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Eberhard Liebau and Philipp Wahnschaffe*

Management Strategies of Multinationals in Developing Countries

To what extent do American, Japanese and European multinationals follow different management strategies in developing countries?

What effects do these strategies have on the developing countries involved?

The free trade zones in Malaysia offer a seldom opportunity to compare companies from all three geographical areas operating under homogeneous conditions.

For a long time the contribution of multinationals to the industrialization of developing countries was regarded with a great deal of scepticism: orientation towards short-term profits, transfer of profits back to the mother country and immediate relocation of activities to other countries if these offered attractive investment incentives and lower wages; these, or something similar, were the experiences of many developing countries with foreign investments and the respective management strategies of foreign companies. The fact that some of the enterprises from the industrialized countries continually "lived with their bags packed" when they had transferred parts of their production to so-called "cheap labour countries" had its foundation in the "satellite workbench" concept. In this concept, exclusive orientation towards reduction of production costs is decisive. Marketing considerations play a subordinate role. The demands placed on workers are low and can be met after only a few days' training, even by workers with no industrial experience. This concept probably still has a certain relevance today in labour-intensive sectors of industry, e.g. in the clothing industry.

The electronics industry in Malaysia,¹ in contrast, has emancipated itself from this concept at an impressive speed. The rapid developments in product innovation, the changes in the production process and, not least important, the more intensive contact to customers are no longer compatible with the old strategies. The capital intensity which is now required and, above all, the high demands on the qualifications of workers limit the mobility of businesses considerably. The high quality standards on

this market can only be fulfilled if a high percentage of employees are brought up to date with technological developments by continual education and training. This requires such high investments in human capital that it inevitably results in a longer term commitment to a particular location. The reorientation of strategy took place equally in the Japanese, European and American firms. Desirable effects for Malaysia result from this at least as regards the three macroeconomic variables employment, foreign exchange earnings and technology transfer. The results are not so good for the country regarding the desirable increase in the degree of integration between the foreign enterprises and the domestic economy. The lack of "linkages" is basically again something which equally concerns all three groups of enterprises, and remains a considerable problem for the country, for which there is no easy solution.

Company Profiles

Malaysia is one of the largest exporters and producers of semiconductors in the world,² and it is one of the world's most important locations for the assembly and final testing of semiconductors. The great weight of the electronics sector in Malaysia is also clearly demonstrated by the fact that at present about 125,000 people are employed in this

¹ The findings of this article are based on an empirical study of multinational electronics companies operating in Malaysia's Free Trade Zones (FTZ). In the context of this study the authors investigated 12 companies and interviewed experts and officials from the government, from various semipublic bodies and institutes, foreign trade organisations, employers' associations and trade unions in September 1990.

² Cf. Malaysian-American Electronics Industry: MAEI White Paper 1989/90, Kuala Lumpur, p. 4.

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industry. The larger part of electronics production takes place in the country's free trade zones (FTZ).

The importance of Malaysia as an electronics location has continued to increase in the last five years: during the crisis years 1984-86 some of the larger firms considered leaving, the more so since the tax exemptions, after a period of about ten years, had come to an end. The government then made generous concessions to the firms, and so these plans were laid aside and Malaysia was further developed as a location by many enterprises.³ One of the American companies investigated by us, for example, transferred its activities from the Caribbean to Malaysia. Altogether, at the trough of this crisis the electronics industry, and especially the semiconductor industry, began an immense restructuring process: firstly the competitive pressure which had become clear in the period of dramatically falling prices for semiconductors, and secondly the technological availability of just-in-time production systems finally forced all companies to carry out a fundamental restructuring of their production process: labour-intensive off-shore plants became very capital-intensive high-tech enterprises. The shape of the electronics firms in Malaysia has changed fundamentally since then and a backward integration of the production process is taking place. More and more stages of production are being transferred to subsidiaries in Malaysia; in individual cases American and Japanese firms have already begun with wafer production there.

Almost all the firms investigated by us are 100% owned by their parent company. The American enterprises have all been active in Malaysia since the beginning of the seventies. Some of the European firms have also been represented since the beginning of the seventies, whereas others came to Malaysia only during the eighties. The Japanese firms can be clearly divided into two groups: a number of enterprises were already active in Malaysia from the beginning of the seventies on but the great boom of Japanese direct investments and locating of industry in Malaysia's electronic sector did not begin until the mid-eighties.

No matter what their country of origin all but one of the companies interviewed stated that in the original decision to transfer certain production stages to Malaysia the

motive of possible cost reductions had been in the foreground: comparatively low wages, unlimited flexibility in personnel placement, an acceptable infrastructure, exemption from customs duties and a nearly complete exemption from taxes for up to ten years followed by substantial tax concessions. In view of the revenue from the export of raw materials (e. g. palm oil, rubber, petroleum) the state can afford to let the tax returns from the FTZ remain correspondingly low. This causes from time to time considerable trouble with the tax-paying domestic industry. However, government officials claimed that taxes could not be controlled anyway because of the multitis' transfer pricing.

It is a uniform characteristic of all the firms examined that their activities in Malaysia fulfil specific tasks or sub-tasks within the overall structure of the multinational corporation with its branches worldwide. All of the firms examined have affiliated firms in other developing countries – often here, too, in free trade zones – and of course also in the industrialized countries.

A whole series of studies come to the conclusion that the differing cultural, historical and legal backgrounds in the countries of origin of multitis lead, particularly in the area of personnel policy, to specific management patterns of the respective multinational enterprises.⁴ In anticipation of what is to follow it can already be stated here that our investigations of the electronics multitis in Malaysia brought to light fundamental differences in this field in only a few points. On the whole, our data show more similarities than differences between the three groups of enterprises.

Occupational Structure

In nine of the twelve enterprises the number of women as a percentage of total employees is presently between 70 and 80%. At the immediate production level, that of the operators, their share is even 95-100%. The large percentage of women working in production is a general characteristic of almost all FTZ in the developing countries. In Malaysia's electronics industry the employment of mainly female workers can be traced back to the seventies, when the electronics factories set up by the multitis were operated as "satellite workbenches" of the home-country enterprises. Young women with an adequate schooling appeared to be particularly suitable for the mastering of the extremely labour-intensive process of assembly, which had been transferred to Malaysia as a production stage and could be separated organisationally from the rest at that time. The characteristics attributed to the women such as dexterity, concentration, adaptability, discipline and modesty predestined female workers in the eyes of the management for this type of work.

³ Cf. R. Rasiah: Production in Transition within the Semiconductor Industry and its Impact on Penang, in: *Journal of Malaysian Studies*, Vol. VI, No. 1, Kuala Lumpur 1988, p. 94.

⁴ Cf. F. S. Jenner, M. H. Trevor: Personnel Management in Four U.K. Electronic Plants, in: S. Takamiya, K. Turley (eds.): *Japan's Emerging Multinationals*, Tokyo 1985, pp. 113-148; A. R. Negandhi, B. R. Baliga: *Quest for Survival and Growth*, Königstein/Ts. 1979; C. A. Bartlett, S. Ghoshal: *Internationale Unternehmensführung*, Frankfurt, New York, 1990; W. Ouchi: *Theory Z. How American Business can meet the Japanese Challenge*, Reading, Massachusetts 1981.

The technical organization of production and the necessary qualifications required of the production workers have changed substantially in the meantime, but the practice of employing mainly women has been maintained by the American, European and Japanese managements because of their positive experiences. In two of the European firms and in one American one the percentage of women among the operators is lower. This is, however, due rather to specific labour market conditions than to peculiarities of the firms in question with regard to employment strategy.

International technological development and innovation in the field of automation in the microelectronics industry and suitable conditions for the realization of these innovations in Malaysia led to changes in the direction of production strategy in the American, European and Japanese electronics companies alike. Under pressure due to the crisis of 1985/86 in the semiconductor sector, among other things, the electronics multis abandoned the strategical concept of the "satellite workbench" and introduced in Malaysia a carefully directed transformation towards integrated and extremely capital-intensive high-tech plants. As far as the organization of production was concerned this resulted in an increasing mechanical networking of the production stages which had originally been kept separate. Whereas previously only the labour-intensive and relatively uncomplicated production stages were conducted in Malaysia and the technologically more exacting stages of production such as quality control, the analysis of defects etc. remained in the industrialized countries, the diverse substeps were now largely brought together in Malaysia. In almost all of the companies this integration has now reached a very advanced level. In the semiconductor factories for instance following the delivery of the wafers all further processes from control of deliveries up to final control, and even up to the handling of customers' complaints or customers' requests, are dealt with locally.

In all of the companies this change of strategy has brought about changes in the qualification structure of personnel. The percentage of employees not involved in production, i.e. "indirect labour" – technicians, supervisors, engineers, management, office and administration staff – in the electronics firms has by now reached a range of 20% to even 40% in individual cases. The average for all of the firms is 28% of total employees. With regard to the technological level and the corresponding qualification structure of staff, the information we have does not allow us to derive any

differences due to origin between Japanese, American and European firms.

In order to make the figures cited above somewhat more concrete, let us refer to statistics covering the 15 American electronics firms combined in the MAEI. The 15 MAEI firms had a total of 37,775 employees in 1989. Of these, 5,534 employees belonged to the technical and supervisory staff, 1,179 were engineers and 822 were described as staff professionals.⁵ The number of engineers employed by the companies of the MAEI group has increased by an impressive 30% in the last five years.⁶ This shows how important the strategic reorientation of the electronics multis has become for the current level of development of Malaysia as far as qualifications are concerned.

Educational and Training Policy

In addition to the calculated expansion of employment in the field of indirect labour, the electronics multis' new production concepts have also entailed considerable shifts and upgradings in qualification in the sphere of direct production. All of the managers interviewed by us reported uniformly that operators entering employment now needed at least twelve years of schooling. In all firms particular attention is given to the applicants' having adequate knowledge in English and mathematics. The workers in the chip factories supervising the computer-controlled mechanical assembly processes must have a basic knowledge of the technical relationships involved, the programmes used and statistical methods. In almost all of the factories, new employees are first put on a training programme lasting from three days to a week, which finishes with a test. In order to be given a permanent job they must pass this test. This is then followed in all of the firms by on-the-job training lasting up to three months. The management systematically aims to expand and raise the qualifications of the production workers by offering both internal and external further training courses and corresponding opportunities to rise within the company.

Multi-tasking with multi-skilled workers is the foremost goal of the firms' educational and training policy. Each company has its own educational and training department with a number of full-time teachers. One of the American enterprises with 200 employees has reached 40 full-time teachers. This firm has an annual expenditure on education and training of \$ 750,000 which in this case is equivalent to 1% of total wage costs. A second American firm even claimed to spend 2.5% of its total wage costs annually on education and training. Even although these examples are absolutely the highest figures among our twelve firms, it is a fact that the American companies compared to the European and Japanese clearly go

⁵ Cf. MAEI, op. cit., p. 17.

⁶ Cf. ibid, p. 16.

furthest in the field of training and that they, in comparison, lay the greatest emphasis on personnel development. There were no tangible differences in this respect between the European and the Japanese firms. Some European and Japanese companies followed the American practice of sending their technicians and engineers for training purposes to their central offices in the multi's land of origin. One German firm even practised the German system of training apprentices – without great success however, as the management admitted.

Work Organisation and Wage Policy

An important motive for the original decision by the foreign companies to open up a branch in Malaysia's FTZ was, in addition to the low wages, the existence of unlimited flexibility of personnel placement. The repeal of the laws forbidding night-work for women in the electronics industry, together with the "freedom from trade unions" which the government began to guarantee the foreign electronics companies in the free zones, enabled the managements to let their factories operate around the clock without having to worry about resistance by trade union organizations. Presumably it was also this possibility of putting into effect virtually unlimited operating hours which was one of the main reasons for the change of strategy from the labour-intensive concept of the "satellite workbench" to the capital-intensive high-tech plant. In all of the companies we interviewed in the semiconductor industry the usual standard is largely automated assembly-line production in which a single operator has to supervise between four and, in the extreme case, twelve machines at the same time (multi-tasking). The technological level of production, the degree of modernity of the machines used, is absolutely "state of the art".

With the enormous capital-intensity of production it is not surprising that all of the semiconductor factories we visited operate 24 hours a day and 7 days a week. The usual shift system is: three eight-hour shifts per day on all 7 days with a total of four shift teams. For the employees this means a six-day week with rotating days off. Personnel deficiencies are usually made up for by overtime. For the other electronics companies in our study it is characteristic that production often is based on nonuniform operating hours. The individual factories work on a one, two or three shift system depending on the capital-intensity of the individual assembly areas or on varying current demand.

According to the information we received from the firms and from the government authorities, wages and salaries

in the electronics industry are at the top end of the scale compared to other industries. This makes jobs in the electronics industry relatively attractive. In 1989 the average monthly earnings of an operator in the electronics industry lay between \$ 160 and \$ 200.⁷ The workers are usually employed on a time-rate basis by all of the companies. The number of grades varied from one to three, irrespective of the company's origin. The exception to this were two German firms, one of which had five wage groups and the other twelve, although in the latter case the management was dissatisfied with the wage system, which had apparently been imported from Germany. All of the firms enabled employees to rise within the existing wage and qualification structures.

There are differences between the American and European firms on the one hand and the Japanese on the other as to the shape of their bonus and incentive schemes. Whereas the Japanese companies pay increments according to length of service within the company, in most of the American and European firms additional pay is usually based on seniority *and* on the performance of the individual employee or his team.

Without exception, the raising of productivity and the improvement of the quality of production has a high priority for all of the firms in the shaping of their personnel strategies. In order to achieve the set productivity and quality targets, team-oriented organization development concepts such as quality circles or related small group systems such as production teams, project and quality teams are practised fairly widely in almost all of the enterprises. With the exception of one German consumer electronics firm, the positive experiences made with the application of this management instrument were unanimously emphasized. Personnel management has obviously reached the highest degree of professionalization in the American companies. It is therefore in the American companies that the further developed personnel departments and a broad range of personnel policy instruments being applied are to be found. In some of the American multis e. g. the production and quality teams mentioned above have been introduced in all of the companies belonging to the international group worldwide. The American multinational corporations are attempting to improve their corporate identity on a global level via regional and worldwide "Olympics" for the existing production and quality teams, in which special prizes, awards and decorations can be won by the teams or by the participating branches.

Only two enterprises in the consumer electronics sector, a Japanese one and the German one in which the highly differentiated wage system and the experiments

⁷ Cf. Malaysian Industrial Development Authority (MIDA): Malaysia: Manpower for Industry, Kuala Lumpur, 1990, p. 21.

with quality circles had already been judged unfavourably, complain of a relatively high fluctuation among employees. The others emphasize that fluctuation and absenteeism play no role whatsoever and that they can be regarded as a variable to be ignored. The fluctuation rate quoted to us by these firms varied from 1% to 3.5% p. a. The average length of service is correspondingly high: one firm quoted an average of eight years; in another 30% of employees have already been employed in the firm for more than 15 years.

Labour-Management Relations

The managers interviewed are of the opinion that the figures shown above suggest the conclusion that working conditions in the electronics industry in the free zones are relatively good. Whether this argument is really justified must, however, be doubted in view of the employers' attempts so far to block every effort made to form trade unions in the electronics industry. It is due alone to the strained situation on the labour market that the previous state protection of the electronics industry from trade union activities is gradually crumbling. It is just somewhat more than two years since the electronics workers have got the right at all – at least on paper – to join a trade union. However, this right is limited to the formation of company trade unions only, with cross-company nation-wide unions continuing to be prohibited. The foreign enterprises without exception find it difficult to tolerate the formation of

independent trade unions, even if they are only company unions, to say nothing of accepting them as negotiation partners.

The General Secretary of the Malaysian Trade Union Congress (MTUC), criticizes the fact that the electronics multis systematically put pressure on the Malaysian government to suppress trade union activities in the electronics sector, and that the government on its part in fact attempts to restrict the rights of the workers in this sector as far as possible and to use every trick in the book to sabotage the trade unions' chances of development. The American electronics firms which are members of the MAEI deny the policy of intimidation of which they are accused. They regard any incidents as exceptions which are not representative, since working conditions and working climate from the management's point of view are as a rule very satisfactory.⁸ Observers of the industrial relations scene in Malaysia nevertheless assume that, particularly in view of the continuing scarcity of labour in the electronics sector, the foreign electronics multis will have no choice in future but to come to terms with the existence of trade unions and to adapt their strategic management concepts accordingly.⁹

Procurement Strategies

The electronics industry continues to be highly dependent on imports. As a result of this, Malaysian economic policy-makers bemoan continually the lack of ties with the local procurement market.¹⁰ As long as the local content of raw materials and semifinished products

⁸ Cf. Electronic Business Asia, Sept. 1990, p. 47.

⁹ Cf. *ibid.*

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The book is intended to serve as a guide to those who wish to do business with the People's Republic of China. Since it contains an abundance of data and facts, it is also an important reference work for researchers. The work was supervised by Prof. Dr. G. Franke from the University of Constance. The HWWA-Institute has included it in its series of publications because it represents an important supplement to the Institute's own studies on the subject of China.

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used by the industry does not increase considerably, the establishment of backward linkages, from which stimuli for the development of the economy as a whole are expected, cannot take place.

Efforts on the part of the administration to bring about an improvement in this area have not led to the hoped-for success so far. For example, an attempt was made to link the tax privileges to the additional condition that the enterprises should have reached a local content of at least 50% three years after their setting up business.¹¹ However, if the products which are required cannot be obtained at all on the local market, then such regulations are useless. Above all, the world market orientated electronics producers strictly depend on the observance of highest quality standards in order to be able to stand up to international competition; this means, however, that raw materials and semifinished products must also meet the highest standards. Furthermore prices on the world market are often lower than on the local market. Some of the companies reported that local suppliers have continual problems with the fulfilment of delivery dates.

Especially in the semiconductor industry there are enormous barriers to a more intensive linking of the foreign export industry to the domestic subcontracting industry. These can only be dismantled to a minor extent in the foreseeable future because of the specific characteristics of the products involved. Therefore the Industrial Masterplan 1985-1995 considers a reduction of the weight of component assembly from its present 80% to about 60% in favour of consumer and industrial electronics.¹² A further motive for this structural correction is to be found in the desire to reduce the strong dependence of the Malaysian electronics industry on semiconductor production. The world market for chips is obviously to a particularly high degree susceptible to intense cyclical fluctuations. During the last cyclical crisis in this market in 1984-86 Malaysia paid for its dependence with large declines in exports and, above all, with thousands of unemployed in this industry.

A further aspect which keeps multinationals from "voluntarily" increasing the local content arises from the widespread practice among multinational managements of making use of transfer pricing: a larger share of procurements on the local market automatically reduces

intra-group turnover, so that the opportunities of subsidiaries for following autonomous business goals are reduced.¹³ Thus, most of the firms interviewed by us report that their autonomy in the field of procurement is restricted to a greater or lesser degree. One American firm, for example, emphasizes that it is already allowed to take its own decisions with regard to more than half of its procurements and that this room for manoeuvre is to be extended. Another US company still has to effect 75% of its procurements within the group. Only one German firm in the consumer goods industry is allowed to take its procurement decisions on its own.

How important the procurement policies of the electronics concerns in Malaysia are considered to be, can be seen from the fact that improvements in the local content figures are continually reviewed in detail in the country's economic press. For example, it was reported that Sharp intends to raise the local content share in a consumer electronics factory from 70% to 80%.¹⁴ In doing so, Sharp is following a trend which in recent years appears to be valid for Japanese electronics suppliers in general: more and more Japanese component suppliers are moving to Malaysia in the wake of their large customers, so that the latter can buy their components on the local market. But these components are still from Japanese manufacturers, of Japanese quality and Japanese punctuality. For one thing, the marked appreciation of the yen is making itself shown here, putting pressure with regard to procurement prices on Japanese suppliers, particularly in comparison to their American competitors, who were able to benefit from the dollar devaluation. For another, the well-known dualism of the structure of the Japanese economy, in which a few huge corporations stand vis-à-vis a large number of small component suppliers, makes itself felt here. The dependence of these small firms is apparently so great that even decisions as to location can be determined by the large companies. Thus, in 1989 the volume of Japanese direct investment in Malaysia was almost ten times as high as that of US-American investment: \$ 400 million and \$ 45 million respectively.¹⁵

According to observations made by Malaysian experts, a clear difference can be ascertained between the procurement behaviour of Japanese and American firms: Japanese enterprises are extremely fixated on Japanese suppliers, whereas the Americans in Malaysia take decisions according to purely economic criteria, i. e. they

¹⁰ Cf. Federation of Malaysian Manufacturers (FMM)/MIDA Workshop III: Investment Opportunities in Electrical and Electronic Industries, Kuala Lumpur, 1990, p. 9.

¹¹ Cf. *ibid.*, p. 13; cf. Handelsblatt of March 23rd, 1990; cf. M. Ananzawa: Free Trade Zones in Malaysia, in: Hokudai Economic Papers, Vol. XV, 1985-86, p. 122.

¹² Cf. FMM/MIDA, *op. cit.*, p. 10.

¹³ Cf. M. Ananzawa, *op. cit.*, p. 125.

¹⁴ Cf. New Straits Times of Sept. 9th, 1990.

¹⁵ Cf. Japan External Trade Organisation (JETRO): Malaysian Economy in Figures, Kuala Lumpur 1990, Table 14.

buy where it is cheapest.¹⁶ This estimation corresponds completely with previous empirical findings.¹⁷ It cannot be ignored, however, that both American and European firms are concerned about their high degree of dependence on Japanese suppliers and gladly take every opportunity to diversify their procurements. It is estimated that at present about 300 semifinished products are supplied by Malaysian firms to the international semiconductor manufacturers.¹⁸

Subcontracting

The expansion of the supplier industry for the electronics sector provides a further opportunity to set up backward linkages: in order to lower costs, the large semiconductor manufacturers give certain production or testing stages as a whole or in part to subcontracting firms. Cooperation with a subcontractor can be meaningful, firstly, in order to be able to handle order peaks without having to keep the necessary capacity at the ready oneself. Secondly the firm's own production line can be streamlined if the respective plant, which could not be used to capacity for the company's own requirements, can be done without by getting a subcontractor to carry out the work involved. American manufacturers use subcontractors to carry out the "burn-in" test, for example. Successful subcontracting relationships sometimes lead to regular supply contracts: American semiconductor manufacturers reported that they increasingly dispense entirely with the production of certain plastic components for chips and buy them from former subcontractors. Where such cooperation has proved its worth from the point of view of the multinationals, the subcontractors receive support via the transfer of know-how and financial assistance from their patrons. Furthermore, this field is being paid increasing attention by the Malaysian authorities and in particular local suppliers are being offered attractive investment incentives.¹⁹

Sales Strategies

The firms we interviewed unanimously emphasized that their original motive for transferring production to Malaysia lay in the lowering of production costs. But they also pointed out just as unanimously that market aspects had become more and more important since at least the beginning of the eighties. In this connection, the trade privileges under the "generalized system of preferences" (GSP) are of importance, on the one hand, and on the

other, the firms are trying to profit from the remarkable momentum of growth in the South East Asian region. The domestic Malaysian market is of scarcely any interest to the large semiconductor manufacturers: almost all of them show an export ratio of nearly 100%. The manufacturers of other electronic components and suppliers of consumer electronics, on the contrary, are achieving an increasing turnover on the Malaysian market.

In all of the companies we investigated it was apparent that sales policy had originally been a matter for the group's head office and that in recent years more and more authority and responsibility in this field had been decentralized. The actual amount of decentralization in sales varies, however, quite considerably from one enterprise to another: only one of the firms we investigated, a medium-sized Japanese manufacturer of passive components, organizes the entire marketing and sales on his own. This is a clear exception not only in relation to the Japanese firms, but also compared to all the others. The reason is perhaps on the one hand to be found in the fact that this firm makes almost half of its turnover in Malaysia—from customers in the FTZ, though—and on the other hand in the fact that it is a relatively small firm. It otherwise appears to be more typical of Japanese enterprises in Malaysia, as a JETRO representative told us, that marketing and sales continue to be controlled by the head offices, which does not exclude that in individual cases the Malaysian subsidiaries be given the responsibility for handling certain transactions.

In contrast to this, it can generally be said of the American firms that substantial marketing tasks have meanwhile been transferred to the subsidiaries in order to improve the quality of customer-oriented market cultivation in the South East Asian region.²⁰ Yet that does not mean that the US firms in Malaysia can implement an autonomous sales policy; as a rule, the major responsibility for this lies with the regional sales offices in Singapore or Hong Kong.

The representatives of European companies we interviewed revealed that they take a middle position in the spectrum we observed: the necessity of paying attention to greater proximity to customers in the conceptualizing of sales strategies was also recognized; the translation of this insight into practice still appears, however, to be hindered for the time being by bureaucratic obstacles within the corporations.

¹⁶ Interview with Mr. Cheng Seng Cong/MIDA on Sept. 10th 1990.

¹⁷ Cf. D. I. Okomoto et al. (eds.): *Competitive Edge. The Semiconductor Industry in the U. S. and Japan*, Stanford 1984, p. 207.

¹⁸ Interview with Dr. Arif Nun, Malaysian Institute of Micro Electronic Systems (MEMOS) on Sept. 10th 1990.

¹⁹ Cf. R. Rasiah: *Competition and Restructuring in the Semiconductor Industry: Implications for Technology Transfer and its Absorption in Penang*, in: *Southeast Asia Journal of Social Science*, Vol. 17, No. 2, Kuala Lumpur 1989, p. 52; cf. FMM/MIDA, op. cit., p. 14.

²⁰ Cf. MAEI, op. cit., p. 8.

Irrespective of the organizational location of central marketing activities, a uniform trend in all of the firms investigated was unmistakable: they were aiming to develop direct customer contacts; about half of the firms interviewed already delivers its products directly to the customers. Commensurate with this, complaints are increasingly handled by the Malaysian subsidiaries themselves in their own error analysis laboratories. Some firm representatives judged this step and the expansion of technical responsibilities in Malaysia which went along with it to be the preparation for autonomous product design in response to customer requirements.

It must be doubted that the differences observed, particularly those between American and Japanese firms, are founded in different strategies. It seems more likely that the different geographical situations are having an effect here: these make it possible, namely, for the Japanese head offices to establish the necessary proximity to customers in South East Asia more easily than their American counterparts can do.

Integration into the Parent Company

With two exceptions the firms we investigated are subsidiaries in 100% ownership of multinationally operating corporations. The two exceptions are subsidiaries of German firms in which Malaysian companies hold an interest – in one case for historical reasons and in the other because of the considerable domestic turnover (almost 40%). Nevertheless the representatives of both companies emphasized that their Malaysian partners had no influence worth mentioning on management policy.

It was unanimously emphasized by all our interview partners that the autonomy and responsibilities of the managements of the subsidiaries in Malaysia had been extended, sometimes considerably, in the course of time. This is certainly linked on the one hand to the expansion of business, which in individual cases had been amazing. On the other hand certain influencing factors, which can arise both from global changes in the market situation and from the reformulating of corporate strategies, have also played a role here.

All the managers interviewed reported without exception that they make suggestions regarding operational planning, which then, however, have to be given the blessing of their head office. This coordination

process usually involves the general manager visiting the head office twice a year. This control by the head office appears to be operated most strictly by US firms and is often made apparent to outsiders by the appointment of a vice-president for the firm's entire activities in Asia. The managements of US subsidiaries abroad are subject to continuous scrutinizing by the group's top management via a narrow set of rules regarding financial, budgetary and market variables. They are continually transferred to the head office via on-line networks.²¹ On the other hand, this strict formal control enables the US enterprises to give their local management a quite remarkable degree of decision-making autonomy in many functional areas: against this background they find it relatively easy to fill important management posts with Malaysians. Two of the American firms were run exclusively by Malaysian managers and in the others there were scarcely any American personnel apart from the general managers. The European companies, too, have filled their management positions, apart from two or three top people, mostly with Malaysians.

The Japanese firms have a quite different approach. They largely do without administrative control instruments. Instead, the number of Japanese managers in the Malaysian subsidiaries is much larger than in comparable American or European companies. The binding of foreign subsidiaries to central decisions and their control by the head office's top management is obviously organized less formally in the Japanese companies but, rather, is ensured via personal relationships. For this system, in turn, the typical socialization of Japanese managers appears indispensable.²² At the same time, the Japanese are well aware of the advantages – as our interviewees assured us – of filling management posts with local people: from the point of view of both costs and acceptance by the workers there is much to be said for greater participation by Malaysians in the management of the firms. Observers are nevertheless certain that in Japanese firms the key positions of general manager, chief accountant and factory manager will always be filled by Japanese.²³ Language and cultural barriers make the integration of non-Japanese into the management process difficult.²⁴

The day-to-day decisions which directly concern production are taken by the local management in all three groups of firms. These include, above all, fairly

²¹ Cf. T. Kobayashi: Budgetierung und Steuerung in japanischen dezentralisierten Industrieunternehmen, in: Zeitschrift für betriebswirtschaftliche Forschung (zfbf), No. 4, 1990, p. 343; cf. D. I. Okimoto et al., op. cit., p. 207.

²² Cf. C. Deutschmann: Der Clan als Unternehmensmodell der Zukunft, in: Leviathan, No. 1, 1989, p. 85; cf. K. Koike: Human Resource Development and Labour Management Relations, in: K. Yamamura, Y. Yasuba: The Political Economy of Japan, Vol. 1: The Domestic Transformation, Stanford 1987, p. 289.

²³ Cf. M. Ananzawa, op. cit., p. 121.

²⁴ Cf. A. Bartlett, S. Goshal, op. cit., p. 68.

autonomous decisions as to the organization of the manufacturing process as well as the autonomous development of new machines and process technologies. About half of the companies investigated are being extended into centres for process technology, automation research or CIM development within the international group, or already have this status. With great self-assurance, the managers pointed out that it happens more and more often that the concern head office sends people to them for training – reverse technology transfer.

Conclusions

With regard to the general characteristics of, or differences between, the American, European and Japanese management strategies, the following picture emerges. The strategies of the three enterprise groups show considerable similarities in their general structure, i.e. in the overall strategic orientation of the companies no differences can be ascertained in their priorities with regard to their commitments in Malaysia. Some characteristic differences do come to light, however, in their substrategies. This is the case, as was shown above, particularly for the organizational and personnel strategies practised, but also for procurement strategies. In their procurement strategies the Japanese enterprises are more strongly fixated on suppliers from their home country than are the European or American firms. In the fields of organizational and personnel strategy there are differences with regard to the recruitment of upper management, the depth of stratification of the firm's hierarchy and the forms of control practised by the head offices. The American firms tend to operate with shallow hierarchies, i. e. short lines of decision, with developed, formalized management and control systems and with a high percentage of local management. The Japanese firms find themselves at the opposite end of the scale as regards these dimensions. The European firms lie between the two extremes. Altogether, we suspect that the substrategies mentioned will, with advancing world-market integration, draw closer to each other in the long term.

A tendency towards the standardization of international management systems would be in line with the results presented by Bartlett/Ghoshal in their comparative analysis of "management across borders". In their study, the authors develop four models of international management, three of which are descriptive, the fourth being a practical-normative model. The three descriptive models are based on the different national or geographical traditions and can – although we must take care not to absolutize this – be classified as the strategy types of the Japanese, American and European multinationals. The European

tradition is reflected in Bartlett/Ghoshal's "multi-national organizational model", the American tradition in the "international organizational model" and the Japanese in the "global organizational model".

In the European "multinational" corporations the foreign subsidiaries tend to form a portfolio of investments, i.e. a portfolio of relatively independent companies. Many assets, responsibilities and decisions are decentralized. It is a strategic priority to enable the foreign enterprise to adjust flexibly to the requirements of the foreign market in question. The process of social control in the form, among others, of personal relationships between head office management and the management of the subsidiary is complemented by simple financial controls.

In the American "international" corporations it is attempted to transfer the firm's know-how to foreign markets. With regard to products, processes and new ideas there is strong dependence on the head office. Compared to the multinational model there is much more coordination and control by the head office. The flows of information and control are very formalized.

In the Japanese "global" corporations, the head office is the central pivot. Resources and competences are centralized in the parent company. The branches of global corporations have fewer freedoms to develop new products or strategies or to modify already existing ones. The dominant management perspective in the global enterprises sees the world as a single, integrated market, on which the global system of firms has uniformly to concentrate itself. The strength of the global model lies in its ability to develop coordinated strategies and on this basis to take advantage of world-market oriented economies of scale.

Bartlett/Ghoshal see the future for international management in their "transnational organizational model". Whereas in the one-dimensional strategy concepts to date either adjustment to the market or learning capacity or efficiency formed their strategic strength, all three of these elements must equally be taken into account today in the strategy of the "transnational" enterprise. The authors believe that they can recognize traces and indications of the necessity, and at the same time of the viability, of transnational strategies in developments which have begun to take place in a few very successful enterprises of varying national origin very recently. Our empirical results for the electronics multinationals in Malaysia can be interpreted as a preliminary confirmation of the fact that, at least in the electronics industry, there are already visible signs that the development of "transnational" strategies is being worked on.