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Decision-making in multinational enterprises:

Concepts and research approaches

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Introduction

The purpose of this paper is to provide a discussion of the concepts and research approaches which are relevant for the study of decision-making in multinational enterprises (MNEs). Special emphasis will be given to describing strategic decision-making, which is a set of decisions of particular relevance for changes in the global operations of MNEs (including international investment and restructuring).

The first part of this paper will deal with decision-making in large enterprises in general, a category which embraces the typical MNE (large enterprises are usually multi-plant companies with a complex make-up). Is decision-making in large enterprises best conceptualised as a structure, a process or a series of procedures? A typology of decisions will be given based on the notion that a hierarchy of decisions exists - from strategic to administrative, policy and operational decisions. A distinction will be made between the phases of a decision-making process and between stages in the development of the content of the decisions and in the organisational commitment to their content. The number and the levels of decision-makers concerned with these strategic decisions will be analysed. Finally, both the internal (company) and external (society) environment of decision-making will be described.

The second part of this paper will give a summary of the state of present knowledge about how multinational enterprises in particular make decisions. What is the respective responsibility of parent (head-quarters) and the foreign subsidiaries in terms of decision-making? Which company characteristics are related to centralisation or decentralisation patterns or structures? How can the processes of decision-making in a MNE be conceptualised? For this latter purpose the iterative model will be presented. This model appears to be well suited to answer the question of how parent company and foreign subsidiary executives interact in making strategic decisions such as on foreign investments and disinvestments.

The last part of this paper will give an outline of the major issues raised by the question of how multinationals make strategic decisions, especially in the context of the international restructuring of their activities. In the years to come these types of decisions will remain of particular interest not only for the MNEs themselves but also for governments, employers and workers in the home and host countries of MNEs.

Chapter I: Decision-making

I.1 Definitions: structures, processes or procedures?

According to Webster's Dictionary a structure gives the state of the arrangements and inter-relations of all the parts of an organisation. It includes the organisation chart, the task descriptions and the system of evaluation and control of each sub-system of the organisation and of the managers in charge. These elements of the organisational structure are an important part of the context and can become an effective tool in the hands of a president and/or chief executive officer to influence the content of the decisions of the managers below him (Bower, 1970). Planning and budgeting procedures - as well as those of control - can be considered as a part of the organisational structure of an enterprise.

Structure is a concept used to embody many phenomena besides the organisational characteristics of an enterprise. One is the legal structure: is the firm owned one hundred per cent by a (foreign) parent company or is it a joint venture with another (local) partner (private or public)? Is it a private or public company? Does it originate and operate in different economic environments (industrialised countries, Third World)? Such differences may affect goals and interest perceptions and are likely to have an impact on the firm's decision-making behaviour. The size of a subsidiary relative to the group to which it belongs, as measured in percentage of total assets, sales, profits or cashflow can also give rise to the use of the concept of structure. Decision-making is influenced by all kinds of variables, including structures like those mentioned above. It takes place within a given organisational structure because the decision-making actors are members of this structure in which they have defined roles. However, the art of decision-making itself involving the dimension of time and context can be better understood if one uses the concept of process rather than, or in addition to, structure.

A "process" implies "a continuing development involving many changes and/or a particular method of doing something, generally involving a number of steps or operations" (Webster's Dictionary). A process need not be linear in its development, it can incorporate feedback loops or be iterative, i.e. involve repeated adjustments. Processes are known in the various sciences (e.g. anatomy, biology) and also describe linked production activities in the various industries, for example the manufacturing process, the printing process, etc. Similarly, decision-making in an enterprise can be seen as action involving changes, steps and a number of operations. Such processes can be of intellectual, administrative, political and/or psychological nature. They usually include a mixture of these four types of processes. (The various theories that embody those four types of decision processes are briefly reviewed in the Appendix.)

Procedures (from the French "procédure") are made up of a series of successive codified steps designed to reach a result. Each of these steps often has to follow a strict administrative format spelled out in forms with official instructions (Petit Robert, 1982, p. 1,534). Planning, budgeting and control processes in large organisations are most often codified in company manuals. They provide instructions for the steps to be followed for these processes. However, actual planning, budgeting and control, even though they are likely to follow established procedures, can include more decisions than merely following the details of such existing instructions. Human beings in organisations hardly ever behave completely according to procedural instructions (except perhaps when the latter are seen as convenient mechanisms of self-protection). Procedures are usually the codified steps of past processes (experience). Therefore, procedures have to be continuously modified to take into account changes in processes. Planning, budgeting and control processes concern strategic as well as administrative, policy and operational decisions.

I.2 Types of decisions

Various types of decisions can be distinguished according to their nature, subject area or impact and importance for the company. In this latter context a hierarchy of decisions can be established. Herbert Simon proposed four such types of decisions, which in descending hierarchical order are: strategic, administrative, policy and operational decisions, (Simon, 1949). They are presented below together with some illustrative examples.

1. Strategic decisions can also be called foundation or constituent decisions. These decisions determine the general orientation of the activity of the enterprise or more generally, of the organisation. There are few of them in any enterprise - once it has been established. The following types of decisions are usually considered to be strategic:

- The adding of new product lines, new product functions or new services, or the dropping of old ones. When a food processing company produces a set of new flavours, or a computer firm drops a microcomputer production line, they have made a strategic decision. Such strategic decisions may occur without investment (which is usually part of the strategic decision). A strategic decision without investment may occur when the same production facilities are used for a new product (for example, military instead of civilian trucks are produced with the same facilities).
- Diversification of activities. A good example is Fiat which began to make passenger cars, then added trucks, tractors, military and space equipment. These product categories have little in common. They are considered as different businesses. Decisions to diversify are usually made in order to obtain a larger and more stable economic basis and to reduce the risks involved in the fluctuation or contraction of demand for special business lines. (Tobacco firms entering the food processing sector for instance.)

- Upstream or downstream integration such as when an aluminium processor purchases bauxite fields (upstream) or a chemical producer buys a fertilizer company (downstream).
- Internationalisation: the setting up of successive subsidiaries in foreign countries. Such subsidiaries can take the form of commercial outlets, production and service facilities or both. Internationalisation is obviously a major strategic decision involving the alternatives of export versus foreign direct investment.
- Restructuring: the reallocation of resources to various types of business and/or locations. It may result in concentrating on the major line of business as in the case of Michelin divesting from Peugeot or a conglomerate selling some businesses to concentrate on others. It can also result in a total change of the product structure such as in the cases of Dunlop (UK) moving from tyres to sport and home equipment and BSN (France) from glass manufacturing to food processing. Another type of restructuring is the reduction of the number of production sites, or sizes of facilities, including closures with a negative impact on the size of the workforce. Such reductions in some areas of business may be offset by expansion in others or may have no such compensatory effects, as in most of the present restructuring of companies in the steel industry.
- Acquisitions: in foreign countries or at home. Such acquisitions may or may not be a part of a general restructuring.
- Disinvestment at home or abroad. Like acquisitions, these might be part of a general restructuring.

The issue of restructuring by private and public enterprise which in the present economic circumstances is frequently accompanied by employment reduction is a major concern for governments, unions and the companies themselves. Restructuring usually implies simultaneous or sequential disinvestment of some parts or entire businesses and investments in other operations.

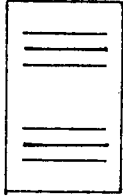
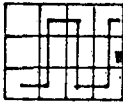
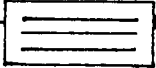
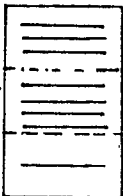
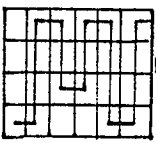
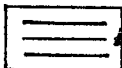
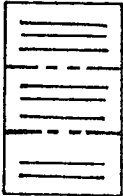
However, disinvestments are only one part of the move by a company to restructure its operations. The flow of funds generated by the sale of one unit is likely to be used for investments in plants and equipment to strengthen the strategic position of other units in the face of local or foreign competition.

- Adoption of new technologies for existing production processes such as automation and robotics or for entry into new industries such as bio-technologies.

At this stage it may be useful to compare the concepts of strategic decision-making and of strategic planning.

Strategic planning is an exercise in forecasting major developments using as an input the ex post analysis of major strategic decisions the firm has made in the past. The strategic ex ante plan so derived may provide a framework for actual decision-making. On the other hand, strategic decision-making is real-time action with major stakes for the firm's future and for those executives who put their reputation on the line in taking final responsibility. It is sometimes wrongly believed, however, that strategic decision-making consists just in the implementation of such an ex-ante strategy. This is not the case for various reasons. The strategic planning department does most of the work to create the plan. It obtains some help from top management at the parent and at the subsidiaries. It uses mainly strategic planning tools and procedures (see the Appendix). Once the strategic plan is produced, strategic planners are only marginally associated with the actual strategic decision-making by top management of the parent and the subsidiary. The two processes do not take place at the same time and their perspective is not the same.

Figure 1: Ex ante and ex post strategy, planning and decision-making processes

Ex post strategy	Strategic planning process	Plan	Ex Ante strategy	Strategic decision-making process	Strategic decision	New ex post strategy
 formal written document or shared opinions	 formalized political process	 formal written document to guide action	 formal written document or shared opinions	 non-formalized political process	 written document to be implemented	 formal document or shared opinions
after the preceding strategic opinion	at fixed times during the year	at the end of the planning process	before current decision-making process	variable times according to opportunities and menaces	at the end of the decision-making process	after studying the preceding decision-making process

Still, strategic decisions can very well correspond to the results of strategic planning even though the two processes are quite distinct within the firm. However, it is quite common that the results of strategic decisions are different from the recommendations of the strategic plan. Figure 1 gives a graphic representation of the above concepts.

2. Administrative decisions provide for changes or specifications in the organisational context of the activities of the employees. They affect the organisation chart and the job descriptions as well as define benefits, promotions or disciplinary measures involved. They also establish procedures which indicate to the employees rewards or sanctions for certain courses of action. Naturally, administrative decisions do not constitute the sole context of managers' decision-making: past strategic decisions and existing company policies are also part of the internal decision-making context.

3. Policies create the predetermined framework for repetitive acts. For example, a policy may lay down that a firm pays its suppliers within thirty days of the monthly statement. Another policy decision for instance would be a decision to decentralise industrial relations. The decision-making processes which define policies can take place within the general context of strategic decisions but happen often at a lower hierarchical level.

4. Operational decisions are those decisions which cannot be foreseen within the framework of strategic, administrative or policy decisions. They leave a margin for initiative and can be made at different levels within the firm. Thus, in order to facilitate a sale, a salesman may very well decide to have the merchandise delivered the very same day to his client even though the firm's policy is to deliver at the end of the month. Another example of an operational decision would be the decision by subsidiary management of a new unit of the industrial group (set up by a strategic decision of the parent enterprise) to undertake all measures to have the unit operate effectively. These may include renting a part of the headquarters, firing executives or hiring new ones, attracting new clients, and so on. However, the decisions will again become strategic in nature should the subsidiary consider, for example, investments, acquisitions or disinvestments. In a way, operational decisions indicate the degree of freedom which exists for managers within the framework of strategic and policy decisions.

The concept of tactical decisions is not used as a category of business decisions. This is because tactical decisions can be a part of strategic, administrative or operational decisions. An example of a tactical decision within a larger strategic decision would be for instance to set up business initially in one region when investing for the first time in a foreign market (a strategic decision) rather than throughout the entire country. An administrative tactic sometimes used to force a top executive to resign is to remove all his previous tasks and responsibilities while maintaining his salary. An operational

tactic to enter a new market with well entrenched competitors is to lower prices for a short time in order to gain a minimum market share assuming that the competition is not likely to respond immediately.

I.3 Phases of the decision-process and stages in the development of the decision-content and in the organisational commitment to it

Strategic decision-making takes a long time. Several months or years may separate the beginning and the end of the process. For an investment or disinvestment project, for instance, there are extended time intervals between the initial studies, the in-depth investigations, the internal review and negotiations of the project, and its final approval by the president and the board of directors. The point at which the project takes its final form can only be determined a posteriori as the time required for the different stages of decision-making cannot be predicted precisely, since in the last stages of discussion with board members time-consuming modifications may be required, though this is rare.

Likewise, while a commitment may develop for a particular project, not all levels of the enterprise may be committed to it at the same time. In particular the final commitment of the decision-making system as a whole can only be taken for granted after the highest hierarchical level has given its approval. If one undertakes an ex post analysis of the decision processes of projects, it will often be found that the organisational commitment existed prior to the final approval, which cannot be seen, however, before the process is over. A new "stage" in the decision-making process is reached at the point where the content of the project becomes transformed and when new members or hierarchical levels have committed themselves in favour of it. It has been argued (Aharoni, 1966, pp. 122-141) that such a commitment is the result of a series of small steps, none of which taken alone is crucial. For him the final decision is a result of a series of individual decisions made subsequently: therefore the organisation itself does not know exactly when its commitment emerged. Others have found that the commitment can be pinpointed (even though only a posteriori) and corresponds to the particular time when board members or outside consultants have given their agreement to a project (Ghertman, 1981; Jamous, 1969; Sfez, 1981; Quirici, 1975). These actors may build "communication bridges" between several groups within the firm because they understand the values, objectives and languages of these groups and are able to communicate them to each other. This process was clearly demonstrated for instance in the cases of nine investment decisions made in the United States by a French multinational (pseudonym "Cofracis") where the crucial board members were sitting at the same time in the board of the subsidiary and of the parent (Ghertman, 1981).

As regards the concepts of "stages" and "phases" the term "phases" is preferred for repetitive forms of interaction between decision-making actors (e.g. in the iterative model described in the next part of this paper). "Stages" on the other hand, are seen as non-repetitive steps in the development of a project.

I.4 Number and levels of decision-makers

In large enterprises/organisations, strategic decisions are made by a very small number of people from the general management. In the case of a state-controlled firm, for example, these decisions are made by the top management on the condition that the appropriate ministry agrees. In the case of a privately-owned multinational firm the general top management, with the agreement of the shareholders, determines the broad strategic and policy orientations (Bauer and Cohen, 1981).

For the decision on a foreign investment through an acquisition the number of executives involved is usually small. This present author counted, for instance, less than ten people for nine such decision processes involving a French-based multinational ("Cofracis") during a ten-year period (Ghertman, 1981). Three of the executives involved were found in the management of the foreign subsidiary in question while the others were at the parent headquarters, including the president of the group and the head of the international division. Other studies (Aharoni, 1966) have arrived at similar conclusions.

For foreign disinvestment decisions the conclusion is identical. Out of a sample of 38 US-based disinvesting firms (including the largest of the Fortune 500 list) 32 had 5 or less executives involved at the vice-president level and 27 firms, 5 or less executives at levels below the vice-president (Torneden, 1974, p. 121). In total, less than 10 persons were involved for about 80 per cent of the enterprises in the sample.

Administrative decisions are also essentially made by the general management. On the contrary, policy decisions can be made by lower levels - by the administrative, financial, production or marketing managers. Such decisions must always have to do with the implementation of strategic decisions. As far as operational decisions are concerned, there are several different types and therefore they can be made at different levels of the hierarchy.

I.5 The internal environment of decision-making

The internal environment of strategic decision-making by enterprises can be divided into four elements: previous strategy, existing structure and procedures, decision-making practices and identity of the enterprise.

The first element, the previous strategy of the firm, can have a powerful influence on current decision-making and its absence can be a deterrent or a difficulty. Thus the decision to set up a first subsidiary in a foreign country can be a major undertaking if the company has had a strong tradition of staying at home. For the French multinational "Cofracis" (referred to above), once an initial firm had been acquired abroad, it required on the other hand, less time and effort from top management, both at the parent and at the subsidiary, before a second acquisition decision was made. Subsequent decisions of this kind required the participation of fewer executives from the parent president's staff (the president had direct relations with the foreign subsidiary director) (Ghertman, 1981).

For disinvestments a similar relationship between past experience and the number of decision-makers has been noticed:

A relationship was found between the divestment experience (defined as the number of other divestments managed) of the executive in charge of the divestment and the number of personnel involved who were below the vice-presidential level. Divestment managers who had had no previous experience in this area utilized an average of three people below the vice-presidential level as decision participants. As the manager's divestment experience increased, the number of other participants declined. For the manager who had made six or more foreign divestments, only one other junior participant actively participated. However, the board of directors and/or the president maintained their interest regardless of the experience of the divestment manager (Torneden, 1974, p. 122).

For disinvestment of an entire product division in three diversified firms, Gilmour counted three levels of participants: the board, the president and the heads of each division (Gilmore, 1973; Bower, 1970; and Aharoni, 1966) found five levels of participants for investment decisions.

After strategy, the structure of the enterprise can have a major influence on strategic decision-making. As had already been noted, executives are often driven in specific directions if they know what type of decisions will be rewarded. Still, the major element of structure - besides the organisation chart, job descriptions and systems of rewards and sanctions - is the men and women active in the executive positions. Thus, the most important structural decision is the appointment or removal of top executives by the president or a change in the presidential office. (In the case of "Cofracis", the local executive team was renewed - after the previous foreign executive retired - a few years before the firm started its wave of foreign acquisitions in the United States.)

For disinvestments, Gilmore has shown (1973) that the first move was usually made by the board which fired the president since the poor results of the division in question endangered the rest of the firm.

It was then the new president who made the second move and proposed the disinvestment of the ailing division. Torneden confirmed widely this pattern for his sample of 38 firms (plus 16 case studies). Six out of eight disinvesting firms had changed the top executive or the international head before disinvestment (Torneden, 1974, p. 112). The new president considered then the disinvestment issue as a substantive problem left over from the previous administration rather than a personal problem. "... For 26 of the 36 respondents who answered this question, the incumbent president was not actively involved in the original investment decision... Only 3 of the 33 presidents were occupying that office when the original investment decision was made" (Torneden, 1974, p. 118).

These findings relate to company experiences during periods prior to 1973 which were characterised by general growth in most major companies. With the increase in disinvestments due to the economic slow-down of the recent years it seems conceivable that they are now less associated with changes in the top management team than previously.

The last element of the internal environment of strategic decision-making is the identity of the firm (Larçon and Reitter, 1979). Identity is made of a mix of four types of factors, viz.:

- the consistency of the objectives of board members, the personality of top executives and the company strategy;
- the organisation structure, its procedures and management systems, its physical and spatial arrangements, its own symbolism;
- the psychological image of what the organisation is;
- internal systems of bargaining, and company symbolism.

Top executives usually have a good feeling of their corporate identity: what it is, where it is and where it can go or what it should avoid doing. However, such feelings are often not very precise nor are they made public. They acquire an operational dimension only in the context of a concrete project decision.

I.6 The external environment of decision-making

(a) Political and legal environment

Decision-makers in enterprises live within a social system regulated by a number of rules. If they do not obey these rules they are sanctioned in one way or another.

The legal environment is a major determinant for companies of their behaviour. The laws of some countries require that local partners (private or public) hold between 49 to 51 per cent of the local subsidiaries of multinationals. The enterprises either have to comply with the law or to abandon the local market as did IBM and Coca Cola in India. Likewise, in the cases of the disinvestment in the oil industry in Norway, multinationals need the prior agreement of the local government. In cases of workers' lay-offs in countries such as the Federal Republic of Germany, the Netherlands and France, companies have to give notification to and/or obtain the authorisation of the local employment exchange authorities. The requirement to obey local law holds whatever the size of the firm (Lattes, 1982, p. 35) or the country (U.N., 1974, p. 149). In addition to local law, voluntary codes of conduct can influence the behaviour of multinationals and other enterprises (Ghertman, 1983, pp. 98-106).

(b) Government policy

The policies of home or host country governments towards outward and inward foreign investment are determined in some countries by the foreign investment codes. In others, they are not specified in detail and may also undergo unforeseeable changes. Policies may set investment limits, regulations for capital flows and transfers, and include incentives of all kinds (e.g. linked to the volume and nature of investment, training efforts, etc.).

Changes in these government policies have an obvious impact on enterprise decision-making. The business literature converges on the finding that an increase in environmental uncertainty, to which such changes belong, will increase the number of decision-makers involved. For foreign acquisition decisions at "Cofracis" for example, the number of authorised decision-makers decreased between 1967 and 1972, narrowing down to the president of the parent and the foreign subsidiary president and vice-president. In 1972 the threat of discriminatory treatment of subsidiaries of multinationals in the United States existed as the result of a bill proposed by senators Hartley and Burke. Thus, the members of the board and of the corporate staff of "Cofracis" again became involved in the process of deciding whether or not a new company should be acquired in the circumstances (Ghertman, 1981, pp. 218-219).

For disinvestment decisions prior to 1972 by United States multinationals, Torneden found not much host government concern, at least in Latin America, possibly because it might have been felt that viable and perhaps more desirable local investment alternatives existed.

The host government had little influence upon the divestment plan or the divestment implementation. Only 4 of 34 responding companies (excluding those with operations that were expropriated) indicated that they had undertaken discussions with host government officials

prior to making a divestment plan. Of the 4, only 2 indicated that the discussions had had any influence upon the plan. Concerning divestment implementation, 29 of 37 responding companies (excluding those with operations that were expropriated) noted that no discussions had occurred with host-government officials prior to divestment: 4 companies indicated some discussions had occurred: and 4 indicated that there had been a moderate amount of discussion. However, 3 of the 4 companies that had conducted a moderate amount of discussion divested operations in Mexico, Central America and South America. It may be that these companies had little choice: the host governments may have requested these discussions in view of their nationalization. Most companies replied that in their opinion the host government was indifferent (32 responses) or pleased (4 responses) about the divestment. Only one company noted displeasure on the part of the host government (Torneden, 1974, p. 130).

Furthermore, the ability of host governments to ward off a potential disinvestment decision was considered a very small one. For example, 29 of 33 responding companies indicated that "additional but reasonable economic incentives, such as tax relief, would have had no effect on the decision to divest" (Torneden, 1974, p. 131). In the changed economic circumstances, the results of the enquiry might be different today.

(c) Workers' representatives

In quite a number of countries, trade unions or inplant workers' representatives have a strong bargaining position vis-à-vis management, at least with respect to the execution of plans for restructuring and disinvestment entailing changes in the nature of business and/or collective dismissals. While bargaining positions and practices differ (Blanpain, 1974) and in various countries worker members participate on company boards, it can be noted that union action of whatever form has rarely had the result of completely cancelling a company's plans to restructure. It has sometimes, however, delayed their implementation considerably, such as in the cases of Akzo, Dunlop and Timex.

(d) Competition

Competitive environments can be drastically different according to industry and country of operation. They can range from cartel arrangements like those administered by the EEC Commission for the European steel industry to fierce product and price competition in the microcomputer field. The objectives of the firms are likely to be affected by differences in the competitive environments. In declining industries facing fierce competition, the objective will be survival rather than growth. Ultimately, protective government measures or subsidies may be sought in such circumstances. Relative loss minimization rather than earnings may be a measure of efficiency for operations under such

conditions. On the other hand, in growth industries the search for profit and/or market shares are likely to be the objectives. In national environments where the stock market is an important criterion of enterprise performance, like in the United States, the company's share prices are bound to be a major concern to executives wanting to avoid takeover moves.

d.1 The role of profit measurement

Most studies of investment decision-making find very little evidence that profit measures (present value of expected future cashflows, rate of return or other forms of profit yardsticks) are key elements of a firm's decision to make acquisitions or set up plants in the home country or overseas (Aharoni, 1966; Bower, 1970; Ghertman, 1981). The key elements for such decisions are more of strategic rather than financial nature. Profit is a global financial criterion to measure performance, once investment decisions have been made and implemented, but not, in most cases, a sufficient guideline for strategic decision-making.

For the eight acquisition decision processes of "Cofracis" in the United States, this author found the rate of return measurement of profit used only once by a middle-ranking staff member of the parent (Ghertman, 1981). The presidents of the parent and the subsidiary were much more concerned with the size of the operation, the nature of the risk and the ability to reach a targeted level of stock market valuation after a nine-year period. For disinvestment decisions Torneden found contradictory but most interesting results. The reasons for disinvestments identified through 16 case studies were the following: excessive top management time required - 6 cases; excessive capital requirements - 3; host government pressures - 4; no chance of earning a profit - 2 (Torneden, 1974, p. 111).

Considered ex ante, i.e. during the decision process, the profit criterion seems thus relatively unimportant although it would seem to be implicit in some of the objectives spelt out (such as growth, size of operations and stock market valuation). On an ex post basis, however, the reverse is true as shown by the answers to the before-mentioned questionnaire survey among 38 companies carried out by Torneden.

The survey requested the corporate executive in charge of the specified divestment to state the most important criteria considered in the divestment decision. Responses to this question are summarised in ... (Table 1). Out of 32 responses, 23 stated that divestments had occurred with an unacceptable return on investment as a contributing factor. When overlapping responses are eliminated, 15 of the 32 companies listed "too small a market" and/or "cloudy product future" as important reasons for divestment. Of the 23 that noted an unacceptable return on investment, 12 also noted a small market or cloudy product future. A significant number of foreign operations apparently experience profit problems where increases in product volume could not be expected (Torneden, 1974, pp. 128-129).

Table 1: Admitted criteria for disinvestment

Criteria	Number of Responses	Percent of 38- Company Sample
Unacceptable return on investment	23	60.5
Market too small	11	28.9
Cloudy future for the product	6	15.8
Problems with host government	5	13.2
Divergence of objectives with partner	5	13.2
Excessive capital requirements	3	7.9
U.S. government pressures (such as offshore financing requirements)	3	7.9
Impossibility of upgrading management	2	5.3
Too much management time	1	2.6
Operation expropriated	1	2.6
No response	6	15.8
Total	66	

Note: Total exceeds 38 because some respondents listed more than one criterion as the "most important".

Source: R.L. Torneden: Foreign disinvestment by US multinational corporations (N.Y., Praeger, 1974) table 13.11, p. 129.

Torneden does not try to explain the discrepancies in his results. They may have to do with the fact that during the decision process executives do not know the future results of their present actions. They can only rely on measures such as their own availability and necessary capital expenditures to turn a losing venture into a money-making one. Only after the decisions have been implemented can profits be measured. It is then that executives can rationalise their past behaviour by saying that they made decisions according to return-on-investment yardsticks. Indeed, executives cannot be expected to explain their behaviour according to theories not appropriate for that purpose (Cyert and March, 1963, p. 15).

As regards disinvestments, Torneden found that few of them could be attributed to attempts by top management to improve the overall worldwide profit efficiency of the group. But most of them were linked with returns of the entity involved which in 23 out of 32 cases were considered insufficient. It should be noted at the same time that most of the subsidiary operations were seen as rather autonomous of the other company interests (Torneden, 1974, p. 130). Torneden constructed the following typology of the reasons of foreign disinvestments:

- (1) Parent companies with generally weak management that opted for poor investments;
- (2) Parent companies with generally strong management that made a few mistakes;
- (3) Parent companies that see strategic opportunities to change their corporate characteristics regardless of today's operating performance;
- and (4) Expropriations (Torneden, 1974, p. 141).

The first two categories were found to be the most frequent reasons for disinvestment. The third category was extremely rare as reported above. The fourth category was almost non-existent in the sample since it dealt mainly with European operations of US multinationals. Indeed out of 1,447 expropriations of enterprises that occurred in the world between 1960 and 1976, only 200 were in industrialised countries. The bulk of expropriations of subsidiaries of foreign multinationals occurred in developing countries (U.N., 1978, p. 234).

d.2 The role of stock prices

The effects of disinvestment on stock prices was examined for 78 divestitures made by US firms of the Fortune 500 list during the 1976-79 period (Montgomery, 1983). Unlike in the study by Torneden, Montgomery's focus was not foreign but domestic disinvestments. She made the following typology of reasons:

1. Strategy for companies selling some operations, concentrating on others and redeploying cash on what they do best.
2. Selling of undesired units which do not meet return on investment or growth targets, without any further information.

3. Selling in response to liquidity problems.
4. Forced by anti-trust law.
5. Others (i.e. reasons not mentioned).

The first category accounted for 21 out of 78 divestures. If the response of the stock market was favourable, the sale announcement was followed by strong positive gains in the stock price. The second category accounted for 26 out of the 78 divestures. Here the share price went down significantly after the divesture. The third category accounted for 10 cases and was associated with a slightly positive rise in the price of stock. The fourth and fifth categories accounted for 6 and 15 cases respectively. The response of the stock market was difficult to assess possibly because divesture discussions with anti-trust departments are long and become public knowledge. Furthermore their outcome is difficult to predict. The fifth category was associated with a negative reaction of the stock market.

Montgomery concluded that a clear communication of the firm's strategy of restructuring is welcomed by the US stock market (category one). On the contrary, all forms of information communicating a desire to hide a strategy of restructuring or the non-existence of such a strategy on the part of the divesting firm is penalised by the financial market (categories two and five). As compared with Torneden's results of eight to nine years earlier, the difference in results is significant. Torneden reported that disinvestments made to increase group profitability were a rare exception. On the other hand, for Montgomery, those disinvestments represent almost a fourth of her sample. Such divestures therefore seem to be more frequent than in the earlier period although far from being the majority.

(e) Industry history as a long-term determinant of employment levels

Growing, stable or declining industries - with high or low degrees of multinationalisation (aluminium and steel on the one hand, computers and bio-technologies or robotics on the other) - have not yet been analysed with respect to company strategies that may be associated with these different postures. In this connection, managers normally are of the opinion that the less a company re-shapes its strategy to move away from declining industries, the more it decreases its long-term chances of survival and overall employment levels. While this hypothesis seems plausible it requires further testing with more detailed data than is currently published by the companies.

Chapter II: How multinationals make decisions

II.1 Theories on decision-making processes

Various theories on decision-making processes exist which can be related to various organisations, including enterprises, multinational or not. They are the result of studies made by researchers from different disciplines: economics, management, administration, political science or psychology. Five such theories are briefly presented in the Appendix.

While these theories can help to understand aspects of the decision-making process in multinational enterprises, they do not specifically take into account the character of these enterprises. For this reason they are not considered to be an operational framework for the empirical studies the ILO intends to undertake.

For this purpose the present paper proposes two models or approaches which both relate specifically to decision-making within multinationals. These are the "centralisation-decentralisation" approach and the "iterative model" which will be introduced below.

II.2 The "centralisation-decentralisation" approach

(a) Methodology

Several researchers (Aylmer, Brooke and Remmers, Garnier et al., Van Den Bulcke and Halsberghe) have approached the issue of decision-making within multinationals by asking managers of the parent and/or the subsidiary if they make decisions alone or if decisions were "shared" (Van Den Bulcke and Halsberghe, 1984).

(b) Summary of the results

For the purpose of this paper we shall select four conclusions from the various studies using the centralisation-decentralisation approach:

- The most important decisions are shared between the parent and the subsidiary with a relatively stronger influence by the former than the latter;
- Financial decisions are more centralised than other functional decisions;
- Little change in the above patterns seems to occur over time;

- The determinants of centralisation-decentralisation (characteristics of the parent, the subsidiary and parent-subsidiary and subsidiary-parent relationship) are less significant in explaining the above results than the type of decision taken.

b.1 Most strategic and financial decisions are shared by the parent and the subsidiary

Table 2 gives an example of the relative influence of the parent and the subsidiary for investment decisions and sale of fixed assets. The data concerns the year 1976 and subsidiaries of multinationals operating in Belgium.

According to the subsidiary managers interviewed, only 17 per cent of investment projects are decided by the parent alone, as compared with 3 per cent for subsidiaries alone. The same data reads 18 and 13 per cent for the decision to sell fixed assets. Seventy-seven per cent of investment projects and 66 per cent of the sale of fixed assets are decided after some form of consultation between the parent and the subsidiary. During these consultations the influence of the parent is decisive in 64 per cent of the cases for investment and 59 per cent for the sale of fixed assets.

If the cases of decisive influence of the parent are added to those when the parent decides alone, they become much more numerous than the cases of decisive influence by the subsidiary added to those when the subsidiary decides alone: 66 per cent as against 31 per cent for investment projects and 57 per cent as against 40 per cent for sale of fixed assets. Thus decisions on investment and sale of fixed assets can be considered to be highly centralised. However, even in these most highly centralised types of decisions, decision-sharing between parent and subsidiary is much more frequent than autonomous decision-making by the parent. In both areas 77 and 66 per cent of the decisions are shared. These results from the centralisation-decentralisation approach point to the need to push further the analysis of "shared" decisions. This is exactly the objective of the iterative model of the decision-making process summarised in the next section (II.3) of this chapter.

One astonishing feature of the above results is that the sale of fixed assets is less centralised than investment decisions. Fully-fledged disinvestments are included in the sale of fixed assets but they also incorporate the sale of warehouses and equipment of little strategic importance. Otherwise, the above results would be contradictory to those of Gilmore and Torneden (see section I.5 above) which established that in most cases the parent first dismisses the head of the local subsidiary before disinvesting from it.

Table 2: Relative influence of parent and subsidiary for investment decisions and sale of fixed assets (in per cent)

Decisions	Made by		Shared between parent and subsidiary		Other replies
	Parent alone	Subsidiary alone	Decisive influence by parent	Decisive influence by subsidiary	
Choice of investment projects (N = 242)	17	3	(49)	(28)	77
Sale of fixed assets (N = 234)	18	13	(39)	(27)	66

Source: Adapted from D. Van Den Bulcke and E. Halsberghe: Employment decision-making in multinational enterprises: Survey results from Belgium, Multinational Enterprises Programme Working Paper No. 32 (Geneva, ILO, 1984), p. 19.

b.2 Investment decisions are more centralised than other functional decisions

Table 3 shows the percentages of "strong" or "decisive" influence by the parents concerning their subsidiaries in Belgium in 1968 and 1976 for functional areas.

Table 3: Influence by the parent ("strong" in 1968, "decisive" in 1976) by functional areas

Decisions	1968 - survey		1976 - survey	
	"strong" influence from parent company		"decisive" influence from parent company	
	N	%	N	%
Employment	315	12	222*	21
Investment	317	78	242	66
Production planning and organisation	317	25	241	25
Marketing	289	22	230*	31
Import	315	19	230	25
Export	315	24	227	28

* Average of a number of separate decisions in the field of marketing and personal management.

Source: Adapted from Van Den Bulcke et al. *ibid.* p. 16.

The questionnaire definitions of "strong" and "decisive" were the following:

"strong": the parent company decides (1) without the advice of the subsidiary being taken into account, (2) with the advice of the subsidiary being taken into account.

"decisive": influence of the parent company (1) without taking into account the advice of the subsidiary, (2) with the advice or proposals of the subsidiary being taken into consideration.

Investment decisions are between two and three times more centralised (78 per cent in 1968 and 66 per cent in 1976) than decisions like product planning and organisation, export, marketing, import and employment. The small degree of centralisation for employment decisions is worth noting: 12 per cent in 1968 and 21 per cent in 1976. However, decisions on the number of jobs, level of pay, workers' qualifications and working conditions are largely determined once the strategic investment decisions have been taken.

Some multinationals have regional headquarters. For example, the majority of American multinationals which adopted this type of organisation located their European headquarters in Brussels, Belgium to co-ordinate the operations of their subsidiaries in Europe. Inclusion of these regional headquarters in the centralisation-decentralisation questionnaires, as was done in the Van Den Bulcke and Halsberghe study, does not change the results concerning the high degree of centralisation of investment decisions at the parent or of sharing between the parent and the subsidiary (Van Den Bulcke and Halsberghe, 1984). However, most marketing and personnel decisions, otherwise delegated by the parent company to the subsidiary, seem to be strongly centralised (or influenced) by regional headquarters once these have been set up.

b.3 Little change of pattern over time

The data from table 4 shows no significant changes over time. Even though a period of eight years is fairly short to measure a real difference in a pattern of management in large organisations, the last measurement (1976) was made after the economic turnaround of 1973 which had an impact on the strategies of many companies. The decrease of control by the parent shown in table 4 is not very significant. First, the data for 1968 and 1976 is not completely homogeneous. Second, the upper financial limit on the size of investments about which the subsidiary could decide alone was maintained for most firms during that period. If inflation is taken into account, such a stability of absolute levels may actually mean a relative decline in the autonomy of the subsidiary in the matter.

b.4 Determinants of centralisation-decentralisation

Three kinds of determinants of the degree of decentralisation were examined in the study by Van Den Bulcke and Halsberghe: characteristics of the parent, of the parent-subsidiary relationship and of the subsidiary itself. They are all indigenous to the firm, and exclude, therefore, determinants of the external environment. They also exclude a number of internal elements such as general strategic objectives, management philosophy and personality of individual executives. The study stresses that the analysis of the determinants of employment decision-making in MNEs is often inconclusive. "Although a number of characteristics are definitely related to decision-making authority (e.g. intra-group trade), other characteristics are often too small (e.g. relative size of subsidiary) or too variable (e.g. profitability) to be very convincing" (Van Den Bulcke

and Halsberghe, 1984, p. 87). These weak links are probably caused by a great number of possible determining factors which affect headquarter-subsidiary control relationship.

The determinants of the parent give the following indications in relation to the degree of centralisation. Centralisation seems stronger for emerging multinationals than for those with a higher percentage of sales due to their foreign subsidiaries; the degree of centralisation rises sharply once the degree of multinationality rises over 25 per cent of sales abroad and the number of foreign subsidiaries is higher than six.

The nationality of the parent does not give really clear-cut indications either. Dutch and German multinationals appear to give less autonomy to their foreign subsidiaries than their American-based competitors, while British and French multinationals seem to be less centralised than the American ones.

The influence of a multinational organisation structure is not straightforward. A holding company is most often associated with little centralisation while the reverse is true for a "mother-daughter" relationship (direct supervision from the parent) for Dutch and German firms, with the notable exception of US-based multinationals. International divisions, global (regional) divisions and matrix structures are associated with similar, i.e. smaller degrees of centralisation for financial matters than direct supervision. The same holds true for employment decisions, except for an increase for the matrix form of organisation. Regional headquarters of United States firms in Europe increase the group's influence in most functional areas, except for finance which is already under tight control from the parent (Van Den Bulcke and Halsberghe, 1984 pp. 37-43 and 83-84).

(c) Critique

The results give the opinions of the executives about who makes decisions involving the parent and the subsidiaries. Thus, the methodology of the "centralisation-decentralisation" approach assumes that managers know who makes decisions and how they are made within multinationals. This is certainly a weakness of the approach.

- The likely differences of perspective between executives from the parent and the subsidiary and from different hierarchical, functional and operational levels is not investigated in all the studies using the approach.
- It follows from the available research that many decisions are "shared" ones. This fact considerably blurs any conclusions about whether decisions along functional lines are really centralised or decentralised.
- The "how" of the shared decisions is largely ignored. Clarifying this question would require a "process" approach.

- The hierarchy of decision-making in enterprises is widely ignored. More importantly, the interaction between parent company and the subsidiary is not studied.

II.3 Strategic decision-making as an iterative process

Strategic decision-making is not solely an intellectual or a psychological process as suggested in some text books or consulting-group manuals. It cannot be the result of a simulation as in a classroom exercise. First we shall give a description of the iterative process and second a typology of various iterative processes with some empirical results. Finally we shall proceed to a critique of this model.

(a) Description of the iterative process

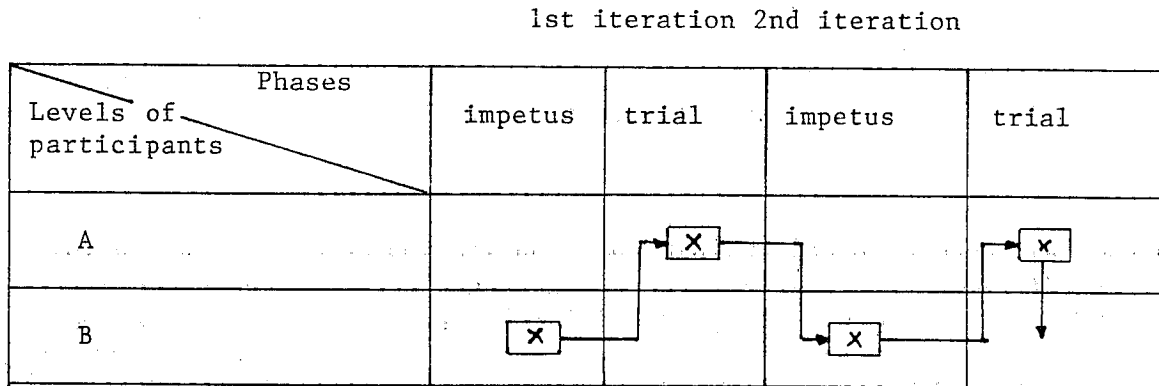
1. It is a process taking a fairly long time, between six months to two years according to the type of strategic decision or company identity. It involves both the parent company and the subsidiary. It is not done solely in one or the other. However, the parent has the advantage of being a participant in strategic decision-making processes involving all subsidiaries, while the latter are usually involved only in the one which concerns their particular case. The parent company is therefore the only one to have a global strategic perspective on its worldwide operations.

2. The iterative process is made of several distinctive phases. They are:

- initiation: when someone puts forward the content of a proposal, to "feel out" the opinion of other executives. It is usually done by the foreign subsidiary.
- impetus: someone commits the reputation of his judgement behind the content of a project and tries to get it accepted by the organisation (Bower, 1970). This is usually carried out by the foreign subsidiary or someone in the international headquarters, or shared by both.
- trial: further study of the content of the project is usually required before acceptance or refusal. The trial phase is often carried out by the parent.

This series of phases can be repeated many times before a decision process comes to an end. This succession of phases is the foundation of the iterative characteristic of a political decision-making process (Ghertman, 1981).

Figure 3: The simple hierarchic process



Direction of the decision-making flow : ↑ ↓

Number of iterations = n, indeterminate. Two in this example.

In the examples of the acquisition made in the United States by the French enterprise "Cofracis" there were four levels of participants. Starting from the top down they were: the president of the parent company, members of the board of directors who sat on the boards of the parent and the subsidiary, members of the parent's staff including the director of the international division, the president of the foreign subsidiary and two of his vice-presidents. The members of the board are located below the level of the president because they act as advisors to him before he makes up his mind and proposes the project for board approval. Board members do not act with the formal prerogatives they hold during official board meetings.

The direction of the decision-making flow was identical for the nine decision processes, four of which led to actual acquisitions (Ghertman, 1981). The president of the foreign subsidiary triggered most of the initiation and impetus phases while the president of the parent company was the actor in most phases of trial. The role of intermediate levels was more variable. During the first two processes, which took the highest number of iterations (nine and six respectively) they were very active. However, they did not participate in the following processes which required fewer iterations (never more than three) except when the threat of the Hartley-Burke proposal occurred in 1972. During the first two processes they first triggered trial phases towards the subsidiary after it had made proposals to them. The members of the parent company staff were worried about dilution of control during the first process while members of the

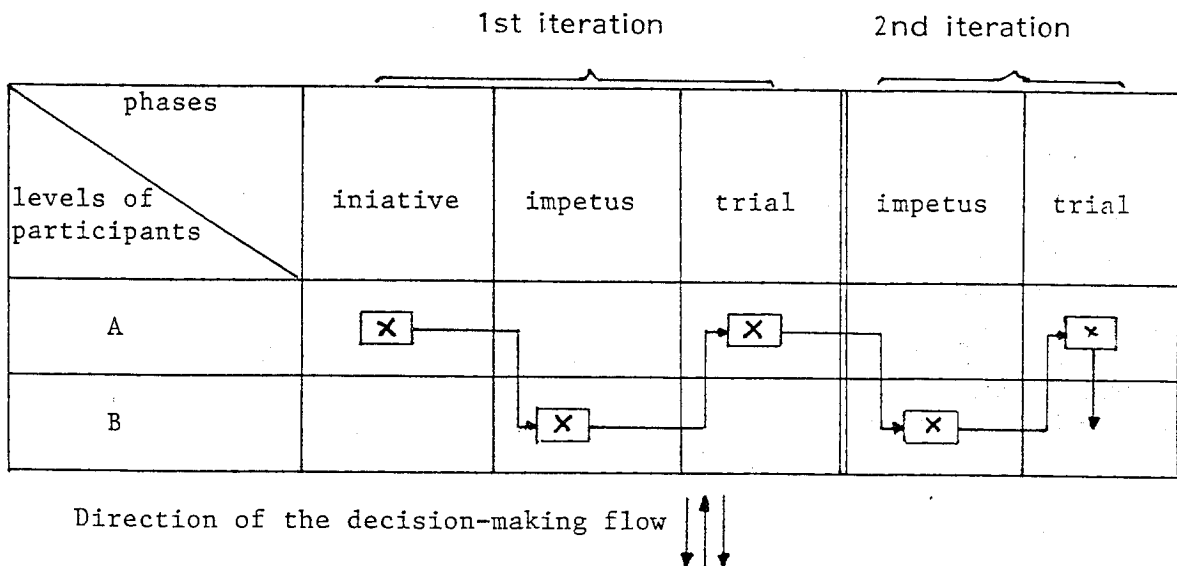
board were lukewarm on the proposals of the subsidiary even though they encouraged its president to continue studying the project. The president of the parent company finally rejected the subsidiary's proposal after the four levels of participants had interacted on that particular decision for almost a year. During the second process, members of the parent company staff and of the board started to become actors of impetus towards the president after the foreign subsidiary had succeeded in convincing them of the worthiness of the project. The process of convincing took several iterations between the subsidiary and the two above levels. Once this had been achieved it marked the turning point in the decision-making process and the president approved the project shortly afterwards.

The examples at "Cofracis" - although their limitation to one enterprise is recognised - give fuel to the first hypothesis above, namely that the existence of an organisational unit in charge of foreign acquisitions (the subsidiary in these cases) triggers the first initiation and impetus phases while the levels above are the actors in the trial phases. They also reinforce the second hypothesis because the president of "Cofracis" has a reputation of being a timely rather than an impulsive person. The above examples contradict the third hypothesis because, even though the internal and external environments changed several times during the 1962-72 period, all of the nine decision-processes to acquire had the same direction of the decision-making flow: first bottom-up then top-down during all their iterations.

b.2 The hierarchic process with parent company initiative

The hierarchic process with parent company initiative differs from the preceding process. The parent company starts off the process without necessarily staking its reputation. We will call this phase "initiation".

Figure 4: The hierarchic process with parent initiative



A study by Aharoni on decisions to acquire companies in Israel made by American businessmen (Aharoni, 1966) is relevant in this context. The initiating drive for the project was most often the president of the parent company who appointed an investigating team to report to him on local opportunities. Aharoni's findings reinforce the credibility of the first hypothesis mentioned above.

For decisions regarding foreign acquisitions empirical evidence is not uniform. Some seem to conform to standard hierarchic processes with the initiative coming from the lower levels to top management, while others have the initiative from the president himself. Concerning foreign disinvestments the sole and somewhat dated empirical study available concludes that most initiatives come from the president (11 cases out of 38) while only one comes from the head of the disinvested operation (Torneden, 1974, p. 118).

This initiative from the very top of the enterprise does not mean that the president loses his prerogatives as an actor in the trial phases. The results of Torneden give the following perceptions of the president's role in the foreign disinvestment decision: renewed final recommendations (22 times), provided guidance throughout (14), assigned someone to check the desirability of disinvestment (9), appointed the head of the implementation team (9), headed the operational review himself (4) and headed the disinvestment implementation team (2) (Torneden, 1974, p. 119). The reported role of central office staff in the formal recommendation to disinvest made by presidents was the following: finance (20 times), planning (11), marketing (6), legal (5), international staff (1) (Torneden, 1974, p. 123). For the disinvestment implementation the legal department was most often cited (14 times) then finance (10), accounting (7), planning (6), and international staff (1) (Torneden, 1974, p. 123).

These findings stressing the role of the parent company together with possible changes of top executives (referred to in chapter I of the present paper) tend to support assumptions that multinationals make crucial decisions for their subsidiaries without consulting them. Minimal consultation of the host government in such cases (likewise reported in chapter I) would also explain the resentment of the actions taken by multinationals with little consideration for the government and other stakeholders to the firm: workers, subcontractors, consumers, etc.

However, these assumptions are based on the supposition that neither the parent company nor the subsidiary even attempted to improve operating results of the subsidiary before it was disinvested. This is not in line however with Torneden who reports that the initial reaction to a problem in a foreign operation is to contact the subsidiary (send parent company experts (24 times), to spend time to solve problems (20), or to replace foreign operations manager (4)). Close to 50 per cent of executives interviewed (17 out of 38) felt that the disinvestments should have occurred earlier - (about) 2.5 years earlier (Torneden, 1974, pp. 131-132). For outsiders, disinvestments normally happen too fast, for

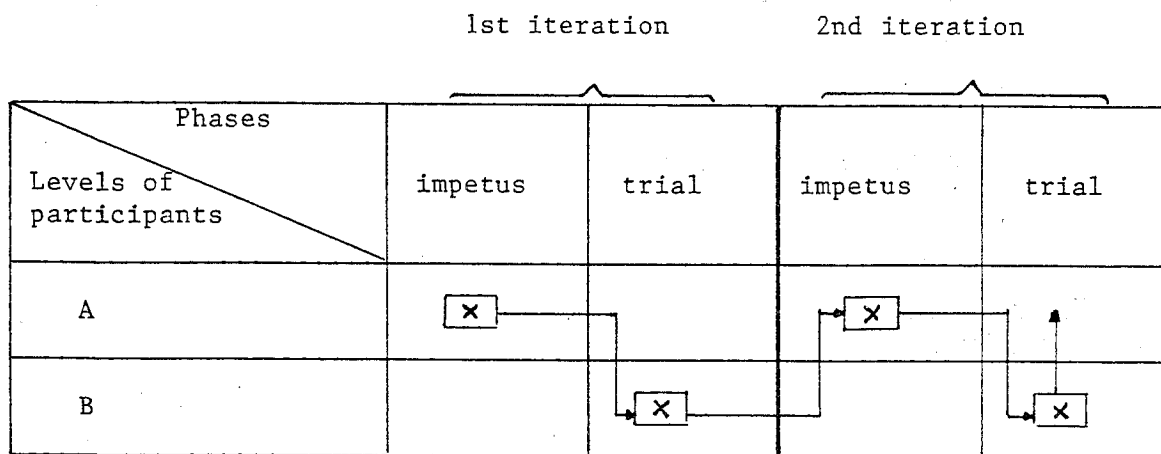
insiders (when they judge after the fact) too slow. The description of the disinvestment alone, therefore, relates only to the "tip of the iceberg". It neglects the successive attempts usually made to make the subsidiary viable again. If the attempts to improve the situation had been successful, there would have been no disinvestment nor decision-process to disinvest. It is easy to determine when a decision-process to close a plant ends but not so easy to pinpoint when it started and how the final decision was reached.

One of the advantages of the iterative model is that it could be conceived to include governments, workers, subcontractors, etc. as actors in the enterprise's decision-making process - rather than as part of its environment - where the legal or factual situation gives them influence on the decision itself or at least the way it is executed. Legally required consultation on the modalities of investment or disinvestment (e.g. mass dismissals in the case of closures) or government action providing economic incentives for investments (grants, tax exemptions) or assistance to avoid disinvestment are cases in point (examples of the latter is government aid to ailing companies, such as for Leyland in the United Kingdom and Arbed in Luxembourg and the Federal Republic of Germany). Likewise of importance is the question to which extent the outside actors deal with "authorised" decision-makers, i.e. to which extent does management to whom they have access (e.g. management of a foreign subsidiary) really influence the decision-making process.

b.3 The versed hierarchic process

The upper level triggers the impetus phase whereas the lower level carries out the trial (see figure 5). The direction of the decision-making flow is reversed in relation to the standard hierarchic process.

Figure 5: The reversed hierarchic process



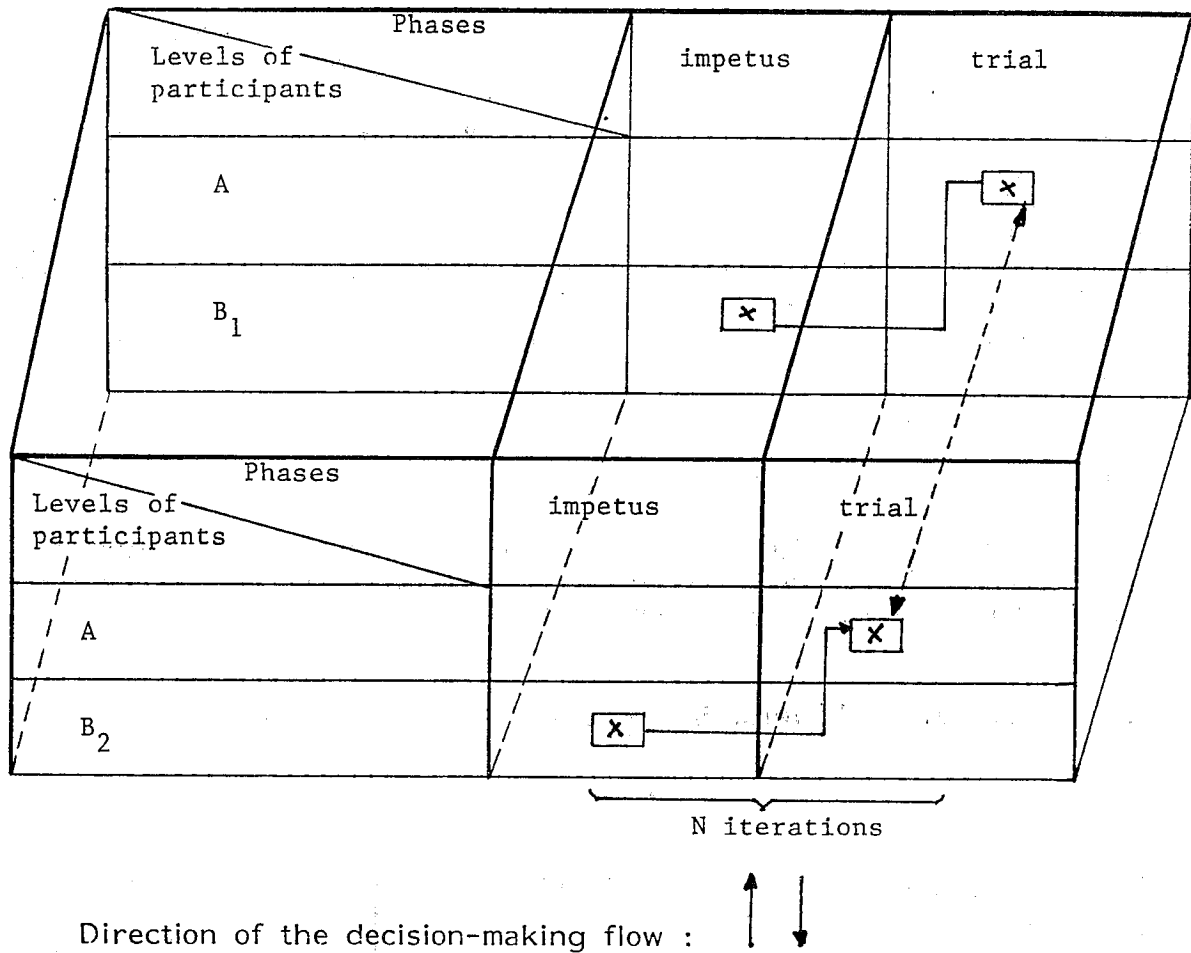
Direction of the decision-making flow : ↓ ↑

No evidence of such processes exist in the literature.

b.4 The competitive hierarchic process

The competitive hierarchic process is found in the departments or divisions of one and the same organisation which compete among themselves. Two sections at the same level trigger the impetus phase. The higher level will deal with the trial. The direction of the decision-making flow is upward as in the case of the standard hierarchic process - but the two processes take place parallel to each other. Figure 6 illustrates this example.

Figure 6: The competitive hierarchic process



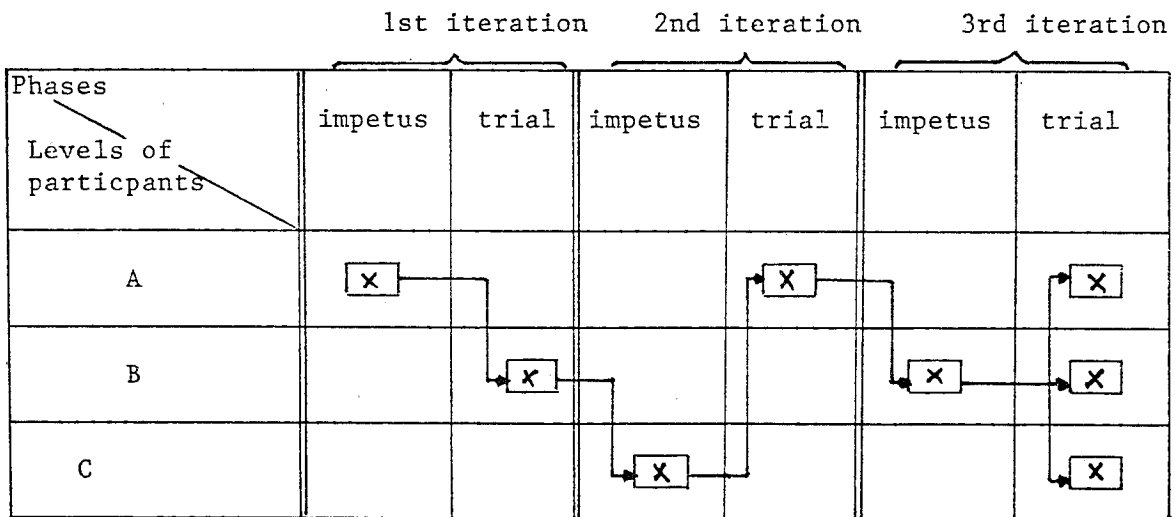
No evidence of this process exists in the literature even though it is frequently reflected in the assumptions of executives being interviewed.

b.5 The consensual process

The consensual process implies that production of the decision content is the responsibility of all the actors who, one by one, set in motion impetus and trial phases. Each participant changes his conduct as the process develops. The power relationships are thus mobile and no longer stable as in the other processes examined. The direction of the decision-making flow also varies.

The consensual process is perhaps to be found in organisations without a hierarchy such as university boards of regents or research institutes, or in particular situations within hierarchic organisations. The example given in Figure 7 below shows that each of the participants (three in this case) starts at least once an impetus phase and a trial phase. The final trial phase is led jointly by the three levels. Acceptance or refusal thus supposes that there will be simultaneous agreement on the part of the three levels of protagonists. This process can be used as the definition of what is called, often in a confused way, self-management in decision-making.

Figure 7: The consensual process



(c) Critique

- Data collection is time consuming and the data is usually confidential. Therefore problems of access to information arise and the risk of an interruption of the data collection before completion of the study is a real one for the researcher.

- Limitations in both the accessibility of data and in the recollection of iterations may impede the authentic retracing of past decision processes.
- The method would be best applied through participant observation of an ongoing decision process, which in practice is possible only in rare circumstances.
- Difficulties in generalising as the model is geared to the examination of particular cases of decisions.
- Few researchers are accustomed to the methodology.

Chapter III: Issues

III.1 Major issues

The issues raised by the question of how multinationals make strategic decisions in the context of restructuring need to be clarified. They concern several related but different topics.

(a) Many unions and some government officials feel that the managers of foreign subsidiaries are not real participants in the process that leads to the decision to sell or close their company. Therefore host country governments and unions believe that they have little influence on the strategic decision to close a subsidiary because they cannot negotiate the issue with those executives who hold real decision prerogatives. The underlying sentiment is that if local executives were more important for the final decision, it would turn out to be more favourable to the host country.

(b) The understanding that top executives from multinationals make decisions thousands of miles away and in a foreign country often implies that they do not even take into account local social conditions in the host country. Again the underlying assumption is that local executives would be more sensitive to social issues.

(c) Union officials stress that multinationals tend to avoid negotiating or consulting with unions about the conditions of lay-offs before the final decision has been made and announced to the media (ETUC, 1982). The underlying assumption is that workers would be better off if such negotiations or consultations occurred earlier.

(d) The underlying issue is the threat of unemployment. After noticing plant closures, manpower reductions and long periods of short-time work, unions frequently make it known that "they have neither the desire (nor the power) to hinder the technological progress that goes hand in hand with it" (ETUC, 1982, p. 11). In general terms these unions acknowledge that they can do nothing against the rise of unemployment attributable to anonymous factors such as technological change but in specific cases of plant closures by multinationals or purely domestic companies they tend to try to save the existing jobs (ETUC, 1982, p. 22). The position of the unions is therefore not entirely uniform concerning the issue of restructuring, neither - as we have seen - is the position of executives in charge of these decisions.

III.2 Research issues

A preliminary list of research questions is given below. How do multinationals make strategic decisions that have consequences on employment?

Strategic questions

1. How do multinationals make major technological decisions - with an impact on employment? (The words between brackets are included in all subsidiary research questions.)
2. How do multinationals make major decisions concerning new product lines, new product functions or new services?
3. How do multinationals make major diversification decisions or on up-stream or downstream (vertical) integration?
4. How do multinationals make major decisions to reallocate their resources to the "heart" of their business, or to change to heart of their business? (examples of BSN and Dunlop)
5. How do multinationals make decisions to enter a new country as compared to a purely domestic company moving to a new region in its own country?
6. How do multinationals make acquisition decisions?
7. How do multinationals make decisions to invest in plant equipment, R & D and/or distribution facilities?
8. How do multinationals make disinvestment decisions?
9. How do multinationals make decisions to reduce the size of or completely close plants or entire subsidiaries?
10. How do multinationals make decisions to reduce the size of their workforce?
11. How do planning, budgeting and control procedures (and processes) embody the above decisions?

It is assumed that questions 7 to 11 will be of central interest to representatives of workers while all questions will be important for government departments concerned with industrial and social policy. Company executives might be interested, or not, in some or all of the questions, depending on whether they feel that they know how decisions are made within their firm.

The following list of questions can be added giving further precision to those mentioned before. They are related to the analytical capacity of the iterative model.

- (i) The iterative model implies that the assumption that one actor can make strategic decisions alone is rejected, i.e. that decision is a political process involving several levels of actors.

- (ii) The second basic research question concerns the assumption, stemming from the available research that the research findings on disinvestment decision processes are the reverse of those on acquisition decision processes. The iterative approach would rather suggest that a rupture in the system takes place after a failure in attempts to put foreign subsidiaries back on a profitable track. Subsequent moves are a removal of the top local executive and potential plant closures initiated by the parent company.
- (iii) Who initiates this decision-making process: subsidiary or parent company? Who is the impetus or trial actor on a regular basis: parent company or subsidiary? In other words, is the direction of the decision-making flow bottom-up or up to the bottom of the hierarchy?
- (iv) Is the pattern different among various industries? Declining industries and growth industries?
- (v) Is there a difference in decision-making processes by country of origin or "culture" of the enterprise? It has been found in particular that in social matters, differences exist between European-based and US-based MNEs. The latter with either a conglomerate form or an emphasis on the price-earnings ratio for matters of control on the stock exchange may be assumed to be more likely to disinvest from companies who had not a minimum level of profitability, while the former are considered as being potential disinvestors only when their companies actually lose money.
- (vi) Is there a difference between purely domestic and multinational corporations in the way they go about deciding to close plants? This question, related to the process itself, raises questions as to the outside determinants of these closures.
- (vii) Is there a difference in decision-making processes whether multinationals are privately or publicly owned?
- (viii) Relations between decision processes and levels of employment: common sense seems to imply that a "good" decision, as measured by its results in the future in terms of sales, profits and/or employment would be the result of a "good" and "rational" process using highly advanced management techniques and sophisticated information, forecasting and scenario methods. (Maximising the level of employment as such is rarely an objective of companies.)

However, Herbert Simon has long ago rejected the idea that men and organisations behave in a fully rational manner (Simon, 1976). Indeed, the results of a decision do not depend on the decision-makers alone. The

most sophisticated studies cannot forecast exactly the reactions of competition, customers, governments, workers, shareholders, bankers, stockmarket prices, anti-trust bodies and others. The actual result of the decision may thus depend more on elements outside the control of decision-makers and on the quality of the managers who will implement the decisions than on the intellectual, administrative, political and psychological quality of the decision-process itself.

Chapter IV: Some tentative conclusions

The paper has demonstrated that the state of descriptive knowledge on how large organisations make their decisions is poor and the same is true in particular with regard to multinationals. The number of prescriptive models on the other hand is quite impressive. These models are mainly of the rational actor type and their influence on actual decision-processes seems rather limited because the organisational and environmental conditions are complex and involve uncertainties.

Given the present state of the art the two basic models or approaches on which the present paper has focussed, viz. the "centralisation-decentralisation" concept and the "iterative model" seem to hold the promise that, if applied in a complementary fashion, they may help to foster a better understanding of the decision-making structures and processes in multinational enterprises. In the light of the fact that the strategic decisions of multinationals, including those on international restructuring, are also likely to affect government plans and the employment of workers in the years to come, it would seem important both for them and for the multinationals that further empirical research should be undertaken in the field.



Appendix: Theories dealing with decision-making processes

I. Theories of the rational protagonist

The rational protagonist acts according to his understanding of the substance of the decisions. The theories use different approaches but all of them deal with the reasoning of the protagonist whether he is concerned with strategic or administrative decisions. This does not mean that the other theories have nothing to do with rational protagonists. It only means that they focus on the political, administrative or psychological behaviour of the protagonist and not on his reasoning. The theories of the rational protagonist have to do with the "how" of decisions rather than the "why". Four different versions of these theories can be distinguished.

1. The economic protagonist

This model is based on the neo-classical theory which postulates a state of perfect competition, that is:

- perfect information;
- an "atomisation" of the market (multiplicity and uniformity);
- profit-seeking as the sole aim.

The firm reduced to a single protagonist, which is perfectly rational, is situated in a branch of the economy in which demand is determined exactly by the level of prices and cannot be influenced by variations in production.

This neo-classical theory aims at the comprehension of economic phenomena and not at management of firms.

The financial theory, which is constructed in similar fashion, is used in micro-economics by investors in particular. The basic postulate is that hope for a future gain is by nature imperfect; consequently this theory introduces the notion of risk. There are three stages in the protagonist's behaviour.

- in order to maximise profit he starts out by establishing criteria for evaluation: for example, expected future cashflows.
- he then examines the different alternatives for which he disposes of a homogeneous means of measurement (the expected future cashflows) weighted or not by a risk factor;

- lastly he chooses a solution according to the pre-established evaluation criterion.

Nonetheless it is often difficult for the general management of a firm to measure risk. This is why we next find a more qualitative approach: that of the strategic protagonist.

2. The strategic protagonist

The orientation of this theory is to examine the real locus of decision-making which determines the firm's future from the point of view of general management. Consequently the model of the strategic protagonist tries to facilitate the executives' work during the crucial period of elaboration of the general policy or strategy of the firm. This is the origin of the postulate which states that all general managements define or must define strategy. The best-known method of elaboration of strategy is that of the Harvard School which uses a five-step approach.

- analysis of the socio-economic and political environment of the firm;
- examination of the strengths and weaknesses of the firm;
- determination of the objectives of the firm using as a starting point multiple evaluation criteria;
- analysis of the different strategic alternatives in terms of product-market segments; and
- choice of the product-market segments according to the objectives chosen during the third stage.

Whereas the results of the financial theory are quantitative, those of the rational protagonist theory are qualitative. In fact the financial theory measures, in monetary terms, the decisions of the strategic analysis. This measurement must correspond to one of the objectives of the firm: the anticipated degree of profitability.

But the theory of the strategic protagonist has considerable limitations. In particular, there are few firms which formalise their strategy in an explicit way. There are two reasons for this:

- to avoid any risk vis-à-vis competition;
- to give free rein to the eventual initiatives of its operational managers.

3. The "portfolio" protagonist

This theory also centres on general management which must take charge of a portfolio of businesses, the growth and profitability of which are combined in different ways.

The Boston Consulting Group (BCG) has elaborated the best known version of this theory. There are two stages:

- each strategic area must first be evaluated on a firm-wide basis;
- the portfolio of all of these areas must then be managed.

Each strategic area is evaluated according to its rate of growth and to the competitive position of the firm. The one which gets and keeps the largest share of the market has the highest profitability. This was shown by the BCG with the concept of the experience curve: the more the firm gains experience in production, administration and marketing - and this experience is evaluated in terms of the number of units produced - the more its unit costs measured in deflated currency, decrease. The firm with the greatest accumulated production thus has a cost advantage over its competitors. As competition does not usually influence prices, this firm has the largest profit margin and the highest profitability.

In order to reach this result the largest share of the market in each strategic area must be obtained rapidly. Four strategic areas constitute the portfolio of a firm:

- "stars": the strategic areas with a large share of the market and a high rate of growth. They are simultaneously big users and suppliers of cash. Their investment needs have priority.
- "cashcows": the strategic areas with a good position but low growth rate. They are big suppliers of cash and furnish the necessary funds for growth in other areas.
- "dogs": strategic areas with a weak position and mediocre growth rate. They use up more cash than they bring in. The firm must eliminate them.
- "question marks": strategic areas with a weak position but a high rate of growth. They are big users of cash but small suppliers. The firm must choose which of these "question marks" justify large investments in order to become "stars" and get rid of those which could become "dogs".

4. The international strategic protagonist

None of the preceding theories included the international territory as a variable. For this reason it is impossible to know if the branch of activity, the experience curve, the share of the market or competitive

position are defined nation-wide, for a geographical area including several countries or on an international basis.

The method of the international strategic protagonist, developed by the Ecole Française des Affaires Internationales (French International Business School) deals with this aspect of the problem. The theory, which is based on the concept of country-product-market triads, appears to be an extension of the strategic protagonist. On the other hand, the internationalisation of the portfolio protagonist has not yet taken place.

The theories of the rational protagonist, despite their variety, all use the same approach: exposition of variables and other criteria for choice, definition of alternatives and action on the content of decisions. They are centred on the intellectual steps in the transformation of the substance prescribed to decision-makers. The "why" of the decision supposedly exists in the depths of the decision-makers' mind.

But these methods are not the only ones available to general management for help in making decisions. There are still others.

II. Theories of the administrative process

These theories are related to the activities of employees, junior executives, and operational managers. They have to do with the rules, principles and administrative procedures of the firm. They are essentially based on two schools.

1. Taylor

This American consultant developed what he called the principles of scientific management for factory work. There are four principles:

- the organisation and planning of work is management's responsibility;
- The worker should not take initiatives. Each work area must be clearly defined;
- each firm must choose and train its workers;
- co-operation is necessary for optimal efficiency;
- the firm's management is not to delegate its responsibilities to the workers.

This group of rules leads to the standardisation of work within a factory endowed with a formal pyramid-shaped hierarchy which guarantees the day-to-day planning of the work to be done and the means to do it.

2. Fayol

Fayol, who was the head of a French firm, developed what he called the principles of administration. Contrary to Taylor, he was essentially interested in administration (at the level of the offices and factories). He considered administration to be the sixth function of any organisation, after technology, commerce, finance, safety and accounting. For Fayol administration means planning, organisation, command, co-ordination and control. But it must not be confused with strategy or the management of the firm. Administration, considered as a doctrine, should be taught according to fourteen general principles: division of labour, authority and responsibility, discipline, unity of command, unity of direction, subordination of individual interests to the common interest, payment of personnel, centralisation, hierarchy, order, equity, stability of personnel, initiative, unity of personnel.

The theories of the administrative process are used on a micro-economic level for repetitive tasks. Their application gives rise to planning, budget and control procedures. These procedures contribute to the creation of a common language and common presentation and form the context for employees' actions.

Moreover, the methods offer general managements of large firms the possibility to control various internal processes. But they can be criticised for straitjacketing the manager who applies them, transforming him into a lazy, submissive individual who is satisfied with a system that protects his job, his peace and quiet, and his minimum financial aspirations. On the contrary and for the same reasons we can say that such methods reassure employees.

III. Theories of the psychological process

These theories deal principally with the personalities of the individuals in any given firm with respect to opposite environments: stable or turbulent. Their utilisation aims at directing people's choices according to the situation. The emphasis is put on the close relationship which exists between the type of management - authoritarian or not - and the type of situation in the firm (structured or not).

The behaviour of the psychological protagonist depends on his personality. The reasons motivating his acts vary from one school of psychologists to another.

IV. The behaviorist theory of decision-making

The behaviorist theory of decision-making is the most important of the so-called composite theories, i.e. those which cover several other theories. It uses hypotheses coming from the theories of the rational protagonist as well as from those of the administrative process, the political process and the psychological process.

Herbert Simon founded this school and received the 1978 Nobel Prize in Economics for his work on the subject.

The basic concept of Simon's theory is that of limited rationality. In Administrative Behavior, he writes: "It is impossible for the behavior of a single, isolated individual to reach any high degree of rationality. The number of alternatives he must explore is so great, the information he would need to evaluate them is so great that even an approximation to objective rationality is hard to conceive".

Simon elaborates his theory around four principal ideas. The first three determines the behaviorist theory of decision-making; the last leads to the behaviorist theory of the organisation.

1. Choice and limited rationality

The decision-maker cannot be perfectly informed: his knowledge does not cover all the existing alternatives. In the same way he does not have the intellectual capacities which would permit him to evaluate the respective advantages and disadvantages of all the possible solutions. He contents himself with a solution which appears to be satisfactory at the time. His rationality is thus limited. He only has at his disposal successive simple choice mechanisms. The mechanisms are the result of his capacity to stock positive or negative elements of satisfaction and thus adjust his level of exigency.

2. Oriented behaviour

The psychological environment of the decision-maker determines the orientation of his choices. Herbert Simon divides this environment into six elements: "teachability", memory, habit, stimuli, the mechanisms of behaviour-persistence (the mechanisms that cause behaviour to persist in a particular direction once it has been turned in that direction), and behaviour-initiating mechanisms (those that initiate behaviour in a particular direction).

3. The integration of behaviour in the organisation

Contrary to his preceding approach Simon deals first with decision mechanisms and the accompanying psychological environment by examining the decision more from an organisational point of view than from an individual one. He ends up by creating a hierarchy of the types of decisions and determines the functions of the organisation in relation to the individual. After that he deals with the mechanisms of integration of individual behaviour within the organisation.

(a) The hierarchy of decisions

A decision can influence the future in only two ways:

- present behaviour, determined by this decision, may limit future possibilities;
- future decisions may be guided to a greater or lesser degree by the present decisions. From this we can derive an interconnected plexus of decisions.

This process of conscious thought about future decisions leads to the concept of "planned" behaviour as the proper means for maintaining rationality at a high level. But the method would require examination of all existing alternatives which is impossible. In the end only the most "plausible" alternatives are worked out in detail.

(b) Organisational influences on the individual are of two kinds

- organisations and institutions permit stable expectations to be formed by each member of the group as to the behaviour of the other members;
- organisations and institutions "provide the general stimuli and attention-directors that channel the behaviour of the members of the group, and that provide those members with the intermediate objectives that stimulate action. Since these institutions largely determine the mental sets of the participants, they set the conditions for the exercise of docility, and hence of rationality in human society" (Administrative Behavior).

(c) Mechanisms of organisation influence

There are five:

- the division of work directs and limits the attention of each member;
- standard practices establish for a given period of time the way in which a particular task will be done;

- authority co-ordinates decisions so as to attain common goals;
- communication is a multi-direction process comprising the transmittal of orders, information and advice to a decisional centre and the transmittal of the decisions reached from this centre to other parts of the organisation;
- identification and organisational loyalty - each member acquires an attachment to the conservation of the organisation. This attachment or loyalty is acquired, among other ways, through the emotional investment of the individual, materialised in terms of salary, prestige and friendship. It is the guarantee that decisions will be consistent with the objectives of the organisation.

4. The decision to participate

According to Simon, the individual accepts organisation memberships when his activity in the organisation contributes, directly or indirectly, to his own personal goals.

- The contribution is direct if the goals set for the organisation have direct personal value for the individual. Examples would be church membership or the choice of one firm rather than another by clients.
- The contribution is indirect; not related to the size and growth of the organisation, if the organisation offers personal rewards to the individual. The rewards (quantitative, such as monetary rewards, or qualitative, for example, social status, group ties, or prestige) are offered in return for the individual's willingness to contribute his activity to the organisation. Employment in a business concern is a typical example of this. Sometimes these personal rewards are directly related to the size and growth of the organisation - as in the case of the stockholders of a business.

V. Theories of the political process

Way back, Plato defined politics as the governing of men in the state. If we extend this definition to organisations, the theories of the political process embody the governing of the organisations' members. They postulate organisations as systems. A system is an ensemble of shifting coalitions of which the change in state is due to the sub-groups and sub-systems which make it up. The protagonists, individually, and/or collectively, concur through negotiation in the production of the decision.

These theories, founded on concepts such as power or negotiation, have been studied very little although they are extremely interesting from the point of view of strategic decisions.

The most recent of these theories emphasises the "how" of the division of the labour of the decision-makers. The "iterative model" described in the present paper is an attempt to operationalise the theory of the political process in the context of the system constituted by the multinational enterprises.

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