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BEYOND THEORY Z

by ANANT R. NEGANDHI
MARTIN WELGE

ADVANCES IN INTERNATIONAL COMPARATIVE MANAGEMENT

A Research Annual

BEYOND THEORY Z:
GLOBAL RATIONALIZATION
STRATEGIES OF AMERICAN,
GERMAN AND JAPANESE
MULTINATIONAL COMPANIES

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Preface

This book reports the results of a study concerning the functioning of American, German, and Japanese multinational companies. The main purpose of this study was to examine the organizational strategies, structures, control processes, and decision-making aspects in those companies, and how these strategies and practices were able to cope with the environmental demands emanating from the home and host countries of the multinational companies.

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Many colleagues contributed considerably in sharpening our focus for this study. These include Professors Walter M. Goldberg and Bernhard Gahlen, former Directors of the International Institute of Management (IIM), Bernhard Wilpert and George W. England, our colleagues at IIM, now professors at the Technical University West Berlin, and the University of Oklahoma, respectively, Professors Richard N. Farmer, Indiana University and Series Editor of JAI Press, and Louis Pondy, Head, Department of Business Administration, University of Illinois. We are thankful for their continuous support and encouragement. William Emmons deserves our sincere thanks for his assistance throughout this study.

During the time this study was conducted, the principal au-

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Anant R. Negandhi
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Chapter I

Beyond Theory Z: Quest for Survival

Since the 1973 oil crisis, the potentials and problems of the industrially developed countries have shifted dramatically. Inflation, unemployment, and overall slowdown of industrial and economic activities have become critical issues in industrially developed and developing countries.

In search of immediate and long-term solutions for these problems, changes in economic and social policies have been articulated and debated at a national level, while the business leaders in the United States have shown concern for lagging productivity, research and developmental activities, and increasing costs of meeting the governmental demands for clear air and water and employee safety.

Industrial productivity seems to emerge as the cure-all for economic problems in the United States. In seeking a “quick fix” solution to increase productivity, the utilization of participative management, quality-control circles and the Japanese style of management are becoming a central focus. Japanologists seem to have their day.

Indeed, changes in management practices may increase productivity and overall competitiveness of the American firms in international and domestic markets. However, what is being overlooked in this fadist adoption of a Japanese style of management are the strategic and policy issues at the top management level. The multinational corporations, in order to achieve operational efficiency, have been pursuing global rationaliza-

tion strategies while ignoring societal and governmental demands.

Although there is no precise definition of global rationalization, it does involve the integration of production and marketing systems, centralization of strategic decisions, formalization of policies and procedures, and tighter control of subsidiaries through financial and other means. The ultimate aim is to achieve economies of scale through the unification and integration of the global units.

The global rationalization concept itself is not a new discovery. During the 1950s and the 1960s, academic scholars and practicing managers both articulated the need for a new global-level organizational design suitable for transnational enterprises. As early as 1959, Clee and Discipio outlined a global perspective for the multinational enterprises in terms of creating a world corporation.¹ The essentials included total commitment by top level executives in international management as well as an assumption of full responsibilities for strategic global planning and decision making. The research studies on multinational corporations, launched under the auspices of *Harvard's Multinational Enterprise Project*, seem to indicate an increasing trend toward global rationalization strategies among U.S., European and Japanese multinational companies.²

PURPOSE OF THIS STUDY

Although the need for global strategies and world-wide organizational structure has been well articulated and implemented by the MNCs, the impact on these firm's long-term growth and survival has not been explored systematically. To examine the effects of global rationalization strategies, we studied the actual internal organizational practices and control processes utilized by the multinational corporations. Then the impact of these practices on the relationships between headquarters and subsidiaries, and MNCs and nation states were assessed. Especially, the study attempted to examine the following aspects in greater detail:

The strategies adopted with respect to transfer of technology, investment policies, manpower and personnel policies, product and marketing policies.

Organizational structures at headquarters and subsidiary levels.

Organizational processes and mechanisms for control and coordination, long-range planning and environmental scanning, personnel training, performance reviews, and feedback mechanisms utilized at headquarters and subsidiary levels.

Decision making and relative influence of headquarters and subsidiaries on major and minor decisions.

The nature and intensity of conflicts in decision making between headquarters and subsidiaries.

The nature and intensity of conflicts and conflicting issues between MNCs and governments and other publics in the home and host countries.

Implications of global-rationalization processes on internal efficiency of the MNCs and maintenance of effective external relationships with the nation-states (home as well as host countries).

THEORETICAL RATIONALE

Much of the work on the strategies and structures of the MNCs has been based on the original strategy-structure thesis advanced by Alfred Chandler.³ Through the case studies of four large U.S. corporations (General Motors, General Electric, DuPont, and Sears) he concluded that the firm's structure follows the strategic decisions. Although, conceptually, strategy and structure are ill-defined, the studies reported thus far seem to validate Chandler's thesis.⁴

Given the fact that most of the empirical work done during the late 60s and early 70s by the Harvard group took place in the industrialized countries where free and competitive market conditions prevailed, it was easier to overemphasize the internal micro aspects of organizations and underemphasize the external macro environmental conditions.

Since the 1973 oil crisis, economic and market conditions have changed drastically both in the developed and in the developing countries. Governmental interventions and regulations, which used to be the hallmark of centralized and developing economies, have now become pervasive in the industrialized countries as well.⁵