| Firm 4.1                      | 40                                                                    | 35            | 35           |
| Firm 4.2                      | 27                                                                    | loss          | 29           |
| Firm 5: Food Processing       |                                                                       |               |              |
| Firm 5.1                      | 31                                                                    | 20            | 48           |
| Firm 5.2                      | 27                                                                    | 12-15         | 20           |

Note: Foreign operations include all corporate assets, sales, and activities located or occurring outside the United States.

sales volume from foreign markets. Companies were also asked to indicate the percentage of total foreign sales accounted for by exports from the U.S. Exports as a percentage of total foreign sales ranged from a low of 2 percent to a high of 35 percent, with the average being about 3.5 percent.

In order to obtain some additional indication of the diversity of markets in which companies conducted their international business activities, respondents were asked to give the number of countries in which their firm had substantial marketing and/or production activities. Each of the companies maintained significant sales or manufacturing operations in at least twelve countries. Table 3 indicates the number of countries in which the sample firms were operating in a marketing and/or production capacity at the time of the study.

Thus far we have described the corporate characteristics of the sample with respect to size of domestic and international operations. An additional corporate characteristic that was suggested by the literature review as being an influence on the locus of decision making was the length of time the company had been operating internationally as well as the age of the subsidiary being studied. In order to obtain some measures on these variables, respondents were asked to indicate the year in which their company established their first international subsidiary as well as the year in which their French, Brazilian, and British subsidiaries were established.

Table 3.--International operations by number of countries.

| Industry and Firm             | Number of Countries--1977 <sup>a</sup> |
|-------------------------------|----------------------------------------|
| Industry 1: Pharmaceuticals   |                                        |
| Firm 1.1                      | 40                                     |
| Firm 1.2                      | 16                                     |
| Industry 2: Automobiles       |                                        |
| Firm 2.1                      | 20+                                    |
| Firm 2.2                      | 14+                                    |
| Industry 3: Tire and Rubber   |                                        |
| Firm 3.1                      | 38                                     |
| Firm 3.2                      | 29                                     |
| Industry 4: Capital Equipment |                                        |
| Firm 4.1                      | 16+                                    |
| Firm 4.2                      | 12+                                    |
| Industry 5: Food Processing   |                                        |
| Firm 5.1                      | 19+                                    |
| Firm 5.2                      | 18                                     |

<sup>a</sup>The number of countries represents those countries in which the firm had substantial marketing and/or production activities in 1977.

As indicated by Tables 4 and 5, all of the companies in the sample had considerable international experience. The firm which was not able to supply the researcher with the exact dates of establishment for their respective subsidiaries (firm 1.2) indicated that they had maintained international investment and marketing activities for at least twenty-five years. Based on the available data, the average number of years the sample member companies had foreign subsidiaries is 39.1 years. All sample members had at least

twenty-five years of international experience. Of the three subsidiary countries of particular concern in this study, all sample firms had a number of years of experience operating in these countries.

Table 4.--Years of international experience for sample firms.

| Industry and Firm             | First International Subsidiary |                                 |
|-------------------------------|--------------------------------|---------------------------------|
|                               | Year Established               | Number of Years Elapsed to 1978 |
| Industry 1: Pharmaceuticals   |                                |                                 |
| Firm 1.1                      | 1952                           | 26                              |
| Firm 1.2                      | NA                             | NA                              |
| Industry 2: Automobiles       |                                |                                 |
| Firm 2.1                      | 1904                           | 74                              |
| Firm 2.2                      | NA                             | NA                              |
| Industry 3: Tire and Rubber   |                                |                                 |
| Firm 3.1                      | 1910                           | 68                              |
| Firm 3.3                      | 1919                           | 59                              |
| Industry 4: Capital Equipment |                                |                                 |
| Firm 4.1                      | NA                             | NA                              |
| Firm 4.2                      | 1938                           | 40                              |
| Industry 5: Food Processing   |                                |                                 |
| Firm 5.1                      | 1924                           | 54                              |
| Firm 5.2                      | 1947                           | 31                              |

Table 5.--Sample subsidiary age--France, Brazil, and United Kingdom.

| Industry and Firm             | Years Since Establishment to 1978 |        |                |
|-------------------------------|-----------------------------------|--------|----------------|
|                               | France                            | Brazil | United Kingdom |
| Industry 1: Pharmaceuticals   |                                   |        |                |
| Firm 1.1                      | 20                                | 24     | 26             |
| Firm 1.2                      | NA                                | NA     | NA             |
| Industry 2: Automobiles       |                                   |        |                |
| Firm 2.1                      | 62                                | 69     | 68             |
| Firm 2.2                      | 15                                | 19     | 14             |
| Industry 3: Tire and Rubber   |                                   |        |                |
| Firm 3.1                      | 19                                | 39     | 51             |
| Firm 3.2                      | 13                                | 37     | 47             |
| Industry 4: Capital Equipment |                                   |        |                |
| Firm 4.1                      | 27                                | 20     | 20             |
| Firm 4.2                      | 4                                 | 31     | 38             |
| Industry 5: Food Processing   |                                   |        |                |
| Firm 5.1                      | 7                                 | 14     | 49             |
| Firm 5.2                      | 17                                | 18     | 31             |
| Mean                          | 20.4                              | 29     | 33             |

### Product Line

In addition to absolute size, expressed in sales, assets, and employment, some measures of the degree of diversity in corporate sales expressed as the percentage of annual sales accounted for by the company's primary two-digit SIC code number were provided to give some indication of the representativeness of the industry classifications and the sample firms within that industry. Because diversity in foreign sales may also influence the locus of decision making, it is necessary to consider the concentration levels of foreign sales by SIC code. Table 6 indicates the level of sales concentration domestically and internationally for the sample firms.

Table 6.--Sales concentration (1977).

| Industry and Firm             | Annual Sales<br>(in Billions) | Domestic Sales<br>Concentration <sup>a</sup><br>(in Percent) | Foreign Sales<br>Concentration<br>(in Percent) |
|-------------------------------|-------------------------------|--------------------------------------------------------------|------------------------------------------------|
| Industry 1: Pharmaceuticals   |                               |                                                              |                                                |
| Firm 1.1                      | \$ 1.1                        | 74                                                           | NA                                             |
| Firm 1.2                      | .5                            | 50                                                           | 50                                             |
| Industry 2: Automotiles       |                               |                                                              |                                                |
| Firm 2.1                      | 37.0                          | 93                                                           | 93                                             |
| Firm 2.2                      | 16.7                          | 96                                                           | 90+                                            |
| Industry 3: Tire and Rubber   |                               |                                                              |                                                |
| Firm 3.1                      | 6.6                           | 67                                                           | 60                                             |
| Firm 3.2                      | 4.4                           | 78-80                                                        | 85                                             |
| Industry 4: Capital Equipment |                               |                                                              |                                                |
| Firm 4.1                      | 1.3                           | 45                                                           | NA                                             |
| Firm 4.2                      | 2.1                           | 41                                                           | 44                                             |
| Industry 5: Food Processing   |                               |                                                              |                                                |
| Firm 5.1                      | 1.5                           | 80                                                           | 75                                             |
| Firm 5.2                      | 4.9                           | 64                                                           | 80                                             |

<sup>a</sup>Sales concentration refers to the percentage of domestic sales and the percentage of foreign sales falling within the major two-digit SIC code characterizing the company's product line.

The level of foreign product concentration by company in all but three firms was at least as high as that characterizing the domestic sales composition of sample firms. This would indicate that the companies in the sample were producing and marketing essentially the same types of products internationally as they were domestically. While the firms operating in the capital goods industry exhibited the lowest levels of concentration, they closely paralleled each other and varied by less than four percentage points. In all cases, the firms had at least 40 percent of their sales accounted for by one two-digit SIC code.

One of the corporate characteristics determined by the nature of the product line and thought to be a possible influence on the locus of decision making was the production technology employed by the firm. In order to ascertain the type of technology characterizing the major production processes of the firm, respondents were asked to select from a list of seven production technologies the technology that best fit their firm's operations. The choices ranged from unit production, where each product would be manufactured to customer specifications, to continuous production, involving a production technology that would be continuous or constant, such as that characterizing some chemical industry operations. Table 7 illustrates the production technologies used by the sample firms.

Since one of the objectives in designing the sample was to include different industries and their respective production technologies, Table 7 indicates that this objective was achieved through the

fact that five production technologies were being used by sample firms. In addition, most of the companies within the same industry classification, with the exception of the two companies in the capital goods industry, were using the same production technology. Although the two capital goods firms were characterized as using somewhat different technologies, they were very close on the scale and were in adjacent categories.

Table 7.--Production technology.

| Production Technology <sup>a</sup> | Number Utilizing | Firm Identification |
|------------------------------------|------------------|---------------------|
| 1. Unit production                 | 0                |                     |
| 2. Unit-batch                      | 2                | 4.1, 4.2            |
| 3. Batch production                | 2                | 1.1, 1.2            |
| 4. Batch-mass production           | 1                | 3.2                 |
| 5. Mass production                 | 4                | 1.2, 2.1, 2.2, 3.1  |
| 6. Mass-continuous production      | 2                | 5.1, 5.2            |
| 7. Continuous production           | 0                |                     |

Note: Firm 1.2 used both batch production and mass production.

<sup>a</sup>See headquarters interview guide in Appendix for definitions of production technology categories.

### Organization Structure

A third variable suggested by the literature review as having a possible influence on the locus of decision making was corporate



organization structure. Headquarters respondents were asked if their organization had an organization chart. All of the sample firms had organization charts and in most cases shared this information with the researcher. Through discussion of the organization chart and the structural characteristics of the organization, the type of organization structure characterizing the firm was established. (See Table 8.)

The sample reflected the patterns of organization structure outlined in the literature review in that the majority of U.S. multinational firms were cited as using international division structures and seven of the sample firms were using international divisions combined with domestic product divisions. Only three firms, two in the capital equipment industry and one of the pharmaceutical firms, were using product structures. Matrix and geographic structures were cited as being least prevalent in industry and the sample contained no companies using these types of structures.

Another aspect of corporate organization that was of interest was the level of international staff support in each functional area at headquarters and their role in influencing subsidiary activities. In order to obtain this information, respondents were asked to indicate the number of staff positions at the director level or above in their corporation which involved primarily international responsibility within a functional area. Marketing and finance were reported as having the largest number of international staff personnel located in headquarters. Purchasing was the functional area displaying the lowest number of international staff in headquarters. (See Table 9.)

Table 8.--Organization structure of sample firms.

| Industry and Firm             | Organization Structure |                |            |        |
|-------------------------------|------------------------|----------------|------------|--------|
|                               | International Division | Global Product | Geographic | Matrix |
| Industry 1: Pharmaceuticals   |                        |                |            |        |
| Firm 1.1                      | 1                      |                |            |        |
| Firm 1.2                      |                        | 1              |            |        |
| Industry 2: Automobiles       |                        |                |            |        |
| Firm 2.1                      | 1                      |                |            |        |
| Firm 2.2                      | 1                      |                |            |        |
| Industry 3: Tire and Rubber   |                        |                |            |        |
| Firm 3.1                      | 1                      |                |            |        |
| Firm 3.2                      | 1                      |                |            |        |
| Industry 4: Capital Equipment |                        |                |            |        |
| Firm 4.1                      |                        | 1              |            |        |
| Firm 4.2                      |                        | 1              |            |        |
| Industry 5: Food Processing   |                        |                |            |        |
| Firm 5.1                      | 1                      |                |            |        |
| Firm 5.2                      | 1                      |                |            |        |
| Number of firms               | 7                      | 3              | 0          | 0      |

Table 9.--International staff by functional area in headquarters.<sup>a</sup>

| Functional Area                           | Industries and Firms |     |            |     |               |     |                   |     |                 |     | Total |      |
|-------------------------------------------|----------------------|-----|------------|-----|---------------|-----|-------------------|-----|-----------------|-----|-------|------|
|                                           | Pharmaceuticals      |     | Automobile |     | Tire & Rubber |     | Capital Equipment |     | Food Processing |     |       |      |
|                                           | 1.1                  | 1.2 | 2.1        | 2.2 | 3.1           | 3.2 | 4.1               | 4.2 | 5.1             | 5.2 |       |      |
| Marketing                                 | 1                    | 8   | 1          | 1   | 2             | 1   |                   | NA  | 1               | 1   | 2     | 18   |
| Finance                                   | 1                    | 3   | 2          | 1   | 1             | 1   |                   | NA  | 1               | 1   | 1     | 12   |
| Personnel                                 | 1                    | 1   | 1          | 1   | 2             | 1   |                   | NA  | 1               | 0   | 1     | 9    |
| Research & Development                    | .5                   | 2   | 1          | 1   | 0             | 0   |                   | NA  | 1               | 0   | 4     | 6.5  |
| Production                                | 1                    | 1   | 0          | 1   | 1             | 2   |                   | NA  | 1               | 1   | 1     | 7    |
| Purchasing                                | 0                    | 1   | 0          | 0   | 0             | 0   |                   | NA  | 1               | 0   | 0     | 2    |
| Other (i.e., Counsel, Strategic Planning) | 0                    | 1   | 0          | 1   | 2             | 0   |                   | NA  | 0               | 0   | 1     | 5    |
| Total                                     | 4.5                  | 17  | 5          | 6   | 8             | 5   |                   | NA  | 6               | 3   | 7     | 59.5 |

<sup>a</sup>Number of staff at director level or above in headquarters with primary international responsibility.

Headquarters representatives were also queried as to the role of these staff members in influencing subsidiary activities within each functional area. In most cases, the staff were primarily involved in gathering data and in recommending policies to headquarters line personnel rather than actually setting policy. However, in some firms the international staff were actually able to set policy.

Table 10.--Role of headquarters staff--frequency table.

| Functional Area        | Set Policy | Recommend | Gather Data | Other | Total    |
|------------------------|------------|-----------|-------------|-------|----------|
| Marketing              | 4          | 6         | 6           | -     | 16       |
| Finance                | 6          | 6         | 6           | -     | 18       |
| Personnel              | 3          | 4         | 4           | -     | 11       |
| Production             | 4          | 7         | 5           | -     | 16       |
| Purchasing             | 1          | 2         | 2           | -     | 5        |
| Research & Development | 5          | 3         | 5           | -     | 13       |
| Total                  | 23(29%)    | 28(35%)   | 28(35%)     | 0     | 79(100%) |

Table 10 indicates the international headquarters staff were actively involved in setting policy in a number of companies. This was particularly true in finance and research and development. According to the respondents, the types of policies set by the various staff members were primarily in the form of setting standards or requirements. An example would be the compensation policy set by corporate personnel staff and followed by all subsidiary managers. Likewise, in

finance and research and development, corporate staff would set policies to be followed by all subsidiary managers.

In the case of recommendations, the procedure used by most companies appeared to be one of the headquarters staff recommending policy to individual line executives. These individuals would then make the final determination of policy and communicate it to their subsidiary managers. In these cases, each line executive retained authority for setting policy within functional areas for the subsidiaries which reported to him.

In one company the international division maintained its own organization development staff. The activities of the director of this area involved gathering information on international personnel programs, training methods, and assessments of employee attitudes worldwide. Immediately prior to the interview, they had just finished completion of a employee attitude survey covering in excess of 5,000 international employees. However, this was the only company which appeared to have any substantial organization development and research on an international basis.

Only one company in the sample had international headquarters staff in the area of labor relations. In this firm, one person was assigned staff responsibility for assisting in the labor negotiations at all of the corporate subsidiaries. In most of the other firms, subsidiary labor compensation and negotiation were handled on a local basis with little or no participation from headquarters.

An issue related to the policy-setting process characterizing the sample firms was the perception of the line executives in

headquarters of the nature of the policy guidelines their corporation utilized in international subsidiary operations. Respondents in headquarters were asked whether their firm had written policy guidelines indicating the amount of authority each subsidiary manager had and if these were uniform. Nine of the sample firms indicated that they did have written policy guidelines for their subsidiary managers and one firm indicated it did not; however, it did have basic policy guidelines. Three of the nine firms indicated that although they had written policy guidelines, in most cases they were very "loose" and allowed the subsidiary manager considerable flexibility. Among the sample firms the respondents indicated that the corporate policies were uniform for all subsidiary managers with the exception of five firms which tailored expenditure authority limits to the size of the subsidiary operation. Interestingly, corporate policies were uniform for all other functional areas, regardless of subsidiary characteristics.

In order to obtain some assessment of the types of policy guidelines that were currently being used by sample firms, headquarters representatives were asked to indicate their perception of their corporation's subsidiary-related policies in each functional area. Table 11 summarizes the results.

Based on the headquarters representatives' perceptions of the types of corporate policies in each of the functional areas being examined, the two areas in which corporate policies were most detailed and specific were finance and research and development. Many of the

Table 11.--Policy guidelines by functional area for subsidiaries.

| Functional Area        | Type of Corporate Policy                 |                         |                                                           |                      | Total    |
|------------------------|------------------------------------------|-------------------------|-----------------------------------------------------------|----------------------|----------|
|                        | Very Specific Detailed and Comprehensive | General Guidelines Only | Very Specific in Some Areas; General Guidelines in Others | No Guidelines at All |          |
| Marketing              | 2                                        | 6                       | 1                                                         | -                    | 10       |
| Finance                | 8                                        | -                       | 2                                                         | -                    | 10       |
| Personnel              | 3                                        | 4                       | 2                                                         | 1                    | 10       |
| Production             | 3                                        | 4                       | 3                                                         | -                    | 10       |
| Research & Development | 5                                        | 2                       | 3                                                         | -                    | 10       |
| Purchasing             | 4                                        | 4                       | -                                                         | 2                    | 10       |
| Total                  | 25(42%)                                  | 20(33%)                 | 11(18%)                                                   | 3(5%)                | 60(100%) |

respondents indicated that corporate financial and accounting manuals were standardized for all operations and were very specific in detailing the procedures and authority levels characterizing each management level and unit of organization. However, this was not the case in marketing, where only certain policies were codified and considerable participation by subsidiary management was possible in many firms. The latitude in decision making allowed subsidiary managers was greatest in the areas of production, purchasing, and personnel. The findings with respect to observed differences in the locus of decision making across functional areas parallel these differences in policy guidelines and are reported in the next chapter.

#### Availability of Managerial Talent

The review of the literature indicated that the locus of decision making in multinational corporations was influenced by the availability of headquarters personnel. In other words, the ability of headquarters personnel to participate actively in decisions affecting subsidiary operations was constrained by the limited number of personnel available in headquarters and by the demands on their time. Several questions were raised in the interviews with headquarters personnel which addressed this issue.

In each firm an attempt was made to ascertain the number of senior-level line executives in headquarters with primary international responsibility. Table 12 illustrates the number of international line executives located in the headquarters of the sample firms.



Table 12.--International line executives located at headquarters in sample firms.

| Industry and Firm             | Number Senior-Level<br>International Line Personnel<br>in Headquarters |
|-------------------------------|------------------------------------------------------------------------|
| Industry 1: Pharmaceuticals   |                                                                        |
| Firm 1.1                      | 7                                                                      |
| Firm 1.2                      | 4                                                                      |
| Industry 2: Automobiles       |                                                                        |
| Firm 2.1                      | 2                                                                      |
| Firm 2.2                      | 3                                                                      |
| Industry 3: Tire and Rubber   |                                                                        |
| Firm 3.1                      | 9                                                                      |
| Firm 3.2                      | 6                                                                      |
| Industry 4: Capital Equipment |                                                                        |
| Firm 4.1                      | 5                                                                      |
| Firm 4.2                      | 4                                                                      |
| Industry 5: Food Processing   |                                                                        |
| Firm 5.1                      | 4                                                                      |
| Firm 5.2                      | 6                                                                      |

$$\bar{X} = 5$$

In general, those firms which maintained regional managers in several geographic locations around the globe had fewer line executives in headquarters than did those firms which had a direct reporting link between the subsidiary manager and headquarters. This was one of the reasons why firms 2.1 and 2.2 had fewer headquarters executives than the other firms in the sample. This was also true for firm 5.2. Some of the firms with larger numbers of headquarters line personnel had three or four regional international vice-presidents and usually an Executive Vice-President for International

Operations and a President of the International Division located in corporate headquarters. The average number of senior-level line executives in headquarters was five.

Respondents were also asked the number of foreign affiliates that had direct line reporting relationships with the person being interviewed in headquarters. Of the respondents who had direct reporting relationships with subsidiary managers, the number of subsidiaries reporting to an individual manager in headquarters ranged from a low of six to a high of eleven. The average number was seven to eight. In order to determine if these individuals thought that their level of participation in subsidiary operations was constrained by the number of line personnel at the headquarters level, respondents were asked if they perceived their involvement was limited by the number of people available in headquarters for international responsibility. In four cases the respondents indicated they thought they would become more involved in subsidiary operations with additional personnel in headquarters. However, in six of the firms, the respondents indicated that their international line personnel level was appropriate for their desired degree of participation in subsidiary activities and that the number of headquarters line personnel was intentionally kept at its current level. In one company, the international division had just undergone a major reduction in international personnel because they felt that they were too "top-heavy" and needed to move more of the management of the subsidiaries to the subsidiary manager level.

In none of the cases did the respondents indicate they felt they were experiencing an acute "shortage" of headquarters personnel that impeded them from increasing the headquarters role in subsidiary activities. The majority felt that their level of involvement and staffing was appropriate for their desired level of participation. Yet, many of the headquarters respondents indicated that they did see a shortage of managerial talent in their industries and/or companies who were capable of assuming international responsibility for line management positions both at headquarters and in subsidiaries. Table 13 summarizes the answers respondents gave when asked their perception of the availability of international line personnel in their industry for headquarters assignments.

Table 13.--Availability of managerial talent for international line responsibility in headquarters.

|                                     | Yes, Perceive<br>a Shortage | No, Do Not<br>Perceive a<br>Shortage | Don't Know/<br>No Opinion | Number of<br>Firms |
|-------------------------------------|-----------------------------|--------------------------------------|---------------------------|--------------------|
| Availability<br>in your<br>industry | 8                           | 2                                    | 0                         | 10                 |

Only two of the firms indicated that they did not perceive a shortage of qualified managerial talent who could assume international line responsibilities in headquarters. Since this question asked them to indicate their assessment of the availability of international managerial talent in their industry rather than just within their own

company, most of the companies perceived difficulties in international staffing. Several individuals mentioned that they were trying to expand their pool of potential managers, but it was a very slow process, particularly when the requirement of previous international experience was imposed.

Since previous international management experience is a prerequisite for international line positions in some companies, and therefore has an effect on the availability of personnel, respondents were asked to indicate how important they considered previous international experience was for a person in their position or an equivalent one in headquarters. They were also asked to indicate how important previous international experience was for a subsidiary manager being appointed to a position outside his or her own country. Their responses are contained in Table 14.

Table 14.--Importance of prior international experience for international headquarters personnel and subsidiary managers.

| Perceived Importance  | Headquarters<br>Line Manager | Subsidiary Manager |
|-----------------------|------------------------------|--------------------|
| Extremely important   | 7(70%)                       | 4(40%)             |
| Very important        | 3(30%)                       | 3(30%)             |
| Don't know/no opinion | ...                          | ...                |
| Somewhat important    | ...                          | ...                |
| Not at all important  | ...                          | ...                |
| Total                 | 10(100%)                     | 10(100%)           |

As the preceding table indicates, the headquarters representatives indicated that previous international experience was either very important or extremely important for potential international line managers. Three respondents indicated it was either indispensable or essential. They also responded that previous international experience for subsidiary managers was also very desirable; however, three companies indicated that it was only somewhat important. Since previous international experience was very desirable from the point of view of the managers interviewed in this study, one of the issues that needs to be addressed is the availability of qualified personnel to assume subsidiary management positions abroad. The discussion of the findings related to subsidiary characteristics covers this issue in more detail later in the chapter.

Since the literature review indicated that the availability of managerial talent may influence the locus of decision making generally and within functional areas, some attempt was made to ascertain the availability of qualified personnel for filling international assignments in different functional areas. Interviewees were asked to indicate their perception of the availability of personnel for international assignment in each functional area. (See Table 15.)

The sample corporations perceived the most difficulty in obtaining qualified international personnel in research and development. Some representatives indicated that finance was the easiest and others stated marketing had the largest pool. In many cases

Table 15.--Availability of personnel for international assignment by functional area.

| Functional Area           | Large Pool,<br>No Difficulty | Moderate Pool,<br>Some Difficulty | Small Pool,<br>Much Difficulty | Total    |
|---------------------------|------------------------------|-----------------------------------|--------------------------------|----------|
| Marketing                 | 3                            | 4                                 | 3                              | 10       |
| Finance                   | 3                            | 6                                 | 1                              | 10       |
| Production                | 1                            | 7                                 | 2                              | 10       |
| Personnel                 | 1                            | 7                                 | 2                              | 10       |
| Research &<br>Development | 1                            | 3                                 | 6                              | 10       |
| Purchasing                | 1                            | 8                                 | 1                              | 10       |
| Total                     | 10(17%)                      | 35(58%)                           | 15(25%)                        | 60(100%) |

the respondents mentioned that it was always difficult to find good people or there was always a shortage of good people; however, their perception of the availability of personnel was not the same across functional areas.

### Corporate Philosophy

Another variable suggested in the literature review as having an influence on the locus of decision making was the philosophy of the corporation with respect to control in general and also with respect to control of subsidiary operations. To obtain some measures of the corporate philosophy characterizing the sample firms, respondents were asked to select the philosophy statement that most closely matched their perception of their company's philosophy toward controlling international and domestic operations. (See Table 16.)

Table 16.--Corporate philosophy with respect to controlling subsidiary operations.

| Corporate Philosophy Statement                                                                                                                      | Number of Firms<br>Selecting Statement |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|
| 1. Headquarters maintains very "tight" control over subsidiaries and their operations through procedures and policies established by headquarters.  | 6(60%)                                 |
| 2. Headquarters maintains very "loose" control over subsidiaries and their operations. Subsidiaries operate primarily as autonomous business units. | 3(30%)                                 |
| 3. Headquarters coordinates subsidiary operations on a regional or international basis while subsidiaries share in basic decision making.           | 1(10%)                                 |
| 4. Can't determine.                                                                                                                                 | 0                                      |
| Total                                                                                                                                               | 10(100%)                               |

The majority of the sample firms, or 60 percent, considered their corporations as having very "tight" control over international operations. Another group of companies, or 30 percent of the sample, considered their companies as maintaining very loose control over foreign operations. Only one firm in the sample was perceived by its executives as having a predominantly shared or regiocentric approach to controlling international operations.

Taken alone, it is possible to conclude that most of the sample firms exercised very tight control over their subsidiaries and that three exercised very loose control. However, these measures cannot really indicate whether these companies tended to control their international operations more tightly or loosely than they did their domestic activities. Most previous studies of the locus of decision making in multinational corporations have focused on the control issue only in an international setting and have not considered the possible influence of general corporate philosophy acting on the corporation and its units regardless of whether they are foreign affiliates or domestic operations. Consequently, the headquarters instrument was designed to elicit information from respondents on their perception of the level of international control exercised by the company in comparison to that characterizing domestic operations. Table 17 presents respondents' perceptions of their corporate policies and practices in controlling international and domestic activities generally and across functional areas.



Table 17.--Control of foreign operations compared to domestic in sample firms.

|                                       | Level of International Control Compared to Domestic |                       |                |               |           |                 |
|---------------------------------------|-----------------------------------------------------|-----------------------|----------------|---------------|-----------|-----------------|
|                                       | Much More Control                                   | Somewhat More Control | About the Same | Somewhat Less | Much Less | Can't Determine |
| I. <u>Overall for the Corporation</u> | 0                                                   | 0                     | 4(40%)         | 3(30%)        | 3(30%)    | 0               |
| II. <u>By Functional Area:</u>        |                                                     |                       |                |               |           |                 |
| Marketing                             | 0                                                   | 0                     | 3(30%)         | 3(30%)        | 4(40%)    | ...             |
| Finance                               | 0                                                   | 0                     | 6(60%)         | 4(40%)        | 0         | ...             |
| Personnel                             | 0                                                   | 0                     | 2(20%)         | 2(20%)        | 6(60%)    | ...             |
| Production                            | 0                                                   | 0                     | 3(30%)         | 4(40%)        | 3(30%)    | ...             |
| Research & Development                | 0                                                   | 0                     | 5(50%)         | 2(20%)        | 1(10%)    | ...             |
| Total                                 | 0                                                   | 0                     | 19(38%)        | 15(30%)       | 14(28%)   | 2( 4%)          |
|                                       |                                                     |                       |                |               |           | 50(100%)        |

Sixty percent of the sample firms were characterized by their headquarters representatives as exercising either somewhat less or much less control over their international operations when compared to their domestic operations. In none of the firms did the executives perceive that their companies exercised more control over international affiliates or operations than they did over their domestic operations. In 30 percent of the firms, international and domestic controls were viewed as being essentially the same. These findings, in conjunction with the corporate philosophy statements cited earlier, suggest that control over international operations should not necessarily be viewed nor studied in isolation from the corporate philosophy that firm has in regard to control in general, irrespective of whether the business unit is located within the U.S. or other countries. Although six firms indicated their firms maintained very tight control over their subsidiary operations, they did not indicate that they maintained more control over foreign than domestic operations. It is probable that they perceived their company as having a corporate philosophy of tight control and that international controls merely reflect that philosophy.

The fact that international controls are somewhat less than domestic controls may not be the product of a different desired level of control internationally, but rather a function of the difficulty encountered in implementing controls internationally. If this is the case, certain functions would be expected to be more easily subject to uniform controls than others and these functions would be most

similarly controlled when domestic and international practices are compared. The findings in Table 17 tend to support this view. For example, finance is the functional area in which the most firms, 60 percent, perceived international and domestic controls as being about the same. Given the standardized accounting, treasury, and auditing manuals and procedures used by many of the sample firms in all of their subsidiary operations, the ability to implement equivalent controls internationally is enhanced. Unique market, personnel, and production characteristics across environments would tend to reduce opportunities for equivalent standardization of controls in those functional areas. As the table indicates, 60 percent of the firms had much less control over personnel activities internationally and 40 percent had much less control over their international marketing activities. In addition, 30 percent of the firms indicated they had much less control over production activities internationally.

Several authors cited in the literature review suggested that multinational firms are moving toward increased centralization with respect to controlling their international activities. There are at least two interpretations of this movement. First, companies may be moving toward increased centralization domestically and these moves are being reflected in their international activities. Or, the international movement toward increased centralization may reflect the desire of many companies to bring domestic and international controls into equilibrium. Current research does not shed much light on these possible explanations and they represent interesting topics for future research.

Thus far, the data on the corporate characteristics of the sample firms have been presented in such a way that each element of the conceptual model underlying the research effort on the headquarters or corporate side has been considered. Since subsidiary characteristics were also indicated to have an influence in determining the locus of decision making in multinational corporations, this section of the chapter is primarily concerned with reporting the findings associated with these variables. The subsidiary characteristics of the conceptual model included: subsidiary age and size, availability of local managerial talent, geographic distance from headquarters or affiliated units, characteristics of the subsidiary environment, and the level of certainty or uncertainty in the subsidiary environment. The findings with respect to these variables are presented in the following section.

### Sample Composition: Subsidiary Characteristics

#### Subsidiary Age and Size

Three subsidiary units of each of the participating corporations were isolated for analysis so that similarities and differences in the decision-making process characterizing individual subsidiaries could be determined. The three countries in which each corporation maintained wholly owned subsidiaries selected as subunits of the sample were France, Brazil, and the United Kingdom. Since the age and size of the subsidiary was indicated to have an influence on determining the locus of decision making, headquarters personnel were asked to provide information on these aspects of their three

subsidiaries. Table 18 illustrates the number of years the sample subsidiaries had been in operation through 1978.

As Table 18 indicates, the British subsidiaries were the oldest and among the earliest established by the sample firms. Five of the French subsidiaries were under twenty years old, whereas only three of the Brazilian were less than twenty and only one of the British was in that same category. For six of the firms the order of establishment was the United Kingdom followed by Brazil and then France. In only one case, firm 4.1, was the French firm the oldest of the three. The most recently established subsidiary was the French subsidiary of firm 4.2, which had only been in operation four years.

In order to determine the size of the sample member subsidiaries in comparison to other corporate subsidiaries, headquarters personnel were asked to rank each of the three as being average, larger, or smaller than their firm's other subsidiaries. As Table 19 indicates, 73 percent of the sample subsidiaries were among the larger subsidiaries of the sample corporations. Thirteen percent were about average and another 13 percent were among the smaller subsidiaries.

The subsidiaries located in the United Kingdom were among the largest subsidiaries for most of the companies in the sample. Eighty percent of the Brazilian and the French subsidiaries were at least average or among the largest. Based on the information obtained on the age of the sample subsidiaries, it might be expected that the order of size would parallel the years elapsed since the date of establishment. This was true in the case of the United Kingdom, which had the highest mean age for sample subsidiaries and the largest number of

Table 18.--Age of sample subsidiaries.

| Industry and Firm             | Years in Operation Through 1978   |        |        |                |
|-------------------------------|-----------------------------------|--------|--------|----------------|
|                               | First International<br>Subsidiary | France | Brazil | United Kingdom |
| Industry 1: Pharmaceuticals   |                                   |        |        |                |
| Firm 1.1                      | 26                                | 20     | 24     | 26             |
| Firm 1.2                      | NA                                | NA     | NA     | NA             |
| Industry 2: Automobiles       |                                   |        |        |                |
| Firm 2.1                      | 74                                | 62     | 59     | 68             |
| Firm 2.2                      | NA                                | 15     | 19     | 14             |
| Industry 3: Tire and Rubber   |                                   |        |        |                |
| Firm 3.1                      | 68                                | 19     | 39     | 51             |
| Firm 3.2                      | 59                                | 13     | 37     | 47             |
| Industry 4: Capital Equipment |                                   |        |        |                |
| Firm 4.1                      | NA                                | 27     | 20     | 20             |
| Firm 4.2                      | 40                                | 4      | 31     | 38             |
| Industry 5: Food Processing   |                                   |        |        |                |
| Firm 5.1                      | 54                                | 7      | 14     | 49             |
| Firm 5.2                      | 31                                | 17     | 18     | 31             |
| $\bar{X}$ Age                 | 50.3                              | 20.4   | 29     | 38.2           |

Note: In companies 1.2 and 5.2, their first subsidiary was the United Kingdom. No other company had its first subsidiary located in the three countries we are concerned with in the study.

Table 19.--Sample subsidiary size.

| Compared to<br>Other Corporate<br>Subsidiaries | Country Location of<br>Sample Subsidiaries |          |                | Total by Size<br>Category |
|------------------------------------------------|--------------------------------------------|----------|----------------|---------------------------|
|                                                | France                                     | Brazil   | United Kingdom |                           |
| Larger                                         | 7(70%)                                     | 6(60%)   | 9(90%)         | 22(73%)                   |
| Average                                        | 1(10%)                                     | 2(20%)   | 1(10%)         | 4(13%)                    |
| Smaller                                        | 2(20%)                                     | 2(20%)   | 0              | 4(13%)                    |
| Total                                          | 10(100%)                                   | 10(100%) | 10(100%)       | 30(100%)                  |

sample subsidiaries falling within the average to larger categories of size. By the same token, the Brazilian subsidiaries would then be expected to be slightly larger than the French; however, the French and Brazilian subsidiaries were approximately equal in the categories of size. This would suggest that there may be a number of other characteristics influencing the size of the subsidiary in addition to the length of time it has been established. However, some association between size and age is illustrated in these findings.

Firms were also asked to indicate whether any of their subsidiaries accounted for more than 5 percent of total corporate sales. Six firms indicated they had subsidiaries that accounted for at least 5 percent of total corporate sales. In addition, they were asked to indicate whether any of the three sample subsidiaries accounted for more than 5 percent of total corporate sales. Their responses are summarized in Table 20.

Table 20.--Sample subsidiaries accounting for at least 5 percent of total corporate sales.

| Country                      | Number of Subsidiaries<br>at 5 Percent or More of<br>Total Corporate Sales | Sample<br>Subsidiaries<br>Under 5 Percent | Total    |
|------------------------------|----------------------------------------------------------------------------|-------------------------------------------|----------|
| France                       | 2(20%)                                                                     | 8(80%)                                    | 10       |
| Brazil                       | 3(30%)                                                                     | 7(70%)                                    | 10       |
| United Kingdom               | 4(40%)                                                                     | 6(60%)                                    | 10       |
| Total sample<br>subsidiaries | 9(30%)                                                                     | 21(70%)                                   | 30(100%) |

Nine, or 30 percent of the subsidiaries in the sample, accounted for at least 5 percent of their corporation's total annual sales in 1977. These figures parallel the findings in Table 19 on subsidiary size, in that the United Kingdom subsidiaries were viewed as being the largest of the corporate subsidiaries. Three of the subsidiaries in Brazil and two in France also accounted for at least 5 percent of their parent corporation's annual total sales.

Because several authors cited in the literature review (Robock and Simmonds,<sup>1</sup> Lovell,<sup>2</sup> and Alymer<sup>3</sup>) indicated that subsidiary age and/or size may have an influence in determining the locus of decision making between headquarters and the subsidiaries, the headquarters instrument was designed to ask respondents whether the size of the subsidiary affected the level of authority the subsidiary manager had. Size was expressed in terms of subsidiary sales volume and assets. Respondents were asked if the subsidiary manager of a



large subsidiary had more formal authority than the manager of a smaller subsidiary, as Aylmer suggested was the case.

Table 21.--Subsidiary size and formal authority.

| Statement                                                         | Number of Companies<br>Selecting Statement |
|-------------------------------------------------------------------|--------------------------------------------|
| Yes, formal authority varies<br>across functional areas           | 0                                          |
| Yes, but formal authority only<br>varies in expenditure authority | 5(50%)                                     |
| No, all subsidiary managers<br>have equal authority               | 5(50%)                                     |
| Total firms                                                       | 10(100%)                                   |

Interestingly, in only 50 percent of the sample firms did the subsidiary manager's authority vary based on the size of his operation, and then only in the area of expenditure authority. In none of the firms did the formal authority of the subsidiary manager differ across functional areas when subsidiary size was taken into consideration. And, in five companies, the size of the subsidiary had no influence in the delegation of authority to different subsidiary managers. Based on these findings, it appears that corporate policies relating to subsidiary managers are quite uniform in application, regardless of the size of the operation. The only areas of difference in formal authority were in the expenditure limits authorized for subsidiary managers of different sized operations within five firms.

Perhaps the major reason these findings tend to disagree with Aylmer's conclusions is that Aylmer did not distinguish between formal authority and power or influence. As indicated in the literature review, these two concepts should not be used interchangeably in viewing the subsidiary manager's relationship to headquarters. In order to find out whether the managers of the larger subsidiaries enjoyed more influence in the decision-making process than the managers of the smaller subsidiaries, executives were asked if the size of the subsidiary had any influence in the determination of the locus of decision making for decisions within different functional areas.

The advantage of in-depth personal interviews with these executives was clear in the discussions on subsidiary size and the locus of decision making. In the view of most of the executives, the managers of the larger subsidiaries had somewhat less autonomy in decision making even though they had the formal authority to make decisions because their operations were large, visible, and the consequences of their decisions more important to overall corporate performance. On the other hand, the managers of the smaller subsidiaries had equal formal authority, except where expenditure limits varied, but actually had more autonomy in exercising that authority because their operations were less visible and had a lesser impact on total corporate plans and performance. Consequently, Aylmer's conclusion that small subsidiaries were more tightly controlled in marketing than large subsidiaries does not accurately reflect the overall situation within many companies in this sample.

The findings in this study indicate that formal authority levels across functional areas did not differ when subsidiary size was varied except for five of the firms in the area of financial expenditures and that once the subsidiary became very large, the manager of that subsidiary shared decision making with headquarters personnel more often than did the managers of the smaller or medium-sized subsidiaries. Therefore, in the future, researchers need to be more precise in their definition and measurement of authority so that distinctions in formal authority and actual practice can be examined. In the absence of such precision, erroneous conclusions regarding the locus of decision making are likely.

Several respondents indicated that the managers of the larger subsidiaries had more influence than did the managers of the smaller subsidiaries. In their view, the larger subsidiary managers may have had more influence but not more formal authority in the determination of a particular decision than would the managers of the smaller subsidiaries. An example of this was in new product introductions. According to many of the respondents, if the manager of a very large subsidiary wanted to push for product line changes, adaptations in new products to better fit his market, or changes in the introduction schedules, etc. he would likely have much more influence in the decision-making process than would the manager of a small subsidiary selling much less product. The manager of the smaller subsidiary may have to accept corporate plans and products as is.

One could describe the role of the manager of the larger subsidiary as fitting the decision process three category and the

subsidiary manager of the smaller subsidiary facing a decision process four or five on a major product decision. On the other hand, based on discussions with headquarters personnel, the managers of the smaller subsidiaries have more latitude in making decisions in the other marketing areas which do not require extensive product development, tooling costs, etc. Consequently, managers in charge of the smaller subsidiaries may find that many more of their decisions fall within decision process categories one and two, which are essentially subsidiary generated and implemented. In summary, the magnitude of the operations of a large subsidiary may influence that manager to use a decision process three or two on a regular basis rather than a decision process one.

If subsidiary size affects the locus of decision making, which these findings suggest, it is not necessarily reflected in formal authority or policy differences but rather informally and/or through the means by which certain decisions are made. There are at least three major research implications of these findings. First, many previous researchers did not consider the size of the subsidiaries represented in their samples. If the samples were predominantly large subsidiaries, their results on the centralization of authority may be different than if the sample was mixed with respect to size, or comprised of very small subsidiaries. Second, since Pohlman, Ang, and Ali,<sup>4</sup> among others, used a mail survey to query headquarters executives on where, headquarters or the subsidiary, certain decisions were made and did not request any information on subsidiary size, it

is assumed that the respondents either thought in terms of the formal authority guidelines issued uniformly to all managers or came up with some average method which covered all subsidiary experiences and perhaps actually did not fit any one particular subsidiary. A third aspect of these findings, and perhaps most significant for future research, is that careful distinctions must be made in the use of terms to describe and measure the role of the headquarters personnel and subsidiary managers in the management of subsidiary operations.

#### Availability of Local Managerial Talent

Another variable suggested by several authors as an influence in determining the locus of decision making between headquarters and subsidiary units was the personal experience and qualifications of the local subsidiary manager. Brooke and Remmers<sup>5</sup> and Robock and Simmonds<sup>6</sup> both suggested that the more seasoned or experienced local managers would be given more authority to run the subsidiary operation than less experienced managers. The findings in the preceding section indicated that the formal authority of the subsidiary managers was the same in all sample companies with the exception of five firms which tailored the expenditure authority limits to the size of the operation. Consequently, the positional or formal authority of the managers did not vary except in the cases cited. Nevertheless, because the literature review suggested authority varied, the headquarters instrument was designed to obtain additional measures of the means by which the experience of the individual manager influenced his authority.

Respondents were asked if decision-making authority varied for individual subsidiary managers or if the decision-making authority was the same for all. An open-ended question then asked them to comment on the ways in which the individual's experience may have influenced his authority.

With the exception of the financial differences mentioned earlier, the respondents indicated that the formal authority of the managers was the same. However, there were a number of ways in which the individual manager influenced the locus of decision making between headquarters and his subsidiary unit. All of the companies in the sample indicated that the locus of decision making was in fact altered by the individual subsidiary manager, but it was expressed informally rather than through alterations of formal policy. Coding of the responses to the question on how the individual manager's experience or personal characteristics influenced his participation in decision making resulted in the following categories. The tabulation of responses on each item is summarized in Table 22.

Based on these findings, it appears that the more successful or experienced subsidiary manager's opinions carry more weight in decision making than the points of view expressed by the less experienced managers. One very interesting finding that had not been cited in earlier studies was the degree to which line managers perceived individual subsidiary managers as differing substantially in the way they exercised their authority. Several managers said that even though all subsidiary managers had the authority to make certain

Table 22.--Subsidiary managers' characteristics as an influence on the locus of decision making.

| Statement                                                                                                                                                      | Frequency |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 1. Successful or experienced managers get a better "ear" or their opinions carry more "weight" in decision making.                                             | 9         |
| 2. More experienced managers get the larger subsidiaries and therefore their opinions carry more weight.                                                       | 1         |
| 3. Any "good" manager will discuss major decisions.                                                                                                            | 6         |
| 4. It depends on the individual; some will exercise their authority and others don't exercise initiative. They have broad initiative within policy guidelines. | 6         |
| 5. It depends on the working relationship the subsidiary manager has with his headquarters superior and the headquarters manager's style.                      | 4         |

decisions or to take certain actions, many subsidiary managers would not use this authority and would discuss their preferred alternatives and/or decisions with headquarters before acting on them. Four area vice-presidents in different firms said, in effect, "The most successful subsidiary managers are the ones who treat the operation as their own business and exercise as much initiative on their own as policy guidelines will allow." On the other hand, as the preceding findings indicate, in at least six firms the comment was made that no "really good" subsidiary manager will take action on an important decision without "checking it out" with headquarters first. Consequently, it appears that the subsidiary manager himself in many cases

will move from a decision process one to a two or from a decision process two to a three, depending on how he personally regards his management style and needs.

Another particularly interesting aspect of these findings is the frequency with which individual vice-presidents commented on how their own personal managerial style influenced the locus of decision making. In two of the firms, for example, individuals commented that they felt the decision process characterizing the subsidiaries they had responsibility for was different from the decision processes characterizing other corporate subsidiaries. One manager said that he ran a very "tight ship" and wanted to be consulted on many more decisions than other managers within the same firm. He went on to say, "When I leave this position, the responses to these decision process questions may be different since the person who replaces me may have a different idea about how he wants to manage the division." Based on these findings, it appears that not only will the individual subsidiary manager's qualifications and personal managerial style influence the locus of decision making on many decisions, but so will the personal preferences and characteristics of the person he reports to in headquarters. However, it should be noted that overall corporate policies and practices may limit the degree to which individual managers can alter the locus of decision making for subsidiaries reporting to them.

In some companies, headquarters executives had considerable latitude in managing their operations, and in others their ability to



pursue any significantly different policies or practices was much more limited. Consequently, corporate measures of the locus of decision making for that company need to take into consideration the variations in the locus of decision making that may exist from division to division within the same company. Previous studies have not addressed this issue and have focused on obtaining measures of centralization from one subsidiary manager or from one person in headquarters responding to a mail survey. If substantial differences across corporate divisions exist, then the results of previous studies may not be accurately interpreted as the degree of centralization characterizing the corporation as a whole in its international operations.

Because the qualifications of the local subsidiary managers and those of their top management group within the subsidiary were suggested as having an influence on the locus of decision making, the headquarters instrument was designed to elicit headquarters executives' perceptions of the availability of qualified managerial personnel in each of the three countries being considered in the analysis. Their perceptions of the available talent pool are summarized in Table 23.

When the availability of managerial talent was assessed, Brazil presented the most difficulty to sample firms in finding managers for subsidiary operations located there. Eighty percent of the responses indicated that the United Kingdom has a moderate or large pool available, making it the least difficult subsidiary location to staff. France presented some difficulty but apparently not as much as the subsidiaries located in Brazil.

Table 23.--Availability of managerial talent for subsidiary management positions by country.

| Country           | Large Pool,<br>No Difficulty | Moderate Pool,<br>Some Difficulty | Small Pool,<br>Significant<br>Difficulty | Total    |
|-------------------|------------------------------|-----------------------------------|------------------------------------------|----------|
| France            | 1(10%)                       | 6(60%)                            | 3(30%)                                   | 10(100%) |
| Brazil            | 1(10%)                       | 4(40%)                            | 5(50%)                                   | 10(100%) |
| United<br>Kingdom | 2(20%)                       | 6(60%)                            | 2(20%)                                   | 10(100%) |
| Total             | 4(13%)                       | 16(53%)                           | 10(33%)                                  | 30(100%) |

According to one headquarters executive, his company found it difficult to locate good subsidiary managers for any location. In his words, "We have many who could, but few who will." As he saw it, the problem of getting U.S. and expatriates to move to other countries for senior-level subsidiary management positions is becoming increasingly difficult as families and managers become increasingly reluctant to move. Language problems were also cited frequently as a factor that reduced the sample corporations' ability to draw from an international talent pool for staffing various subsidiary positions. Of course, local government requirements for local participation in management and U.S. tax laws also effectively limit the ability of the corporations to move personnel internationally.

#### Geographic Location

Stopford and Wells,<sup>7</sup> among others, suggested that the geographic location of the subsidiary may influence the locus of decision

making in multinational corporations. In their view, the closer subsidiaries may find that they are more closely controlled than those located in the more distant parts of the globe from headquarters. They also suggested that firms which utilize regional management units, such as a regional headquarters in Europe, will tend to be more involved in the operations of the subsidiaries located in those regions than will those firms with line executives located only in headquarters.

To obtain headquarters executives' perceptions of the possible influence of geographic location on the locus of decision making, respondents were asked if there was any relationship between the geographic distance from headquarters and the amount of authority the subsidiary manager had. All ten firms reported that geographic distance did not have any influence in altering the formal authority of the subsidiary manager. However, five firms indicated that the subsidiaries located farther away may have had less monitoring of their activities compared to the closer subsidiaries. Two managers said that a distant subsidiary manager may take action and then advise on certain decisions, but for the most part, geographic distance would not change the locus of decision making from one extreme to another.

### Subsidiary Environment

Both the comparative management and the organization behavior researchers cited in the literature review indicated that the environment in which an organization is located can influence various

aspects of the organization. Countries have been characterized as having unique environments in that certain political, economic, cultural, geographic, technological, market, and other characteristics will not be duplicated exactly in another country setting. If the organization is to survive and perform competitively in its environment, it must be capable of responding to the unique contingencies posed by that environment. The locus of decision making may have an influence on a subsidiary manager's ability to undertake actions that best fit the constraints and contingencies the local national environment poses for his organization.

Because previous studies did not isolate distinct national environments in designing their measures of centralization or of the locus of decision making, it was not possible to determine if there were differences between subsidiaries operating in different countries with respect to the locus of decision making characterizing their relationships with headquarters. Consequently, three national environments were selected and measures of the locus of decision making for subsidiaries operating in each of those countries were obtained. The three national environments selected were France, Brazil, and the United Kingdom. The results of the findings on country environment and the locus of decision making are presented in the final section of this chapter.

#### Environmental Certainty/Uncertainty

Just as each national environment possesses unique political, economic, and social characteristics, the degree and rate of change

occurring in each of these environmental dimensions may also vary across environments. The level of uncertainty posed by any particular environment is primarily determined by the level of predictability of certain changes in any of these sectors of the environment and in the environment as a whole. For example, there may be frequent unpredictable, and substantial changes in the political or competitive sectors of one environment and in another national environment the changes in that sector may be more gradual or predictable. According to several authors (Lawrence and Lorsch,<sup>8</sup> Burns and Stalker,<sup>9</sup> and Hall<sup>10</sup>), the organization structure of an organization must be tailored to accommodate the unique characteristics of its environment in order for it to survive and/or grow.

Lawrence and Lorsch's definition of structure cited in the literature review was "those aspects of behavior in organizations subject to preexisting programs and controls." They hypothesized that the more certain the environment, the more formalized would be the structure of the subsystem. Burns and Stalker found that the organizations that were profitably coping with uncertain, changing environments had a low degree of formalized structure (organic) instead of formalized structure (mechanistic). Hall found that the departments with routine tasks tended to have a higher degree of bureaucracy (structure) than departments with less certain tasks. Based on these findings, organizations may be expected to develop different degrees of structure in relation to the uncertainty in their environment.

Lawrence and Lorsch's concepts of integration and differentiation discussed in the literature review suggested that subsystems (subsidiaries) must respond to the unique configurations of their local environments (differentiation) at the same time that the corporation as a whole must provide a means of controlling and coordinating their activities (integration). For overall corporate performance to be maximized, the appropriate levels of differentiation within subsidiary decision making must accommodate the environment in which the subsidiary is located as well as allow for the appropriate levels of corporate integration required for the organization as a whole. The types of integration or integrative devices used by multinationals include regional offices, formal and informal gatherings of subsidiary managers, increased policy and procedural guidelines, and individual managers themselves.

One of the means by which corporations in this sample of firms achieved integration of subsidiary units was through uniform policies and procedures, particularly through the use of detailed accounting and treasury manuals. Another means of integration was the imposition of headquarters plans and directives on all subsidiaries within functional areas. For example, in all firms the quality control levels in production were set by the quality control staff in headquarters. Research and development, especially due to the high technology and cost component, was characterized by more headquarters control in the sample firms. In the personnel area, most of the sample firms used compensation policy guidelines which set the range

in which all subsidiary managers were allowed to operate. This was also the case in expenditure authority limitations and levels of currency exposure.

Some functions may require different levels of corporate integration than others for the corporation as a whole to be successful. Other functions may require more differentiation in order for sub-units to be most successful in coping with their environments and hence, for the corporation's total performance to be maximized. In this study, the degree of differentiation and integration characterizing a particular corporation or subsidiary were interpreted through measures of the locus of decision making and through an interpretation of the number, types, and levels of specificity of policies in different functional areas. Levels of environmental uncertainty for the three countries were obtained by asking headquarters personnel to rank each of the three subsidiary environments with respect to their perception of the level of uncertainty present in the environment. The following discussion highlights the major findings with respect to these variables.

Headquarters personnel were asked to provide a general measure of the level of uncertainty they perceived in each of three countries--France, Brazil, and the United Kingdom--in terms of its influence on decision making. Table 24 summarizes their responses.

As Table 24 indicates, the general uncertainty associated with each of the three countries selected as units of analysis differed from a low mean score of 2.2 for the United Kingdom to a score

Table 24.--Perceived environmental uncertainty in sample countries.

| Country           | Level of Uncertainty<br>in Environment |          |        | N  | Uncertainty<br>Mean Score |
|-------------------|----------------------------------------|----------|--------|----|---------------------------|
|                   | Low=1                                  | Medium=3 | High=5 |    |                           |
| France            | 2(20%)                                 | 4(40%)   | 4(40%) | 10 | 3.4                       |
| Brazil            | 0                                      | 5(50%)   | 5(50%) | 10 | 4.0                       |
| United<br>Kingdom | 6(60%)                                 | 2(20%)   | 2(20%) | 10 | 2.2                       |
| Total             | 8                                      | 11       | 11     | 30 |                           |

of 4.0 for Brazil. Sixty percent of the sample firms assessed the United Kingdom as being low in uncertainty and an additional 20 percent ranked it medium. Forty percent ranked France as being moderate in uncertainty and an additional 40 percent ranked it as being high in uncertainty. Based on these responses, Brazil was perceived as being the most uncertain environment, France second, and the United Kingdom third.

In order to gain additional measures of the environmental uncertainty in each environment, respondents were asked to complete a series of scaling questions for each country as well as for a set of sub-environmental categories within each country. Table 25 provides the results of these responses for the sample firms.

When the measures of sub-environmental uncertainty were obtained, the order of ranking of the three countries remained the same. The United Kingdom with a mean score of 1.98 was the lowest, followed by France with a mean score of 2.53. Brazil was the highest



Table 25.--Perceived level of environmental uncertainty, by country and sector.

| Country and Sector    | Level of Uncertainty in Environment |         |         |         |        |   | N        | $\bar{X}$ |
|-----------------------|-------------------------------------|---------|---------|---------|--------|---|----------|-----------|
|                       | Low                                 | Med.    |         |         | High   | 5 |          |           |
|                       |                                     | 2       | 3       | 4       |        |   |          |           |
| Score =               | 1                                   | 2       | 3       | 4       | 5      |   |          |           |
| <u>France</u>         |                                     |         |         |         |        |   |          |           |
| - Technology          | 7                                   | 0       | 1       | 2       | 0      |   | 10       | 1.80      |
| - Market behavior     | 2                                   | 4       | 2       | 1       | 1      |   | 10       | 2.50      |
| - Economic            | 1                                   | 4       | 3       | 2       | 0      |   | 10       | 2.60      |
| - Political           | 1                                   | 1       | 3       | 5       | 0      |   | 10       | 3.20      |
| Total                 | 11(28%)                             | 9(23%)  | 9(23%)  | 10(25%) | 1( 3%) |   | 40(100%) | 2.53      |
| <u>Brazil</u>         |                                     |         |         |         |        |   |          |           |
| - Technology          | 6                                   | 0       | 2       | 2       | 0      |   | 10       | 2.00      |
| - Market behavior     | 0                                   | 1       | 5       | 4       | 0      |   | 10       | 3.30      |
| - Economic            | 0                                   | 1       | 1       | 6       | 2      |   | 10       | 3.90      |
| - Political           | 0                                   | 2       | 2       | 3       | 3      |   | 10       | 3.50      |
| Total                 | 6(15%)                              | 4(10%)  | 10(25%) | 15(38%) | 5(13%) |   | 40(100%) | 3.18      |
| <u>United Kingdom</u> |                                     |         |         |         |        |   |          |           |
| - Technology          | 7                                   | 2       | 0       | 1       | 0      |   | 10       | 1.50      |
| - Market behavior     | 2                                   | 5       | 3       | 0       | 0      |   | 10       | 2.10      |
| - Economic            | 0                                   | 6       | 4       | 0       | 0      |   | 10       | 2.40      |
| - Political           | 4                                   | 4       | 1       | 1       | 0      |   | 10       | 1.90      |
| Total                 | 13(33%)                             | 17(43%) | 8(20%)  | 2( 5%)  | 0      |   | 40(100%) | 1.98      |

Note: Percentages may not total 100 due to rounding.

in uncertainty with a mean score of 3.18. Interestingly, the sub-sector environmental scores on uncertainty elicited in this question were not as high as the general scores obtained earlier and reported in Table 24. In fact, in the case of Brazil and France, the difference in the two uncertainty measures was almost one point. While these are interesting findings and suggest that some caution must be exercised in obtaining environmental uncertainty measures and in interpreting them, of particular concern to this study is the fact that the overall magnitudes of uncertainty characterizing each of the three environments were consistent from measure to measure.

Because several authors had suggested that there was a relationship between the level of uncertainty in the environment and the locus of decision making that would characterize organizations operating in that environment, headquarters executives were asked if they thought the level of uncertainty in the subsidiary environment influenced the authority of the subsidiary manager operating in that country. In response to this question, all of the sample firms (ten) indicated that indeed the locus of decision making was altered by the level of uncertainty in the environment. In most cases, this was expressed informally to the subsidiary manager through a telephone call, personal conference, or letter. These changes were considered deviations from normal operating policies and temporary until the conditions in the particular environment stabilized or improved. The responses to the open-ended question were coded into categories, and Table 26 summarizes the way in which headquarters executives perceived

the influence of high levels of uncertainty on the decision-making process for any corporate subsidiary.

Table 26.--Perceived influence of environmental uncertainty on the locus of decision making in subsidiary environments characterized by high uncertainty.

| Influence Statement                                                                                                                                        | Frequency |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 1. The authority of the subsidiary manager is reduced informally through more frequent "checking-in" or more careful reviews or monitoring by headquarters | 7         |
| 2. Capital expenditure authorizations cut back and/or require headquarters approval                                                                        | 3         |
| 3. Headquarters may not initiate any action, but the subsidiary manager may choose to check back more frequently and/or ask for headquarters assistance    | 1         |
| Total                                                                                                                                                      | 11        |

When subsidiaries are located in countries with high levels of uncertainty, the headquarters executives indicated that there would be more frequent monitoring of decisions or more consultation with headquarters before decisions would be made. With the exception of the cases where specific changes were made in expenditure limits, the influence of high levels of environmental uncertainty was to move the locus of decision making from a decision process category one to a two or to a three, on a number of decisions. One executive said that one of the subsidiaries reporting to him was located in what he termed a very unstable environment, and he had instructed

the subsidiary manager to cut back expenditure levels to almost nothing, hire no one, and make no major changes in operations or strategy without securing approval.

In order to ascertain whether the levels of uncertainty in any of the three countries being studied in this analysis had influenced the locus of decision making for subsidiaries within those countries, headquarters executives were asked whether the level of uncertainty in France, Brazil, or the United Kingdom has influenced them to retain more of the authority for decision making in headquarters, had no effect, or resulted in giving more decision-making authority to subsidiary managers.

Table 27.--Perceived influence of environmental uncertainty on the locus of decision making for sample member subsidiaries, by country.

| Country        | Influence on Locus of Decision Making |                                |                        | Total    |
|----------------|---------------------------------------|--------------------------------|------------------------|----------|
|                | More Authority at Headquarters        | Less Authority at Headquarters | No Effect on Authority |          |
| France         | 2                                     | 1                              | 7                      | 10       |
| Brazil         | 3                                     | 1                              | 6                      | 10       |
| United Kingdom | 2                                     | 1                              | 7                      | 10       |
| Total          | 7(23%)                                | 3(10%)                         | 20(67%)                | 30(100%) |

As Table 27 indicates, the uncertainty of the environment had no effect on the allocation of authority between headquarters and the subsidiary units in twenty of thirty cases. In one case in each

country, the level of uncertainty in the environment was perceived as having the effect of lessening the authority of headquarters in the decision process. And, for seven of the subsidiaries, the level of uncertainty in the subsidiary environment was perceived as increasing the corporate role in the decision-making process. Given the relatively large differences among the three countries on the environmental uncertainty measures discussed earlier, more variability in these results could reasonably be expected. This was not the case, in that increased corporate authority in decision making was true for two subsidiaries in France, two in Britain, and three in Brazil. Brazil was perceived as having the most uncertain environment of the countries in the sample, and three companies indicated that the locus of decision making for their Brazilian subsidiaries had shifted toward headquarters because of the level of uncertainty characterizing that environment.

Thus far, the general characteristics of the sample with respect to the corporate and subsidiary factors suggested as influencing the locus of decision making have been presented and discussed. The following chapter reports the findings on the measures of the locus of decision making and the relationship between the locus of decision making and subsidiary performance.

Footnotes--Chapter III

<sup>1</sup>Stephan H. Robock and Kenneth Simmonds, International Business and Multinational Enterprises (Homewood, Ill.: Richard D. Irwin, 1973).

<sup>2</sup>Enid Baird Lovell, "Relationships With Foreign Subsidiaries and Affiliates," The Changing Role of the International Executive (New York: National Industrial Conference Board, 1966).

<sup>3</sup>R. J. Aylmer, "Who Makes Marketing Decisions in the Multinational Firm?" Journal of Marketing 34 (October 1970): 25-30.

<sup>4</sup>Randolph A. Polhman, James S. Ang, and Syed I. Ali, "Policies of Multinational Firms: A Survey," Business Horizons 19 (December 1976): 15.

<sup>5</sup>Michael Z. Brooke and H. Lee Remmers, The Strategy of Multinational Enterprise: Organization and Finance (Harlow: Longmans, 1970).

<sup>6</sup>Robock and Simmonds, International Business and Multinational Enterprises.

<sup>7</sup>John M. Stopford and Louis T. Wells, Jr., Managing the Multinational Enterprise (New York: Basic Books, 1972).

<sup>8</sup>Paul R. Lawrence and J. W. Lorsch, Organization and Environment (Cambridge, Mass.: Harvard University Press, 1967).

<sup>9</sup>Tom Burns and S. M. Stalker, The Management of Innovation (London: Tavistock, 1961).

<sup>10</sup>Richard H. Hall, "Interorganizational Structure Variables," Administrative Science Quarterly 9 (1962): 295-308.

## CHAPTER IV

### LOCUS OF DECISION MAKING FINDINGS

In this chapter the study findings pertaining to the locus of decision making for sample firms and their subsidiaries are presented and analyzed. First, the findings generated by the completed subsidiary questionnaires are reported and contrasted to the data obtained in the headquarters interviews. Second, the major findings regarding the locus of decision making characterizing all subsidiary/headquarters relationships for the sample firms are considered. Third, because differences in the locus of decision making were anticipated across industries, functions, and countries, the findings regarding each of these factors are reported and examined. The conclusion of the chapter presents the findings associated with the relationship between the locus of decision making and subsidiary performance.

Before proceeding to the exposition and analysis of the locus of decision making findings, a brief review of the methodology employed in measuring the locus of decision making is appropriate. First, five decision processes or categories were developed through interviews with international line personnel in five U.S. multinational corporations. Each category described the level and type of participation between headquarters personnel and subsidiary managers

in the generation of decision alternatives, selection of the preferred alternative, and implementation of the decision choice for a decision.

In contrast to previous studies which asked respondents if a particular decision was determined by headquarters, the subsidiary, or was shared, the corporate respondents indicated that the decision process categories allowed for a more comprehensive view of the complex decision process as well as the nature of the participation exercised by headquarters personnel and subsidiary management in resolving a particular decision. In order to facilitate comparison with previous studies, the study findings on the locus of decision making are reported both in terms of the five decision process categories as well as within a three-category breakdown of headquarters involvement levels.

The decision process categories used to measure the locus of decision making in this study indicate varying levels of headquarters direction and participation in decision making affecting subsidiary operations. Decision processes five and four represent basically a headquarters-initiated and -determined decision. Decision processes one and two represent decisions primarily determined by subsidiary managers with little or no headquarters participation. Decision process three represents a shared decision process in that headquarters personnel and subsidiary managers reach a consensus in resolution of the decision. The level of centralization, or headquarters direction in decision making, would be the highest in category five and lowest in decisions categorized as decision process one.



The decision process categories used to measure the locus of decision making in this study are outlined as follows:

### Decision Process Categories

#### Process 1

The subsidiary manager generates alternative solutions and makes the decision himself.

#### Process 2

The subsidiary manager generates alternative solutions, makes the decision, and submits the decision to his supervisor for approval.

#### Process 3

Headquarters and subsidiary managers share the problem and collectively generate alternatives. Together you generate and evaluate alternatives and attempt to reach consensus on a solution. The solution that has the support of both the subsidiary manager and the headquarters managers will be implemented.

#### Process 4

Headquarters personnel generate alternative solutions, submit these to the subsidiary manager for his ideas and suggestions. Headquarters personnel then make the decision.

#### Process 5

Headquarters personnel generate alternative solutions, make the decision and inform subsidiary management of the decision.

One of the objectives of the study was to describe the nature of the locus of decision making for headquarters and subsidiaries across functional areas. So that some idea of the overall level of subsidiary participation could be established as well as differences in functional areas identified, several decision areas within each functional area were developed. Twenty-nine decisions representing six functional areas were used to measure the locus of decision making

for all corporate subsidiaries and for each of the three subsidiaries being isolated for analysis. The functional areas examined in the study included: marketing, finance, purchasing, production, personnel, and research and development. The selection of the twenty-nine decisions was based on their representativeness of the types of decisions made within each area and their inclusion in previous studies of the locus of decision making cited in the literature review. (For a listing of the decisions used, see the headquarters instrument in the Appendix.)

One of the limitations identified in previous studies was the fact that only headquarters personnel or subsidiary personnel had been queried as to their perception of the locus of decision making for various decisions. The methodology in this study was originally designed to obtain both headquarters and subsidiary perceptions of the locus of decision making characterizing the sample firms and the three subsidiaries isolated for analysis so that any differences in the perception of the locus of decision making held by headquarters executives and subsidiary managers could be identified and accounted for in the analysis. Due to the low response rate of the subsidiary managers in returning the self-administered questionnaire (ten of twenty-four), it was not possible to incorporate the subsidiary managers' responses for all the participating corporations. Because the personal interviews in headquarters with the line executives responsible for each of the subsidiary operations in France, Brazil, and the United Kingdom were very long and the respondents were very

candid and thorough in their comments, the scores obtained on the locus of decision making from the headquarters representatives are a good estimation of the actual decision-making process characterizing the headquarters and subsidiary relationships in that firm. Consequently, the findings on the locus of decision making reported in this study are derived from the headquarters interviews only.

#### Locus of Decision Making: Subsidiary Findings

Before the results of the field research on the locus of decision making are presented and discussed, some of the findings obtained from the subsidiary managers will be presented and their implications briefly discussed. Of the ten subsidiary managers returning completed questionnaires, six were the managers of the French, Brazilian, and British subsidiaries of two corporations in the sample. Since subsidiary and headquarters responses for these two firms were complete, some preliminary conclusions can be made from these findings. Because the companies were assured confidentiality in reporting the locus of decision making scores, the two companies submitting complete headquarters and subsidiary data are referred to as firm 3.1 and firm 5.2 in the reporting and discussion related to these findings.

When the responses of the subsidiary managers and the headquarters executives to the locus of decision making questions were compared, substantial differences in the perception of the decision-making process were present. Table 28 illustrates the differences in the headquarters and subsidiary manager perceptions of the locus

of decision making when the decision process category scores were compared for the two firms and their three subsidiaries.

Table 28.--Differences between headquarters and subsidiary managers' perception of the locus of decision making.

| Firm and Country | Number of Categories Separating Headquarters and Subsidiary Manager Perceptions of Locus of Decision Making |        |         |         |                     | Total Decisions |
|------------------|-------------------------------------------------------------------------------------------------------------|--------|---------|---------|---------------------|-----------------|
|                  | 4                                                                                                           | 3      | 2       | 1       | 0 = (No Difference) |                 |
| <u>Firm 3.1</u>  |                                                                                                             |        |         |         |                     |                 |
| France           | 3                                                                                                           | 3      | 5       | 9       | 8                   | 28              |
| Brazil           | 0                                                                                                           | 2      | 5       | 5       | 16                  | 28              |
| United Kingdom   | 0                                                                                                           | 2      | 4       | 10      | 12                  | 28              |
| Subtotal         | 3(3%)                                                                                                       | 7(8%)  | 14(17%) | 24(29%) | 36(43%)             | 84(100%)        |
| <u>Firm 5.2</u>  |                                                                                                             |        |         |         |                     |                 |
| France           | 0                                                                                                           | 1      | 4       | 18      | 5                   | 28              |
| Brazil           | 1                                                                                                           | 0      | 8       | 9       | 10                  | 28              |
| United Kingdom   | 0                                                                                                           | 2      | 5       | 12      | 9                   | 28              |
| Subtotal         | 1(1%)                                                                                                       | 3(4%)  | 17(20%) | 39(46%) | 24(29%)             | 84(100%)        |
| Total Decisions  | 4(2%)                                                                                                       | 10(6%) | 31(18%) | 63(38%) | 60(36%)             | 168(100%)       |

Note: The responses given to each decision within each functional area by headquarters representatives were compared to the responses given by the subsidiary managers to the same decision questions. The magnitude of the difference was then computed and is reported in the above table. A headquarters score of 3 and a subsidiary manager score of 1 would equal a difference of 2 decision categories and would be reported in that category in the above table.

Percentages may not total 100 due to rounding.

In only 36 percent of the responses to the decision process questions there was no difference in the headquarters managers' perceptions and those of the subsidiary managers in these two firms. Twenty-six percent of the decisions were perceived as being different by at least two categories when the headquarters and subsidiary managers' perceptions were compared. If the difference of one category is viewed as being roughly the equivalent category or decision process, it can be concluded that in 74 percent of the cases, headquarters and subsidiary managers perceived the locus of decision making for a decision in the same way. However, this means that in 26 percent of the cases, or approximately one-fourth of the observations, their perceptions of the locus of decision making differed by at least two categories.

In addition to comparing the absolute differences in the perceptions of the decision-making process held by subsidiary managers and their headquarters line executives, the degree to which subsidiary managers perceived themselves as having more or less participation in the decision-making process than their headquarters executives perceived them as having was also examined. An analysis of the 108 decisions in which there was disagreement between the headquarters line executives and the subsidiary managers who reported to them indicated that the subsidiary managers in some cases ranked their participation higher and in others lower than the rankings given by headquarters personnel. Table 29 illustrates the decisions in which there was disagreement in the locus of decision making scores and the

perceptions of the subsidiary managers as to whether they perceived themselves as participating more or less in a particular decision than the headquarters data indicated.

Table 29.--Subsidiary managers' perception of the headquarters and subsidiary levels of participation in 108 decisions.

| Firm            | Subsidiary Managers' Perception of Level of Participation |                               | Total     |
|-----------------|-----------------------------------------------------------|-------------------------------|-----------|
|                 | More Headquarters Participation                           | More Subsidiary Participation |           |
| Firm 3.1        | 25                                                        | 28                            | 53        |
| Firm 5.2        | 20                                                        | 35                            | 55        |
| Total Decisions | 45(42%)                                                   | 63(58%)                       | 108(100%) |

Note: The 108 decisions represent 64 percent of the total decisions (168) compared for headquarters and subsidiary managers, as illustrated in Table 28. In 36 percent of the cases, or sixty, there was no difference between the perceptions held by subsidiary managers and the headquarters respondents.

In both companies, the subsidiary managers perceived their participation in the decision-making process as being more extensive than the headquarters managers perceived it as being. However, the percentages were not that far apart in that the subsidiary managers perceived headquarters as having a higher level of participation in 42 percent of the decisions than the headquarters executives perceived themselves as having. In 58 percent of the disputed cases the subsidiary managers thought they had more participation in the

decision-making process for that decision than headquarters representatives indicated they had.

One additional measure of the differences in the perceived locus of decision making was the mean score obtained for each subsidiary for all 168 decisions based on responses to the decision process categories. Table 30 presents the mean scores obtained from the responses of the subsidiary managers and those of their headquarters superior when decisions across functional areas were measured and combined.

As Table 30 indicates, the mean scores obtained from headquarters representatives and subsidiary managers within these two companies differ by less than one point when an overall centralization index is computed for each subsidiary. In four of the six cases, the subsidiary managers perceived themselves as having somewhat higher levels of participation in the overall decision process characterizing their operation than their headquarters line superiors perceived them as having. In only two cases did the subsidiary managers perceive that headquarters had more participation than headquarters personnel thought they had.

While there are a number of explanations that could possibly account for these findings, one reason why there are differences in the headquarters and subsidiary responses on the decision variables may be attributed to the fact that the headquarters representatives completed their responses during a personal interview with the researcher and if they had questions, they could be answered.

However, in the case of the subsidiary managers, self-administered questionnaires were used to elicit the data on the decision process categories. Consequently, there may be some differences in interpretation of the questions by the two groups of managers.

Table 30.--Level of centralization perceived by headquarters and subsidiary managers.

| Firm and Country | Centralization Index:<br>Mean Score Values |                       | Difference |
|------------------|--------------------------------------------|-----------------------|------------|
|                  | Headquarters Perception                    | Subsidiary Perception |            |
| <u>Firm 3.1</u>  |                                            |                       |            |
| France           | 3.55 <sup>a</sup>                          | 2.65 <sup>b</sup>     | .90        |
| Brazil           | 2.68                                       | 3.04                  | .36        |
| United Kingdom   | 3.50                                       | 3.00                  | .50        |
| <u>Firm 5.2</u>  |                                            |                       |            |
| France           | 3.29                                       | 3.72                  | .43        |
| Brazil           | 3.29                                       | 2.61                  | .68        |
| United Kingdom   | 3.29                                       | 2.50                  | .79        |

Note: The centralization index is a measure of the level of centralization characterizing the corporate/subsidiary relationships in decision making. It is derived by computing the mean score on the values obtained in response to the 28 questions on the locus of decision making for each subsidiary. Point values associated with responses in each category are as follows: Process 5 = 5 points, Process 4 = 4 points, Process 3 = 3 points, Process 2 = 2 points, Process 1 = 1 point.

<sup>a</sup>The centralization index for the headquarters perception of the locus of decision making was obtained by scoring the headquarters line executives' perceptions of the decision process characterizing each subsidiary for 28 decisions.

<sup>b</sup>The centralization index for the subsidiary managers' perception of the locus of decision making was obtained by scoring each of the subsidiary managers' perceptions for 28 decisions.



Another possibility is that there really is a difference in the perception of the decision process held by subsidiary managers and that held by their line executives. If that is the case, it may be intentional or unintentional. Headquarters representatives, for motivational or incentive purposes, may convey the impression that the subsidiary manager is operating much more independently than they really feel is the case. In responding to the decision process questions, they provided a realistic appraisal of how they actually perceived the control arrangements with respect to an individual subsidiary and its manager. The differences could also be attributed to the tendency some subsidiary managers may have of thinking they are much more autonomous than perhaps headquarters perceives them as being. On the other hand, if the differences in perception are the product of communication problems or breakdown, the implication is that this is an area in which the sample firms may have to exert some effort to bring the two perspectives into alignment.

Although certain differences in the perceptions of the subsidiary managers and the headquarters representatives emerged when the headquarters and subsidiary data were compared in these two firms, the perceptions were fairly close in most cases. These findings suggest that some care must be exercised in interpreting the results of earlier studies which focused solely on subsidiary managers' perceptions as the measure of the level of overall corporate centralization. Based on these findings, it would be expected that the results of previous studies would show somewhat higher levels of subsidiary

participation than may actually be the case. Future research in this area will have to recognize and account for the possibility of these differences in perception in the design of the methodology as well as in the conclusions drawn from the findings.

The possibility of differences in perception between headquarters and individual subsidiary managers was anticipated and accounted for in the methodology of this study; however, since it was not possible to obtain the perceptions of all of the subsidiary managers in the sample, and the headquarters perceptions were available and were clarified to the researcher during the interviews, the headquarters perceptions of the locus of decision making are probably the better descriptors of the locus of decision making within the sample corporations and their subsidiaries. Therefore, the headquarters interviews were the primary source of the data used in the following analysis and discussion of the locus of decision making for this study.

#### Locus of Decision Making: Headquarters Findings

This section of the chapter is comprised of the following segments. First, the findings on the locus of decision making for sample firms and all of their subsidiaries by function is presented and discussed. Once the overall findings have been presented and discussed, a further breakdown in analysis considers the findings related to the locus of decision making for different industries within the sample as well as for each function within each industry. Because the environment of the subsidiary is considered an influence

on the locus of decision making for subsidiaries operating within that environment, an examination of the centralization scores for each environment and functional area is also presented. In order to compare and contrast the locus of decision making within different industries operating in the same environment, the study findings related to these variables are also discussed. Once the various findings with respect to the locus of decision making by industry, country, and function have been presented and discussed, the concluding section of the chapter outlines the relationship of subsidiary performance to the locus of decision making.

#### Overall Centralization Levels for Sample Firms

As the preceding discussion indicated, within the sample corporations there was substantial uniformity in the locus of decision making characterizing all corporate subsidiaries regardless of size, age, location, etc. These policies indicated the formal decision-making authority each subsidiary manager within the corporation had in managing his organization. Deviations from uniform policies were primarily thought to be informal and only in the case of financial expenditures did the formal authority for corporate subsidiary managers vary. Consequently, in order to determine the overall level of centralization for all subsidiaries of the corporation, headquarters line managers were asked to indicate their perception of the locus of decision making for all corporate subsidiaries when the twenty-nine decision questions were presented to them. Based on these responses,

an overall centralization index for the sample corporations generally and by functional area was calculated. Table 31 presents the overall centralization findings characterizing the headquarters/subsidiary relationships for sample corporations.

Table 31.--Headquarters perception of the locus of decision making for all corporate subsidiaries by functional area expressed as centralization indices.

| Functional Area                 | Centralization Index<br>for Sample Firms |
|---------------------------------|------------------------------------------|
| Marketing                       | 2.39                                     |
| Finance                         | 3.33                                     |
| Purchasing                      | 2.43                                     |
| Production                      | 2.79                                     |
| Personnel                       | 2.92                                     |
| Research and development        | 3.10                                     |
| Overall index of centralization | 2.76                                     |

Note: The centralization index represents the mean scores that were computed from the values obtained from headquarters responses (ten firms = ten responses) for each of the twenty-nine decision process questions characterizing headquarters policy for all corporate subsidiaries.

Table 31 summarizes the level of centralization in decision making for all sample firms and their international subsidiaries. As the findings indicate, the functional areas characterized by the highest level of centralization for the sample firms are finance and research and development. The index of centralization obtained for each of these functions corresponds with the findings presented earlier,

which showed that headquarters representatives perceived the control over international finance and research and development as approximately the same or somewhat less than the control exercised in those functional areas domestically. They also parallel the findings obtained when corporate policies by functional area were compared for level of specificity in dictating certain procedures and practices.

According to Table 31, and in conjunction with the previously discussed findings, finance and research and development are the two most centralized functions characterizing the sample firms when the locus of decision making for each functional area was measured and expressed as a centralization index. The functional area exhibiting the next highest level of centralization for members of the sample was personnel, with a centralization index of 2.92. Production, with a centralization index of 2.79, closely followed personnel as the fourth most centralized function. Purchasing was next in order of centralization and marketing was the least centralized of the functions being considered.

In interpreting the overall index of centralization of 2.76 and the individual indices computed for each functional area, the sample corporations leaned primarily toward subsidiary initiation of alternatives with headquarters approval or informal feedback from headquarters personnel. The higher centralization index reported for finance and research and development indicates that subsidiary participation in decision making in these two functions was less than it was in the other functional areas and less than the overall measure

of centralization (2.76). Table 32 provides an additional illustration of the measures obtained on the locus of decision making for each functional area and the percentage of decision responses that fell in each decision process category.

When the 290 decisions across functional areas for sample firms and all of their subsidiaries were tallied, 34.7 percent or 101 of them were categorized as being a decision process four or decision process five, indicating primarily a headquarters locus of decision making with almost no participation on the part of the subsidiary manager. Decision process category three, implying essentially a shared level of participation by subsidiary managers and headquarters, accounted for 17.9 percent or fifty-two of the total decisions responded to by headquarters personnel.

Categories one and two represent decisions made primarily at the subsidiary level with very little or no headquarters participation in the process and accounted for 46.8 percent or 137 of the total decisions across functional areas. The mode for all decision categories was a decision process two, which represented eighty-eight decision responses or 30.3 percent of the total decision responses. In only 19.6 percent of the decisions did headquarters impose a decision without consulting subsidiary management before the decision was made. On the other hand, subsidiary managers apparently were able to make only 16.8 percent of the decisions that were measured without consulting their headquarters superior.

Based on these measures, the subsidiary managers are not quite as autonomous as some think they are and, by the same token,

Table 32.--Headquarters perception of decision-making process for all corporate subsidiaries by functional area.

| Functional Area        | Decision Process Categories--All Subsidiaries |           |           |           |           | Total     | Mode | $\bar{X}$ |
|------------------------|-----------------------------------------------|-----------|-----------|-----------|-----------|-----------|------|-----------|
|                        | 5                                             | 4         | 3         | 2         | 1         |           |      |           |
| Marketing              | 12(15%)                                       | 11(14%)   | 15(19%)   | 30(38%)   | 12(15%)   | 80        | 2    | 2.39      |
| Finance                | 9(23%)                                        | 8(20%)    | 10(25%)   | 13(33%)   | 0( 0%)    | 40        | 2    | 3.33      |
| Purchasing             | 10(33%)                                       | 0( 0%)    | 1( 3%)    | 1( 3%)    | 18(60%)   | 30        | 1    | 2.43      |
| Production             | 12(17%)                                       | 12(17%)   | 9(13%)    | 23(33%)   | 14(20%)   | 70        | 2    | 2.79      |
| Personnel              | 7(18%)                                        | 4(10%)    | 13(33%)   | 11(28%)   | 5(13%)    | 40        | 3    | 2.92      |
| Research & Development | 7(23%)                                        | 9(30%)    | 4(13%)    | 10(33%)   | 0( 0%)    | 30        | 2    | 3.10      |
| Total Decisions        | 57(19.6%)                                     | 44(15.1%) | 52(17.9%) | 88(30.3%) | 49(16.8%) | 290(100%) | 2    | 2.76      |

Note: Percentages may not total 100 due to rounding.

they are not as tightly controlled as some think they might be. While 19.6 percent of the decisions did not include any input from subsidiary management, they were consulted or participated in some way in the other 80.4 percent of the decisions. Approximately 47 percent of the decisions were primarily subsidiary decisions. These findings on the locus of decision making indicate a higher level of integration and involvement by subsidiaries in decision making in the sample firms rather than extremes of either centralization or decentralization.

Within each functional area there were certain decisions which were centralized as well as decisions which were more decentralized. Using Lawrence and Lorsch's terminology of integration and differentiation, categories one and two represent the opportunities for differentiation primarily and the integrative decision policies would be represented by categories three, four, and five in that headquarters participates substantially in determining the decision outcomes in these areas so that uniformity among subsidiary units is assured and corporate needs for integration satisfied.

This seems particularly reasonable when viewing the functions of finance and research and development as probably requiring higher levels of integration for overall corporate performance to be maximized. Consequently, the controls in these areas would tend to be more centralized and imply a greater frequency of responses falling within the decision process four and five categories. In both cases, the percentage of decisions falling within categories four and five



was higher than that for other functional areas. Fifty-three percent of the research and development decisions were headquarters imposed and 54 percent of the financial decisions were basically headquarters imposed.

In contrast to the higher overall levels of integration or centralization exhibited by finance and research and development, the other functional areas exhibited varying levels of differentiation and integration. For example, in the area of marketing, 29 percent of the decisions were basically headquarters imposed or integrated and 53 percent were primarily subsidiary management decisions or differentiated. Purchasing, with 33 percent of the decisions being headquarters imposed, also had the highest frequency of category one decisions, or 60 percent.

Another method used by several authors to illustrate the nature of the headquarters/subsidiary relationship in decision making utilized the categories of high, medium, and low to indicate varying levels of participation by headquarters. Using these three categories, the findings with respect to the overall level of headquarters participation in decision making are presented in Table 33.

Based on the findings presented in Table 33, the subsidiary managers had the most autonomy in decision making in purchasing, followed by marketing and production. Sixty-three percent of the purchasing decisions were basically at the subsidiary manager level. Very few were shared decisions. The 33 percent of the purchasing decisions that were basically headquarters decisions were those having

Table 33.--Level of headquarters participation by functional area for all corporate subsidiaries.

| Functional Area        | Level of Headquarters Participation |         |                          |
|------------------------|-------------------------------------|---------|--------------------------|
|                        | High                                | Medium  | Low                      |
| Marketing              | 23(29%)                             | 15(19%) | 42(53%)                  |
| Finance                | 17(43%)                             | 10(25%) | 13(33%)                  |
| Purchasing             | 10(33%)                             | 1( 3%)  | 19(63%)                  |
| Production             | 24(34%)                             | 9(13%)  | 37(53%)                  |
| Personnel              | 11(28%)                             | 13(33%) | 16(41%)                  |
| Research & Development | 16(53%)                             | 4(13%)  | 10(33%)                  |
| Total Decisions        | 101(35%)                            | 52(18%) | 137(47%) = 290 decisions |

Note: Categories of High, Medium, and Low correspond to decision process categories as follows:

High = Decision Process Five  
           Decision Process Four  
 Medium = Decision Process Three  
 Low = Decision Process Two  
           Decision Process One

Percentages may not add to 100 due to rounding.

to do with quality specifications as well as the requirements for central worldwide purchasing of raw materials within some sample firms. Research and development, with 53 percent of the decisions basically headquarters determined, was the most centralized function followed by finance with 43 percent of the decisions being centralized in headquarters.

Although there are differences in the percentage of decisions that appear to be more centralized when functional areas are compared,

all of the firms appear to reserve at least 28 percent of the decisions within each category at the headquarters level. The range of the values obtained for high headquarters participation across functions was 28 to 53 percent, with most functions falling within the 28 to 34 percent group. This is interpreted as meaning that within each functional area certain decisions seem to be headquarters determined for uniformity, economies of scale, strategic planning, etc., which accompany integration of worldwide operations. On the other hand, each function appears to require a certain amount of local option or differentiation in application within the particular subsidiary environment. The range of scores across functions for responses in the low headquarters participation category was from 33 to 63 percent.

#### Levels of Centralization by Industry and Function

The preceding discussion and findings relate to the perceptions of the headquarters representatives interviewed as to the locus of decision making within certain functional areas for their company and all of its international subsidiaries. In summary, among sample firms, the most centralized functions with respect to the locus of decision making were research and development and finance. The least centralized functions were purchasing, production, and marketing when headquarters policies for all corporate subsidiaries were examined. Because the literature review indicated that industry differences in the locus of decision making should be expected due to the unique market and production characteristics of each industry, the overall

corporate policies for decisions affecting subsidiary units were also examined from an industry-by-industry perspective. (See Table 34.)

Table 34.--Headquarters perception of the locus of decision making for all corporate subsidiaries by industry type.

| Industry and Firm             | Centralization Index:<br>Mean Score Value | Rank <sup>a</sup> |
|-------------------------------|-------------------------------------------|-------------------|
| Industry 1: Pharmaceuticals   | 2.77                                      | 5                 |
| Firm 1.1                      | 2.89                                      |                   |
| Firm 1.2                      | 2.65                                      |                   |
| Industry 2: Automobiles       | 2.91                                      | 3                 |
| Firm 2.1                      | 2.37                                      |                   |
| Firm 2.2                      | 3.44                                      |                   |
| Industry 3: Tire and Rubber   | 3.21                                      | 1                 |
| Firm 3.1                      | 3.41                                      |                   |
| Firm 3.2                      | 3.00                                      |                   |
| Industry 4: Capital Equipment | 2.97                                      | 2                 |
| Firm 4.1                      | 3.03                                      |                   |
| Firm 4.2                      | 2.90                                      |                   |
| Industry 5: Food Processing   | 2.74                                      | 4                 |
| Firm 5.1                      | 2.13                                      |                   |
| Firm 5.2                      | 3.34                                      |                   |

Note: The centralization index represents the level of centralization in the locus of decision making characterizing the industry and the firm when responses to decision process questions for all functional areas were combined for each industry.

<sup>a</sup>Rank is in order of most centralized to most decentralized, based on the centralization index value.

As Table 34 indicates, within most industries the sample firms had similar levels of centralization when the locus of decision making was compared for sample firms and their international subsidiaries. In two cases, industry five and industry two, the sample firms were

quite different in the levels of centralization characterizing the two firms in that industry group. In both industries, one firm was much more centralized than the other. The industry that had the highest levels of centralization for both firms within the industry was industry three, the tire and rubber industry. Part of the reason for these higher levels of centralization in this industry was that both firms utilize worldwide purchasing of raw materials commodities and control research and development activities very closely in comparison to some other firms in the sample. The industry group that appeared least centralized was the food industry; however, the substantial differences between the two firms in the sample from that industry indicate that the industry itself may not be that centralized. The industry that was second highest in terms of the centralization index was the capital equipment industry. Both firms within this industry exhibited similar indices of centralization of approximately 3.0.

Based on these findings, there were some differences across industry groups when the locus of decision making for headquarters and subsidiary units was measured; however, the difference between the most centralized industry and the least centralized was only .56, indicating that these differences were not as obvious when aggregate measures of centralization were compared.

In order to obtain a more detailed observation of possible differences between industry groups, the decision process category responses were organized into the categories of high, medium, and low

to indicate the level of headquarters participation for all functional areas within that industry. Table 35 presents those results. The responses include not only the headquarters policies for all subsidiaries but also those responses given for the French, Brazilian, and British subsidiaries of each company.

Table 35.--Level of headquarters participation for all functions by industry.

| Industry                         | Level of<br>Headquarters Participation |          |          | Total       | $\bar{X}$ |
|----------------------------------|----------------------------------------|----------|----------|-------------|-----------|
|                                  | High                                   | Medium   | Low      |             |           |
| Industry 1:<br>Pharmaceuticals   | 65(28%)                                | 28(12%)  | 139(60%) | 232         | 2.69      |
| Industry 2:<br>Automobiles       | 90(39%)                                | 15( 7%)  | 124(54%) | 229         | 2.66      |
| Industry 3:<br>Tire and Rubber   | 83(36%)                                | 49(21%)  | 100(43%) | 232         | 3.03      |
| Industry 4:<br>Capital Equipment | 85(37%)                                | 28(12%)  | 119(51%) | 232         | 2.94      |
| Industry 5:<br>Food Processing   | 49(23%)                                | 63(29%)  | 104(48%) | 216         | 2.71      |
| Total<br>Decisions               | 372(23%)                               | 183(16%) | 586(51%) | 1,141(100%) |           |

Note: Percentages may not total 100 due to rounding.

The findings in Table 35 indicate that one of the reasons the tire and rubber industry had a higher centralization index was that there were not only a relatively large number of decisions that were centralized (36 percent) but also a large number of shared decisions

(21 percent) compared to other industries. Three industries had the highest levels of headquarters participation: automobiles, tire and rubber, and capital equipment. In each of these industries, the locus of decision making across functional areas was at headquarters in at least 36 percent of the cases. In the pharmaceutical and food processing industries, headquarters was the primary locus of decision making for 28 percent and 23 percent of the decisions, respectively. Subsidiaries seemed to have the greatest autonomy in decision making in the pharmaceutical industry, where subsidiaries were basically responsible for 60 percent of the decisions being examined.

The automobile industry is interesting in that while it displayed a fairly high number of decisions in categories four and five, it also had a large number of decisions falling within categories one and two. Of the industries represented in the study, the automobile industry had the fewest shared decisions. Food processing was the industry characterized by the highest levels of shared decision making, in that 29 percent of all the decisions were shared jointly by headquarters and subsidiaries.

Since there was considerable variability in the industry results when the frequency of decisions was grouped into categories of high, medium, and low, industries did have some differences in the locus of decision making characterizing their headquarters/subsidiary relationships. Consequently, the selection of companies or industries for studying the locus of decision making may alter the findings of the researcher and, therefore, caution should be used

in interpreting the results of previous studies and in extrapolating findings from a single industry group to other industries.

In order to obtain additional insight into the differences in the locus of decision making for the industries in the sample, the industry responses for decisions in each functional area were tabulated and examined. The following tables and discussion represent the results of the composite measures on the locus of decision making for all corporate subsidiaries and for the three subsidiaries of each firm located in France, Brazil, and Britain. Table 36 presents the centralization indices for each of the industries within the sample by functional area and illustrates some of the differences that occurred in the level of centralization each industry experienced within the same functional area.

When industry measures of centralization for each functional area were compared, substantial variation within functional areas was apparent. This was evident in purchasing, personnel, marketing, and research and development, which all had industry centralization scores within the function that differed by as much as one point or more. Production showed somewhat less variability across industries than some of the other functions and exhibited a range in centralization scores of 2.54 to 2.95. Because of the differences observed in the centralization measures for each industry within the functional areas, a brief analysis of the findings on the locus of decision making for each functional area follows.



Table 36.--Locus of decision making by function and industry: summary table.

| Function                  | Industry Mean Scores      |                       |                         |                           |                         | Total<br>N | All<br>Industry<br>$\bar{X}$ |
|---------------------------|---------------------------|-----------------------|-------------------------|---------------------------|-------------------------|------------|------------------------------|
|                           | Industries                |                       |                         |                           |                         |            |                              |
|                           | 1<br>Pharma-<br>ceuticals | 2<br>Auto-<br>mobiles | 3<br>Tire and<br>Rubber | 4<br>Capital<br>Equipment | 5<br>Food<br>Processing |            |                              |
| Marketing                 | 2.72<br>N=64              | 2.53<br>N=64          | 2.16<br>N=64            | 3.38<br>N=64              | 2.89<br>N=63            | 319        | 2.73                         |
| Finance                   | 2.94<br>N=32              | 3.13<br>N=32          | 3.06<br>N=32            | 3.88<br>N=32              | 3.32<br>N=31            | 159        | 3.26                         |
| Purchasing                | 3.04<br>N=24              | 1.63<br>N=24          | 3.92<br>N=24            | 1.67<br>N=24              | 1.29<br>N=21            | 117        | 2.33                         |
| Production                | 2.55<br>N=56              | 2.95<br>N=56          | 2.68<br>N=56            | 2.54<br>N=56              | 2.59<br>N=49            | 273        | 2.66                         |
| Personnel                 | 2.00<br>N=32              | 2.41<br>N=32          | 3.19<br>N=32            | 3.50<br>N=32              | 2.58<br>N=31            | 159        | 2.68                         |
| Research &<br>Development | 3.21<br>N=24              | 3.52<br>N=21          | 5.00<br>N=24            | 2.00<br>N=24              | 3.14<br>N=21            | 114        | 3.38                         |
| Industry<br>Mean          | 2.69                      | 2.66                  | 3.03                    | 2.94                      | 2.71                    | 1,114      |                              |

Table 37 indicates the frequency of headquarters responses to each marketing decision question by the three levels of headquarters participation and by industry group. The industries that were least centralized in marketing decision making were the pharmaceutical and the tire and rubber.

Table 37.--Level of headquarters participation for marketing decisions by industry.

| Industry                         | Level of<br>Headquarters Participation |         |          | Total     |
|----------------------------------|----------------------------------------|---------|----------|-----------|
|                                  | High                                   | Medium  | Low      |           |
| Industry 1:<br>Pharmaceuticals   | 13(21%)                                | 14(22%) | 37(61%)  | 64        |
| Industry 2:<br>Automobiles       | 22(34%)                                | 1( 2%)  | 41(64%)  | 64        |
| Industry 3:<br>Tire and Rubber   | 9(14%)                                 | 15(23%) | 40(62%)  | 64        |
| Industry 4:<br>Capital Equipment | 32(50%)                                | 16(25%) | 16(25%)  | 64        |
| Industry 5:<br>Food Processing   | 17(27%)                                | 16(25%) | 30(48%)  | 63        |
| Total<br>Decisions               | 93(30%)                                | 62(19%) | 164(52%) | 319(100%) |

Note: Percentages may not total 100 due to rounding.

The capital equipment industry was most centralized in marketing decision making, with 50 percent of the decisions being headquarters imposed. Subsidiaries in this industry were apparently also the least able to exercise autonomy in decision making in marketing

in that only 25 percent of the marketing decisions were primarily subsidiary controlled. A major reason for this level of centralization was the high value of the product and the fact that at least one of the two companies coordinated worldwide production and marketing decisions through the headquarters office.

Subsidiary managers in the automobile, tire and rubber, and pharmaceutical industries had the highest levels of participation in the decision-making process in marketing. In each of these industries, the locus of marketing decision making was at the subsidiary level in at least 60 percent of the decisions. In the tire and rubber industry subsidiary managers either were primarily responsible for making the marketing decisions or shared equally in the decision-making process in 85 percent of the decisions. The industry that came the closest to that level of decentralization was the pharmaceutical, in that subsidiary managers either were responsible for, or shared in, 83 percent of the marketing decisions.

The automobile industry allowed considerable subsidiary participation in the marketing decision process; however, certain decisions were reserved for headquarters determination rather than falling within the shared category. In the automobile industry only 2 percent of the marketing decisions were shared, which represented the lowest number of shared decisions in the sample industries in this functional area. This pattern can be explained by the fact that basic product decisions are determined worldwide and are the result of concentrated research and development facilities as well as world

sourcing strategies. Once the basic product decisions have been established, there is considerable latitude for local decision making in adapting the marketing mix to the local market conditions.

When the industry levels of participation in decision making within the financial area were examined, somewhat less variability across industries was present than in the marketing decisions. Table 38 indicates the levels of headquarters participation for financial decisions obtained from the sample firms.

Table 38.--Level of headquarters participation for finance decisions by industry.

| Industry                         | Level of<br>Headquarters Participation |         |         | Total     |
|----------------------------------|----------------------------------------|---------|---------|-----------|
|                                  | High                                   | Medium  | Low     |           |
| Industry 1:<br>Pharmaceuticals   | 11(34%)                                | 8(25%)  | 13(41%) | 32        |
| Industry 2:<br>Automobiles       | 17(54%)                                | 0       | 15(47%) | 32        |
| Industry 3:<br>Tire and Rubber   | 13(41%)                                | 4(12%)  | 15(47%) | 32        |
| Industry 4:<br>Capital Equipment | 20(63%)                                | 0       | 12(38%) | 32        |
| Industry 5:<br>Food Processing   | 8(25%)                                 | 21(67%) | 2( 7%)  | 31        |
| Total<br>Decisions               | 69(43%)                                | 33(21%) | 57(36%) | 159(100%) |

Note: Percentages may not total 100 due to rounding.

As mentioned previously, the levels of headquarters participation in financial decision making were the highest of the functional areas considered, along with research and development. The capital equipment industry, as in marketing decision making, was the most centralized with 63 percent of the financial decisions being headquarters imposed. The automotive industry, with 54 percent of the financial decisions being primarily headquarters decisions, was the second most centralized industry in this functional area. Both the capital equipment and the automotive industries did not show any shared or joint decision making within the financial area for the particular decisions posed in the interviews. In contrast, the food processing industry indicated the lowest level of headquarters decision making; however, it had the highest level of shared decision making of all the industries at 67 percent, while it also had the lowest level of subsidiary participation at 7 percent.

Part of the reason the capital equipment and the automotive industries tended to be dominated by headquarters decision making in financial decisions was the relatively higher cost per unit of their products. The ranking on the high levels of participation parallels product costs in that capital equipment was the most centralized, followed by automobiles, tire and rubber, pharmaceuticals, and finally food processing. Product prices in each industry would probably correspond to this ranking. In addition, because of the higher per unit costs, absolute volumes of inventory and capital tied up in inventory of finished goods may be more easily controlled

from central offices than would be true of food processing. This is particularly appropriate in the case of capital equipment, where each unit of product sells for several thousand dollars. One representative in the capital equipment industry indicated that he monitored worldwide marketing and production centrally or the inventory levels worldwide in his division could jump by several million dollars relatively quickly compared to an industry like food processing, where inventory values may be much less and not as substantial an influence on corporate capital flows in the short run.

The industry differences in the purchasing area are primarily attributable to the practice of worldwide sourcing of raw materials practiced by the tire and rubber companies and the setting of quality control specifications on raw materials and components. Table 39 illustrates the level of headquarters participation for sample firms in purchasing decisions.

Due to the nature of the product line, the food processing companies were the most decentralized in purchasing decisions, with none of the decisions falling within the headquarters-imposed category, only 14 percent within the shared category, and 86 percent at the subsidiary level. Conversely, the tire and rubber companies and the pharmaceutical firms were the most centralized in that both of them had at least 50 percent of the purchasing decisions primarily headquarters decisions. The pharmaceutical firms were more centralized in the purchasing decisions having to do with quality control specifications; however, local decisions were usually the practice in

Table 39.--Level of headquarters participation for purchasing decisions by industry.

| Industry                         | Level of<br>Headquarters Participation |        |         | Total     |
|----------------------------------|----------------------------------------|--------|---------|-----------|
|                                  | High                                   | Medium | Low     |           |
| Industry 1:<br>Pharmaceuticals   | 12(50%)                                | 0      | 12(50%) | 24        |
| Industry 2:<br>Automobile        | 3(12%)                                 | 1( 4%) | 20(84%) | 24        |
| Industry 3:<br>Tire and Rubber   | 16(64%)                                | 4(16%) | 4(16%)  | 24        |
| Industry 4:<br>Capital Equipment | 4(17%)                                 | 0      | 20(83%) | 24        |
| Industry 5:<br>Food Processing   | 0                                      | 3(14%) | 18(86%) | 21        |
| Total<br>Decisions               | 35(30%)                                | 8( 7%) | 74(63%) | 117(100%) |

Note: Percentages may not total 100 due to rounding.

selecting suppliers and in price negotiation so that 50 percent of the decisions in these firms also fell within the high subsidiary participation category. The other three industries, automotive, capital equipment, and food processing, were overwhelmingly on the subsidiary side in the locus of decision making for purchasing decisions in that all three had at least 80 percent of the purchasing decisions primarily subsidiary determined.

Industry differences were also present in the decisions categorizing the production process; however, the differences between

industries were not quite as marked as they were in some other functional areas. Table 40 illustrates industry practices of the sample firms with respect to decision making in production.

Table 40.--Level of headquarters participation for production decisions by industry.

| Industry                         | Level of<br>Headquarters Participation |         |          | Total     |
|----------------------------------|----------------------------------------|---------|----------|-----------|
|                                  | High                                   | Medium  | Low      |           |
| Industry 1:<br>Pharmaceuticals   | 14(25%)                                | 3( 5%)  | 39(69%)  | 56        |
| Industry 2:<br>Automobile        | 29(52%)                                | 1( 2%)  | 26(46%)  | 56        |
| Industry 3:<br>Tire and Rubber   | 14(25%)                                | 15(27%) | 27(48%)  | 56        |
| Industry 4:<br>Capital Equipment | 13(23%)                                | 4( 7%)  | 39(70%)  | 56        |
| Industry 5:<br>Food Processing   | 12(24%)                                | 7(14%)  | 30(61%)  | 49        |
| Total<br>Decisions               | 82(30%)                                | 31(11%) | 161(59%) | 273(100%) |

Note: Percentages may not total 100 due to rounding.

The automobile industry exhibited the highest percentage of production decisions that were made primarily by headquarters personnel. In the automobile industry, 52 percent of the production decisions within subsidiaries were basically headquarters decisions and 46 percent were basically subsidiary decisions. The automobile



industry had the lowest number of shared decisions in production. The range of headquarters decisions characterizing the other industries was 23 to 25 percent. On the subsidiary side, the range for all firms was 46 to 70 percent. The tire and rubber industry had somewhat lower rates of subsidiary participation, in that only 48 percent of the production decisions were made primarily at the subsidiary level. However, in the tire and rubber industry, there was a comparatively large number (27 percent) of shared or joint decisions compared to other industry groups which exhibited a range of 2 to 14 percent in the shared category. One factor which may account for the higher levels of centralization in the automotive industry may be the fact that the product decisions are determined primarily at headquarters and these companies were engaged in worldwide sourcing of component parts for some automobiles which required higher levels of coordination and integration of production and scheduling internationally among subsidiaries than alternative sourcing strategies would dictate.

When industry responses to personnel decisions were tabulated according to the level of headquarters participation, industry differences were again apparent. Table 41 summarizes these findings.

The pharmaceutical industry was least centralized in the locus of decision making for personnel decisions. Subsidiary managers were primarily responsible for 91 percent of the personnel questions within the pharmaceutical industry. Food processing, with 61 percent of the personnel decisions being made at the subsidiary level, was

Table 41.--Level of headquarters participation for personnel decisions by industry.

| Industry                         | Level of<br>Headquarters Participation |         |         | Total     |
|----------------------------------|----------------------------------------|---------|---------|-----------|
|                                  | High                                   | Medium  | Low     |           |
| Industry 1:<br>Pharmaceuticals   | 1( 3%)                                 | 2( 6%)  | 29(91%) | 32        |
| Industry 2:<br>Automobiles       | 3( 9%)                                 | 12(38%) | 17(54%) | 32        |
| Industry 3:<br>Tire and Rubber   | 7(22%)                                 | 11(34%) | 14(43%) | 32        |
| Industry 4:<br>Capital Equipment | 16(51%)                                | 8(26%)  | 8(26%)  | 32        |
| Industry 5:<br>Food Processing   | 8(26%)                                 | 4(13%)  | 19(61%) | 31        |
| Total<br>Decisions               | 35(22%)                                | 37(23%) | 87(54%) | 159(100%) |

Note: Percentages may not total 100 due to rounding.

next in terms of decentralization in this functional area; however, within the food processing industry, headquarters was basically responsible for 26 percent of the decisions on personnel issues. The capital goods industry again was the most centralized when the frequency of headquarters decision making in personnel decisions was tabulated. Within the capital equipment industry, headquarters personnel made 51 percent of the decisions and subsidiary management was primarily responsible for 26 percent of them, which was the lowest subsidiary total of any industry in this functional area.

When headquarters representatives were asked to indicate the locus of decision making for decisions in the research and development area, some differences among industries also emerged. Research and development tended to be one of the most centralized functions within the sample of firms participating in this study. The tire and rubber companies were the most centralized in the research and development area, with 100 percent of the decisions in this function being primarily headquarters decisions. While automobiles and pharmaceuticals also exhibited relatively high rates of centralization, 76 percent and 58 percent, respectively, and the capital equipment industry appeared to be the most decentralized with 100 percent of the research and development decisions falling at the subsidiary level, it should be noted that in most of the companies, the primary research and development activities were in the U.S. and that subsidiaries, with the exception of the United Kingdom, were not involved in extensive research and development activities. Consequently, as in the case of the capital equipment industry, most of the research and development activities occurring at the subsidiary level were basically product refinement rather than so-called "pure research." Therefore, some caution should be exercised in interpreting the levels of centralization characterizing the capital goods industry within this functional area.

According to the corporate interviews, the only industry which was involved in substantial product development at the subsidiary levels in its subsidiaries worldwide was the food processing

industry. As Table 42 indicates, 24 percent of the decisions in this area were determined at the subsidiary level and an additional 57 percent were jointly determined by headquarters and the local subsidiary. This seems logical since the nature of the product line and local markets and cultural influences may dictate the need to respond to local tastes in food products more than would be the case in some of the other product categories.

Table 42.--Level of headquarters participation in research and development decisions by industry.

| Industry                         | Level of<br>Headquarters Participation |         |          | Total     |
|----------------------------------|----------------------------------------|---------|----------|-----------|
|                                  | High                                   | Medium  | Low      |           |
| Industry 1:<br>Pharmaceuticals   | 14(58%)                                | 1( 4%)  | 9(38%)   | 24        |
| Industry 2:<br>Automobiles       | 16(76%)                                | 0       | 5(24%)   | 21        |
| Industry 3:<br>Tire and Rubber   | 24(100%)                               | 0       | 0        | 24        |
| Industry 4:<br>Capital Equipment | 0                                      | 0       | 24(100%) | 24        |
| Industry 5:<br>Food Processing   | 4(19%)                                 | 12(57%) | 5(24%)   | 21        |
| Total<br>Decisions               | 58(51%)                                | 13(11%) | 43(38%)  | 114(100%) |

Note: Percentages may not total 100 due to rounding.

Based on the findings among the industries in this sample, there was substantial variation within functional areas when industry measures of the locus of decision making were compared across functions. These findings are consistent with the expectations underlying the industry or product characteristics outlined in the conceptual model. While there are a number of implications of these findings, perhaps the most significant is that considerable care must be used in interpreting and extrapolating the results of previous research on the locus of decision making in multinational corporations because industry distinctions were usually not identified nor measured in the analysis. Also the firms operating within different industries may choose to or find it necessary to centralize some functions more than others so that the locus of decision making characterizing headquarters and subsidiary relationships may indeed vary across industries as well as across functional areas as these findings indicate.

Since the environment in which the subsidiary is located was suggested as having an influence in the determination of the locus of decision making, an analysis of the study findings on the locus of decision making characterizing sample firms and their subsidiaries operating in France, Brazil, and the United Kingdom follows.

#### Levels of Centralization by Country and Function

In order to determine the locus of decision making characterizing the subsidiary/headquarters relationship for sample firms and their subsidiaries operating in France, Brazil, and the United Kingdom,

headquarters representatives were asked to complete the same series of decision questions within each functional area for these three subsidiaries indicating their perception of the locus of decision making for each decision and subsidiary. Based on their responses to the decision questions, the centralization indices for each of the three national environments were calculated. Table 43 provides measures of the level of centralization characterizing the sample firms' subsidiary operations in those countries compared to their perception of the locus of decision making for all corporate subsidiaries.

Table 43.--Locus of decision making for all corporate subsidiaries and subsidiaries operating in France, Brazil, and the United Kingdom.

|                            | Centralization Index:<br>Mean Score Value |
|----------------------------|-------------------------------------------|
| All corporate subsidiaries | 2.76                                      |
| France                     | 2.88                                      |
| Brazil                     | 2.68                                      |
| United Kingdom             | 2.73                                      |

Note: The centralization index is a measure of the level of centralization characterizing the headquarters/subsidiary relationship in decision making. It is derived by computing the mean score from the values obtained in response to twenty-nine questions on the locus of decision making for all corporate subsidiaries, and for each of the three subsidiaries in the analysis. Point values for responses to the decision process categories are as follows: Process 5 = 5 points, Process 4 = 4 points, Process 3 = 3 points, Process 2 = 2 points, and Process 1 = 1 point.

As Table 43 indicates, there was very little difference in the overall centralization indices obtained for the sample members' subsidiary operations in each of the three environments. Brazil and the United Kingdom were slightly below the levels of centralization characterizing decision making in the other corporate subsidiaries, while France was slightly above the overall corporate index of 2.76. Since there may be differences or similarities in the locus of decision making that exists across environments when measures of centralization for each functional area are compared, Table 44 presents the centralization indices for each functional area within the three environments as well as the measures obtained for all the subsidiaries of the sample firms.

Table 44.--Locus of decision making by function and country: summary table.

| Function               | Centralization Index: Mean Score Values |        |        |                |                         |
|------------------------|-----------------------------------------|--------|--------|----------------|-------------------------|
|                        | All Corporate Subsidiaries              | France | Brazil | United Kingdom | 3 Subsidiaries Sample X |
| Marketing              | 2.39                                    | 2.77   | 2.68   | 2.73           | 2.73                    |
| Finance                | 3.33                                    | 3.31   | 3.13   | 3.30           | 3.25                    |
| Purchasing             | 2.43                                    | 2.44   | 2.20   | 2.33           | 2.32                    |
| Production             | 2.79                                    | 2.73   | 2.51   | 2.63           | 2.62                    |
| Personnel              | 2.92                                    | 2.69   | 2.48   | 2.60           | 2.59                    |
| Research & Development | 3.10                                    | 3.54   | 3.20   | 3.37           | 3.36                    |
| Mean Score             | 2.76                                    | 2.88   | 2.68   | 2.79           | 2.78                    |

The levels of centralization characterizing the three sample subsidiaries were very similar to the values obtained when the measures of the overall corporate policies on the locus of decision making for all corporate subsidiaries were computed. Brazil had the lowest centralization index in all functional areas when compared to France and the United Kingdom. France had the highest centralization index of the three and the United Kingdom indices were consistently in the middle of the French and Brazilian. Compared to the headquarters policies for all subsidiaries, the mean for the three sample subsidiaries was lower in the areas of finance, purchasing, production, and personnel. The sample subsidiaries' centralization scores in marketing and research and development were somewhat higher than the mean scores characterizing corporate subsidiaries in the aggregate.

The differences between the centralization values obtained for all headquarters subsidiaries and those isolated by environment may be attributed to a number of factors. It is likely that the subsidiaries located in these three countries do differ somewhat in the locus of decision making characterizing their relationships with headquarters and that some differences in the implementation of corporate policies do occur from subsidiary to subsidiary or from country to country. This would correspond to the headquarters findings on the uniformity in formal policy with informal variations for individual subsidiaries. This is logical in view of the fact that none of the differences between the three subsidiary centralization scores



and those given for the corporation as a whole differed by more than .44 in any function. These measures give an additional indication of the consistency with which overall corporate policies may be applied to subsidiary organizations in general as well as some measure of the deviation from that policy that may characterize a particular subsidiary or group of subsidiaries operating within the same environment.

The differences in the levels of centralization obtained for the three environments were not particularly large. This was especially true in the case of France and the United Kingdom, where the two centralization values were 2.88 and 2.79, respectively. As the literature review and the conceptual model indicated, the more uncertain the environment, the greater will be the level of decentralization characterizing subsidiary decision making. The more certain the environment, the greater will be the opportunities for centralization and higher levels of structure. The country characterized by the highest level of uncertainty for business decision making was Brazil, followed by France and then the United Kingdom. Based on the environmental uncertainty measures, the order of centralization would be the United Kingdom, followed by France and then Brazil. However, the centralization indices indicated that France was slightly more centralized in subsidiary decision making than the subsidiary operations in Britain.

There are at least three explanations for this order of occurrence. First, the differences between France and the United

Kingdom on the overall measures were very small and when the decision process characterizing decision making in subsidiaries in each country are compared, they are almost identical.

Second, because some companies had European headquarters located in France or Germany for coordination of production and/or marketing operations on the European continent, France had slightly higher levels of centralization in the production area as forthcoming tables will indicate.

Third, another factor that may suggest why the French centralization score was not appreciably lower than that of the United Kingdom, even though the environmental uncertainty scores differed by .8, is that during the time of the data collection, France had just undergone a major election in which there was substantial concern that the leftist groups would obtain a majority in the voting. Consequently, the headquarters perceptions of the environmental uncertainty probably reflect this period of time. Because a more conservative government was maintained, there was probably no need to make substantial deviations in the locus of decision making for subsidiaries operating there. Even though the perceived uncertainty was relatively high, it was primarily due to the political environment and the changes that had recently occurred there.

While the national environments displayed some differences when the mean centralization score for each was computed, the magnitude of the differences was very small. The decision-making processes characterizing the level of headquarters and subsidiary participation

in each functional area provide a further illustration of these country differences and allow for additional comparison across environments. Using the categories of high, medium, and low to indicate the level of headquarters participation in decision making for each country and functional area, some interesting findings emerged.

Table 45.--Level of headquarters participation by country and functional area--United Kingdom.

| Function                  | Level of<br>Headquarters Participation |         |          | Total     |
|---------------------------|----------------------------------------|---------|----------|-----------|
|                           | High                                   | Medium  | Low      |           |
| Marketing                 | 25(32%)                                | 13(16%) | 42(53%)  | 80        |
| Finance                   | 19(48%)                                | 8(20%)  | 13(33%)  | 40        |
| Purchasing                | 10(33%)                                | 1( 3%)  | 19(64%)  | 30        |
| Production                | 22(32%)                                | 5( 7%)  | 43(61%)  | 70        |
| Personnel                 | 9(23%)                                 | 7(18%)  | 24(60%)  | 40        |
| Research &<br>Development | 15(50%)                                | 4(13%)  | 11(37%)  | 30        |
| Total<br>Decisions        | 100(35%)                               | 38(13%) | 152(52%) | 290(100%) |

Note: Percentages may not total 100 due to rounding.

When the levels of headquarters participation in decision making for France and the United Kingdom were compared, the two environments displayed almost identical frequencies within each functional area. With the exception of research and development, the largest difference between the two environments in the percentage of responses

Table 46.--Level of headquarters participation by country and functional area--France.

| Function                  | Level of<br>Headquarters Participation |         |          | Total     |
|---------------------------|----------------------------------------|---------|----------|-----------|
|                           | High                                   | Medium  | Low      |           |
| Marketing                 | 25(31%)                                | 14(16%) | 40(52%)  | 79        |
| Finance                   | 18(46%)                                | 7(18%)  | 14(36%)  | 39        |
| Purchasing                | 10(37%)                                | 0       | 17(63%)  | 27        |
| Production                | 22(35%)                                | 4( 6%)  | 37(59%)  | 63        |
| Personnel                 | 9(23%)                                 | 6(15%)  | 24(61%)  | 39        |
| Research &<br>Development | 15(45%)                                | 2( 6%)  | 16(48%)  | 33        |
| Total<br>Decisions        | 99(35%)                                | 32(11%) | 149(53%) | 280(100%) |

Note: Percentages may not total 100 due to rounding.

falling within each category is only 4 percent. In the research and development area, the United Kingdom was somewhat more centralized than France with 50 percent of the decisions for the British subsidiaries being primarily headquarters imposed or decision process categories four and five. In addition, subsidiaries within France had more autonomy in decision making in research and development, as demonstrated by the fact that 48 percent of the decisions in this area were basically subsidiary decisions in the French subsidiaries compared to 37 percent of the research and development decisions being primarily subsidiary decisions in the United Kingdom.

Table 47.--Level of headquarters participation by country and functional area--Brazil.

| Function                  | Level of<br>Headquarters Participation |         |          | Total     |
|---------------------------|----------------------------------------|---------|----------|-----------|
|                           | High                                   | Medium  | Low      |           |
| Marketing                 | 20(25%)                                | 21(26%) | 39(49%)  | 80        |
| Finance                   | 15(38%)                                | 8(20%)  | 17(43%)  | 40        |
| Purchasing                | 5(17%)                                 | 6(20%)  | 19(64%)  | 30        |
| Production                | 14(20%)                                | 12(17%) | 44(63%)  | 70        |
| Personnel                 | 6(16%)                                 | 11(28%) | 23(58%)  | 40        |
| Research &<br>Development | 13(43%)                                | 3(10%)  | 14(47%)  | 30        |
| Total<br>Decisions        | 73(25%)                                | 61(21%) | 156(54%) | 290(100%) |

Note: Percentages may not total 100 due to rounding.

One factor which accounts for the differences in the centralization index values for the Brazilian subsidiaries compared to those in France and the United Kingdom is illustrated by the fact that the levels of headquarters participation in decision making in Brazil in all functional areas fell within the moderate or shared level of decision making more frequently than they did in the other two countries. Thirty-five percent of all the decisions in France and in the United Kingdom were basically headquarters decisions, whereas in Brazil, only 25 percent of the decisions were headquarters imposed. Brazil, France, and the United Kingdom display very similar frequencies for subsidiary-determined decisions in that the percentage

of decisions made at the subsidiary level in each country was 54 percent, 53 percent, and 52 percent, respectively.

The difference between the locus of decision making characterizing Brazil and the other two subsidiary environments appears to result primarily from the smaller number of headquarters-imposed decisions characterizing the Brazilian subsidiaries as well as the larger number of shared decisions present within the Brazilian subsidiary operations. The percentage of decisions that were basically headquarters imposed in all functional areas was lower for Brazil than was true for the United Kingdom or France. Differences of 10 percent or more between the Brazilian subsidiaries and those in France and the United Kingdom were present in marketing, finance, purchasing, and production.

These substantial variations can be accounted for, at least in part, by the fact that many of the companies were coordinating their European marketing and production activities which would account for the higher levels of headquarters decision making in production and marketing which characterized the French and British subsidiaries in these areas. Purchasing, with 63 to 64 percent of the decisions being primarily subsidiary decisions in all three subsidiaries, was very similar across the three countries; however, because some of the companies were centralizing purchasing activities within Europe, the French and British subsidiaries had a higher frequency of headquarters-imposed decisions in this area than did the Brazilian subsidiaries. Personnel is an area which did not demonstrate as

much difference between the three environments as some other functional areas.

Numerous authors have suggested that organizations characterized by high levels of environmental uncertainty will find it more difficult to impose high levels of structure. In the case of Brazil, the larger number of decisions that are jointly made or shared by headquarters and the subsidiary allows for sufficient levels of integration as well as differentiation for accommodating the local environmental conditions. As these findings indicate, the higher the environmental uncertainty, the more likely will there be some shifts from a primarily headquarters-imposed decision mode to a more shared or locally determined process. In finance, the Brazilian subsidiaries were primarily responsible for 43 percent of the decisions, whereas in France and the United Kingdom, subsidiaries were primarily responsible for only 36 and 33 percent, respectively.

Because of the well-documented rates of inflation in Brazil and the generally more unsettled financial and economic picture characterizing that environment, there may be higher levels of uncertainty economically which account for the differences between these three countries in this functional area. Consequently, the pressures exerted on the subsidiary organization in coping with high levels of uncertainty may also tend to cause corporations to decentralize some of the decision making within particular areas so that a larger percentage of the decisions are made primarily at the local level, which appears to be the case for Brazil when financial decision-making policies are compared to those in France and the United Kingdom.

Some of the observed differences in the locus of decision making for France, Brazil, and the United Kingdom may also be due to the unique economic, political, legal, cultural, or market conditions operating within those countries. There may be greater similarity in the environments characterizing France and the United Kingdom due to their level of development, European location and integration with other European countries, and their political characteristics. Consequently, the locus of decision making scores may reflect those similarities. The Brazilian environment, on the other hand, may represent a much different set of contingencies and vary considerably from the environments of France and the United Kingdom on many dimensions.

The unique political and economic environment characterizing Brazil was mentioned in a number of interviews as encouraging greater levels of decentralization in decision making. One executive commented in detail on the influence of the government in all functional areas and particularly in marketing and finance. Because of price controls, more restrictive import measures, and other governmental activities, their marketing policies and practices in Brazil are very different from what they might be in the absence of these government policies. A number of other individuals also mentioned the difficulties they faced in attempting to implement standardized decisions or decision policies within functional areas for subsidiaries operating in Brazil. Because Brazil is a developing country and shares some environmental characteristics that are similar to other countries at



equivalent stages of economic development, future research might compare and contrast the locus of decision making for subsidiaries operating in countries at different stages of development to determine if differences in the locus of decision making might also be true for subsidiaries in these countries.

#### Levels of Centralization by Country and Industry

In addition to the examination of the locus of decision making data for functional areas from the perspective of country or environmental influences, it was suggested that there may be some differences in the locus of decision making characterizing different industries operating within the same environment. Different environments may be categorized by differences in industry policies with respect to the locus of decision making. The findings in this section of the analysis report the findings on the locus of decision making by country and industry and closely parallel the overall findings on the locus of decision making when environments were contrasted. Since there were no major differences among industries that appeared when the locus of decision making characterizing the French and British subsidiary operations were compared, the analysis focuses primarily on the observed differences between the industry groups operating in Brazil and those operating in the two other environments--France and the United Kingdom.

Table 48.--Level of headquarters participation by industry and country--France.

| Industry                         | Level of<br>Headquarters Participation |         |          | Total     |
|----------------------------------|----------------------------------------|---------|----------|-----------|
|                                  | High                                   | Medium  | Low      |           |
| Industry 1:<br>Pharmaceuticals   | 14(24%)                                | 8(14%)  | 36(62%)  | 58        |
| Industry 2:<br>Automobiles       | 26(47%)                                | 2( 4%)  | 27(49%)  | 55        |
| Industry 3:<br>Tire and Rubber   | 25(43%)                                | 5( 8%)  | 28(48%)  | 58        |
| Industry 4:<br>Capital Equipment | 21(36%)                                | 7(12%)  | 30(52%)  | 58        |
| Industry 5:<br>Food Processing   | 12(29%)                                | 11(26%) | 19(45%)  | 42        |
| Total<br>Decisions               | 98(36%)                                | 33(12%) | 140(52%) | 271(100%) |

Note: Percentages may not total 100 due to rounding.

When industry practices with respect to the locus of decision making were examined for subsidiary operations located in France and the United Kingdom, some minor differences across industries were apparent; however, most of the industry practices were very similar across environments. In both countries, the automobile industry illustrated higher frequencies of headquarters decision making across functional areas than did some of the other firms in the sample. In France, 47 percent of the decisions were essentially headquarters decisions, as was the case for 48 percent of the decisions made by

Table 49.--Level of headquarters participation by industry and country--United Kingdom.

| Industry                         | Level of<br>Headquarters Participation |         |          | Total     |
|----------------------------------|----------------------------------------|---------|----------|-----------|
|                                  | High                                   | Medium  | Low      |           |
| Industry 1:<br>Pharmaceuticals   | 16(28%)                                | 8(14%)  | 34(59%)  | 58        |
| Industry 2:<br>Automobiles       | 28(48%)                                | 2( 3%)  | 28(48%)  | 58        |
| Industry 3:<br>Tire and Rubber   | 23(40%)                                | 5( 9%)  | 30(52%)  | 58        |
| Industry 4:<br>Capital Equipment | 21(36%)                                | 7(12%)  | 30(52%)  | 58        |
| Industry 5:<br>Food Processing   | 12(21%)                                | 16(28%) | 30(52%)  | 58        |
| Total<br>Decisions               | 100(35%)                               | 38(13%) | 152(52%) | 290(100%) |

automotive industry firms in the United Kingdom. The industry with the least number of headquarters-imposed decisions as well as the largest number of subsidiary-made decisions in both environments was the pharmaceutical industry. Tire and rubber manufacturers were the second most centralized of the five industries, with 40 to 43 percent of the decisions being basically headquarters decisions. Part of the reason why the automotive and tire and rubber industries illustrated the higher levels of centralization within France and the United Kingdom is that both industries coordinate marketing and production on a regional basis for Europe. Furthermore, since the tire and rubber industry supplies automotive manufacturers with

original equipment and serves the replacement markets for these automobiles, it is logical that they would also indicate higher levels of centralization in marketing and production. The tire and rubber industry is currently coordinating worldwide purchasing of some raw materials, particularly in Europe and the U.S., which also accounts for their higher levels of centralization in purchasing and production in these two environments.

Table 50.--Level of headquarters participation by industry and country--Brazil.

| Industry                         | Level of<br>Headquarters Participation |         |          | Total     |
|----------------------------------|----------------------------------------|---------|----------|-----------|
|                                  | High                                   | Medium  | Low      |           |
| Industry 1:<br>Pharmaceuticals   | 18(31%)                                | 5( 9%)  | 35(60%)  | 58        |
| Industry 2:<br>Automobiles       | 11(19%)                                | 4( 7%)  | 43(74%)  | 58        |
| Industry 3:<br>Tire and Rubber   | 11(19%)                                | 28(48%) | 19(33%)  | 58        |
| Industry 4:<br>Capital Equipment | 21(36%)                                | 7(12%)  | 30(52%)  | 58        |
| Industry 5:<br>Food Processing   | 12(21%)                                | 16(28%) | 30(52%)  | 58        |
| Total<br>Decisions               | 73(25%)                                | 60(21%) | 157(54%) | 290(100%) |

Note: Percentages may not total 100 due to rounding.

In contrast to the industry characteristics on the locus of decision making characterizing subsidiary operations in France and

the United Kingdom, the Brazilian industries that show the highest levels of headquarters-imposed decisions are the capital equipment and pharmaceutical industries with 36 and 31 percent, respectively, of the decisions in those industries being headquarters determined. The majority of the decisions imposed on subsidiaries within the pharmaceutical industry were those that relate to product quality controls in production, purchasing decisions, and research and development decisions. Aside from these centrally dominated areas, the local subsidiaries appeared to have considerable autonomy in decision making in that the decision-making authority rested at the subsidiary level for 60 percent of the decisions for pharmaceutical industry members.

Only one industry had a higher level of subsidiary-determined decisions than the pharmaceutical industry in Brazil; it was the automobile industry, with 74 percent of the decisions being primarily locally determined. The higher levels of subsidiary determination in decision making within the automobile industry are probably attributable to the fact that the Brazilian market is the primary market being served by their production and the necessity of coordinating purchasing, production, and marketing to accommodate several national markets is not nearly as great as it is for their European operations.

The tire and rubber industry in Brazil illustrates some interesting contrasts to the decision process responses of the other industries. Only 33 percent of the decisions across functional areas

were primarily subsidiary decisions for firms in this industry. While there may be a number of factors that account for this comparatively low frequency of local subsidiary decision making, one possible explanation is the fact that headquarters personnel indicated they were purchasing raw materials worldwide and that the Brazilian subsidiary was able to buy its own raw materials in some cases and had the option of participating in corporate purchasing, whereas the French and British subsidiaries were required to participate. Consequently, the locus of decision making in purchasing and production was more of a shared or joint decision process for these two Brazilian subsidiaries than it was for the French or British affiliates of these firms.

The food processing industry showed almost no variation across countries when the percentages of subsidiary-determined decisions were compared for the three country environments. Subsidiary managers were primarily responsible for 45 to 52 percent of the decisions made by subsidiary managers in this industry. All three countries showed relatively high rates of joint decision making as exhibited by the fact that 26 to 28 percent of the decisions, regardless of environment, fell within this category. France, with 29 percent of the decisions being primarily headquarters determined, was somewhat higher than the frequency of responses falling within that category in Brazil and the United Kingdom. In those two countries, 21 percent of the decisions were primarily determined by headquarters. This can perhaps be explained by the fact that both companies in the

industry maintain regional line executives within France so that the opportunities for corporate involvement in the decision-making process are somewhat higher in France than would be the case in Brazil or the United Kingdom.

Before turning to a description and analysis of the findings on the relationship of subsidiary performance to the locus of decision making, a brief summary of the findings and discussion thus far seems appropriate.

First, when both headquarters and subsidiary data were examined for two firms and six of their subsidiaries, some differences between the headquarters and subsidiary managers' perceptions of the locus of decision making were observed in 108 of the 168 decisions compared. While these differences in the perceived locus of decision making were predominantly less than two decision process categories apart, in 26 percent of the cases they differed by two categories or more.

Second, when the overall levels of centralization in decision making for the sample firms and their international subsidiary units were examined, substantial uniformity in corporate decision-making policies for all subsidiaries was evident. Functional analysis revealed that research and development and finance were the most centralized of the functional areas being considered. There was substantial variability within and across functional areas in the number of decisions that were characterized as being high, medium, or low in the level of headquarters participation, indicating varying

levels of integration and differentiation which were not illustrated in the aggregate centralization measures. Some differences across industry groups were also present when the locus of decision making for each function was analyzed.

Third, when the locus of decision making was examined for the sample members' subsidiary operations in France, Brazil, and the United Kingdom, differences across national environments were present. The centralization indices indicated Brazil was the least centralized, followed by the United Kingdom and France. Centralization indices for France and the United Kingdom were almost identical, as were the frequencies of decisions falling within the high, medium, and low categories. The lower centralization level for the Brazilian subsidiaries was primarily accounted for by the larger frequency of subsidiary-determined decisions as well as by a higher frequency of shared decisions. The findings on the nature of the relationship of the locus of decision making to subsidiary performance is now examined.

#### Subsidiary Performance Findings: Measures of Performance and the Locus of Decision Making

In order to determine the types of measures used by corporations in evaluating subsidiary performance, the companies within the sample were asked to respond to an open-ended question during the headquarters interview which asked them to indicate the types of methods they were using to evaluate subsidiary performance. Table 51 summarizes their responses. As the findings indicate, the most



frequently applied measures of performance were profitability, sales volume, market share, and return on assets.

Table 51.--Measures used by sample firms for evaluating subsidiary performance.

| Measure of Performance            | Frequency of Response |
|-----------------------------------|-----------------------|
| 1. Profitability                  | 10                    |
| 2. Return on assets               | 6                     |
| 3. Return on equity               | 1                     |
| 4. Return on inventory            | 2                     |
| 5. Market share                   | 9                     |
| 6. Sales volume                   | 9                     |
| 7. Inventory turnover             | 1                     |
| 8. Return on sales                | 1                     |
| 9. Long-range plans               | 1                     |
| 10. Monthly forecasts and changes | 1                     |
| 11. Receivables ratio             | 1                     |
| 12. Cash flow                     | 1                     |
| 13. Performance against budget    | 2                     |

While a considerable number of measures of performance were given, it appears that profitability is the key criterion used by most firms in the sample in evaluating the performance of their subsidiaries. When asked which measure or measures they considered provide the best evaluation of subsidiary performance, most mentioned

that there was not a single "best" method of evaluating subsidiary performance; however, nine of the ten firms indicated that they tended to use one measure more than others. Within the firms that used one measure more than others, profits or profitability was mentioned six times, return on assets over time was mentioned three times, and market share twice.

In addition to providing some indication of the types of measures corporations are using in evaluating subsidiary performance, one of the primary objectives of this study was to determine the relationship between subsidiary performance and the locus of decision making. Several authors cited in the literature review mentioned that there appeared to be some relationship between the locus of decision making and the level of performance of that subsidiary; however, they did not indicate the nature of that relationship.

In the conceptual model, subsidiary performance was viewed as a variable which interacted with the locus of decision making variables in two ways. First, the locus of decision making within functional areas or across functional areas may influence the ability of the subsidiary organization to obtain high performance levels, in that certain decisions may be outside the subsidiary manager's authority. On the other hand, subsidiary performance may be enhanced if certain decisions requiring expertise in an area in which the subsidiary management team may not have the same capabilities of headquarters line or staff personnel are made at the headquarters level or are shared with the subsidiary management.

Second, the performance of the subsidiary was thought to interact in another way with the locus of decision making--that is, the use of performance measures as a means of monitoring activities and in decision making. As was indicated earlier, nine of the corporations in the sample indicated that subsidiary managers with good performance records will get a better "ear" in decision making or their opinions will carry more weight in a discussion of decision choices. By the same token, when asked if the authority of a subsidiary manager is reduced when the performance of his unit falls, ten of the corporations in the sample responded that formally his authority is not reduced, but in practice all ten said it is in fact reduced somewhat. Table 51 summarizes the responses given by headquarters representatives when asked to comment on the way in which the parameters of the subsidiary manager's authority respond to declines in performance of the subsidiary unit.

As the findings in Table 52 indicate, the actual formal authority of the subsidiary manager is not usually reduced in most of the sample corporations; however, within three companies, subsidiary managers with poor performance are verbally informed that they no longer have the authority to make certain decisions. But for the most part, the influence of low performance is to increase headquarters monitoring of the unit's activities and managerial decisions. Based on these responses, the influence of substandard performance in determining the locus of decision making for that subsidiary is primarily in shifting the locus of decision making from a decision process one

to a two or from a two to a three rather than an extreme shift from a process one to a process four. Consequently, there are not extreme variations in the amount of decision-making authority the manager of a high-performing unit has in comparison to that characterizing the manager of an average-performing unit. If the performance falls to a certain point, it is very clear that the individual would likely be replaced.

Table 52.--Substandard performance of the subsidiary unit as an influence on the locus of decision making.

| Statement                                                                                               | Frequency |
|---------------------------------------------------------------------------------------------------------|-----------|
| 1. No change in formal authority, but in practice his authority is reduced somewhat                     | 10        |
| 2. Verbal instructions that they can not make certain decisions                                         | 3         |
| 3. We monitor more closely and control                                                                  | 5         |
| 4. He's replaced                                                                                        | 2         |
| 5. There are more frequent consultations, "checking-in" and more frequent attention for that subsidiary | 6         |
| 6. Approval for certain decisions is needed more frequently                                             | 4         |
| 7. There's more involvement with decisions in substandard-performing subsidiaries                       | 2         |

The subsidiary managers who are performing at levels acceptable to their line manager's expectations will have somewhat more latitude in decision-making authority than subsidiary managers who are

managing subsidiaries characterized by falling performance. However, the differences in the locus of decision making for individual subsidiary managers do not appear to be substantial and represent primarily informal shifts in the locus of decision making from a decision process category one to a decision process category two, or from a two to a three in most cases. The findings in this study demonstrated substantial uniformity in corporate policies with respect to the locus of decision making characterizing all subsidiary organizations and there were only minor differences in the implementation of those policies for any one particular unit. It is therefore not likely that there would be major differences in these policies for managers of high- and low-performing units. Because of this uniformity in application, it can not be expected that one manager would be primarily operating within a decision process category one and another operating in a category five for any substantial period of time. As two executives stated, the low-performing manager would be replaced if his performance was substantially below expectations and remained there for a period of time.

Based on these findings, there is some difference in the locus of decision making characterizing the authority in decision making the manager of a high-performing subsidiary has and the authority in decision making the substandard-performing manager will have. However, these differences are relatively small in that the high-performing manager may have some decisions falling within the decision process categories one or two while the lower-performing

unit would have more decisions falling within decision process categories two or three.

A second aspect of the relationship of the locus of decision making and subsidiary performance was raised several times in the literature review and underlies the development of the conceptual model. Many previous studies of the locus of decision making in multinational corporations implied that the ability of the subsidiary manager to optimize his unit's performance will be constrained by the imposition of headquarters policies or decisions limiting the decision-making autonomy for the operation. In this view, worldwide corporate movements toward increased standardization within functions and integration of corporate activities for corporate performance maximization may reduce the ability of the subsidiary manager to optimize the performance of the unit. Based on these assumptions, the high-performing subsidiary units would be the units characterized by the highest levels of decentralization or autonomy in decision making. Conversely, the more the decision-making authority is constrained through headquarters-imposed policies and decisions, the lower will be the performance of that unit.

In order to obtain some performance measures for the thirty subsidiaries within the sample, headquarters executives were asked to rank the performance of each of the subsidiaries in comparison to the performance of other corporate subsidiaries as a standard. In addition, each corporation was asked to provide information on the performance of each of their three subsidiaries located in France,

Brazil, and the United Kingdom in the form of an index describing changes in sales, profitability, and return on investment over a five-year period.

Because the study is primarily concerned with subsidiary performance associated with current practices in the locus of decision making for sample subsidiaries, and the other performance measures may be associated with different personnel and policies in effect in previous time periods, the line executive's overall statements on the performance of each subsidiary relative to the corporation's performance and the performance of other corporate subsidiaries at the time of the interviews are the primary data used in this analysis. These assessments likely incorporate the line executive's knowledge of the subsidiary's performance when measured by whatever quantitative techniques the corporation employs for performance assessment as well as a knowledge of any other factors that must be considered in interpreting the quantitative measures for an overall appraisal of performance.

When subsidiaries were grouped by their level of performance and by the level of their participation in decision making across all functional areas, there was no apparent relationship between the overall levels of centralization characterizing the high-performing and the low-performing subsidiaries.

When the locus of decision making is viewed as being centralized or decentralized for subsidiary/headquarters decision making, there is no apparent relationship between the subsidiary's performance

Table 53.--Subsidiary performance and level of subsidiary participation in decision making.

| Subsidiary Performance <sup>b</sup> | Level of Subsidiary Participation in Decision Making <sup>a</sup> |                      |                                    | Total    |
|-------------------------------------|-------------------------------------------------------------------|----------------------|------------------------------------|----------|
|                                     | (Decentralized)<br>High Participation                             | Medium Participation | (Centralized)<br>Low Participation |          |
| High Performing                     | 6                                                                 | 2                    | 4                                  | 12( 40%) |
| Average Performing                  | 2                                                                 | 1                    | 1                                  | 4( 13%)  |
| Low Performing                      | 9                                                                 | 2                    | 3                                  | 14( 47%) |
| Total                               | 17(57%)                                                           | 5(17%)               | 8(27%)                             | 30(100%) |

Note: Percentages may not total 100 due to rounding.

<sup>a</sup>The level of participation was determined by comparing individual subsidiary centralization indices for each sample subsidiary with the overall centralization index for decision making for all corporate subsidiaries. Subsidiaries high in participation had centralization index values below the overall corporate values for all subsidiaries, which indicated that decision making in those subsidiaries was characterized by higher participation by the subsidiary management. Lower participation levels indicate that the mean centralization index for the subsidiary in decision making was above that characterizing all corporate subsidiaries. Medium levels of participation reflected equal centralization values for sample subsidiaries and all corporate subsidiaries.

<sup>b</sup>Subsidiary performance measures are based on the evaluations of each subsidiary unit's performance provided by the line executive in headquarters responsible for that subsidiary's operations. Performance index values above the average for all subsidiaries are classified as high-performing subsidiaries. Subsidiaries with performance indices below these values are classified as low-performing.



and the level of participation in decision making characterizing that subsidiary. Six of the subsidiary units that were classed as high in participation were also high in performance; however, nine of the low-performing subsidiaries were also in the highest participation category when centralization indices were used to indicate varying overall levels of subsidiary participation in the decision-making process.

These findings indicate that the relationship between the locus of decision making for subsidiaries and subsidiary performance is not adequately accounted for by viewing decision making for an individual subsidiary as being located on a continuum from centralized to decentralized across functional areas. Based on these findings, the underlying hypothesis of the conceptual model that high-performing units may be characterized by varying levels of integration and differentiation across functional areas and within functional areas may be a better description of the complex relationship between subsidiary performance and the locus of decision making than the traditionally applied centralization/decentralization concepts.

Using this conceptual approach, the concepts of centralization and decentralization are viewed in the context that some functions may require or encourage higher levels of centralization (integration) for maximization of overall corporate performance. The ability of the subsidiaries to respond to the unique configurations of their local environments will require a certain level of decentralization in decision making (differentiation) in order for

them to obtain higher performance levels. Using this approach, some functional areas may require higher levels of headquarters participation in decision making (integration) and other functional areas may require lower levels of headquarters control or differentiation in decision making. Some functions may require relatively high levels of both integration and differentiation for successful enterprise and subsidiary performance to occur than would be true in other functions.

A central problem facing firms in determining the locus of decision making for subsidiary units is in finding the optimal balance between the advantages accrued in integration and standardization at the corporate level and the necessity and/or advantages associated with higher levels of differentiation at the subsidiary level. In order to obtain some indication of both headquarters managers' and subsidiary managers' perceptions of which functional areas may require higher levels of integration or centralization than others and those which may require more differentiation, respondents were asked whether they thought the locus of decision-making authority between headquarters and the subsidiary had any effect on the subsidiary's performance. Nine of the corporations were classified as responding affirmatively and only one indicated the locus of decision making as not perceived as an influence on subsidiary performance. When asked to explain the nature of the relationship between subsidiary performance and the locus of decision making, the respondents made a number of comments which were coded

into eight categories. The frequency with which each statement was mentioned in the interviews is summarized in Table 54.

Table 54.--Headquarters perception of the influence of the locus of decision making on subsidiary performance.

| Statement                                                                                                                                                                                   | Frequency |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 1. The more autonomy the subsidiary has, the more successful it will be.                                                                                                                    | 1         |
| 2. Autonomy levels will affect incentive and motivation.                                                                                                                                    | 2         |
| 3. The locus of decision making will influence the flexibility the subsidiary has in reacting to unique environmental conditions within the necessary time period.                          | 5         |
| 4. Headquarters can "foul you up" very quickly, especially in marketing decisions.                                                                                                          | 2         |
| 5. The decisions must be made at the level where the expertise for making the decision is available and where the person has the best understanding of the factors affecting the decisions. | 2         |
| 6. The total experience of the corporation is greater than that within one subsidiary, and corporate experience in other markets can be helpful to improving subsidiary performance.        | 4         |
| 7. Subsidiaries should have pricing flexibility.                                                                                                                                            | 1         |
| 8. Headquarters financial policies create an improved budget control environment.                                                                                                           | 2         |
| Total                                                                                                                                                                                       | 19        |

Approximately eleven of the nineteen responses suggest the need for differentiation or decentralization in the locus of decision making so that subsidiary units can respond to their local environments. The other eight suggest the necessity or desirability of

maintaining some level of integration so that corporate expertise can be taken advantage of at the subsidiary level. These responses were given in reply to a question on how subsidiary performance was affected by the locus of decision making. In the view of the headquarters respondents, subsidiary performance may be enhanced when the appropriate levels of both integration and differentiation are present rather than the exclusion of one or the other.

The conceptual model indicated that varying levels of integration and differentiation may be desirable across functional areas for subsidiary and/or corporate performance to be optimized. Headquarters representatives were therefore asked if they thought there were certain functional areas which required more headquarters participation in order for the corporation as a whole to be most successful and if certain functional areas required more subsidiary participation in order for the subsidiary units to be most successful. In all of the companies, headquarters executives responded that there were differences in functional areas which dictated higher levels of subsidiary and/or headquarters participation.

Based on these findings, the headquarters executives in the sample perceived some functional areas as requiring higher levels of integration or corporate direction than others. This was particularly true for finance and research and development. Marketing was perceived as a functional area requiring relatively high levels of both integration and differentiation. In their view, the other functional areas required somewhat less integration and somewhat

higher levels of differentiation. Subsidiary managers were also asked to complete these questions and interestingly, the responses received from the subsidiary managers closely paralleled the headquarters perceptions summarized in Table 55.

Table 55.--Functional areas requiring most headquarters participation and most subsidiary participation.

| Function                  | Require Most<br>Headquarters<br>Participation<br>(Integration) | Require Most<br>Subsidiary<br>Participation<br>(Differentiation) | Total    |
|---------------------------|----------------------------------------------------------------|------------------------------------------------------------------|----------|
| Marketing                 | 4                                                              | 9                                                                | 13       |
| Finance                   | 11                                                             | 2                                                                | 13       |
| Production                | 3                                                              | 5                                                                | 8        |
| Personnel                 | 1                                                              | 6                                                                | 7        |
| Research &<br>Development | 10                                                             | 1                                                                | 11       |
| Purchasing                | 3                                                              | 4                                                                | 7        |
| Total                     | 32(54%)                                                        | 27(46%)                                                          | 59(100%) |

These findings indicate that there are differences in functional areas which headquarters and subsidiary managers perceive as requiring varying levels of integration and differentiation for overall corporate performance and for subsidiary performance to be optimized. But while these perceptions closely match the current practices of the sample firms in the locus of decision making measures reported earlier, it is possible that these perceptions reflect an

endorsement of current practices rather than an indication of what actually would be most desirable. However, this particular study was not intended to focus on this issue and it provides a rich area for future research endeavors.

To summarize the implications of the performance findings for the study, the relationship between the locus of decision making and subsidiary performance is a very complex one that can not be viewed simply in terms of the level of centralization or decentralization characterizing subsidiary decision-making authority in the aggregate. There was no apparent relationship between subsidiary performance and the aggregate measures of the level of centralization for the subsidiary. While there are a number of factors that will influence the performance of a subsidiary, both the headquarters managers and the subsidiary managers responding to the questionnaires indicated that they perceived the locus of decision making for the subsidiary as one influence on the ability of the subsidiary to attain optimal performance. However, in their view, subsidiary performance would be enhanced when the locus of decision making characterizing each functional area allowed for the appropriate level of differentiation and integration for that function.

There is considerable agreement between both the subsidiary managers and the headquarters managers in their assessment of the levels of integration and differentiation that were required for different functional areas. In their view, research and development and finance are functional areas requiring higher levels of

integration and relatively low levels of differentiation. Marketing decision making required relatively high levels of both integration and differentiation. The other functional areas considered required relatively low levels of integration and higher levels of differentiation. The findings reported earlier on the locus of decision making for the sample corporations in this study reflect these differences across functions.

These findings suggest that while there are a number of influences on the performance of a subsidiary unit, one of them is the locus of decision making. The ability of the subsidiary to attain high performance levels will be influenced in some ways by the levels of integration and differentiation characterizing the locus of decision making within each functional area and across functional areas. The determination of the precise levels of differentiation and integration within and across functions required for the opportunities for subsidiary and corporate performance to be maximized are beyond the intent of this study and represent numerous opportunities for future research.

## CHAPTER V

### SUMMARY AND CONCLUSIONS

This chapter presents a summary and synthesis of prior chapters. Attention is turned initially to the scope and objectives of the study. The findings of the research are then summarized and the conclusions drawn from those are presented. The limitations and caveats associated with the study are then discussed. The final section considers the implications of the research for various involved groups.

#### Scope and Objectives of the Study

This study represents a description and analysis of the nature of the locus of decision making characterizing multinational firms and their subsidiaries and its relationship to subsidiary performance. The review of the literature indicated that previous research in this area was sketchy and incomplete in incorporating the many variables associated with this managerial area. The fragmented and seemingly unrelated approaches that characterized the limited research in this area resulted in somewhat conflicting and confusing findings on the locus of decision making. Opportunities for comparability between various authors were impeded by the introduction of different variables and methods of data collection.



The state of the art in research in this area dictated that one of the major research objectives in this study would be the unraveling of the complex set of variables thought to influence the locus of decision making as well as their possible influence in determining the degree of centralization or decentralization that characterizes the headquarters/subsidiary relationship in multinational firms. In order to fulfill this research objective, three major research areas were identified:

1. To describe by function, industry and country area the degree of centralization or decentralization of decision-making authority.
2. To explain how the characteristics of the firm, the subsidiary, and the subsidiary environment affect the degree of centralization or decentralization of decision-making authority.
3. To explain the nature of the relationship between the degree of centralization or decentralization and subsidiary performance.

Based on these objectives, a conceptual model was developed which drew from the existing research in the areas of organization theory, comparative marketing and management, and international business which helped to delineate the relevant variables and suggested the nature of the relationships between corporate and subsidiary characteristics, the locus of decision making generally and within functional areas, and subsidiary performance. The literature review indicated that certain corporate and subsidiary factors were thought to exert an influence in the determination of the locus of decision making for multinational corporations and their subsidiary units. The corporate characteristics included: product line or industry,

size and complexity of international operations, organization structure, availability of managerial talent, and corporate philosophy. Subsidiary characteristics suggested as influencing the locus of decision making included: subsidiary age and size, availability of local managerial talent, geographic location, the subsidiary environment and environmental certainty/uncertainty. In addition to these factors, some relationship between the locus of decision making and subsidiary performance was suggested by previous studies and was incorporated into the conceptual model.

Because of the limitations of previous studies, one of the primary objectives of this study was to describe by industry, function, and country environment the degree of centralization or decentralization characterizing the locus of decision making for multinational firms and their subsidiary units. Once this was accomplished, a clearer understanding of the relationship between corporate and subsidiary characteristics and the locus of decision making could be established. The locus of decision making was viewed primarily as a measure of the level of participation the headquarters and subsidiary management had in decision making which reflects the formal authority of the subsidiary manager.

Measures of the locus of decision making for each of the sample firms were obtained through asking headquarters personnel to classify twenty-nine decisions within six functional areas by their perception of how corporate subsidiary managers and headquarters personnel participated in the decision-making process for each

decision. Their response choices were comprised of five decision process categories which indicated varying levels of headquarters and subsidiary management participation in the generation of decision alternatives, selection of the preferred alternative, and implementation of the decision choice. A decision process category five indicated there was no subsidiary participation in the decision process and represented an extreme in the level of centralization characterizing the resolution of that decision issue. Conversely, a decision process category one described decisions that were made by the subsidiary manager without any headquarters involvement, or a decentralized process.

Because of the comprehensive data needs generated by the underlying hypotheses of the conceptual model, it was necessary to limit the number of firms comprising the sample. Ten U.S. multinational firms, representing five industry groups, comprised the final sample. The industry groups included: pharmaceuticals, tire and rubber, automobile, capital equipment, and food processing. Each sample member maintained a wholly owned subsidiary in France, Brazil, and the United Kingdom.

Corporate and subsidiary data for each corporation and its subsidiaries were obtained through thirty-two in-depth interviews with international line personnel in the sample corporations. Since three national environments were isolated for more detailed analysis, the headquarters line executives responsible for the subsidiaries located in Brazil, France, and the United Kingdom were

the primary individuals interviewed within each company. Each company's subsidiary manager in France, Brazil, and the United Kingdom was also asked to complete a self-administered questionnaire sent to him by the individual or individuals interviewed at headquarters. Eight companies forwarded the subsidiary questionnaires. Ten of the twenty-four questionnaires were completed and returned to the interviewer. Due to the quality of the information gathered in the headquarters interviews, and the low response rate of the subsidiary managers in returning the questionnaires, the major data source for the findings reported in this study was the headquarters line executives of the sample firms.

### Major Findings and Conclusions

The discussion of the major findings and conclusions is comprised of the following segments. First, the study findings on the locus of decision making for all sample firms and their international subsidiaries are presented. Second, the findings obtained from industry and functional comparisons are discussed. Third, the findings obtained for each national environment are reviewed. Finally, the findings with respect to the relationship of subsidiary performance and the locus of decision making are considered.

When the overall level of centralization in the locus of decision making was examined for industry comparisons, there were some observed differences across industry groups; however, the difference between the most centralized industry and the least centralized industry was only .56. The tire and rubber industry

exhibited the highest centralization index of the industries represented in the sample and the food processing industry had the lowest centralization index. Capital equipment was the second highest industry when centralization indices were compared.

The findings with respect to the overall level of centralization and decentralization in the locus of decision making for the sample firms and their international subsidiaries suggest that corporations are not necessarily either centralized or decentralized. Two concepts drawn from the literature in organization theory, integration and differentiation, provide better descriptors of the locus of decision making than would a single centralization measure or description. The findings suggest that the locus of decision making for all subsidiary units will be composed of a number of decisions that will have varying levels of participation at the headquarters level and at the subsidiary level. A composite measure of the locus of decision making will only provide some idea of the level of centralization characterizing a particular company's or industry's practices. The findings also suggest that the concept of the locus of decision making is much more complex than earlier studies might indicate and should not be viewed as being described or measured on a bipolar scale only.

When the overall locus of decision making for sample firms and their international subsidiaries across functional areas was considered, the findings illustrated varying levels of integration and differentiation were evident. Research and development and

finance were the two functions characterized by the highest frequency of headquarters-imposed decisions or high levels of integration. Marketing was an area that apparently required both high levels of differentiation and integration. The remaining functional areas exhibited lower levels of integration and higher levels of differentiation. Since these patterns were relatively uniform for all industry groups in the sample and reflect the headquarters representatives' perception of the differences in functional areas that require different levels of integration and differentiation, the findings in this study suggest that the nature of the functional areas themselves will influence the locus of decision making.

The differences observed in the patterns of decision making characterizing different industries indicate that within certain industries, some functions may require more headquarters decision making or participation than others. While the findings indicate that there is substantial uniformity characterizing overall levels of decision-making authority, there were substantial differences that appeared when the locus of decision making for an individual functional area was compared for firms operating in different industries.

When centralization values for each functional area were compared on an industry-by-industry basis, the capital equipment industry showed the highest centralization indices in marketing, finance, and personnel. The tire and rubber industry had the highest centralization level in purchasing and research and

development. The lowest centralization index in marketing was exhibited by the tire and rubber industry. Pharmaceuticals were least centralized in finance. Capital equipment was least centralized in production and research and development, and the food processing industry was least centralized in purchasing. Differences in industries with respect to the locus of decision making were also present when different environments were evaluated. Consequently, the findings indicate that there will be industry similarities and differences in the locus of decision making for the various functional areas which appear to be determined primarily by the nature of the product line characterizing the industry and the corresponding effects that product commitment raises for decision making in each of the functional areas. The levels of integration and differentiation for the locus of decision making would then be expected to differ across industries as the findings indicate.

The differences observed in the locus of decision making for the sample firms between Brazil and the two European environments indicate that certain environmental characteristics will influence the level of integration and differentiation characterizing the locus of decision making for firms within that country. Centralization indices in all functional areas were the lowest for the Brazilian subsidiaries. The French and British subsidiaries exhibited very similar centralization values.

Some of the differences in the measures obtained on the locus of decision making for the different national environments

can be attributed to the attempts by some industries and firms to rationalize marketing, production, and purchasing on a regional basis, particularly in Europe. However, the lower levels of headquarters participation in decision making in Brazil, particularly in the financial area, were pronounced and may be partially attributable to the differences in the environmental forces operating there and the higher levels of uncertainty perceived by headquarters executives as characterizing that environment.

Geographic location may also account for some of the observed differences in the locus of decision making between Brazil and the United Kingdom and France; however, the geographic factor is primarily associated with the fact that the Brazilian market may represent a distinct unit and therefore subsidiaries operating there are not subject to the requirements for integration the French and British subsidiaries face. Regional offices located in France, or within Europe, also apparently accounted for the slightly higher levels of headquarters participation characterizing the locus of decision making in France.

In summarizing the findings on the functional, environmental, and industry relationships to the locus of decision making observed in this study, it is apparent that the locus of decision making is influenced by each of these factors. The particular locus of decision making characterizing subsidiary organizations will be primarily determined by the overall desires and requirements for control and integration at the corporate level. Certain functions appeared



to be characterized by higher levels of integration and/or differentiation than others regardless of industry type. However, the actual level of integration or differentiation for a particular function does vary from industry to industry. Differences in the locus of decision making characterizing subsidiaries operating in different national environments were less pronounced. Nevertheless, some differences were apparent, particularly in the number of shared decisions characterizing subsidiary units in Brazil as well as in the higher frequency of subsidiary decision making occurring in the financial area for Brazilian subsidiaries, which appears to reflect the differences in the environmental contingencies posed by the three national environments being considered.

Based on the industry, functional, and environmental aspects of the findings, certain implications for interpreting the influence of the corporate and subsidiary characteristics on the locus of decision making arise. The uniformity of corporate policies on the locus of decision making for all subsidiary units as well as the uniformity displayed in those policies across industries suggests that minimum levels of integration are going to occur in each function regardless of industry or environmental area. This implies that the corporate and subsidiary characteristics outlined in the conceptual model are the factors which will primarily account for some of the variation in the application of those policies for an individual subsidiary or company. The overall determinants of the locus of decision making seem to be accounted for by the nature of

the industry and product line and their impact on the requirements for integration and differentiation within functions.

The corporate philosophy with regard to control seems to exert some influence; however, there do not appear to be substantial differences in the control philosophies exhibited by sample firms when the levels of headquarters participation in decision making are compared. While there are some differences, they are not exhibited in the extreme levels of centralization or decentralization indicated by a preponderance of decision process categories one or five. The findings indicate that individual headquarters managers and subsidiary managers will also influence the locus of decision making; however, again, the effect of their influence on the locus of decision making will be relatively minor, due to the overriding influence of uniform corporate policies outlining the parameters for subsidiary decision making in all corporate subsidiaries.

The availability of headquarters management talent was not demonstrated to appreciably alter the locus of decision making for sample firms, nor was their perception of the availability of local managerial talent an influence on the locus of decision making for the subsidiary except in the fact that several executives commented that the talent pool the corporation could draw on in decision making was larger than that available in any particular subsidiary and reflected experiences in other markets which could enhance subsidiary performance through centralizing some decision making at headquarters.

Other factors suggested as being an influence on the locus of decision making were subsidiary age and size; however, again, their influence in determining the locus of decision making was relatively minor. It was demonstrated that in most companies subsidiary managers operate under uniform decision-making guidelines with the exception of the five firms that had varying expenditure authorization limits for the different sized organizations. The findings indicated that the subsidiary managers of the larger subsidiaries may in fact have less autonomy in decision making than the managers of the smaller subsidiaries whose operations are less critical to overall divisional or corporate performance and therefore, less visible. However, the findings demonstrate that the manager of a large subsidiary may exert more influence in particular decisions, such as marketing decisions which require a careful matching of local market conditions with corporate plans for new products, advertising themes, etc.

The relationship between the locus of decision making and subsidiary performance was presented in two sets of findings. First, the findings indicated that successful managers will have somewhat more decision-making autonomy than will the less successful managers. All of the companies in the sample took some action to effectively, if not formally, reduce the authority of substandard-performing managers. In most cases, however, the locus of decision making was not altered dramatically from the corporate guidelines and differences between managers of high-performing units and low-performing

units were primarily demonstrated as being differences which required more consultation or "checking in" with headquarters for those managers who were managing units characterized by poor performance.

The second set of findings related to subsidiary performance and the locus of decision making demonstrated no apparent relationship between the aggregate levels of participation expressed as centralization scores and subsidiary performance. Both high- and low-performing subsidiary units were characterized as being high or above average in participation or decentralization in decision making. Likewise, in the group of subsidiaries grouped as performing below average, there were nearly equal numbers of subsidiaries which were either characterized as having high levels of subsidiary autonomy in decision making or as having a more centralized locus of decision making.

The implication of these findings is that for subsidiary performance to be maximized the appropriate levels of centralization or integration within and across functions must be balanced with the corporate and subsidiary requirements for differentiation or decentralization in each. Certain benefits to the subsidiary appear to accrue through both integration and differentiation within and across functions. Consequently, in order for both subsidiary and corporate performance to be maximized, the appropriate levels of integration and differentiation for the subsidiary and the corporation must be embodied in the composition of the locus of decision making for international operations.

In summarizing the conclusions incorporated in the major findings of this study, it appears that corporate policies with respect to the locus of decision making are much more uniform in application than previous studies would suggest and that many of the factors cited in the literature review as influencing the locus of decision making do so in a relatively minor way. The major determinants of the locus of decision making for the corporation as a whole appear to be the nature of the product line or industry in which the firm is operating. Since that characteristic will in turn influence the nature of the decisions that are made in each functional area and the interrelationships between decisions within and across functional areas, corporations operating in different industries will likely exhibit varying levels of integration and differentiation in the locus of decision making within and across functional areas. Organizational units operating in different environments may find that environmental contingencies require higher levels of differentiation in certain functions; however, the findings indicate that certain minimum levels of integration will be present in each functional area regardless of national environment.

The financial function appears to be one means by which the sample corporations achieve a certain level of integration in international operations while allowing for substantial levels of differentiation in the other functional areas. The decisions and activities in the financial area provide uniform control measures for monitoring the effects of decisions and activities in the other areas. The

findings are consistent with Lawrence and Lorsch, who suggest that high levels of differentiation will also require high levels of integration. Since multinationals are characterized by less control over functional areas internationally than they are domestically, the financial function offers an opportunity for integrating international operations while allowing for substantial differentiation. Finance and research and development were characterized by the highest levels of headquarters participation in the decision-making process in all sample firms.

#### Limitations

As with any research effort, there are certain limitations associated with this study and the findings it generated. Because the research objectives were primarily designed to allow for an in-depth look at the large number of variables associated with a very complex research issue, only ten U.S. multinational firms were included in the sample. Consequently, conclusions on the locus of decision making values can only be made relative to these participating firms. It cannot be assumed all multinational firms or industries will exhibit identical, or nearly identical values in measures of the locus of decision making.

Two limitations with respect to the data need to be mentioned at this time. Ideally, inputs from subsidiary managers on a number of questions would have been valuable in determining some of the conclusions drawn from the findings. However, since this data-collection technique combining headquarters and subsidiary managers'

responses had not been utilized before, it was difficult to predict with any accuracy the rate of return that would be associated with the subsidiary questionnaires.

Second, because actual headquarters policies of the decision-making process characterizing their subsidiaries generally and those operating in France, Brazil, and the United Kingdom were not available to the researcher, the measures of the locus of decision making may not be as precise as other measures. However, in the absence of other alternatives and the fact that the line executives with reporting relationships for these subsidiaries were the individuals reporting the information, they are probably very close to the actual decision-making processes characterizing the locus of decision making for their subsidiaries.

### Implications of the Findings

The major implications of these findings for academicians and researchers interested in exploring the nature of the relationship of the locus of decision making and subsidiary performance is in the explication and description of the major variables that must be considered. The complexity of the research task has been underscored in both the literature review and in the findings. The observed differences in the locus of decision making across industries, functions, and environments suggest that these differences must be recognized and in some way accounted for in the design of future research. The need for greater precision in measuring and

reporting findings on the concepts of authority and decision making is evident.

The areas affording the greater research opportunities appear to be in the development and refinement of methodologies designed to measure the precise nature of the relationship between the locus of decision making and its effect on both corporate performance and subsidiary performance. Since there appear to be some differences in the level of control associated with international operations and domestic operations, studies of the locus of decision making characterizing domestic divisions and their relationship to headquarters seem to be another area in which further research should be attempted. If the overall corporate philosophy toward control as well as product line concentrations is influencing the locus of decision making, then similar differences among corporations should exist and characterize their domestic operating policies as well as their international ones. Future research on the levels of differentiation and integration within functional areas that lead to improved performance environments for sub-units in the organization would be particularly useful for guiding decision makers in both domestic and international policy settings on the locus of decision making for sub-units within the company.

The executives who participated in the study were keenly interested in the issues being studied. Since they, too, are interested in finding the optimal mix in the locus of decision making, the findings make available to them some indication of the level of



participation characterizing other firms in their industry and in other industries. Differences within functional areas and across functional areas evidenced in these findings provide additional information in their assessments of the appropriateness of their current practices and policies. And, perhaps most importantly, as additional research in this area refines and adds to the body of knowledge available, this information can become useful to management in setting policy for decision making both domestically and internationally.

The implications of these findings for governmental groups, particularly those in some of the developing countries that are exerting pressures for more local control over their economies and placing ownership limitations on foreign firms doing business in their countries, are twofold. First, the findings indicate that the current level of subsidiary involvement in most functional areas is substantial and even higher in the one developing country represented in this study than in the more developed countries. The implication of these findings is that local units of multinational corporations that are wholly owned subsidiaries exercise considerable autonomy in decision making. Future research may compare and contrast the locus of decision making that characterizes wholly owned subsidiaries with that characterizing joint ventures to determine whether there are appreciable differences in the locus of decision making for the two business forms and whether there are any performance implications for joint ventures.

A second implication of these findings for national governments is that according to the findings in this study, certain benefits from integration or headquarters participation in decision making can accrue to the subsidiary unit and thereby enhance the organization's opportunities for attaining high performance. If there is no particular relationship between the high-performing subsidiaries and the aggregate level of decentralization characterizing those units, governmental moves toward requiring more decentralization across functional areas may prove to be counterproductive in that the ability of the subsidiary organization to attain high performance levels may be influenced favorably by certain levels of integration, as these findings suggest.

## APPENDICES

**APPENDIX A**

**LETTER OF SOLICITATION**

APPENDIX A  
LETTER OF SOLICITATION

MICHIGAN STATE UNIVERSITY

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GRADUATE SCHOOL OF BUSINESS ADMINISTRATION  
DEPARTMENT OF MARKETING AND  
TRANSPORTATION ADMINISTRATION

EAST LANSING · MICHIGAN · 48824

February 9, 1978

Dear Sir:

As you know, one of the most difficult problems encountered by an international manager is the coordination and control of diverse international operations. Unfortunately, there is very little information available which could assist managers in weighing the costs and benefits of alternative decisions in this area. Consequently, the Graduate School of Business Administration at Michigan State University is conducting research to determine current corporate practices in this very important area of international business management.

Our research effort involves two phases. The first, which has been completed, involved an exhaustive search and analysis of the information currently available to practitioners and academicians in the area of coordination control of the multinational corporation. Phase One resulted in the development of a model which we feel could be very useful to international managers in determining the optimal mix of control for headquarters and subsidiary personnel in decision making.

Phase Two of the study will involve a test of the model's accuracy. Therefore, we are now requesting the cooperation of a carefully selected group of companies whose participation in the study is vital to establishing the reliability of our model. Since your company meets all of the qualifying criteria we have established for participants, we would greatly appreciate your firm's participation in this study. Since only fifteen companies have been invited to participate, your interest and cooperation would contribute substantially in helping us to achieve our objective.

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February 9, 1978

Your participation would involve an interview with yourself or your designee in headquarters who has primary line authority for your subsidiary operations in France, Brazil, and the United Kingdom. Your subsidiary managers in each of these three countries would also be asked to complete a short questionnaire.

Neither the interview nor the questionnaire requires disclosure of any proprietary information regarding your corporation. Nevertheless, you have our assurance that your responses will be kept strictly confidential, and that your firm's name will not appear in any publication of the results of this research project. When the research is completed, we will be sending each participant a summary of the results.

Ms. Donna Powell will be conducting the corporate interviews and will contact you in the next few days to discuss the project with you and to establish a convenient interview time.

Thank you in advance for your interest and cooperation. Your assistance will be very much appreciated.

Sincerely,

Donald A. Taylor, Chairman  
Department of Marketing

Donna G. Powell  
Doctoral Candidate

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## **APPENDIX B**

### **HEADQUARTERS INTERVIEW GUIDE**

APPENDIX B  
HEADQUARTERS INTERVIEW GUIDE

Date \_\_\_\_\_

Location \_\_\_\_\_

HEADQUARTERS INTERVIEW GUIDE

General Information

1. \_\_\_\_\_ Company's Identification
2. Type of Industry  
  
\_\_\_\_\_ Pharmaceuticals (1.1, 1.2, 1.3)  
\_\_\_\_\_ Automobiles (2.1, 2.2, 2.3)  
\_\_\_\_\_ Tire and Rubber (3.1, 3.2, 3.3)  
\_\_\_\_\_ Heavy Equipment (4.1, 4.2, 4.3)  
\_\_\_\_\_ Food Processing (5.1, 5.2, 5.3)
3. Person Interviewed \_\_\_\_\_
  - a. Title of your present position in the company. \_\_\_\_\_
  - b. How long have you been in this position?  
  
☐ 6 mos. or less  
☐ 6 mos to 1 year  
☐ 1 to 3 yrs.  
☐ 3 to 5 yrs.  
☐ 6 years or longer

Corporate Characteristics

Size, Complexity, and International Experience

4. Approximately how many employees (management and non-management) are there in your firm? (Check One):  
  
☐ 1,000-4,999                      ☐ 30,000-49,999  
☐ 5,000-9,999                      ☐ 50,000 and over  
☐ 10,000-29,999
5. a. What was your company's sales volume last year?  
\_\_\_\_\_ amount of total corporate sales
- b. What is your company's primary 2 digit SIC code classification? \_\_\_\_\_
- c. Approximately what percentage of your total corporate sales fall within that 2 digit code? \_\_\_\_\_
6. a. Approximately what percentage of your total corporate sales for last year were derived from foreign sales? (including exports)  
  
☐ less than 5%                      ☐ 25-35%  
☐ 5 to 10%                          ☐ 35-50%  
☐ 10 to 15%                          ☐ more than 50%  
☐ 15 to 20%                          ☐ confidential  
☐ 20 to 25%                          ☐ don't know



b. Approximately what percentage of foreign sales represent exports from the U.S.?

- |                                       |                                        |
|---------------------------------------|----------------------------------------|
| <input type="checkbox"/> less than 5% | <input type="checkbox"/> 25-35%        |
| <input type="checkbox"/> 5-10%        | <input type="checkbox"/> 35-50%        |
| <input type="checkbox"/> 10-15%       | <input type="checkbox"/> more than 50% |
| <input type="checkbox"/> 15-20%       | <input type="checkbox"/> confidential  |
| <input type="checkbox"/> 20-25%       | <input type="checkbox"/> don't know    |

c. Approximately what percentage of total corporate profits are represented by foreign sales? (including exports)

- |                                       |                                        |
|---------------------------------------|----------------------------------------|
| <input type="checkbox"/> less than 5% | <input type="checkbox"/> 25-35%        |
| <input type="checkbox"/> 5-10%        | <input type="checkbox"/> 35-50%        |
| <input type="checkbox"/> 10-15%       | <input type="checkbox"/> more than 50% |
| <input type="checkbox"/> 15-20%       | <input type="checkbox"/> confidential  |
| <input type="checkbox"/> 20-25%       | <input type="checkbox"/> don't know    |

d. Approximately what percentage of your foreign sales fall within the same 2 digit SIC code as your domestic sales?

- |                                       |                                        |
|---------------------------------------|----------------------------------------|
| <input type="checkbox"/> less than 5% | <input type="checkbox"/> 25-35%        |
| <input type="checkbox"/> 5-10%        | <input type="checkbox"/> 35-50%        |
| <input type="checkbox"/> 10-15%       | <input type="checkbox"/> more than 50% |
| <input type="checkbox"/> 15-20%       | <input type="checkbox"/> confidential  |
| <input type="checkbox"/> 20-25%       | <input type="checkbox"/> don't know    |

7. a. Could you indicate the size of total corporate assets for last year?  
\_\_\_\_\_ amount of total corporate assets.

b. Approximately what percentage of total corporate assets are located in foreign countries?

- |                                       |                                        |
|---------------------------------------|----------------------------------------|
| <input type="checkbox"/> less than 5% | <input type="checkbox"/> 25-35%        |
| <input type="checkbox"/> 5-10%        | <input type="checkbox"/> 35-50%        |
| <input type="checkbox"/> 10-15%       | <input type="checkbox"/> more than 50% |
| <input type="checkbox"/> 15-20%       | <input type="checkbox"/> confidential  |
| <input type="checkbox"/> 20-25%       | <input type="checkbox"/> don't know    |

8. In how many countries does your firm have substantial marketing or production activities? For example, you could include major export markets as well as those countries in which you maintain investments.

- |                                      |                                       |
|--------------------------------------|---------------------------------------|
| <input type="checkbox"/> less than 5 | <input type="checkbox"/> 31-40        |
| <input type="checkbox"/> 6-10        | <input type="checkbox"/> 41-50        |
| <input type="checkbox"/> 11-20       | <input type="checkbox"/> more than 50 |
| <input type="checkbox"/> 21-30       | <input type="checkbox"/> confidential |
|                                      | <input type="checkbox"/> don't know   |

#### Process Technology

9. How would you describe the process technology of your firm's production? (Hand card to interviewee)

#### Score

1 \_\_\_\_\_ Unit Production--the majority of products are individually manufactured to customer specification. No finished goods inventory.

2 \_\_\_\_\_ Unit-Batch Production--some products made to customer specifications, some produced in batches.

Score

- 3 \_\_\_\_\_ Batch Production--the majority of products manufactured in batches (some finished goods inventory).
- 4 \_\_\_\_\_ Batch-Mass Production--some products manufactured in batches, some mass produced (large-batches) for inventory.
- 5 \_\_\_\_\_ Mass Production--the majority of products mass produced for inventory.
- 6 \_\_\_\_\_ Mass-Continuous Production--some products mass-produced, some produced continuously (i.e., automated assembly line).
- 7 \_\_\_\_\_ Continuous Production--majority of products produced continuously, twenty-four hours a day, seven days a week (i.e. metal or chemical processing).

Corporate Organization

10. Do you have an organization chart?

☐ Yes

☐ No

11. How are activities grouped in this organization? (Show chart)

\_\_\_\_\_ International Division  
 \_\_\_\_\_ Product  
 \_\_\_\_\_ Geographic  
 \_\_\_\_\_ Function

\_\_\_\_\_ Customer  
 \_\_\_\_\_ Matrix  
 \_\_\_\_\_ Other \_\_\_\_\_

12. a. About how many staff positions of director level or above having international responsibility are there either at headquarters or at a regional headquarters in each of the following functional areas?

\_\_\_\_\_ Marketing  
 \_\_\_\_\_ Finance  
 \_\_\_\_\_ Personnel  
 \_\_\_\_\_ Research and Development  
 \_\_\_\_\_ Production  
 \_\_\_\_\_ Purchasing

b. What is the authority of these staff positions?

|                          | <u>Set Policy</u>        | <u>Recommend</u>         | <u>Gather Data</u>       | <u>Other</u>             |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Marketing                | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Finance                  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Personnel                | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Production               | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Research and Development | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Purchasing               | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

13. How many line positions are there between the subsidiary manager and yourself?

\_\_\_\_\_ the subsidiary manager reports directly to me  
 \_\_\_\_\_ 1 intermediary  
 \_\_\_\_\_ 2 intermediaries  
 \_\_\_\_\_ 3 or more intermediaries

14. How many line positions are there between yourself and the chief operating executive for the corporation?

|                          |      |                          |              |
|--------------------------|------|--------------------------|--------------|
| <input type="checkbox"/> | none | <input type="checkbox"/> | three        |
| <input type="checkbox"/> | one  | <input type="checkbox"/> | four or more |
| <input type="checkbox"/> | two  |                          |              |

15. a. Do you utilize regional committees or managers in your organization?

☐ Yes                      ☐ No  
(If yes: go to 15 b and 15 c)

- b. Are these organized primarily on a geographic or a product basis?

☐ regional (geographic)      ☐ product      ☐ both

- c. Does the regional organization have line authority over the subsidiary manager?

☐ Yes                      ☐ No  
(If yes: go to 15 d)

- d. In which of the following functional areas does the regional organization have line authority over the subsidiary manager?

☐ Marketing  
☐ Finance  
☐ Personnel  
☐ Production  
☐ Research and Development  
☐ Purchasing

### Availability of Managerial Talent

16. What is the number of senior level line executives in headquarters with primary international responsibility?

|                          |              |
|--------------------------|--------------|
| <input type="checkbox"/> | less than 5  |
| <input type="checkbox"/> | 5 to 10      |
| <input type="checkbox"/> | 10 to 15     |
| <input type="checkbox"/> | more than 15 |

17. Approximately how many foreign affiliates have a direct reporting relationship with you?

|                          |             |
|--------------------------|-------------|
| <input type="checkbox"/> | less than 3 |
| <input type="checkbox"/> | 3 to 5      |
| <input type="checkbox"/> | 5 to 7      |
| <input type="checkbox"/> | 7 to 10     |
| <input type="checkbox"/> | 10 or more  |

18. a. How important do you feel previous international experience is for a person in your position or an equivalent one?

For my position

- ☐ Extremely important  
☐ Very important  
☐ Don't know - no opinion  
☐ Somewhat important  
☐ Not at all important

- b. How important is it for the subsidiary manager?

For a subsidiary manager

- ☐ Extremely important  
☐ Very important  
☐ Don't know - no opinion  
☐ Somewhat important  
☐ Not at all important

19. Do you feel that the amount of involvement you or headquarters has in subsidiary or affiliate operations is constrained by the number of headquarters personnel involved with international operations? (i.e. with more people, you would become more involved in directing subsidiary operations?)

☐ Yes                      ☐ No                      ☐ don't know

20. Do you perceive any shortage of managerial talent available in your industry who could assume line responsibilities at the corporate level for international operations?

☐ Yes                      ☐ No                      ☐ don't know

Corporate Philosophy

21. Generally, how would you describe your company's philosophy toward controlling international operations? Please select one of the categories from this list which best describes your corporate philosophy. (Hand card to person being interviewed.)

- ☐ Headquarters maintains very "tight" control over subsidiaries and their operations through procedures and policies established by headquarters.  
☐ Headquarters maintains very loose control over subsidiaries and their operations. Subsidiaries operate primarily as autonomous business units.  
☐ Headquarters coordinates subsidiary operations on a regional or international basis while subsidiaries share in basic decision making.  
☐ Can't determine.

22. Would you say that the company in general maintains more or less control over foreign operations in comparison to domestic?

- ☐ Much more control over international operations  
☐ Somewhat more control over international operations  
☐ About the same control in domestic as in international  
☐ Somewhat less control over international operations  
☐ Much less control over international operations

23. Now, with respect to the following functional areas, how would you describe the amount of control exercised over international operations compared to domestic?

a. Marketing

- ☐ Much more control over international
- ☐ Somewhat more control over international
- ☐ About the same control over international
- ☐ Somewhat less control over international
- ☐ Much less control over international
- ☐ Can't determine

b. Finance

- ☐ Much more control over international
- ☐ Somewhat more control over international
- ☐ About the same control over international
- ☐ Somewhat less control over international
- ☐ Much less control over international
- ☐ Can't determine

c. Personnel

- ☐ Much more control over international
- ☐ Somewhat more control over international
- ☐ About the same control over international
- ☐ Somewhat less control over international
- ☐ Much less control over international
- ☐ Can't determine

d. Production

- ☐ Much more control over international
- ☐ Somewhat more control over international
- ☐ About the same control over international
- ☐ Somewhat less control over international
- ☐ Much less control over international
- ☐ Can't determine

e. Research and Development

- ☐ Much more control over international
- ☐ Somewhat more control over international
- ☐ About the same control over international
- ☐ Somewhat less control over international
- ☐ Much less control over international
- ☐ Can't determine

Now, I'd like to ask you some general questions regarding your subsidiary operations, and some more specific questions regarding your British, French, and Brazilian subsidiaries.

Subsidiary Characteristics:

Age and Size

24. Could you tell me the year in which you established your first foreign subsidiary?

\_\_\_\_\_ year established  
 \_\_\_\_\_ don't know

25. In what years were the following subsidiaries established?

French

\_\_\_\_\_ year established  
 \_\_\_\_\_ don't know

Brazilian

\_\_\_\_\_ year established  
 \_\_\_\_\_ don't know

British

\_\_\_\_\_ year established  
 \_\_\_\_\_ don't know

26. In comparison to your other subsidiaries, are these subsidiaries about the same size, larger, or smaller?

French

☐ one of the larger  
☐ about average  
☐ one of the smaller

Brazilian

☐ one of the larger  
☐ about average  
☐ one of the smaller

British

☐ one of the larger  
☐ about average  
☐ one of the smaller

27. a. Do any of your foreign subsidiaries account for more than 5% of total corporate sales?

☐ Yes      ☐ No      ☐ Other \_\_\_\_\_

(If yes: go to 27b)

b. Do any of these three--French, Brazilian, or British subsidiaries--account for more than 5% of total corporate sales?

☐ Yes      ☐ No      ☐ Other \_\_\_\_\_  
 (If yes, go to 27 c)

c. Which one(s)?

☐ French  
☐ Brazilian  
☐ British

28. a. Within your corporation, does the size of the subsidiary influence the amount of decision making authority that the subsidiary manager has? (Size in terms of sales volume or assets.) For example, does the manager of a large subsidiary have more or less decision making authority than the manager of a small subsidiary?

☐ Yes                      ☐ No                      ☐ don't know  
(If yes, go to 28 b)

- b. Since the decision making authority of the subsidiary manager varies with the size of the subsidiary, how would you describe the headquarters/subsidiary relationship in the determination of major decisions in marketing, finance, etc.?

|                   | <u>Headquarters<br/>Primarily</u> | <u>Shared About<br/>Equally</u> | <u>Subsidiary<br/>Primarily</u> |
|-------------------|-----------------------------------|---------------------------------|---------------------------------|
| Small subsidiary  | <input type="checkbox"/>          | <input type="checkbox"/>        | <input type="checkbox"/>        |
| Medium subsidiary | <input type="checkbox"/>          | <input type="checkbox"/>        | <input type="checkbox"/>        |
| Large subsidiary  | <input type="checkbox"/>          | <input type="checkbox"/>        | <input type="checkbox"/>        |

Availability of Local Managerial Talent

29. In general, how would you assess the availability of qualified managerial talent, whether United States or foreign, who would be available for assuming positions in your industry in France, Brazil, and Britain?

a. France

- ☐ Large managerial pool, no difficulty in obtaining qualified managerial personnel.
- ☐ Moderate managerial pool, some difficulty in obtaining qualified managerial personnel.
- ☐ Small managerial pool, significant difficulty in obtaining qualified managerial personnel.

b. Brazil

- ☐ Large managerial pool, no difficulty in obtaining qualified managerial personnel.
- ☐ Moderate managerial pool, some difficulty in obtaining qualified managerial personnel.
- ☐ Small managerial pool, significant difficulty in obtaining qualified managerial personnel.

c. Britain

- ☐ Large managerial pool, no difficulty in obtaining qualified managerial personnel.
- ☐ Moderate managerial pool, some difficulty in obtaining qualified managerial personnel.
- ☐ Small managerial pool, significant difficulty in obtaining qualified managerial personnel.

30. Would you say it is more or less difficult to obtain qualified personnel in different functional areas for international assignments, such as:

|                        | Large Pool<br>No Diff.   | Mod. Pool<br>Some Diff.  | Small Pool<br>Much Diff. |
|------------------------|--------------------------|--------------------------|--------------------------|
| Marketing              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Finance                | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Production             | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Personnel              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Research & Development | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Purchasing             | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

31. How would you assess the availability of personnel within your company who could assume subsidiary management positions abroad? (including both US and non-US citizens)

- ☐ Large managerial pool, no difficulty in obtaining qualified personnel.  
☐ Moderate managerial pool, some difficulty in obtaining qualified personnel.  
☐ Small managerial pool, significant difficulty in obtaining personnel.

32. a. Is the amount of decision making authority the subsidiary manager has affected by the individual's experience or qualifications, or do all subsidiary managers have the same authority in decision making?

- ☐ Yes, decision making authority varies  
☐ No, decision making authority is the same  
 (If yes, go to 32 b)

- b. Could you comment on the ways in which the experience of the subsidiary manager influences his authority?

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33. a. Does the company have written policy guidelines which indicate the amount of decision making authority each subsidiary manager has?

- ☐ Yes (If yes, go to 33 b) ☐ No (If no, go to 33 d)

- b. Are these uniform?

- ☐ Yes (If yes, go to 33 c) ☐ No (If no, go to 33 d)

- c. Now, with respect to corporate policies indicating the decision making authority of subsidiary managers, would you indicate for each functional area your perception of the policy guidelines? (Hand sheet to person being interviewed)

|                        | Very specific,<br>detailed and<br>comprehensive | General<br>guidelines<br>only | Very specific<br>in some areas<br>and general guide-<br>lines in others | No<br>guidelines<br>at all |
|------------------------|-------------------------------------------------|-------------------------------|-------------------------------------------------------------------------|----------------------------|
| Marketing              | <input type="checkbox"/>                        | <input type="checkbox"/>      | <input type="checkbox"/>                                                | <input type="checkbox"/>   |
| Finance                | <input type="checkbox"/>                        | <input type="checkbox"/>      | <input type="checkbox"/>                                                | <input type="checkbox"/>   |
| Personnel              | <input type="checkbox"/>                        | <input type="checkbox"/>      | <input type="checkbox"/>                                                | <input type="checkbox"/>   |
| Production             | <input type="checkbox"/>                        | <input type="checkbox"/>      | <input type="checkbox"/>                                                | <input type="checkbox"/>   |
| Research & Development | <input type="checkbox"/>                        | <input type="checkbox"/>      | <input type="checkbox"/>                                                | <input type="checkbox"/>   |
| Purchasing             | <input type="checkbox"/>                        | <input type="checkbox"/>      | <input type="checkbox"/>                                                | <input type="checkbox"/>   |



## DECISION-MAKING PROCESS

Decision Process 1

The subsidiary manager generates alternative solutions and makes the decision himself.

Decision Process 2

The subsidiary manager generates alternative solutions, makes the decision, and submits the decision to his superior for approval.

Decision Process 3

Headquarters and subsidiary managers share the problem and collectively generate alternatives. Together you generate and evaluate alternatives and attempt to reach consensus on a solution. The solution that has the support of both the subsidiary manager and the headquarters manager will be implemented.

Decision Process 4

Headquarters personnel generate alternative solutions, submit these to the subsidiary manager for his ideas and suggestions. Headquarters personnel then make the decision.

Decision Process 5

Headquarters personnel generate alternative solutions, make the decision, and inform subsidiary management of the decision.

- d. Since there are no uniform written guidelines covering the decision making authority of the subsidiary manager, how is his authority established and communicated?

- ☐ Constantly evolving  
☐ Verbally from line superior  
☐ Memos, letters, etc. from line superior  
☐ Verbally from headquarters staff  
☐ Memos, letters, etc. from headquarters staff

#### Geographic Location

34. a. Is there any relationship between the distance of the subsidiary from headquarters and the amount of decision making authority the subsidiary manager has?
- ☐ Yes                      ☐ No                      ☐ don't know  
 (If yes, go to 34b)
- b. Would you say that the subsidiaries located the furthest from corporate or a regional headquarters have:
- ☐ more authority than closer subsidiaries  
☐ less authority than closer subsidiaries

#### Subsidiary Environment and Locus of Decision Making

35. When major decisions are made in marketing, finance, etc., how would you rank the degree of participation by your subsidiary managers in general for each of these areas? (Hand Decision Process card to person being interviewed.)

#### Location of Decision Making

##### All Subsidiaries

| a. <u>Marketing:</u>                 | Process<br>5             | Process<br>4             | Process<br>3             | Process<br>2             | Process<br>1             |
|--------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| - Which markets to serve             |                          |                          |                          |                          |                          |
| - Which segments within a country?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Which countries?                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Product line composition           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - New product introduction           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Pricing                            | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Promotional budgets and strategy   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Distribution channels and strategy | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b. <u>Finance:</u>                   |                          |                          |                          |                          |                          |
| - Capital investments                | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Determination of annual budgets    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Foreign currency exposure          | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Sources of funds (i.e. loans)      | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

|                                                                                                                                                                                              | Process<br>5             | Process<br>4                                       | Process<br>3             | Process<br>2             | Process<br>1             |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|----------------------------------------------------|--------------------------|--------------------------|--------------------------|
| c. <u>Purchasing:</u>                                                                                                                                                                        |                          |                                                    |                          |                          |                          |
| - Choice of supplier                                                                                                                                                                         | <input type="checkbox"/> | <input type="checkbox"/>                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Specifications                                                                                                                                                                             |                          |                                                    |                          |                          |                          |
| - Product                                                                                                                                                                                    | <input type="checkbox"/> | <input type="checkbox"/>                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Price                                                                                                                                                                                      | <input type="checkbox"/> | <input type="checkbox"/>                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| d. <u>Production:</u>                                                                                                                                                                        |                          |                                                    |                          |                          |                          |
| - What products are produced locally                                                                                                                                                         | <input type="checkbox"/> | <input type="checkbox"/>                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Quality control levels                                                                                                                                                                     | <input type="checkbox"/> | <input type="checkbox"/>                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Level of output                                                                                                                                                                            | <input type="checkbox"/> | <input type="checkbox"/>                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Level of production for export and local markets                                                                                                                                           | <input type="checkbox"/> | <input type="checkbox"/>                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Production scheduling                                                                                                                                                                      | <input type="checkbox"/> | <input type="checkbox"/>                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Equipment replacement or installations                                                                                                                                                     | <input type="checkbox"/> | <input type="checkbox"/>                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| e. <u>Personnel:</u>                                                                                                                                                                         |                          |                                                    |                          |                          |                          |
| - Hiring subsidiary officers                                                                                                                                                                 | <input type="checkbox"/> | <input type="checkbox"/>                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Subsidiary management training                                                                                                                                                             | <input type="checkbox"/> | <input type="checkbox"/>                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Compensation levels                                                                                                                                                                        |                          |                                                    |                          |                          |                          |
| - Management                                                                                                                                                                                 | <input type="checkbox"/> | <input type="checkbox"/>                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Labor                                                                                                                                                                                      | <input type="checkbox"/> | <input type="checkbox"/>                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| f. <u>Research and Development:</u>                                                                                                                                                          |                          |                                                    |                          |                          |                          |
| - Determination of whether R & D activities occur at the subsidiary level                                                                                                                    | <input type="checkbox"/> | <input type="checkbox"/>                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Level of R & D budget                                                                                                                                                                      | <input type="checkbox"/> | <input type="checkbox"/>                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Research content                                                                                                                                                                           | <input type="checkbox"/> | <input type="checkbox"/>                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 36. a. Does the amount of participation in decision making in each of these areas vary at all by subsidiary?                                                                                 |                          |                                                    |                          |                          |                          |
| <input type="checkbox"/> Yes<br>(go to 37)                                                                                                                                                   |                          | <input type="checkbox"/> No<br>( go to 36 b)       |                          |                          |                          |
| b. Then, we could say that the preceding rankings characterize the degree of participation experienced by your French, Brazilian and British subsidiary managers in marketing, finance, etc. |                          |                                                    |                          |                          |                          |
| <input type="checkbox"/> Yes<br>(If yes, go to question 38)                                                                                                                                  |                          | <input type="checkbox"/> No<br>(go to question 37) |                          |                          |                          |

37. Since the subsidiary managers in France, Brazil, and Britain differ in terms of their participation in decision making, could you indicate the location of decision making in these same areas for those 3 particular subsidiaries?  
(Continue with ranking form used in question 35)

## FRANCE

| a. <u>Marketing</u>                                                       | Process<br>5             | Process<br>4             | Process<br>3             | Process<br>2             | Process<br>1             |
|---------------------------------------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| - Which markets to serve                                                  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Which segments within France                                            | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Which countries                                                         | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Product line composition                                                | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - New product introduction                                                | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Pricing                                                                 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Promotional budgets and strategy                                        | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Distribution channels; strategy                                         | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <u>Finance</u>                                                            |                          |                          |                          |                          |                          |
| - Capital investments                                                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Determination of annual budgets                                         | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Foreign currency exposure                                               | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Sources of funds (i.e. loans)                                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <u>Production</u>                                                         |                          |                          |                          |                          |                          |
| - What products are produced locally                                      | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Quality control levels                                                  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Level of output                                                         | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Level of production for local markets and exports                       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Production scheduling                                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Equipment replacement and/or installations                              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <u>Personnel</u>                                                          |                          |                          |                          |                          |                          |
| - Hiring subsidiary officers                                              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Subsidiary management training                                          | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Compensation levels                                                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Management                                                              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Labor                                                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <u>Research and Development</u>                                           |                          |                          |                          |                          |                          |
| - Determination of whether R & D activities occur at the subsidiary level | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Level of R & D budget                                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Research content                                                        | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <u>Purchasing</u>                                                         |                          |                          |                          |                          |                          |
| - Choice of suppliers                                                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Specifications                                                          | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Product                                                                 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Price                                                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

|                                                                           | BRAZIL                   |                          |                          |                          |                          |
|---------------------------------------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                                                                           | Process 5                | Process 4                | Process 3                | Process 2                | Process 1                |
| <b>b. <u>Marketing</u></b>                                                |                          |                          |                          |                          |                          |
| - Which markets to serve                                                  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Which segments within Brazil                                            | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Which countries?                                                        | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Product line composition                                                | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - New product introduction                                                | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Pricing                                                                 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Promotional budgets and strategy                                        | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Distribution channels; strategy                                         | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <br><b><u>Finance</u></b>                                                 |                          |                          |                          |                          |                          |
| - Capital investments                                                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Determination of annual budgets                                         | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Foreign currency exposure                                               | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Sources of funds (i.e. loans)                                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <br><b><u>Production</u></b>                                              |                          |                          |                          |                          |                          |
| - What products are produced locally                                      | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Quality control levels                                                  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Level of output                                                         | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Level of production for local markets and exports                       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Production scheduling                                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Equipment replacement and/or installations                              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <br><b><u>Personnel</u></b>                                               |                          |                          |                          |                          |                          |
| - Hiring subsidiary officers                                              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Subsidiary management training                                          | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Compensation levels                                                     |                          |                          |                          |                          |                          |
| - Management                                                              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Labor                                                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <br><b><u>Research and Development</u></b>                                |                          |                          |                          |                          |                          |
| - Determination of whether R & D activities occur at the subsidiary level | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Level of R & D budget                                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Research content                                                        | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <br><b><u>Purchasing</u></b>                                              |                          |                          |                          |                          |                          |
| - Choice of suppliers                                                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Specifications                                                          |                          |                          |                          |                          |                          |
| - Product                                                                 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Price                                                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

c. Marketing

## BRITAIN

|                                    | Process<br>5             | Process<br>4             | Process<br>3             | Process<br>2             | Process<br>1             |
|------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| - Which markets to serve           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Which segments within the U.K.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Which countries?                 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Product line composition         | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - New product introduction         | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Pricing                          | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Promotional budgets and strategy | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Distribution channels; strategy  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Finance

|                                   |                          |                          |                          |                          |                          |
|-----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| - Capital investments             | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Determination of annual budgets | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Foreign currency exposure       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Sources of funds (i.e. loans)   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Production

|                                                     |                          |                          |                          |                          |                          |
|-----------------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| - What products are produced locally                | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Quality control levels                            | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Level of output                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Level of production for local markets and exports | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Production scheduling                             | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Equipment replacement and/or installations        | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Personnel

|                                  |                          |                          |                          |                          |                          |
|----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| - Hiring subsidiary officers     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Subsidiary management training | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Compensation levels            | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Management                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Labor                          | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Research and Development

|                                                                           |                          |                          |                          |                          |                          |
|---------------------------------------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| - Determination of whether R & D activities occur at the subsidiary level | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Level of R & D budget                                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Research content                                                        | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Purchasing

|                       |                          |                          |                          |                          |                          |
|-----------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| - Choice of suppliers | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Specifications      | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Product             | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Price               | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Environmental Certainty/Uncertainty

38. How would you characterize the following environments with respect to certainty and uncertainty in decision making?

| <u>Level of Uncertainty</u> | <u>France</u>            | <u>Brazil</u>            | <u>Britain</u>           |
|-----------------------------|--------------------------|--------------------------|--------------------------|
| High                        | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Medium                      | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Low                         | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

39. It has been suggested that frequent, unpredictable changes in technology, market behavior, economic, political, and social conditions create high levels of uncertainty in decision making for businesses. How would you rank each of these on the following 5 point scale for France, Brazil, and Britain? (Hand sheet to person being interviewed.)

|                   | <u>Level of Uncertainty</u> |                          |                          |                          |                          |
|-------------------|-----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                   | <u>Low</u><br>1             | 2                        | 3                        | 4                        | <u>High</u><br>5         |
| a. <u>France</u>  |                             |                          |                          |                          |                          |
| - technology      | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - market behavior | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - economic        | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - political       | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b. <u>Brazil</u>  |                             |                          |                          |                          |                          |
| - technology      | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - market behavior | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - economic        | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - political       | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| c. <u>Britain</u> |                             |                          |                          |                          |                          |
| - technology      | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - market behavior | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - economic        | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - political       | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

40. Do you think that the level of uncertainty present in the environment of a subsidiary influences the amount of authority the subsidiary manager has in decision making?

☐ Yes

How? \_\_\_\_\_

☐ No

Why not? \_\_\_\_\_

(If yes, go to 41)

(If no, go to 42)

41. With respect to your French, Brazilian, and British subsidiaries, do you think that the level of uncertainty in their respective national environments has influenced you to retain more authority at headquarters or less authority at headquarters in the management of these subsidiary operations?

|                   | <u>More Authority at HQ</u> | <u>Less Authority at HQ</u> | <u>No Effect</u>         |
|-------------------|-----------------------------|-----------------------------|--------------------------|
| a. <u>France</u>  | <input type="checkbox"/>    | <input type="checkbox"/>    | <input type="checkbox"/> |
| b. <u>Brazil</u>  | <input type="checkbox"/>    | <input type="checkbox"/>    | <input type="checkbox"/> |
| c. <u>Britain</u> | <input type="checkbox"/>    | <input type="checkbox"/>    | <input type="checkbox"/> |

39. It has been suggested that frequent, unpredictable changes in technology, market behavior, economic, political, and social conditions create high levels of uncertainty in decision making for businesses. How would you rank each of these on the following 5 point scale for France, Brazil, and Britain?

|                   | <u>Level of Uncertainty</u> |                          |                          |                          |                          |
|-------------------|-----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                   | <u>Low</u><br>1             | 2                        | 3                        | 4                        | <u>High</u><br>5         |
| a. <u>France</u>  |                             |                          |                          |                          |                          |
| - technology      | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - market behavior | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - economic        | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - political       | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b. <u>Brazil</u>  |                             |                          |                          |                          |                          |
| - technology      | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - market behavior | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - economic        | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - political       | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| c. <u>Britain</u> |                             |                          |                          |                          |                          |
| - technology      | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - market behavior | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - economic        | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - political       | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |



42. Could you indicate to what degree you think the national environment of this particular country influences the decisions you make in each of the following areas. For example, does this particular environment exert a high degree of influence in marketing decision, production decision, personnel decision, etc. In other words, please indicate how important you think the environment is in influencing your decision process and/or outcome in each of the following areas.

Degree of Environmental Influences on Decision Making

|                        | <u>Not at all</u><br><u>Important</u> | <u>Somewhat</u><br><u>Important</u> | <u>Don't Know</u><br><u>No Opinion</u> | <u>Very</u><br><u>Important</u> | <u>Extremely</u><br><u>Important</u> |
|------------------------|---------------------------------------|-------------------------------------|----------------------------------------|---------------------------------|--------------------------------------|
| Marketing              | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Finance                | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Production             | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Personnel              | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Research & Development | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Purchasing             | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |

43. Now, could you indicate the importance of each of the following factors in terms of how important they are in influencing the location of decision making for your subsidiary units? (Place a check in the appropriate blank.)

|                                                                                                                     | <u>Degree of Influence</u>            |                                     |                                        |                                 |                                      |
|---------------------------------------------------------------------------------------------------------------------|---------------------------------------|-------------------------------------|----------------------------------------|---------------------------------|--------------------------------------|
|                                                                                                                     | <u>Not at all</u><br><u>Important</u> | <u>Somewhat</u><br><u>Important</u> | <u>Don't Know</u><br><u>No Opinion</u> | <u>Very</u><br><u>Important</u> | <u>Extremely</u><br><u>Important</u> |
| Size and complexity of corporate international operations                                                           | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Geographic location of subsidiary                                                                                   | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Availability of international line personnel at the headquarters level                                              | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Size of the subsidiary in terms of sales and/or assets                                                              | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Individual subsidiary manager's experience                                                                          | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Certainty/uncertainty of the subsidiary environment                                                                 | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Corporate philosophy with respect to control over international operations                                          | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Nature of our product line (production and marketing processes characterizing the industry)                         | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Performance of the subsidiary in terms of sales and/or profits                                                      | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Unique nature of the subsidiary environment market characteristics (i.e. political, legal, economic, technological) | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |

42. Could you indicate to what degree you think the national environment of this particular country influences the decisions you make in each of the following areas. For example, does this particular environment exert a high degree of influence in marketing decisions, production decisions, personnel decisions, etc. In other words, please indicate how important you think the environment is in influencing your decision process and/or outcome in each of the following areas. (Hand sheet to person being interviewed)

Degree of Environmental Influences on Decision Making

|                        | <u>Not at all<br/>Important</u> | <u>Somewhat<br/>Important</u> | <u>Don't Know<br/>No Opinion</u> | <u>Very<br/>Important</u> | <u>Extremely<br/>Important</u> |
|------------------------|---------------------------------|-------------------------------|----------------------------------|---------------------------|--------------------------------|
| Marketing              | <input type="checkbox"/>        | <input type="checkbox"/>      | <input type="checkbox"/>         | <input type="checkbox"/>  | <input type="checkbox"/>       |
| Finance                | <input type="checkbox"/>        | <input type="checkbox"/>      | <input type="checkbox"/>         | <input type="checkbox"/>  | <input type="checkbox"/>       |
| Production             | <input type="checkbox"/>        | <input type="checkbox"/>      | <input type="checkbox"/>         | <input type="checkbox"/>  | <input type="checkbox"/>       |
| Personnel              | <input type="checkbox"/>        | <input type="checkbox"/>      | <input type="checkbox"/>         | <input type="checkbox"/>  | <input type="checkbox"/>       |
| Research & Development | <input type="checkbox"/>        | <input type="checkbox"/>      | <input type="checkbox"/>         | <input type="checkbox"/>  | <input type="checkbox"/>       |
| Purchasing             | <input type="checkbox"/>        | <input type="checkbox"/>      | <input type="checkbox"/>         | <input type="checkbox"/>  | <input type="checkbox"/>       |

43. Now, could you indicate the importance of each of the following factors in terms of how important they are in influencing the location of decision making for your subsidiary units? (Place a check in the appropriate blank.)

|                                                                            | <u>Degree of Influence</u>      |                               |                                  |                           |                                |
|----------------------------------------------------------------------------|---------------------------------|-------------------------------|----------------------------------|---------------------------|--------------------------------|
|                                                                            | <u>Not at all<br/>Important</u> | <u>Somewhat<br/>Important</u> | <u>Don't Know<br/>No Opinion</u> | <u>Very<br/>Important</u> | <u>Extremely<br/>Important</u> |
| Size and complexity of corporate international operations                  | <input type="checkbox"/>        | <input type="checkbox"/>      | <input type="checkbox"/>         | <input type="checkbox"/>  | <input type="checkbox"/>       |
| Geographic location of subsidiary                                          | <input type="checkbox"/>        | <input type="checkbox"/>      | <input type="checkbox"/>         | <input type="checkbox"/>  | <input type="checkbox"/>       |
| Availability of international line personnel at the headquarters level     | <input type="checkbox"/>        | <input type="checkbox"/>      | <input type="checkbox"/>         | <input type="checkbox"/>  | <input type="checkbox"/>       |
| Size of the subsidiary in terms of sales and/or assets                     | <input type="checkbox"/>        | <input type="checkbox"/>      | <input type="checkbox"/>         | <input type="checkbox"/>  | <input type="checkbox"/>       |
| Individual subsidiary manager's experience                                 | <input type="checkbox"/>        | <input type="checkbox"/>      | <input type="checkbox"/>         | <input type="checkbox"/>  | <input type="checkbox"/>       |
| Certainty/uncertainty of the subsidiary environment                        | <input type="checkbox"/>        | <input type="checkbox"/>      | <input type="checkbox"/>         | <input type="checkbox"/>  | <input type="checkbox"/>       |
| Corporate philosophy with respect to control over international operations | <input type="checkbox"/>        | <input type="checkbox"/>      | <input type="checkbox"/>         | <input type="checkbox"/>  | <input type="checkbox"/>       |

|                                                                                                                     | <u>Not at all<br/>Important</u> | <u>Somewhat<br/>Important</u> | <u>Don't Know<br/>Important</u> | <u>Very<br/>Important</u> | <u>Extremely<br/>Important</u> |
|---------------------------------------------------------------------------------------------------------------------|---------------------------------|-------------------------------|---------------------------------|---------------------------|--------------------------------|
| Nature of our product line (production and marketing processes characterizing the industry)                         | <input type="checkbox"/>        | <input type="checkbox"/>      | <input type="checkbox"/>        | <input type="checkbox"/>  | <input type="checkbox"/>       |
| Performance of the subsidiary in terms of sales and/or profits                                                      | <input type="checkbox"/>        | <input type="checkbox"/>      | <input type="checkbox"/>        | <input type="checkbox"/>  | <input type="checkbox"/>       |
| Unique nature of the subsidiary environment market characteristics (i.e. political, legal, economic, technological) | <input type="checkbox"/>        | <input type="checkbox"/>      | <input type="checkbox"/>        | <input type="checkbox"/>  | <input type="checkbox"/>       |

Now we are also interested in studying certain aspects of the performance of international subsidiaries. The next questions will deal with subsidiary performance.

44. a. Could you tell me what measures you use to assess the performance of subsidiaries?

|                  |                          |
|------------------|--------------------------|
| Return on assets | <input type="checkbox"/> |
| Return on equity | <input type="checkbox"/> |
| Market share     | <input type="checkbox"/> |
| Sales volume     | <input type="checkbox"/> |
| Profitability    | <input type="checkbox"/> |
| Others           | <input type="checkbox"/> |

- b. Do you use any of these more than others? \_\_\_\_\_ Which one(s)? \_\_\_\_\_

- c. Which of these do you consider to be the best evaluation of subsidiary performance? Why?

As the final stage of the research project in which your organization has participated, we are interested in obtaining some assessment and measurement of the performance of your company. We recognize that the information for which we are asking is sensitive, and therefore we want to be explicit about the manner in which it will be used. The data in the form in which we are asking to report it will only be seen by my dissertation committee and will not be published. Instead it will be used to develop rank order comparisons between the various organizations which have participated in the study.

Total Organizational Performance

45. We need to obtain your subjective assessment of the performance of your entire organization as it relates to competitors in this industry. Equating 100% to ideal performance we would like you to indicate what percent of this ideal or optimal performance you personally feel the (your) organization is achieving in this industry.

- a. I personally feel that the overall performance of the corporation should be rated as \_\_\_\_\_% in the "X" industry.

Now, equating 100% to ideal subsidiary performance, could you indicate what percent of this ideal or optimal performance you personally feel your subsidiaries in general average?

- b. I personally feel that the overall performance of our subsidiary organizations should be rated as \_\_\_\_\_%.

Now, using this same criteria, could you estimate your personal assessment of the performance of your French, Brazilian, and British subsidiaries?

- c. France \_\_\_\_\_%

- d. Brazil \_\_\_\_\_%

- e. Britain \_\_\_\_\_%

46. Empirical Measures of Subsidiary Performance Over Time

We are also interested in obtaining a few empirical measures of the trend of these three subsidiaries' performance over the past 5 years. Using this table (hand table to interviewee) we would like you to indicate the percent change on a year-to-year basis of three performance indicators: sales, before tax profits; return on investment before taxes for each subsidiary. Considering the base year 1973 (or the year 5 years before this study) as 100, would you please indicate, the level for each indicator for each year. For example, if sales in 1974 were 5% above 1973, you would put 105 in the 1974 column. If sales were 5% below the 1973 level in 1974, you would put 95 in the 1974 column and so forth.

|                                 |                |             |             |             |             |
|---------------------------------|----------------|-------------|-------------|-------------|-------------|
| a.                              | <u>France</u>  |             |             |             |             |
|                                 | <u>1973</u>    | <u>1974</u> | <u>1975</u> | <u>1976</u> | <u>1977</u> |
| Sales                           | 100            | _____       | _____       | _____       | _____       |
| Before tax profits              | 100            | _____       | _____       | _____       | _____       |
| Return on investment before tax | 100            | _____       | _____       | _____       | _____       |
| b.                              | <u>Brazil</u>  |             |             |             |             |
| Sales                           | 100            | _____       | _____       | _____       | _____       |
| Before tax profits              | 100            | _____       | _____       | _____       | _____       |
| Return on investment before tax | 100            | _____       | _____       | _____       | _____       |
| c.                              | <u>Britain</u> |             |             |             |             |
| Sales                           | 100            | _____       | _____       | _____       | _____       |
| Before tax profits              | 100            | _____       | _____       | _____       | _____       |
| Return on investment before tax | 100            | _____       | _____       | _____       | _____       |

47. Some are of the opinion that decisions in certain functional areas should remain at the headquarters level while others should remain at the subsidiary level. In other words, some functional areas may require centralized or headquarters control over decisions, while others generate the best performance when they are made at the subsidiary level.

- a. In your opinion, are there differences between functional areas (i.e. marketing, finance, production, etc.) which may require greater headquarters participation than others in order for the corporation as a whole to be successful?

☐ Yes

(go to 47 b)

☐ No

Why not? \_\_\_\_\_

\_\_\_\_\_  
(go to 48)

- b. Please indicate those functional areas which you think require more headquarters participation in decision making than the others (check appropriate blank(s)).

Require Most Headquarters Participation

Marketing  
Finance  
Production  
Personnel  
Research and Development  
Purchasing

☐  
☐  
☐  
☐  
☐  
☐

48. a. In your opinion, are there differences between functional areas (i.e. marketing, finance, production, etc.) which may require greater subsidiary participation in order for the subsidiary unit to be most successful?

☐ Yes

(go to 48 b)

☐ No

Why? \_\_\_\_\_

\_\_\_\_\_  
(go to question 49)

- b. Please indicate the areas which you think require greater subsidiary participation in order for the subsidiary to be successful. (Place a check in the appropriate blank(s)).

Requires Most Subsidiary Participation

Marketing  
Finance  
Production  
Personnel  
Research and Development  
Purchasing

☐  
☐  
☐  
☐  
☐  
☐

49. Generally, do you think the location of decision making authority between headquarters and the subsidiary has an influence on a subsidiary's performance?

☐ Yes

☐ No (go to 50)

How? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

50. Do you think the location of decision making authority between headquarters and subsidiaries has an influence on a subsidiary's market performance?

☐ Yes

☐ No

☐ don't know

(If yes, How? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_)

51. Do you feel the location of decision making authority between headquarters and the subsidiary has an influence on a subsidiary's financial performance?

☐ Yes

☐ No

☐ don't know

(If yes, How? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_)

52. Does a subsidiary manager with good performance have more authority than one that doesn't?

☐ Yes

☐ No

☐ don't know

53. Does the corporation reduce the authority of a subsidiary manager who's performance falls?

☐ Yes

☐ No

If yes, How? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_)

#### Conclusion

In order to complete this study we would like to send this letter and questionnaire to the subsidiary managers of your French, Brazilian, and British subsidiaries. We would appreciate it if it would be sent from your office so that the subsidiary manager knows it has been cleared at headquarters. (Hand person being interviewed subsidiary questionnaire and letter.)

## APPENDIX C

### SUBSIDIARY QUESTIONNAIRE



APPENDIX C  
SUBSIDIARY QUESTIONNAIRE

Instructions

This questionnaire should be completed by the chief executive officer of the subsidiary organization if at all possible.

Please feel free to make any comments on any questions or the questionnaire itself.

Thank you.

## SUBSIDIARY QUESTIONNAIRE

General Information

1. What is the name of the subsidiary's parent company? \_\_\_\_\_
2. What is the full name of the subsidiary organization? \_\_\_\_\_  
What is the address? \_\_\_\_\_  
In what year was this subsidiary established? \_\_\_\_\_
3. What is your name? \_\_\_\_\_
  - a) What is your citizenship? \_\_\_\_\_
  - b) Title of your present position in the subsidiary? \_\_\_\_\_
  - c) How long have you been in this position?

|                          |                      |
|--------------------------|----------------------|
| <input type="checkbox"/> | 6 months or less     |
| <input type="checkbox"/> | 6 months to one year |
| <input type="checkbox"/> | 1 to 3 years         |
| <input type="checkbox"/> | 3 to 5 years         |
| <input type="checkbox"/> | 6 years or longer    |
  - d) How long have you been employed by the parent company? (Include total years of service)

|                          |                      |
|--------------------------|----------------------|
| <input type="checkbox"/> | 6 months or less     |
| <input type="checkbox"/> | 6 months to one year |
| <input type="checkbox"/> | 1 to 3 years         |
| <input type="checkbox"/> | 3 to 5 years         |
| <input type="checkbox"/> | 5 to 10 years        |
| <input type="checkbox"/> | 10 to 15 years       |
| <input type="checkbox"/> | 15 years or longer   |
4. Please check the category which best describes your subsidiary organization.

|                          |                                                       |
|--------------------------|-------------------------------------------------------|
| <input type="checkbox"/> | manufacturing only, no local sales                    |
| <input type="checkbox"/> | marketing only, no local production                   |
| <input type="checkbox"/> | manufacturing and marketing, local production & sales |
| <input type="checkbox"/> | other _____                                           |
5. Approximately how many employees (management and non-management) are there in your subsidiary? (Check one)

|                          |                |
|--------------------------|----------------|
| <input type="checkbox"/> | less than 500  |
| <input type="checkbox"/> | 500 to 1,000   |
| <input type="checkbox"/> | 1,000 to 3,000 |
| <input type="checkbox"/> | 3,000 to 5,000 |
| <input type="checkbox"/> | 5,000 and over |

6. Are there any other corporate subsidiaries or affiliates (i.e. joint ventures) located within this country?

☐ Yes ☐ No

If yes: how many others? \_\_\_\_\_

7. How would you describe the process technology of your subsidiary's production? Please check one.

- ☐ Unit Production — the majority of products are individually manufactured to customer specification. No finished goods inventory.
- ☐ Unit-Batch Production — some products made to customer specifications, some produced in batches.
- ☐ Batch Production — the majority of products manufactured in batches (some finished goods inventory).
- ☐ Batch-Mass Production — some products manufactured in batches, some mass produced (large-batches) for inventory.
- ☐ Mass Production — the majority of products mass produced for inventory.
- ☐ Mass-Continuous Production — some products mass produced, some produced continuously (i.e. automated assembly line).
- ☐ Continuous Production — majority of products produced continuously, twenty-four hours a day (i.e. metal or chemical processing).

#### Subsidiary Organization

8. Do you have an organization chart?

☐ Yes ☐ No

9. Please indicate if there is a line manager for each of the following areas who reports directly to you. (Check the ones that apply)

- ☐ Marketing
- ☐ Finance
- ☐ Personnel
- ☐ Research and Development
- ☐ Production
- ☐ Purchasing

10. Please indicate the number of professional level staff positions for each of the following areas within your subsidiary organization.

#### Number of Staff Positions by Area

- ☐ Marketing
- ☐ Finance
- ☐ Personnel
- ☐ Research and Development
- ☐ Production
- ☐ Purchasing

11. Does your parent company utilize regional committees or regional managers in its organization? (For example, a Manager of European operations located in Europe.)

a. ☐ Yes ☐ No

If yes:

- b. Are these organized primarily on a geographic or product basis?

☐ regional ☐ product ☐ both  
(geographic)

- c. Does the regional organization have line authority over the subsidiary manager?

☐ Yes ☐ No

If yes: please indicate

- d. In which of the following functional areas does the regional organization have line authority over the subsidiary manager?

☐ Marketing  
☐ Finance  
☐ Personnel  
☐ Production  
☐ Research & Development  
☐ Purchasing

#### Availability of Managerial Talent

12. a. How important do you feel previous international experience is for a person in your position or an equivalent one?

##### For My Position

☐ Extremely Important  
☐ Very Important  
☐ Don't Know - No opinion  
☐ Somewhat Important  
☐ Not at all Important

- b. For someone at headquarters with line reporting relationships to subsidiaries?

##### For Headquarters Mgt.

☐ Extremely Important  
☐ Very Important  
☐ Don't Know - No opinion  
☐ Somewhat Important  
☐ Not at all Important

13. In general, how would you assess the availability of qualified managerial talent, whether foreign or local, who would be available for assuming positions within your industry in this country? Check one.

☐ Large managerial pool, no difficulty in obtaining qualified managerial personnel.

☐ Moderate managerial pool, some difficulty in obtaining qualified managerial personnel.

☐ Small managerial pool, significant difficulty in obtaining qualified managerial personnel.

14. Would you say it is more or less difficult to obtain qualified personnel in different functional areas within this country? For example, is it more or less difficult to find qualified marketing personnel than it is, say, to find production personnel?

|                        | <u>Large Pool</u><br><u>No Difficulty</u> | <u>Moderate Pool</u><br><u>Some Difficulty</u> | <u>Small Pool</u><br><u>Much Difficulty</u> |
|------------------------|-------------------------------------------|------------------------------------------------|---------------------------------------------|
| Marketing              | <input type="checkbox"/>                  | <input type="checkbox"/>                       | <input type="checkbox"/>                    |
| Finance                | <input type="checkbox"/>                  | <input type="checkbox"/>                       | <input type="checkbox"/>                    |
| Production             | <input type="checkbox"/>                  | <input type="checkbox"/>                       | <input type="checkbox"/>                    |
| Personnel              | <input type="checkbox"/>                  | <input type="checkbox"/>                       | <input type="checkbox"/>                    |
| Research & Development | <input type="checkbox"/>                  | <input type="checkbox"/>                       | <input type="checkbox"/>                    |
| Purchasing             | <input type="checkbox"/>                  | <input type="checkbox"/>                       | <input type="checkbox"/>                    |

Decision Making and Corporate Policy

15. Generally, how would you describe your company's philosophy toward controlling subsidiary operations? Please select one of the following categories which best describes your corporate philosophy.)

- ☐ Headquarters maintains very "tight" control over subsidiaries and their operations through procedures and policies established by headquarters.
- ☐ Headquarters maintains very loose control over subsidiaries and their operations. Subsidiaries operate primarily as autonomous business units.
- ☐ Headquarters coordinates subsidiary operations on a regional or international basis while subsidiaries share in basic decision making.
- ☐ Can't determine.

16. a. Does your company have written policy guidelines that indicate the amount of decision making authority you have as a subsidiary manager?

☐ Yes (go to question 16 b) ☐ No (go to question 16 d)

- b. Are these uniform for all subsidiary managers?

☐ Yes (go to question 16 c) ☐ No (go to question 16 d)

- c. Would you describe these uniform policies as being:

- ☐ very specific, detailed, and comprehensive
- ☐ general guidelines only
- ☐ very specific in some areas and general guidelines in other areas (go to question 17)

- d. Since there are no uniform, written guidelines covering the decision making authority of the subsidiary manager, how is his authority established and communicated?

- ☐ constantly evolving
- ☐ verbally from line superior
- ☐ memos, letters, etc. from line superiors
- ☐ verbally from headquarters staff
- ☐ memos, letters, etc. from headquarters staff

17. Now, with respect to corporate policies indicating the decision making authority of subsidiary managers, would you indicate for each functional area your perception of the policy guidelines?

|                        | Very specific,<br>detailed and<br>comprehensive | General<br>guidelines<br>only | Very specific<br>in some areas<br>and general guide-<br>lines in others | No<br>guidelines<br>at all |
|------------------------|-------------------------------------------------|-------------------------------|-------------------------------------------------------------------------|----------------------------|
| Marketing              | <input type="checkbox"/>                        | <input type="checkbox"/>      | <input type="checkbox"/>                                                | <input type="checkbox"/>   |
| Finance                | <input type="checkbox"/>                        | <input type="checkbox"/>      | <input type="checkbox"/>                                                | <input type="checkbox"/>   |
| Personnel              | <input type="checkbox"/>                        | <input type="checkbox"/>      | <input type="checkbox"/>                                                | <input type="checkbox"/>   |
| Production             | <input type="checkbox"/>                        | <input type="checkbox"/>      | <input type="checkbox"/>                                                | <input type="checkbox"/>   |
| Research & Development | <input type="checkbox"/>                        | <input type="checkbox"/>      | <input type="checkbox"/>                                                | <input type="checkbox"/>   |
| Purchasing             | <input type="checkbox"/>                        | <input type="checkbox"/>      | <input type="checkbox"/>                                                | <input type="checkbox"/>   |

18. When major decisions are made in marketing, finance, etc., how would you rank the degree of participation by headquarters personnel and by subsidiary management in each of the following areas? Place a check in the blank under the process which best describes your subsidiary/headquarters situation.

Using the following definitions please indicate which process most closely describes the way the following decisions are made for your subsidiary.

Process 1 - The subsidiary manager generates alternative solutions and makes the decision himself.

Process 2 - The subsidiary manager generates alternative solutions, makes the decision, and submits the decision to his superior for approval.

Process 3 - Headquarters and subsidiary managers share the problem and collectively generate alternatives. Together you generate and evaluate alternatives and attempt to reach consensus on a solution. The solution that has the support of both the subsidiary manager and the headquarters manager.

Process 4 - Headquarters personnel generate alternative solutions, submit these to the subsidiary manager for his ideas and suggestions. Headquarters personnel then make the decision.

Process 5 - Headquarters personnel generate alternative solutions, make the decision and inform subsidiary management of the decision.

Location of Decision Making

a. Marketing:

|                                         | Process<br>5             | Process<br>4             | Process<br>3             | Process<br>2             | Process<br>1             |
|-----------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| - Which markets to serve                | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Which segments with<br>a country?     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Which countries?                      | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Product line composition              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - New product introduction              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Pricing                               | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Promotional budgets and<br>strategy   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Distribution channels and<br>strategy | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

|                                                                           | Process<br>5             | Process<br>4             | Process<br>3             | Process<br>2             | Process<br>1             |
|---------------------------------------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>b. <u>Finance:</u></b>                                                 |                          |                          |                          |                          |                          |
| - Capital investments                                                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Determination of annual budgets                                         | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Foreign currency exposure                                               | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Sources of funds (i.e. loans)                                           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>c. <u>Purchasing:</u></b>                                              |                          |                          |                          |                          |                          |
| - Choice of supplier                                                      | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Specifications                                                          | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Product                                                                 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Price                                                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>d. <u>Production:</u></b>                                              |                          |                          |                          |                          |                          |
| - What products are produced locally                                      | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Quality control levels                                                  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Level of output                                                         | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Level of production for export and local markets                        | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Production scheduling                                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Equipment replacement or installations                                  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>e. <u>Personnel:</u></b>                                               |                          |                          |                          |                          |                          |
| - Hiring subsidiary officers                                              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Subsidiary management training                                          | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Compensation levels                                                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Management                                                              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Labor                                                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>f. <u>Research and Development:</u></b>                                |                          |                          |                          |                          |                          |
| - Determination of whether R & D activities occur at the subsidiary level | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Level of R & D budget                                                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| - Research content                                                        | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

19. Some are of the opinion that decisions in certain functional areas should remain at the headquarters level while others should remain at the subsidiary level. In other words, some functional areas require centralized, or headquarters control over decisions, while others generate the best performance when they are made at the subsidiary level.

- a. In your opinion, are there differences between functional areas (i.e., marketing, finance, production, etc.) which may require greater headquarters participation than others in order for the corporation as a whole to be successful?

☐ Yes (go to 19 b)

☐ No

Why not: \_\_\_\_\_

\_\_\_\_\_  
(go to 20)

- b. Please indicate those functional areas which you think require more headquarters participation in decision making than the others by placing a check in the appropriate blank(s).

Require Most Headquarters Participation

Marketing

Finance

Production

Personnel

Research and Development

Purchasing

|                          |
|--------------------------|
| <input type="checkbox"/> |
| <input type="checkbox"/> |
| <input type="checkbox"/> |
| <input type="checkbox"/> |
| <input type="checkbox"/> |
| <input type="checkbox"/> |

20. a. In your opinion, are there differences between functional areas (i.e. marketing, finance, production, etc.) which may require greater subsidiary participation in order for the subsidiary unit to be most successful?

☐ Yes (go to 20 b)

☐ No

Why? \_\_\_\_\_

\_\_\_\_\_  
(go to question 21)

- b. Please indicate the areas which you think require greater subsidiary participation in order for the subsidiary to be successful by placing a check in the appropriate blank.

Requires Most Subsidiary Participation

Marketing

Finance

Production

Personnel

Research and Development

Purchasing

|                          |
|--------------------------|
| <input type="checkbox"/> |
| <input type="checkbox"/> |
| <input type="checkbox"/> |
| <input type="checkbox"/> |
| <input type="checkbox"/> |
| <input type="checkbox"/> |

21. It has been suggested that national environments in which business decisions are made and implemented can be described as being certain or uncertain. Environments characterized by frequent, unpredictable changes in technology, market behavior, economic, political and social conditions are thought of as having high levels of uncertainty in decision making for business. How would you rank the environment you face with respect to certainty in decision making?

Level of Uncertainty in the Environment

|                          |                          |                          |                          |                          |      |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|------|
| Low                      |                          |                          |                          |                          | High |
| 1                        | 2                        | 3                        | 4                        | 5                        |      |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |      |



22. Now, would you rank each of these environmental elements on the following 5 point scale by placing a check in the appropriate blank?

|                 | <u>Level of Uncertainty</u> |                          |                          |                          |                          |
|-----------------|-----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                 | <u>Low</u>                  |                          |                          |                          | <u>High</u>              |
|                 | <u>1</u>                    | <u>2</u>                 | <u>3</u>                 | <u>4</u>                 | <u>5</u>                 |
| Technology      | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Market behavior | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Economic        | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Political       | <input type="checkbox"/>    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

23. Do you think that the level of uncertainty present in the environment of your particular subsidiary influences the amount of authority you have as a subsidiary manager in decision making?

|                              |                             |
|------------------------------|-----------------------------|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| How? _____                   | Why not? _____              |
| _____                        | _____                       |
| (go to question 24)          | (go to question 26)         |

24. Do you think that the level of uncertainty in this particular national environment has influenced your parent company to retain more authority at headquarters or to give you more authority at the subsidiary level than would be true if the environment were less uncertain:

Influenced parent company to:

- ☐ Retain more authority at headquarters or regional headquarters level.  
☐ Delegate more authority to subsidiary management.  
☐ Has had no effect on allocation of authority between headquarters and subsidiary.

25. Could you indicate to what degree you think the national environment of this particular country influences the decisions you make in each of the following areas. For example, does this particular environment exert a high degree of influence in marketing decision, production decisions, personnel decisions, etc. In other words, please indicate how important you think the environment is in influencing your decision process and/or outcome in each of the following areas.

|                          | <u>Degree of Environmental Influences on Decision Making</u> |                          |                          |                          |                          |
|--------------------------|--------------------------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                          | <u>Not at all</u>                                            | <u>Somewhat</u>          | <u>Don't Know</u>        | <u>Very</u>              | <u>Extremely</u>         |
|                          | <u>Important</u>                                             | <u>Important</u>         | <u>No Opinion</u>        | <u>Important</u>         | <u>Important</u>         |
| Marketing                | <input type="checkbox"/>                                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Finance                  | <input type="checkbox"/>                                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Production               | <input type="checkbox"/>                                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Personnel                | <input type="checkbox"/>                                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Research and Development | <input type="checkbox"/>                                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Purchasing               | <input type="checkbox"/>                                     | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

26. Now, could you indicate the importance of each of the following factors in terms of how important they are in influencing the location of decision making for your subsidiary units? (Place a check in the appropriate blank.)

|                                                                                                                     | <u>Degree of Influence</u>            |                                     |                                        |                                 |                                      |
|---------------------------------------------------------------------------------------------------------------------|---------------------------------------|-------------------------------------|----------------------------------------|---------------------------------|--------------------------------------|
|                                                                                                                     | <u>Not at all</u><br><u>Important</u> | <u>Somewhat</u><br><u>Important</u> | <u>Don't Know</u><br><u>No Opinion</u> | <u>Very</u><br><u>Important</u> | <u>Extremely</u><br><u>Important</u> |
| Size and complexity of corporate international operations                                                           | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Geographic location of subsidiary                                                                                   | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Availability of international line personnel at the headquarters level                                              | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Size of the subsidiary in terms of sales and/or assets                                                              | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Individual subsidiary manager's experience                                                                          | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Certainty/uncertainty of the subsidiary environment                                                                 | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Corporate philosophy with respect to control over international operations                                          | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Nature of our product line (production and marketing processes characterizing the industry)                         | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Performance of the subsidiary in terms of sales and/or profits                                                      | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |
| Unique nature of the subsidiary environment market characteristics (i.e. political, legal, economic, technological) | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>               | <input type="checkbox"/>        | <input type="checkbox"/>             |

27. a. Could you please indicate which of the following measures are used by headquarters in assessing the performance of your subsidiary organization?

|                  |                          |
|------------------|--------------------------|
| Return on assets | <input type="checkbox"/> |
| Return on equity | <input type="checkbox"/> |
| Market share     | <input type="checkbox"/> |
| Sales volume     | <input type="checkbox"/> |
| Profitability    | <input type="checkbox"/> |
| Others           | <input type="checkbox"/> |

- b. Which of these do you consider to be the best evaluator of subsidiary performance? Why?

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28. Do you think the location of decision making authority between headquarters and subsidiaries has an influence on a subsidiary's performance?

☐ Yes ☐ No (go to 29)

How? 

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29. Do you think the location of decision making authority between headquarters and subsidiaries has an influence on a subsidiary's market performance?

☐ Yes ☐ No (go to 30)

How? 

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---



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30. Do you think the location of decision making authority between headquarters and subsidiaries has an influence on a subsidiary's financial performance?

☐ Yes ☐ No

How? 

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31. Does a subsidiary manager with good performance have more authority than one that doesn't?

☐ Yes ☐ No ☐ Don't know

32. Does the corporation reduce the authority of a subsidiary manager who's performance falls?

☐ Yes ☐ No ☐ Don't Know

If yes; How? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

Total Organizational Performance

33. We need to obtain your subjective assessment of the performance of your entire organization as it relates to competitors in this industry. Equating 100% to ideal performance, we would like you to indicate what percent of this ideal or optimal performance you personally feel your subsidiary organization is achieving in this industry.

I personally feel that the overall performance of the organization for which I am responsible should be rated as \_\_\_\_\_% in the "X" industry in \_\_\_\_\_ (your country of operation).

34. a. Prior to assuming your current position, did you have any other international work experience with this corporation or others?

☐ Yes (go to 34b) ☐ No (go to 35)

b. How many years? \_\_\_\_\_

c. What countries? \_\_\_\_\_

\_\_\_\_\_

35. a. Have you held a position within headquarters or at the regional level?

☐ Yes (go to 35b) ☐ No

b. What was your title? \_\_\_\_\_

c. During what years did you hold that position? From \_\_\_\_\_ to \_\_\_\_\_

Thank you for your assistance in completing this questionnaire. In order to obtain your responses as quickly as possible, please return the completed questionnaire and any comments you may wish to make by AIR MAIL to:

D. G. Powell  
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Graduate College of Business Administration  
Eppley Center  
Michigan State University  
East Lansing, Michigan 48824  
U.S.A.

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