

## Control and Autonomy of Foreign-Controlled Companies in Malaysia

**Hamdan Ariffin  
June M.L. Poon  
Raja Azimah Ainuddin**

### ABSTRAK

*Kajian ini menyelidiki jenis dan peringkat kawalan yang diamalkan oleh syarikat multinasional Amerika Syarikat, British, Eropah dan Jepun ke atas anak-anak syarikat mereka di Malaysia. Hasil kajian ini menunjukkan perbezaan dalam pola-pola kawalan antara 4 kumpulan anak syarikat ini. Syarikat-syarikat Jepun dan Eropah lebih menaruh kepercayaan kepada pegawai dagang untuk mengawal anak syarikat mereka, sedangkan syarikat-syarikat Amerika Syarikat dan British lebih bergantung kepada laporan prestasi kewangan. Anak-anak syarikat yang dikaji juga didapati mempunyai lebih banyak autonomi dalam hal-hal personel, pengeluaran dan penyelidikan. Keputusan berkaitan dengan pemasaran dan kewangan dikawal lebih ketat oleh syarikat induk. Akhir sekali, kajian ini mendapati perhubungan U-songsang antara autonomi dan saiz operasi antarabangsa. Walau bagaimanapun, saiz anak syarikat didapati tidak mempunyai pengaruh yang bererti ke atas autonomi.*

### ABSTRACT

*This study examines the type and degree of control exercised by American, British, European, and Japanese multinational companies over their subsidiaries in Malaysia. Results of the study indicate differences in control patterns among the four subsidiary groups. While Japanese and European parent companies were more likely to use expatriate control, American and British companies tended to rely more on financial performance reports. The subsidiaries under study were also found to have more autonomy in making decisions on matters related to personnel, production, and research. Marketing and finance decisions were more centralized. Finally, the study found an inverted-U relationship between autonomy and size of a parent company's international operations but no significant relationship between autonomy and subsidiary size.*

## INTRODUCTION

Multinational corporations (MNCs) operate under different and diverse economic, political, social, and legal environments. The activities of their foreign subsidiaries must be properly controlled and coordinated if MNCs are to achieve their overall global objectives. According to Tannenbaum (1968), the function of control is to bring about conformance to organizational requirements and achievement of the ultimate purpose of the organization. Baliga and Jaeger (1984) view control as the monitoring processes used by an MNC to verify that the activities and decisions of its affiliates yield results consistent with overall goals and strategies. As suggested by Garnier (1982), the main objectives of MNCs are the maximization of global profits and the minimization of risk.

The issue of control has become a great challenge to many MNCs and has attracted a lot of interest among researchers (Baliga & Jaeger 1984; Cray 1984; Doz & Prahalad 1981; Egelhoff 1984; Jaeger 1983; Kobrin 1988; Martinez & Ricks 1989). Common control methods used by MNCs include appointing parent country nationals to head and supervise the operations of the subsidiaries and requiring foreign subsidiaries to submit financial reports to head office on a regular basis. Parent companies can also control the activities of their subsidiaries through greater involvement in various operational and management decisions. The less autonomy the subsidiaries have in making such decisions, the greater is the control MNCs are deemed to exert on their subsidiaries.

This study seeks to examine control and autonomy issues of MNCs and their foreign subsidiaries in Malaysia. The main objective of this study is to discuss and compare the types and degree of control exerted on American, British, European, and Japanese subsidiaries by their respective home offices. The study also looks at the issue of whether or not the amount of autonomy granted to a foreign subsidiary is related to the size of the subsidiary and the size of its parent company's international operations.

## METHOD AND SAMPLE

The population for the study consisted of subsidiaries of MNCs listed in the 1988 Member's Directory of the Malaysian International Chamber of Commerce. An eight-part questionnaire addressed to the managing director of each company was mailed to 362 companies. A total of 112 companies took part in the survey giving a response rate of 31%. This report is based on the responses of 88 subsidiaries of American, British, European, and Japanese MNCs.

The sample included 26 American, 25 British, 28 European, and 9 Japanese subsidiaries. Table 1 shows the distribution of the sample by

industry group. Almost 47% of the sample companies were from the manufacturing sector. Table 2 shows the form of ownership of the sample companies. Most of the companies (about 77%) were either wholly-owned subsidiaries or joint-venture companies with the parent company as the major shareholder. The remaining 23% of the companies were joint ventures with the local partner holding a majority equity position. Therefore, the question of subsidiary control is relevant and important to most of the companies under study.

TABLE 1. Sample distribution by type of industry

	US	UK	Europe	Japan	Total
Manufacturing	14	12	11	4	41 (47%)
Trading	4	2	11	2	19 (22%)
Financial services	2	3	1	2	8 (9%)
General services*	3	4	2	-	9 (10%)
Others	3	4	3	1	11 (12%)
Total	26 (30%)	25 (28%)	28 (32%)	9 (10%)	88

Note: \* includes consultants/travel agents/hotels.

TABLE 2. Sample distribution by type of ownership

	US	UK	Europe	Japan	Total
Wholly-owned	14 (54%)	5 (20%)	13 (47%)	6 (67%)	38 (43%)
Joint venture- Major partner	7 (27%)	10 (40%)	11 (39%)	2 (22%)	30 (34%)
Joint venture- Minor partner	5 (19%)	10 (40%)	4 (14%)	1 (11%)	20 (23%)
Total	26	25	28	9	88

About one-third of the responding subsidiary companies have annual sales of less than \$25 million. Another third have annual sales of \$25-\$100 million. Only eight subsidiaries (9%) reported annual sales of \$400 million or more. In terms of parent company size, about half of the sample have parent companies which operated in less than 50 countries. Only 10 subsidiaries (11%) have parents which operated in more than 100 countries.

## FINDINGS AND DISCUSSION

## EXPATRIATE CONTROL

In many diversified MNCs, personnel are a critical instrument of headquarters' strategic control (Kobrin 1988). The employment of parent company managers in foreign subsidiaries is one way to ensure that subsidiaries operate in accordance to the parent's planned objectives. This is an example of cultural or behavioral control (Ouchi 1977) whereby the expatriate is given the task of supervising and coordinating the activities of the subsidiary. In this study, the ratio of the number of expatriates to the total number of management staff was computed for each subsidiary. The greater is the ratio, the more behavioral control the parent company is considered to have on its subsidiary. Table 3 shows the results for all the subsidiaries in the sample.

TABLE 3. Presence of expatriates

Number of expatriates in every 100 managerial staff	US	UK	Europe	Japan	Total
One or less	12 (46%)	13 (52%)	9 (32%)	1 (11%)	35 (40%)
Two or more	14 (54%)	12 (48%)	19 (68%)	8 (89%)	53 (60%)
Total	26	25	28	9	88

From the frequency distributions in Table 3, it can be seen that the American and British subsidiaries employed relatively fewer expatriates in their subsidiaries than their Japanese or European counterparts. About 89% of the Japanese subsidiaries had two or more Japanese expatriates at management level. It would appear from the above results that Japanese MNCs prefer a more implicit form of control mechanism. This form of control calls for a strong corporate culture and a high level of general understanding of what constitutes appropriate behavior in achieving a company's goals. These features are commonly found in Japanese companies (Schneider 1988).

Tung (1984) attributed the extensive use of parent country nationals in Japanese subsidiaries to a number of reasons. These include (1) the Japanese system of management which requires constant communication and consultation between the home office and overseas subsidiaries; (2) language

and conceptual barriers which make it difficult for local managers to have an understanding of the parent's philosophy; (3) problems Japanese managers face in recruiting competent host country nationals to work for their overseas subsidiaries; and (4) psychological reluctance to hire foreigners due to the Japanese system of lifetime employment and seniority.

The finding that the subsidiaries of American MNCs were less reliant on parent company managers is consistent with the findings of other studies (Egelhoff 1984; Kobrin 1988; Sim 1977; Tung 1982). Kobrin (1988) argues that one of the reasons for the reduction in the use of parent country nationals by American MNCs is the difficulty Americans have in adapting to overseas assignments and the high failure rate they have experienced. The career development and promotion patterns in most American MNCs also do not encourage extended periods of stay away from the parent company. This contrasts with European MNCs where important foreign positions are frequently direct stepping stones to higher-level positions in the parent company (Egelhoff 1984).

#### FREQUENCY OF FINANCIAL REPORTING

Another means often used to control and coordinate subsidiary activities is to require the subsidiary to submit regular performance reports to head office. Reports, however, are generally considered neither the best nor the most important communication medium for keeping in touch with headquarters (Picard 1980). This study looked at the frequency at which the subsidiary companies were required to submit financial reports to the parent — the more frequently a subsidiary is required to submit financial performance reports the tighter is the control exerted by the parent company on the subsidiary. Table 4 compares the data for the four groups of subsidiaries under study.

Frequency distributions in Table 4 show that American, British, and European subsidiaries were required to send in their financial reports more frequently than their Japanese counterpart. This could be because Japanese MNCs preferred expatriate control in controlling the operations of their Malaysian subsidiaries. American and British MNCs which employed relatively less parent country nationals, on the other hand, were more likely to exercise output control; that is, by relying more on frequently reported financial data. The European MNCs of the subsidiaries in this study seemed to rely on both forms of control mechanism in their subsidiaries.

TABLE 4. Frequency of financial reports

	US	UK	Europe	Japan	Total
One in more than a month	5 (23%)	5 (21%)	5 (18%)	4 (44%)	19 (23%)
At least one in a month	17 (77%)	19 (79%)	23 (82%)	5 (56%)	64 (77%)
Total	22	24	28	9	83

## INDEX OF AUTONOMY

In general, studies on control in international business have used a composite index of decision areas covering a wide variety of activities and functions (Martinez & Ricks 1989). Garnier, Osborn, Galicia, and Lecon (1979), in their study on the autonomy of Mexican affiliates of American MNCs, used 38 decision variables in calculating an index of autonomy. In this study, an index of autonomy for each respondent was computed using 19 decision variables covering 5 functional areas: personnel, production, finance, marketing, and research and development. Each respondent was asked to indicate the extent of parent company involvement in making decisions on each of the variables by checking one of three answer choices: low, moderate, or high. The responses were scored as follows: 0 for low, 1 for moderate, and 2 for high. The average score for each respondent was then computed. This score was then converted into an index with values ranging from 0 to 100. A value of 0 means the subsidiary is highly autonomous while an index of 100 means the parent company exercises tight control over the subsidiary. Table 5 shows the distribution of the index scores for the subsidiaries and the mean scores for each group of subsidiaries. It can be seen that the majority (66%) of the responding companies had index scores ranging from 30 to 59 indicating a moderate level of parent involvement.

To determine the extent of parent involvement in specific areas of decisions, an average score for each decision variable was computed for all the subsidiary groups. An overall average for each functional area was also computed. Finally, an overall score for each group of subsidiaries was calculated by averaging each group's score over the range of decision variables. The results are shown in Table 6 and can be interpreted as follows: a value of 0 means the subsidiary has a great deal of autonomy in making a decision on that variable, and a value of 2 means the decision is made mostly by the parent company.



TABLE 5. Index of autonomy

Index value	Percentage of Companies
0-9	-
10-19	-
20-29	7%
30-39	25%
40-49	28%
50-59	13%
60-69	11%
70-79	11%
80-89	3%
90-100	2%
Mean for American companies	54
Mean for British companies	42
Mean for European companies	55
Mean for Japanese companies	51
Overall mean	49

From the overall results it appears that the subsidiary companies under study were only moderately controlled by their parent companies. Looking at decision-making autonomy by functional areas, the subsidiaries as a group had greater autonomy in making decisions on personnel, production, and research areas. They were less autonomous in making decisions on marketing and finance. The results are slightly different from the findings of Brandt and Hulbert (1977) who concluded that subsidiary managers enjoy considerable discretion in making marketing decisions especially when compared with their decision-making power in areas such as production and finance. Sim (1977) in his study of American, British, and Japanese subsidiaries in Malaysia and Garnier et al. (1979) in their study of Mexican affiliates also found the marketing function to be decentralized.

However, both the findings of Garnier et al. and Sim support the findings of this study with regard to autonomy in the area of personnel, production, and finance.

The degree of autonomy also varied within a specific function. For example, for the production function (found to be less centralized), there was little parent involvement in production scheduling and maintenance decisions but more parent company say in the choice of technology used. For the finance function, which tended to be more centralized, control was tightest with regard to company borrowings. In the area of research and development, parent companies had most involvement in new product development.

TABLE 6. Extent of parent involvement

	US	UK	Europe	Japan	
Personnel:	0.78	1.02	0.78	0.96	
Training	0.66	1.24	0.84	0.86	
Layoffs	0.88	0.30	0.72	1.00	
Appointments of senior managers	0.78	1.30	0.80	1.00	
Overall average					0.88
Production:	0.78	0.76	0.80	0.64	
Production schedule	0.62	0.44	0.54	0.26	
Technology used	1.56	1.42	1.56	1.68	
Maintenance	0.18	0.44	0.32	1.00	
Overall average					0.76
Finance:	1.02	1.04	1.14	0.96	
Credit to consumers	0.50	0.88	0.68	0.68	
Use of cash	1.12	0.94	1.16	0.86	
Company borrowings	1.42	1.36	1.56	1.30	
Overall average					1.04
Marketing:	1.38	0.96	1.24	1.08	
Pricing	0.88	0.38	0.90	1.30	
Brand name	1.70	1.22	1.48	1.18	
Advertising	1.80	1.30	1.86	1.18	
Sales promotion	1.70	1.30	0.50		
Distribution	1.46	1.38	1.60	1.18	
Overall average					1.16
Research:	1.04	0.54	0.84	0.70	
New product	1.85	1.12	1.50	1.50	
Product improvement	0.94	1.06	0.84	0.20	
Consumer acceptance	0.76	0.34	0.50	0	
Sales forecast	0.78	0	0.42	0.84	
Market potential	0.86	0.12	0.86	1.00	
Overall average					0.78
Overall average by nationality	1.00	0.86	0.96	0.86	

Minor differences existed among the subsidiary groups by functional areas. For example, American MNCs were found to keep a relatively tight hold on marketing, research, and finance but allowed most autonomy in personnel and production. British MNCs were more concerned with finance



and personnel and least with research and production. European and Japanese MNCs were most concerned with marketing and finance decisions.

#### AUTONOMY AND COMPANY SIZE

The study also examined the relationship between autonomy and the size of the subsidiaries (based on the total number of employees). Although no significant relationship was found, qualitative examination of the data indicated that the larger the subsidiary, the more autonomy it had. Similarly, analysis of the data did not show any significant relationship between level of sales and autonomy. This finding is similar to that of Sim (1977) who found no significant relationship between decentralization and sales size, total number of employees, and level of foreign equity ownership.

Asbour (1981) argues that as the size of an MNC's international activities increases; that is, when it moves into more and more foreign countries, the decision making powers of the subsidiaries tend to decline, and greater interference from the home office is observed. The results in this study show that the number of countries the parent companies had operations in was related to autonomy in an inverted U-shaped fashion. If the number of countries is moderate (between 50 to 99), then the parent companies were likely to exert more control on the activities of the subsidiaries. On the other hand, greater autonomy would be given to the subsidiaries in cases where the number of countries the parents operated in were few (less than 50) or many (100 or more). This finding is somewhat consistent with the findings of Brandt and Hulbert (1977) who found the number of countries in which manufacturing subsidiaries were located to show an inverted-U effect in its relationship with headquarters guidance.

#### CONCLUSION

In general, the results of this study indicate that the nationality of a parent company has an influence on the type of control used to exercise subsidiary control. For example, while Japanese parent companies prefer to maintain control by placing their own nationals in key positions in their subsidiaries, American and British parent companies tend to rely more on formalized reporting procedures. Although European companies also used a relatively high percentage of expatriates in their subsidiaries, the submission of regular financial reports was also emphasized.

Parent companies can also achieve control over their foreign subsidiaries through complete or majority ownership. In this study, most of the American, European, and Japanese subsidiaries were wholly-owned or joint ventures with the parent in a majority equity position. British subsidiaries were,

however, mainly joint ventures with the parent company having minority ownership. This could be due to the fact that the British were among the earliest to set up businesses in Malaysia and had over the years gradually sold off some of their interests. Japanese investors being the latest to enter the Malaysian business scene preferred 100% equity participation.

The study also found differences in the degree of centralization among the functional areas studied. Malaysian subsidiaries were observed to have more autonomy in making personnel, production, and research decisions. Marketing and finance decisions, however, were more centralized.

Finally, the study did not find any significant relationship between autonomy and subsidiary size. An inverted-U relationship was, however, found between autonomy and the size of an MNC's international operations.

#### REFERENCES

- Asbour, A.S. 1981. Self-serving practices of multinational corporations in less developed countries. *Management International Review* 21(3): 67-79.
- Baliga, B.R. & Jaeger, A.M. 1984 (Fall). Multinational corporations: Control systems and delegation issues. *Journal of International Business Studies* 15: 25-39.
- Brandt, W.K. & Hulbert, J.M. 1977 (Winter). Headquarters guidance in marketing strategy in the multinational subsidiary. *Columbia Journal of World Business* 12: 7-14.
- Cray, D. 1984 (Fall). Control and coordination in multinational corporations. *Journal of International Business Studies* 15: 85-98.
- Doz, Y.L. & Prahalad, C.K. 1981 (Fall). Headquarters influence and strategic control in MNCs. *Sloan Management Review* 22: 15-29.
- Egelhoff, W.G. 1984 (Fall). Patterns of control in US, UK, and European multinational corporations. *Journal of International Business Studies* 15: 73-83.
- Garnier, G.H. 1982 (December). Context and decision making autonomy in the foreign affiliates of U.S. multinational corporations. *Academy of Management Journal* 25: 893-908.
- Garnier, G., Osborn, T.N., Galicia, F., & Lecon, R. 1979 (Spring). Autonomy of the Mexican affiliates of U.S. multinational corporations. *Columbia Journal of World Business* 14: 78-90.
- Jaeger, A.M. 1983 (Fall). The transfer of organizational culture overseas: An approach to control in the multinational corporation. *Journal of International Business Studies* 14: 91-113.
- Kobrin, S.J. 1988 (Spring). Expatriate reduction and strategic control in American multinational corporations. *Human Resource Management* 27: 63-75.
- Martinez, Z.L. & Ricks, D.A. 1989 (Fall). Multinational parent companies' influence over human resource decisions of affiliates: US firms in Mexico. *Journal of International Business Studies* 20: 465-488.
- Ouchi, W.G. 1977 (March). The relationship between organizational structure and organizational control. *Administrative Science Quarterly* 22: 95-113.
- Picard, J. 1980 (Spring). Organizational structures and integrative devices in European multinational corporations. *Columbia Journal of World Business* 15: 30-35.

- Schneider, S.C. 1988 (Summer). National vs. corporate culture: Implications for human resource management. *Human Resource Management* 27: 231-246.
- Sim, A.B. 1971. Decentralized management of subsidiaries and their performance. *Management International Review* 17(2): 45-52.
- Tannenbaum, A.S. 1968. *Control in Organizations*. New York: McGraw-Hill.
- Tung, R.L. 1982 (Fall). Selection and training procedures of U.S., European, and Japanese multinationals. *California Management Review* 25: 57-71.
- Tung, R.L. 1984 (Fall). Human resource planning in Japanese multinationals: A model for U.S. firms? *Journal of International Business Studies* 15: 139-149.

Jabatan Pengurusan  
Fakulti Pengurusan Perniagaan  
Universiti Kebangsaan Malaysia  
43600 UKM Bangi  
Selangor D.E.