

**Decision Making Localization And Decentralization In
Japanese MNCs: Are There Costs Of Leaving
Local Managers Out Of The Loop?**

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Abstract

This paper reports results on decision making decentralization and localization in a study of 119 Japanese affiliates located in Europe and the U.S. The data indicate that decisions are generally decentralized. However, they also show that Japanese managers are involved in 80% of all decisions, and many decisions are made without any involvement by local managers. Our data also indicate, however, that there are few significant relationships between decision making decentralization or localization and affiliate performance. Implications of the results are discussed.

Decision Making Localization And Decentralization In Japanese MNCs: The Costs Of Leaving Local Managers Out Of The Loop

Introduction

According to the prevailing wisdom of the day, the global winners and losers in the next decade will be determined by how well multinational corporations (MNCs) are able to manage the dual imperatives of global integration and local responsiveness (e.g., Bartlett, 1986; Bartlett & Ghoshal, 1987a, 1987b, 1989). Firms must be simultaneously able to integrate their global operations to attain economies of scale and scope as well as respond to host country demands for customized products and management processes. This tension is played out, in large part, in where and how decisions are made in MNCs (Baliga & Jaeger, 1984; Cray, 1984; Kriger & Solomon, 1992).

For European firms, which evolved from a traditional heritage of loosely connected, relatively independent subunits (Franko, 1976), the key challenge has been to establish mechanisms to promote greater levels of global integration (Bartlett & Ghoshal, 1989). For Japanese MNCs, which internationalized in the 1970s using HQs-controlled and centralized global operations, the challenge has been to balance high levels of global integration with greater levels of local responsiveness (Yoshino, 1976; Trevor, 1983; Kobayashi, 1985; Bartlett & Yoshihara, 1988; Pucik, Hanada & Fifield, 1989). While anecdotal evidence abounds and scholars and practitioners alike freely laud or criticize how the Japanese manage their global web of operations, there has been relatively little research published on how the Japanese are managing their overseas operations generally and even less on how decisions are made in

Japanese MNCs.

In this paper, we distinguish between two dimensions of decision making which have been confused and confounded in the previous literature on international decision making. Decentralization is used here to indicate **where** decisions are made. Higher levels of decentralization indicate that decisions are made at the affiliate while lower levels of decentralization indicate that decisions are made primarily at the MNC HQs. Localization, on the other hand, refers only to **who** makes the decision, to the nationality of the decision maker, regardless of location. Higher levels of localization indicate that decisions are made by host country nationals while lower levels of localization indicate that decisions are made by home country nationals (in this study, by Japanese). One cannot simply assume, as many writers have done, that decentralization and localization are synonymous.

While previous research has generally concluded that decisions in Japanese firms are dominated by Japanese nationals, either at headquarters or in the affiliate, and that this "naturally" results in poor economic performance, this is the first large-scale study to examine who makes decisions in Japanese affiliates, where these decisions are made, and what the performance implications are for the decision making approach.

In the following sections of this paper we first review previous empirical studies of decision making in Japanese MNCs. Unfortunately, because this field is still quite young, past researchers have defined and operationalized variables idiosyncratically, and in general, have not used any kind of theoretical framework to guide their empirical work. While this makes it difficult to draw many conclusions about the results of the previous research, we attempt to summarize the key empirical research in the following section of the paper. Then, we describe

the methodology and the results on decision making localization and decentralization, as well as the affiliate performance outcomes associated with the decision making approaches, from our study of 119 Japanese affiliates located in the United States and Europe. After discussing the implications of the results we conclude with the limitations of the research and our suggestions for further development.

Review of Previous Research

The research on decision making in the overseas affiliates of Japanese MNCs began with Negandhi and his colleagues who conducted a number of large-scale comparative studies during the 1970s and 1980s on management practices in American, European and Japanese MNCs (e.g., Negandhi, Eshghi, & Yuen 1985; Negandhi, Yuen & Eshghi, 1987; ; Negandhi & Baliga, 1979, 1981). In their two studies of Japanese subsidiaries in Asia, the authors found that compared to their American and European counterparts, Japanese firms controlled their Southeast Asian subsidiaries through the placement of expatriate managers in almost all senior management positions, through visits by strategic personnel from the headquarters, regular reports to the headquarters, and frequent communication between the headquarters and the local subsidiary (Negandhi, Eshghi, and Yuen, 1985).

For example, in a very early study (conducted in 1968-69) of 27 American, Japanese and Taiwanese firms operating in Taiwan, Negandhi and his colleagues (Negandhi, Eshghi, & Yuen, 1985) found that compared to American firms, Japanese subsidiaries were characterized by greater hierarchies and centralization of decision making. These results are supported by later studies in the region. For example, in a study of 32 Japanese subsidiaries in the

Philippines by the Japan Overseas Enterprises Association (*Nihon Zaigai Kigyo Kyokai*, 1987) and in a study conducted by Ichimura and Yoshihara (1985) in eight Asian countries, researchers found high levels of centralization and low levels of trust and training for local employees.

The second Negandhi study, conducted between 1974 and 1979, examined 124 subsidiaries of American, European and Japanese MNCs in Brazil, Peru, India, Malaysia, Singapore and Thailand (Negandhi and Baliga, 1981). Japanese expatriates in Negandhi's sample were used to make local decisions and to ensure that the local employees were acting in accordance with HQs' wishes. Parallel to their previous findings, Negandhi, Eshghi, and Yuen (1985) found that decision making in the 65 Japanese subsidiaries in Southeast Asia tended to be centralized. Strategically important decisions were made either at HQs or by the expatriate managers at the subsidiaries.

Consistent with the Negandhi results, Putti and Chong (1985) found in a study of 12 Asian subsidiaries of Japanese and American MNCs that the exercise of authority in the Japanese subsidiaries was concentrated in the hands of expatriates in the subsidiaries, while in the American companies, it was delegated to the lowest possible level. Overall, the Putti and Chong results support Negandhi's findings that control in Japanese subsidiaries is in the hands of Japanese, either at the HQs or in the subsidiary.

In another comprehensive study of HQs' control over subsidiaries in Asia, Sim (1977) examined the decentralization of decision making in 20 matched Japanese, American, and British subsidiaries in Malaysia. He found that there was more centralization of decision making in the Japanese subsidiaries than in either the American or British firms in the sample.

Consistent with the other studies, he also found that decision making authority in the subsidiary rested with Japanese expatriates. In a later study conducted in the United States, Yoshida (1987) found that in a sample of 15 Japanese subsidiaries in the United States that 10 of the firms reported joint management of the U.S. operations by corporate HQs and the subsidiaries. In those cases where there was local autonomy, Japanese personnel were usually in charge of the local subsidiary and had operating responsibility. Yoshida also found that the larger firms in his sample were generally more centralized than the smaller firms. Bowman (1986), in his study of American subsidiaries of Japanese MNCS, found that subsidiary personnel responsibilities were in the hands of American managers. Production, quality control, materials, and corporate leadership, on the other hand, were all the responsibility of Japanese staff.

In a recent study, Kriger and Solomon (1992) found in their comparative study of 31 affiliates of 5 Japanese and 11 American MNCs that Japanese MNCs delegated more decision making authority to the boards of their affiliates than did the Americans. However, the authors did not examine the question of who at the affiliate, expatriate or local, was actually making the decisions.

Findings from empirical studies in Europe parallel those of the U.S. and Asia. For example, Thurley and his colleagues (e.g., Thurley et al., 1980; Takamiya & Thurley, 1985) found in a preliminary study of five Japanese firms operating in the U.K. in 1976, that decision making in the sample firms was concentrated in the hands of Japanese expatriates, although satisfaction was highest in those firms where British managers were important in taking personnel management decisions.

Trevor (1983) conducted a series of studies on Japanese operations in the U.K. Overall, he found many Japanese expatriates, tight control by HQs, and constant communication by telex and telephone between the subsidiaries and HQs. All firms were characterized by centralized decision making by HQs. Trevor found that centralized control was exercised over all strategic or crucial policy matters, such as staffing, marketing, and production and that "strategic" subsidiary positions were dominated by Japanese expatriates (Trevor 1983).

Dunning (1986) examined the staffing and decision making structures of American and Japanese manufacturing affiliates in the U.K., comparing American operations of the 1950s with those of the Japanese operations in the 1980s. Overall, he found that the Japanese exercised much closer control over the general managerial philosophy and style of the subsidiary than did their American counterparts in the 1950s. In addition, he found that Japanese influence and control over decision making was greater than was that of the Americans.

In another European study, Mertz (1987) found in a study of decision making in 52 Japanese subsidiaries in West Germany that there were differences between joint ventures and wholly owned subsidiaries in the sample: Japanese joint ventures were given more independence in decision making than the wholly-owned subsidiaries. In addition, he found that the greater the size of the subsidiary, the greater its autonomy from HQs in decision making (Mertz, 1987).

In a tri-national comparative study of subsidiary autonomy in 76 Swedish, American and Japanese MNCs, Hedlund (1981) found that Swedish subsidiaries were considerably more

autonomous than American subsidiaries and slightly more autonomous than Japanese subsidiaries. The distribution of influence between the subsidiary and HQs was quite similar for the Swedish and Japanese MNCs while American MNCs showed more nearly equal influence by HQs and the subsidiary (Hedlund, 1981).

In their comparative study of subsidiaries located in Latin American, Brandt and Hulbert (1976) examined communications between HQs and subsidiaries and the autonomy of marketing decision making in 63 Brazilian manufacturing subsidiaries of MNCs headquartered in Europe, Japan, and North America. In contrast to those studies reviewed above, these authors found that nationality of the parent company, volume of worldwide sales, and proportion of sales outside the home market were not important predictors of the amount of marketing guidance received by the subsidiary from HQs.

Kobayashi (1982, 1985) conducted a study to determine the extent of internationalization of Japanese business. He sampled 89 Japanese MNCs, all with overseas investments of more than Y 1 billion and with at least 5 management centers abroad and compared the Japanese firms with a group of nine multinational majors from the U.S., West Germany, England, and France. Contrary to the studies reviewed above, Kobayashi found that the HQs of American and European firms were more involved in the management, planning and decision making of overseas subunits than their Japanese counterparts (Kobayashi, 1985).

Taken together, previous studies of decision making in the overseas affiliates of Japanese MNCs have generally found high levels of centralization and relatively low levels of localization, although there are a number of inconsistencies in the findings. While these

differences no doubt reflect different sample populations and time frames, they are also likely due to inconsistencies in methodology and definition of constructs. In addition, because these previous studies have generally been descriptive in nature, there is almost no research on the antecedents or outcomes of decision making localization and decentralization.

The Empirical Study

Methods

The results in this paper are based on data collected from 119 Japanese affiliates in two parallel studies of management practices and outcomes in Japanese affiliates in the United States and Europe. The U.S. sample was drawn from a non-random stratified sample of 41 affiliates of 32 large Japanese-owned firms in high-tech industries, consumer electronics, other manufacturing, and finance and services.

First, confidential interviews were conducted with two to three members of top management, both Japanese and Americans. Then, questionnaires were distributed to three to eight American senior executives in each company. Sixty two of the 132 distributed questionnaires were completed for a response rate of 61%. Because there are multiple responses from some of the U.S. affiliates in the study, the data have been inversely weighted by the number of respondents in each affiliate to counteract the impact of unmeasured company influences on the results reported in this paper.

While the results described here are based on the responses to the written questionnaires, we are able to interpret these results with the knowledge and insights gained in 51 face-to-face interviews with senior American and Japanese executives stationed at the

affiliate, Japanese executives in charge of international operations at the Japanese headquarters, and American executives who had been previously employed in Japanese affiliates.

The European study was conducted in the parallel manner, except that only one questionnaire was distributed to each affiliate in the sample. Of the 175 questionnaires mailed to European affiliates of Japanese firms, 78 usable responses were received for a response rate of 45%. As in the American sample, all respondents were senior local executives.

Building on previous research on the localization and decentralization of decision making to affiliates, we surveyed respondents to determine who was primarily responsible for a number of critical business decisions at the affiliate, ranging from the formulation of the affiliate's middle range plans and development of new products to decisions concerning sales promotion methods and salaries of local executives. While most previous studies have asked where (HQs, affiliate, or both) decisions are made, we asked both where the decisions are made and who makes the decisions. Ten different positions ranging from senior HQ executives to local managers were identified (differentiated by national origin and location, whether in Japan or at the affiliate).

Measuring the performance of Japanese affiliates is extremely difficult for two critical reasons: Japanese accounting laws do not require unconsolidated reporting so there are no publicly available figures available and performance figures are considered to be confidential and proprietary data. Furthermore, performance data at the affiliate level are notoriously unreliable since such inputs as internal transfer prices are manipulated for taxation and other reasons (Rosenzweig, 1994). Although all measures of performance are biased, we chose to measure performance through self-reported ratings of the affiliate's performance. Since all

respondents are top level executives in the affiliate with knowledge of the affiliate's true performance and because they were guaranteed anonymity, these self-report measures are more accurate than other publicly-available affiliate-level numerical figures such as profitability, ROI, etc.

In the analyses reported below, we measured performance on a variety of dimensions. Using Likert-scales where 1 indicates a very low level of performance and 5 indicates very high performance, respondents were asked to rate their affiliate's current performance in terms of: 1. level of profitability, 2. sales volume, 3. return on sales, 4. market share, 5. new product development, 6. employee morale, 7. conformance with budget, and 8. return on assets. In addition, we created an overall performance index average the scores to the above eight items.

Description of Respondents

Most participating companies are among the largest industrial, financial and service firms in Japan. The majority of them are market leaders in their lines of business, with total worldwide sales ranging from \$600 million to \$45 billion and a global workforce of between 2200 to 163,000 employees, with a mean of 38,400 employees worldwide.

Fifteen percent of respondents held the top position in their affiliate and an additional 42% of respondents reported to the president or general manager of the affiliate. The remaining respondents held other executive positions in the affiliate. Respondents had been with their company for an average of 9.18 years, with a range of service from 2 to 25 years. Nearly all respondents (114 of 119) were male and all were host country nationals.

Subsample Descriptive Statistics

The affiliates included in the sample were, on average, well- established in their host country. For the American affiliates, the average age of the affiliates was 19 years old and parent companies had, on average, 24 years of experience in the United States (see Table 1). In the European subsample, the average age of the affiliate was 11 years old and parent companies had an average of 17 years of experience in the European host country. In terms of size, American affiliates had, on average, 689 employees while the European affiliates were smaller, with 352 employees. 66% of the American affiliates and 86% of the European affiliates had manufacturing parent firms while 24% of the American affiliates and 55% of the European affiliates themselves had manufacturing operations.

There are some significant differences between the U.S. and European affiliates on these basic characteristics. Using difference in means tests between the two subsamples, we find that American affiliates are significantly older ($p < .001$) than their European counterparts. Similarly, the parent companies of the U.S. affiliates have significantly longer experience in the host country (significant at $p < .001$). In addition, the average number of employees in the U.S. affiliates is significantly larger than in the European affiliates (significant at $p < .1$) and the U.S. and European subsamples differ significantly on the extent to which both the subsidiary and the parent were engaged in manufacturing activities.

Table 1 About Here

Results

Levels of Decision Making Localization and Decentralization

Looking first at the aggregated data across Europe and the United States, most decisions are made by Japanese either at home or in the affiliate (45%) while 20% are made by locals and 35% are made jointly by locals and Japanese, as indicated in Table 2 below. In terms of location, 22% of the decisions are made in Japan, 29% are made both in Japan and the local country, and 48% are made in the local host country.

Examining the two subsamples separately, there are nearly identical results for the European and US affiliates in terms of the **nationality** (localization) of the decision makers, although there are significant differences in terms of **where** (decentralization) the decisions are made. In fact, the majority of decisions (53%) are made in the United States, while in the case of the European affiliates, most decisions involve the Japanese head office, either exclusively (24%) or in consultation with the local operation (31%). These differences are significant at the .001 level, with decision making significantly more decentralized in the American than the European affiliates. There are no significant differences between the two subsamples in terms of localization of decision making.

Table 2 About Here

Looking at the level of localization for each of the specific decision areas (see Table 3), we see that in the total sample, the decisions where the local executives are heavily involved are primarily in sales decisions (establishing sales targets, sales promotions, developing products and services, and pricing decisions). The decisions most controlled by Japanese

nationals are the development of new products or services which involve the Japanese HQs (mean=1.45), and the establishment of new subsidiaries or branches (mean=1.48). In the European sample, the least localized decision is the decision on establishing a new factory or branch at the affiliate while in the American sample, loans from local sources is the least localized decision. Despite minor differences in the relative rankings (see Table 4), we find similar patterns in the level of localization across the decisions for both the American and European subsamples (see Table 3 below).

Table 3 About Here

In terms of decentralization of decisions to the local affiliate, the most decentralized decision areas in the sample as a whole are sales promotions (mean=2.78), executive salaries (mean=2.68) and bonuses (mean=2.66). The most centralized decision areas are: establishing a new subsidiary or joint venture (mean=1.67), development of products or services where HQs is involved (mean=1.67) and in establishing a new factory or branch in the host country (mean=1.73). Table 4 summarizes these results by providing a rank ordering of the decisions according to their level of localization and decentralization. Interestingly, while previous studies on decision making in MNCs have generally found that human resource decisions are the most decentralized and localized, here we see that it is the sales promotion and marketing methods which is most localized and most decentralized, although the human resource decisions of who determines executive salaries and executive bonuses for host country employees rank second and third in terms of decentralization but only ninth and tenth in terms of localization. Thus, while these HR decisions are decentralized, a finding consistent with

previous results, these decisions are still controlled by expatriate managers rather than local nationals.

Table 4 About Here

In addition to asking respondents to indicate where decisions are currently being made, we also asked executives to indicate where, based on their personal judgment, affiliate decisions **should** be made. As shown in Table 5, for the sample as a whole, executives believe that most decisions should be made jointly (49%) whereas only 21% should be made by Japanese alone and 30% should be made by host country nationals alone. While local executives not surprisingly would like to see more decisions delegated to local management, they do not advocate dramatic localization or decentralization of decision making. Joint consultation with the Japanese parent firm and shared decision making between Japanese expatriates and local managers is clearly the preferred pattern of decision making.

Examining the two subsamples separately, European executives think that decisions currently made in Japan should drop by half from their current level (from 24% to 12%) and that decisions made solely by the Japanese should drop from 45% to 25%. At the same time, they would like to see increases in both joint decision making (from 35% to 45%) and decision making by local nationals (from 20% to 31%). While the results for the American executives are similar, Americans feel more strongly than their European counterparts that more decentralization and localization should occur (difference in means are significant at $p < .001$). For example while 44% of decisions in American affiliates are currently made by Japanese, Americans believe that figure should be only 15% and while 20% of decisions are currently

made in Japan, American executives would like to see only 7% made in Japan. In both the American and European cases, while executives advocate strong decentralization of decision making to the local affiliate, they favor a joint decision making approach, involving both local and Japanese decision makers. Both European and American respondents favor joint decision making, but Americans feel significantly stronger about the need for joint decision making ($p < .001$) than their European counterparts.

Table 5 About Here

Relationships Between Decision Making Localization and Decentralization and Performance

Although it is interesting to know the current levels of decision making localization and decentralization in Japanese affiliates, from a business point of view, it is useful to examine to what extent the decision-making input from local managers is associated with better affiliate performance. In the following analysis, we computed correlations between several performance measures and the degree of involvement of local managers in affiliate decisions. These results are presented in Table 6 below.

Table 6 About Here

For the total sample, involvement in decision making is not significantly associated with profit level of the affiliate or overall performance. In addition, only one decision, plan formulation, has a significant correlation with decision making involvement. However, local executives' involvement in decision making across all types of decisions has a significant impact on employee morale.

Looking at the two subsamples separately, we find an interesting difference in the relationship between decision making involvement and organizational performance. In the U.S. subsample, there are only three significant relationships between involvement and the performance measures (see Table 6). For the European subsample, however, there is a sizable impact on employee morale for 7 of the 10 decisions.

Next, we compared the existing versus desired decision making patterns and the correlation of these comparisons with the performance measures. As described above, we asked respondents both where decisions currently were made and where they thought they should be made. We took these responses and computed the "localization gap": an index of the difference in where respondents say that decisions are made and where they should be made. The correlations between the localization gap and the performance indicators are presented in Table 7 below.

Table 7 About Here

From Table 7 we see that the decision making responsibility gap is associated with lower levels of performance for nearly all of relationships: the higher the gap in actual versus desired decision making localization and decentralization, the lower the affiliate performance. Employee morale is negatively and significantly affected by the localization gap for each one of the decision making areas separately and for overall involvement in decision making. In addition, the decision making gap for new product development and establishing a new factory or branch are significantly and negatively related to affiliate profit level while the gap in short-term plan formulation, pricing, establishing a new factory/branch and executive promotions

are negatively and significantly correlated with market share. Finally, only the relationships between gaps in product development and establishing a new factory/branch and overall performance are negative for the sample as a whole.

Turning to a comparison of the two subsamples, in the U.S., the decision making local involvement gap has a negative impact on profit level (for compensation, bonus, and establishing a new factory/branch) and with overall affiliate performance (for compensation and establishing a new factory/branch). Employee morale is negatively impacted by the local involvement gap between desired and actual decision making for five of the 15 decisions and for overall decision involvement. In the European subsample the decision making gap has no impact on profitability. There are two significant relationships with overall performance (for sales targets and establishing a new factory/branch) and there three significant relationships with market share (sales targets, establishing a new factory/branch, and executive promotions). However, gaps in 10 of the 15 decision making areas have significant and negative relationships with employee morale in the affiliate.

Interviews with American respondents confirmed that most strategic planning activities were performed mainly in Japan. The American side supplied schedules, forms and numbers, but was not strongly linked or integrated into the decision making process which was centralized at the head office. Few of the executives we interviewed had any clear understanding of what those plans and strategies were. Many appeared to have a limited time horizon defined by either six-month or twelve-month planning cycles.

However, the specific business integration and decision-making patterns varied by firm and function, and even within a firm. In addition, in many firms, executives were quite

independent from Tokyo's influence, at least with regard to daily activities. "From an operational standpoint we have not had a decision that had to go to Tokyo," remarked one American executive in a large Japanese bank. However, the usefulness of this autonomy has its limits. Said an American officer in a securities firm: "As we expanded internationally, some of our units almost competed with each other or went to other firms for business that we could have handled ourselves. We needed more coordination. Now we are working very hard to develop relationships with our counterparts in Tokyo. After all, that should be our main competitive advantage."

Although many local manufacturing operations are nominally autonomous from product divisions in Japan, that is not always the case in the actual decision making process. The "behind the scenes" influence was quite frustrating to many executives we interviewed who felt that they were locked out of the planning and decision making process. The frustration was often exacerbated by perceptions that many of the Japanese expatriates involved in these decisions were primarily representatives of a particular factory or division, who did not put much value in protecting the interests of the local affiliate.

Discussion and Implications

Most previous studies of decision-making patterns in multinational firms have been descriptive in nature and have generally focused on the location where decisions are made. In our study, we have examined both the location of the decision making process (headquarters, affiliate, or both HQs and affiliate) and the actors involved in the decision making process (HQs executives, Japanese expatriates, local managers, or any combination thereof). The

results cast some doubts on the conceptual validity of centralization/decentralization measures focused exclusively on decision making location. As was shown through the rank orderings of decisions presented in Table 4, localization of decision making to local nationals and decentralization of decision making to the affiliate are clearly not synonymous, although they have often been treated as such in the literature.

Based on the decision making location data, decision making in Japanese overseas affiliates seems to be to a largely decentralized. Only in a minority of cases was it reported that decisions were made exclusively in Japan. In addition, as would be expected since the U.S. affiliates are generally older and larger, the decentralization of the decision making process to affiliates in the U.S. is greater than that found in Europe.

However, while the analyses of the decentralization of decision making indicate a relatively strong emphasis on decentralization of decision making to the local affiliate, the actor-focused analyses measuring localization of decision making show that Japanese managers from the HQs and/or representing the center as expatriates are actually involved in 80% of all decisions, and in more than half of the cases, decisions are made without any involvement by local managers. The tendency to employ centralized "clan" control over the decision making process is equally pronounced in the United States and in Europe (with a marginal increase in joint decision making in the U.S.), although the localization-centered measure indicates greater decentralization in the United States. Such a decentralized but home country national-dominated mode is a far cry from traditional assumptions about localization.

The benefits of a dual measure of decision making decentralization are even more obvious in a close look at the disaggregated data. Table 5 highlights one potentially important

difference between the decision making patterns in the two groups of affiliates when decisions are made jointly by both Japanese and local managers. In European affiliates, joint decision making that involves both Japanese and host country managers implies in a large majority of cases that decisions are shared between the affiliate and the head office. Only 20% of joint decisions are made exclusively by local nationals together with Japanese expatriates in Europe. The role of Japanese expatriates in Europe in the decision making process thus seems to be relatively weak, focusing mainly on serving as information sensors and as a conduit for the center.

In contrast, in the United States, the proportion of decisions made jointly by Japanese and local managers, but without any involvement from the HQs, is nearly one third of all joint decisions. It is therefore likely that there may be more interaction and informal communication between the two groups of managers than in the case of the affiliates in Europe. This also implies that Japanese expatriates in the US may have to play a different role in decision making than their counterparts in Europe.

At the same time, as the current study does not directly address the differences in managerial roles of Japanese expatriates across the two regions, we can only speculate on what accounts for these differences. This phenomena may be due to greater maturity of U.S. affiliates, or a weaker dependence on financial and technical resources from the other parts of the firm. It may also be that the group of Japanese expatriates in the U.S., because of the large size of the affiliates, may have generally higher salaries and authority than their counterparts in Europe, so they can make more decisions with less consultation or interference from the HQs. These explanations are plausible but need to be tested in future research.

Similar contradictions between location of decision making and the actors involved also appear when we examine the responses to the question about the desired decision making patterns preferred by local executives. With respect to the location where decisions should be made, in both regions the largest shift is towards joint decision making, perhaps as a transition stage in moving the decision making from the home to the host country. At the present time, however, European managers are more willing to entrust at least some decisions to the Japanese head office. As a result, while the preferences for joint decision making are comparable across regions, the preference for decentralization of decision making is weaker in Europe than in the United States.

When the focus of the question shifts to who should make the decisions, local executives in both regions are similar in their degree of preferences for full devolution of decision making from Japanese host country nationals. However, the European managers are willing to leave more of the decisions in the hands of their Japanese colleagues than their American counterparts. The desire of the Americans to reduce the role of Japanese as the sole decision makers and their preference for joint decision making is particularly striking.

Additional differences between executives in the two regions come to light when the preferred joint decision making responses are examined in greater detail. Europeans see joint decision making primarily as a coordination mechanism between the center and the affiliates. In contrast, the Americans would like to see joint decisions made by local managers and Japanese expatriates. This difference in perceptions of the desirable decision making approach may be caused by experiences of local managers and differences in the roles and the capabilities of their Japanese expatriate colleagues.

In general, however, it seems that Japanese companies have succeeded in institutionalizing the preferences for collaborative joint decision making among the local managers. These managers seem to understand that while communication with the Japanese can often be frustrating, there are clear benefits for the affiliates in keeping strong ties with the corporate center. Yet, contrasting the preferred and existing modes of decision making, it is clear that among the companies sampled in this study, current decisions are influenced more strongly by the traditional ethnocentric organization practices and procedures than by the preference of local managers for shared decision making.

At the same time, this may not be an unwise business practice. Our data indicate that it may be premature to claim that Japanese firms will actually benefit from more shared decision making and involvement of local managers. In the U.S. sample, for example, establishing a new subsidiary or joint venture is the only decision where involvement of local managers has a positive impact on overall performance indicators and even employee morale is only significantly impacted by development of products or services.

In the European sample, very few linkages between performance and decision making local involvement were observed, although the impact on employee morale was significant in a number of areas. Clearly our data indicate that Japanese firms in Europe may suffer from morale problems to a much greater degree than in the American affiliates. On the one hand, this may be consistent with the low degree of autonomy granted to the affiliates, but, on the other hand, the need for decision making autonomy does not appear to be as strong in Europe as it is in the U.S.

The fact that decision making involvement of local managers has a much stronger

impact on employee morale than on corporate performance also introduces some caution into the interpretation of numerous anecdotes concerning Japanese overseas affiliate in the popular press. Poor morale among local managers, although a cause for concern, may not necessarily indicate poor organizational performance since, as we have seen from the decision making localization results above, many of the demotivated managers are not players in the decision making process but simply implementors. Simply speaking, the system is not dependent on the level of these local managers' motivation. While satisfaction does influence turnover and absenteeism rates, if involving local managers in the decision making process is not directly linked to increased performance, why should Japanese firms open their decision making process and allow greater levels of participation by local executives? The transaction costs of doing so may be greater than the benefits due to the well-known language and cultural issues involved.

One argument in support of local participation may be the long-term costs of poor employee morale that may lead to high turnover and a decline in the quality of managers attracted to and retained by Japanese affiliates. Yet, it is perhaps because of the perceived poor quality and high turnover of local managers and executives that the Japanese are reluctant to bring them into the decision-making process. Because of this exclusion, high quality managers are discouraged from entering such firms. When they enter, primarily with the purpose of learning about particular Japanese practices (e.g., manufacturing process technology, quality control systems, etc.), they are likely to leave before achieving a position of broader responsibility.

Potential benefits of greater local participation can also be seen from the data on the

linkage of the localization gap to performance measures. The most stable and consistent predictor is the localization gap in human resource practices. In both the U.S. and Europe, the perceived lag in localization is associated with lower employee morale. Only in the United States, however, does this localization gap also significantly impact performance.

Limitations and Conclusions

While the results of this study are provocative and go beyond previous studies of decision making in Japanese affiliates, one limitation of research in this area and which characterizes this study as well is due to the fact that we surveyed only local affiliate executives regarding the localization and decentralization of decision making. While most studies have treated these as objective questions, thereby justifying the selection of a single respondent at either the HQs or the affiliate, the answers to them are likely influenced by the position of these executives in the organization and their affiliate-level perspective. We do not have comparable data from HQs executives on the same questions. At the same time, because our interest is in the impact of decision making localization and decentralization on employee morale and affiliate-level performance, the perceptions of local executives as to where these decisions are made is perhaps more important to these outcome variables than where and by whom they are actually made. At the same time, there is a need for future research to address this question empirically despite the methodological complications involved.

In addition, our data are cross-sectional and therefore prevent us from drawing causal inferences from correlational analyses between decision making localization and decentralization and affiliate performance. Finally, because this sample is not a random

sample of the entire population of Japanese affiliates in the U.S. and Europe, we are limited in our ability to generalize from these results. While the results reported here are representative of the decision making processes in large, established Japanese MNCs in the U.S. and Europe, there is no reason a priori to believe that smaller Japanese affiliates operate in the same way. Clearly further research in this area is called for.

Where, by whom and how affiliate decisions are made are critical aspects of managing the dynamic tensions between global integration and local responsiveness (Bartlett & Ghoshal, 1989). Perhaps joint decision making, the mode overwhelmingly favored by the respondents in our study, is one critical mechanism for Japanese MNCs to move toward geocentrism (Perlmutter, 1969) and transnationalism (Bartlett & Ghoshal, 1989). At the same time, unless host country employee involvement in decision making clearly shows a positive impact on organizational performance in the long-run, there is no reason to believe that Japanese MNCs will follow this path simply because academics and pundits believe that "it is the right thing to do." The next challenge for academics is therefore to systematically study whether or not localization and decentralization are indeed important to MNC success.

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TABLE 1a
DESCRIPTIVE STATISTICS

Variable Name	Whole Sample			U.S. Subsample			European Subsample		
	Mean	Std. Dev.	Range	Mean	Std. Dev.	Range	Mean	Std. Dev.	Range
% Expatriates in Affiliate	0.08	0.10	0-.6	0.10	0.12	0-.6	0.07	0.08	0-.50
Performance (Profit Level)	2.76	1.04	1-5	2.59	1.08	1-5	2.85	1.01	1-5
Affiliate Age***	13.92	8.56	2-39	18.95	9.76	7-39	11.23	6.46	2-31
Parent Experience in Host***	19.78	10.07	4-46	24.04	10.10	7-40	17.09	9.14	4-46
Affiliate Size†	465.69	831.50	5-6000	689.23	1152.08	5-6000	352.43	586.62	14-3500
Average Integration**	2.21	0.58	1.08-4	2.02	0.47	1.33-3.42	2.31	0.61	1.083-4
Localized Functions	10.20	2.64	0-12	10.37	2.52	0-12	10.12	2.71	0-12
Manufacturing Parent†	0.79	0.41	0-1	0.66	0.48	0-1	0.86	0.35	0-1
Manufacturing Affiliate**	0.45	0.50	0-1	0.24	0.44	0-1	0.55	0.50	0-1

TABLE 1b
CORRELATION TABLE

Variable Name	1	2	3	4	5	6	7	8
1) % Expatriates in Affiliate								
2) Performance (Profit Level)	-.013							
3) Affiliate Age	.114	.050						
4) Parent Experience in Host	.021	-.071	.666***					
5) Affiliate Size	-.223*	.117	.098	.105				
6) Average Integration	.017	.154	.070	-.014	-.075			
7) Localized Functions	-.169†	.064	.003	.035	.080	-.053		
8) Manufacturing Parent	-.211**	.158†	.050	.178†	.017	.145	.134	
9) Manufacturing Affiliate	-.280**	-.166†	-.426***	-.269**	.213*	-.044	.118	.089

Notes:

Significance levels for differences in means between U.S. and European subsamples and correlation coefficients:

† = $p < .10$; * = $p < .05$; ** = $p < .01$; *** = $p < .001$

Ns: Whole Sample = 119; U.S. Subsample = 41; European Subsample = 78

TABLE 2
DECISION MAKING IN JAPANESE SUBSIDIARIES
BY LOCATION AND PERSONNEL

<i>HOW DECISIONS ARE CURRENTLY BEING MADE</i>		WHERE DECISIONS ARE MADE											
		WHOLE SAMPLE				U.S.A. SUBSAMPLE				EUROPEAN SUBSAMPLE			
		<i>IN JAPAN</i>	<i>BOTH IN HOST AND JAPAN</i>	<i>IN HOST</i>	<i>TOTAL</i>	<i>IN JAPAN</i>	<i>BOTH IN HOST AND JAPAN</i>	<i>IN HOST</i>	<i>TOTAL</i>	<i>IN JAPAN</i>	<i>BOTH IN HOST AND JAPAN</i>	<i>IN HOST</i>	<i>TOTAL</i>
BY WHOM DECISIONS ARE MADE	<i>JAPANESE</i>	22.36	1.72	20.46	44.54	20.47	2.47	20.71	43.65	23.54	1.25	20.30	45.09
	<i>JOINTLY</i>	0	27.56	7.84	35.40	0	24.14	12.66	36.80	0	29.70	4.80	34.50
	<i>HOST COUNTRY NATIONALS</i>	0	0	20.07	20.07	0	0	19.55	19.55	0	0	20.40	20.40
	<i>TOTAL</i>	22.36	29.28	48.37	100.01	20.47	26.61	52.92	100.00	23.54	30.95	45.50	99.99

NOTE: Numbers in cells are the percent of total decisions made at the given location by the indicated organizational personnel. Totals are the respective row and column totals. Numbers may not add to 100% due to rounding

Table 3: Localization and Decentralization of Decisions

Decision	<u>Localization Means</u>			<u>Decentralization Means</u>		
	Total Sample	U.S. Sample	European Sample	Total Sample	U.S. Sample	European Sample
Formulation of 3-year affiliate plans	1.82	1.71	1.89	2.26	2.31	2.22
Devel. products/services not avail. in Japan	1.96	2.05	1.89	2.27	2.35	2.21
Devel. products/services involving Japan	1.45	1.52	1.41	1.65	1.71	1.61
Pricing of products/services	1.94	1.96	1.93	2.42	2.46	2.40
Changes in product design	1.69	1.72	1.68	1.95	1.95	1.95
Establ. of affiliate sales targets	2.11	2.16	2.09	2.54	2.67	2.48
Establ. of affiliate profit targets	1.83	1.84	1.83	2.24	2.41	2.14
Establ. of affiliate profit margins	1.84	1.79	1.87	2.28	2.32	2.25
Establ. new factory/branch office at the affil.	1.51	1.57	1.47	1.73	1.97	1.57
Loans to the affiliate from local sources	1.59	1.37	1.72	2.45	2.37	2.50
Sales promotion/marketing methods	2.24	2.23	2.25	2.78	2.88	2.72
Establ. new affiliates/joint ventures	1.48	1.47	1.48	1.67	1.70	1.65
Local executive promotions	1.60	1.61	1.60	2.36	2.44	2.31
Local executive salaries	1.56	1.64	1.51	2.68	2.61	2.73
Local executive bonuses	1.61	1.64	1.58	2.66	2.68	2.65
Overall Mean	1.74	1.74	1.73	2.24	2.32	2.19

Note:

1=Japan/Japanese Alone

2=Japan/Japanese & Host Country/Host Country National Together

3=Host Country/Host Country National Alone

Table 4: Rank Ordering of Decisions: Relative Levels of Localization and Decentralization

Decision	<u>Localization Rank</u>			<u>Decentralization Rank</u>		
	Total Sample	U.S. Sample	European Sample	Total Sample	U.S. Sample	European Sample
Formulation of 3-year affiliate plans	7	8	4/5	10	11	8
Devel. products/services not avail. in Japan	3	3	4/5	9	9	10
Devel. products/services involving Japan	15	13	14	15	14	14
Pricing of products/services	4	4	3	6	5	6
Changes in product design	8	7	9	12	13	12
Establ. of affiliate sales targets	2	2	2	4	3	5
Establ. of affiliate profit targets	6	5	7	11	7	11
Establ. of affiliate profit margins	5	6	6	8	10	9
Establ. new factory/branch office at the affil.	13	12	15	13	12	15
Loans to the affiliate from local sources	11	15	8	5	8	4
Sales promotion/marketing methods	1	1	1	1	1	2
Establ. new affiliates/joint ventures	14	14	13	14	15	13
Local executive promotions	10	11	10	7	6	7
Local executive salaries	12	9/10	12	2	4	1
Local executive bonuses	9	9/10	11	3	2	3

Note: 1=most localized/most decentralized
15=least localized/least decentralized

TABLE 5
PREFERENCES FOR LOCATION OF DECISION MAKING AND PERSONNEL MAKING DECISIONS
IN JAPANESE SUBIDIARIES

<i>HOW DECISIONS SHOULD BE MADE</i>		WHERE DECISIONS SHOULD BE MADE											
		WHOLE SAMPLE				U.S.A. SUBSAMPLE				EUROPEAN SUBSAMPLE			
		<i>IN JAPAN</i>	<i>BOTH IN HOST AND JAPAN</i>	<i>IN HOST</i>	<i>TOTAL</i>	<i>IN JAPAN</i>	<i>BOTH IN HOST AND JAPAN</i>	<i>IN HOST</i>	<i>TOTAL</i>	<i>IN JAPAN</i>	<i>BOTH IN HOST AND JAPAN</i>	<i>IN HOST</i>	<i>TOTAL</i>
BY WHOM DECISIONS SHOULD BE MADE	<i>JAPANESE</i>	10.09	0.44	10.52	21.05	6.80	0.40	7.30	14.50	12.23	0.46	12.61	25.30
	<i>JOINTLY</i>	0	35.56	13.19	48.75	0	34.78	20.29	55.07	0	36.06	8.58	44.64
	<i>HOST COUNTRY NATIONALS</i>	0	0	30.20	30.20	0	0	30.44	30.44	0	0	30.05	30.05
	TOTAL	10.09	36.00	53.91	100.00	6.80	35.18	58.03	100.01	12.23	36.52	51.24	99.99

NOTE: Numbers in cells are the percent of total decisions made at the given location by the indicated organizational personnel.
 Totals are the respective row and column totals. Numbers may not add to 100% due to rounding

TABLE 6a
CORRELATIONS BETWEEN LEVEL OF
LOCAL INVOLVEMENT IN DECISION MAKING AND SUBSIDIARY PERFORMANCE¹
TOTAL SAMPLE

	<i>PERFORMANCE MEASURES</i>								
	Profit Level	Sales Volume	Return On Sales	Market Share	New Product Development	Employee Morale	Conformance With Budget	Return On Assets	Overall Performance
LOCAL INVOLVEMENT IN BUSINESS DECISIONS									
Subsidiary S/T Plan Formulation	-0.049	0.011	-0.022	0.107	0.045	0.152 [†]	0.017	-0.088	0.047
Development of Product/Service	-0.087	-0.062	-0.082	0.104	0.003	0.017	-0.112	-0.062	-0.045
Dev. of Prod/Svc with Japan	0.113	-0.053	0.060	0.125	-0.002	0.254 ^{**}	0.051	0.063	0.070
Pricing	-0.122	-0.067	-0.075	0.053	-0.090	0.296 ^{**}	0.042	-0.075	-0.083
Change Product Design	-0.022	-0.127	-0.027	-0.106	-0.076	0.079	-0.188 [†]	0.059	-0.106
Establish Sales Targets	-0.033	0.019	-0.093	0.052	0.031	0.181 [†]	0.034	-0.031	-0.001
Establish Profit Targets	0.001	0.024	-0.066	0.045	0.120	0.154	0.096	0.020	0.040
Establish Profit Margins	-0.033	-0.036	-0.117	0.087	0.045	0.127	0.085	0.001	-0.010
Establish new factory/branch	0.018	0.053	-0.028	0.120	-0.148	-0.051	0.107	-0.004	-0.007
Loans	0.145	0.016	0.062	0.117	0.067	0.122	0.102	0.021	0.121
Sales Promotion	-0.078	-0.053	-0.127	0.014	0.100	0.245 [*]	0.107	0.045	-0.027
Establish new sub/Joint Venture	-0.087	-0.179	-0.098	-0.035	-0.098	0.003	0.019	-0.064	-0.145
Executive Promotions	-0.012	0.004	-0.188	0.033	0.085	0.190	0.148	-0.113	-0.011
Executive Compensation	-0.104	-0.112	-0.154	0.030	0.030	0.174 [†]	-0.009	-0.236	-0.070
Executive Bonus	-0.048	-0.068	-0.219	0.053	0.011	0.132	-0.004	-0.165	-0.060
Overall Decision Involvement (Average)	-0.094	-0.056	-0.142	0.074	-0.024	0.223 [*]	0.035	-0.117	-0.061

¹† = p < .10 * = p < .05 ** = p < .01 *** = p < .001

TABLE 6b
CORRELATIONS BETWEEN LEVEL OF
LOCAL INVOLVEMENT IN DECISION MAKING AND SUBSIDIARY PERFORMANCE²
UNITED STATES SUBSAMPLE

LOCAL INVOLVEMENT IN BUSINESS DECISIONS	PERFORMANCE MEASURES								
	Profit Level	Sales Volume	Return On Sales	Market Share	New Product Development	Employee Morale	Conformance With Budget	Return On Assets	Overall Performance
Subsidiary S/T Plan Formulation	-0.156	-0.062	-0.188	0.184	0.143	0.246	0.010	-0.225	-0.011
Development of Product/Service	-0.087	0.034	-0.161	0.058	-0.123	-0.100	-0.033	-0.102	-0.045
Dev. of Prod/Svc with Japan	0.117	-0.029	0.088	0.203	-0.075	0.288*	0.168	0.113	0.114
Pricing	-0.190	-0.120	-0.240	-0.163	-0.282 [†]	-0.004	-0.068	-0.149	-0.019
Change Product Design	0.060	-0.231	-0.156	-0.064	-0.342*	0.115	-0.169	-0.110	-0.090
Establish Sales Targets	-0.191	-0.019	-0.219	-0.153	0.035	-0.084	-0.232	-0.094	0.029
Establish Profit Targets	-0.147	0.010	-0.152	0.132	0.242	-0.013	-0.141	-0.037	0.075
Establish Profit Margins	-0.018	-0.028	-0.124	-0.007	-0.006	0.072	-0.052	-0.111	0.033
Establish new factory/branch	-0.159	0.046	-0.155	0.032	-0.149	0.033	-0.106	-0.091	-0.002
Loans	-0.038	0.107	0.038	0.209	0.125	0.114	0.344*	-0.035	0.140
Sales Promotion	-0.017	0.061	-0.068	-0.043	0.045	0.158	0.068	0.021	0.050
Establish new sub/Joint Venture	-0.266 [†]	-0.316*	-0.212	-0.068	-0.206	-0.102	-0.353*	-0.006	-0.106
Executive Promotions	-0.070	0.066	-0.193	0.068	-0.144	0.047	0.086	-0.235	0.038
Executive Compensation	0.037	-0.009	-0.138	-0.054	-0.213	-0.123	-0.024	-0.153	-0.049
Executive Bonus	0.042	-0.018	-0.108	-0.037	-0.078	0.049	-0.025	-0.153	-0.042
Overall Decision Involvement (Average)	-0.137	-0.089	-0.222	0.011	-0.107	0.046	-0.086	-0.165	-0.015

²† = p < .10 * = p < .05 ** = p < .01 *** = p < .001

TABLE 6c
CORRELATIONS BETWEEN LEVEL OF
LOCAL INVOLVEMENT IN DECISION MAKING AND SUBSIDIARY PERFORMANCE³
EUROPEAN SUBSAMPLE

LOCAL INVOLVEMENT IN BUSINESS DECISIONS	PERFORMANCE MEASURES								
	Profit Level	Sales Volume	Return On Sales	Market Share	New Product Development	Employee Morale	Conformance With Budget	Return On Assets	Overall Performance
Subsidiary S/T Plan Formulation	0.005	0.046	0.063	0.073	-0.002	0.112	0.021	-0.015	0.076
Development of Product/Service	-0.064	-0.140	-0.029	0.118	0.112	0.107	-0.177	-0.040	-0.002
Dev. of Prod/Svc with Japan	0.133	-0.085	0.051	0.087	0.069	0.265*	-0.015	0.027	0.111
Pricing	-0.087	-0.072	-0.006	0.130	-0.004	0.438***	0.060	-0.044	0.070
Change Product Design	-0.064	-0.092	0.044	-0.125	0.066	0.072	-0.210 [†]	0.151	-0.054
Establish Sales Targets	0.089	-0.001	-0.018	0.157	0.095	0.380**	0.125	-0.001	0.164
Establish Profit Targets	0.119	-0.016	-0.017	-0.011	0.067	0.285*	0.179	0.047	0.126
Establish Profit Margins	-0.041	-0.050	-0.113	0.139	0.080	0.176	0.149	0.071	0.084
Establish new factory/branch	0.172	0.046	0.065	0.165	-0.100	-0.037	0.159	0.045	0.090
Loans	0.218 [†]	0.047	0.081	0.081	0.019	0.073	0.063	0.064	0.145
Sales Promotion	-0.110	-0.134	-0.156	0.041	0.146	0.318**	0.107	0.055	0.063
Establish new sub/Joint Venture	0.020	-0.130	-0.040	-0.022	-0.037	0.062	0.156	-0.095	-0.012
Executive Promotions	0.027	-0.044	-0.183	0.073	0.212 [†]	0.286*	0.160	-0.048	0.101
Executive Compensation	-0.194	-0.178	-0.163	0.104	0.177	0.335**	-0.006	-0.291*	-0.003
Executive Bonus	-0.105	-0.127	-0.296*	0.098	0.077	0.212	-0.013	-0.178	-0.032
Overall Decision Involvement (Average)	-0.054	-0.080	-0.096	0.098	0.043	0.357**	0.054	-0.096	0.059

³ † = p < .10 * = p < .05 ** = p < .01 *** = p < .001

TABLE 7a
CORRELATIONS FOR
GAP BETWEEN DESIRED AND ACTUAL LEVEL OF
LOCAL INVOLVEMENT IN DECISION MAKING AND SUBSIDIARY PERFORMANCE¹
TOTAL SAMPLE

GAP IN LOCAL INVOLVEMENT IN BUSINESS DECISIONS	PERFORMANCE MEASURES								
	Profit Level	Sales Volume	Return On Sales	Market Share	New Product Development	Employee Morale	Conformance With Budget	Return On Assets	Overall Performance
Subsidiary S/T Plan Formulation	-0.041	0.007	0.021	-0.168 [†]	-0.082	-0.282 ^{**}	-0.025	-0.039	-0.122
Development of Product/Service	-0.125	0.079	0.075	-0.121	0.011	-0.175	-0.045	-0.008	-0.064
Dev. of Prod/Svc with Japan	-0.189 [†]	0.041	-0.103	-0.159	-0.067	-0.308 ^{**}	-0.093	-0.145	-0.192 [†]
Pricing	-0.156	0.080	0.049	-0.174 [†]	0.002	-0.317 ^{**}	-0.147	0.076	-0.121
Change Product Design	-0.140	0.024	-0.049	-0.083	0.122	-0.173 [†]	0.133	-0.154	-0.054
Establish Sales Targets	-0.116	-0.034	-0.039	-0.190 [*]	-0.069	-0.275 ^{**}	-0.139	-0.095	-0.183 [†]
Establish Profit Targets	-0.104	0.108	0.072	-0.048	0.033	-0.201 [*]	-0.098	-0.003	-0.046
Establish Profit Margins	0.043	0.208 [*]	0.116	-0.077	-0.020	-0.184 [†]	-0.030	0.060	0.123
Establish new factory/branch	0.240 [*]	0.132	-0.244 [*]	-0.184 [†]	-0.105	-0.187 [†]	-0.212 [*]	-0.295 ^{**}	-0.300 ^{**}
Loans	-0.045	0.022	-0.155	-0.074	-0.096	-0.144	-0.022	-0.022	-0.108
Sales Promotion	0.000	0.142	0.031	-0.037	-0.094	-0.272 ^{**}	-0.138	0.019	-0.068
Establish new sub/Joint Venture	0.077	0.156	-0.067	0.033	-0.016	-0.114	-0.009	-0.124	-0.006
Executive Promotions	-0.031	-0.040	0.071	-0.179 [†]	-0.174 [†]	-0.194 [*]	-0.091	-0.006	-0.135
Executive Compensation	-0.026	0.211 [*]	0.109	-0.006	-0.200 [*]	-0.334 ^{***}	-0.078	0.113	-0.055
Executive Bonus	-0.101	0.146	0.006	-0.035	-0.158	-0.361 ^{***}	0.051	-0.102	-0.110
Overall Decision Involvement (Average)	-0.121	0.117	0.007	-0.127	-0.083	-0.318 ^{***}	-0.108	-0.055	-0.138

¹† = p < .10 * = p < .05 ** = p < .01 *** = p < .001

TABLE 7b
CORRELATIONS FOR
GAP BETWEEN DESIRED AND ACTUAL LEVEL OF
LOCAL INVOLVEMENT IN DECISION MAKING AND SUBSIDIARY PERFORMANCE²
UNITED STATES SUBSAMPLE

GAP IN LOCAL INVOLVEMENT IN BUSINESS DECISIONS	PERFORMANCE MEASURES								
	Profit Level	Sales Volume	Return On Sales	Market Share	New Product Development	Employee Morale	Conformance With Budget	Return On Assets	Overall Performance
Subsidiary S/T Plan Formulation	0.118	0.023	0.100	-0.155	-0.163	-0.343*	0.020	-0.046	-0.080
Development of Product/Service	-0.077	0.034	0.221	-0.205	0.109	-0.067	0.055	0.112	0.041
Dev. of Prod/Svc with Japan	-0.204	-0.017	-0.007	-0.246	0.064	-0.341*	-0.144	-0.143	-0.164
Pricing	-0.235	0.061	0.128	-0.094	0.023	-0.247	-0.100	0.001	-0.098
Change Product Design	-0.213	0.041	0.109	-0.172	0.257	-0.236	0.073	-0.021	-0.032
Establish Sales Targets	0.034	-0.054	0.063	-0.092	-0.236	-0.040	0.045	-0.015	-0.055
Establish Profit Targets	0.002	0.067	0.131	-0.063	-0.125	0.004	0.039	0.050	0.003
Establish Profit Margins	0.058	0.142	0.168	-0.143	0.060	-0.097	0.107	0.056	0.057
Establish new factory/branch	-0.356 [†]	-0.161	-0.373 [†]	-0.076	-0.042	-0.118	-0.224	-0.302 [†]	-0.296 [†]
Loans	0.079	-0.043	-0.149	-0.028	-0.169	-0.086	-0.237	-0.078	-0.115
Sales Promotion	-0.098	-0.047	0.095	-0.084	-0.029	-0.155	-0.148	0.064	-0.064
Establish new sub/Joint Venture	-0.063	0.143	-0.127	0.139	0.206	0.012	-0.059	-0.095	0.017
Executive Promotions	0.023	0.063	0.234	-0.050	-0.186	-0.320*	-0.002	0.075	-0.038
Executive Compensation	-0.350 [†]	-0.095	-0.221	-0.123	-0.157	-0.371*	-0.248 [†]	-0.213	-0.316*
Executive Bonus	-0.249 [†]	0.079	-0.074	-0.169	-0.175	-0.356*	-0.074	-0.256 [†]	0.241
Overall Decision Involvement (Average)	-0.144	0.050	0.043	-0.142	-0.034	-0.263 [†]	-0.088	-0.062	-0.156

²t = p < .10 * = p < .05 ** = p < .01 **** = p < .001

TABLE 7c
CORRELATIONS FOR
GAP BETWEEN DESIRED AND ACTUAL LEVEL OF
LOCAL INVOLVEMENT IN DECISION MAKING AND SUBSIDIARY PERFORMANCE³
EUROPEAN SAMPLE

GAP IN LOCAL INVOLVEMENT IN BUSINESS DECISIONS	PERFORMANCE MEASURES								
	Profit Level	Sales Volume	Return On Sales	Market Share	New Product Development	Employee Morale	Conformance With Budget	Return On Assets	Overall Performance
Subsidiary S/T Plan Formulation	-0.125	-0.031	-0.021	-0.183	-0.016	-0.223 [†]	-0.076	-0.040	-0.143
Development of Product/Service	-0.173	0.122	0.006	-0.084	-0.062	-0.256 [†]	-0.053	-0.064	-0.120
Dev. of Prod/Svc with Japan	-0.172	0.064	-0.164	0.111	-0.152	-0.290 [*]	-0.082	-0.148	-0.208
Pricing	-0.135	0.118	0.017	-0.203	-0.021	-0.385 ^{**}	-0.145	0.112	-0.137
Change Product Design	-0.096	0.003	-0.127	-0.044	0.067	-0.126	0.145	-0.227	-0.061
Establish Sales Targets	-0.189	-0.046	-0.084	-0.236 [†]	0.011	-0.360 ^{**}	-0.225 [†]	-0.139	-0.246 [*]
Establish Profit Targets	-0.168	0.116	0.040	-0.046	0.141	-0.294 [*]	-0.182	-0.043	-0.077
Establish Profit Margins	0.039	0.244 [†]	0.084	-0.045	-0.060	-0.231 [†]	-0.107	0.065	-0.013
Establish new factory/branch	-0.116	-0.232 [†]	-0.140	-0.282 [*]	-0.092	-0.141	-0.294 [*]	-0.297 [*]	-0.298 [*]
Loans	-0.098	0.009	-0.163	-0.101	-0.051	-0.129	0.036	0.011	-0.101
Sales Promotion	0.049	0.261 [*]	-0.009	-0.012	-0.142	-0.373 ^{**}	-0.116	-0.008	-0.074
Establish new sub/Joint Venture	0.171	0.140	-0.031	0.028	-0.108	-0.147	-0.008	-0.141	-0.012
Executive Promotions	-0.065	-0.069	-0.002	-0.232 [†]	-0.186	-0.164	-0.112	-0.045	-0.183
Executive Compensation	0.193	0.364 ^{**}	0.310 [*]	0.052	-0.211	-0.298 [*]	-0.026	0.323 [†]	0.110
Executive Bonus	0.030	0.176	0.068	0.053	-0.136	-0.351 [*]	0.106	0.028	-0.009
Overall Decision Involvement (Average)	-0.103	0.129	-0.008	-0.125	-0.198	-0.331 ^{**}	-0.136	-0.056	-0.048

³† = p < .10 * = p < .05 ** = p < .01 *** = p < .001