

**A Longitudinal Study of Staffing Patterns in U.S.
Affiliates of Japanese Multinational Corporation**

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This paper present results from a longitudinal investigation of staffing of 50 Japanese affiliates in the U.S. between 1974 and 1990. Results indicate that international experience and dependence of the MNC on affiliates lead to greater use of expatriates. Additional findings and their implications are also discussed.

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I. Introduction

Japanese multinational corporations (MNCs) have taken the world by storm over the past 15 years and the United States has consistently received the majority of Japanese investment. Between 1951 and 1990 the United States received 42% of all Japanese foreign direct investment worldwide and by the end of 1990 there were 83,498 Japanese companies in the United States, 15,169 of them in manufacturing (JETRO, 1990: 80).

With this rapid and conspicuous investment have come cries from academics, government officials, and managers about the large number of expatriates Japanese multinational firms (MNCs) use at all levels in their American affiliates, starting at the top. The "bamboo ceiling" (Boyacigiller, 1990a) has become synonymous with Japanese investment and has sparked fierce criticisms from both within and outside Japanese companies.

In the late 1970s and early 1980s, a number of authors argued that this expatriate-intensive staffing pattern was due to the inexperience of Japanese firms overseas (see e.g., Ichimura, 1981). However, more recent studies show that Japanese MNCs continue to use large numbers of expatriates in their overseas affiliates. Indeed, a few authors have argued that contrary to American, British and German MNCs, which have moved toward staffing policies that progressively limit expatriates, the Japanese still prefer to use those of their own nationality (e.g., Stening and Everett, 1984).

This staffing policy is often criticized as a conscious policy of keeping authority and power in the hands of Japanese and out of reach of local employees. However, other writers have argued that Japanese corporations are *still* relatively new to the international scene and that their inexperience explains why they have higher numbers of expatriates than their American or European counterparts. Over time, the logic goes, Japanese companies, as they gain greater levels of experience abroad, will reduce the number of expatriates and "localize" their overseas operations, just as American and European MNCs have done (e.g., Franko, 1973).

In spite of the fact that the use of Japanese expatriates in the overseas affiliates of MNCs has been a hotly debated topic, there are very few studies which actually look at why this staffing

policy exists or what changes over time have occurred in the use of expatriates in Japanese business operations. The study presented in this paper attempts to address this gap by analyzing the staffing patterns from 1974 through 1990 in fifty American affiliates of Japanese manufacturing firms.

II. Previous Research

Staffing of MNCs has captured the interest of scholars and government officials alike for a number of years both because it provides a window on organizational control processes and because it is easily measured and monitored. Previous research on Japanese MNCs has consistently shown that these companies use an "ethnocentric" staffing policy by employing parent country nationals in their American, European and Asian affiliates in greater numbers than European or American MNCs (e.g., Tsurumi, 1976; Sim, 1977; Johnson, 1977; Thurley et al., 1980; Negandhi and Baliga, 1981; Ichimura, 1981; Trevor, 1983; Putti and Chong, 1985; Ichimura and Yoshihara, 1985; Negandhi, Eshghi, & Yuen, 1985; Robinson, 1985; Dunning, 1986; Pucik, Hanada & Fifield, 1989).

Unfortunately, these studies have been conducted with relatively small and non representative samples. In addition, almost all of the research on staffing patterns in Japanese MNCs have relied on cross-sectional data. However, there are two longitudinal studies which have examined staffing issues in Japanese affiliates.

In one of the only studies of its kind, Amano (1979) conducted a longitudinal case study between 1965 and 1977 which examined the control implications of the staffing practices of a Japanese firm in the United States. Amano found that in the initial study, the firm was characterized by a "sandwich structure": local personnel in middle management were reporting to the top management (Japanese expatriates) and at the same time were assisted by staffs of dispatched personnel (Amano, 1979). In a follow-up study twelve years later, the author found that the sandwich system was still in place (Amano, 1979) and he concluded that there was very little change in the staffing system over the twelve years under study.

Boyacigiller (1990a), in a more recent longitudinal study of staffing practices of Japanese affiliates in the United States, found that the more affiliates an MNC has, the lower the percentage of Japanese expatriates in executive positions and on the board of directors in its American affiliate. Boyacigiller also found that age of the affiliate was not related to the proportion of Japanese nationals in the firm and concluded that there is a bamboo ceiling in Japanese affiliates -- that Japanese MNCs do not tend to localize their affiliates by hiring more American nationals over time. Unfortunately, the samples were not matched across the time period studied (1978-1988) so it is impossible to draw any firm conclusions from these results about staffing changes in particular affiliates over time.

In summary, although a large number of empirical studies have examined the issue of staffing in Japanese MNCs in a number of host countries, there are no studies which examine the same group of affiliates over time and which can therefore answer the question whether Japanese firms are indeed evolving toward the Western model as proposed by Franko (1973) or whether they are continuing to maintain ethnocentric, expatriate-dominated staffing policies in their overseas operations, regardless of their international experience. In addition, with the exception of Boyacigiller's work, there is little in the current literature other than speculation which utilizes a theoretical framework to explore the reasons behind the staffing policies. For the most part, researchers have been content to report descriptive statistics and assert that Japanese companies use a large number of expatriates simply because they are Japanese (for exceptions see Tsurumi, 1976; Boyacigiller, 1990a). The study reported in this paper attempts to fill this gap in our current understanding of the staffing policies of Japanese MNCs by building on both the theoretical framework and the empirical research of previous authors.

III. Theoretical Framework and Hypotheses

The primary theoretical underpinnings for our hypotheses are rooted in the resource dependence framework (e.g., Pfeffer and Salancik, 1978) and the international life-cycle argument, first proposed by Franko (1973). Although the host country environment and

organizational factors both influence staffing patterns in MNCs, we have limited our focus in this paper to organizational characteristics, holding constant the local host country environment by sampling only American affiliates of Japanese MNCs.

Franko (1973), in a very early study of the staffing practices of American and European firms, use a life-cycle model of internationalization to explain his findings that Western companies use expatriates during the initial start-up of an overseas operation and during times of change. Over time, however, as local employees gain experience and the trust of the parent company, Franko found that they are given positions that heretofore have been held by expatriates.

Extending Franko's logic to Japanese MNCs we hypothesize that:

H1: There will be a negative relationship between the level of international experience of the parent company and the use of expatriates in its overseas affiliate.

Although Franko primarily focused on the role of international experience, there are a number of other factors highlighted by the resource dependence approach which should influence the use of expatriates in overseas affiliates.

The resource dependence approach (e.g., Aldrich, 1976, 1979; Pfeffer and Salancik, 1978) begins with the premise that an organization is unable to generate all of the resources necessary to maintain itself. It must therefore enter into transactions with elements in its environment that can supply the requires resources and services (Aldrich, 1976). There are three factors which are critical in determining the dependence of one actor on another (Pfeffer and Salancik, 1978), and hence the need for control. The more important the resource is to the organization, the more discretion another party has over the allocation and use of the resource, and the fewer the number of alternatives for the resource, the greater the level of resource dependence (Pfeffer and Salancik, 1978).

Although the resource dependence approach was formulated at the inter-organizational level, applications at the intra-organizational level are also compatible with this approach. For example, Salancik and Pfeffer (1974) found that the power (the obverse of dependence) of a department in an organization is a function of the amount of important resources contributed by the

department. Parallel to the dependencies between departments within an organization, a similar relationship exists between the headquarters and the overseas affiliates in an MNC.

HQs relies to varying degrees on its foreign affiliates for certain essential resources and it is therefore dependent upon those affiliates. Following the resource dependence logic, we would predict that the greater the HQs' dependence on resources controlled by an affiliate, the greater control HQs should exercise over that affiliate.

In the international context, it is often difficult to effectively use certain types of control mechanisms such as rules and regulations (e.g., Cray, 1984; Mascarenhas, 1984). Therefore, individuals in overseas affiliates act as key coordination and control mechanisms for the parent company (e.g., Edstrom and Galbraith, 1977; Baliga and Jaeger, 1984; Boyacigiller, 1990b; Cray, 1984) and play an essential role in the successful implementation of strategy in MNCs (Edstrom and Lorange, 1984).

Previous work (e.g., Yoshino, 1976) has shown that the use of expatriates is particularly important in Japanese MNCs for language, cultural and organizational reasons. Parent-country nationals possess an advantage over host-country or third-country nationals in communicating with HQs personnel in that they share a common language, a common culture, and often a common way of thinking (Youseff, 1977). The ability to communicate effectively creates a greater sense of trust between home country HQs employees and expatriates than exists between HQs and local employees.

We therefore predict that the greater the HQs' dependence on the overseas affiliate, the greater will be its use of expatriates in the overseas affiliate. Using affiliate size as one measure of the HQs' dependence on the affiliate we hypothesize that:

H2: There will be a positive relationship between the size of the affiliate and the use of expatriates at the affiliate.

In addition to size, dependence of the parent company on the overseas affiliate increases with the level of capitalization of the affiliate. Thus, we predict that:

H3: There will be a positive relationship between the level of capitalization of the affiliate and the use of expatriates at the affiliate.

The placement of expatriates in key positions in the overseas affiliate is one form of managerial control. Financial ownership is another obvious and powerful form of control. We predict that as parent company ownership increases, the need to rely on expatriates as a source of control will decrease because the parent company does not have to compete with other stakeholders for affiliate control and does not have to rely as heavily on expatriates to help influence decision making (see e.g., Hayashi, 1978). Therefore, we predict that:

H4: There will be a negative relationship between the level of parent company ownership of the affiliate and the use of expatriates at the affiliate.

IV. Methodology

Overview. Data for analyzing changes in expatriate staffing patterns in American affiliates of Japanese manufacturing firms were gathered through the use of two published sources: Toyo Keizai's Japanese Multinationals: Facts and Figures (*Kaigai Shinshutsu Soran*) and the Nikkei Annual Corporation Reports. The Toyo Keizai publications, which provide a comprehensive listing of the foreign affiliates of Japanese corporations, provided all of the data on the American affiliates on some of the data on the Japanese parent companies included in the following analyses. Additional data on the Japanese parent company were gathered from the Nikkei Annual Corporation Reports.

Data were gathered for the period beginning in 1974, coinciding with the start of significant Japanese investments in the United States, through 1990, the latest year for which published data on the affiliates were available.

The 1975 edition of *Japanese Multinationals: Facts and Figures* lists a total of 984 Japanese manufacturing and service affiliates in the United States, but many of the service firms listed were very small or had data missing on the number of employees. For this reason, we focused only on the affiliates of manufacturing parent companies.

Sample. A review of the 1991 edition of *Japanese Multinationals: Facts and Figures*

revealed that a total of 119 American affiliates of Japanese manufacturing firms were in continuous operation in the U.S. from 1974 to 1990. Of those affiliates, we selected only those that had at least ten employees in both 1974 and 1990. Since our dependent variable is measured in terms of the percentage of expatriates to total employees (see below) we believed that including firms with less than ten employees would bias the results. These selection criteria left us with a total sample of 50 American affiliates of Japanese manufacturing firms which had non-missing data on the variables measured in this study.

Measures The measure of *changes in expatriate staffing over time* was derived by a two-step process. First, for both 1974 and 1990, we calculated the percentage of expatriates to the total number of employees in each American affiliate. Next, we subtracted the 1990 figure from the 1974 figure to arrive at our measure of change in expatriate staffing over time.

Parent company size was measured by taking the total number of employees in the Japanese parent firm. This measure, for which we had accurate data, was deemed an acceptable measure of size since most size measures tend to be correlated (Pugh, Hickson, Hinings, and Turner, 1968). This measure is also consistent with our other measures.

Parent company's international experience was measured by using the proxy of the year in which the parent company's oldest foreign affiliate worldwide was established. The actual variable was calculated by subtracting the year of the company's first overseas affiliate's establishment from 1974.

U.S. affiliate size was calculated as the total number of employees in the affiliate in each of the two years, 1974 and 1990.

Change in U.S. affiliate size was calculated by subtracting the number of employees in the affiliate in 1974 from the total number of employees in the same affiliate in 1990.

U.S. affiliate age was measured by subtracting the year of the affiliate's establishment from 1974.

Ownership was measured as the percentage of the American affiliate's total capital owned by the Japanese parent company in 1974.

Change in U.S. affiliate capitalization was calculated by subtracting the amount the American affiliate was capitalized at in 1974 (in yen) from its capitalization in 1990 (in yen).

V. Results

Means, standard deviations, minimum and maximum values for the variables appear in Table 1 below. In 1974, the average affiliate had 106 employees, was 7 years old, and was 88% owned by the parent company. The parent company had, on average, 8965 employees and 11 years of international experience in 1974. By 1990, the average affiliate size had increased to 405 employees and parent company ownership had increased to 92%. In addition, the average number of expatriates in the U.S. affiliates increased from 12 in 1974 to 26 in 1990, although the percentage of expatriates fell from 11% of total employment to 6% during the same period.

TABLE 1 ABOUT HERE

Hypotheses. The hypotheses concerning the determinants of the change in the percentage of expatriates to total affiliate employees were first tested using simple correlational analyses. As indicated in Table 2, there are four significant relationships with changes in expatriate staffing. First, the results show that ownership ($r = -.30$, $p < .05$), changes in affiliate size ($r = -.26$, $p < .10$), and changes in affiliate capitalization ($r = -.40$, $p < .01$) are negatively associated with changes in the percentage of expatriates in the affiliates. The higher the percentage ownership of the affiliate by the Japanese parent, the smaller the change in the affiliate's size over time, and the smaller the change in its capitalization, the lower the percentage of expatriates to American nationals in the affiliate. These results provide tentative support for Hypotheses 1, 3, and 4.

Contrary to our prediction, however, the Japanese parent company's years of international experience is positively related to increases in expatriate staffing over time ($r = .26$, $p < .10$). That is, the longer the company's experience abroad, the **greater** its use of expatriates, controlling for affiliate size. This runs counter to our prediction in Hypothesis 1.

TABLE 2 ABOUT HERE

In an attempt to capture the combined effects of all of the hypothesized determinants of changes in expatriate staffing over time, we analyzed the data using multiple regression. Table 3 presents the results of a multiple regression analysis using change in expatriate staffing (percentage expatriates to total number of employees between 1974 and 1990) as the dependent variable. As shown in Table 3, the independent variables explain 28% of the variance in the change in expatriate staffing over time and the analysis is significant at the $p < .001$ level.

Consistent with the correlational analysis reported above, Table 3 reveals four significant coefficients. First, the parent company's international experience is significantly and positively associated with changes in expatriate staffing ($r = .24$, $p < .05$). Again, this result is contrary to the prediction of H1, and suggests that controlling for subsidiary size, over time Japanese firms with greater levels of international experience tend to increase the percentage of expatriates to total employees in their American affiliates.

Second, the size of the American affiliate is also significantly and positively related to changes in expatriate staffing ($r = .33$, $p < .05$). This results supports the resource dependence argument that the greater the HQs' dependence on the affiliate, the more control it will try to exercise over the affiliate by placing expatriates in affiliate positions.

Third, and supporting H4, the percent of the American affiliate owned by the Japanese parent is negatively associated with changes in expatriate staffing ($r = -.22$, $p < .10$). Financial control at least partially offsets the need for expatriates.

Finally, change in the capitalization of the foreign affiliate is significantly and negatively related to changes in expatriate staffing ($r = -.51$, $p < .01$). This result is opposite to the prediction of H3 which suggested that as the degree of capitalization of the foreign affiliate increases, the percentage of expatriates to the total number of employees would increase.

VI. Discussion and Conclusions

The research results presented in this paper are provocative and to some extent counter-intuitive. For example, although the average number of expatriates per affiliate increased from 12 in 1974 to 26 in 1990, the average size of the affiliate also increased from 106 to 405 employees so that the actual percentage of expatriates to total number of employees fell from 11% to 6% for the sample as a whole. Looking only at this evidence we might conclude that localization is indeed taking place in the American affiliates of Japanese MNCs. However, when we track the changes in the same affiliates in the sample over the sixteen-year period, the results indicate that if an affiliate had a parent company with greater international experience, it was actually more likely to experience an increase in the percentage of expatriates over time than if its parent had less experience. These results directly contradict the life-cycle argument (e.g. Franko, 1973; Ichimura, 1981) and support the notion that the internationalization of Japanese MNCs is not necessarily proceeding along the "Western model" of development.

The results also provide some support for the prediction that greater levels of HQs dependence on the affiliate will lead to greater use of expatriates as a control mechanism. It is possible that although international experience may allow Japanese MNCs to localize, international experience also leads to greater HQs dependence on its overseas affiliate and thus to a greater use of expatriates.

In addition, while affiliate size is positively associated with the increase in the percentage of expatriates over time, changes in affiliate capitalization are not. This relationship, particularly because it is both strong and negative ($r = -.51$, $p < .01$) is unexpected and not easily explained in light of our current theoretical framework. Finally, the results support the notion that affiliate control through parent company ownership reduces the need for a high percentage of expatriates. Although we cannot conclude that financial ownership and expatriates are interchangeable

mechanisms of control, we can suggest that when the parent company does not have to compete with other stakeholders for affiliate control, it does not have to rely as heavily on expatriates to help influence decision making at the affiliate. These results are also consistent with recent field data collected by the first author and are supported by the work of Hayashi (1978).

The global economic conditions of the late 1980s and 1990s have forced MNCs to more closely control and coordinate their international operations in order to compete in an increasingly competitive and diverse economic environment (Prahalad and Doz, 1981). While American firms have tended to exercise control through financial means and through written reports, the Japanese have relied more heavily than their Western counterparts on personal control through the strategic placement of expatriates (e.g., Yoshino, 1976).

Although Western MNCs may have localized their affiliates as they gained greater levels of experience (Franko, 1973), the international conditions in today's global economic environment may be counteracting that tendency, leading to an actual increase in the use of expatriates in the overseas operations of Japanese MNCs over time. For many MNCs, Japanese and Western alike, the overall dependence on their overseas affiliates is increasing as they derive an increasingly larger share of their sales and profits from overseas affiliates and send abroad a growing share of their assets (Prahalad and Doz, 1981).

For these reasons, it is necessary to revisit some of the basic assumptions concerning the imperative to localize affiliate staffing (see Kobrin, 1990). Although the Japanese may use more expatriate-intensive staffing in their overseas operations than their Western counterparts, it is possible that this approach is what is needed to hold the MNC together in today's changing and complex global environment. Geographical distance, cultural diversity, complex local and global demand and supply conditions all create a tremendous need for sharing and exchanging information among the various units of an MNC. Expatriates can gather and convey complex information and use their personal relationships to facilitate interpersonal communication across units and enhance organizational effectiveness (Black et al., 1992). However, expatriates are also extremely expensive both in monetary terms and because they often block the career progress of

local employees, dampening their motivation and leading to turnover among competent local staff. Although anecdotal evidence reported by a number of writers supports the notion that the heavy use of expatriates can hurt organizational performance, there is unfortunately no data currently available to explore the short-term and long-term performance implications of affiliate staffing policies.

The results presented in this paper raise a number of questions and we must be cautious not to over-interpret our findings. For example, although our results do support previous research indicating an ethnocentric staffing policy and point to a counter-intuitive increase in the use of expatriates in more experienced MNCs, these results are only suggestive of the organizational processes occurring in these important global economic players. What is painfully clear is how little we actually know about the processes which are generating the outcomes measured in this study. Although the processes are inherently difficult to measure and the data difficult to collect, it is crucial to our understanding of MNCs and organizational effectiveness that researchers continue to attempt to get inside the black box.

Table 1: Descriptive Statistics for the Variables Used in the Study

<u>N=50</u>				
<u>Variable</u>	<u>Mean</u>	<u>Standard Deviation</u>	<u>Minimum Value</u>	<u>Maximum Value</u>
Change in Expatriate Staffing	-.09	.16	-.61	.24
Parent company size (1974)	8965	13350	45.00	65059
Parent company's international experience	10.86 years	11.48	0	81
Affiliate size (1974)	106.46	165.33	10.00	889
Affiliate age (1974)	7.38 years	4.90	0	20
Affiliate ownership (1974)	87.74%	20.33	31.00	100
Change in affiliate size	300.24	768.52	-114.00	4530
Change in affiliate capitalization	Y33466	74913	-19940	369400

Table 2: Correlations Between Variables

<u>N=50</u>							
	2	3	4	5	6	7	8
1. Expatriate Staffing	-.11	.26*	.16	-.02	-.30**	-.26**	-.40***
2. Parent size		.03	.33**	.11	.05	.13	.44***
3. Parent's intern'l. exper.			.09	.18	.10	-.07	-.06
4. Affiliate size				.25*	-.26*	.33**	.46***
5. Affiliate age					.03	.04	.10
6. Ownership						.11	.04
7. Change in affiliate size							.60***
8. Change in affiliate capitalization							

*** p<.01

** p<.05

* p<.10

Table 3: Standardized GLS Estimates
With change in expatriate staffing as the dependent variable

N=50

Parent company size	.0165 (SE=.0002)
Parent company's international experience	.2410** (.0018)
Affiliate size	.3301** (.0002)
Affiliate age	-.0408 (.0042)
Affiliate ownership	-.2229* (.0010)
Change in affiliate size	-.0070 (.0003)
Change in affiliate capitalization	-.5134*** (.0004)
Constant	.1105
F Value	3.747***
Adjusted R squared	.28

*** p<.01

** p<.05

* p<.10

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