

FOREIGN DIRECT INVESTMENT IN THE UK 1985-1994: THE IMPACT
ON DOMESTIC MANAGEMENT PRACTICE

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Abstract

Foreign direct investment [FDI] into the UK has grown considerably in recent years. In the period 1985-1994, US, French, German and Japanese companies accounted for the largest amounts of FDI into UK companies. Apart from greenfield and expansion investment, the main vehicle for inward FDI has been the acquisition of UK companies. Previous studies suggests that companies from each of the four main investing countries will adopt distinctive approaches to management, which may well be reflected in their post-acquisition policies.

The present research examines whether nationally distinct approaches to management were introduced, following acquisition, among a sample of 201 UK subsidiaries of French, German, Japanese, US and UK companies. It provides data on the extent of changes and the post-acquisition influence of the new parent, comparing changes between the four foreign nationalities and a UK control group.

The study indicates that the process of being acquired and controlled by a foreign parent company generally led to significant changes in management practice. Some changes were common to all acquisitions, including those by UK companies. A shift towards performance related rewards and a stronger quality emphasis in operations are two examples. In addition, there was also significant evidence of effects which differed between nationalities. These conformed to accepted characterizations of national management practice in the case of Japanese and US acquirers, but much less so in the case of French and German acquisitions. The findings suggest that present views of French and German management practice may require revision.

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Introduction

This paper recognises the significant scale of direct investment into the UK by foreign firms during the past decade. It notes that companies from four countries have in most years accounted for the largest amounts of this inward investment, namely the United States, Japan, Germany and France. Apart from investment for greenfield and expansion projects, inward FDI has been applied through acquisitions rather than through joint ventures or other forms of inter-firm co-operation. Acquisitions offer the purchasing company a strong position from which to introduce changes in management practice. Discussions in the literature, backed by some comparative management research, suggest that companies from each of the four main investing countries will tend to adopt a distinctive approach to management which emphasizes certain practices. Thus acquisitions of UK companies potentially offer a good opportunity to examine whether nationally distinct approaches to management are introduced within the same country location, and to compare post-acquisition changes with those introduced by a control group of UK acquiring companies during the same period.

A study of 201 UK acquisitions by US, Japanese, German, French and UK companies during the period 1985-1995 was undertaken to examine the main post-acquisition changes that were introduced and the influence which the acquiring companies were perceived to have had on the changes. Particular attention is given in this paper to evidence whether there was any cross-national pattern of change and, if so, the extent to which this was consistent with postulated "national" approaches to management.

Scale and Nature of FDI into the UK

Table 1 summarizes the amount of direct investment into the UK over the period 1986 to 1995, as estimated by the DTI's Invest in Britain Bureau. Over the period as a whole, the scale of inward FDI has been large and growing. In recent years, the UK has in fact been the most popular destination in Europe for overseas investors. In 1996, foreign acquisitions of UK firms exceeded the total value for all other European Union countries combined and was topped worldwide as a takeover target only by the USA (KPMG, 1997).

In most years during that period, companies from the USA, Japan, Germany and France have been the largest national sources of inward FDI and mostly in that rank order. In certain years, countries such as Canada and the Netherlands have exceeded the value of FDI from one or more of the top four countries, but this has not been sustained year-on-year. In the years shown, the proportion of total inward FDI accounted for by the top four countries has been overwhelming, ranging between 70.8 % and 80.9 % of the total.

A collation of data from several sources indicates the number of FDI-related activities (projects) by US, Japanese, German and French companies. The sources used are activities recorded in the British press and recorded on the Reuters Textline data-base, activities recorded by the Invest in Britain Bureau of the DTI, and activities recorded by the Central Statistical Office. An analysis from these sources was conducted by the authors in 1995, covering the period January 1, 1985 to December 31, 1994. This identified a total of 1,422 independent activities during the period which took the form of new acquisitions, joint venture formations, collaborations or consortia involving foreign investment, but excluded greenfield developments or expansions of existing facilities.¹ Of these activities involving foreign companies from the top four countries, the proportions by each country were:

Nationality of Foreign investor	Number of activities ²	Percentage of total
USA	861	60.5
Japan	240	16.9
Germany	176	12.4
France	139	9.8

A dominant 79% of all deals involved merger or acquisition activity (see Figure 1), and a further 10% the purchase of a majority or minority stake. Thus it would seem that, whatever the evidence of the fast growth of genuinely consensual alliances, powerful companies still prefer outright purchase or an equity stake in their partner, if they can achieve it. Of the other cooperative forms, joint ventures accounted for 5.5% of all deals, collaborations 3.4% and consortia 2.1%. The relative importance of the types by value is not known, since the value figures for the deals were rarely declared in the press. However, the commonly held impression that USA companies prefer wherever possible to have an ownership rather than an alliance relationship, seems to be borne out by the figures. Eighty-six percent of the USA deals were acquisitions; but only 75% of the German, 68% of the Japanese deals, and 60% of the French.

Most categories of industry have been affected by the influx of FDI, but the largest industries by number of deals have been in information technology, mechanical and instrument engineering, the financial services industry, business services, and chemical and pharmaceutical industries. Although individual countries show some differences in their sector patterns of investment, these differences are smaller than the similarities. The trend of investment over the last decade is, on the whole, similar for the four inward FDI countries surveyed. It built steadily during the late 1980s only to decline sharply as world recession forced companies to concentrate on their domestic survival, and the declining level of world trade reduced the attractiveness of opportunities for foreign investment. The post-1990 fall was most

marked among Japanese investments. It is the deals recorded in the data-base summarised above that will provide the opportunity to establish the nature and extent of the impact of foreign management on UK management practice.

Potential Impact of Inward FDI on UK Management Practice

Until the 1980s, many students of management assumed that there were general principles that might be applied to situations, irrespective of the cultural heritage of the companies being studied. The dominant view at the time was that the appropriate approach to management and organization should be determined in the light of prevailing task contingencies, particularly those established by the market, technology and scale of operation. National cultures and institutions were either thought to be of limited relevance (e.g. Hickson et al., 1974) or just one among several contingencies to which management practice had to be adjusted (cf. Child, 1981).

In the last two decades, however, there has been a growing interest in the relevance of national cultures and institutions, both of which have come to be seen as of critical importance for the development of management methods, strategies and structures (Eltis, 1996; UNCTAD, 1995). A growing body of research and discussion, both on the nature of management in different national business systems (e.g. Whitley, 1992), and on national cultural differences relevant to management (e.g. Hampden-Turner and Trompenaars, 1993), has given rise to the expectation that the management practices introduced by owning companies of different nationalities will be distinctive. At the same time, markets and corporations have been globalizing at a fast pace, and an ever increasing number of companies have found themselves, as a result of developing a strategic alliance or being acquired by a foreign corporation, facing two distinct approaches to management: indigenous and foreign.

This implies that inward FDI, through the control and influence it affords the foreign acquiring management, will stimulate the adoption of management practices which contrast with those previously practised by the acquired UK firm. Acquisition as a vehicle for inward FDI provides a potentially powerful lever for the direct application of foreign management practice insofar as 100% ownership legitimates foreign owners' authority. It also encourages them to devote greater attention to their subsidiary concomitant with their relative greater investment, than would be the case with joint ventures or other collaborative forms. Acquisitions offer weaker power-bases for local management and employees to resist the introduction of new practices than do joint ventures or collaborations. Greenfield sites offer even less potential for resistance to the extent that both plant and workforce are introduced *de novo*, but they do not offer the possibility of a clear comparison with the practices prevailing before the application of FDI.

In the case of acquisitions, three further factors may bear upon changes in management practice within the acquired subsidiaries. There may, first, be a general "*acquisition effect*". New investment may be made in plant and information technology, which presents opportunities for new practices to be introduced. The rationale for many acquisitions is to exploit perceived opportunities for securing a greater return from assets, and this will establish a further impetus for change in management practice within the subsidiary. There is also likely to be something of a general "new broom sweeps clean" effect. The acquisition effect is characteristic of acquisitions *per se* rather than reflecting any particular foreign approach to management and organization.

The second effect, however is specific to the nationality of the new foreign owner and may be called the "*transfer of foreign practice effect*". This takes the form of a transfer in management practice to domestic companies through the medium of foreign acquisition. It can also proceed through emulation within domestic companies, whether

spurred by acquisition or not, as Oliver and Wilkinson (1992) noted in the case of Japanese-type production methods. The third effect upon changes in management practice may come from *general conditions affecting UK industry* during the period of study, be they the influence of new management ideas or the economic cycle of boom and recession.

These considerations draw attention to the questions of “what is being transferred” from foreign investing companies, and “what are we comparing?” (Morris and Wilkinson, 1996, p. 727). The first question concerns the substantive characteristics of management practices that may be transferred. What differences in this respect might one expect to find between companies coming from each of the “big four” foreign investing countries into the UK? The second question concerns the difference that FDI from specific national sources makes to the management practices introduced into UK subsidiaries, and how this compares to acquisition by domestic UK companies.

The research reported in this paper addresses both these questions by focusing on changes in management practice within a sample of UK subsidiary companies, and on the extent to which these are directly attributable to intervention by foreign acquiring parent companies. An additional group of companies acquired by UK parents during the same period is included as a control for the general “acquisition effect”.

Postulated Differences in National Management Practice

This section reviews existing discussion and research regarding national differences in management practice between the five nationalities of acquiring companies studied. All that one can be certain of in regard to national characterizations is that they are incomplete and all too often present over-simplified summaries of the diversity that exists within most countries. Nevertheless, they form the basis of cultural expectations within management theory and practice,

and thus indicate the national differences that might emerge from the present research.

US management practice

US management is based on individualistic and rationalistic paradigms (Hampden-Turner and Trompenaars, 1993; Hickson and Pugh, 1995; Lawrence, 1996a). Despite concerns in the 1950s over the development of the “Organization Man” (Whyte, 1956), entrepreneurship, risk taking, and success in competition are prized in the American executive. In such an environment, colleagues are frequently thought of as competitors in the race for advancement and success, and some conflict between them is not regarded as abnormal (Lawrence, 1996b). Promotion may be rapid, since tenure with the company may be short. Reward is more financial than psychic, with large performance-related bonuses a target to aim at. Termination however can be swift, and company loyalty therefore tends to be transient and not deeply felt (Ouchi, 1980; Alston, 1989). This management culture places a strong emphasis on achieving short-term financial results. Many US companies are managed for the maximisation of profits and the short-term satisfaction of shareholders (Calori and De Woot, 1994; Lawrence, 1996a).

The rationalistic strain in American management practice is manifest in the attention given both to formalization and to planning. Abo (1994) comments that in the USA, engineers design a job in terms of tasks, and job descriptions are created on the basis of these tasks. This is a legacy from Fordism and the scientific management systems of Taylor. It leads to a high degree of workplace specialization and formalization throughout the company (Inkson et al., 1970; Child and Ellis, 1973). Jamieson (1980) concluded from a comparison of US companies operating in the UK with indigenous British companies that the former are distinguished by their high degree of formalization (though not formality). This was evidenced in several areas of management, including systematic financial planning and budgetary

control, formal selection procedures, job descriptions and management development programmes in the HRM area, and systematic, data-based market assessments. Lawrence (1996b) drew similar contrasts between American and British management. He concluded that American management is rationalistic in its approach, using strategic planning, standard procedures and formalization to a greater extent than is typically found in the UK. It is not surprising that the US management system places high emphasis on the MBA for corporate advancement, since the MBA is par excellence the training ground for this approach.

Chandler's (1986) concept of American managerial capitalism involves direction from the top by a top management team armed with the necessary information and sophisticated management systems. Through these means, it has the power to control that which is delegated within a divisional and multi-layer structure. There has, however, been considerable de-layering in many US companies during the 1990s, and this aspect of US management practice may well have changed significantly by now.

The management practice particularly associated with US companies thus comprises:

- Short-term financial orientation
- Rewards related to specific performance indicators
- High rate of job change and inter-company mobility
- Rationalistic approach: emphasis on analysis and planning
- Reliance on formalization and systems
- Delegation down extended hierarchies

Japanese management practice

Most discussion of Japanese management practice has focused on operations, specifically production and supply. In the early 1950s, Japanese industry enthusiastically adopted the idea of total quality

control [TQC] from the United States, and Toyota developed methods of just-in-time [JIT] production which later developed into the concept of “lean production”. TQC and JIT, combined with aspects of “worker empowerment” such as multi-skilling, job rotation, teamwork, employee involvement through quality circles and *kaizen* [continuous improvement], constitute the core of the Japanese management system (e.g. Elger and Smith, 1994; Oliver and Wilkinson, 1992; Morris and Wilkinson, 1996).

Abo (1994) described the Japanese management system as very flexible with few rigid job demarcations. There is a use of “implicit control” based on a shared corporate norms and understanding. The whole workforce is constantly encouraged to improve its skills, and there is considerable investment in internal training (Alston, 1989; Pascale and Athos, 1981). Promotion tends to be very slow through a seniority system, and at least in the major corporations, jobs are expected to be for life (Ouchi, 1980). Rewards are generally based on a combination of seniority and evaluation by superiors rather than on specific performance indicators. The employment commitment is expected to be two-way, with people giving a high degree of loyalty to their company. Though there is evidence that this “salaryman” system is now breaking down (Nakamoto, 1997), it was in place among most larger firms during the period of the present study. The Japanese understand cooperative activity and teamworking, and major corporations are the hubs of single source supplier *keiretsu* (Gerlach, 1992). Relationships, both within the company and with external networks, are vital to the system (Pascale and Athos, 1981). The emphasis on training and collective loyalty facilitates knowledge-creation as a continuing process, by encouraging the sharing of collective wisdom and its effective communication throughout the company (Nonaka and Takeuchi, 1995).

Strategic intent (Prahalad and Hamel, 1985) is seen as more important than detailed financial planning. The long-term orientation of the major Japanese companies reflects an emphasis on strategic rather

than financial goals. Japanese managers see growth rather than bottom-line profit as their priority, based on the achievement of customer value and superior quality (Abbleglen and Stalk, 1985).

The management practice particularly associated with Japanese companies thus involves:

- Long-term orientation
 - strategic rather than financial
 - emphasis on growth
 - long-term employment commitment
- Rewards based primarily on seniority and superior's evaluation
- Internal training and seniority system; heavy investment in training
- Collective orientation
 - decision making and knowledge creation via collective participation and responsibility
- Flexible tasks
 - low specialization
 - synthetical orientation
- Emphasis on lean production and continuous improvement

German management practice

There is some disagreement between investigators over the key characteristics of (West) German management, though these may reflect differences in sampling (for example, large versus *Mittelstand* firms) and methodology (Ebster-Grosz and Pugh, 1996). However, three distinctive values underlying German management practice appear to be (i) a long-term view (Hickson and Pugh, 1995), (ii) a strong technical emphasis (Lawrence, 1980; Maurice, Sorge and Warner, 1980; Ebster-Grosz and Pugh, 1996), (iii) an emphasis on stability or high uncertainty avoidance (Hofstede, 1980).

The relatively long-term view adopted by many German companies is reflected in the rather high proportion of post-tax profits which they choose to retain in the business rather than distribute as dividends - a figure of 60 % in 1993, which incidentally is similar to that found among Japanese companies (Hickson and Pugh, 1995, p. 98). Banks and industry are strongly interwoven and support from the former assists companies to take decisions for the long-term (Lane, 1995). There does not, however, normally appear to be the same kind of long-term employment commitment as has characterized larger Japanese companies. In fact, evidence suggests that, on average, German managers do not stay with their firms longer than their UK counterparts (Child and Kieser, 1979).

Lane comments that the German “system of education and training...puts a strong emphasis on skill development at all levels and responsiveness to industrial needs”, and she contrasts the production orientation of the German system with the financier dominated British industrial model (1995, p. 3). A strong technical emphasis is manifest in the generally high level of technical training offered to managers and employees, and the much less well-defined boundary between managers and technical specialists than is typically found in US and UK firms (Child et al., 1983). German manufacturing also is characterised by a high quality engineering emphasis (Warner and Campbell, 1993). More managers have an engineering background than in the other countries researched, and a graduate degree is very important for advancement. German managers generally enjoy a thorough training in a defined area of competence and, in that respect, they are specialists rather than generalists, at least compared to Japan. However, their engineering training is broadly conceived, combining for instance a knowledge of design and production engineering, and this makes it possible for many “staff” functions to be integrated into “line” management in German companies. Such companies, for these reasons, tend to be to run with a flat organizational pyramid due to the technical competence of their managers (Maurice et al., 1980).

Culturally, the Germans emerge from surveys as tending to have high levels of uncertainty avoidance (Hofstede, 1991). They value stability, which may explain their supposed emphasis on rules and control (Hampden-Turner and Trompenaars, 1993). Relationships appear to exhibit a high level of formality and commitment to paper, and attention to detail is painstaking. As Hickson and Pugh (1995, p. 97) have put it,

“One of the most characteristic aspects of the German culture, which certainly strikes an outsider, is their way of managing uncertainty through an emphasis on planning and orderliness”.

This penchant for order is, however, according to some writers, manifest in organizational structures rather than in processes (e.g. Stewart et al., 1994).

Arrangements for participation in German industry are also highly formalized and institutionalized. There are many checks and balances in the German system against a manager's freedom of action, and there are even two boards of directors, an executive board and a supervisory board representing a wide range of interests including the unions. Like the Japanese, loyalty is stressed, and in-house training emphasised. The nature of these arrangements, however, point to a quite strong collective orientation. Germans are said to prefer group participation and collective action, in contrast to Anglo-Saxon individualism (Hampden-Turner and Trompenaars, 1993). It has also been claimed that German managers and staff have a strong sense of identity with, and loyalty to, their companies, and that this is reciprocated (Calori and De Woot, 1994).

In short, although the picture of German management practice is not so clear-cut as that of American and Japanese management, its main contours comprise:

- long-term business orientation

- toward production improvement rather than short-term profit distribution
- however, orientation towards employment is not necessarily long-term
- strong technical and production emphasis
- substantial investment in training
- managers and staff tend to remain within one functional area
- emphasis on planning, procedures and rules
- preference for participation and collective action

French management practice

Hampden-Turner and Trompenaars (1993, p.333) comment that “France defies easy categorization. It requires a sense of irony, for which the French are famous, to make sense of seemingly contradictory results”. Contradictions exist in French history and culture between equality and hierarchy, liberty and dependence, fraternity and vested interests [*“droits acquis”*] (Barsoux and Lawrence, 1990).

If this is correct, it might prove equally difficult to identify a characteristically French set of management practices. French companies are, comments Sorge (1993), a contradictory mixture of feudal-paternal and rational-legal-bureaucratic in atmosphere. French managers and employees appear to welcome a clear-cut line of authority within which to work, and they score fairly high on Hofstede’s scale of power distance (Hofstede, 1991). Others have argued, nevertheless, that they are not authoritarian in the sense of maintaining personal distance between organizational levels (Hampden-Turner and Trompenaars, 1993). Actions are taken and decisions made on a relatively individualistic basis, though decision-making is concentrated towards the top of hierarchies (Horowitz, 1978; Hickson and Pugh, 1995). Acquisitions tend to be based on strategic not short-term financial considerations. This emphasis is often phrased in a quasi-military language in which the contestants

adopt, by analogy, the stance of the great generals and marshals (Barsoux and Lawrence, 1990).

Research by Maurice et al. (1980), comparing French with West German and UK manufacturing firms, found that in France there are usually more levels in the hierarchy, and that the lateral differentiation of organizations into departments, work groups and jobs is very high. French hierarchies tend to be more top-heavy, with between 1.5 and twice as many supervisors and managers as in German firms. Below the top leaders, the French *cadres* form a distinct managerial status group in French industry, clearly demarcated from ordinary employees. Calori and De Woot (1994) add to this hierarchical characterization by noting that French companies have a far higher number of organizational levels, and a lower level of participation than German or other northern European countries. Tall French hierarchies bring with them large pay differentials.

French organizations also have more non-managerial white collar specialists in either commercial-cum-administrative or technical functions, which reflects the French tendency to separate technical, planning, administrative and supervisory tasks from execution and operational ones (Sorge, 1993). In order to manage this segmented and complex operation efficiently, French organizations tend to make extensive use of written rules, instructions, and communications. As a result, the French, Sorge claims, are very good at producing a high quality homogeneous product on a large scale, but less good where flexibility is required. Despite this high use of the written word, there is some evidence to suggest that French managers are not so rigid in their adherence to rules as are German managers (Horowitz, 1978).

With the qualifications offered, we may summarize the management practice particularly associated with French companies as comprising:

- strategic rather than financial orientation

- tall organizational hierarchies, with a high managerial component
- high degree of specialization
- widespread use of written media
- individual rather than collective working and decision-making, though the latter tends to be centralized

UK management practice

UK management practice has tended to reflect the fact that industry, in particular engineering, carries low status in Britain and is supposedly conservative. This led to a low emphasis on quality, until recently when world competition made quality a necessity, and to a lower level of education amongst British managers generally when compared with their counterparts in other industrial countries. The accountancy route to the top is still favoured, and the dominant influence of the City leads to a short-term financial emphasis rather than a strategic one (Handy et al., 1988). The short-termism of UK management has been frequently cited, both in academic studies (e.g. Lane, 1995) and by those working in industry (cf. Marsh, 1995).

While UK management practice is said to share some features with that of the USA and other so-called “Anglo-Saxon” countries (e.g. Hickson and Pugh, 1995), others have identified distinct UK features. Prominent among these are the lesser use of formal procedures and specifications (such as job descriptions and organization charts) in UK companies. As Lawrence (1996b) comments, systems and standard operating procedures (SOPs) are less significant than in the USA. This gives rise to a relative informality in communication and reporting within UK companies, even to the extent that ambiguity and “fudging” are permitted in order to maintain personal comfort and avoid confrontation. The committee is the main vehicle for drawing people together and making formal decisions, but this is not usually as task-oriented as the US system of task forces or teams. Compared with US companies, less faith tends to be placed in the value of

analysis and planning within UK management. Strategy is regarded as an inherent and emergent rather than as an objectively analytical phenomenon (Lawrence, 1996c).

There is a relatively high level of mobility among UK managers, both between organizations and between functions within a company. Nicholson and West (1988) found that about 75 % of all job changes among UK managers involved a change of functional area. UK management practice, in this way and others, evidences a belief in the virtues of generalism rather than specialism, a feature which contrasts particularly with German practice. In many companies, this is reflected in relatively large general management superstructures (Lawrence, 1996b).

The management practice particularly associated with British companies thus comprises:

- short-term financial orientation
- large general management superstructures
- low level of functional specialization
- high mobility of managers between functions
- use of formal meetings, especially committees
- interactive informality - limited formal and paper-based reporting
- limited importance attached to systems and SOPs

Sample and Method

Questionnaire preparation

The data used in this paper were derived from the administration of a postal questionnaire.³ A draft of the questionnaire was tested through interviews in ten companies. In the light of these interviews, some minor changes were made to the questions. The resulting questionnaire was then pilot tested on a sample of 50 companies.

Piloting did not indicate the need for any significant modifications, and the questionnaire was then used in a survey of acquired companies. The questionnaires aimed to address the range of nationality specific topics identified in the previous discussion of national management characteristics as well as areas where change might be expected following any acquisition. The headings and examples of question subjects selected were as follows :

Headings	Examples of Question Subjects
Company Philosophy	(Style & Culture, Strategic vs. Financial Orientation)
Strategy	(Prime Orientation, Time Horizon)
Organization Structure	(Hierarchy, Basic Configuration)
Control	(Key Positions, Decision-making)
Communication	(Openness, Formality)
Finance	(Financial Planning, Financial Control)
Human Resource Management	(Promotion, Training, Job Rotation)
Sales & Marketing	(Distribution, Marketing Information)
R&D/Product Development	(Team-based vs. Sequential)
Operations	(Use of IT, Operations Management Techniques)
Procurement	(Multi vs. Single Sourcing)

In addition, respondents were asked some more open ended questions to identify the greatest changes they perceived to have taken place and that had the most impact on the company. Questions were also asked about the size and growth of sales and turnover of the company and some basic details regarding the respondent's job title and time spent with the company.

A key feature of the questions was the distinction between the direction and strength of change and the degree of influence of the new parent company in bringing about that change since the acquisition. Most questions thus occur as pairs of questions relating

possible. Secondly, it meant that only acquisitions more than two years old were included, so that changes would have had a chance to be implemented. The addition of the UK as one of the acquirer countries allowed for the possibility of some control in respect of the “acquisition effect”.

As mentioned previously, a list of potentially relevant examples of FDI was prepared using data from Central Statistical Office, Reuters, Predicasts, DTI and other sources. This covered the period 1985-1994 and acquisitions involving US, French, German and Japanese companies. As was shown in Figure 1, 1122 potentially relevant acquisitions were identified. This was augmented by 148 further relevant acquisitions from data in the journal *Acquisitions Monthly*; the same journal also furnished information on UK: UK acquisitions during the period of study.

From the list of acquisitions, a nationally stratified sample of 50 companies was selected for use in the pilot survey. The response rate from this mailing was 36% which, together with comparable data from the 10 initial interview-administered questionnaires, gave 28 usable questionnaires. The split among nationalities of these replies was Japanese 9, US 5, French 5, German 9. The success of this stage prompted the move to a fuller survey.

There were many companies in the population for which it proved impossible to gain sufficiently precise identification, despite considerable searching and telephoning. There had, for example, often been name changes to parents and/or subsidiaries. It was eventually possible to mail questionnaires to a further 844 companies, of which 576 had US, Japanese, French and German acquirers, and 268 had UK acquirers. We requested that they should be completed by a named manager. We normally approached the Managing Director of the acquired subsidiary in order to obtain a view on change across the full range of management practices, or another senior manager if the MD did not have sufficient experience of the period since acquisition. The

response, plus the pilot questionnaires and the comparable data from the initial ten questionnaires gave a total of 201 usable questionnaire replies, or 22.2% of all administered. The usable questionnaires were split amongst the nationalities as follows: US 69, Japanese 29, French 32, German 21, UK 50. It is worth noting that the overall reply rate to the questionnaire mailing was 41.8%. In addition to the 201 usable replies, we received 40 refusals and 112 replies indicating that the company for some reason fell outside the scope of the intended sample. The unusable replies came from companies acquired outside the time period, or of nationality other than one of the five in question, or which proved not to involve a straightforward acquisition. Their high number illustrates the difficulties of identifying relevant acquisitions from publicly available data.

Findings: The Impact of Foreign Acquisition on Changes in Domestic Management Practice

Change and acquirer influence

Companies acquired by French and US parents generally reported the greatest degree of post-acquisition change, and those acquired by German parents reported the least. However, these national differences were small, both in aggregate and within each functional area, and they could easily have occurred by chance.

The differences in the reported levels of influence which acquiring companies had on the changes were more marked between the national groups. French and US acquirers were generally reported as exercising more influence than Japanese and German acquirers, with the UK control group falling in-between. There was, nevertheless, still a 12 % probability that these differences could have occurred by chance. In certain areas, however, there were greater differences between parent company influence which were very unlikely to have occurred by chance ($p \leq 0.05$). In matters of human resource management and marketing, US acquirers tended to exercise the

greatest influence, closely followed by French acquirers. In matters of organization, supply and strategy, French acquirers tended to exercise the greatest influence, closely followed by US parent companies. In each of these areas, Japanese and German acquirers were typically reported to have exercised less influence. National differences in influence for company philosophy, communications and operations were smaller and could more likely have occurred by chance (with $p \leq 0.05$). The average influence exercised by the control group of UK acquirers was, in every functional area, between the Americans and French on the one hand, and the Germans and Japanese on the other.

The “acquisition effect” supposes that acquisition has a significant impact on changes in management practice through the influence exercised by the acquiring company. The question therefore arises whether managers in the acquired companies perceived a connection between the amount of change experienced since acquisition and the influence of the acquiring parent company in bringing about the change.

The answer is affirmative. Managers in the subsidiaries generally reported that acquisition had been a lever for change. Table 2 lists the correlations between an aggregation of the moduli of post-acquisition change reported by respondents and their perceptions of the parent company’s influence on each change. The indicators of both change and influence relate to all the areas of management covered by the survey except for development of new products and services, and operations. Some participating companies, particularly in the service sector, did not regard the questions on development and operations as relevant, and these questions have been omitted in order to avoid losing too many cases from the analysis. Other cases with any missing data have been omitted from this analysis.

Across the sample as a whole, approximately 26 % of the variation in the degree of post-acquisition change was ascribed by managers to the influence of the foreign parent company. However, this figure varied

somewhat among the acquiring companies' nationality. As Table 2 indicates, the correlations between perceived parent company influence and the degree of change in the acquired firm were noticeably higher in the case of US, French and German companies than they were among companies with Japanese and UK parents. The contrast is between at least 34 % of the variation in change level being ascribed to parent company influence in the former group compared with as little as 18 % for Japanese acquisitions and down to 12 % in the case of acquisitions by UK companies.

Investigation of the postulated acquisition and transfer of practice effects together requires a closer look at the data. We do this with reference to three questions. First, were there some areas of management practice in which little change was reported, suggesting that these may be relatively immune from either effect? Second, were there some areas in which changes were reported, but tended to be similar across acquirer nationalities? This would suggest that acquisition acted as a vehicle for promoting general trends in management fashion; or perhaps that such trends would have had an impact anyway. Third, were there areas of practice in which acquisition appeared to have had an impact (as the association between parent influence and degree of change indicates), but where the practices being transferred clearly differed?

Areas of management practice in which little change was reported for the sample as a whole

Over the sample as a whole, there was relatively little post-acquisition change in a number of areas of organization and employment, or in sales and marketing practices. These areas are listed in Table 3. However, we shall see later that, in some areas of management practice such as employment philosophy, this average low level of overall change masks the presence of opposite tendencies between different national acquirer groups.

Areas in which changes were reported, but tended to be similar across acquirer nationalities

It is rather more interesting to note those areas of management practice in which substantial post-acquisition changes were reported, but where the nature and direction of the changes tended to be similar as between the national categories of acquiring company. These are listed in Table 4. The main features from the Table are that there were no consistent national differences in changes made to strategic emphasis, aspects of HRM, image projection, openness of communication, R&D organization, cost control, or operational practices. The overall level of change was quite high in certain of these areas, such as increased amounts of training, greater use of automation and IT, and higher levels of image projection. However, these and the other areas listed in Table 4 were all ones in which the nature of change was fairly consistent across the sample, and which therefore would appear to be primarily affected by general trends among acquired UK firms or in UK management practice as a whole.

Areas of practice in which acquisition appears to have had an impact and where the practices being transferred clearly differed

Table 5 provides a general summary of those areas of post-acquisition change in management practice in which clear differences were apparent between the national acquirer categories. These differences concerned levels of formalization in meetings and communications, the extent to which the subsidiary was closely managed by the acquiring company through parent company appointments and the withholding of decision-making autonomy, and the extent to which the subsidiary had been encouraged to adopt a stronger financial orientation.

National Differences in Acquisition Effects

Table 5 summarizes evidence that acquisition has had a differential impact on UK management practice according to acquirer nationality. This leads naturally to the question whether these national differences accord with the patterns suggested by the comparative management literature reviewed earlier on. We therefore now examine post-acquisition changes in management practice introduced by the companies of each nationality where the *degree of difference to the rest of the sample*, including the UK control group, is significant. The criterion of significance is that there is no more than a 5 % probability that each difference occurred by chance ($p \leq 0.05$). It should be noted that this is a more stringent test of national differences in acquisition effects than that presented in Table 5, because we are now concentrating on those areas of practice where the nationality of acquirer was associated with differences from *all* the remaining companies sampled, not just from one or two of the other national groups.

The American group of acquirers introduced a number of changes which, on this basis, distinguish them from the rest of the sample. Companies acquired by US parents, *compared to the rest of the sample*, reported moves towards a shorter planning time horizon and employment philosophy. They tended to retain a larger managerial superstructure and to have more frequent managerial job rotation between functional areas. US acquired companies had more senior managerial posts in the UK subsidiaries held by people from the parent company. Subsequent interviews indicated that it was often the appointment of an American MD of the subsidiary which accelerated change. Perhaps as a result of these appointments, the subsidiaries tended to have more autonomy over capital expenditure and changes in strategy. There was evidence of greater formalization being introduced than in other national groups, notably in the methods of securing market intelligence, the use of financial control systems, and communications. US acquired companies also tended to increase their use of systematic training through courses, rather than doing it on-the-job. All the distinctive features of US management practice identified

in the literature were thus evident in the comparison of US acquisitions with others, with one main exception. This was the introduction of performance-related reward systems, which all the national acquirer groups did to more or less the same extent.

The American mode of post-acquisition management appears to be hands-on, forceful, oriented to quick results, and distinctive. The strength with which the apparently typical American pattern of management practice is reproduced in their UK acquisitions is undoubtedly enhanced by the greater influence that US acquirers were reported to exercise. One MD of a US-acquired firm commented that "there's a very high degree of toughness and an insistence on conformity". Another said of the acquiring US company:

"They expect instant returns - the day after. There's no, 'we'll wait for three years and make sure there's synergies there and then we look for a return' - they want it now. The shock is not just financial...the speed at which change is to be introduced is quite extraordinary, and they will tell you what number they expect. '£50,000 in December: don't tell me how you're going to get it; just get it'."

The other national approach to management that has attracted considerable attention and had extensive influence around the world is that of Japan. The Japanese group of acquirers introduced a number of changes which distinguish them from the rest of the sample. Relative to the other national groups, Japanese acquirers tended to introduce a stronger strategic orientation, with a longer-term financial time horizon and less emphasis on the use of financial control systems. As one subsidiary MD said, "the numbers are not crucial, so long as we are going in the right direction. It's not a short-term profit orientation perpetually looking for shareholder return". The employment philosophy on recruitment and termination was similarly longer term in the Japanese-acquired firms. Japanese acquirers also favoured

longer tenure within the same management function (less managerial job rotation) than did the other nationalities.

A “soft” relationship-based approach was encouraged in companies acquired by the Japanese. Compared to the rest of the sample, they tended to implement a greater shift toward collective managerial decision-making, favouring a bottom-up approach, and generally permitting rather more decision-making autonomy to their new subsidiaries. However, when approval was required from Japan, this could be very slow in coming. Their approach to gaining market intelligence tended more towards the use of personal contacts compared with the other groups. Consistent with the generally lower influence they were perceived to have exercised in bringing about post-acquisition change, Japanese companies introduced significantly more non-portfolio staff, or “advisers”, than the other national groups. It became clear from subsequent interviews that these advisers often have considerable technical experience. They normally have no formal role, however, and their contribution to the subsidiary depends considerably on the relationships that British managers develop with them.

The ways in which Japanese acquirers stand out compared to the other national groups support some but not all of the normal characterizations of Japanese management practice. Their long-term and strategic orientation and collective orientation were clearly apparent and consistent with such characterizations. However, with the exception of a longer-term employment philosophy, we did not find significant differences between Japanese and other acquirers in the HRM changes they brought about. Most companies, across all the national groups, had introduced some or all of the operational and work practices associated with the Japanese approach, and this is consistent with the findings of Oliver and Wilkinson (1992).

The *differences* from other companies in the post-acquisition changes in management practice within German acquisitions all centred on one

feature, namely less emphasis on formalization. Compared to the rest of the sample, the German subsidiaries made much less use following acquisition of formal meetings, had less formal planning, made less use of financial control systems, had a less planned approach to career development, used formal communication mechanisms less, and placed less emphasis on a cost control strategy. This is a quite distinctive profile and to some degree reflects the perception of subsidiary managers that their German parent companies exercised relatively less influence over their acquisitions. It is consistent with evidence from subsequent interviews that German parents have often supported their UK subsidiaries financially without attempting to integrate them into their own operations. In this connection it is relevant that, compared with the other firms sampled, the German acquisitions were less likely to have parent company managers as CEOs, or as marketing and R&D directors.

The remarkable aspect of these findings is that they directly contradict one of the assumptions about German management practice found in the literature. We noted earlier how commentators tend to stress a high level of formality, rule-orientation, orderliness and formal provisions for participation as salient characteristics of German management. These features did *not* distinguish the changes brought about by German investors in the UK; in fact, quite the contrary. This may reflect, to some extent, the observation made by Stewart and her colleagues (1994) that a German penchant for order is manifest in organizational structure rather than in process, since several of the changes which were distinctively less formal among German acquisitions concerned process rather than structure *per se*. Nevertheless, our findings question the validity of previous assumptions about German management practice, or at least the extent to which they are borne out in the post-acquisition changes instigated by German companies.

One of the distinctive post-acquisition changes which characterized French take-overs was the tendency to simplify subsidiaries'

management structures, with fewer hierarchical levels and a smaller managerial component within their total employment. French parent companies also introduced a rather stronger emphasis on formal qualifications as criteria for selection and advancement, and this formed part of a distinctive move towards planning career development within the subsidiaries. Companies acquired by French parents less often had parent-company appointees as CEOs, or as directors especially in the R&D and HRM areas. Perhaps to compensate for this, key decision powers tended to be reserved by French parent companies to a greater extent than in the other companies sampled. French parent company influence over post-acquisition changes in management practice was also greater than for the rest of the sample, and appreciably so compared with Japanese, German and UK acquisitions. At the strategic level, the only issue which distinguished French acquisitions was that they emphasized the development of new products more strongly than did other companies.

Despite the fact that they were perceived to have exercised quite a high level of influence on changes in UK management practice, the changes which were distinctive for them do not support the portrait of French management derived from the literature. There is no evidence from this study to support the view that, compared with other nationalities, French companies adopt a strategic rather than a financial orientation, that they are more specialized, use more written media (at least as reflected in our questions on formalization) or prefer individual decision making. The expectation that French companies tolerate tall hierarchies is, in fact, directly challenged by what has happened in French take-overs. The only feature attributed to French management practice which has survived present scrutiny is the tendency for subsidiary autonomy to be relatively restricted. The French parent companies were hierarchical in this sense, which subsidiary managers often bemoaned in subsequent interviews, but not in the sense of tall formal structures.

The fifth national group is the set of UK acquirers, who are included within the sample primarily as a control group. Insofar as there may have been general trends within UK management practice during the ten-year period of the study, one would expect these to be reflected among the UK companies taken over by other companies of the same nationality. If this is the case, then there would probably be relatively few areas in which the UK acquirers introduced changes in their new subsidiaries which differed markedly from those within the rest of the sample. This turned out to be the case, with one major exception. UK acquisitions introduced a stronger financial orientation, and a higher increase in the use of financial control systems, than characterized the rest of the sample. This financial emphasis was even stronger than among the companies acquired by US parents. It accords with a supposedly key aspect of the UK approach to management. The supposed conservatism of UK companies may be reflected in the findings that UK acquisitions moved towards certain "Japanese" operational practices less than did the other companies, particularly in respect of continuous improvement and outsourcing. Although the UK acquirers more often appointed their own CEO than did acquirers of other nationalities, their level of influence over changes in subsidiary management practice tended to be lower.

Conclusions

There is clear evidence from our survey of UK companies acquired between 1985 and 1994 that the very process of being acquired and subsequently controlled by foreign investing companies led to significant changes in their management practices. Some changes were common among all the cases studied, such as a shift toward performance-related rewards and a stronger quality emphasis in operations. These probably reflected general trends among companies in response to competitive pressures and to the evolution of management thinking. Such changes may well have been accelerated by acquisition, but cannot necessarily be ascribed to it. Many other changes, however, demonstrated both acquisition and transfer of

practice effects because they evidenced preferences which varied among different national categories of acquiring company. That a transfer of foreign practice took place is further indicated by the finding that foreign-acquired subsidiaries tended to introduce a wider range of changes than did their counterparts acquired by UK companies during the same period.⁴ These foreign acquirers were, with the exception of the Japanese, also perceived to have a more effective impact on change in their subsidiaries than were the UK acquirers.

The acquisition effect is in this way a complement to the transfer of practice effect; the former is a significant lever for the latter. Equally interesting, however, are the ways in which the type of management practice transferred from, or encouraged by, the foreign acquirers of UK companies varies in certain important respects according to their nationality. For example, Japanese acquirers are much more likely to adopt a long-term view than their equivalents from the USA. Indeed, it became clear from subsequent interviews in a sub-set of the companies sampled that many of them owe their survival through the recession of the early 1990s to the willingness of their new Japanese owners to afford them financial support without an expectation of a short-term return. Others have noted this long-term attitude on the part of Japanese parent companies in the UK compared with US and UK parents and have ascribed it to the higher cost of capital faced by the latter (Garnsey, Alford and Roberts, 1992).

This and some other contrasts between American and Japanese acquirers accord with the conventional portraits of their respective approaches to management. In fact, the present survey tends to confirm many, though not all, of their stereotypical features. The major exceptions concern the basis of payment, where subsidiaries across all the national acquirer groups reported a move towards performance-related payment systems (which has been associated with the American approach), and the adoption of team-based work

organization and continuous improvement systems (which has been associated with the Japanese approach).

Very little support, however, was found for the characteristics which have previously been associated with French and German management. Even though French and German acquirers were found to introduce some management practices of a kind which contrasted with the rest of the sample, these did not on the whole conform to what have previously claimed as identifiable national approaches. Indeed, two of the distinctive post-acquisition changes they tended to introduce fly in the face of the conclusions to be drawn from existing assumptions about French and German management. These are, respectively, the relatively strong tendency of French acquirers to reduce hierarchical levels and simplify management structures, and the marked tendency among German acquirers to reduce formalization among their new UK subsidiaries. This suggests that our present views of French and German management practice may be in need of revision. French and German management practice has, in fact, received less attention than is the case for Japanese and US approaches, and further research might well refine our existing conceptions of their typical management practices.

Notes

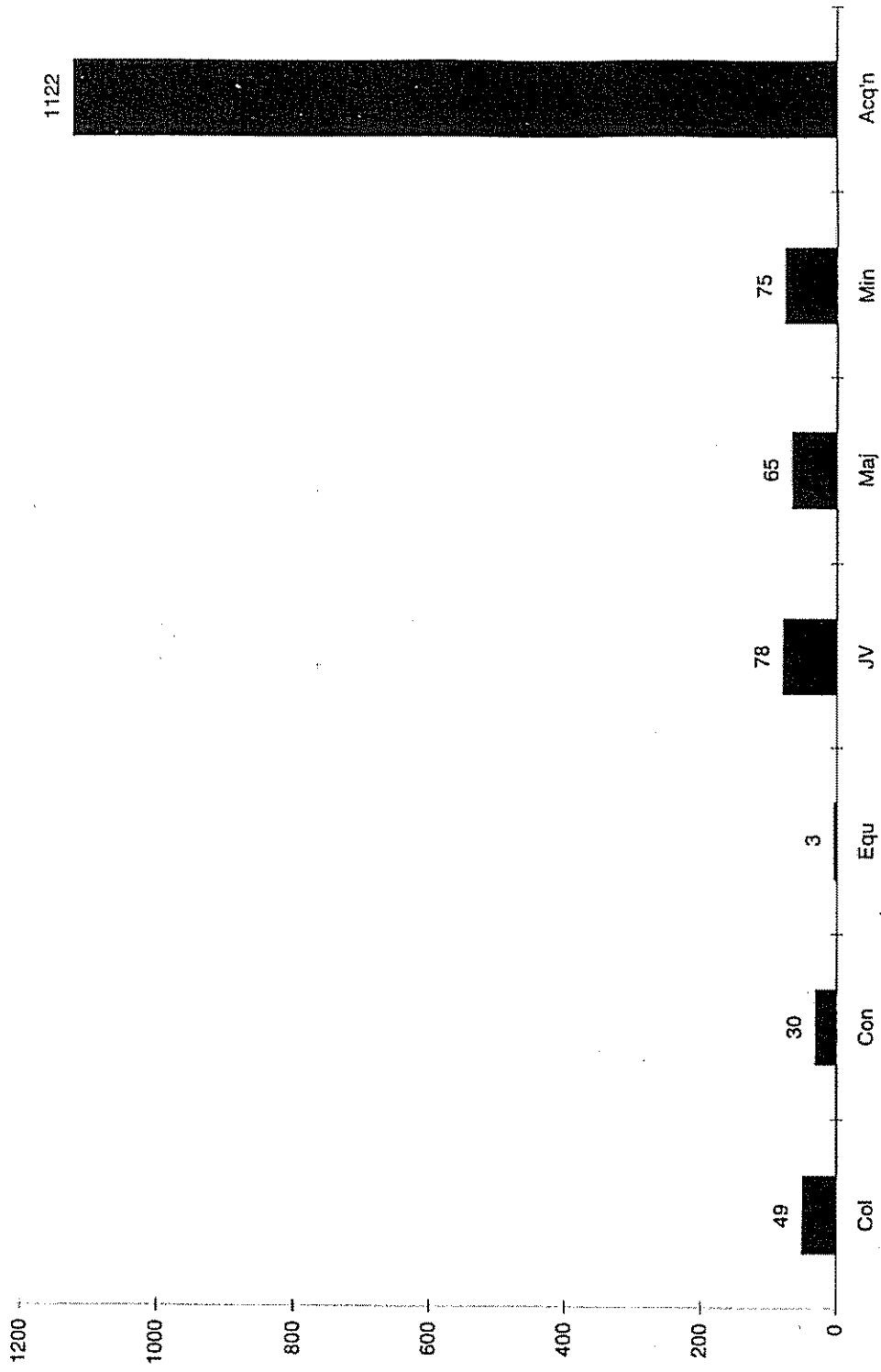
1. These sources are unlikely to be comprehensive. In particular, smaller deals are likely to go unnoticed by the British press and unrecorded by the DTI and CSO. The actual level of activity will therefore certainly be higher than that captured by the above sources. However, it is believed that the relative size of the number of activities by type, nationality and industry will reflect the overall picture, and these are the only data readily accessible to researchers.
2. Excluding 6 consortia which involved partners from more than one of the four countries.
3. Interviews were also conducted in 40 of the companies returning questionnaires, equally divided between US, French, German and Japanese acquired companies. Limited reference will be made to these interviews, purely for illustrative purposes.
4. Interviews in the sub-sample of 40 subsidiaries, not reported here, throw light on the processes through which such changes have been brought about.
5. Overall level of change = Sum of the moduli of change on all items except for job rotation, type of planning, R&D/development of products and services, and operations. Influence of acquiring company = sum of influence scores for the same items.
6. In these areas of management practice, the average modulus of change was less than 1 on a scale from 0 to 3.
7. In these areas of management practice, the average modulus of change was greater than 1 on a scale of 0 to 3, but the

probability of any differences between national categories of acquirer arising from chance was greater than 5 %.

8. Scored on binary scales. While more than half the sample had introduced these features post-acquisition, there were no significant differences between acquirer nationalities.
9. These are areas of management practice for which differences according to acquirer nationality *across the sample as a whole* had no more than a 5 % likelihood of occurring by chance.

FIGURE AND TABLES

Figure 1: Cases of FDI in the UK by Type of Investment



Source: Various see text

Table 1: Direct Investment into the UK 1986-1995
Countries of Origin: Years to March (£m)

	1986/7	1988/9	1990/1	1992/3	1994/5
USA	594.2	1502.4	1002.3	1213.1	2876.9
Japan	443.9	293.9	1085.0	109.1	1156.7
Germany	58.3	174.9	544.4	402.3	1535.4
France	80.9	215.5	198.8	59.2	1188.2
TOTAL	1537.7	2891.2	3876.9	2520.2	8351.3
% of Total	76.6	75.6	73.0	70.8	80.9

36 Source : Invest in Britain Bureau

Table 2: Correlations between the Overall Level of Change and Reported Influence of Acquiring Company⁵

Category	N	Correlation	p
Total sample	124	0.52	.000
US acquisitions	43	0.58	.000
French acquisitions	19	0.66	.001
German acquisitions	9	0.58	.05
Japanese acquisitions	17	0.42	.047
UK acquisitions	36	0.45	.003

Table 3: Areas of Management Practice: Little Reported Post-Acquisition Change ⁶

Job rotation of managers between different functions
Scientific or technically qualified staff as a percentage of total employment
Emphasis on formal qualifications for selection and advancement
Employment philosophy - recruitment and termination: short-term vs. long-term
Approach to promotion: slow vs. rapid
Methods of distribution: sub-contracted vs. internal
Customer involvement in marketing decisions
Emphasis on managing the total supply chain
Degree of outsourcing
Range of suppliers (single source/multi source)

Table 4: Areas of Management Practice: Similar Reported Post-Acquisition Changes between Acquirer Nationalities⁷

Area of Change	Direction of Change
Strategy: competing on price; offering unique products/ services; development of new products/services	more emphasis
Amount of training	more
Reward systems: performance-oriented vs. annual increments	performance-oriented
Level of image projection	higher
Communication philosophy: open vs. need-to-know	more open
R&D/product development: team-based vs. sequential	team-based
Use of automation and IT	more
Cost control	more
Operations: employee responsibility for quality; continuous improvement; group working/work teams ⁸	more

Table 5: Areas of Management Practice: Apparent Differential Impact of Acquisition according to Acquirer Nationality⁹

Area of Practice	Nature of difference
Formal meetings	German acquirers: fewer Other acquirers: more
CEO appointed by acquiring company	UK acquirers: 78% of cases
Sales and marketing director appointed by acquiring company	US acquirers: 53% of cases Other acquirers: under 50% of cases US acquirers: more likely than others
Managers without mainline functional portfolio appointed by acquiring company	Japanese acquirers: more likely than others
Capital expenditure requires final approval by parent company	US acquirers: 75% of cases
Use of financial control systems	Other acquirers: 89% or more of cases
Communication mechanisms	French, US and UK acquirers: considerably more use German and Japanese acquirers: somewhat less use German acquirers: less formal
Primary orientation of the subsidiary	Other acquirers (especially US): more formal Japanese and German acquirers: more strategic UK and US acquirers: more financial

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