HQ-SUBSIDIARY RELATIONSHIPS IN MULTINATIONAL COMPANIES: A BRITISH-GERMAN COMPARISON

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INTRODUCTION

One of the recurrent themes in international organization studies is what happens to organizational practices as enterprises are increasingly exposed to internationalizing influences. Such influences can be divided into two main parts:

(1) On the one hand, enterprise activities are internationalized, through exposition to customers, suppliers or alliances outside a society or domestic economy of origin, regulated by common and relatively homogeneous institutions. This kind of internationalization culminates in the formation of a **multinational company** if and when non-marginal company functions are localized in subsidiaries outside the country of origin.

(2) In addition even enterprises which are not internationalized or multinational are subject to competitive pressures, regulatory norms and imitation influences, extending from an international search for good or best organizational practices.

This debate continues, under partly new auspices, along a more established track. It is about the extent and explanation of **convergence and divergence**. The literature has used these notions in different ways. An authoritative definition by reputed scholars is: "The subject of organizational convergence is concerned with how far organizations in different countries have traveled along a path to global convergence in operations and management, and conversely how far the influence of specific cultural factors must be understood and planned for if the manager is to be effective in cross-cultural situations" (Pugh and Hickson 1996: 3899). This may imply a longitudinal argument or research design demonstrating convergence or divergence as happening over time. But it need not necessarily, and in fact many publications debating the extent of convergence versus divergence have limited themselves to comparing and evaluating the extent of convergence or divergence as **results** that enterprise development has achieved at a given moment. Divergence is co-terminous with the embeddedness of organizations and other actors in regionally or nationally different societies. Societies have characteristic and specific elements such as normative institutional order, cultural dispositions of types of actors in types of situations or across the board, and also economic and industrial structures. Convergence implies a relative degree of disembeddedness of practices or structures, overriding more regionally or nationally specific institutions or behavioral predispositions.

More recently, the 'sharp end' of the convergence-divergence debate, where the issue of divergence versus convergence is most acute, has come to lie where internationalization is suggested to be most pervasive, in the functioning of the multinational enterprise. Here, internationalization attaches to all of the 'hooks' of Porter's diamond: factor conditions, firm strategy, structure and rivalry, demand conditions and related and supporting industries (Porter 1990: 72). Internationalization in the multinational enterprise therefore attaches to all the fields governing its structure and functioning: task and general environment, internal structure and process, and generic strategies that establish meaningful relations between environment, context and internal structure and process.

This is the subject on which we focus in this chapter. More specifically, we concentrate on that part of the multinational enterprise that is its most international and potentially most de-contextualised one: the relationships between headquarters and subsidiaries. By focusing on the international level in multinational enterprises, above the level of national subsidiaries and their internal organizational patterns, their own specific strategy and their immediate task and general environment within the country in which they are located, we examine that terrain on which the forces working towards convergence are potentially strongest.

Given the focus of this volume, this chapter will investigate differences in HQ-subsidiary relationships in MNCs from two European countries: Britain and Germany. We will also compare these countries to the US and Japan and will assess to what extent convergence has taken place. For a more detailed discussion of the convergence versus divergence debate on a world-wide and European scale see Harzing and Sorge (forth). The remainder of this chapter is structured as follows. In the next section, we discuss our concepts, review the literature on comparisons between British and German MNCs and derive a number of hypotheses. A methodology section discusses the data collection, sample and measures used in the empirical study, while the results section present the tests of our hypotheses. In the final discussion and conclusion section, we argue that the generalization of results of studies of individual European countries to a wider European pattern is inappropriate even for multinational companies. European MNCs cannot be seen as a homogeneous group and due attention should be paid to the representation of European MNCs from different countries in any research design.

CONCEPTUAL BACKGROUND AND HYPOTHESES

Concepts

In this chapter we look at differences in the headquarters-subsidiary relationship between MNCs from different countries of origin. This relationship can be seen as a classic control problem, whose attributes are similar to principal-agent relationships (Nohria and Ghoshal, 1994). Headquarters, the principal, cannot make all decisions because it does not possess all the necessary knowledge or resources, but it cannot leave all decisions to subsidiaries because the interests of subsidiaries might be different from that of headquarters or the MNC as a whole. Therefore, the key aspect of the headquarters-subsidiary relationship is the way in which headquarters ensures that subsidiaries are working towards common organizational goals. The different types of **control mechanisms** are the tools that headquarters have to achieve this alignment. Hence, the level of control exercised by headquarters by means of the different types of control mechanisms is the first element of the HQ-subsidiary relationship that we will investigate. As we will see below, there is a range of control mechanisms available that goes beyond the level of autonomy granted to subsidiaries. The second element that we will look at is the level of **expatriate presence** in subsidiaries. Expatriates can perform many roles in the headquarters-subsidiary relationship, among them control and knowledge transfer. The **level of interdependence** between headquarters and subsidiaries in comparison to the level of interdependence *between* subsidiaries is a third important element of the HQ-subsidiary relationship. The final element that we will study is the **level of local responsiveness** – in terms of local production, local R&D and adaptation of products and marketing to local conditions – that headquarters allows to the subsidiary.

Britain and Germany: differences in culture and business systems

Two European countries that are often singled out as being very different from each other are Germany and Britain. Germany and Britain differ considerably in terms of their national culture and business system. Culturally, Germany and Britain are always found in different country clusters. Ronen and Shenkar (1985) discussed 9 different studies that investigated cultural differences and identified clusters of countries. In seven of these studies the UK was included and in all studies it was classified in the Anglo cluster, together with the U.S., Canada, Australia and New Zealand in studies where these countries were also included. Germany was included in seven studies as well and was classified in the Germanic cluster in five studies, in the Nordic cluster in one and in the independent cluster in another.

Looking at their business systems, Germany and Britain also differ dramatically. Britain shares with the US an adherence to consumer capitalism, which is in strong contradiction to the producer capitalism more typical of both Germany and Japan (see also Mirza, 1998). With the first comes a focus on marketing excellence, while the second is characterized by manufacturing excellence and German companies have indeed been shown to be significantly ahead of British companies in adopting world-class manufacturing practices (Voss & Blackmon, 1996). There are also major differences between Germany and Britain with regard to capital structure and the importance of stock markets. British and American companies raise their funds mainly by selling stock (are equity-based), while German and Japanese companies are mainly credit-based (Prowse, 1994). In 1985, stock market capitalisation as a percentage of GNP amounted to 81% in Britain compared with a mere 14% in Germany, while the USA and Japan fell in between with 48% and 37% respectively (Prowse, 1994:30, table 6). These different capital structures are also reflected in different philosophies about the management of companies. While Anglo-Saxon companies are mainly managed in the interest of shareholders and focus on the maximization of short-term profits, German and Japanese companies are more concerned about long-term viability and stability. In German and Japanese companies, the interest of stakeholders other than shareholders (e.g. employees, unions, community, government) is given serious consideration and companies are seen more as social institutions than as profit-generating machines. This phenomenon is reinforced by the fact that in the Anglo-Saxon countries, around 80% or more of the shares are held for trading purposes, while in Germany and Japan the overwhelming majority of shares are held for control purposes (Prowse, 1994:24, table 3). Obviously, investors holding shares for trading purposes are more likely to focus on short-term returns than on long-term stability. As Lane (1995:50) indicates, in British companies "every major financial decision has to be taken with an eye on the movement of the stock market".

An earlier comparison of British and German multinationals showed that the British companies are stronger in their marketing and financial functions, and these strengths show both in headquarters and different subsidiaries. On the other hand, the German multinationals are stronger in production and engineering functions. Policies in the respective subsidiaries outside the country-of-origin devote particular attention to remedying perceived deficiencies in those functions which are comparatively underemphasized in the country of the subsidiary's location. This picture complements the earlier one, and it boils down to the common point that British companies, among them multinationals, strategically emphasize the more commercial and financial functions, whereas German companies emphasize the technical functions including links between development and production (Ebster-Grosz and Pugh 1996).

The consequence of these differences might be the following: The product and its production and development being more important for the corporate identity of a multinational from Germany, it will be more likely to promote an international strategy in the process of going international. This means it will attempt to perform on the basis of an existing product template and its advantages, it will try to replicate this product template abroad and emphasize interdependencies or identity of the country-of-origin template and the subsidiary template, and it will not go for multi-domestic or other locally responsive strategies abroad. The British multinational on the other hand will see the enterprise as hanging together around financial flows and measures and encourage marketing postures, which are more multi-domestic or locally responsive in an integrated form. In this way, internationalization strategies are likely to be the consequence of deeply rooted, societally embedded, strategies in the country-of-origin. All this follows from differences already established in the earlier history of industrialization: German companies grew by internal growth, on the basis of a specific technical template, whereas British companies to a greater extent featured growth by mergers and acquisitions which more often led to conglomerates with different technical and product templates (Landes 1960).

Finally, both German and Japanese companies are much more embedded in industrial networks and have close ties with buyer and supplier firms, while British and American companies operate much more independently. So as indicated by Lane (1998:463): "Given the striking difference in business systems between Britain and Germany [...] we can expect different responses in the ways companies have managed the tensions between pressures for globalization and established, nationally shaped business strategies and patterns of behaviour." We would therefore expect MNCs from Germany and Britain to differ in the way they internationalized and hence in their HQ-subsidiary relationships.

Hypothesis 1: The HQ-subsidiary relationship in German MNCs will be more similar to the HQ-subsidiary relationship in Japanese MNCs than to the HQ-subsidiary relationship in British MNCs. The HQ-subsidiary relationship in British MNCs will be more similar to the HQ-subsidiary relationship in US MNCs than to the HQ-subsidiary relationship in German MNCs.

Previous research on British and German MNCs

As far as we know, there are no previous studies that compare the headquarters-subsidiary relationships between British and German MNCs on the range of variables we discussed above. There are, however, some studies that provide us with pointers to possible differences between British and German MNCs with regard to individual elements of the HQ-subsidiary relationship: control mechanisms, expatriation, interdependence and local responsiveness. Although not all of these studies include a direct comparison between German and British MNCs, they do often compare one of these countries with the US and/or Japan, so that some indirect conclusions can be drawn. We will review these studies below.

With regard to control mechanisms Coates et al. (1992) indicates that British and US MNCs usually control their subsidiaries by means of budget-setting and monitoring systems, oriented to short-term financial performance, while German MNCs seem to rely more on personal feedback and communications than on formal financial measures. The latter is also typical for Japanese MNC who rely much less than Anglo-Saxon MNCs on arm-length formal systems and more on face-to-face assessment. Egelhoff (1984) found that American MNCs used more output control towards their subsidiaries than European MNCs. British MNCs tended to fall in between these extremes, but for the finance area, output control was equal to American MNCs. Neghandhi (1987) finds the frequency of reporting to be higher in American than in German and Japanese MNCs. We would therefore expect a greater reliance on direct personal control for German MNCs and less reliance on impersonal control than for British MNCs.

Hypothesis 2: German MNCs will apply a higher level of direct personal control and a lower level of impersonal control to their subsidiaries than British MNCs.

The reliance on face-to-face assessment is one of the reasons that Japanese MNCs are expatriate-intensive. Given that German control systems appear to be more like the Japanese model, Ferner (1997) expects a similar reliance on control through expatriation in German MNCs. In Dobry's (1983) study of American and German MNCs, the German MNCs were more likely to employ PCNs in their American subsidiaries than American MNCs in their German subsidiaries. Negandhi and Welge (1984) found that both Japanese and German MNCs had only 2% HCNs in top positions in their foreign subsidiaries, while American firms had 28% HCNs. Egelhoff (1988) indicates that, in general, European MNCs make heavier use of expatriates than both American and British MNCs. In Wolf's (1994) study, German MNCs had the largest number of PCNs in the managing director position, while there was no major difference between American and the remaining European MNCs in this respect. Although these studies do not directly compare German and British MNCs, the indirect comparisons would lead us to expect that:

Hypothesis 3: German MNCs will show a higher level of expatriate presence in their subsidiaries than British MNCs.

Several studies have indicated that German MNCs display a lesser geographical reach than British MNCs, until recently relied more heavily on export than on FDI and are deeply embedded into their domestic business system, producing far more value from their domestic base than in their foreign affiliates (Ruigrok & van Tulder, 1995; Dörre 1996; Hirst & Thompson, 1996; Lane 1998; Whitley, 1998). According to Lane (1998) the foreign affiliates of German MNCs are replicas of their parent company, rather than adapting to host country features, while British MNCs tend to follow more of a conglomerate strategy with a lot of subsidiaries resulting from acquisitions. These differences would point into the direction of a lower local responsiveness and higher dependence on headquarters for German subsidiaries, while the reverse would be true for British subsidiaries. Whitley (1999) discusses this even more directly.

He describes German MNCs as co-operative hierarchies, in which most foreign subsidiaries of any significance will be quite closely supervised and integrated into parent activities and where the integration of foreign subsidiaries into host economies is limited. Whitley sees the isolated firm type as more typical of American and British companies. In this type of firm subsidiaries are managed at a distance and provided the formal procedures and targets are followed, units will be allowed some local adaptation and will not be as fully integrated into their parents' operations as is the case with co-operative firms. The result may be more integration into host economies with local sourcing and adaptation of products to local markets. Subsidiaries from co-operative hierarchies will rely more on products and technologies from the parent. More direct support for potential difference in interdependence is found by Pauly & Reich (1997) who showed that both Japanese and German investors in the USA were characterized by a higher level of intra-company purchases than French and British investors. We will therefore put forward the following hypotheses.

Hypothesis 4: German MNCs will show a higher level of interdependence with HQ than British MNCs

Hypothesis 5: German MNCs will show a lower level of local responsiveness than British MNCs

SAMPLE AND METHODOLOGY

Data Collection and Sample Description

Our data on Britain and Germany, and on the USA and Japan, resulted from a much larger study. Our treatment here thus presents results extracted from the larger study. Its data were collected by means of a large-scale international mail survey. Questionnaires were mailed to the managing directors of some 1650 wholly owned subsidiaries of 122 multinationals in 22 different countries. The selection of the 122 multinationals was based on the 1994 Fortune Global 500 list. Eight manufacturing industries with a good representation of multinationals from different countries were selected and the largest multinationals in these industries were included in our sample.

A pilot mailing was sent to 96 subsidiaries in 12 different countries at the beginning of June 1995. Questionnaires for the final mailing were mailed in two batches: one in October 1995 and one in January 1996. Incentives to increase response rates included an announcement postcard, a reminder, an offer of the results, an international committee of recommendation, and several methods of making the relation between researcher and respondents less anonymous and more interactive than in the usual mail questionnaire approach. The overall response rate at subsidiary level was 20%, varying from 7.1% in Hong Kong to 42.1% in Denmark. Since this variance in response rates across countries might introduce a response bias, the country of subsidiary location will be included as a control variable in our analysis.

Table 1 summarizes the response rates and number of respondents by industry, country of location of headquarters and subsidiary country. The total number of 287 subsidiary responses represents 104 different headquarters and the number of responses per headquarters varied from one to eleven. This study only uses the data collected for British, German, US and Japanese MNCs.

Table 1: Number of Respondents by Industry, Subsidiary Country and Headquarters Country

Industry	Number of respondents	Response rate	Subsidiary country	Number of respondents	Response rate
Electronics	41	17.1%	Argentina	4	12.9%
Computers, office equipment	26	16.2%	Austria	8	19.0%
Motor vehicles and parts	30	20.4%	Belgium	14	20.3%
Petroleum (products)	20	21.4%	Brazil	15	22.1%
Food & Beverages	34	18.4%	Denmark	16	42.1%
Pharmaceutical	46	23.8%	Finland	8	32.0%
Paper (products)	25	20.6%	France	14	13.6%
Chemical (products)	55	21.3%	Germany	16	15.5%
Various	10	17.1%	Hong Kong	5	7.1%
			Ireland	11	30.6%
Country of location of headquarters	**Number of Respondents**		Italy	21	24.4%
			Japan	16	28.6%
			Mexico	10	15.2%
Finland	23	24.0%	Netherlands	25	26.6%
France	26	18.6%	Norway	13	40.6%
Germany	32	21.8%	Singapore	10	13.6%
Japan	38	16.7%	Spain	14	15.9%
Netherlands	16	31.5%	Sweden	11	20.4%
Sweden	41	24.6%	Switzerland	14	29.8%
Switzerland	31	30.4%	UK	25	18.8%
UK	25	19.7%	USA	13	11.4%
USA	55	14.3%	Venezuela	4	13.8%

Variables and Measures

Corporate control mechanisms can be defined as the instruments that are used to make sure that all units of the organization strive towards common organizational goals. Numerous control mechanisms have been identified. But following a synthesis of authors such as March & Simon (1958), Lawrence & Lorsch (1967), Child (1973, 1984), Galbraith (1973), Ouchi (1977, 1979, 1980), Mintzberg (1979, 1983), Merchant (1985), Kenter (1985), Bartlett and Ghoshal (1989), Martinez and Jarillo (1991) and Hennart (1991), it is mainly structured along two dimensions: directness and explicitness of control on the one axis, and impersonality of control on the other. This allows us to identify four major types of control mechanisms as summarized in Table 2. Based on the literature review, several constituent elements were defined for each of the four control mechanisms. Expatriate control was added to the direct personal control category, since for multinationals this will be an important way to realize direct supervision or centralization of decision-making by creating mini-headquarters at subsidiary level.

Table 2: Classification of control mechanisms on two dimensions

	Personal/Cultural (founded on social interaction)	**Impersonal/Bureaucratic/Technocratic (founded on instrumental artifacts)**
Direct/Explicit	Centralization, Direct Supervision, Expatriate control	Standardization, Formalization
Indirect/Implicit	Socialization, Informal communication, Management Training	Output control, Planning

To measure the various constituent elements of the different control mechanisms, we adapted and supplemented the questions that were used by Martinez & Jarillo (1991) and subjected them to a factor analysis. An oblique rotation, direct oblimin, was used instead of one of the more common orthogonal rotations, (equamax, quartimax, varimax) since correlation between the different control mechanisms could be expected. Bartlett's test of sphericity was highly significant (609.778, $p = .00000$). KMO's measure of sampling adequacy was .69, which is considered acceptable for the application of factor analysis. Three factors were extracted that had an eigenvalue of larger than 1. These three factors explained 58.7% of the variance.

The factor analysis clearly distinguished the indirect and direct personal categories with high loadings on its constituent elements and loadings below .30 on the other items. Questions for the two impersonal control mechanisms, however, all loaded on the same factor, so the first factor was identified as impersonal control.

Table 3: Factor analysis of 10 questions measuring control mechanisms

Variable	Impersonal	Indirect Personal	Direct Personal
Output contol	**.766**	-.043	-.081
Planning	**.727**	.134	-.124
Procedures	**.702**	.065	.199
Standardization	**.647**	.029	.270
Informal communication	-.226	**.792**	.078
Shared values	.196	**.777**	-.000
International training	.246	**.688**	-.114
Centralization	.234	-.075	**.744**
Personal surveillance	.185	-.141	**.717**
Expatriate control	-.249	.164	**.657**

Actual expatriate presence is a more direct way to measure expatriate control as identified above. Three questions were used to assess the presence of expatriates in a given subsidiary. These questions asked respectively for the nationality of the managing director, the number of top five jobs held by expatriates and the total number of expatriates working in the subsidiary. The latter was subsequently divided by the total number of employees to arrive at the share of expatriates in the subsidiary's workforce. The nationality of the managing director was recoded into 0 if the managing director was a local and 1 if the managing director was a parent country national. The small number of third country nationals was disregarded.

Interdependence was operationalized using the percentage of intra-company sales and purchases. Respondents were to differentiate between their purchases from or sales to headquarters and subsidiaries, so that we could verify the relative importance of their interdependence with both headquarters and other subsidiaries. As respondents would not be likely to know the exact percentages, six answer categories were included: 0%, 1-25%, 26-50%, 51-75%, 76-99% and 100%. Local responsiveness was measured with four items asking for the percentage of local R&D and local production incorporated in products sold by the subsidiary and the percentage of products and marketing that was substantially modified for the local markets. As for interdependence, six answer categories were created.

The study used a key-informant approach and our results are therefore based on the information of a single respondent in each organization. This is a limitation that this study shares with virtually all large-scale studies of multinationals. The prevalent response rates in international mail surveys make another approach practically infeasible. Second, although every care was taken to formulate questions as unambiguously as possible, our study used perceptual measures to operationalize some of the constructs. This was done first because of the not immediately quantifiable nature of concepts such as control mechanisms. The result is that the answers to our questions might contain an element of perception, which might reduce the validity of our findings. However, questions elicited information on actual practices and policies, rather than opinions on such practices that might be personally colored and depend on the person of the respondent instead of on the organization. Finally, although our sample was relatively large compared to other studies, sample sizes for individual countries were still relatively small, which means that peculiarities of individual multinationals might influence the results.

RESULTS

In the literature review we indicated that given the very different cultural and institutional background of Britain and Germany, we would expect these two European countries to systematically differ from each on the aspects of HQ-subsidiary relationships included in our study. At the same time, given the similarities in cultural and institutional background between Britain and the USA and Germany and Japan respectively, we would expect these country pairs to show fewer differences. In order to test this we compared the three country pairs on each of the 14 variables included in our study. Table 4 shows the results of these tests.

German and British multinationals differ significantly from each other on 9 of our 14 variables, while differences are insignificant for the remaining 5 variables. However, in only two of these cases, impersonal control and the percentage of expatriates in workforce, do any of the other country pairs differ significantly from each other. In addition, one of these five variables, marketing modification, does not show a significant country-of-origin impact for any country. German and Japanese multinationals differ significantly from each other on only 4 of our 14 variables. These differences, however, are equally spread over all four clusters of variables, so that in each cluster there is no difference for the majority of variables. German and Japanese multinationals therefore do not seem to have any systematic differences. American and British multinationals differ significantly from each other on only one variable, the extent of local manufacturing, which is higher for the British companies. The number of significant differences between German and British multinationals is nearly twice as high as the *combined* number of differences between German and Japanese multinationals and American and British ones.

The only area where there do not seem to be significant differences between German and British enterprises is control mechanisms. This is not to say that co-ordination and control in British and German multinationals are likely to be the same throughout the enterprise. Our analysis is focused on the international level of control, between headquarters and subsidiaries. Furthermore, it may well be that other comparative indicators of control would yield larger differences. Indeed, other comparative research on Britain and Germany suggests this possibility very strongly (Maurice et al. 1980; Sorge and Warner 1986; Ebster-Grosz and Pugh 1996). But with the indicators we used, it appears that internationalization strategies and transactions between headquarters and subsidiaries differ between Britain and Germany much more than control mechanisms. We can therefore accept hypothesis 1 and can safely conclude that German and British multinationals bear a closer resemblance to Japanese and American ones, respectively, than to their European counterpart. In fact British and German MNCs often even take up a more extreme position than US and Japanese MNCs. This is reflected in the fact that there are only 6 significant differences between Japanese and US MNCs, while there are 9 significant differences between British and German MNCs. The fact that both the German-US and the British-Japanese comparison show significant differences for 7 of the 14 variables corroborates this picture.

Table 4: Comparisons between British and German, German and Japanese, and British and US multinationals

Variable	Mean scores for different aspects of the HQ-subsidiary relationship in British, German, Japanese and US MNCs				Significance of difference between British and German MNCs		Significance of difference between German and Japanese MNCs		Significance of difference between British and US MNCs	
	British MNCs	German MNCs	Japanese MNCs	US MNCs	p-values	Sign. at 0.05	p-values	Sign. at 0.05	p-values	Sign. at 0.05
Control mechanisms										
Impersonal control	0.51	0.20	-0.60	0.38	.211	No	.001	Yes	.546	No
Direct personal control	0.10	0.41	0.23	-0.09	.273	No	.450	No	.469	No
Indirect personal control	-0.10	-0.18	-0.11	0.14	.734	No	.765	No	.296	No
Expatriate presence										
% expatriates in workforce	1.2%	1.8%	5.4%	1.4%	.376	No	.035	Yes	.767	No
Managing director PCN	27%	56%	58%	19%	.049	Yes	.827	No	.453	No
Number of expatriates in top-5	1.00	1.66	2.16	0.98	.034	Yes	.156	No	.944	No
Interdependence										
Purchases from HQ	1.36	3.81	3.54	1.78	.000	Yes	.416	No	.108	No
Sales to HQ	1.12	1.56	1.27	1.44	.005	Yes	.062	No	.139	No
Purchases from subsidiaries	2.72	1.94	2.38	3.11	.021	Yes	.076	No	.299	No
Sales to subsidiaries	2.58	1.59	2.57	2.02	.044	Yes	.004	Yes	.364	No
Local responsiveness										
Local manufacturing	4.08	2.55	2.92	3.13	.000	Yes	.336	No	.026	Yes
Marketing modification	3.68	3.58	3.32	3.39	.824	No	.519	No	.456	No
Product modification	3.12	2.00	2.51	2.71	.001	Yes	.043	Yes	.222	No
Local R&D	2.48	1.90	1.92	2.19	.035	Yes	.942	No	.329	No
Differences significant at 0.05						9/14		4/14		1/14

Turning to our hypothesis about specific differences, *hypothesis 2* is not confirmed by our data. Although the differences are in the expected direction, they are not significant and German MNCs *do* differ significantly from Japanese MNCs in that they rely more heavily on impersonal control. A recent qualitative study of German MNCs (Ferner & Varul, 1999) confirms this specific combination of impersonal and personal control for German MNCs. As expected, however, British MNCs did not differ from their US counterparts. Even though the specific hypothesis could not be confirmed, we do find a confirmation of previous research in that direct personal control is the most important control mechanism for both Japanese and German MNCs and that impersonal control is the most important control mechanism for both British and US MNCs. *Hypothesis 3* is confirmed to a large extent. German MNCs do differ significantly from British MNCs on two of the three measures of expatriate presence and the difference for the third measure is in the expected direction. *Hypothesis 4* is fully confirmed with subsidiaries of German MNCs showing a significantly higher dependence on HQ for both sales and purchases. It is interesting to see that subsidiaries of British MNCs are more likely to be dependent on other subsidiaries for their sales and purchases. While subsidiaries of German MNCs tend to function mostly as pipelines for their HQs, subsidiaries of British MNCs can be important nodes in the corporate network. *Hypothesis 5* finds a high level of support as well. Subsidiaries of German MNCs tend to be far less locally responsive than subsidiaries of British MNCs. The only measure of local responsiveness that doesn't show a difference is marketing adaptation, but as we mentioned before, this measure did not show any differences between countries. Overall, we therefore find a high level of support for our hypotheses on specific differences between German and British MNCs.

DISCUSSION AND CONCLUSION

The results of this study provide further support for the existence of unique country patterns, even for the most internationalized companies in the world, hence extending the applicability of the societal effect approach to MNCs. We therefore find a strong counter-argument against Ohmae's (1990) suggestion of nationless corporations and following Hu (1992) we think it would be better to describe MNCs as national firms with international operations instead.

A clear conclusion of our study is that there are large differences in nearly all aspects of the HQ-subsidiary relationship between German and British MNCs. In terms of control mechanisms, we did not find any significant differences, but as expected the dominant control mechanism was direct personal control for German MNCs and impersonal control for British MNCs. Subsidiaries of German MNCs also showed a higher level of expatriate presence than subsidiaries of British MNCs. On average, subsidiaries of British multinationals have a *lower* interdependence with headquarters, a *higher* interdependence with other subsidiaries and a *higher* local responsiveness, than subsidiaries of German MNCs.

We can find a broad pattern in which German companies resemble Japanese companies most closely, while British companies are very similar to their American counterparts. It would therefore seem inappropriate to either generalize findings from one or two European countries to a European pattern, or to consider European countries as a homogeneous whole. Although Europe gets more economically and politically integrated this has not resulted in a similarity of management practices, not even for the most internationalized companies. Indeed, the question is, why it should in the first place. If political and economic integration takes place, it may very well lead to sectoral, product and product/market combination specialization of multinationals from different nations. Within Europe, we have only investigated differences between German and British MNCs. However, even excluding these two very different countries still leaves a significant difference between the remaining five European countries for 7 of the 14 variables at a 0.05 level of significance. We would therefore want to express a strong caution against a continued use of the label "European" as a catchall for a highly varied group of countries.

It would seem inappropriate to generalize results from a small number of European countries to a European pattern as is done for instance by Bartlett & Ghoshal (1989) who investigated three European MNCs, of which one was Dutch, one Dutch / English and one Swedish. Their conclusions about European companies might have been substantially different if they had investigated German, French and Spanish MNCs instead. Equally inappropriate would be to generalize to a European pattern from a very unbalanced European sample where one or two countries make up a large part or even a majority of the sample, as is done by Kopp (1994) and Peterson et al. (1996). However, even having a balanced sample could present problems, since the overall mean might hide large underlying differences. Picard (1977), Haar (1989) and Swamidas (1993) for instance draw conclusions from samples including a comparable number of German and British MNCs and given the differences described above their results might have been very different had one of these countries not been included. Unfortunately, in many studies samples for individual countries are too small to permit a country-by-country analysis for European MNCs. However, even if this is the case, researchers could at least try to exclude countries such as Germany and Britain from their European sample to see whether this has a significant effect on the overall mean.

We could of course wonder to what extent the differences uncovered in this article are enduring and hence whether convergence might become more important in the 21st century. Lane (2000) suggests that German multinationals might have deviated from established societal patterns in the second part of the nineties. She mentions that subsidiaries of German multinationals have been allocated more resources and granted more autonomy, with the organizations moving towards a decentralized network structure and subsidiaries becoming more embedded in the local environment. Her conclusions, however, are weakened by the nature of the underlying material. First, this consists mostly of documents supplied by headquarters - which tend to express intentions rather than practice sustained over time - and of unpublished studies, where we cannot verify the reliability of their conclusions. Second, it stems from six flagships companies in highly internationalized industries. It remains to be seen what an *empirical* investigation after implementation of policies shows, if actual practice reflected at subsidiary level follows declarations of intent made earlier, and what practice in a larger and conceivably expanding population of multinationals would look like. Where developments are empirically observed, such as in the responsiveness of VW, the question remains whether this is much of a change against the past, since VW Mexico and VW Brazil have traditionally been given more of a free hand in developing models or modifications to suit regional markets, more than Mercedes-Benz and BMW with their luxury brands, where customers would probably be annoyed if the German home standard were to be compromised by more extensive local responsiveness. Also, it has to be borne in mind how much the rhetoric and both the momentary theory-in-use and nascent theory-in-practice of multinationals, are subject to radical fluctuations over time. In the middle of the 1980ies, the proclaimed strategy and structure of Daimler-Benz was to be a differentiated technology conglomerate, making cars, lorries, airplanes and armaments, as well as electronic consumer and investment goods. All that is now radically gone, the firm is back to a car and lorry making concern and much more multinational, through the merger with Chrysler and the acquisition of Mitsubishi Motor. Momentary individual vignettes cannot be extrapolated into comparative tendencies, resulting from randomized or matched-pair comparisons of multinationals from different origins.

This leads us to plead for a long-lasting stability of comparative differences over time. They are not only striking but also clearly rooted in different postures and strategies, which have remained rather stable throughout an extensive period of industrialization and post-industrialization, in national and multinational enterprises. For they are the consequence of different conceptions of what the identity and comparative advantage of the firm should be built on: The product and engineering template in Germany, and differentiated marketing plus integrated financial management in Britain. Such postures and strategies make different paths of internationalisation possible, and they are not necessarily specific for historically successive phases of internationalisation. The British multinational will therefore almost always seek to make the best profit in a conglomerate, which is more locally responsive, whereas the German one will strive towards a specialist technical template that can basically be implemented across locations.

Consequently, we extend a strong plea for more empirical research into the country of origin effect for MNCs in general and the study of previously neglected MNCs of European origin in particular. As we have argued in earlier publications (Harzing, 1995, 1997) a lack of empirical research in international business and management in general and a lack of non-US research in particular has created several myths. We wouldn't want the myth of the European monolith to continue to be one of them. And neither would we want the idea that internationalisation implies one best way of doing it, such that we mainly have to distinguish between forerunners and followers, to acquire mythical quality.

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