Multinational Enterprises Programme

Working Paper No. 35

Decision-making in foreign-owned multinational subsidiaries in the United Kingdom

by Stephen Young, Neil Hood and James Hamill.
University of Strathclyde,
Glasgow, United Kingdom

International Labour Office Geneva

ISBN 92-2-105010-6

First published 1985

Printed by the International Labour Office, Geneva, Switzerland

1. INTRODUCTION

This Working Paper examines the issue of decision-making within the subsidiaries of foreign multinational enterprises (MNEs) operating in the United Kingdom. In an effort to be comprehensive, the paper deals both with the question of "who makes?" or "at what level?" are decisions made within the MNE; and also with the decision-making process - the "how" of decision-making.

Chapter 1, based on a postal survey undertaken as part of this study, takes the former approach, and seeks to identify the locus of decision-making within particular functional areas and the influencing factors involved.

Within the United Kingdom, most concern has been aroused regarding decision-making at plant rather than subsidiary level. Thus the alleged lack of decision-making responsibility in multinational (and national) branch plants in regional economies within the United Kingdom has been seen as an important constraint on growth. In the light of this, Chapter 2 summarises the available empirical evidence from United Kingdom sources, much of which, at least implicitly, deals with decision-making issues. While the approach again focuses on the locus of decision-making, there are some differences in methodology between Chapters 1 and 2. Work at the regional level in the United Kingdom has tended to infer decision-making responsibility, first, from the presence or otherwise of particular management functions at plant or subsidiary level, and, second, from an assessment of the decision-making authority delegated within each functional area.

Chapter 3 takes a different, case-study approach to investigate the decision-making process within MNEs with subsidiaries in the United Kingdom. Five company examples are presented to illustrate a variety of divestment, re-investment and investment cases. The principles emerging from these cases and other work are then highlighted to indicate the complexities of decision-making, and also the greater centralisation of decision-making where major employment and unemployment issues are at stake. The Working Paper ends with a brief summary of the findings and the implications of these.

2. SURVEY RESULTS ON MNE DECISION-MAKING IN THE UNITED KINGDOM

2.1 INTRODUCTION

This chapter is concerned principally with the "centralisation/decentralisation" issue in multinational decision-making in the United Kingdom, and therefore deals with the issues of "who makes?" or "at what level?" are decisions made within MNEs. The main source of data for the chapter was a postal survey of foreign-owned manufacturing subsidiaries operating in the United Kingdom, carried out during the Autumn of 1984.[1] One hundred and fifty-four usable questionnaires were returned, representing a response rate of 31 percent. In terms of the sample breakdown, 75 percent of the reporting companies were North American-owned with the remaining 25 percent being Continental European or Japanese-owned enterprises.[2] This pattern is similar to the source country distribution of all foreign-owned firms operating in the United Kingdom. The distribution of the sample companies across industries also matches that for the total population of foreign-owned firms, with the mechanical engineering (22% of the sample); electrical engineering (20%); and chemical industries (20%) predominating. Food, drink and tobacco, metal manufacturing, paper, printing and publishing, and other manufacturing industries together accounted for a further 30 percent of the surveyed firms. The sample companies varied widely in terms of such characteristics as entry methods, period of establishment in the United Kingdom, size, product/market roles etc, and it was possible, therefore, to examine the influence of such factors on the locus of decision- making.

The survey covered three areas pertinent to the present study, namely:

- The locus of decision-making in relation to key functional areas such as finance, production, marketing, employment, industrial relations and research and development (R & D).
- Indirect methods of corporate control and influence on decision-making at the United Kingdom subsidiary, including the employment of expatriate executives; information flows between parent and subsidiary; and intra-company visits.
- Factors influencing the degree of centralisation/decentralisation evident in different subsidiaries, including nationality of ownership; size; date and method of establishment; intra-group trade, etc.

The main results of the postal survey are summarised in sections 2.3 to 2.5, but no attempt has been made to undertake a complete analysis of the data. In general the methodology and questionnaire design is similar to the work of Van Den Bulcke and Halsberghe on Belgium and this source contains a fuller discussion of the issues.[3] Prior to the presentation of the results from the present survey, Section 2.2 reviews the limited information available from other sources on the topic of decision-making within MNEs operating in the United Kingdom.

2.2 PREVIOUS STUDIES

While numerous studies have investigated the nature of headquarters /subsidiary relationships within MNEs, only Dunning (1958) and Steuer et al (1973), have examined this issue specifically in the context of overseas-owned companies operating in the United Kingdom.[4] The general conclusion emerging from both the latter studies was that the degree of centralisation/ decentralisation varied widely both in relation to the particular functional area in question and between different MNEs themselves.

Dunning, for example, identified three main types of subsidiary according to their degree of autonomy from the parent company, namely the Type A subsidiary which was very closely controlled by the parent; the Type B subsidiary which was characterised by a "high degree of controlled autonomy" (with major decisions being made by the parent company but with many less important decisions being devolved to the subsidiary itself); and the Type C subsidiary which was highly autonomous. A third of the foreign-owned subsidiaries examined by Dunning were classified as being very centralised, with 28 percent being highly autonomous; the remaining firms 40 percent were included in the Type B grouping.[5]

The Steuer Report of 1973 concurred with the conclusion of wide variations in the locus of decision-making within MNEs operating in the United Kingdom. For instance, in terms of financial decisions the report concluded that the degree of control could best be characterised as 'supervision', with big differences between firms. Targets for returns on capital were common and profit margins were frequently set, but these seemed to be established by consultation. The only exception concerned the repatriation of profits which was tightly controlled.[6] Similar inter-firm variations in the degree of centralisation/ decentralisation were evident in respect of the other decision-making areas examined in the study, including export policies, pricing, production planning, and personnel decisions.

The Steuer Report attempted, in addition, to identify some of the major influences on the degree of centralisation/decentralisation of decision-making within MNEs operating in the United Kingdom. The most significant finding in this respect was that subsidiary companies which were part of "large international networks" were more closely controlled by their parent companies than other subsidiaries.[7] Subsidiary size and centralised control, on the other hand, were inversely related, with large subsidiaries being more autonomous than smaller operations. Nationality of ownership factors were found to exert little influence on the parent/subsidiary relationship in decision-making.[8]

2.3 SURVEY RESULTS - THE LOCUS OF DECISION-MAKING

The remainder of this chapter discusses the results of the postal questionnaire with respect to the locus of decision-making within the 154 sample companies. A total of 29 separate decisions were investigated in several functional areas including finance, production, marketing, personnel and industrial relations and R & D. Decision-making in each of these areas can have major direct or indirect effects on employment at subsidiary level. The measures used to evaluate the degree of centralisation/decentralisation evident in decision-making in each of these areas were similar to those used by Van Den Bulcke and Halsberghe [9] viz.:

- Decided by the parent company (or regional headquarters [HQ]) without consulting with or seeking the advice of the United Kingdom subsidiary.
- Decided by the parent company (or regional headquarters) after consulting the United Kingdom subsidiary.
- Decided by the United Kingdom subsidiary after consulting with or seeking the advice of the parent company.
- Decided by the United Kingdom subsidiary itself without consulting the parent company.

The first two measures are indicative of a strong or decisive influence by the parent company while the third and fourth represent much more decentralised approach. The survey results in Table 2.1 show the proportion of sample firms reporting a strong or decisive parent MNE influence in each of 29 decision areas.

Financial Decisions

Previous studies have shown that financial decisions are among some of the more centralised decision-making areas within the MNE.[10] The data presented in the table show that this is also the case with respect to foreign-owned firms operating in the United Kingdom, although there are variations depending on the particular financial decision in question. Not surprisingly, decisions regarding dividend and royalty payments to the parent company were very centralised in approximately 80 percent of the subsidiaries surveyed. Similarly, a substantial number of parent companies establish financial targets and return on investment targets for their United Kingdom subsidiaries (46 and 60% respectively).

The actual choice of capital investment projects and the financing of such projects, on the other hand, appeared to be more decentralised, with a strong or decisive parent company influence being exerted in only a minority of the subsidiaries

Table 2.1: The Locus of Decision-making Within Foreign-owned Firms in the United Kingdom

Decisions	% of subsidiaries in which headquarters influence on decision strong or decisive[a]
Financial decisions	
1. Setting of financial targets	46
2. Preparation of yearly budget	17
3. Acquisition of funds for working capital	38
4. Choice of capital investment projects	28
5. Financing of investment projects	39
6. Target rate of return on investment	60
7. Sale of fixed assets	26
8. Dividend policy	80
9. Royalty payments to parent company	77
Production/marketing decisions	
10. Output volume	16
11. Product range	23
12. Introduction of new products	29
13. Withdrawal of products	25
14. Markets supplied by United Kingdom subsidiary	42
15. Entering new United Kingdom markets	14
16. Entering new non-United Kingdom markets	47
17. Price policy	13
18. Advertising and sales promotion	5
19. Distribution	5
Employment/personnel decisions	
20. Union recognition	3
21. Collective bargaining	1
22. Wage increases	6
23. Numbers employed	10
24. Lay-offs/redundancies	8
25. Hiring of workers	8
26. Recruitment of executives	13
27. Recruitment of senior managers	10
Other decisions	
28. R & D	47
29. Technology employed	38

Note: a. Decisions made by the parent company (or regional HQs) without consulting with or seeking the advice of the United Kingdom subsidiary or decisions made by the parent company (or regional HQs) after consulting the United Kingdom subsidiary.

Source: Postal survey by authors 1984 of 154 foreign subsidiaries operating in the United Kingdom.

surveyed. These latter results need to be interpreted cautiously. Since the majority of capital investment projects will be relatively small in terms of value, it is conceivable that selection and financing will be in the hands of the subsidiaries themselves. Clearly this is unlikely to be the case for large capital projects, although other work of the authors has shown considerable variety in project appraisal at parent company level (see section 4.8).[11] As regards other financial decisions, the preparation of yearly budgets, the acquisition of funds for working capital and the sale of fixed assets were closely controlled by the parent company in only a minority of the sample firms.

Overall, therefore, the United Kingdom subsidiaries of MNEs appear to be granted a substanial degree of autonomy in most financial decisions (including capital investment). These findings contrast with the results relating to overseas-owned companies in Belgium, where 66 percent of subsidiaries were closely controlled in respect of the choice of investment projects; 56 percent in the financing of projects; 57 percent in relation to the sale of fixed assets; and 46 percent in relation to budgeting.[12] The degree of autonomy granted to United Kingdom subsidiaries in financial decisions should not, even so, be over-estimated since such autonomy is constrained by the need to meet financial targets laid down by the parent company. The comparisons with Belgium made here and elsewhere have, moreover, to be viewed against the quite different background and characteristics of the two sets of multinational subsidiaries.

Production/Marketing Decisions

The production and marketing decisions of MNEs can have important direct and indirect effects on both the quantity and quality of employment available at their overseas subsidiaries. The evidence presented in Table 2.1 shows a high degree of autonomy with respect to these decisions. Only a minority of the firms surveyed claimed to be centrally controlled in relation to decisions such as the volume of output to be produced in the United Kingdom (16%); entering new United Kingdom markets (14%); pricing policy (13%); advertising and sales promotions (5%) and distribution (5%). Most of these decision areas relate to operational as opposed to strategic issues. By comparison, decisions regarding the markets supplied by the United Kingdom subsidiary and entry into new non-United Kingdom markets, appeared to be a good deal more centralised, with over 40 percent of the sample subsidiaries claiming that such decisions were decisively influenced by the parent MNE. Furthermore, approximately one-quarter of the subsidiary companies claimed to be centralised in relation to the product range of the United Kingdom subsidiary and the introduction or withdrawal of certain product lines.

Again, the results of the present survey suggest a more decentralised approach to production/marketing decisions by MNE subsidiaries in the United Kingdom as compared with Belgium. In the Van Den Bulcke and Halsberghe study, 51 percent of subsidiaries were centrally controlled in relation to the introduction of new products; 49 percent for product policy in general; 46 percent in relation to the composition of the product line; 31 percent in the case of advertising and sales promotion; and 27 percent in regard to distribution.[13]

Employment and Personnel Decisions

Other research has indicated that employment and personnel decisions are among the most decentralised decision-making areas within the MNE.[14] This conclusion is strongly supported by the findings of the present research, with only a small minority of the sample firms claiming to be decisively influenced by the parent company in relation to the range of employment and personnel decisions shown in Table 2.1. The low level of parent company influence on union recognition and collective bargaining is surprising given the history of labour relations difficulties in the United Kingdom, the importance attached to industrial relations issues in site selection, and the much higher level of non-unionisation in American companies than in indigenous firms in the United Kingdom.[15] Work by one of the present authors on the locus of industrial

relations decision-making showed a greater degree of parent MNE involvement in certain areas, especially wage increases and hiring of workers.[16] But this latter research was limited to firms in the mechanical and electrical engineering and chemical industries, and these tend to be more centralised than some other sectors. In terms of unionisation or non-unionisation, the view put forward by companies interviewed as part of the Hamill study was that the parent MNEs exerted a strong indirect influence through codes, guidelines etc. If there was sufficient pressure from the United Kingdom workforce for recognition, it was argued that the subsidiary usually had the authority to grant this. This is an important and controversial area and one where trade union interviews are probably required to balance the corporate viewpoint expressed here.

The Van Den Bulcke and Halsberghe work also concluded that employment and personnel decisions were highly decentralised in respect of MNE subsidiaries in Belgium, although a more centralised approach appears when compared with the findings for the United Kingdom.[17] For example, 18 percent of the Belgian subsidiaries claimed to be decisively influenced by the parent company in relation to collective bargaining, as compared with only 1 percent of United Kingdom subsidiaries. Similarly, in the Belgian study, 29 and 23 percent of subsidiaries were decisively influenced by the parent company in relation to the recruitment of top and middle management respectively. In the present survey, only 13 percent of subsidiaries claimed to be centralised in relation to executive recruitment and 10 percent in the case of senior management recruitment.

Research and Development

The R & D activities of MNEs have been shown to be very centrally controlled at corporate level, and this is supported by the present findings which indicate that almost half of the subsidiaries surveyed claimed to be decisively influenced by the parent organisation in respect of R & D decisions.

R & D is not only centrally-controlled but centrally-located also. Work by Hood and Young for the United Kingdom Department of Trade and Industry (DTI) indicated that 40 percent of a sample of 140 MNE subsidiaries in the British Isles had no activity in either research or development.[18] Among R & D performers, moreover, employment in research/development departments averaged only 14 in comparison with total subsidiary employment of over 400.

Summary

The evidence presented above suggests that the locus of decision-making within MNEs operating in the United Kingdom is far less centralised than is often claimed or feared, especially by United Kingdom trade unions. Furthermore, the United Kingdom subsidiaries of foreign-owned firms appear to be more decentralised than those in Belgium. Confirmation of such results from studies based on research at parent company level is probably necessary before these conclusions can be claimed with confidence. In any event such autonomy operates within certain constraints laid down at corporate level, including the need to meet centrally-determined financial targets, return on investment criteria, and dividend and royalty payments. Many parent companies closely control the markets supplied by their United Kingdom subsidiaries (especially the entry into new non-United Kingdom markets) and this may have important consequences for employment prospects at this level.

Despite the above, the evidence of the postal survey is that many MNEs may be moving towards greater centralisation in the control of their United Kingdom operations. As Table 2.2 reveals, a substantial number of the subsidiaries investigated (42%) argued that they were more centralised than was the case during the late 1970s. Poor performance of the subsidiary over this period was given as the most important reason for this change, although the movement towards a more globally integrated organisation was a significant variable too. The recent rationalisation and restructuring measures undertaken by many MNEs (and discussed in Section 4 of this report) may be expected to accelerate this trend.

Table 2.2: Change in Parent Company Involvement During Last Five Years

Direction of change	% of subsidiaries
Significantly more centralised	15
Marginally more centralised	27
Marginally less centralised	12
Significantly less centralised	8
No change	38
	100

Source: Postal survey 1984, op.cit.

Table 2.3: Foreign Executives and Managers Employed at the United Kingdom Subsidiaries[a]

Number of foreign nationals	Executives in % of subsidiaries	Managers in % of subsidiaries
0	64	78
1	14	9
2	13	3
3	4	1
4	1	1
5 or more	4	8
	100	100

Note: a. Parent country nationals and third country nationals.

Source: Postal survey 1984, op.cit.

2.4 SURVEY RESULTS - INDIRECT METHODS OF CORPORATE INVOLVEMENT

Even in companies where the actual locus of decision-making is very decentralised, the parent company may still exert a substantial indirect influence on subsidiary decision-making through the employment of expatriate executives and managerial staff; information flows between parent and subsidiary; and the regular visits by corporate executives to the United Kingdom subsidiary. The use of such methods in the 154 subsidiaries surveyed in the present study is shown in Tables 2.3 to 2.7.

The majority of sample companies employed no home country nationals in either an executive (64%) or managerial (78%) capacity at the United Kingdom subsidiary (Table 2.3). This left approximately one-third of the subsidiaries employing some expatriate personnel; but it was rare to find more than 1 or 2 non-United Kingdom nationals being employed. Thirty-one percent of the subsidiaries had a home country national as chief executive of the United Kingdom operation, with a further 16 percent having an expatriate managing director. The other executive positions shown in Table 2.4 were staffed mainly by United Kingdom nationals.

The predominance of British personnel in top management positions is long established, for work by Dunning in 1966 indicated that three-quarters of United States companies in the United Kingdom were headed by a British managing director; and in more than one-half of affiliates there were a majority of British nationals on the board of directors.[19]

The results for Belgium indicated that almost three-quarters of the chairmen and two-thirds of the members of the board of directors of foreign-owned firms were parent country nationals.[20] In addition, half of the managing directors of such firms were nationals of the home country, a much higher proportion than the corresponding United Kingdom figure shown in Table 2.4. On a different issue, the Belgian subsidiaries of MNEs were found to report to their parent companies on a fairly regular basis and visits by corporate staff to the Belgian subsidiaries were quite frequent.[21] Tables 2.6 and 2.7 show a similar two-way movement of personnel in the United Kingdom sample: nearly two fifths of chief corporate executives visited their United Kingdom subsidiaries on a quarterly basis and this was matched by a similar flow from subsidiary to parent. Considering functional managers (personnel director, production director etc.), on the other hand, visits were much less frequent. In terms of formal reporting (Table 2.5), monthly financial and technical reports were submitted to headquarters by 80-90 percent of subsidiaries. Since the financial information, in particular, can be used to make comparisons with other operating units elsewhere, these reports are important for evaluation and perhaps subsequent control purposes.

2.5 SURVEY RESULTS - INTER-FIRM VARIATIONS IN PARENT COMPANY CONTROL

Various authors have attempted to explain the variations in the locus of decision-making among MNE subsidiaries in terms of the wider operating characteristics of such firms.[22] Some of the factors studied and their potential influence on the locus of decision-making are summarised in Figure 2.1. The following paragraphs examine the role of such factors on the degree of decision-making within the United Kingdom sample.

Nationality of Ownership

The overseas subsidiaries of United States MNEs are generally thought to be more centrally controlled than those of non-United States MNEs.[23] Van Den Bulcke and Halsberghe came to the opposite conclusion, with the Belgian subsidiaries of MNEs from the Netherlands and the Federal Republic of Germany, in particular, being more centralised than United States-owned firms.[24] The research on Belgium suggested, however, that United States MNEs exerted a stronger indirect control over their Belgian subsidiaries, so that the end result might not be too different.

The results of the present study support the former view, with the United Kingdom subsidiaries of North American MNEs significantly more centrally controlled than Continental European and other companies (Table 2.8). Differences were especially

Table 2.4: Nationality of Directors

Position	Parent country national	UK national	Others	n.a.
	in % of subsidiaries			
Chief executive (or equivalent)	31	32	3	35
Managing director	14	76	4	4
Personnel director	1	87	2	10
Production director	6	85	2	7
Research director	3	77	2	20
Finance director	4	91	1	4
Marketing director	4	87	2	7

Source: Postal survey 1984, op.cit.

Table 2.5: Frequency of Formal Reports to the Parent Company

Type of report	Weekly	Monthly	Quarterly	Annually	Never
	% of subsidiaries				
Commercial reports	6	59	15	7	13
Financial reports	7	88	3	1	1
Technical reports	8	82	3	3	4
Industrial relations reports	5	28	3	-	64

Source: Postal survey 1984, op.cit.

Table 2.6: Frequency of Visits by Corporate Executives to the United Kingdom Subsidiaries

Position	Weekly	Monthly	Quarterly	Annually	Never	Other
			% of subsidiaries			
Chief executive	1	2	39	36	18	4
Personnel director	1	1	7	21	21	50
Production director	1	3	12	27	18	40
Research director	1	3	5	27	21	43
Finance director	1	3	21	34	23	17
Marketing director	1	3	18	24	19	36

Source: Postal survey 1984, op.cit.

Table 2.7: Frequency of Visits by United Kingdom Executives to the Parent Company

Position	Weekly	Monthly	Quarterly	Annually	Never	Other
			% of subsidiaries			
General executive	2	17	36	23	18	4
Personnel director	1	3	10	18	20	47
Production director	1	6	16	26	26	25
Research director	1	5	14	23	21	37
Finance director	1	7	20	36	24	13
Marketing director	1	8	24	27	24	16

Source: Postal survey 1984, op.cit.

Figure 2.1: Influences on the Degree of Centralisation/Decentralisation of Decision-Making Within the MNE

Characteristics of subsidiary and parent	Direction of influence[a]
1. Nationality of ownership	United States firms more centralised than non-United States firms
2. Proportion of equity stock held by parent	Wholly-owned subsidiaries more centralised than partially-owned subsidiaries
3. Date of establishment in the host country	Centralisation decreases over time
4. Method of establishment in the host country	Greenfield entrants more centralised than acquisitions
5. Absolute size of subsidiary	Large subsidiaries more autonomous than small subsidiaries
6. Size of subsidiary relative to parent company	Centralisation increases with relative size of subsidiary
7. Industry factors	Subsidiaries in some industries (eg. chemicals; mechanical and electrical engineering) more centralised than others (eg. food and paper)
8. Degree of inter-subsidiary production integration	Centralisation increases with the degree of intra-group trade
9. Subsidiary performance	Poor performance reduces subsidiary autonomy
10. Multinationality of parent company	Centralisation increases with degree of multinationality
11. Organisational structure of parent company	Geographically-organised MNEs less centralised than functional, product or matrix-organised companies

Note: a. The directions of influence indicated here have been derived from hypotheses in the literature and various empirical studies.

Sources: Listed in footnote number 22 below.

Table 2.8: Nationality of Ownership and Locus of Decision-making

	% of subsidiaries in which headquarters influence on decision strong or decisive	
	North American[a]	Continental European and other[a]
Financial decisions		
1. Setting of financial targets	51	29
2. Preparation of yearly budget	20	11
3. Acquisition of funds for working capital	44	16
4. Choice of capital investment projects	33	13
5. Financing of investment projects	46	16
6. Target rate of return on investment	68	32
7. Sale of fixed assets	30	16
8. Dividend policy	82	76
9. Royalty payments to parent company	82	66
Production/marketing decisions		
10. Output volume	17	13
11. Product range	22	26
12. Introduction of new products	29	29
13. Withdrawal of products	24	24
14. Markets supplied by United Kingdom subsidiary	42	39
15. Entering new United Kingdom markets	16	8
16. Entering new non-United Kingdom markets	46	50
17. Price policy	13	10
18. Advertising and sales promotion	4	8
19. Distribution	6	3
Employment/personnel decisions		
20. Union recognition	4	-
21. Collective bargaining	1	-
22. Wage increases	8	-
23. Numbers employed	13	-
24. Lay-offs/redundancies	10	-
25. Hiring of workers	10	3
26. Recruitment of executives	16	
27. Recruitment of senior managers	13	3
Other decisions		
28. R & D	49	45
29. Technology employed	37	42

Note: a. The sample comprised 116 North American companies and 38 Continental European and other.

Source: Postal survey 1984, op.cit.

marked in the case of financial decisions. Thus, more than half of the North American parent companies established financial targets for their United Kingdom subsidiaries, as compared with less than 30 percent for other multinational firms. Similarly, almost 70 percent of the former set targets concerning rates of return on capital against less than a third in the case of European and other enterprises. North American MNEs were found to be more centralised in relation to employment and personnel decisions than their counterparts elsewhere, although little difference emerged between the two groups in regard to production and marketing decisions. There were no major differences between the two ownership categories as regards the indirect methods of corporate control and influence, but as Table 2.9 indicates, MNEs headquartered outside North America were more likely to employ home country nationals as chief executives or managing directors of their United Kingdom subsidiaries.

Proportion of Equity Held by Parent Company

No major differences emerged between wholly-owned and partially-owned subsidiaries with respect to the degree of centralisation/ decentralisation of decision-making. All of the subsidiaries examined, however, were at least majority-owned by their respective parent companies. The sample did not include any minority-owned operations, and it is in this latter group that some diminution of corporate control could be expected.

Date and Method of Establishment in the United Kingdom

There was no clear link between the date of establishment in the United Kingdom and the degree of centralisation/decentralisation of decision-making. A number of interesting differences were identified in relation to the method of establishment in the United Kingdom, nevertheless, and these are highlighted in Table 2.10. As expected, subsidiaries established through the take-over of a British company were less centrally controlled by their parent company than greenfield establishments. This was true for almost all of the decision-making areas investigated, although the differences were particularly marked for most financial decisions and some production/marketing decisions (eg. output volume; introduction of new products; markets supplied). These results do not seem to relate to the presence or absence of particular functions at subsidiary level. In the DTI study referred to earlier, there were no differences between acquisitions and new facilities in regard to the presence of finance, personnel and R & D functions, but acquisitions were more likely to have a marketing department.[25] Greater United Kingdom market orientation and lower levels of integration were considered to be part explanations for the latter.

The 'other' group shown in Table 2.10 comprises five firms which were established in the United Kingdom through the acquisition of another previously foreign-owned company. While the sample was very small, the results suggest that a change of parent company is associated with a shift towards a more centralised approach to the control of the United Kingdom subsidiary. Poor performance prior to the acquisition was the most important reason for such centralisation.

Subsidiary Size

The influence of subsidiary size on the locus of decision-making is difficult to predict at a theoretical level. Large subsidiaries are more likely to employ their own functional specialists and this may be a factor leading to a higher incidence of subsidiary autonomy. Alternatively, the overseas parent company would be expected to exert more control over the United Kingdom subsidiary in cases where the latter accounts for a significant proportion of worldwide sales. Both of these factors were investigated in the survey. Absolute subsidiary size was measured in terms of the number of employees in the United Kingdom, while the proportion of worldwide sales accounted for by the United Kingdom subsidiary was used as a measure of the relative size of the United Kingdom subsidiary.

Table 2.9: Expatriate Directors Employed at the United Kingdom Subsidiary by Nationality of Ownership and Functional Area

Position	% of North American-owned subsidiaries	% of European and other subsidiaries
Chief executive or equivalent	25	47
Managing director	13	26
Personnel director	1	3
Production director	5	8
Research director	3	3
Finance director	3	5
Marketing director	4	3

Source: Postal survey 1984, op.cit.

Table 2.10: Method of Establishment of Foreign Companies[a] and Locus of Decision-making

Decisions	% of subsidiaries with a decisive headquarters influence			
	Joint Ventures n=20	Take-overs n=33	New establishments n=94	Others[b] n=5
Financial decisions				
1. Setting of financial targets	25	30	54	60
2. Preparation of yearly budget	5	3	24	20
3. Acquisition of funds for working capital	40	27	40	40
4. Choice of capital investment projects	30	9	33	40
5. Financing of investment projects	45	30	39	40
6. Target rate of return on investment	60	51	61	80
7. Sale of fixed assets	40	12	27	20
8. Dividend policy	85	82	79	60
9. Royalty payments to parent company	85	76	76	80
Production/marketing decisions				
10. Output volume	15	3	21	-
11. Product range	25	18	25	-
12. Introduction of new products	35	18	31	20
13. Withdrawal of products	25	21	25	20
14. Markets supplied by United Kingdom subsidiary	50	30	43	60
15. Entering new United Kingdom markets	15	12	15	20
16. Entering new non-United Kingdom markets	60	39	47	40
17. Price policy	15	9	12	20
18. Advertising and sales promotion	10	-	5	-
19. Distribution	5	6	9	20
Employment/personnel decisions				
20. Union recognition	-	3	4	-
21. Collective bargaining	-	-	1	-
22. Wage increases	5	3	7	-
23. Numbers employed	10	3	12	20
24. Lay-offs/redundancies	5	3	10	20
25. Hiring of workers	15	3	9	20
26. Recruitment of executives	20	6	15	20
27. Recruitment of senior managers	10	6	12	20
Other decisions				
28. R & D	55	36	48	60
29. Technology employed	50	27	36	60

Note: a. Based on a sample of 152 foreign subsidiaries.

b. Five firms which were established in the United Kingdom through the acquisition of another previously foreign-owned company.

Source: Postal survey 1984, op.cit.

No clear relationship emerged between the relative size of the United Kingdom subsidiary and the locus of decision-making. In most of the firms surveyed (70%), the United Kingdom subsidiary accounted for less than one-tenth of the worldwide sales of the parent company. At the other end, in 12 percent of the firms the United Kingdom subsidiary represented more than a quarter of worldwide sales. The degree of centralisation/decentralisation of decision-making, however, showed no significant correlation to such measures.

The absolute size of the United Kingdom subsidiary, by contrast, was found to be a significant variable, with larger subsidiaries being more centralised than the equivalent small firms. Thus in almost all of the decision-making areas investigated, a significantly higher proportion of large subsidiaries (employing more than 500 people in the United Kingdom) claimed to be decisively influenced by the parent company than was the case for those with an employment level under 250. The findings of the Steuer Report were the reverse of this, but the study was undertaken almost fifteen years ago and there is little doubt that in the intervening period large United Kingdom subsidiaries have been brought more closely under corporate control. Poor performance within large operations is one reason for this; the link between large United Kingdom subsidiaries and possible over-commitment to the United Kingdom as a location is another (an issue which emerges in the case studies later).

Industry Variations

All major manufacturing industries were covered by the survey. In terms of response rates, six industries predominated, namely food, drink and tobacco n=13; chemicals n=29; mechanical engineering n=34; electrical engineering n=30; paper, printing and publishing n=11; and other manufacturing n=13. This broadly matches the industry distribution of all foreign-owned manufacturing firms in the United Kingdom.

Several important industry differences were identified especially the areas of production and marketing. Subsidiaries in the food, drink and tobacco industry; paper, printing and publishing; and other manufacturing were being highly decentralised in relation to most production and marketing decisions, including the volume of output to be produced in the United Kingdom, the product range and the introduction of new products. Differences in tastes and product legislation between markets necessitates greater national responsiveness in some of these sectors and limits intra-corporate trade. Economies of scale are small, again suggesting a market-by-market approach to manufacture. A much higher degree of centralisation within such companies was evident in decisions regarding the markets supplied by the United Kingdom subsidiary, especially the entry into new markets outside the United Kingdom. This can be explained in terms of the product and market roles of such companies, with most United Kingdom subsidiaries being limited to supplying the host country markets. Financial decisions within subsidiaries operating in these industries were fairly centralised, while employment and personnel decision-making appeared to be largely autonomous.

The United Kingdom subsidiaries of overseas-owned enterprises operating in the chemical, electrical and mechanical engineering industries were more centralised than those above. This was true for most production and marketing decisions and all employment and personnel decisions.

Inter-Subsidiary Production Integration

Various authors have suggested that integrated multinationals are more centralised in decision-making than their non-integrated counterparts.[26] Clearly the movement of raw materials and semi-finished goods within vertically integrated MNEs requires control and coordination and such exchanges will normally be centralised at corporate level. The results of the present survey support this view. In most of the responding companies the integration of production between the United Kingdom operation and the other overseas subsidiaries was quite limited, at least on the output side. Ten of the firms surveyed, however, were much more integrated, with over 20 percent of the output of the United Kingdom subsidiary being exported to other group facilities. These 10 subsidiaries were among the most centralised of all the companies in the sample, with

the majority of decisions at least requiring the approval of the parent company.

Subsidiary Performance

No close link emerged between the performance of the United Kingdom subsidiary and the degree of centralisation/decentralisation of decision-making in most of the areas examined. Nevertheless, within individual subsidiaries poor performance tended to increase the extent of parent company involvement, especially in relation to the establishment of financial targets to be achieved by the United Kingdom subsidiary. Interesting associations between performance, size of subsidiary and control systems were developed in earlier work by Hood and Young for the then Scottish Economic Planning Department.[27] Many of the largest, poorest performing operations were controlled as cost rather than profit centres, which led to the centralisation of key decisions on sourcing, investment and products. These cost centres tended furthermore to be part of wider European networks, an issue which is taken up in the following paragraph.

Multinationality

The extent of parent company involvement in decision-making at the United Kingdom subsidiary increased significantly with the multinationality of the parent company in most of the areas examined in the survey. As Table 2.11 shows, the United Kingdom subsidiaries of MNEs with operations in six or more countries were more centrally controlled in most decision-making areas. This supports the conclusions of the earlier United Kingdom study by Steuer, where greater centralisation of decision-making was found in subsidiaries which were part of large international networks.

Organisational Structures

The sample firms fell into four broad categories regarding the formal organisational structure of their parent corporations. Thirteen percent of the sample firms were organised on a functional basis; 22 percent on a geographic basis; 25 percent on a product basis; with a further 25 percent adopting a matrix structure. No significant relationship emerged, however, between such formal structures and the locus of decision-making in relation to the various issues examined.

Summary

For the majority of characteristics examined, the findings for the United Kingdom support the hypotheses and evidence summarised in Figure 2.1. Most of the factors discussed above were also examined in the Belgian study by Van Den Bulcke and Halsberghe.[28] Comparing the results, the influence of some variables, including the extent of intra-group trade, relative subsidiary size, performance, and the proportion of equity held by the parent company was rather similar. The two studies differ considerably, on the other hand, in regard to the effects of nationality of ownership; date and method of establishment; absolute subsidiary size; and the extent of multinationality of the parent company.

2.6 CONCLUSIONS AND IMPLICATIONS

The findings of the present survey regarding the locus of decision-making within foreign-owned firms operating in the United Kingdom tend to support those of the earlier work by Dunning and Steuer et al with the degree of centralisation/decentralisation of decision-making varying widely between different firms and across functional areas; the one major area of difference concerns the link between subsidiary size and degree of autonomy. The results here indicate that

Table 2.11: Multinationality of Company and Parent Company Involvement in Decision-making of United Kingdom Subsidiaries

Decision	Number of countries in which company operates		
	1-5	6-9	10 or more
	% of subsidiaries in which the influence of parent company on decision strong or decisive		
Financial decisions			
1. Setting of financial targets	27	65	51
2. Preparation of yearly budget	10	24	20
3. Acquisition of funds for working capital	36	41	36
4. Choice of capital investment projects	15	30	36
5. Financing of investment projects	34	41	43
6. Target rate of return on investment	44	71	65
7. Sale of fixed assets	22	26	27
8. Dividend policy	76	75	81
9. Royalty payments to parent company	68	86	84
Production/marketing decisions			
10. Output volume	15	18	18
11. Product range	22	17	27
12. Introduction of new products	32	23	29
13. Withdrawal of products	32	19	24
14. Markets supplied by United Kingdom subsidiary	32	56	41
15. Entering new United Kingdom markets	7	24	41
16. Entering new non-United Kingdom markets	25	74	48
17. Price policy	10	18	13
18. Advertising and sales promotion	2	9	4
19. Distribution	5	12	9
Employment/personnel decisions			
20. Union recognition	0	6	4
21. Collective bargaining	0	0	1
22. Wage increases	5	3	8
23. Numbers employed	2	15	12
24. Lay-offs/redundancies	2	6	12
25. Hiring of workers	5	9	11
26. Recruitment of executives	7	15	17
27. Recruitment of senior managers	5	12	15
Other decisions			
28. R & D	39	47	53
29. Technology employed	37	38	39

Source: Postal survey 1984, op.cit.

greater centralisation of decision-making was apparent among American MNEs; chemical, mechanical and electrical engineering industries; greenfield facilities; large subsidiaries (in terms of employment); more integrated subsidiaries; and subsidiaries within larger international networks. As multinational growth proceeds at both corporate and subsidiary level, the suggestion would therefore be that centralisation would increase, and this tendency seems to be apparent from the findings reported. Within any decision area, furthermore, there is a distinction between the strategic decisions, where a significant measure of control resides with corporate headquarters and operational decisions, where substantial subsidiary autonomy exists. This pattern would undoubtedly emerge even stronger if the importance of the decision, e.g. in terms of capital expenditure, was taken into consideration.

For the future, it will be necessary to focus research at the corporate level if progress is to be made, since there is a strong likelihood of subsidiary management over-estimating their own autonomy. It will be necessary, in addition, to establish, from the whole range of decision areas, those which are of crucial significance in the survival and growth of the subsidiary, and to undertake some detailed investigation of these.

NOTES AND REFERENCES

1. The postal questionnaire was sent to 500 foreign-owned manufacturing firms operating in the United Kingdom. The sample population was derived from a Jordans Dataquest survey which lists the largest 1,000 foreign-owned companies in the United Kingdom. (Britain's Largest 1,000 Foreign-Owned Companies 1982, Jordans Dataquest, London). Only those subsidiaries whose main activity was in manufacturing industry were included. The original questionnaire was sent out in the third week of September, with a reminder letter following in mid-October.

2. The breakdown of the sample was as follows: United States 115, Canadian 1, Continental European 37, Japanese 1.

3. D. Van Den Bulcke and E. Halsberghe, Employment Decision-Making in Multinational Enterprises: Survey Results from Belgium, Working Paper No.32, International Labour Office, Geneva, 1984.

4. J.H. Dunning, American Investment in British Manufacturing Industry, Allen and Unwin, London 1958.

   M.D. Steuer et al, The Impact of Foreign Direct Investment on the United Kingdom, HMSO, London, 1973.

5. Dunning, op.cit., p.107.

6. Steuer, op.cit., p.147.

7. Ibid, p.159.

8. Ibid, p.119.

9. Van Den Bulcke and Halsberge, op.cit., p.8.

10. See, for example, Van Den Bulcke and S. Halsberghe op.cit., p.18.

11. N. Hood and S. Young, European Development Strategies of US Owned Manufacturing Companies Located in Scotland, HMSO, Edinburgh, 1980, pp.72-74.

12. Van Den Bulcke and Halsberghe, op.cit., p.18.

13. Ibid.

14. See, for instance, J. Hamill, "Labour Relations Decision-Making Within Multinational Corporations", Industrial Relations Journal, 15(2), Summer 1984, pp.30-34.

15. N. Hood and S. Young, Multinational Investment Strategies in the British Isles. A Study of MNEs in the Assisted Areas and in the Republic of Ireland, HMSO, London, 1983, pp.136-137.

16. J. Hamill, "The Labour Relations Practices of Foreign-Owned and Indigenous Firms", Employee Relations, 5(1), 1983, pp.14-16.

17. Van Den Bulcke and Halsberghe, op.cit., p.18.

18. Hood and Young, 1983, op.cit., pp.138-141.

19. J.H. Dunning, "US Subsidiaries in Britain and their UK Competitors", Business Ratios, No.1, Autumn 1966, p.8.

20. Van Den Bulcke and Halsberghe, op.cit., p.30.

21. Ibid, pp.32-34.

22. See, for example:
M.Z. Brooke and H. Lee Remmers, The Strategy of Multinational Enterprise, 2nd edition, Pitman, London, 1978; M. Steuer, op.cit.; R. Alsegg, Control Relations between American Corporations and their European Subsidiaries, AMA Research Study, New York, 1971; S.H. Robock and K. Simmonds, International Business and Multinational Enterprises, 3rd edition, Irwin, Homewood, Ill., 1983; J.M. Stopford and L.T. Wells Jnr, Managing the Multinational Enterprise, Basic Books, New York, 1972; J. Hamill, 1984, op.cit.; L. Otterbeck (ed.), The Management of Headquarter-Subsidiary Relationships in Multinational Corporations, Gower, Aldershot, 1981.

23. Ibid.

24. Van Den Bulcke and Halsberghe, op.cit., p.39-41.

25. Hood and Young, 1983, op.cit., p.191, 193.

26. For example, Steuer, op.cit., p.159.

27. Hood and Young, 1980, op.cit., pp.68-72.

28. Van Den Bulcke and Halsberghe, op.cit., pp.35-63.

3. THE REGIONAL DIMENSION OF DECISION-MAKING IN MNE SUBSIDIARIES IN THE UNITED KINGDOM

3.1 THE SIGNIFICANCE OF THE REGIONAL DIMENSION

The previous chapter looked at the national level of decision-making among multinational subsidiaries in the United Kingdom, and suggested a greater degree of autonomy than might have been anticipated. It is true to say, in fact, that there has been much less concern in the United Kingdom about the national level of decision-making than about regional dimensions, hence the focus of this present chapter. There have traditionally been wide divergences in economic prosperity within the United Kingdom, with the northern area of England, together with Wales, Scotland and Northern Ireland in a less favourable position by almost any economic indicator than central and southern regions. The pattern has changed somewhat in the present era of high unemployment, but the gap between the south (including London) and elsewhere remains. Since 1934, therefore, the major element of industrial and social policy in the United Kingdom has been regional policy, operating with the aim of alleviating 'imbalances between areas in employment opportunities'.[1] Regional policy instruments have attempted to encourage the inter-regional movement of industry and the establishment of new enterprises both indigenous and foreign. The most recent estimate of gross employment creation is 500,000 manufacturing jobs in the assisted areas (the areas covered by regional policy) of the United Kingdom over the period 1961-81.[2]

From the perspective of this chapter the main interest attaches to foreign ownership and decision-making within overseas-owned firms in the assisted areas. Although there are no precise estimates of the impact of regional policy on jobs created by foreign MNEs, it does seem that foreign mobile companies have been more responsive than indigenous enterprises to the financial incentives available in the assisted areas. The effect has been that within the assisted areas employment in overseas-owned firms represented 15.9 percent of all manufacturing employment in 1981, higher than penetration in the United Kingdom as a whole; in Northern Ireland, one of the assisted areas, the figure was as high as 21.5 percent.[3] This pattern is continuing, for, in terms of expenditures, in the five years to 1982/83 one third of all Section 7 regional selective assistance (one component of regional aid) went to foreign-owned enterprises and in 1981/82 the proportion peaked at a level of 47 percent.[4]

It is not only the availability of regional aid which has influenced the site location decision of MNEs within the United Kingdom. In addition, there is a regional bias to inward investment promotional policies. While in theory the national Invest in Britain Bureau (based in the Department of Trade and Industry) has a coordinating promotional role, the most active bodies have been those in the regions, Wales Investment Location (WINVEST), the Industrial Development Board (IDB) in Northern Ireland and especially Locate in Scotland (LIS). Two of these organisations have offices and full-time and part-time representatives overseas, and the attraction of foreign companies has been the major thrust within their much broader industrial development roles.

Despite the employment benefits that the United Kingdom assisted areas have gained over time from the operation of regional policy, there has been continuing concern over the nature of the industrial development which has been promoted. The suggestion is that increased external control in branch plants of national and multinational enterprises (both British and foreign) could exacerbate the historic weaknesses of the assisted areas. The latter are seen to include an environment which is less favourable to successful entrepreneurship; an unfavourable rate of product innovation; a relatively low level of employment in service sectors; and an occupational structure characterised by a low proportion of managerial and professional jobs. The growing inter-dependence of regions within the United Kingdom and centralisation pressures have encouraged the movement of headquarters of formerly regionally-based indigenous enterprises and other decision-making activities to the south east of England, and reinforced the concentration of business services employment in that area; the acquisition of locally-headquartered companies by large national or international United Kingdom enterprises has had a similar effect.

External control within foreign multinational firms is regarded as reinforcing these trends. Thus higher order control functions, such as marketing, together with R & D will be located outside the region; and the MNEs may be less integrated into the regional economies in terms of their purchasing of materials and business service inputs. The low proportion of managerial occupations, low levels of R & D and the poor range of sophisticated services available locally in turn may mean that the rate of new firm formation will be reduced and the regions' capacity for self-generating growth impaired. The arguments put forward sometimes extend beyond this to suggest that because of the low level of managerial functions, MNE and other branch plants are more vulnerable to contraction and closure, particularly at times of low economic activity. Alternatively, to the extent that branch plants are units at which mature products are manufactured or mature processes used, then once again they may be more vulnerable to closure. These issues are central to the present study of multinational decision-making.

3.2 DECISION-MAKING IN FOREIGN-OWNED PLANTS IN THE ASSISTED AREAS

The remainder of this chapter, which reviews the empirical evidence on decision-making in foreign-owned branch plants in the United Kingdom assisted areas, is derived principally from work undertaken by the authors over a number of years. It should be noted initially that the research which has been undertaken has paid more attention to the presence or absence of particular functions at plant level rather than to the locus of decision-making per se; decision-making authority has thus generally been inferred from the allocation of functional responsibility in areas such as personnel, marketing, research and development, and general headquarters administration.

By way of introduction, it might be anticipated that American multinationals setting up facilities in the United Kingdom assisted areas as their first European base would see advantages in keeping plant and headquarters functions closely aligned. But subsequent expansion on a multi-plant and multinational (within Europe) basis would eliminate the rationale for a headquarters operation in the United Kingdom assisted areas; and a desire to reduce information and contact costs (relating, for example, to access to information on new technologies, products and market trends) would suggest a capital city or adjacent location somewhere in Europe.[5] For Continental European MNEs an HQ in a United Kingdom assisted area is most improbable. Finally, looking at Japanese companies, to date at least these multinationals have tended to stick to a single site, but a separation of manufacturing from other functions may still be apparent.

Considering marketing operations, similar arguments would tend to apply, but in the case of research and development there is a stronger case for undertaking this at plant level, especially if the R & D is primarily concerned with adaption or development work (as is the norm for MNE subsidiary R & D) and, therefore, linked to plant operations. Basic research is much less locationally tied and access to a pool of R & D professionals would be easier in a central location, such as the south of England.

The work of Crum and Gudgin lends support to some of these views[6]: it was found that 97 percent of the detached head offices of foreign manufacturing companies in the Times 1000 list of 1974/75 were located in the south east of England. Again, Smith established that only 6½ percent of the headquarters of the leading one thousand foreign companies were located in the assisted areas in 1974, a lower share than was discernible for the largest indigenous enterprises.[7] Furthermore, there seemed to be a slight decline in the position of the assisted areas between 1974 and 1977. Extending from this, attempts have been made to identify the exact characteristics of MNE activity in the assisted areas of the United Kingdom in comparison with the south east, and this issue is now dealt with.

Location of Office Functions in Foreign-Owned Plants Established in the Assisted Areas and the South East

Derived from data collected as part of a recent survey undertaken for the United

Kingdom Department of Trade and Industry, Table 3.1 initially considers the issue of the location of particular office functions within foreign-owned subsidiaries in the United Kingdom.[8] The results show that foreign-owned manufacturing plants established in the south east of England were more likely to act as the base for all three office activities considered - United Kingdom headquarters/ administration, United Kingdom sales and R & D; the differences were most marked for the United Kingdom sales office location, the only result which was, in fact, statistically significant, reflecting an apparent need to be close to the market centre of the United Kingdom and Continental Europe. For MNE plants in the assisted areas, the alternative for all three of the activities highlighted was usually the south east of England or London. The only exception to this related to research and development. Here for one third of the assisted area sample and two fifths of the south east sample, there was no R & D at all in the United Kingdom.

Turning to some of the other 'white-collar' business activities, the same study examined whether or not finance, marketing and personnel and training functions were present at plant level. In the case of finance, 83 percent of the assisted area plants claimed the existence of this activity, compared with 95 percent in the south east sample; for marketing the equivalent figures were 54 percent and 95 percent; and for personnel and training 90 percent and 95 percent.[9] Even if sales offices require to be located close to the market, it could still be possible for other marketing activities, such as marketing research or product planning to be based at plant level. However, these data suggest that nearly half of foreign companies with manufacturing facilities in the assisted areas preferred to locate marketing elsewhere. Branches of national and multinational advertising agencies and economic and management consulting firms, for example, are commonly found in some of the major United Kingdom provincial cities, but it is true that their headquarters would tend to be found in the London area; and the presence of both the larger and more specialised market research agencies, as well as market intelligence sources in the south east, represent further attractions. Some type of personnel function would be expected at plant level as the data show and a finance section of some sort would normally be necessary too.

Decision-Making Responsibility in Foreign-Owned Plants Established in the Assisted Areas and the South East

The previous paragraph illustrates the problem of focusing solely on the presence or otherwise of particular functions at plant level. What is more important is to establish the level of authority associated with the functional area and this is shown in Table 3.2. Looking at financial decisions first of all, there were only small differences between the two samples in the extent of involvement in the preparation of budgets, setting of financial targets and short-term financial reporting. All of these decisions were highly decentralised. However, the strategic aspects of finance were found more frequently in the south east establishments than in those in the assisted areas. The differences were not attributable to relative plant size and length of establishment, or to the size of international networks. Rather the variation is largely explained by the pattern of office location shown in Table 3.1 and the concentration of headquarters activities in the south east.

That the level of managerial operations within south east establishments was of a different magnitude to that in the assisted area plants comes out clearly from the results relating to marketing. For the sample of foreign-owned plants in the south east, the spectrum of marketing activity was fairly wide and related both to the management of selling and to product-related work. Responsibility for personnel decisions seemed to be rather similar, although only a small number of decisions were investigated. In terms of R & D, finally, the differences primarily reflect the fact that a research and development function was present in a rather smaller proportion of the assisted area establishments (see Table 3.1). Where R & D was present, the emphasis in both samples was on adaptation and modification work, rather than more fundamental R & D.

It is interesting to compare these results with the findings reported in Chapter 2, although this possibility is limited by differences in industry coverage, the framing of the questions, and the decision areas covered. Notwithstanding these

Table 3.1: Location of Office Functions in Foreign-owned plants Established in Assisted Areas and South East[a]

Administrative location	United Kingdom headquarters or administrative location		Main United Kingdom sales office		R & D department or technical centre	
	Assisted areas	South East	Assisted areas	South east	Assisted areas	South East
	Percent of sample of MNE subsidiaries					
Location of manufacturing plant	62.0	85.0	43.0	85.0	46.0	60.0
Other plant location	9.0	-	8.0	5.0	4.0	-
London office	13.0	10.0	17.0	5.0	3.0	-
South East England office	8.0	-	15.0	-	4.0	-
Other locations	6.0	-	10.0	-	11.0	-
None	2.0	5.0	7.0	5.0	32.0	40.0

Note: a. Based on a sample of 100 firms in the assisted areas (north and north west England, Wales, Scotland and Northern Ireland) and 20 firms in the south east. The survey was restricted to foreign-owned firms in three industries, mechanical and electrical engineering and chemicals. The survey also covered overseas-owned companies in the Republic of Ireland, but these have been omitted above.

Source: Survey by authors 1981 and 1982 (some of these data are included in N.Hood and S. Young, Multinational Investment Strategies in the British Isles, HMSO, London, 1983, Tables 4.4 and 4.5).

Table 3.2: Decision-Making Responsibility within Foreign-owned Plants Established in Assisted Areas and South-East

Decision-making activity	% of subsidiaries responsible for decision-making activity	
	Assisted areas	South east
Finance		
1. Setting up financial targets	80.0	95.0
2. Preparation and monitoring of yearly budgets	85.0	95.0
3. Short-term financial reporting	83.0	95.0
4. Acquisition of funds for working capital	64.0	90.0
5. Acquisition of funds for medium-term investment	57.0	85.0
6. Acquisition of funds for long-term investment	57.0	80.0
7. Foreign currency management	67.0	95.0
Marketing		
8. Market research	39.0	75.0
9. Product planning	45.0	90.0
10. Sales management	49.0	95.0
11. Sales forecasting	50.0	95.0
12. Advertising and promotion	46.0	95.0
Personnel		
13. Recruitment policy	87.0	90.0
14. Training	90.0	90.0
15. Negotiation on wages and conditions	89.0	95.0
Research and development		
16. Basic product and process development	31.0	55.0
17. Product adaption and modification	40.0	60.0
18. R & D in specific materials and techniques	32.0	35.0
19. R & D for Sales/service back-up	31.0	60.0

Source: Survey by authors 1981 and 1982 (Hood and Young, 1983, op.cit, Table 4.11).

provisos, a comparison between Tables 2.1 and Table 3.2 indicates similar findings for personnel decisions, with a high degree of decentralisation of authority apparent. On the other hand, in relation to finance and marketing a good deal more decentralisation is implied by the results from the sample of foreign- owned establishments in the south east of England. There is a much closer accord between the national survey and the assisted area sample results for financial decisions, and to a lesser extent for marketing decisions. The small sample size in the south east needs to be taken into consideration, but if the results are genuine then this does say something important about the types of multinationals that set up subsidiaries with plants in south east England. Certainly in terms of character the latter are different, with lower capital intensity but somewhat higher skill intensity; less tightly defined sourcing roles; a greater sales orientation towards the United Kingdom market; and a greater degree of integration into parent company distribution systems.[10] In addition, budget achievement was rarely cited as a performance objective, unlike the situation in the assisted area sample; by way of explanation it has been suggested that the presence of more senior executives in a range of functional areas would create pressures to operate outwith the narrow confines of budget attainment.[11]

3.3 DECISION-MAKING AND THE EMPLOYMENT ISSUE

In the present situation, major interest attaches to the link between decision-making and employment, and this is also an important regional concern within the United Kingdom, as the discussion in Section 3.1 revealed. Quantitative evidence on branch plant (indigenous and foreign) performance has indicated that in the 1970s the employment performance of branch plants which moved to the assisted areas in the post-war period was poorer than that of branches moving into the non- assisted areas.[12] The sharpest relative decline occurred between 1974 and 1978, the main feature of the deterioration being the higher rate of employment contraction among surviving assisted area plants.

With regard to foreign-owned branch plants specifically, there are a variety of pieces of evidence, not all of which give similar results. Work within government has produced the results shown in Table 3.3. These data omit Northern Ireland, but work by Harrison has shown that employment in foreign-owned projects did not fall as rapidly as overall manufacturing employment in the 1974-79 period.[13] The survey data which has formed the main component of this chapter adds to these results, insofar as it eliminates one source of potential variation in the results, namely that of industry. Within the three sectors investigated, 1980 mean employment in the assisted area sample was 33.4 percent below peak, whereas the south east figure was only 16.7 percent lower.[14] To reinforce the point, the decline in employment in the south east was smaller than in any of the assisted areas separately.

On a related employment issue, Table 3.4 summarises the workforce characteristics within foreign-owned plants in the assisted areas and the south east. The information on decision-making responsibility in this chapter would suggest a higher proportion of managerial and white- collar jobs in the latter region of the United Kingdom and the Table 3.4 results tend in that direction, while not showing statistically significant differences.

3.4 CONCLUSIONS AND IMPLICATIONS

As is evident in this chapter, the work undertaken at a regional level in the United Kingdom has extended beyond that at a national level in attempting to formulate hypotheses and establish evidence on associations between decision-making authority in foreign-owned and indigenous branch plants and a variety of measures of economic performance. While tentative in some areas, the accumulated weight of evidence does highlight several issues in relation to branch establishments. The key seems to be the absence of entrepreneurial decision-making activity within MNE plants located in the assisted areas of the United Kingdom and, therefore, the limitations which are inevitably placed upon the development of indigenous industry on the basis of spin-offs from the foreign sector.

Table 3.3: Change in Employment in Foreign-owned and All Manufacturing Plants in Great Britain, 1978-81

Region	Expansions and contractions		Closures	
	Foreign-owned	All plants	Foreign-owned	All plants
	% change in employment			
Assisted areas	-13	-15	-9	-6
South east	-16	-16	-8	-8
Great Britain	-14.6	-14.6	-7	-6

Source: T. Killick, 'Employment in Foreign-owned Manufacturing Plants', British Business, 26 November 1982.

Table 3.4: Workforce Characteristics in Foreign-owned Plants Established in Assisted Areas and South East

Employment group	% of total employment	
	Assisted areas	South east
Managerial and professional[a]	10.9	15.7
Clerical and related[a]	12.0	17.2
Other non-manual occupations	7.5	8.4
Craft and similar occupations	18.3	18.4
General labourers	4.1	1.1
Other manual	47.2	39.2
Total	100.0	100.0

Note: a. On an industry basis, the percent of total employment in managerial and professional + clerical and related occupations was as follows:

	Assisted areas	South east
Chemicals	23.6	28.8
Electrical engineering	19.4	21.2
Mechanical engineering	25.6	55.7

Source: Hood and Young, 1983, op.cit, Table 4.10 and p.244.

While seen as a general industrial problem, at the time of writing, the electronics industry was the subject of special attention, given the high proportion of inward investment in that sector over the last few years. A good deal of this investment has taken place in the assisted areas, especially central Scotland and Wales, but the industry is dominated by branch plants with their associated characteristics. Lacking even the small indigenous base of Scotland, features of the electronics industry in Wales include, first, the fact that South Wales plants were often the last to benefit from technology transfer within the multinational system, although this transfer still represented the major source of innovation in the region; second, the personnel in the electronics plants were primarily engaged in "routine occupations"; and third, the purchasing policies of the multinational plants meant low regional multiplier effects.[15]

The important question which derives from the foregoing is whether anything can be done to increase the autonomy and decision-making authority at the assisted area level, which seems to be at the root of many of the problems. On 28 November 1984 the United Kingdom Government made its long-awaited announcement on changes in regional policy.[16] As part of a package which involved major changes in the areas eligible for aid, reductions in the level of aid and the introduction of greater selectivity into the system, regional assistance was also extended to service industries for the first time. Although developments in information technology should mean that service industry is locationally mobile, to date the sector is strongly market-oriented and this could militate against both the introduction of functions such as marketing into manufacturing plants, and also the movement of service firms who rely for their existence on the manufacturing enterprises. If the assisted area economies will continue to be dominated by production units, then presumably most attention should be paid to means of stimulating product and process innovation through R & D.[17] Within the limited number of electronics MNEs undertaking R & D in one assisted area, Scotland, it has been shown that research and development units do seem to provide a mechanism for facilitating technology transfers from the parent multinationals.[18] Moreover, the proportion of commercial applications from the research results was high and tended to be based in the affiliates themselves. Distinguishing between different R & D units indicated that greater research intensity brought with it more and higher-level employment, more responsibility in terms of the work undertaken and an association with wider market areas for plant output. More problematic was the fact that government incentives (at least of the type then operated) were of little importance in influencing the progression of R & D.

NOTES AND REFERENCES

1. Cited most recently in Secretary of State for Trade and Industry, Regional Industrial Development, Cmnd 9111, HMSO, London, December 1983, p.3.

2. Department of Trade and Industry, Regional Industrial Policy : Some Economic Issues, DTI, London, 1983, pp.92-110.

3. Business Monitor, PA1002, 1981.

4. Industry Act 1972. Annual Report, various issues; Industrial Development Act 1982. Annual Report.

5. See J.H. Dunning and G. Norman, Factors Influencing the Location of Offices of Multinational Enterprises, LOB Research Paper No.8, Economists Advisory Group, London, October 1979; D.Van Den Bulcke, European Headquarters of American Multinational Enterprises in Brussels and Belgium, ICHEC, Brussels, 1984.

6. R.E. Crum and G. Gudgin, Non-production Activities in UK Manufacturing Industry, Commission of the European Communities, Brussels, 1977.

7. I.J. Smith, Some Aspects of Inward Investment in the United Kingdom, with Particular Reference to the Northern Region, Discussion Paper No.31, Centre for Urban and Regional Development Studies, University of Newcastle-upon-Tyne, March 1980.

8. N. Hood and S. Young, Multinational Investment Strategies in the British Isles. A Study of MNEs in the Assisted Areas and in the Republic of Ireland, HMSO, London, 1983.

9. These figures were derived from the survey above, but have not previously been cited.

10. Hood and Young, 1983, op.cit., pp.247-248.

11. Ibid.

12. Department of Trade and Industry, op.cit., p.55.

13. R.T. Harrison, 'Assisted Industry, Employment Stability and Industrial Decline : Some Evidence from Northern Ireland', Regional Studies, 16(4), 1982, pp.267-285.

14. Hood and Young, 1983, op.cit., p.243.

15. K. Morgan and A. Sayer, The International Electronics Industry and Regional Development in Britain, Working Paper 34, Urban and Regional Studies, University of Sussex, September 1983.

16. See Hansard, 28 November 1984 for details.

17. The theme of innovation-oriented regional policy is an emerging one in the literature, matched by increasing interest in government circles. On the former see the special issue of Regional Studies, 14(3), 1980 and the article in this issue by H.-J. Ewers and R.W. Wettmann, "Innovation-Oriented Regional Policy", pp.161-180. More recently see R. Rothwell, "The Role of Technology in Industrial Change : Implications for Regional Policy", Regional Studies, 16(5), 1982.

18. P. Haug, N. Hood and S. Young, "R & D Intensity in the Affiliates of US Owned Electronics Companies Manufacturing in Scotland", Regional Studies, 17(6), 1983, pp.383-392.

4. CASE EXAMPLES OF INVESTMENT AND DIVESTMENT DECISION-MAKING

4.1 BACKGROUND

The previous chapters of this report have provided evidence on decision-making in foreign owned companies in the United Kingdom, focusing on the level at which the decision is taken and on decision-making in the various functional areas of business. The aim of the present section is to complement this by investigating in more detail decision-making in the two key strategic areas of investment and divestment, using a case study approach. Divestment, following the convention in British statistics, is defined to mean the closure of one or more establishments belonging to a particular enterprise; but in the discussion which follows the term partial divestment is used where some manufacturing is retained after plant closure at a particular location has taken place. Most emphasis is placed upon divestment cases, although, as will be shown, partial divestment and job losses may well be associated with re-investment in the same subsidiary or in another subsidiary elsewhere in Europe.

A number of studies of investment and divestment decision making have been undertaken by other authors. In the case of investment, however, the main focus of attention has been on locational determinants rather than decision processes.[1] In regard to divestment, some of the previous work was undertaken in an era in which the world economic environment was much less hostile than that of the late 1970s and 1980s.[2] The recent period has seen a much higher incidence of retrenchment and divestment, for American companies and many European enterprises also. It might be anticipated, therefore, that companies would have become more experienced in handling rundown situations, even if decision procedures are less clearly defined than in the case of new investments. The work presented here adds to the existing literature in a number of ways. First, each of the cases considers the corporate context of the divestment/investment decision, that is the broad company and strategic environment within which the decision takes place. Second, the various stages leading to the final decision are outlined. Third, attention is given to the choice process by which one particular establishment or subsidiary is singled out for closure, rundown or new investment. Fourth, the involvement of the United Kingdom and perhaps other governments and of the host country trade unions is highlighted.

By way of background on the United Kingdom situation, there were 1,069 openings of foreign-owned manufacturing plants during the years 1966-1983.[3] These were broken down by period as follows:

	1966-72	1973-77	1978-82	1983
Number of openings	480	345	236	8

Totally comparable data are not available on divestments, but taking the period 1973-83 316 overseas-owned establishment closures took place.[4] Another piece of evidence is available on large plant (i.e. plants employing more than 500 people in 1978) closures during the years 1978-82: in these years 48 foreign-owned establishments were shut as compared with 238 locally-owned establishments.[5] Despite problems in some particular regions of the United Kingdom, the conclusion overall is that there has been little difference between foreign-owned and all firms in terms of jobs lost in closures and contractions. And taking foreign openings into consideration, the share of manufacturing employment in overseas-owned companies continued to rise, at least until 1981. It is questionable, of course, whether the comparison between the employment performance of foreign-owned and indigenous companies is a valid one: the problems of the 1970s and 1980s exposed the fundamental weaknesses of British manufacturing industry and led to large-scale deindustrialisation and the loss of over 2 million jobs (-26%) in manufacturing between 1973 and 1982.

4.2 INTRODUCTION TO CASE EXAMPLES

Five company cases are summarised in the sections which follow, each illustrating a different type of strategic decision, albeit mostly within the theme of restructuring. The cases are:

Company	Issue at United Kingdom level
The Singer Company	Divestment
Timex Corporation	Partial divestment
The Hoover Company	Divestment and re-investment
Hyster Corporation	Planned investment
IBM Corporation	Investment

All of the companies studied are large, American multinational enterprises with extensive manufacturing networks outside the United States. All, moreover, had been operating in the United Kingdom for at least 25 years prior to the incidents highlighted. In various ways, thus, there are similarities between the companies, so that it would be wrong to extend any conclusions to, for example, Continental European MNEs or more recently internationalising corporations. On the other hand, the industry/technology dimensions are paramount in most of these cases and partially explain the rationalisation programmes and portfolio adjustment activities undertaken by the corporations studied. These dimensions apply equally to Continental European multinationals operating in the United Kingdom: in one case not included here, United Kingdom employment was halved in the ten years to 1982, including six divestments, as a consequence of rapid technological change, Japanese penetration of the market and programmes to encourage specialisation and centralisation on a Europe-wide basis in the company's electronics components' business.[6]

The sources for the case material are included with each of the company studies. In general the information derives from the programme of work undertaken by two of the present authors over a number of years, updated where necessary. Specifically for this report, discussions were held with a number of trade union officials and shop stewards in order to present a balanced view. Press reports have also been used extensively, and provide some interesting viewpoints on particular incidents even if it has not always been possible to confirm their validity.

An illustration of investment and divestment decision-making in MNEs is presented in Figure 4.1. This distinguishes between the internal and external influences on the decision, and the level within the corporation or within the world environment at which influence was exerted. To take an example of the latter, divestment of a United Kingdom facility could be due chiefly to the poor performance of the latter (United Kingdom level of influence) or it could be related to international competition which reduced capacity requirements within the company (global level of influence). Figure 4.1 also considers the various stages in the decision process, from initiation through to the final commitment to invest or divest. Following an introductory discussion which summarises the events at corporate and subsidiary level leading to decision-making, each of the cases which follows is analysed within the framework set out in this figure.

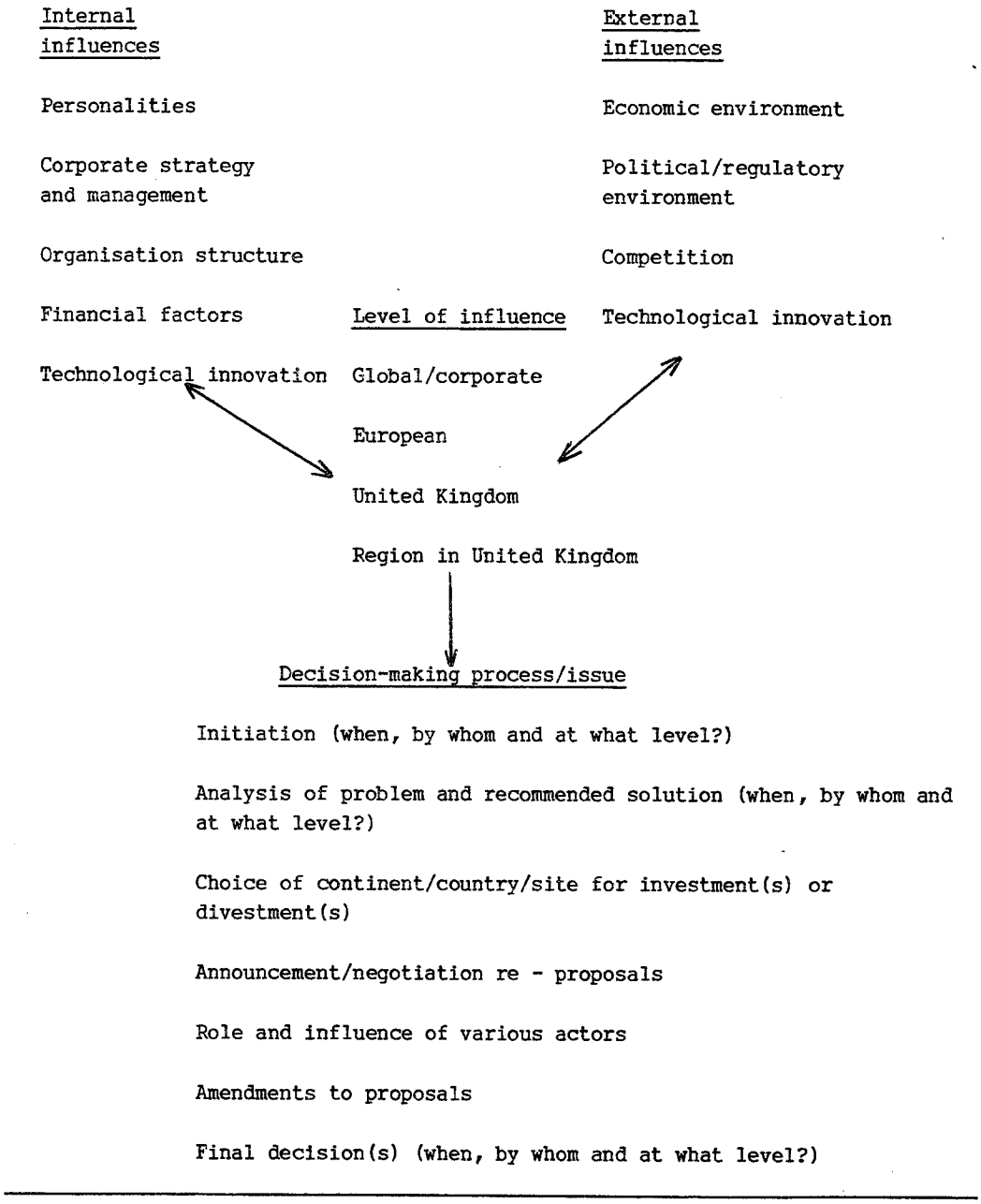
4.3 THE SINGER COMPANY[7]

On the 12th October 1979, the American sewing machine manufacturer, The Singer Company announced the total closure of its United Kingdom sewing machine operations based in Clydebank, near Glasgow. The decision to finally close the Clydebank plant, which at one time employed more than 16,000 workers, was the culmination of a series of rationalisation and restructuring measures introduced by the company from the mid-1970s in response to declining sales and fierce competition from Japan and developing country producers.

Company Background

Singer established its first overseas assembly facility in the United Kingdom in 1867. A newly-built factory in Clydebank became the company's base for manufacturing in 1885 and this plant soon became the largest sewing machine factory in the world. The Clydebank facilities continued to grow rapidly in line with the worldwide expansion of the Singer Group, and by 1960 over 16,000 people were employed. The plants accounted for 20 percent of Singer's total worldwide output, with between 80 and 90 percent of output being exported. The operations were also largely self-contained

Figure 4.1 : Illustration of Investment and Divestment Decision-Making in MNEs



with every step in the production process being carried out in-house. Products manufactured included middle of the range consumer sewing machines, industrial machines and needles.

The 1950s saw the first major challenge to the company's dominant worldwide market position with the emergence of competition, particularly from the Japanese. Such competitive pressures were compounded by the near-saturation of demand for sewing machines in the developed countries and by Singer's product line which was still heavily dependent on traditionally-designed sewing machines. Singer's initial reaction to such pressures were threefold:

- The company established several manufacturing and assembly plants in low cost locations in the developing world
- Singer attempted to modernise its existing plants and to update its product lines
- In view of the continuing decline in demand for sewing machines, Singer embarked on an ambitious and wide-ranging diversification programme between 1962 and 1978, which nearly halved the proportion of the company's output accounted for by sewing machine production.
- At Clydebank, employment fell from 16,000 in 1960 to approximately 7,000 by 1970 as a result of declining demand, the introduction of labour-saving processes and the transfer of some production to low-cost areas. At 1970, however, the Clydebank plant still retained a crucial role in the manufacture of sewing machines for the Group.

Rationalisation From the Mid-1970s and its Impact on The Singer Company (United Kingdom) Ltd.

The difficulties faced by Singer during this period had become considerably worse by the mid-1970s. The appointment of a new Chief Executive, Mr. J.B. Flavin, in 1975 heralded the end of the period of diversification and the company began to cut-back and concentrate its operations.

Following the appointment of Flavin, the Group began to withdraw from low-return products, concentrating on three main areas of business i.e. sewing, consumer and government products. Realising the difficulties it faced with its traditional products (sewing machines), Singer embarked on an international sourcing study aimed at evaluating the company's worldwide manufacturing system and improving operational efficiency. The results of this review study led to a wide-ranging restructuring of industrial and consumer sewing machine operations from June 1978.

It was proposed that industrial machine manufacturing was to be phased out from Clydebank and thereafter from Europe as a whole by 1981, and production concentrated in the United States. In addition, industrial needle manufacturing was to cease at Clydebank, with production being concentrated in the Federal Republic of Germany.

The international sourcing study led to proposals in relation to consumer sewing machines too. A greater degree of inter-plant integration was announced, affecting facilities in France, Germany and Italy; while £8 million was to be invested at Clydebank to modernise the plant, with a new line of lightweight sewing machines to be launched from this facility.

The employment consequences of these restructuring measures at Clydebank were considerable. A total of 2,000 jobs were to be lost, reducing employment at the plant from 4,800 to 2,000 between 1978 and 1982.

When the restructuring programme was announced in June 1978, the unions at Clydebank were given three months to respond. The reaction of the latter was to commission a team of outside management consultants to conduct a study of the company's proposals and to examine whether an alternative strategy could be devised which would safeguard some of the threatened jobs. This report, which was conducted by PA Management Consultants, was financed by a levy from the workers and by a grant from the Scottish Development Agency. Its conclusion was that there was still a market for certain of the industrial sewing machines produced at Clydebank, and retention of these would save 500 of the threatened jobs.

The company responded fairly positively to the alternative proposals suggested by the unions, and a revised offer with respect to industrial machine manufacturing was

proposed which would have retained the 500 jobs. This, however, was conditional on major changes in work practices and on government aid of between £2 and £4 million. In mid-December 1978, the workers at Clydebank rejected cooperation with management in implementing the reorganisation programme and associated redundancies. Singer reacted to this rejection by announcing that the factory would close in the early 1980s.

The threat of closure resulted in vigorous attempts involving unions, civic bodies and others to save the plant. The Clydebank workforce eventually accepted a joint union/management plan in January 1979 which would have reduced employment at the plant to 2,350 workers. A month later workers at Clydebank refused to accept cuts in overtime and a week-long strike resulted. In June 1979, short-time working was introduced at the plant because of a continuing decline in demand. On October 8, 1979, Singer stated that it was reviewing its European operations and four days later total closure of the Clydebank facilities was announced, the divestment to take place by June 1980.

Internal and External Influences on Decision

External influences

Competitive environment: emergence of more efficient and lower cost producers in Japan and the Third World, especially Asian newly industrialised countries.
Market maturity and product obsolescence: market prospects in developed countries were poor because of an increase in the proportion of working women and a decline in the popularity of home sewing; Singer was slow to introduce electronics technology into consumer sewing machines; the market for industrial machines was affected by the decline in the textile industry in Europe.

Internal influences

Personalities: the arrival of Flavin as Chief Executive was a catalyst for reorganisation and rationalisation. It was largely Flavin's decision to divest from non-core businesses and he was instrumental in launching the worldwide review of operations.

Diversification: failure of widespread diversification moves of the early 1970s: in 1975 the Group lost $452 million including $411m. from discontinued operations.
Corporate strategy and implementation of strategy: following the international sourcing study, the company was probably insufficiently radical in directing production to low cost locations, while European facilities suffered from a lack of capital investment; more fundamentally, there must be question marks about retrenching back into sewing machines.

Organisation: weaknesses in the organisation and control of the company's global production network, which involved manufacturing or assembly facilities in 35 countries. Foreign exchange losses were high and the company only belatedly attempted to integrate its foreign manufacturing subsidiaries.

Performance at Clydebank: global difficulties were also evident at Clydebank, including over-capacity, lack of capital investment, outdated products and machinery. In addition, industrial relations at Clydebank were seen as being considerably worse than at any other Singer location.

Level of Influence

Global/corporate factors: these clearly dominate in this case, although the fact that the United Kingdom facilities had a central role within the sewing machine business was of major significance too.

United Kingdom/United Kingdom region: several dimensions of the Clydebank position are of note. Until the late 1950s, Singer had only a minority stake in the United Kingdom operation, which meant substantial autonomy. The self-sufficient nature of the operation reinforced its independence from the Group. For many years factory performance revealed unsatisfactory results, but, equally, the PA Management

Consultants' report showed that Clydebank had been starved of investment.

Steps/Stages in the Decision-Making Process

It is possible to observe a number of clearly identifiable stages in the ultimate decision to close the Clydebank plant.

Initiation: the decision to close the United Kingdom facility was part of a major reorganisation and restructuring of Singer's worldwide and European production network which had started as early as the mid-1970s (although employment at Clydebank had been falling for more than a decade before that). The corporation's Annual Report of 1976 had announced the establishment of an international sourcing study aimed at improving the corporation's operational efficiency and evaluating its worldwide manufacturing system. Plant capacity, production methods and equipment were all studied with a view to improving international operational efficiency. This review, together with continual corporate criticisms of plant performance at Clydebank, seemed to have been the first major steps along the road to closure.

Analysis of problem and recommended solution: the international sourcing study recommended substantial rationalisation but also centralisation of output at specific centres. The study took place at a time of considerable upheaval in European operations, which had already seen a factory closed in the Federal Republic of Germany in 1976. For Clydebank, ending of industrial sewing machine and needle manufacture was envisaged, with the loss of 2,800 jobs.

Announcement/negotiation and amendments to proposals: as noted earlier, the presentation of the corporate proposals to the United Kingdom workforce was followed by counter-proposals consequent on a report by PA Management Consultants; after lengthy, sometimes acrimonious negotations over the method of implementing the latter, agreement was finally reached; meantime market conditions had deteriorated sharply leading to short-time working and following a further review of European operations, the divestment decision was made.

Role and influence of various actors: regarding the role of the trade unions, a meeting took place on the 30 October 1978 between Clydebank shop stewards, local and national trade union officials and the International Metalworkers Federation (IMF). This meeting was convened to consider the alternative strategy of the PA Report. The unions blamed the closure of the Clydebank plant on a substantial lack of capital investment by Singer and the withdrawal of substantial profits from Clydebank even in times of losses. At the meeting the unions agreed on the counter-proposals of the PA Report in order to safeguard a limited number of jobs. An important point, however, was that the unions claimed that management had failed to submit crucial background information to the consultants appointed by the union. This is contrary to press reports which claim that the company had cooperated fully in this exercise. The unions raised this case at OECD level, and appealed to Singer in the presence of government officials from all member countries involved, to recognise its responsibilities to preserve employment and provide information necessary for negotiations; to consider seriously the various counter-proposals; and to negotiate with the trade unions on employment and social protection for workers.

The IMF claimed that trade union pressure had forced the company to accept the revised plan safeguarding 500 jobs. According to the IMF Report - "it has been demonstrated that strong union interventions can decisively change management policy of a powerful multinational group".[8]

Final decision: the announcement of the final closure of the plant was made on 12 October 1979. The divestment announcement was made by the Chief Executive Flavin and communicated to the unions at a meeting in the United Kingdom. Flavin had flown from the United States following a lengthy meeting of the parent company Board of Directors at which the closure decision was made.

The period between the introduction of short-time working as a result of a continuing fall in demand (June 1979), the company review of European operations (8 October 1979) and the closure announcement (12 October 1979) was very short. But the results of the earlier review of worldwide operations had been presented to the Clydebank workforce in June 1978 and the commencement of this review was in 1976. In this instance the fact that Singer was something of an institution in the United Kingdom must have played a part in delaying divestment.

4.4 TIMEX CORPORATION[9]

In January 1983, the United States-based manufacturer, Timex Corporation announced a total of 1,900 redundancies at its United Kingdom subsidiary located in Dundee and the cessation of its core activity - watch-making. Total closure of the plant was to follow if the workforce opposed the redundancies. As in the Hoover case which follows, the layoffs were the culmination of a series of events during the late 1970s and early 1980s which are of considerable relevance to the present study. These include partial divestment due to the effects of technological change, foreign competition and recessionary pressures; allegations of production transfers; host country competition for inward investment; and the effects on job security of centralised decision-making within the MNE.

Company Background

During the 1950s and 1960s, Timex Corporation emerged as the largest watch manufacturer in the world, and as late as 1970 had a 50 percent share of the world market. Worldwide employment totalled around 17,000 people. The company's success over this period was attributed to low cost watch production using mass production techniques, relatively unskilled and predominantly female labour and a strong emphasis on cost and quality control and high productivity. To achieve these objectives, control was centralised at United States headquarters. A further factor contributing to the company's success was diversification. Watch manufacturing remained by far the most important part of the company's operations, but the company also embarked on several subcontracting agreements including the assembly of cameras under licence from the American Polaroid Corporation.

Timex established its first overseas facility in Dundee, United Kingdom in 1946. Further plants were opened in the town in the following years and by the mid-1960s total employment in Dundee had risen to 3,500 people, in a largely self-contained operation which produced parts and components for United Kingdom and foreign markets as well as the final product. Further expansion of the Scottish operation occurred through diversification into new product lines including the assembly of parts and components for IBM and camera assembly for Polaroid. As at 1979 a total of 6,000 people were employed by the company in Dundee.

The company only belatedly entered the digital market in 1976, by which time it faced severe competition from producers in the Soviet Union and South-East Asia. For the United Kingdom subsidiary such difficulties were compounded by a series of labour disputes resulting in management threats to close down the Dundee plant. For example, in February 1974 a strike involving 5,200 workers out of a total workforce of 6,000 resulted in Timex threatening to transfer manufacture to its recently opened Portuguese subsidiary.

Rationalisation of Worldwide Timex Operations and the Impact at United Kingdom Level

Towards the end of the 1970s, Timex introduced a range of cost- cutting measures involving substantial job losses and a reduction in manufacturing capacity in both the United Kingdom and elsewhere. The corporation's European headquarters, based in London, was closed in 1981 and offices in the Federal Republic of Germany, the Netherlands, Italy and Scandinavia were reduced to a skeleton staff. Redundancies at the Dundee plants soon followed reducing the workforce to 4,200 in 1983. Further cost-cutting was sought through the search for low-cost assembly plants, with Malta, Philippines and Portugal being considered.

These cost-cutting measures were accompanied by radical changes in the management structure of the company. In 1980, the Chairman, R.F. Weltzien, was replaced by the Norwegian industrialist and shipping magnate, T.F. Olsen, who already owned a majority stake in the company. Olsen introduced a revised recovery plan aimed at significantly reducing the company's dependence on its traditional product lines by 1985, and at creating a much more cost-conscious company with all projects being reviewed and evaluated for their effects on cash-flow and their contribution to short-run profits.

The attempt to reduce the company's reliance on its traditional product lines led to a series of non-watch diversification moves, two of which are particularly significant in the context of the United Kingdom subsidiary. The first of these was an agreement between Timex and the American firm, Nimslo Technology Inc. in March 1980 to develop and manufacture the latter's revolutionary new 3-D camera in Dundee. The work was forecast to bring 100 jobs by 1981 rising to 800 by 1985. The second move involved an agreement with a British enterprise, Sinclair Research Ltd., whereby the latter's home computers were to be assembled in Dundee; this project was to involve 250 personnel immediately and a planned total of 1,000 by 1987. Both of these projects were strongly backed by United Kingdom government regional aid.

The Nimslo and Sinclair projects were surrounded by controversy from the outset. In the case of Nimslo, controversy surrounded the hazy circumstances in which the company came into being; the involvement of Olsen with Nimslo; the extent of development work still to be undertaken on the camera at Dundee to turn an experimental prototype into a model capable of mass production; whether Dundee was ever seen as a long-term manufacturing as opposed to a short-term development base for the camera; and whether the United States market share forecast of 5 percent was attainable for the 3-D camera, etc. As regards the Sinclair project, concern was expressed regarding the security of this work given threats to switch production elsewhere, and the decision to second-source manufacture at a factory in the south of England.

The concern expressed regarding these projects appeared to be supported by subsequent events during 1982 and 1983. In early 1982, production of the Nimslo camera was transferred from Dundee to two Japanese firms and a further contract was placed with a French firm. Worse news was to follow for the workforce at Dundee in early 1983. On the 10 January, union officials attended a meeting with Dundee management to discuss the implications of Nimslo's decision to switch camera production out of Dundee. At the meeting, union represen- tatives were also told by senior company managers that watch-making was to cease at Dundee. The only activities to be left would be the limited assembly of mechanical and quartz watches for the United Kingdom market and subcontract work for Sinclair and IBM. The combined effects of such changes were that 1,900 redundancies were to be made reducing the company's workforce in the city from 4,200 to 2,300.

The company's proposals were opposed by unions at Dundee and a public campaign was initiated in an attempt to safeguard the threatened jobs. This included a five week sit-in by 300 workers at the Dundee plant. Despite such attempts, Olsen refused to reconsider the plan to transfer production out of Dundee and to cease watch manufacturing.

Internal and External Influences on Decision

Events at Timex reveal a number of close similarities to that of the Singer case. Thus the decision to cease watch manufacturing and the loss of camera production must be seen within a broader corporate strategy perspective and in particular the company's attempts from the late 1970s to reduce costs, improve competitiveness and reduce its reliance on traditional product lines through a series of non-watch diversification moves. This change in strategy can be traced to the appointment of Olsen as Timex chairman in 1980, although the difficulties faced by the company were of earlier origin.

External influences

Product and technological innovation: undoubtedly this was a major influence, but it was primarily the insufficient corporate response (an internal influence) which was at the root of the problem.

Competition: from Japan and Third World producers.

Internal influences

Personalities: the appointment of Olsen as Chief Executive in 1980 was a

reflection of the problems of the company, which a year earlier had reported what was probably its first ever loss.

Diversification: linked to the appointment of Olsen were the series of non-watch diversification moves instituted by Timex.

Organisation structure: the restructuring of the European organisation, including the closure of the regional headquarters in London and the subsequent closure of offices in Continental Europe, was evidence of a move towards greater centralised control. Timex, however, had always been a very centralised corporation; and, unusually, Timex in Britain was operated as a branch of Timex Corporation.

Product and technological innovation: as above.

Level of Influence

Difficulties were chiefly global/corporate in nature, although the poor state of industrial relations at Dundee was an issue too. Given the degree of production integration within Timex Corporation as a whole and the importance of Dundee as a manufacturing location, poor performance at the latter was reflected strongly in overall corporate performance.

Decision-Making Process/Issue

Initiation: the cost-cutting and rationalisation measures undertaken during the late 1970s, together with the search for low-cost manufacturing locations, were the earliest indicators of possible divestment to come. Overtly, of course, initiation was instituted by Olsen in 1980.

Analysis of problem and recommended solution: unlike some other cases in this section, no announcements of international sourcing studies or the like were ever made. But this is not unexpected in a company which has always operated in a very private way.

Choice of continent/country/site for investment or divestment: in this instance, Dundee was to some extent in competition with developing country locations as a source point for Timex. For instance, in the redundancy announcements at Dundee in 1980, the strength of sterling and a switch of business to the company's manufacturing division in the Philippines were given as the reasons for the job losses. The manufacture of Nimslo cameras, moreover, was switched out of Dundee to Japan and France. One of the more controversial aspects of the Timex affair relates to whether it was ever intended to manufacture the Nimslo 3-D camera in Dundee or whether the Dundee operation was to be confined to development work aimed at turning an experimental prototype model into one capable of mass production elsewhere. Nimslo itself claimed that fourteen years of development work had gone into the model before it had been handed to Dundee, and manufacturing responsibility was switched because of continuing industrial relations problems and a failure to meet production quotas. As against this view:

- The workforce at Dundee had already built up a considerable degree of expertise on camera design and manufacture, having produced cameras for Polaroid under contract since the 1950s.
- A confidential management memo entitled "Timex's Contribution to Nimslo's Camera Design" which was circulated to top executives on 14 October 1982 (but subsequently leaked to the press) shows that Dundee became involved in modifications to the camera at a very early stage, and that Dundee was at the forefront of design changes to the shutter, latch and body, electronics, tap cover and the film advance.

Announcement/negotiation re-proposals and final decision: the loss of the Nimslo contract and the ending of watch-making at Dundee were announced early in 1983. The unions claimed to have documentary evidence that the cessation of watch manufacture was being considered in Autumn 1981 and that the impending cancellation of the Nimslo contract was known in June 1982. Olsen himself refused to meet trade union officials to discuss the company's plans, indicating instead that any negotiations should take place between unions and local management. The position of Olsen in this case is interesting for other reasons: aside from a majority stake in Timex Corporation, Olsen

was a major shareholder in Nimslo Technology Inc. In this regard the question has been asked whether Olsen made any attempt to dissuade Nimslo from pulling out of Dundee. It seems highly unlikely that he would have done, given his view that it was most important to get camera production right.

Subsequent to the divestment announcement in 1983, a five week sit-in took place at Dundee to protest against management insistence on achieving its target redundancy level - through compulsory redundancies if necessary. This delayed the launch of a new Sinclair product from the plant (flat screen pocket television): the market response to this latter product has in fact been slow, and given the high proportion of the workforce engaged in subcontract work for Sinclair, the long-term future of Dundee seems uncertain.

Role and influence of various actors: the issue of government aid to Timex arises in this case. In the first place, and rather unusually, the financial assistance offered for the Nimslo 3-D camera by the British government was withheld. The government advisers on regional aid packages suggested that three quarters of the finance should be given in tranches, triggered by rising production (which did not materialise). Secondly, considerable concern - up to Prime Ministerial level - was expressed over the financial package offered to Olsen by France, and the European Community Commission was asked to examine this with a view to ascertaining whether or not rules on net grant equivalent were being contravened.

4.5 THE HOOVER COMPANY[10]

On 22nd October 1981, the United States-based domestic appliance manufacturer, The Hoover Company announced major changes in its United Kingdom operations resulting in the loss of 1,800 jobs. These included the closure of its factory at Perivale (London) with a loss of 1,000 jobs and job losses at its plants in Cambuslang (Scotland) and Merthyr Tydfil in Wales. At the same time the company announced a programme of reinvestment at its Cambuslang facility. This was to occur through the transfer of production from Perivale in London and a widening of the plant's product range. Such investment it was argued would safeguard the remaining jobs at Cambuslang. The Hoover case, therefore, highlights a mixture of both divestment and investment decisions by a multinational enterprise in the United Kingdom.

Company Background

Hoover Ltd. was registered in Britain in 1919, with manufacturing commencing in 1932 in Perivale and further factories being opened at Cambuslang in 1946 and Merthyr Tydfil in 1948. As part of worldwide expansion, the company also established manufacturing or assembly operations in several Continental European countries and elsewhere.

The company's operations in Britain expanded rapidly during the 1950s, 1960s and early 1970s. At Cambuslang, for example, the number of employees grew from just under 2,000 in 1960 to approximately 5,000 by the mid-1970s. As late as 1973, the company had announced a further major expansion of its United Kingdom operations, which promised to increase employment in the United Kingdom as a whole by 6,000, consequent on an investment of £30 million. The company's growth in the United Kingdom over this period was such that the United Kingdom subsidiary had become by far the most important overseas location of the group as a whole, and Hoover Ltd. itself became the parent company of a group of subsidiaries and associated companies located in several other countries. In 1973, the United Kingdom subsidiary accounted for approximately 53 percent of worldwide employment in The Hoover Company.

The growth of the company in the United Kingdom was not to continue indefinitely. Just one year after the announcement of the £30 million investment promised for the United Kingdom, the company began to experience severe difficulties. In 1974 a series of industrial disputes at the United Kingdom subsidiary resulted in the loss of more than ½ million working days. The company responded to this by cutting back its United Kingdom operations, leading to a total of 600 redundancies. At the same time, the company announced that growth in the United Kingdom in the near future was extremely unlikely.

The company's difficulties became much worse towards the end of the 1970s, with the heightening of the economic recession and import competition especially from the Italian domestic appliance manufacturers. Between 1977 and 1980, Hoover sales of floorcare products in the United Kingdom fell by approximately one third in value and washing machine sales by one quarter, with exports being particularly badly affected. In August 1980, a further 439 redundancies were announced and the remainder of the United Kingdom workforce was put on short-time working. Further redundancies followed in March 1981. The cut-backs in Hoover's United Kingdom operations led to rumours that plant closures were in the offing, with Cambuslang a prime target because of company complaints regarding low productivity, absenteeism, wage disagreements and pilfering. An announcement made in the Annual Report of 1981 that the company was considering a major restructuring of its European operations, together with the fact that the company was expanding its operations in France and Portugal added strength to these rumours.

Reorganisation of Hoover's United Kingdom Operations in 1981

The problems encountered by Hoover in the United Kingdom during the late 1970s led the company to engage a team of outside management consultants in the Summer of 1981 to investigate the possible rationalisation and restructuring of its manufacturing facilities in the United Kingdom, particularly regarding the production of floorcare products. The consultants' report published towards the end of that year identified four major alternatives:

- Cutting back both the Perivale and Cambuslang plants in order to reduce manning and cost levels to internationally competitive levels.
- The closure of Perivale and the concentration of floorcare manufacturing at Cambuslang.
- The closure of Cambuslang and the concentration of floorcare manufacturing at Perivale.
- Closing both the Perivale and Cambuslang factories and locating production at a new greenfield site in order to minimise costs.

The recovery plan envisaged major changes in work methods, including a substantial reduction in manning levels, longer wage agreements (running for 30 months instead of the existing 12) and no wage increases or industrial action until the company was making a profit.

The strategy eventually chosen by the company was the second of the four alternatives suggested by the team of management consultants, i.e. the closure of Perivale and the concentration of floorcare manufacturing at Cambuslang. The details of this proposal were as follows:

- The Perivale plant was to be closed with the loss of more than 1,000 jobs.
- Further redundancies were to be made at both Cambuslang ang Merthyr Tydfil.
- Floorcare manufacturing was to be concentrated in Cambuslang, involving the transfer of both product and machinery from the Perivale factory.
- A new range of cleaners was to be manufactured at Cambuslang, allowing full-time production to recommence.

The closure of Perivale was accepted at a mass meeting of workers in December 1981, and despite continuing industrial relations problems at Cambuslang over the implementation of the recovery plan, the reorganisation scheme was eventually accepted.

Internal and External Influences on Decision
External influences

Economic environment: stop-go policies of United Kingdom governments and frequent changes of policy with respect to hire purchase and VAT arrangements which led to a great deal of uncertainty in the domestic electrical appliances industry in the United Kingdom.

Competition: severe competition from both domestic producers (Electrolux, GEC and BSR) and from foreign importers especially the Italian manufacturers (Zanussi, Indesit and Candy); this is linked to the strength of sterling at the end of the 1970s.
Technological innovation: neglect of product development.

Internal influences

Subsidiary performance: low productivity and industrial relations problems within Hoover Ltd; these factors compounded difficulties emanating from the environment and led to losses from 1980 onwards.

Lack of control: Hoover's excessive dependence on the United Kingdom and the lack of centralised control and coordination from corporate headquarters.

Management changes: the corporation's deteriorating competitive position from the mid-1970s led to a major management change with Merle Rawson replacing Felix Mansager as Chief Executive of The Hoover Company. The appointment of Rawson led to two major changes of policy with important consequences for the United Kingdom. First, Rawson attempted to exert a greater degree of control over Hoover Ltd. in the United Kingdom, which then became much more centrally controlled from the United States. To illustrate the point, Hoover's export headquarters was moved from the United Kingdom to the United States in 1980. Secondly, Rawson embarked on a policy to reduce the importance of the United Kingdom operations to the group as a whole.

Level of Influence

European restructuring: as in other case studies in this section, the reorganisation of Hoover's United Kingdom operations in 1981 must be viewed in the context of the corporation's wider European restructuring measures undertaken from the mid-1970s. A major expansion and modernisation programme at the company's Dijon facilities reflected this reorientation of the company's investments.

United Kingdom environment: British environmental influences were very important.

United Kingdom region: a specific decision was made to close Perivale rather than Cambuslang, despite the poorer industrial relations record of the latter. Influencing factors included the age and design of the Perivale buildings and lack of space for expansion, while Cambuslang contained most of the company's up-to-date plant and equipment.

Steps/Stages in the Decision-Making Process

Initiation: the announcement in the Annual Report of 1981 of a major restructuring of the United Kingdom operations and the engagement of a team of outside management consultants to review the company's United Kingdom operations were the most overt signs of initiation. But clearly the problems had much earlier origins and several rounds of job losses had taken place prior to this announcement. Trade union leaders at Cambuslang claim that the consultants' report was merely a cover-up for a decision already taken by the company in the United States and that its aim was to give the proposed changes an air of respectability and to make them more presentable.

Analysis of problem and recommended solution: four alternative courses of action were suggested in the consultants' report, with the company choosing the option which involved closing its longest-established facility.

Role and influence of various actors: trade unions at Cambuslang claimed that there was very little or no consultation or negotiation on the proposed reorganisation of the United Kingdom operations. To back this up, the unions argued that:

- There was no trade union access or involvement in the consultants' report.
- The company had become very centralised and that the decision to reorganise the United Kingdom operations was taken by the parent company Board.
  The unions were informed of the decision by the United Kingdom board, but there was no direct contact or negotiation with corporate executives.

- The unions alleged that consultations and negotiations with Hoover on this occasion, as in the past, were conducted under the threat of complete closure and a wage freeze.

Union sources suggest that the Scottish Office (an arm of government) and the Scottish Development Agency offered financial incentives to maintain the Cambuslang plant during Hoover's reorganisational changes. This was never publicly disclosed, allegedly due to the political problems which would have arisen if it was seen that the Scottish plant was being subsidised at the expense of Perivale.

Negotiation/amendments to proposals and the final decision: once the announcement of a consultants' investigation had been made, events moved very quickly. The consultants' report took less than 3 months. This exercise was followed by a programme of meetings between management and unions at plant level in which the various options were outlined.

It is not known whether these meetings influenced the final decision, which was made in late October 1981. Despite this, the planned investment and re-equipment at Cambuslang was uncertain for much of 1982 because of problems of reaching agreement on implementation details.

4.6 HYSTER CORPORATION[11]

During the late 1970s and early 1980s, the United States-owned fork-lift manufacturer, Hyster Corporation, introduced a range of austerity and restructuring measures aimed at both reducing short-term costs and improving the corporation's long-term competitive position. The measures introduced included the closure or rationalisation of several plants in the United States, Europe and Australia with the loss of several thousand jobs. At the same time, the company stated its intention to expand its operations in the British Isles with production transfers and investments which would create 2,800 jobs. These were to occur through the transfer of manufacture from the company's plant in Nijmegen (Netherlands) to Irvine (United Kingdom), and through additional investment at the company's plants in Irvine as well as in Northern Ireland and the Republic of Ireland. The job pledges were divided between the three operations as follows: Irvine 1,000, Northern Ireland 800, Republic of Ireland 1,000. These pledges were met by a considerable degree of scepticism amongst Hyster's competitors because of the continuing recession in the fork-lift truck industry and competitive pressures from foreign manufacturers. Hyster itself has been under threat of takeover by one of its major competitors. At the time of writing (November 1984) the promise of additional jobs in Irvine had failed to materialise, although in fairness the programme did not get the final go-ahead until January 1984. The employment targets in the Irish facilities were also behind schedule.

Although this case primarily concerns Hyster's Irvine facility, the following discussion raises general issues of importance to the present study of decision-making procedures within multinational enterprises. These include:

- The effect of corporate restructuring and rationalisation measures on host country subsidiaries.
- The centralisation of investment and divestment decisions within the multinational enterprise and its effect on job security.
- The effect of such centralisation on the bargaining power of host country unions.
- The importance of government incentives in multinational investment decisions.
- MNE/host country government relations.

Company Background

The principal activities of Hyster Corporation are the manufacture and marketing of material handling equipment (principally fork-lift trucks), compaction equipment, heavy equipment trailers etc. In 1981, the corporation employed 6,704 workers in numerous countries, including the United States, Canada, Brazil, Australia, Netherlands, Belgium, United Kingdom and the Irish Republic. Figure 4.2 summarises the company's manufacturing facilities in Europe in that year.

Figure 4.2: European Manufacturing Facilities of Hyster Corporation (1981)

Location	Date of establishment	Product range	No. of employees
Nijmegen, Holland	1952	Electric-powered trucks	600
Irvine, Scotland	1956	Electric and diesel powered trucks	600
Tessenderlo, Belgium	1967	Components	160
Craigavon, Northern Ireland	1981	Engine-powered trucks	250
Blanchardstown, Rep. of Ireland	1982	R & D only. Plans to produce automated materials handling equipment	100

Source: Annual Reports

Table 4.1: Sales, Net Income and Employment: Hyster Corporation 1979-82

Year	Sales ($000)	Net income ($000)	Employment
1979	683,289	57,599	8,396
1980	629,668	43,466	7,352
1981	583,649	34,667	6,704
1982	422,169	7,279	4,799

Source: Annual Reports

During the 1970s and the early 1980s, the corporation's performance was severely affected by the continued economic recession combined with increasingly aggressive foreign competition, especially from Japanese fork-lift truck manufacturers (see Table 4.1). In response to these pressures, Hyster embarked on a three-pronged course of action to improve its competitive position. This included:

- A continuation of the corporation's product development activities, especially the introduction of the 40-60 XL fork-lift truck series which was developed to meet Japanese competition at the small end of the market. The XL series was manufactured at Hyster's highly automated plant in Northern Ireland and incorporated the latest in manufacturing technology.
- A series of austerity measures aimed at short-term cost reduction viz. all suppliers were asked to roll back any price increases made in 1982; all salary levels were frozen; total employment was to be reduced from 6,704 in 1981 to 4,799 in 1982; and travelling and advertising expenditures were to be severely curtailed.
- A more basic restructuring programme directed towards long run cost reduction and a more responsive manufacturing organisation. As part of this:
- Hyster's Oregon plant was to be closed in 1983 and production transferred to other United States locations.
- The Irvine facility in the United Kingdom was to be upgraded and expanded through a planned investment of $60m which was to be partially funded from grants by the United Kingdom government but was dependent on the workers' acceptance of a 13 percent pay cut.
- The Nijmegen plant in the Netherlands was to be down-graded to focus on more cost efficient production of large capacity fork-lift trucks; smaller capacity truck manufacturing was to be transferred to other locations.
- The Belgian component plant was to be sold and the Australian plant closed.
- The company announced large investments in both Northern Ireland and the Republic of Ireland which would considerably increase employment at these two locations. Again substanial government assistance was involved.

Hyster in the United Kingdom

Hyster's operations in Europe began in 1952 when a plant was established in the Netherlands. Expansion involved the setting up of a European headquarters in London in 1955 and then first an assembly and thereafter a manufacturing facility in the United Kingdom (the latter at Irvine). After the early years of operations a product/plant specialisation programme was instituted with the Netherlands facility being given responsibility for medium/large fork lift trucks and Irvine for smaller trucks; the later-established Belgian facility acted as a feeder operation. As at 1978 employment at Irvine was 1,000; Nijmegen, Netherlands 600; and Tessenderlo, Belgium 250. As Table 4.1 shows the Irish developments were much more recent.

During the 1970s, Hyster's European operations were generally regarded within the corporation as being more successful than their counterparts in the United States. And within Europe, the Irvine plant was more productive and more profitable than those in Continental Europe. Wage levels in the Netherlands and Belgium were higher than in the United Kingdom and government labour regulations in these countries were regarded as a barrier to flexibility. Irvine was (and is) a non-union facility, a ballot on the issue being rejected by a substanial majority in 1979. Company sensitivity on the latter is reflected in a view held, even in the buoyant market conditions of the mid-1970s, that the workforce would not rise above 1,000 because of unionisation pressures.

For manufacturers such as Hyster, the fork-lift truck market in Europe slumped after 1979, consequent on recession conditions, and a savaging by the Japanese. Redundancies and short-term working followed at Irvine as elsewhere, reducing employment in the United Kingdom plant to 500 by early 1983. It was at this point that Hyster's Chairman Mr. W. Kilkenny flew to Irvine to announce his proposals for the future of the plant at a meeting of all workers on 14th February 1983; this meeting was attended by the Scottish Office Minister for Industry and the Managing Director of the Irvine plant as well as Hyster's Chairman. Individual employees were given 48 hours to

agree to the proposal of investment and additional jobs together with a reduction in wages of 13 percent (made up of a 9.8% cut in basic pay plus reductions in employee fringe benefits) as an alternative to closure and relocation of the plant within another country, probably within two years. Press reports indicate that the United Kingdom government was to contribute £12-14m of the £40m planned investment programme. Faced with the option of likely divestment there was almost unanimous acceptance of the deal.

As noted previously the Irvine arrangements were part of a much wider restructuring of the corporation, and major difficulties subsequently emerged in the attempt to switch production from Nijmegen to Irvine, which was to lead to the loss of 360 jobs out of the total of 500 in the Netherlands plant. The Dutch unions claimed that the company's restructuring policy contravened the OECD Guidelines and the case was discussed at the Trade Union Advisory Committee (TUAC) Working Group on Multinational Enterprises on April 25-26, 1983. Meantime the European Economic Commissioner for competition policy was investigating whether competition rules had been breached. The Dutch unions subsequently took out an injunction against Hyster to prevent the transfer of machinery, and in early July 1983, the Dutch courts ordered Hyster to freeze any transfers to Irvine for a period of 3 months or face a fine of 1 million guilders. The company's plans for Irvine were eventually given the go-ahead in January 1984.

Internal and External Influence on Decision

As in most of the other cases, external environmental factors were paramount in decision-making. These involved the deep and continuing recession in the fork-lift truck industry (and its effects on Hyster's sales and profits); the strength of foreign competition, especially the Japanese; and the need to develop new products and process technologies in order to remain competitive.

These factors in turn led to internal changes amongst which were:

Personalities: Appointment of Mr. William Kilkenny as Chairman and Chief Executive. In 1982 some key management changes took place in the European operations of Hyster: the European managing director, the manufacturing director and the marketing director all resigned or retired and a new Senior Vice President-Managing Director of Hyster Europe Ltd. was appointed.

Organisation structure and control: It was not known how the changes above affected the locus of decision-making in Hyster. Formerly, the European headquarters was responsible for personnel, marketing, engineering, finance, manufacturing and product development at a European level, with the Managing Director of Hyster Europe reporting direct to the corporate Chairman.

Level of Influence

Global/corporate: these dominate in the broad restructuring programme, although the European headquarters may have had some influence.

European level: there is no doubt that one of the key factors facing the company's restructuring plan was the degree of government financial assistance available. But relative performance, unionisation and general labour laws may also have been important.

United Kingdom region: related to the above, reasons for the planned upgrading of the Irvine facility included government incentives and past performance of the Irvine plant, especially its high productivity and good industrial relations record. A further factor of significance was that the factory was non-union. Mr. Kilkenny, in announcing the planned investment at Irvine referred specifically to the more favourable attitudes of both the United Kingdom government and Irvine employees in comparison with the situation in the United States. In this regard, in 1983 Hyster tried to obtain union agreement at its Portland, Oregon plant for a freeze on a 3 percent pay rise, the unions refused and (coincidentally or not) a little later the closure of the facility was announced.

Decision-Making Process/Issue

Initiation: the rationalisation and restructuring measures were first initiated in the Spring of 1982, when the company began a wide-ranging review of its worldwide operations.

Analysis of problem/choice of site/negotiations: it is possible to identify three major stages in the decision-making process as regards Hyster's decision to invest in Irvine: First, the internal review. Second, after the decision was taken to restructure Hyster's operations, a series of meeting took place with host country governments in both the United States and elsewhere to discuss the company's proposals. The aim of these meetings seems to have been the attempt to attract the best financial package available, and allegations have been made that the company played one government off against another. Third, this stage was followed by detailed negotiations with United Kingdom government officials (see later).

Role and influence of various actors: the Chairman, Kilkenny, who initiated the review of Hyster's worldwide operations, was also personally involved in all subsequent meetings which took place between the company and host country governments, including the United Kingdom government. In addition, it was Kilkenny who made the announcement to the Irvine workforce about the proposed changes.

The United Kingdom government, and in particular the Scottish Office, played a major role in developments at Hyster too. Mr. A. Fletcher, the Scottish Office Minister for Industry made a personal visit to Hyster's headquarters in the United States in November 1982 to discuss the future of the Irvine plant when the company announced its restructuring measures. Lengthy discussions also took place between the Scottish Office and the company between November 1982 and January 1983, including a meeting which lasted for a full weekend prior to the announcement of the proposals to the work-force. Finally, Fletcher was also instrumental in facilitating the acceptance by the workforce of the plan for Irvine.

It seems likely that other governments, and in particular the Netherlands government offered significant incentives to Hyster in their restructuring programme, but details of these were not available. The role of the courts in the Netherlands is also of interest. The proposed transfer of production from the Netherlands to Irvine was blocked by a Dutch court in 1983, but was subsequently allowed to proceed in January 1984. However, the actions of the Dutch court did seem to lead to a modification of Hyster's original proposals as the company agreed not to transfer production from Nijmegen for a period of three years.

Although opposing the proposed changes in working conditions at Hyster, the unions were not directly involved in negotiations with the firm as Hyster is a non-union organisation. Both the TUC and the Scottish TUC had consultations and discussions with the Netherlands unions regarding the proposed transfer of production, both directly and in an OECD context.

4.7 IBM CORPORATION[12]

In Europe alone, IBM has fourteen manufacturing plants in seven countries, two of these factories being in the United Kingdom (Greenock and Havant, near Portsmouth) as part of a large United Kingdom operation of 16,000 people, including Development facilities and sales and service support units. This case concerns the decision, made public on 18 January 1983, to commence manufacturing the IBM Personal Computer (PC) at the company's Greenock facility, for distribution in Europe, the Middle East and Africa. Potential job creation associated with the project was estimated then at 400 (120 at the plant, 280 with subcontractors), but has proved subsequently to be considerably higher.

Background of Greenock Plant

Although IBM had operated production facilities in France and Germany from the 1920s, manufacture in the United Kingdom market did not commence until 1949. Part of

the explanation lies in an agreement between IBM and British Tabulating Machinery stating that as long as the British company bought IBM machinery and sold it under their own name, the United States multinational firm would not enter the United Kingdom market. This agreement was terminated in 1949, leading to market entry and the location of the Greenock manufacturing operation at its present site in 1954.

From its initial employment, the workforce grew rapidly to 1,600 in the mid-1960s, then stabilised at 2,000 employees in the 1970s before expanding again in the 1980s to the present figure of approximately 2,700. When the plant was established initially, it manufactured a wide range of IBM equipment, mainly for the United Kingdom market. With the divisionalisation of the corporation in the 1970s, the Greenock plant was included within the Systems and Communications Division, being responsible for the manufacture of a more limited range of products (communications' systems, terminals, keyboards etc.) for the European market. Exports now account for around 85 percent of plant production. The Greenock facility is a production unit: IBM Europe SA in Paris coordinates IBM manufacturing facilities in Europe and interfaces with marketing (which in the United Kingdom is based in London) to establish European sales requirements and determine the manufacturing plant capable of meeting these demands. Thus IBM Greenock produces in response to Paris instructions and transfers its output direct to the country or company, as required. The plant coordinates basic manufacture with other IBM plants and contractors but is itself a final assembly and test plant.

Reports have indicated that Greenock's productivity record is rated extremely highly within the corporation in Europe. Like other IBM facilities in the United Kingdom it is a non-union factory: there was a ballot of workers on the unionisation issue in 1977 after an application by four trade unions for recognition at the Greenock plant; but the vote was overwhelmingly in favour of retaining the non-union status quo.

Apart from the unionisation question, the only issue to tarnish the record of success and harmony in Britain has been that of alleged discrimination in public sector purchasing in favour of the indigenous company, ICL. IBM has, in general, made less of an issue of this than Honeywell. In 1981, however, the British government apparently directed the computer contract for the vehicle licensing centre in Swansea to ICL. In response IBM threatened to raise a complaint with the European Community on the grounds of unfair trading practices. Subsequently IBM was permitted to bid for and won the licensing centre computer contract. Other public sector contracts have been won by IBM on the basis of open tenders.

The IBM Personal Computer and the Decision to Manufacture in Europe

IBM began manufacturing PCs in the United States in August 1981, and within a year was believed to have captured about 30 percent of the top end of the American personal computer market. Initially it is understood that the United States should be the sole manufacturing base for PC production and that the European market would be supplied through exports from America. (This decision was taken by corporate headquarters in the United States). In the event, corporate plans for exporting to Europe were at least partially undermined by "pirate" importers who purchased PCs in the United States and then shipped these in significant volumes into the United Kingdom and Continental European markets.

With the realisation of the potential PC demand in Europe, in January 1982 management at the Greenock factory decided to approach the parent company with a view to attracting the European production of PCs to this facility. The decision in favour of Greenock was made in August of that year, although not made public until January 1983.

Both the initial decision to produce PCs in the United States, and the subsequent decision to manufacture in Greenock were ultimately made by the United States headquarters board. However, both plant management at Greenock, and United Kingdom headquarters management seem to have exerted an important influence on the corporation's decision to manufacture in Europe, rather than concentrate PC production in the United States. Mr. A. McIntosh, then head of IBM's business plans for the United Kingdom embarked on a detailed feasibility study in the Spring of 1982 concerned with the possibility of locating PC production in the United Kingdom, while plant

management simultaneously prepared a technical/engineering report on the feasibility of manufacturing at the Greenock site. According to Mr. A. Wilson, the case for PC manufacture at Greenock was argued "as very much an extension of our existing operation."[13] The conclusion of the feasibility study and a detailed business plan were presented by Greenock management to the parent company during a visit to the United States in the Summer of 1982. With the acceptance of the Greenock case, a new steering company called IBM International Products Ltd. was set up to get PC manufacture off the ground, investigate subcontractors and so on, so that the project was well underway by the time of the formal announcement on January 18, 1983.

Internal and External Influences on Decision

Considering investment decision making by American computer companies in Europe, better service to an existing or potential market has been the major reason for foreign direct investment, and at its broadest this must also be regarded as an important influence on the IBM Greenock Personal Computer decision. The facts presented above, nevertheless, suggest that the case for European manufacture was partly suggested and justified by local-level initiative. To that extent, the internal influence was much stronger than in any of the previous cases.

Level of Influence

This case is unusual in that in established MNEs with extensive European networks of subsidiaries, national companies may well have the opportunity to, in effect, tender for projects. This did not apparently occur, although some press reports speak of "The Mission" (the decision to locate PC manufacture in Europe) and indicate that a number of European plants were at least considered.[14] It may be in this case that since the project was relatively modest in terms of its investment requirements, detailed and comparative feasibility assessments were viewed as unnecessary.
Several key factors seem to have influenced the decision in favour of Greenock. These included:

- The track record of the plant and its excellent industrial relations record.
- Economies of scale arising from locating PC production for Europe, the Middle East and Africa at one location in Europe.
- The fact that marketing responsibility for Europe, the Middle East and Africa is based in the United Kingdom, thus allowing a closer relationship between manufacturing and marketing.
- Government aid. However, press reports indicated financial assistance of £2½ million on an investment of £8 million, which indicates that only a fairly standard package of regional development grants and limited selective financial assistance was provided for the PC project.
- The speed at which production could be started at Greenock.

Decision-Making Process/Isssue

There is little to be added to the discussion above. IBM's Chairman John Opel met the British Prime Minister in July 1982, to discuss various matters, including the personal computer, but details of this meeting were not available.

4.8 FINDINGS OF THE CASE EXAMPLES

The aim of this section is to try to synthesise the results of the case examples as well as introducing other evidence on foreign MNEs in the United Kingdom where appropriate. Using this material, Figure 4.3 summarises the main findings on investment and divestment decision-making, distinguishing as before between type and level of influence and the various steps/issues in the decision-making process.

Figure 4.3: Findings of Authors' Studies on Investment and Divestment Decision-Making

Internal and external influences

1. External influences dominate in divestments, including competition in world and European markets, technological change, recession. Reflected in balance sheet position of both parent and subsidiaries.

2. Internal responses sometimes exacerbated difficulties e.g. poor planning to respond to above, slow and poor managerial decisions, organisational change. But decisions generally environment-led, except where diversification programmes have proved unsuccessful (links to role and influence of new top management).

3. Influences on investment decisions vary widely according to nature of investment e.g. investment as part of restructuring programme, investment in new products.

Level of influence

1. External influences commonly worldwide in nature, but on occasion specifically European, or even British (where latter a major component of the group).

2. The existence of the European Community and its enlargement in 1973 have been important external influences on corporate reorganisation.

3. Internal influences at European level (e.g. relative performance) important in choice of investment / divestment location.

Decision-making process / issue
Initiation.

For divestment, usually corporate level, precipitated by poor results. Local management (European or UK) may initiate when one problem plant within a multi-plant system, where a European headquarters exists, or where Europe operates as a profit centre.
For investment, national subsidiary or regional headquarters may have a stronger initiation role.

Analysis of problem and recommended solution.

1. Internal team or external consultants used in both investment and divestment decisions but mainly latter. In divestment, trade union suggestion that consultants' studies used to justify decisions already taken.

2. Divestment studies usually only instituted following failure of partial restructuring and redundancy programmes (where local influence is more apparent).

3. Problem analysis may be undertaken for global corporation or European operations only.

4. Divestment analyses primarily strategic in nature, whereas, for potential investments financial appraisals most important.

Choice of continent/country/site

1. Focus of investment / divestment mostly intra-Europe. Only limited evidence of developing countries and other nations (e.g. Japan) being viewed as alternatives.

2. Within Europe, evidence of extensive inter-subsidiary comparisons, based chiefly on performance factors (financial or physical variables or both). This is relevant both to investment and divestment choices.

Figure 4.3 continued

3. Characteristics of divested facilities, apart from poor performance, include age of facilities. In other work of authors, divested plants were small in size and represented only one of a number of source points for product or component and had no R & D. Economic environment in United Kingdom vis-a-vis Continental European countries also significant as is need to reduce degree of dependence on United Kingdom subsidiary.

Announcement/negotiation re - proposals

1. Initial divestment announcements follow lengthy period of speculation and job attrition (as above). Latter associated with managerial, organisational and perhaps product change. Announcement may be made by corporate rather than local subsidiary executives.

2. Announcements often do not explain the full corporate context of the local decision. Some 'dressing-up' of the facts apparent.

3. Evidence that announcements often overtaken by events (e.g. market or financial position continues to deteriorate leading to larger job cuts than first envisaged). Suggestions that announcements unrealistic.

4. Apparently little contact with host government bodies before divestment announcements. Reverse is true of investments, where discussions over incentive packages important.

Influence of various actors at host country level

1. Extensive discussions with various parties over a period of time normal, but relating more to method of implementing the decision than to the decision itself. Direct discussions likely to involve local management only.

2. Virtually no cases where divestment decision changed or reversed.

3. Trade union response in terms of strikes, sit-ins etc. largely ineffective and possible counterproductive. Union counter-proposals sometimes interesting.

4. Some examples of inter-government, inter-country union conflict, where divestment in one location and investment at another country location. European Community Commission involvement apparent in such circumstances.

Amendments to proposals

Sometimes presented, but tied up with pre-conditions which may be regarded as unacceptable by workforce (see 3. above).

Final decision

1. In major investments / divestments, announcements made by corporate president in host country.

2. Indications that divestment could have been warranted much earlier. But gradual rundown eases political (and social) problems associated with divestment from a company viewpoint.

Internal and External Influences on Decision

There is little question that external influences dominate in divestments. It could be argued that the case examples represent a rather special sample of American MNEs in the mechanical engineering industry, a sector which was especially hard hit in the 1970s and 1980s. In fact United States multinationals in industries such as vehicles, tyres and rubber, chemicals etc. suffered a similar fate, but again these are mature sectors involving MNEs with long-established international manufacturing networks. The external influences did not, of course, emerge overnight and to that extent internal influences, represented by managerial failure to institute corrective action, were important too. It should be added that when divestment announcements were finally made the emphasis tended to be placed on subsidiary level factors, rather ignoring the key global and corporate dimensions.

At the broadest level, investment decision-making must be dominated by external factors, that is the presence of a market, and this was true in the IBM case discussed above. On the other hand, it did seem in the latter instance that the initiative for even considering investment as a possibility came from an internal source, the United Kingdom subsidiary. Some surprise was expressed in the IBM case discussion about the relative informality of the process of justifying the investment, if not of the decision itself. Other work on the computer industry has also shown great variation in the degree of sophistication with which companies approached investment decisions: some were highly analytical, some were almost intuitive.[15] The present authors' research, moreover, distinguished between 'informal', 'formalising' and 'formal' investment appraisal schemes being operated by American companies.[16] Informal appraisals, found in 20 percent of the sample, were characterised by the general definition of constraints but no close monitoring of projects provided overall criteria were fulfilled. 27 percent of the sample were in the formalising category, where there was intra-group competition for funds on a project by project basis, although no formal long-run investment planning. The remaining 53 percent of the sample employed formal procedures, involving multi-tier assessment schemes and detailed review at approval and implementation stages. The stronger role of internal influences and greater decentralisation, at least at the project initiation stage, seem thus to characterise investment decision-making.

Level of Influence

Related to the points made above, the level of influence on divestment decisions was commonly worldwide. In instances, however, European factors were paramount, a good illustration, outside the case examples quoted here, being that of Honeywell Inc.[17] Divestment in the corporation's Control Systems Division emerged from three issues at European level, first, the company's programme of relocation of product charters following British entry into the European Community; second, the replacement of electro-mechanical by electronic controls, thereby reducing labour inputs; and, thirdly, government pressures in Europe, and particularly in France. In Hyster, the relocation of product charters in the 1970s was followed by a move away from product specialisation in the 1980s as market demand declined to a position where it was not possible to sustain two specialised plants.

While the underlying difficulties might have been worldwide in nature, the central position of the United Kingdom subsidiary within the corporation as a whole was shown in the cases of Singer, Hoover and perhaps Timex to have an important influence on decisions subsequently taken. Heavy dependence on the United Kingdom, as a consequence of many MNEs' investment build-up in their initial point-of-entry to Europe, created a dangerous over-reliance on a volatile and low growth environment. In some instances the large size of the United Kingdom facilities was associated with a substantial degree of independence and decentralisation. In The Hoover Company example, one of the first actions of the new chairman of the company in the mid-1970s was to reduce this autonomy and bring the British subsidiary more closely under corporate control. It is worth adding that there is some evidence in these cases and other studies [18] not only of a desire to avoid over-reliance on the United Kingdom as a production base, but also of a need to upgrade United Kingdom facilities which had

become dated almost because of the early United Kingdom entry. Thus divestment and re-investment could go hand in hand.

Decision-Making Process/Issue

The divestment cases show a good deal of similarity in terms of the stages of the decision-making process, with poor results being followed by new management who then retrench, commonly following a review of corporate activities by an internal or external team. What was also evident, however, was that initial restructuring programmes, involving job losses without divestment, were commonly inadequate. This could be interpreted as 'too little too late', and on occasions it seemed that management misjudged the extent of problems, whether the depth of the recession or the extent of the competition etc. Unions at subsidiary level, by comparison, have tended to take the view that divestment was always the aim of the multinationals concerned, with job cuts merely a smokescreen or being designed to aggravate labour relations which could then be used by management to justify plant closure.

There is evidence in the case studies and elsewhere of extensive inter-subsidiary comparisons prior to the choice of divestment location. Except in the Timex example, the focus of divestment (and investment) was intra-Europe. Regarding the factors influencing selection of location, poor performance and the age of facilities seemed to be crucial, the former in turn relating to low productivity, restrictive practices, poor labour relations etc. In other case studies prepared by the authors on American MNEs, such as Goodyear, NCR and Honeywell, poor performance was again a theme in European restructuring [19]; in addition small size of plant, absence of R & D and the fact that a particular facility did not represent a single source point for product or component manufacture, seemed to be associated with divestment. For another Continental European MNE various factors were shown to have influenced the patterns of specialisation and investment/divestment within Europe, including costs and efficiency, "fairness" engendered by the nationalistic attitudes of country managements; size of markets; the significance of public sector purchasing; and the desire for dual sourcing in Europe to reduce risk.[20]

These latter complexities were revealed too in the cases of Timex, Hoover and Hyster, where both divestments and investments were considered. In regard to the latter, the role of government incentives was undoubtedly significant. Unemployment concerns mean that all mobile international investments are subject to inter-country incentive bidding, but this is usually less overt than in the Hyster example. In the Hyster case, non-unionisation was a further issue.

Figure 4.2 indicates that whereas discussions with host governments over incentive packages etc. were usual prior to investment announcements, there was little contact prior to divestment decisions. Furthermore, while intensive discussions might take place subsequent to a closure announcement, the cases revealed no instances where a decision was changed or reversed. Bitter recriminations in which the various parties sought to allocate blame were common; and corporate involvement was apparent to the end, with the final announcement usually being made by the president of the multinational company concerned.

4.9 RELATIONSHIP OF FINDINGS TO OTHER WORK ON INVESTMENT AND DIVESTMENT

At the beginning of this chapter, mention was made of the fact that some of the earlier work on divestment was undertaken prior to the world economic problems of the later 1970s and 1980s. As a result, the findings of the present work could be expected to diverge from earlier conclusions. To illustrate the point, Torneden concluded that "centralised efforts to achieve more efficient global operations play a minor role in the disinvestment decision".[21] In addition earlier work has tended to focus on the divested subsidiary as an entity apart from the corporate whole, whereas in an era in which many MNEs have large networks of subsidiaries a specific choice has to be made among them.[22] Nevertheless, there are some conclusions which are borne out in the present study, including the fact that top management is almost always involved in divestment decisions, that new men in the company may be important in

contemplating novel solutions and that very serious problems do not necessarily suggest divestment. Divestment patterns and characteristics may, of course, differ between host country. For example, recent research on divestments in Canada rejected the interpretation that manufacturing rationalisation strategies have dominated the activities of United States multinationals.[23] Terminated affiliates were most likely to be relatively new, acquired rather than newly formed, small, operating in a different industry than the parent's principal business, less active in selling products to its parent and sister affiliates and owned by parents with relatively low levels of international activity. In the United Kingdom, the major divestment cases have, by contrast, involved large, mature MNEs with extensive international interests, and probably those with more integrated operations.

In terms of investment, it is difficult to draw any conclusions from the literature because of the variety of types of capital investment projects. Except for the relatively small IBM investment project, furthermore, the examples presented here have related to investment as a part of restructuring, which has not been looked at to any extent elsewhere. One conclusion which has been suggested is that there is a major windfall element in incentives and that they are often viewed as secondary details.[24] The evidence here and supported by large scale studies on inward investment in the United Kingdom is that where there are alternative locations, as is usual in investment in Europe, then incentives may be quite significant. What is confirmed is that the initiating force in investment may be subsidiary management, unlike the case for divestment.

4.10 IMPLICATIONS OF CASE EXAMPLES

The first and fundamental point to emerge from the case examples is that divestment decision-making, at least, was highly centralised. The time between the emergence of problems and the divestment decision can amount to several years, during which time a series of crises may be evident and several redundancy programmes implemented. Thus divestment is most correctly viewed as the end result of a lengthy process of attrition. It can be argued whether this represents an intentional strategy on the part of management to slim the operation to a size where closure poses fewer problems, or a genuine attempt to maintain the facilities in the hope of an up-turn in the market, improved competitiveness etc.

The evidence of the case studies is that there was no attempt to involve workforce representatives in the host country, until closure decisions have been made. From a management perspective this may be regarded as necessary to avoid obstruction, speculation and political and media pressures. But the veil of secrecy does explain trade union (and host government) resentment, and as the Singer case showed, management need not have a monopoly of ideas for the future of subsidiaries.

These cases reveal that it will always be extremely difficult to research the "how" of decision-making, because of the span of time involved, the number of subsidiaries potentially involved, management changes and the general secrecy surrounding the decisions. The influence of public authorities on both divestment and investment decisions is difficult to assess. Attempts by various parties to allocate blame and responsibility to others also creates problems for interpretation.

NOTES AND REFERENCES

1. A summary of some studies is in N. Hood and S. Young, The Economics of Multinational Enterprise, Longman, London, 1979, Chapter 2. See also OECD USA-BIAC Committee, Relationship of Incentives and Disincentives to International Investment Decisions, OECD, Paris, September 1981.

2. For example, R.L. Torneden, Foreign Disinvestment by US Multinational Corporations, Praeger, New York, 1975; Business International (J.J. Boddewyn, main reporter), International Divestment : A Survey of Corporate Experience, Geneva and New York, 1976; B.D. Wilson, Disinvestment of Foreign Subsidiaries, UMI Research Press, Ann Arbor, 1980.

3. Hansard, 29 February - 7 March 1984.

4. Ibid. Strictly the 316 closures included divestments from 1966 in the English assisted and non-assisted areas but excluded closures in 1983; for Northern Ireland the data referred to openings since 1954 which closed in 1973 or later.

5. Ibid.

6. Quoted in N. Hood and S. Young, Multinational Investment Strategies in the British Isles, HMSO, London, 1983, Part 5, pp.279-303.

7. Earlier version published in N. Hood and S. Young, Multinationals in Retreat : The Scottish Experience, Edinburgh University Press, 1982, pp.42-60.

8. K. Casserini, Struggle for Job Security With a Multinational Group. The Singer Case, IMF Studies 7, International Metalworkers Federation, Geneva, April 1979, p.4.

9. Earlier version published in S. Young, "The Foreign-Owned Manufacturing Sector" in N. Hood and S. Young (eds), Industry, Policy and the Scottish Economy, Edinburgh University Press, 1984, pp.117-122.

10. Earlier version published in Hood and Young, 1982, op.cit., pp.81-99. Additional interviews conducted with trade union officials for this report.

11. Prepared for this report from press articles and interviews with trade unions. Articles used include the following: "Hyster Seeks Pay Cut to Boost Fork-Lift Jobs", Financial Times, 15 February 1983; "Hyster's Competitors Raise Some Sceptical Voices", Financial Times, 16 February 1983; "Hyster's Version of Hobson's Choice", Glasgow Herald, 16 February 1983; see also Sunday Standard, 17 July 1983, Guardian, 10 August 1983, Glasgow Herald, 9 September 1983.

12. Earlier version published in S. Young, "The Foreign-Owned Manufacturing Sector" in N. Hood and S. Young (eds), Industry, Policy and the Scottish Economy, Edinburgh University Press, 1984.

13. Scotsman Magazine, September 1983.

14. Glasgow Herald, 21 January, 1983. See also Financial Times, 24 November 1983.

15. Findings of one of a series of studies contained in S. Guisinger and Associates, Investment Incentives and Performance Requirements, Praeger, New York, 1985.

16. N. Hood and S. Young, European Development Strategies of US Owned Manufacturing Companies Located in Scotland, HMSO, Edinburgh, 1980, pp.68-72.

17. Hood and Young, 1982, op.cit., pp.118-133.

18. Hood and Young, 1984, op.cit., p.283.

19. Hood and Young, 1982, op.cit., pp.100-149.

20. Hood and Young, 1984, op.cit., p.298.

21. Torneden, op.cit., p.136.

22. For a review of earlier findings see J.J. Boddewyn, "The Management Dimensions" in D. Van Den Bulcke et al, Investment and Divestment Policies of Multinational Corporations in Europe, Saxon House, Farnborough, Hants, 1979.

23. W.H. Davidson and D.G. McFetridge, "Recent Directions in International Strategies : Production Rationalization or Portfolio Adjustment", Columbia Journal of World Business, 19(2), Summer 1984, pp.95-99.

24. OECD USA-BIAC Committee, op.cit., p.27.

5. SUMMARY OF FINDINGS AND IMPLICATIONS

5.1 SURVEY RESULTS ON MNE DECISION-MAKING IN THE UNITED KINGDOM

Based on postal questionnaire data, personnel and industrial relations decisions seem to be the most decentralised in the United Kingdom. In general, centralisation increased in the production/ marketing area and increased further for financial decisions, but much more variability was apparent in the locus of decision-making than in the personnel/industrial relations area. For example, MNE headquarters influence was minimal for decisions concerning advertising and sales promotions and distribution, but nearly half of subsidiaries reported a strong parent company involvement on the determination of markets to be supplied: in financial decisions the range was from 17 percent for the preparation of the annual budget to 80 percent for dividend and royalty policy.

These results have to be considered alongside the fact that controls from corporate headquarters may be exerted in many ways - through reports, intra-corporate visits, the presence of expatriate personnel at subsidiary level and so forth. The most important of these seemed to be reports, with between 80 and 90 percent of subsidiaries making monthly financial or technical reports to the parent company; but clearly their influence, as with the two-way movement of personnel etc, is open to debate.

The factors leading to greater centralisation were linked to subsidiary size, integration and multinationality - broadly the significance of the subsidiary and of international operations generally to the corporate whole. Greenfield facilities seemed to be more closely controlled, but again there is a link with integration; the more centralised American companies and more centralised chemical, mechanical and electrical engineering industries revealed a number of these same characteristics. With multinational growth, therefore, the implication would be that centralisation would increase and this is evident from the findings.

5.2 THE REGIONAL DIMENSION OF DECISION-MAKING IN MNE SUBSIDIARIES IN THE UNITED KINGDOM

The accumulated weight of evidence from studies undertaken at the level of the peripheral regions of the United Kingdom (the 'assisted areas') has pointed strongly at the branch plant nature of these economies. With the high degree of external control (from indigenous companies headquartered outside the assisted areas and multinational firms), the plants are characterised as routine production units, with limited autonomy or decision-making authority in production matters, and especially in non-production activities. The empirical evidence reviewed in this chapter, particularly comparing the assisted areas with the south east of England (including the London area), confirmed a number of these issues, and equally importantly, highlighted the regional problems which can derive from them. As well as the level of employment, the type of employment (the proportion of managerial and professional jobs), indirect employment creation (derived from MNE linkages within the region, new start-ups from employees 'spinning-off' from the multinational subsidiary etc.) and even migration rates (more highly educated employees having to move to more southern United Kingdom locations to obtain employment in marketing, finance, R & D etc) may all be affected by the locus of decision-making. It must be accepted, of course, that this is not a problem associated with foreign MNEs alone.

5.3 CASE EXAMPLES OF INVESTMENT AND DIVESTMENT DECISION-MAKING

This chapter, which used a case study approach, also differed from the others in this Working Paper in that the decisions studied were much more strategic in nature - the commitment of resources to new products (the IBM personal computer, the Hoover 'Junior' vacuum cleaner) or to restructuring, involving centralisation and production transfers (Hyster, Timex and Hoover), or to total divestment. In such circumstances the involvement of corporate management, often on a very personal basis, emerged strongly.

From the viewpoint of trades unions, host governments or even subsidiary management, what is as important as the centralisation of the decision is the fact that (at least for divestments) the problems underlying the decisions are also external viz worldwide competition, innovation and so on. In divestment cases, the lack of contact with the involved parties until the decision had effectively been taken explains the resentment at host country level, although this has to be set alongside management desire to avoid speculation and political and media pressures. The evidence from the cases studied here is that divestment could have occurred much earlier.

5.4 IMPLICATIONS

Looking at these results purely from the perspective of the United Kingdom as a host to foreign-owned subsidiaries, there are indications that as regards the most crucial long-term and strategic decisions, control has been moving towards the centre. The question that then needs to be asked is whether autonomy matters. Would the survival and growth of the subsidiary be more assured with greater autonomy? Would the subsidiary be better managed, more innovative and entrepreneurial, and so on? Comparisons of the performance of foreign-owned and indigenous enterprises in the United Kingdom consistently show the former out-performing the domestic companies in terms of measures such as productivity, investment and exports[1], and employment performance too has probably been marginally better. Such comparisons, in truth, are less relevant than comparisons within the multinational system itself: Pratten's work indicated lower productivity in foreign-owned subsidiaries in the United Kingdom than in sister subsidiaries in other major industrial countries.[2] And Panic has suggested that factors are at work meaning that both British MNEs and foreign MNEs in the United Kingdom are less likely to base new products and production methods in this country, with a type of cumulative disequilibrium being experienced.[3]

Referring to the data quoted in this Working Paper, the assisted area evidence in the United Kingdom is important because it effectively represents the limiting case in terms of the absence of decision-making responsibility, and the consequences seem to be rather disturbing. While perhaps not very realistic for the majority of companies, integration within MNEs in Europe could lead to national subsidiaries (as opposed to plants) being operated purely as production subsidiaries: in effect Europe is treated as a profit centre with national subsidiaries as cost centres and a regional headquarters, possibly outside the United Kingdom, having responsibility for entrepreneurial and non-production management.

More positively, the findings which were quoted on R & D within foreign-owned electronics plants in the United Kingdom suggested important benefits accruing from decentralised research and development (and there would be merit in extending this research on a larger sample basis). It is possible that the decentralisation of R & D could be taken further, for the benefit of subsidiary and host country, and the MNE itself. For the multinational company, even if the trend is towards greater integration and centralisation for core activities, there could be advantages in delegating developmental responsibility and R & D resources in new or diversified product areas to subsidiaries; worldwide marketing responsibility could follow, without damaging the international marketing network of the parent MNE.[4]

The comments above thus indicate that autonomy does matter, but the issue of decision-making has to be considered much more widely than simply employment decisions per se. This report indicates that decision-making influences at subsidiary level are subtle yet ubiquitous, direct and indirect; and the major research thrust should now be directed towards identifying and quantifying these influences.

NOTES AND REFERENCES

1. But see the work of R.F. Solomon and K.P.D. Ingham, 'Discriminating Between MNE Subsidiaries and Indigenous Companies : A Comparative Analysis of the British Engineering Industry', Oxford Bulletin of Economics and Statistics, 39(2), 1977, pp.127-135.

2. C.F. Pratten, Labour Productivity Differentials Within International Companies, University of Cambridge, Department of Economics Occasional Paper No.50, Cambridge University Press, 1976.

3. M. Panic, 'International Direct Investment in Conditions of Structural Disequilibrium : UK Experience Since the 1960s', in J. Black and J.H. Dunning (eds), International Capital Movements, Macmillan, London, 1982, pp.140-171.

4. This model is operated by Hewlett-Packard, with great success at least as far as the United Kingdom subsidiary is concerned.